Jefferson County Hospital
Fairfield, Iowa

FINANCIAL REPORT

June 30, 2007

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Jefferson County Hospital
OFFICIALS
June 30, 2007

(Before January 2007)

BOARD OF TRUSTEES	**Expiration of term**
Officers	
Bob Keller, Chair	December 31, 2010
Doug Johnson, Vice Chair	December 31, 2008
Dave Fredericks, Secretary/Treasurer (Through June, 2006)	December 31, 2006
Grace Bogaards, Secretary/Treasurer (Effective June, 2006)	December 31, 2008
Members	
Laurel Woody	December 31, 2010
Dorian Atwood	December 31, 2008
Randy Menke (Effective July, 2006)	December 31, 2006
Tom Kunkle	December 31, 2006

CHIEF EXECUTIVE OFFICER

Ralph Paulding III

CHIEF FINANCIAL OFFICER

Eugene Irwin

(After January 2007)

BOARD OF TRUSTEES	**Expiration of term**
Officers	
Bob Keller, Chair	December 31, 2010
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Grace Bogaards, Secretary/Treasurer	December 31, 2008
Members	
Laurel Woody	December 31, 2010
Dorian Atwood	December 31, 2008
Randy Menke	December 31, 2012
Tom Kunkle	December 31, 2012

CHIEF EXECUTIVE OFFICER

Ralph Paulding III

CHIEF FINANCIAL OFFICER

Eugene Irwin

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, on our consideration of Jefferson County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5-11 and the budgetary comparison information on page 27 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 19, 2007

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JEFFERSON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Jefferson County Hospital, we offer readers of the Jefferson County Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2007, 2006 and 2005. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

FINANCIAL HIGHLIGHTS

- Total assets increased by $12,009,268 from FY 2006 to $32,886,429, following an increase in FY 2006 of $882,086.
- Property and equipment increased from FY 2006 by $1,662,349, following a decrease of $172,634 in FY 2006.
- Total debt increased from FY 2006 by $9,725,933, following a decrease of $262,263 in FY 2006.
- Fund equity increased from FY 2006 by $1,618,213 and $1,115,998 in FY 2006.
- Net patient service revenue increased from FY 2006 by $678,942 due to increased utilization and Critical Access Hospital status. This followed an increase in FY 2006 of $1,089,605.
- Expenses increased from FY 2006 by $201,267 or 1.2%.
- Total margin for FY 2007 was 8.5%, compared to 6.0% for FY 2006.

FINANCIAL ANALYSIS OF THE HOSPITAL

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

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2007, 2006 and 2005, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	June 30, 2007	June 30, 2006	Dollar Change	Total % Change	June 30, 2005
Current and other assets	$21,760,953	$11,414,034	$10,346,919	91%	$10,359,314
Capital assets	$11,125,476	$9,463,127	$1,662,349	18%	$9,635,761
Total Assets	$32,886,429	$20,877,161	$12,009,268	58%	$19,995,075
Long-term debt outstanding	$11,744,005	$2,030,374	$9,713,631	478%	$2,304,442
Other liabilities	$3,173,533	$2,496,109	$677,424	27%	$2,455,953
Total liabilities	$14,917,538	$4,526,483	$10,391,055	230%	$4,760,395
Total net assets	$17,968,891	$16,350,678	$1,618,213	10%	$15,234,680

As can be seen by Table 1, net assets increased by $1,618,213 to $17,968,891 in fiscal year 2007, up from $16,350,678 in fiscal year 2006. The change in net assets results primarily from the improved financial performance the Hospital experienced in FY 2007.

REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

The following table presents a summary of the Jefferson County Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2007, 2006 and 2005.

