

**HENRY COUNTY SOLDIERS'  
AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Financial Statements  
June 30, 2007 and 2006**

**Together with Independent Auditor's Report**

**HENRY COUNTY SOLDIERS'  
AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Table of Contents**

**June 30, 2007 and 2006**

	<u>Page No.</u>
Officials -- June 30, 2007	1
Independent Auditor's Report	2
Management's Discussion and Analysis	3 – 7
Basic Financial Statements:	
Balance Sheets	
June 30, 2007 and 2006	8
Statements of Revenue, Expenses and Changes in Net Assets	
For the Years Ended June 30, 2007 and 2006	9
Statements of Cash Flows	
For the Years Ended June 30, 2007 and 2006	10 – 11
Notes to Financial Statements	
June 30, 2007 and 2006	12 – 25
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (Cash Basis)	26
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue	
For the Years Ended June 30, 2007 and 2006	27
Exhibit 2 - Other Operating Revenue	
For the Years Ended June 30, 2007 and 2006	28
Exhibit 3 - Departmental Expenses	
For the Years Ended June 30, 2007 and 2006	29
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts	
For the Years Ended June 30, 2007 and 2006	30
Exhibit 5 - Inventory/Prepaid Expenses	
For the Years Ended June 30, 2007 and 2006	31
Exhibit 6 - Financial and Statistical Highlights	
For the Years Ended June 30, 2007 and 2006	32
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	33 – 34
Schedule of Findings and Questioned Costs	35 – 36
Summary Schedule of Prior Year Audit Findings	37
Audit Staff	38

**HENRY COUNTY SOLDIERS'  
AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**OFFICIALS**

**June 30, 2007**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>County Board of Supervisors:</b>		
Gary See	Chairperson	December 2008
Mark Lindeen	Co-Chairperson	December 2010
Tom Young	Member	December 2008
<b>Hospital Board of Trustees:</b>		
Jan Towne	Chair	December 2010
Kent Severson	Chair-Elect	December 2010
Lee Benjamin	Secretary/Treasurer	December 2010
Robert Meyer	Trustee	December 2012
Richard Garrels	Trustee	December 2008
Carmen Heaton	Trustee	December 2008
Marvin Day	Trustee	December 2012
<b>Hospital Officials:</b>		
Dan Sheehan	President/Chief Executive Officer	
David Muhs	Chief Financial Officer	
Ann Corrigan, RN	VP of Patient Care Services	

**Independent Auditor's Report**

8807 INDIAN HILLS DR.  
Suite 300  
OMAHA, NEBRASKA  
68114-4123

TEL: (402) 330.2660  
FAX: (402) 330.5108

mail@sjsq.com  
www.sjsq.com

Harvey D. Johnson, CPA  
Wendell L. Quist, CPA  
Clifford C. Huntington, CPA  
Roger E. Howard, CPA  
Roger E. Thompson, CPA  
Tom H. Schnack, CPA  
Daniel L. Hassel, CPA  
Dennis K. Grindle, CPA  
Dennis R. Hein, CPA  
Brent T. Frieauf, CPA  
Barbara J. Fajen, CPA  
Brian D. Green, CPA  
Marty Dubas, CPA  
Jerry O'Doherty, CPA

To the Board of Trustees  
Henry County Soldiers' and Sailors' Memorial Hospital  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa:

We have audited the accompanying basic financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Health Center for the year ended June 30, 2006 were audited by other auditors whose report, dated July 28, 2006, expressed an unqualified opinion on those statements.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2007 on our consideration of the Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and page 26 are not required parts of the basic financial statements but are supplementary information required by the Government 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, included in Exhibits 1 through 7, 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 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.

*Seim, Johnson, Sestak & Quist, LLP*

Omaha, Nebraska,  
September 6, 2007.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Management's Discussion and Analysis  
June 30, 2007 and 2006**

This discussion and analysis of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2007 and 2006. This discussion and analysis should be read in conjunction with financial statements, which begin on page 8.

## **Financial Highlights**

- The Health Center's net assets increased in 2007 by \$2,982,137 or 11%. In 2006, net assets increased by \$3,976,687 or 18%.
- The Health Center reported an operating income in 2007 of \$1,278,251 compared to an operating income of \$2,704,060 in 2006.
- The Health Center's non-operating revenues increased by \$174,834 in 2007 compared to 2006.

## **Using This Annual Report**

The Health Center'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 financial statements and related notes provide information about the activities of the Health Center, including resources held by the Health Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Analysis of the Health Center's finances begins on page 4. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Health Center's resources and activities in a way that helps answer the question of whether the Health Center, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 Health Center's net assets and changes in them. Over time, increases or decreases in net assets are an indicator of whether its financial health is improving or deteriorating. To access the overall health of the Health Center, non-financial factors, such as changes in the patient base of the Health Center and measures of the quality of service it provides to the community, as well as local economic factors, need to be considered.

### **The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER**

Mt. Pleasant, Iowa

**Management's Discussion and Analysis  
June 30, 2007 and 2006**

**Net Assets**

The Health Center's net assets are the difference between assets and liabilities reported in the Balance Sheet on page 8. The Health Center's net assets increased this past year by \$2,982,137 or 11%, as shown in Table 1.

*Table 1: Assets, Liabilities, and Net Assets*

	<u>2007</u>	<u>2006</u>	<u>Change from Prior Year</u>	<u>% Change</u>
<b>Assets:</b>				
Current assets	\$ 8,277,973	8,280,846	(2,873)	0 %
Capital assets, net	17,713,749	18,329,179	(615,430)	(3) %
Assets limited as to use	15,499,159	12,747,461	2,751,698	22 %
Investments	2,250,860	1,898,846	352,014	19 %
Other non-current assets	1,824,828	2,036,998	(212,170)	(10) %
<b>Total assets</b>	<b><u>45,566,569</u></b>	<b><u>43,293,330</u></b>	<b><u>2,273,239</u></b>	<b><u>5 %</u></b>
<b>Liabilities:</b>				
Long-term debt outstanding	13,040,008	13,290,000	(249,992)	(2) %
Estimated third-party payor settlements	731,250	560,000	171,250	31 %
Other current and noncurrent liabilities	2,487,990	3,118,146	(630,156)	(20) %
<b>Total liabilities</b>	<b><u>16,259,248</u></b>	<b><u>16,968,146</u></b>	<b><u>(708,898)</u></b>	<b><u>(4) %</u></b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	4,673,741	5,039,179	(365,438)	(7) %
Restricted	1,130,000	1,130,000	--	-- %
Unrestricted	23,503,580	20,156,005	3,347,575	17 %
<b>Total net assets</b>	<b><u>\$ 29,307,321</u></b>	<b><u>26,325,184</u></b>	<b><u>2,982,137</u></b>	<b><u>11 %</u></b>

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Management's Discussion and Analysis  
June 30, 2007 and 2006**

**Operating Results and Changes in Net Assets**

In 2007, the Health Center's net assets increased by \$3,976,687 or 18%, as shown in **Table 2**. This increase is made up of several different components.

*Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets*

	<u>2007</u>	<u>2006</u>	<u>Change from Prior Year</u>	<u>% Change</u>
<b>Operating Revenue:</b>				
Net patient service revenue	\$ 26,505,218	27,250,339	(745,121)	(3) %
Provision for bad debt	(922,062)	(1,015,627)	93,565	(9) %
Other operating revenues	1,244,980	1,203,113	41,867	3 %
Total operating revenue	<u>26,828,136</u>	<u>27,437,825</u>	<u>(609,689)</u>	<u>(2) %</u>
<b>Operating Expenses:</b>				
Salaries and benefits	13,062,965	12,200,890	862,075	7 %
Purchased services and other	9,539,254	9,587,037	(47,783)	0 %
Depreciation and amortization	2,152,772	2,133,284	19,488	1 %
Interest	794,894	812,554	(17,660)	(2) %
Total operating expenses	<u>25,549,885</u>	<u>24,733,765</u>	<u>816,120</u>	<u>3 %</u>
Operating income	<u>1,278,251</u>	<u>2,704,060</u>	<u>(1,425,809)</u>	<u>(53) %</u>
<b>Non-operating Revenues and Expenses</b>				
Property taxes	438,196	428,370	9,826	2 %
Investment income	797,857	585,097	212,760	36 %
Other non-operating revenues	352,436	400,188	(47,752)	(12) %
Total non-operating revenues, net	<u>1,588,489</u>	<u>1,413,655</u>	<u>174,834</u>	<u>12 %</u>
Excess of revenue over expenses	2,866,740	4,117,715	(1,250,975)	(30) %
Change in unrealized gain and losses	115,397	(141,028)	256,425	182 %
Increase in net assets	2,982,137	3,976,687	(994,550)	(25) %
Net assets beginning of year	26,325,184	22,348,497	3,976,687	18 %
Net assets end of year	<u>\$ 29,307,321</u>	<u>26,325,184</u>	<u>2,982,137</u>	<u>11 %</u>

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Management's Discussion and Analysis  
June 30, 2007 and 2006**

**Operating Income**

The first component of the overall change in the Health Center's net assets is its operating income — generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships.
- Salary adjustments to stay competitive.
- Employee health insurance.
- Professional/Physician contracts for ancillary departments.

The rate of healthcare inflation has a direct impact on the cost of services provided by the Health Center. A component of the Health Center's costs is expenses for wages and benefits. In 2007, wages and benefit costs totaled \$13,062,965. In 2006, wages and benefit costs totaled \$12,200,890. Part of the reason for this change is that health insurance claims increased \$285,115 or 62% in 2007.

The Health Center at times provides care for patients who have little or no health insurance or other means of repayment. The level of services provided to these patients decreased to \$131,588 in 2007 compared to \$246,764 in 2006. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Health Center.

**Nonoperating Revenues and Expenses**

Non-operating revenues consist primarily of property taxes levied by the Health Center, interest revenue, and investment earnings. The county tax levy was at \$.75677 per \$1,000 of valuation for 2007 and in 2006. The county tax levy amounted to \$438,196 in 2007 and \$428,370 in 2006.

**Cash Flows**

Changes in cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by operating activities decreased in 2007 due to an increase in accounts receivable and a decrease in accounts payable.

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of 2007, the Health Center had \$17,713,749 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2007, the Health Center purchased new equipment costing \$1,403,715. Slightly more, \$2,160,203 was spent to acquire new equipment in 2006.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Management's Discussion and Analysis  
June 30, 2007 and 2006**

**Debt**

At year-end, the Health Center had \$12,970,000 in capital loan notes outstanding. No new debt was issued in 2007 or 2006. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole. There have been no changes in the Health Center's debt ratings in the past two years.

The Health Center also entered into a capital lease obligation during 2007 for various equipment.

**Other Economic Factors**

The 2007 fiscal year provided the Health Center substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2007 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

**Contacting Health Center Financial Management**

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Health Center finances. Questions about this report or requests for additional information should be directed to:

Mr. David J. Muhs  
Henry County Health Center  
407 South White Street  
Mount Pleasant IA 52641  
319-385-3141