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

	Year ended June 30,		
	2007	2006	2005
Total revenue	$17,846,884	$17,365,402	$16,119,803
Expenses	17,399,081	17,197,814	16,331,597
Operating income (loss)	447,803	167,588	(211,794)
Non-operating gains	1,164,546	932,836	1,615,319
Excess of revenues over expenses	1,612,349	1,100,424	1,403,525
Other changes in fund equity-contributions	5,864	15,574	51,250
Total fund equity, beginning	16,350,678	15,234,680	13,779,905
Total fund equity, ending	$17,968,891	$16,350,678	$15,234,680

Operating and Financial Performance

Volume: Acute inpatient admissions for fiscal year 2007 were 615 compared to 569 in fiscal year 2006. Acute patient days increased by 4% compared to FY 2006 because of the increase in admissions. Swing bed admissions decreased by 5% for FY 2007 to a total of 284 admissions. Swing bed patient days decreased by 9% due to the decrease in admissions and a decrease in length of stay. Outpatient visits increased by 5% to 25,551 visits in FY 2007. Operating room procedures were 13% below FY 2006's level due to a decrease in outpatient surgical procedures. Total operating room procedures in FY 2007 were 500 surgeries compared to 577 in FY 2006 with 76% of the surgeries being outpatient procedures.

Net Patient Service Revenue: Due to an average rate increase of 7% effective July 1, 2006, and Critical Access Hospital status, net patient service revenues increased by $678,942 or 4% compared to fiscal year 2006. During the fiscal year, Jefferson County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payors) increased by 14%. The majority of the increase came from Wellmark and Medicare contractual allowance increases.

The following table presents the relative percentages of gross charges for patient services by payor for the years ended June 30, 2007, 2006 and 2005.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2007	2006	2005
Medicare	52%	52%	50%
Wellmark	9%	20%	19%
Other Commercial Insurance	20%	14%	13%
Medicaid	13%	8%	8%
All other	6%	6%	10%
Total	100%	100%	100%

Significant changes in operations from FY 2006:

Other Operating Revenue: FY 2007 showed a 38%, or $197,460, decrease in other operating revenue compared to FY 2006. The reasons for the increase in Other Operating Revenue are decreased rental income and contract services.

Employee Benefits: FY 2007 showed a $49,235 decrease in Employee Benefit expense when compared to FY 2006. This is a 3% decrease in cost. The primary reason for the decrease is due to a decrease in workers compensation premiums.

Interest Expense: There was a $11,803 decrease in interest expense during FY 2007. This is attributed to the decrease in the principal amounts of borrowings.

CAPITAL ASSETS

At the end of fiscal year 2007, the Jefferson County Hospital has invested $11,125,476 in capital assets. The increase in capital assets is primarily a result of increases in land and construction progress (CIP). Land changes were $899,340 due to the purchase of land for the building of a replacement facility. CIP increased by $1,433,240 due to the construction of a replacement facility.

The following table summarizes Jefferson County Hospital's capital assets as of June 30, 2007, 2006 and 2005.

Table 4
Capital Assets
(in Thousands)

	June 30,			
	2007	2006	Change	2005
Land	$1,443.9	$544.6	$899.3	$589.3
Land improvements	564.5	564.5	0.0	532.9
Buildings	14,172.7	14,093.8	78.9	13,218.2
Major moveable equipment	8,719.1	8,290.7	428.4	7,498.8
Construction in progress	1,515.5	82.3	1,433.2	677.1
Subtotal	26,415.8	23,575.9	2,839.9	22,516.3
Less accumulated depreciation	(15,290.3)	(14,112.8)	(1,177.5)	(12,880.5)
Property, plant and equipment, net	$11,125.5	$9,463.1	$1,662.4	$9,635.8

DEBT ADMINISTRATION

Long-Term Debt

At year-end, Jefferson County Hospital had $12,030,375 in short- and long-term debt related to a Hospital Revenue Note, financing for an information technology upgrade, and financing for a replacement facility. This has increased from $2,304,442 in fiscal year 2006. New financing occurred during the fiscal year related to the financing for a replacement facility. More detailed information about Jefferson County Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 67% of Jefferson County Hospital's equity as of year-end.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were $836,759 or 5% under budget for the fiscal year ended June 30, 2007.

Operating expenses were $1,122,275 or 6% under budget for the year with salaries and benefits being 5% below budget. The rest of the operating expenses reflect decreased depreciation expense and overall operating expenses.

Total non-operating gains were $284,787 over budget due to an increase in investment income.

The following table compares fiscal year 2007 actual to budget information.