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER**

Mt. Pleasant, Iowa

**Balance Sheets  
June 30, 2007 and 2006**

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 2,949,727	3,270,821
Assets limited as to use or restricted	420,010	386,353
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,000,000 and \$1,037,143 in 2007 and 2006	3,315,740	3,175,683
Other receivables	166,713	134,412
Current portion of notes receivable	96,341	42,449
Inventories	619,854	616,738
Prepaid expenses	270,186	226,904
Succeeding year property tax receivable	<u>439,402</u>	<u>427,486</u>
Total current assets	8,277,973	8,280,846
Assets limited as to use or restricted	15,499,159	12,747,461
Investments	2,250,860	1,898,846
Capital assets, net	17,713,749	18,329,179
Other assets	1,458,203	1,607,129
Deferred financing costs	<u>366,625</u>	<u>429,869</u>
Total assets	\$ <u>45,566,569</u>	<u>43,293,330</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 425,008	320,000
Accounts payable	671,917	1,466,514
Accrued salaries and vacation	1,231,573	995,748
Other accrued expenses	145,098	228,398
Estimated third-party payor settlements	731,250	560,000
Deferred revenue for succeeding year property tax receivable	<u>439,402</u>	<u>427,486</u>
Total current liabilities	3,644,248	3,998,146
Long-term liabilities:		
Long-term debt, net of current portion	<u>12,615,000</u>	<u>12,970,000</u>
Total liabilities	<u>16,259,248</u>	<u>16,968,146</u>
Net assets:		
Invested in capital assets, net of related debt	4,673,741	5,039,179
Restricted	1,130,000	1,130,000
Unrestricted	<u>23,503,580</u>	<u>20,156,005</u>
Total net assets	<u>29,307,321</u>	<u>26,325,184</u>
Total liabilities and net assets	\$ <u>45,566,569</u>	<u>43,293,330</u>

*See notes to financial statements*

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Statements of Revenue, Expenses and Changes in Net Assets  
For the Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUE:</b>		
Net patient and service revenue before provision for bad debt	\$ 26,505,218	27,250,339
Provision for bad debt	922,062	1,015,627
Net patient and service revenue	25,583,156	26,234,712
Other operating revenue	1,244,980	1,203,113
Total operating revenue	26,828,136	27,437,825
<b>OPERATING EXPENSES:</b>		
Salaries	10,543,389	10,021,001
Employee benefits	2,519,576	2,179,889
Professional fees	1,615,077	1,530,122
Supplies	4,094,733	4,338,080
Other expenses	3,829,444	3,718,835
Depreciation and amortization	2,152,772	2,133,284
Interest	794,894	812,554
Total operating expenses	25,549,885	24,733,765
<b>OPERATING INCOME</b>	<b>1,278,251</b>	<b>2,704,060</b>
<b>NONOPERATING REVENUES, NET:</b>		
County tax revenues	438,196	428,370
Investment income, net	797,857	585,097
Noncapital grants and contributions	29,574	16,586
Gain from equity investments	203,502	361,886
Gain (loss) from disposal of capital assets	17,006	(97,656)
Rental activity, net	102,354	119,372
Nonoperating revenues, net	1,588,489	1,413,655
<b>EXCESS OF REVENUE OVER EXPENSES</b>	2,866,740	4,117,715
<b>CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES</b>	<b>115,397</b>	<b>(141,028)</b>
<b>INCREASE IN NET ASSETS</b>	2,982,137	3,976,687
NET ASSETS, beginning of year	26,325,184	22,348,497
NET ASSETS, end of year	\$ 29,307,321	26,325,184

*See notes to financial statements*

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Statements of Cash Flows  
For the Years Ended June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third party payors	\$ 25,614,349	26,992,036
Cash paid for employee salaries and benefits	(12,909,097)	(12,302,603)
Cash paid to suppliers and contractors	(10,301,590)	(8,926,467)
Other receipts and payments, net	1,244,980	1,278,445
Net cash provided by operating activities	3,648,642	7,041,411
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
County tax receipts	438,196	428,370
Noncapital grants and contributions	29,574	16,586
Net cash provided by noncapital financing activities	467,770	444,956
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Payments on capital lease obligations	(98,011)	-
Payments on long-term debt	(320,000)	(320,000)
Interest payments	(796,237)	(814,037)
Purchase of property and equipment, net	(1,536,242)	(2,145,832)
Net cash used in capital and related financing activities	(2,750,490)	(3,279,869)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	782,455	554,501
Deposits to investments	(917,053)	(553,349)
Proceeds from sale of investments	749,618	443,418
Deposits to assets limited as to use or restricted, net	(7,736,662)	(7,496,663)
Procees from sale of assets limited as to use or restricted	4,897,527	3,516,123
Proceeds from equity investments	187,579	46,832
Proceeds from rental activities, net	349,522	386,137
Net cash used in investing activities	(1,687,014)	(3,103,001)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(321,092)	1,103,497
CASH AND CASH EQUIVALENTS - Beginning of year	3,270,819	2,167,322
CASH AND CASH EQUIVALENTS - End of year	\$ 2,949,727	3,270,819
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
The Health Center entered into a capital lease obligation in the amount of \$168,019 for new equipment in 2007.		

*See notes to financial statements*

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,278,251	2,704,061
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	2,152,772	2,133,284
Interest expense included in operating expenses	794,894	812,554
Forgiveness of notes and physician receivables	242,292	188,839
(Increase) decrease in current assets -		
Receivables -		
Patients	(140,057)	622,324
Other	(32,301)	75,332
Current portion of notes receivable	(131,332)	(159,784)
Inventories	(3,116)	(47,858)
Prepaid expenses	(43,282)	8,503
Increase (decrease) in current liabilities -		
Accounts payable	(794,597)	670,869
Accrued salaries and vacation	135,825	(30,701)
Other accrued expenses	18,043	(71,012)
Estimated third-party payor settlements	171,250	135,000
Net cash provided by operating activities	\$ 3,648,642	7,041,411

*See notes to financial statements*

# HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL D/B/A HENRY COUNTY HEALTH CENTER

Mt. Pleasant, Iowa

## Notes to Financial Statements June 30, 2007 and 2006

### (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and a summary of significant accounting policies of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center). These policies are in accordance with accounting principles generally accepted in the United States of America. The Health Center is a Critical Access Hospital, operating with 25 acute-care beds and 49 long-term care beds. The Health Center also has related health care ancillary and outpatient services.

#### A. Reporting Entity

Accounting principles generally accepted in the United States of America require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The Health Center was organized in 1919 under Chapter 347 of the Iowa Code. The Health Center is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. It has the right to sue and to be sued and has the right to buy, sell, lease or mortgage property in its own name. Based upon these criteria, the Health Center is considered a primary government and there are no agencies or entities which should be presented with the Health Center.

#### B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Health Center is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – This component of net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Health Center's policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Health Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under note agreements.

G. *Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market.

I. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The 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 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.

J. *Assets Limited as to Use or Restricted*

*By Board of Trustees* - Periodically, the Health Center's Board of Trustees has set aside assets for future capital improvements and debt retirement. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

*Under Hospital Revenue Capital Loan Notes Agreements* – These funds are reserve funds held as security for the Series 2002 and 2000 Notes. These funds are used for the payment of principal and interest on the Series 2002 and 2000 Notes when insufficient funds are available in the sinking fund.

*K. Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value as determined by quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses before capital grants and contributions unless the investments are trading securities.

The investments in joint ventures and cooperative arrangements with other health care entities are accounted for by the equity method of accounting, under which the net income or loss of the affiliates is recognized as income or expense and distributions are treated as reductions to the investments account. The Health Center has a 25% interest in Southeastern Renal Dialysis, L.C.; a 50% interest in Superior Ambulance, L.C.; a 50% interest in Southeastern Health Group, L.C.; and a 49% interest in Henry County Medical Software, L.L.C.

*L. Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

The Health Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as capital grants and contributions.

*M. Deferred Financing Costs*

Deferred financing costs related to the issuance of the Hospital Revenue Capital Loan Notes are being amortized over the life of the related notes under the effective interest method. Amortization expense of \$63,243 and \$64,586 for 2007 and 2006, respectively, is included in depreciation and amortization in the accompanying statements of revenues, expenses and changes in net assets.

*N. Compensated Absences*

Paid Time Off (PTO) vests quarterly and may be carried forward by an employee in an amount not to exceed 496 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2007 and 2006 was \$697,179 and \$690,548, respectively.

Short-term disability does not vest and, therefore, no liability has been accrued. The payment for short-term disability is based on 70% of the regular earnings of the employee and is available for up to eight weeks.

*O. Self-Insured Employee Health Benefits*

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

*P. Income Taxes*

Under the Code of Iowa, Chapter 347, the Health Center is an instrumentality of the County of Henry, Iowa. As such, the Health Center is exempt from paying income taxes.

*Q. Statement of Revenue, Expenses and Changes in Net Assets*

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

*R. Net Patient Service Revenue*

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

S. *Grants and Contributions*

From time to time, the Health Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

T. *Charity Care*

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

U. *County Tax Revenue*

Taxes are included in nonoperating gains when received and distributed by the Country Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

V. *Risk Management*

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

W. *Reclassification*

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 reporting format.

(2) **Cash, Investments and Assets Limited as to Use or Restricted**

The Health Center'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.

The Health Center 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 Health Center manages the following risks in accordance with their formal investment policy:

*Credit Risk:* The Health Center has invested in U.S. Treasuries and Government Agencies securities. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

*Interest Rate Risk:* The Health Center has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days. When investing assets of the Health Center for a period longer than 397 days, the Health Center shall request competitive investment proposals for comparable credit and term investments from a minimum of two investment providers.

The weighted average duration of securities invested in U.S. Treasury and Government Agencies was 31.5 months as of June 30, 2007.

*Custodial credit risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Health Center's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Health Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Health Center's agent in the Health Center's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Investments:		
Operating reserves:		
Money market funds	\$ 118,994	103,312
U.S. treasury and government agencies securities	2,108,221	1,774,286
Accrued interest	23,645	21,248
Total Investments	<u>\$ 2,250,860</u>	<u>1,898,846</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Money market funds	\$ 1,126,904	524,590
U.S. treasury and government agencies securities	7,901,163	7,753,339
Accrued interest	105,533	91,012
	<u>9,133,600</u>	<u>8,368,941</u>
Bond retirement and sinking fund accounts:		
Money market funds	145,778	359,319
U.S. treasury and government agencies securities	5,196,790	3,188,314
Accrued interest	313,001	87,240
	<u>5,655,569</u>	<u>3,643,873</u>
By bond agreements:		
Reserve account:		
Certificates of deposit	<u>1,130,000</u>	<u>1,130,000</u>
Total assets limited as to use or restricted	15,919,169	13,133,814
Less amounts required to meet current obligations	<u>420,010</u>	<u>386,353</u>
Long-term portion	<u>\$ 15,499,159</u>	<u>12,747,461</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 908,114	621,904
Realized gains and losses, net	<u>(110,257)</u>	<u>(36,807)</u>
	797,857	585,097
Change in unrealized gains (losses), net	<u>115,397</u>	<u>(141,028)</u>
Total investment return	<u>\$ 913,254</u>	<u>444,069</u>

(3) **Net Patient Service Revenue**

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

**Medicare.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audit thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center.

The Health Center has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Health Center under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Health Center's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2007</u>	<u>2006</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 9,480,878	9,186,082
Outpatient	27,865,157	27,261,583
Long-term care	2,131,905	2,069,048
Clinic	<u>324,036</u>	<u>159,725</u>
Total gross patient service revenue	<u>39,801,976</u>	<u>38,676,438</u>
Deductions form patient service revenue:		
Medicare	9,230,839	7,985,524
Medicaid	1,165,819	677,363
Other payors	2,768,512	2,516,448
Charity care	<u>131,588</u>	<u>246,764</u>
Total deductions from patient service revenue	<u>13,296,758</u>	<u>11,426,099</u>
Net patient service revenue before provision for bad debt	<u>\$ 26,505,218</u>	<u>27,250,339</u>

The Health Center reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. 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 adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The 2007 net patient service revenue decreased by approximately \$500,000 and the 2006 net patient service revenue increased approximately \$500,000 due to 2006 cost report settlements in excess of amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounts for approximately 38% and 10%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2007 compared to 40% for Medicare and 8% for Medicaid in 2006. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded settlement estimates will change by a material amount in the near term since various cost reporting periods have not been audited by the fiscal intermediary.