Table 5
Budget vs. Actual
(In Thousands)

	FY 2007 Budget	FY 2007 Actual	Dollar Variance	Percent Variance
Gross patient service revenue	$27,080.4	$27,139.5	$59.1	.2%
Contractual adjustments	8,715.1	9,611.0	895.9	10.3%
Net patient service revenue	18,365.3	17,528.5	(836.8)	(4.6)%
Other operating revenue	240.7	318.3	77.6	32.2%
Total operating revenue	18,606.0	17,846.9	(759.1)	(4.1)%
Operating expenses	18,521.4	17,399.1	(1,122.3)	(6.1)%
Operating income	84.6	447.8	363.2	429.0%
Income from investments	133.9	436.4	302.5	225.9%
Other non-operating gains	769.4	728.1	(41.3)	(5.4)%
Excess of revenues over expenses	$987.9	$1,612.3	$624.4	63.2%

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

Jefferson County Hospital's Board and management considered many factors when setting the fiscal year 2008 budget. Of primary importance in setting the 2008 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Privacy legislation (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs
- Building a replacement facility

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Jefferson County Hospital; 400 Highland; Fairfield, Iowa 52556. Phone number 641-472-4111.

Jefferson County Hospital
BALANCE SHEETS

ASSETS	June 30 2007	June 30 2006
CURRENT ASSETS		
Cash	$ 5,878,228	$ 4,115,051
Patient receivables, less allowance for contractual adjustments and uncollectibles 2007 $1,085,000; 2006 $874,000	3,276,104	2,815,698
Other receivables	27,046	70,257
Inventories	240,125	123,362
Prepaid expenses	195,936	287,529
Succeeding year property tax receivable	758,290	746,069
Total current assets	10,375,729	8,157,966
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	7,976,222	–
Certificates of deposit	3,009,236	2,886,877
Interest receivable	42,735	23,067
	11,028,193	2,909,944
Restricted by donors for specific purpose		
Cash and cash equivalents	53,204	44,864
Certificates of deposit	141,957	157,750
	195,161	202,614
Total assets whose use is limited	11,223,354	3,112,558
PROPERTY AND EQUIPMENT	26,415,810	23,575,905
Less accumulated depreciation	15,290,334	14,112,778
Total property and equipment	11,125,476	9,463,127
OTHER ASSET		
Investment in joint ventures	161,870	143,510
Totals	$32,886,429	$20,877,161

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	June 30 2007	June 30 2006
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 286,370	$ 274,068
Accounts payable	697,398	635,988
Accrued employee compensation	637,238	592,356
Payroll taxes and withholdings	140,455	115,628
Accrued interest	223,782	–
Estimated third-party payor settlements	430,000	132,000
Deferred revenue for succeeding year property tax receivable	758,290	746,069
Total current liabilities	3,173,533	2,496,109
LONG-TERM DEBT	12,030,375	2,304,442
Less current maturities	286,370	274,068
Total long-term debt	11,744,005	2,030,374
COMMITMENTS AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	7,071,323	7,158,685
Restricted		
For specific purpose by donors	195,161	202,614
Unrestricted	10,702,407	8,989,379
Total fund equity	17,968,891	16,350,678
Totals	$32,886,429	$20,877,161

See Notes to Financial Statements.

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

	Year ended June 30	
	2007	**2006**
NET PATIENT SERVICE REVENUE, net of provisions for bad debts 2007 $891,035; 2006 $610,403	$17,528,535	$16,849,593
OTHER REVENUE	318,349	515,809
Total revenue	17,846,884	17,365,402
EXPENSES		
Nursing service	4,847,671	4,846,163
Other professional service	5,500,739	5,428,881
General service	2,214,149	2,115,801
Fiscal and administrative service and unassigned expenses	3,620,576	3,568,760
Provision for depreciation	1,215,946	1,238,209
Total expenses	17,399,081	17,197,814
Operating income	447,803	167,588
NONOPERATING GAINS (LOSSES)		
County taxes	771,104	771,527
Investment income	387,180	212,549
Interest expense	(93,854)	(105,657)
Equity in income of joint venture investments	49,240	33,533
Unrestricted contributions	–	29,468
Gain (loss) on sale of property and equipment	50,876	(8,584)
Total nonoperating gains (losses)	1,164,546	932,836
Excess of revenues over expenses before contributions	1,612,349	1,100,424
CONTRIBUTIONS	5,864	15,574
Change in fund equity	1,618,213	1,115,998
TOTAL FUND EQUITY		
Beginning	16,350,678	15,234,680
Ending	$17,968,891	$16,350,678

See Notes to Financial Statements.

Jefferson County Hospital
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$17,366,129	$17,351,372
Cash paid to suppliers for goods and services	(8,902,101)	(8,947,180)
Cash paid to employees for services	(7,175,085)	(7,072,966)
Other operating revenue received	359,782	590,650
Net cash provided by operating activities	1,648,725	1,921,876
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	772,882	771,099
Unrestricted contributions received	–	29,468
Scholarships awarded	–	(2,000)
Net cash provided by noncapital financing activities	772,882	798,567
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment and construction in progress	(2,625,194)	(1,125,575)
Principal payments on long-term debt	(274,067)	(262,263)
Proceeds on issuance of debt	10,000,000	–
Proceeds from sale of property and equipment	73,706	51,416
Interest paid on long-term debt	(93,854)	(105,657)
Contributions restricted for purchase of property and equipment	5,864	15,574
Net cash provided by (used in) capital and related financing activities	7,086,455	(1,426,505)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(122,359)	(111,687)
Distributions from (contributions to) investments in joint ventures	15,793	(150)
Investment income received	346,243	233,672
Net cash provided by investing activities	239,677	121,835
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,747,739	1,415,773
CASH AND CASH EQUIVALENTS		
Beginning	4,159,915	2,744,142
Ending	$13,907,654	$ 4,159,915

See Notes to Financial Statements.

Jefferson County Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2007	**2006**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 447,803	$ 167,588
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,215,946	1,238,209
Change in assets and liabilities		
(Increase) decrease in patient receivables	(460,406)	220,257
Decrease in other receivables, net of noncapital financing activities	41,433	74,841
(Increase) decrease in inventories	(116,763)	10,887
Decrease in prepaid expenses	91,593	31,679
Increase (decrease) in accounts payable	61,410	(117,922)
Increase in accrued employee compensation	44,882	8,089
Increase in payroll taxes and withholdings	24,827	6,726
Increase in net estimated third-party payor settlements	298,000	281,522
Net cash provided by operating activities	$ 1,648,725	$ 1,921,876
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	$ 5,878,228	$ 4,115,051
Designated by board for plant replacement and expansion	7,976,222	–
Assets whose use is limited		
Restricted by donors for specific purpose	53,204	44,864
Total per statement of cash flows	$13,907,654	$ 4,159,915

See Notes to Financial Statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Jefferson County.

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and mutual funds to be cash equivalents.

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

Type	Method
Interest-earning investment contracts	
Nonnegotiable certificates of deposit	Cost
Open-end mutual funds	
Mutual Funds	Fair value determined by current share price

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Investments in certain partnerships are accounted for using the equity method under which the net income of the partnerships is recognized as investment income and added to the investment account.

Investment income is reported as nonoperating gains.

Inventories

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using these asset lives:

Land improvements	10 to 25 years
Buildings	5 to 40 years
Equipment	3 to 20 years

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. Current year delinquent property taxes receivable represents unpaid taxes for the current year. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, a cash account designated for a construction project and reduced by the outstanding balances of the long-term debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued)

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by grantors or contributors.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

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

Statements of Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Costs of Borrowing

Unamortized financing costs are amortized over the period the obligation is outstanding using the straight-line method.

Accounting Estimates and Assumptions

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

Interest

Interest costs related to construction debt are capitalized and included with the costs of the project.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance, a bank deposit guaranty bond 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 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 mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. The investments listed below are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

The Hospital's investments at June 30, 2007 are as follows:

	Fair value
Mutual fund	$ 53,204

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	June 30	
	2007	2006
Receivable from patients	$ 515,053	$ 495,967
Receivable from insurance carriers	1,757,004	1,664,849
Receivable from Medicare	1,685,784	1,278,616
Receivable from Medicaid	403,263	250,266
Total patient receivables	4,361,104	3,689,698
Less allowances for contractual and other adjustments	(1,085,000)	(874,000)
Totals	$3,276,104	$2,815,698

NOTE 4 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated as a Critical Access Hospital. As a Critical Access Hospital, services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the period ended October 31, 2004.