**(4) Composition of Patient Receivables**

Patient receivables as of June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Patient accounts	\$ 5,465,740	5,452,826
Less estimated third-party contractual adjustments	(1,150,000)	(1,240,000)
Less allowance for doubtful accounts	<u>(1,000,000)</u>	<u>(1,037,143)</u>
	<u>\$ 3,315,740</u>	<u>3,175,683</u>

The Health Center is located in Mt. Pleasant, Iowa. The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	28%	29%
Medicaid	5	6
Blue Cross	17	18
Other third-party payors	15	14
Private pay	<u>35</u>	<u>33</u>
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

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

	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 788,325	14,095	--	802,420
Construction in progress	27,917	333,152	(27,917)	333,152
Total capital assets, not being depreciated	<u>816,242</u>	<u>347,247</u>	<u>(27,917)</u>	<u>1,135,572</u>
Capital assets, being depreciated:				
Land improvements	1,495,779	--	(1,830)	1,493,949
Buildings	23,387,293	249,409	23,687	23,660,389
Fixed equipment	7,110,659	--	--	7,110,659
Major moveable equipment	10,640,455	1,154,306	(707,208)	11,087,553
Total capital assets, being depreciated	<u>42,634,186</u>	<u>1,403,715</u>	<u>(685,351)</u>	<u>43,352,550</u>
Less accumulated depreciation:				
Land improvements	(1,283,361)	(43,292)	1,830	(1,324,823)
Buildings	(10,869,330)	(995,750)	(6,832)	(11,871,912)
Fixed equipment	(5,365,668)	(219,566)	--	(5,585,234)
Major moveable equipment	(7,602,890)	(1,078,089)	688,575	(7,992,404)
Total accumulated depreciation	<u>(25,121,249)</u>	<u>(2,336,697)</u>	<u>683,573</u>	<u>(26,774,373)</u>
Total capital assets, being depreciated, net	<u>17,512,937</u>	<u>(932,982)</u>	<u>(1,778)</u>	<u>16,578,177</u>
Total capital assets, net	<u>\$ 18,329,179</u>	<u>(585,735)</u>	<u>(29,695)</u>	<u>17,713,749</u>

	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 788,325	--	--	788,325
Construction in progress	26,888	27,917	(26,888)	27,917
Total capital assets, not being depreciated	<u>815,213</u>	<u>27,917</u>	<u>(26,888)</u>	<u>816,242</u>
Capital assets, being depreciated:				
Land improvements	1,483,099	12,680	--	1,495,779
Buildings	23,005,850	601,452	(220,009)	23,387,293
Fixed equipment	7,284,194	--	(173,535)	7,110,659
Major moveable equipment	10,025,930	1,546,071	(931,546)	10,640,455
Total capital assets, being depreciated	<u>41,799,073</u>	<u>2,160,203</u>	<u>(1,325,090)</u>	<u>42,634,186</u>
Less accumulated depreciation:				
Land improvements	(1,239,232)	(44,129)	--	(1,283,361)
Buildings	(9,994,913)	(1,025,000)	150,583	(10,869,330)
Fixed equipment	(5,287,006)	(231,381)	152,719	(5,365,668)
Major moveable equipment	(7,476,668)	(1,034,954)	908,732	(7,602,890)
Total accumulated depreciation	<u>(23,997,819)</u>	<u>(2,335,464)</u>	<u>1,212,034</u>	<u>(25,121,249)</u>
Total capital assets, being depreciated, net	<u>17,801,254</u>	<u>(175,261)</u>	<u>(113,056)</u>	<u>17,512,937</u>
Total capital assets, net	<u>\$ 18,616,467</u>	<u>(147,344)</u>	<u>(139,944)</u>	<u>18,329,179</u>

(6) **Other Assets**

Other assets held by the Health Center as of June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Investments in joint ventures and cooperative arrangements with other health care entities	\$ 1,052,815	1,036,893
Physician receivables	228,809	231,453
Notes receivable	<u>272,920</u>	<u>381,232</u>
	1,554,544	1,649,578
Less current portion of notes receivable	<u>96,341</u>	<u>42,449</u>
	<u>\$ 1,458,203</u>	<u>1,607,129</u>

Physician receivables are related to physician income guarantee agreements to recruit physicians to the community of Mount Pleasant, Iowa. All monies advanced under these agreements will be forgiven up to a five year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

(7) **Long-Term Debt**

Long-term debt activity of the Health Center as of June 30, 2007 and 2006 consisted of the following:

	<u>June 30, 2006</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2007</u>	<u>Due Within One Year</u>
Series 2000 (A) (C)	\$ 7,795,000	--	(205,000)	7,590,000	250,000
Series 2002 (B) (C)	5,495,000	--	(115,000)	5,380,000	105,000
Capital lease obligation (D)	<u>--</u>	<u>168,019</u>	<u>(98,011)</u>	<u>70,008</u>	<u>70,008</u>
	<u>\$ 13,290,000</u>	<u>168,019</u>	<u>(418,011)</u>	<u>13,040,008</u>	<u>425,008</u>
	<u>June 30, 2005</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
Series 2000 (A) (C)	\$ 7,960,000	--	(165,000)	7,795,000	205,000
Series 2002 (B) (C)	<u>5,650,000</u>	<u>--</u>	<u>(155,000)</u>	<u>5,495,000</u>	<u>115,000</u>
	<u>\$ 13,610,000</u>	<u>--</u>	<u>(320,000)</u>	<u>13,290,000</u>	<u>320,000</u>