Other

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

NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2007 and 2006 follows:

	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Land	$ 544,601	$ 900,340	$ (1,000)	$ –	$ 1,443,941
Land improvements	564,501	–	–	–	564,501
Buildings	14,093,838	137,876	(59,000)	–	14,172,714
Equipment	8,290,670	429,669	(1,220)	–	8,719,119
Construction and equipment installations in progress	82,295	1,433,240	–	–	1,515,535
Totals	23,575,905	2,901,125	(61,220)	–	26,415,810
Less accumulated depreciation and amortization	(14,112,778)	(1,215,946)	38,390	–	(15,290,334)
Net property and equipment	$ 9,463,127	$1,685,179	$ (22,830)	$ –	$11,125,476

	Balance July 1, 2005	Additions	Deletions	Transfers	Balance June 30, 2006
Land	$ 589,297	$ 15,304	$ (60,000)	$ –	$ 544,601
Land improvements	532,884	–	–	31,617	564,501
Buildings	13,218,216	42,489	–	833,133	14,093,838
Equipment	7,498,771	215,638	(5,890)	582,151	8,290,670
Construction and equipment installations in progress	677,052	852,144	–	(1,446,901)	82,295
Totals	22,516,220	1,125,575	(65,890)	–	23,575,905
Less accumulated depreciation and amortization	(12,880,459)	(1,238,209)	5,890	–	(14,112,778)
Net property and equipment	$ 9,635,761	$ (112,634)	$ (60,000)	$ –	$ 9,463,127

NOTE 5 PROPERTY AND EQUIPMENT (continued)

Construction in progress at June 30, 2007 consisted primarily of costs incurred for the design and initial construction costs associated with the building of an approximately 116,000 square foot replacement acute care hospital and medical office building. The total cost of the project including capitalized interest, funding the Debt Service Reserve Fund and costs related to the issuance of revenue bonds is anticipated to be approximately $39,400,000. The anticipated completion date of the project is December 2008. The project is going to be funded primarily by the issuance of $36,740,000 of Hospital Revenue Bonds. The costs of contracts awarded for the project are approximately $26,300,000.

NOTE 6 LONG TERM DEBT

The Jefferson County Hospital Revenue Note (Series 2004), dated December 21, 2004, was issued for the purpose of refinancing a previous County Public Hospital Revenue Note and to provide financing for capital improvement projects. The note is payable solely from the revenues of the Hospital. As of June 30, the agreement provides for advances of principal in an amount not to exceed $1,887,500. The interest rate on the agreement is 4.25%. On December 21, 2012, the interest rate will be adjusted to equal a percent of the U.S. Treasury Constant Maturity Index; however, the adjusted interest rate shall never exceed 5.265%. Current monthly payments on the note are $14,199. The current maturity date of the agreement is December 21, 2020. The agreement contains certain covenants regarding the operation of the Hospital. The Hospital is in substantial compliance with these covenants.

The Jefferson County Hospital Bond Anticipation Note (Series 2006), dated December 15, 2006, was issued in order to provide financing for the purpose of constructing a replacement facility for the Hospital. As of June 30, 2007, the note matures September 15, 2007, at which time principal and interest, at a rate of 4.15%, are due. During September 2007, permanent financing was completed which replaced this note (See Note 5). The permanent financing used to replace this note in the amount of $10,000,000, calls for an average interest rate of 4.78% and matures in the year ended June 30, 2025.

The Hospital entered into a Governmental Lease-Purchase Agreement with a bank for the purchase of equipment in March, 2005. The original amount of the obligation due under the agreement was $240,854, with an interest rate of 4.5%. Monthly payments of $4,491 are due until March, 2010. The agreement is secured by equipment.