- (A) The Health Center issued \$9,000,000 of Hospital Revenue Capital Loan Notes in 2000. The proceeds of these bonds were used to pay a portion of the cost to constructing and equipping an addition to the Health Center facility. The Series 2000 notes bear interest at rates ranging from 5.9% to 8% payable semi-annually. Annual principal payments are due in amounts ranging from \$250,000 to \$1,545,000 through June 2019.
- (B) The Health Center issued \$6,055,000 of Hospital Revenue Capital Loan Refunding Notes, Series 2002. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 1993 and for paying bond issuance costs incurred. The Series 2002 notes bear interest at rates ranging from 3.7% to 5.25%. Annual principal payments are due in amounts ranging from \$105,000 to \$750,000 through June 2017.
- (C) The Series 2000 and 2002 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Health Center. The terms of the trust indenture require the Health Center to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Health Center to maintain a sinking fund account and to maintain a specified debt service coverage ratio.
- (D) Capital lease obligation at 0% imputed interest collateralized by leased equipment with a cost of \$168,019.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 425,008	780,118	1,205,126
2009	855,000	760,918	1,615,918
2010	900,000	711,753	1,611,753
2011	950,000	663,288	1,613,288
2012	1,000,000	611,476	1,611,476
2013 – 2017	5,920,000	2,134,496	8,054,496
2018 – 2019	<u>2,990,000</u>	<u>317,450</u>	<u>3,307,450</u>
	<u>\$ 13,040,008</u>	<u>5,979,499</u>	<u>19,019,507</u>

**(8) Professional Liability Insurance**

The Health Center carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Health Center carries an umbrella policy which also provides \$3,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Health Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

**(9) Pension Plan**

The Health Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50360-9117.

Plan members are required to contribute 3.70% of their annual salary and the Health Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$591,613, \$561,362 and \$533,083, respectively, equal to the required contributions for each year.

**(10) Contingencies**

The Health Center is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Health Center's future financial position or results from operations.

**(11) Self-Funded Health Insurance**

The Health Center has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Health Center's matching funds are deposited into a separate benefit trust account. Under the self-insured plan, the Health Center pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Health Center incurred health insurance expenses of \$742,577 and \$457,462 as of June 30, 2007 and 2006, respectively.

**(12) Deferred Compensation Plan**

The Health Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Health Center employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan complies with IRC Section 457(g), which requires the plan to hold its assets in trust. Under these requirements, the Health Center does not own the amounts deferred by employees and, therefore, the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled \$2,250,878 and \$1,985,961 as of June 30, 2007 and 2006, respectively.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER**

Mt. Pleasant, Iowa

**Budgetary Comparison Schedule of Revenues, Expenses  
and Changes in Net Assets – Budget and Actual (Cash Basis)  
June 30, 2007 and 2006**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2007, the Health Center's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 438,196	427,486	10,710
Estimated other revenues / receipts	28,093,826	33,435,159	(5,341,333)
Expenses / Disbursements	<u>25,549,885</u>	<u>35,745,300</u>	<u>10,195,415</u>
Net	2,982,137	(1,882,655)	\$ <u>4,864,792</u>
Balance beginning of year	<u>26,325,184</u>	<u>19,019,263</u>	
Balance end of year	\$ <u>29,307,321</u>	<u>17,136,608</u>	

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Patient Service Revenue  
For the Years Ended June 30, 2007 and 2006**

	2007				2006					
	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total
<b>DAILY PATIENT SERVICES:</b>										
Long-term care	-	-	-	2,131,905	2,131,905	-	-	-	2,069,048	2,069,048
Medical and surgical	1,742,011	-	-	1,742,011	1,742,011	2,017,809	-	-	-	2,017,809
Swing Bed	559,415	-	-	559,415	559,435	459,435	-	-	-	459,435
Observation	251,590	-	-	251,590	251,590	236,190	-	-	-	236,190
Nursery	136,110	-	-	136,110	136,325	138,325	-	-	-	138,325
	<u>2,689,126</u>	<u>-</u>	<u>-</u>	<u>2,131,905</u>	<u>4,821,031</u>	<u>2,851,759</u>	<u>-</u>	<u>-</u>	<u>2,069,048</u>	<u>4,920,807</u>
<b>OTHER NURSING SERVICES:</b>										
Operating and recovery room	1,689,628	4,616,099	-	6,305,727	6,305,727	1,583,590	4,661,109	-	-	6,244,699
Emergency services	132,209	2,628,086	-	2,760,295	2,760,295	43,492	2,478,011	-	-	2,521,503
Delivery and labor room	204,399	64,473	-	268,872	268,872	185,966	46,009	-	-	231,975
Aide	-	36,089	-	36,089	36,089	-	39,539	-	-	39,539
	<u>2,026,236</u>	<u>7,344,747</u>	<u>-</u>	<u>9,370,983</u>	<u>9,370,983</u>	<u>1,813,048</u>	<u>7,224,668</u>	<u>-</u>	<u>-</u>	<u>9,037,716</u>
<b>OTHER PROFESSIONAL SERVICES:</b>										
Pharmacy	1,774,869	4,548,947	-	6,323,816	6,323,816	1,632,002	5,151,930	-	-	6,783,932
Laboratory	583,495	3,041,601	-	3,625,096	3,625,096	575,914	2,645,842	-	-	3,221,756
CT scans	169,226	2,450,571	-	2,619,797	2,619,797	224,445	2,321,891	-	-	2,546,336
Physical, occupational and respiratory therapy	1,138,778	1,456,692	-	2,595,470	2,595,470	1,030,477	1,414,046	-	-	2,444,523
Anesthesiology	428,378	1,613,657	-	2,042,035	2,042,035	427,207	1,622,381	-	-	2,049,588
Radiology	85,955	1,544,851	-	1,630,806	1,630,806	83,661	1,290,198	-	-	1,373,859
MRI	64,102	1,305,668	-	1,369,770	1,369,770	65,182	1,369,821	-	-	1,435,003
Ambulance	23,896	1,213,042	-	1,236,938	1,236,938	13,280	1,205,241	-	-	1,218,521
EKG	36,993	1,040,616	-	1,077,609	1,077,609	38,572	928,219	-	-	966,791
Chemotherapy	20,827	755,877	-	776,704	776,704	2,922	515,609	-	-	518,531
Nuclear medicine	74,320	610,813	-	685,133	685,133	66,437	595,324	-	-	661,761
Ultrasound	36,750	607,772	-	644,522	644,522	34,473	620,142	-	-	654,615
Central supply	283,178	313,862	-	597,040	597,040	275,617	356,271	-	-	631,888
Clinic	-	-	324,036	324,036	324,036	-	-	159,725	-	159,725
Dialysis	44,299	-	-	44,299	44,299	51,086	-	-	-	51,086
Pain management	450	16,441	-	16,891	16,891	-	-	-	-	-
	<u>4,765,516</u>	<u>20,520,410</u>	<u>324,036</u>	<u>25,609,962</u>	<u>25,609,962</u>	<u>4,521,275</u>	<u>20,036,915</u>	<u>159,725</u>	<u>-</u>	<u>24,717,915</u>
Gross patient service revenue	<u>9,480,878</u>	<u>27,865,157</u>	<u>324,036</u>	<u>2,131,905</u>	<u>39,801,976</u>	<u>9,186,082</u>	<u>27,261,583</u>	<u>159,725</u>	<u>2,069,048</u>	<u>38,676,438</u>

**LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE**

Contractual allowances and other deductions, primarily Medicare and Medicaid  
Charity care services

(11,179,335)  
(246,764)

**NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT**

Provision for bad debt

26,505,218  
(922,062)

**NET PATIENT SERVICE REVENUE**

\$ 25,583,156

\$ 26,234,712

HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa

Other Operating Revenue  
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Public health grants	\$ 498,629	434,759
Management services, physician billings	190,279	186,614
Professional services to others	169,551	199,552
Reference lab	92,536	53,991
Rental income	45,977	41,714
Miscellaneous	248,008	286,483
	<u>\$ 1,244,980</u>	<u>1,203,113</u>

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Departmental Expenses  
For the Years Ended June 30, 2007 and 2006**

	2007				2006			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Operating and recovery room	631,838	-	1,538,597	2,170,435	582,444	-	1,478,284	2,060,728
Medical and surgical	1,557,170	35,162	677,339	2,159,671	1,514,373	31,252	491,278	2,036,903
Long-term care	1,082,539	1,963	620,415	1,654,917	1,023,509	907	536,906	1,561,322
Emergency room	459,096	842,174	189,212	1,490,482	431,127	756,966	175,216	1,363,309
Nursing administration	281,648	-	80,175	361,823	273,029	-	81,270	354,299
	<u>3,962,291</u>	<u>879,299</u>	<u>2,985,736</u>	<u>7,827,326</u>	<u>3,824,482</u>	<u>789,125</u>	<u>2,762,954</u>	<u>7,376,561</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	306,328	-	1,542,785	1,849,113	293,591	-	1,631,927	1,925,218
Physical, occupational and speech therapy	231,230	333,128	88,402	652,760	218,005	356,955	105,917	680,877
Laboratory	365,000	149,268	479,851	994,119	315,430	157,022	442,127	914,579
Ambulance	558,468	1,382	282,644	842,494	538,908	375	279,375	818,658
Anesthesiology	663,272	-	145,232	808,504	680,936	-	173,090	854,026
Community health	395,207	5,891	208,937	610,035	377,899	6,630	227,412	611,941
Radiology	278,204	-	330,780	608,984	246,309	-	333,986	580,295
Respiratory therapy	233,144	18,300	114,626	366,070	215,372	16,775	123,562	355,709
EKG	134,140	3,000	48,194	185,334	119,386	3,000	52,561	174,947
Medical and surgical supplies	103,155	-	208,173	311,328	99,067	-	255,654	354,721
CT scans	42,449	-	183,498	225,947	41,251	-	175,190	216,441
Physician offices	152,859	-	36,128	188,987	147,126	-	32,344	179,470
MRI	-	-	350,087	350,087	-	-	384,179	384,179
Chemotherapy	101,813	-	37,171	138,984	93,977	-	29,758	123,735
Nuclear medicine	45,247	-	77,300	122,547	44,367	-	91,484	135,951
Ultrasound	53,481	15,610	33,837	102,928	41,032	3,240	20,040	64,312
Clinic	63,506	57,746	83,155	204,407	56,557	39,089	77,732	173,378
	<u>3,747,503</u>	<u>584,325</u>	<u>4,250,800</u>	<u>8,582,628</u>	<u>3,529,213</u>	<u>583,086</u>	<u>4,436,038</u>	<u>6,548,337</u>
<b>GENERAL SERVICES:</b>								
Plant	330,298	-	817,808	1,148,106	258,157	-	794,496	1,052,653
Dietary	306,128	-	459,478	765,604	278,269	-	432,836	711,105
Housekeeping	247,708	-	334,748	582,456	232,161	-	375,311	607,472
Laundry and linen	24,393	-	(2,844)	21,549	22,755	-	33,143	55,898
	<u>908,495</u>	<u>-</u>	<u>1,609,190</u>	<u>2,517,685</u>	<u>791,342</u>	<u>-</u>	<u>1,635,786</u>	<u>2,427,128</u>
<b>ADMINISTRATIVE SERVICES:</b>								
Finance	199,539	-	169,960	369,499	191,977	-	179,611	371,588
Patient accounts	211,798	-	180,486	392,284	211,865	-	230,152	442,017
Registration	260,923	-	91,692	352,615	216,321	-	73,291	289,612
Information technology	181,336	-	365,270	546,606	176,427	-	279,017	455,444
Administration	413,532	-	290,256	703,808	448,638	-	328,666	777,304
Human resources	194,866	-	145,404	340,270	161,326	-	235,636	396,962
Medical records	273,378	-	101,399	374,777	254,689	-	134,811	389,500
Other administrative services	189,708	151,453	243,558	584,719	214,721	157,911	(59,158)	313,474
	<u>1,925,100</u>	<u>151,453</u>	<u>1,588,025</u>	<u>3,664,578</u>	<u>1,875,964</u>	<u>157,911</u>	<u>1,402,026</u>	<u>3,435,901</u>
<b>NONDEPARTMENTAL:</b>								
Depreciation and amortization	-	-	2,152,772	2,152,772	-	-	2,133,284	2,133,284
Interest	-	-	794,894	794,894	-	-	812,554	812,554
	<u>-</u>	<u>-</u>	<u>2,947,666</u>	<u>2,947,666</u>	<u>-</u>	<u>-</u>	<u>2,945,838</u>	<u>2,945,838</u>
<b>TOTAL EXPENSES</b>	<u>10,543,399</u>	<u>1,615,077</u>	<u>13,391,419</u>	<u>25,549,885</u>	<u>10,021,001</u>	<u>1,530,122</u>	<u>13,182,842</u>	<u>24,733,165</u>