The Hospital entered into a Governmental Lease-Purchase Agreement with a bank for the purchase of equipment in March, 2004. The agreement commenced on April 1, 2004. The original amount of obligations due under the agreement was $641,999 with an interest rate of 4.5%. Monthly payments of $11,970 are due until April 1, 2009, the termination date of the agreement. The agreement is secured by equipment.

Principal and interest maturities of long-term debt at June 30, 2007 are summarized as follows:

Year ending June 30	Principal	Interest	Total
2008	$ 286,370	$ 582,661	$ 869,031
2009	263,250	539,684	802,934
2010	150,961	530,762	681,723
2011	116,115	525,189	641,304
2012	121,040	520,157	641,197
2013-2017	3,719,189	2,259,913	5,979,102
2018-2022	5,053,450	1,182,444	6,235,894
2023-2025	2,320,000	126,000	2,446,000
Totals	$12,030,375	$6,266,810	$18,297,185

NOTE 6 LONG TERM DEBT (continued)

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

	Beginning balance	Additions	Principal payments	Ending balance	Amounts due within one year
Hospital Revenue Note (Series 2004)	$1,747,983	$ –	$ 97,990	$ 1,649,993	$ 102,238
Hospital Anticipate Note (Series 2006)	–	10,000,000	–	10,000,000	–
Equipment notes	556,459	–	176,077	380,382	184,132
Totals	$2,304,442	$10,000,000	$ 274,067	$12,030,375	$ 286,370

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

	Beginning balance	Additions	Principal payments	Ending balance	Amounts due within one year
Hospital Revenue Note	$1,841,903	$ –	$ 93,920	$1,747,983	$ 97,991
Equipment notes	724,802	–	168,343	556,459	176,077
Totals	$2,566,705	$ –	$ 262,263	$2,304,442	$ 274,068

The Hospital capitalizes interest cost on construction project related debt during the construction period. For the year ended June 30, 2007, the Hospital capitalized $223,782 of interest cost, and incurred total interest cost of $317,636 and $105,657 for 2007 and 2006, respectively.

NOTE 7 MALPRACTICE CLAIMS

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

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

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

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were $410,021, $403,116 and $417,271, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

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

	2007	2006
Charges foregone, based on established rates	$ 253,595	$ 212,296
Equivalent percentage of charity care patients to all patients served	0.9%	0.8%

NOTE 10 EMPLOYEE BENEFITS

The Hospital has developed a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to $50,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately $582,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2007 and 2006 was $492,143 and $499,663, respectively.

NOTE 11 HOSPITAL RISK MANAGEMENT

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

NOTE 12 ROBERT A. RYAN, M.D. ENDOWED SCHOLARSHIP FUND

This fund was established through a donation received from Robert A. Ryan, M.D. The investment is to be maintained in perpetuity and the income only to be used for a nursing scholarship for a member of the senior class graduating from Fairfield High School, Fairfield, Iowa or from another high school in the area. At June 30, 2007, the balance of the fund was being maintained in mutual funds with a total balance of $53,204.

NOTE 13 INVESTMENT IN JOINT VENTURES

The Hospital has varying interests in several joint ventures engaged in providing various health care services. The investments are accounted for using the equity method. The Hospital has recorded its share of the joint ventures' income of $49,240 in 2007 and $33,533 in 2006.

NOTE 14 PROPERTY LEASED TO OTHERS

The Hospital has entered into a lease agreement to lease medical office building space to physicians. The lease requires initial annual payments of $53,100 through December, 2014. Lease payments will be adjusted each year after the initial three year lease period based on the Consumer Price Index. The Hospital is responsible for utilities, housekeeping and maintenance. This lease agreement may be amended upon completion of the replacement Hospital.