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2007 and 2006**

## ANALYSIS OF AGING:

Days Since Discharge	<u>2007</u>		<u>2006</u>	
	Amount	Percent of Total	Amount	Percent of Total
0-30	\$ 3,161,793	57.85 %	3,001,916	55.06 %
31-60	694,086	12.70	915,514	16.79
61-90	386,440	7.07	363,918	6.67
91-120	252,597	4.62	211,711	3.88
121 and over	<u>970,824</u>	<u>17.76</u>	<u>959,767</u>	<u>17.60</u>
	5,465,740	100.00 %	5,452,826	100.00 %
 Less:				
Allowance for doubtful accounts	(1,000,000)		(1,037,143)	
Allowance for contractual adjustments	<u>(1,150,000)</u>		<u>(1,240,000)</u>	
	<u>\$ 3,315,740</u>		<u>3,175,683</u>	
 ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (1,037,143)		(1,125,000)	
Provision of uncollectible accounts	922,062		1,015,627	
Recoveries of accounts previously written off	347,102		440,851	
Accounts written off	<u>(1,232,021)</u>		<u>(1,368,621)</u>	
Balance, end of year	<u>\$ (1,000,000)</u>		<u>(1,037,143)</u>	

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Inventory / Prepaid Expenses  
For the Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>INVENTORY:</b>		
Othopedics	\$ 155,352	154,755
Pharmacy	154,839	164,940
Surgery	113,233	125,630
Central service	102,100	102,074
Chemotherapy	<u>94,330</u>	<u>69,339</u>
	<u>\$ 619,854</u>	<u>616,738</u>
 <b>PREPAID EXPENSES:</b>		
Deposits	\$ 165,815	150,113
Service contracts	66,365	7,334
Insurance	18,357	37,298
Other	<u>19,649</u>	<u>32,159</u>
	<u>\$ 270,186</u>	<u>226,904</u>

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL**  
**D/B/A HENRY COUNTY HEALTH CENTER**  
 Mt. Pleasant, Iowa

**Financial and Statistical Highlights**  
**For the Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Patient days:			
Adult and pediatric -			
Medicare	1,349	1,905	2,008
All other	1,251	1,113	1,123
Swing-bed -			
Skilled	1,720	1,454	1,449
Intermediate	26	54	47
Newborn	306	317	318
Long-term care	17,267	17,260	17,188
Total	<u>21,919</u>	<u>22,103</u>	<u>22,133</u>
Patient discharges:			
Hospital adult and pediatric -			
Medicare	512	596	579
All other	449	446	457
Total	<u>961</u>	<u>1,042</u>	<u>1,036</u>
Average length of stay (based on discharge days):			
Hospital adult and pediatric -			
Medicare	2.63 days	3.21 days	3.50 days
All other	2.81 days	2.48 days	2.50 days
Surgical procedures	2,123	2,422	2,327
Emergency room visits	7,177	7,343	7,332
Number of employees - full-time equivalents	256.01	249.93	256.26



SEIM  
JOHNSON  
SESTAK &  
QUIST, LLP

8807 INDIAN HILLS DR.  
Suite 300  
OMAHA, NEBRASKA  
68114-4123

TEL: (402) 330.2660  
FAX: (402) 330.5108

mail@sjsq.com  
www.sjsq.com

Harvey D. Johnson, CPA  
Wendell L. Quist, CPA  
Clifford C. Huntington, CPA  
Roger E. Howard, CPA  
Roger E. Thompson, CPA  
Tom H. Schnack, CPA  
Daniel L. Hassel, CPA  
Dennis K. Grindle, CPA  
Dennis R. Hein, CPA  
Brent T. Frieauf, CPA  
Barbara J. Fajen, CPA  
Brian D. Green, CPA  
Marty Dubas, CPA  
Jerry O'Doherty, CPA

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

To the Board of Trustees  
Henry County Soldiers' and Sailors' Memorial Hospital  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa:

We have audited the financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the year ended June 30, 2007, and have issued our report thereon, dated September 6, 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 Health Center'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 Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency, Item II-A07, described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the 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 Item II-A-07 described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance that the Health Center'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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying schedule of findings and questioned costs.

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

The Health Center's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Health Center in a separate letter dated September 6, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Health Center and other parties to who the Health Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Serin, Johnson, Sestak & Quist, LLP*

Omaha, Nebraska,  
September 6, 2007.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements**

**II-A-07**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Health Center continue to monitor and improve its segregation of duties.

Response: Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

**Part III: Other Findings Related to Required Statutory Reporting**

**III-A-07**

Official Depositories: 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.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

**III-B-07**

Certified Budget: Health Center disbursements during the year ended June 30, 2007 did not exceed amounts budgeted

**III-C-07**

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**III-D-07**

Travel Expense: No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

**III-E-07**

Business Transactions: No business transactions between the Health Center and Health Center officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Health Center to \$1,500 without publicly invited and opened written competitive bids.

**III-F-07**

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

**III-G-07**

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

**III-H-07**

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "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 newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Health Center publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2007**

Finding	Status	Corrective Action Plan or Other Explanation
06-II-A	Segregation of duties in the accounting and data processing areas	Unresolved, similar finding reported at 07-II-A

**HENRY COUNTY SOLDIERS' AND SAILORS' MEMORIAL HOSPITAL  
D/B/A HENRY COUNTY HEALTH CENTER  
Mt. Pleasant, Iowa**

**Audit Staff  
For the Year Ended June 30, 2007**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Jeremy J. Behrens, CPA, Senior Auditor

Marcus P. Goldenstein, Staff Auditor