Future minimum payments under the lease are as follows:

Year ending June 30	
2008	$ 53,100
2009	53,100
2010	53,100
2011	53,100
2012	53,100
Thereafter	132,750
Total	$ 398,250

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson County Hospital
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2007

The following is a comparison of actual expenditures to budget:

	Reported amounts (GAAP basis)					
	*General funds	Donor-restricted funds	Total (memorandum only)	Budget basis adjustments	Budget basis	Budget
Amount to be raised by taxation	$ 771,104	$ –	$ 771,104	$ –	$ 771,104	$ 746,069
Other revenue/ receipts	18,327,491	12,553	18,340,044	(12,553)	18,327,491	18,821,186
	19,098,595	12,553	19,111,148	(12,553)	19,098,595	19,567,255
Expenses/ expenditures	17,472,929	20,006	17,492,935	1,842,640	19,335,575	19,961,885
Net	1,625,666	(7,453)	1,618,213	(1,855,193)	(236,980)	(394,630)
Balance, beginning	16,148,064	202,614	16,350,678	(7,380,485)	8,970,193	7,872,328
Balance, ending	$17,773,730	$ 195,161	$17,968,891	$(9,235,678)	$ 8,733,213	$ 7,477,698

*Includes unrestricted fund equity and fund equity invested in capital assets, net of related debt.

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

See Accompanying Auditor's Report.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON THE OTHER SUPPLEMENTARY INFORMATION

The Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

Our report on our audits of the basic financial statements of Jefferson County Hospital as of and for the years ended June 30, 2007 and 2006 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 19, 2007

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OTHER SUPPLEMENTARY INFORMATION

Jefferson County Hospital
ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2007	Amounts June 30 2006	Percent to total June 30 2007	Percent to total June 30 2006
0 – 30 days (includes patients in Hospital at end of year)	$1,904,053	$1,726,911	44.23%	48.09%
31 – 60 days	991,876	760,283	23.04	21.17
61 – 90 days	531,417	363,813	12.35	10.13
Over 90 days	877,211	740,139	20.38	20.61
	4,304,557	3,591,146	100.00%	100.00%
Physician Clinic	56,547	98,552		
Total receivables	4,361,104	3,689,698		
Allowances				
Contractual				
Medicare	647,000	510,000		
Medicaid and Blue Cross	318,000	242,000		
Uncollectibles	97,000	83,000		
Physician Clinic	23,000	39,000		
Total allowances	1,085,000	874,000		
Totals	$3,276,104	$2,815,698		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	Amounts Year ended June 30 2007	Amounts Year ended June 30 2006	Percent of net patient service revenue Year ended June 30 2007	Percent of net patient service revenue Year ended June 30 2006
BALANCE, beginning	$ 83,000	$ 115,000		
ADD				
Provision for bad debts	891,035	610,403	5.08%	3.62%
DEDUCT				
Accounts written off	(877,035)	(642,403)	5.00	3.81
BALANCE, ending	$ 97,000	$ 83,000		

Jefferson County Hospital
INVENTORIES

	June 30		Increase
	2007	2006	(decrease)
Storeroom	$ 53,942	$ 45,713	$ 8,229
Uniforms and linen	59,372	65,851	(6,479)
Dietary	19,741	11,798	7,943
Pharmacy	107,070	–	107,070
Totals	$ 240,125	$ 123,362	$ 116,763

Jefferson County Hospital
INSURANCE COVERAGE
June 30, 2007

Insurer	Coverage Type	Effective Dates	Coverage Amount
Fireman's Fund	Directors and Officers	July 2006 to July 2007	$2,000,000
Westport Insurance	Employee Honesty Bond	July 2003 to September 2007	$50,000/employee
Midwest Medical Insurance	Physician Liability Coverage	January 2007 to January 2008	
	Each claim		$2,000,000
	Total facility		$4,000,000
MHA Insurance	Hospital General Liability/ Medical Professional Liability	May 2007 to May 2008	
	Each claim		$1,000,000
	Total facility		$3,000,000
MHA Insurance	Umbrella Excess Liability	May 2007 to May 2008	
	Each claim		$3,000,000
	Total facility		$3,000,000
General Casualty	Business Auto/Courtesy Van	May 2007 to May 2008	$1,000,000
General Casualty	Building and Contents	May 2007 to May 2008	$30,815,000
	Business Interruption		$5,762,000

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

Jefferson County Hospital
PATIENT SERVICE REVENUE

	Total		
	Year ended June 30		Increase
	2007	2006	(decrease)
DAILY PATIENT SERVICES			
Medical and surgical	$ 1,853,116	$ 1,600,701	$ 252,415
Critical care unit	64,800	48,900	15,900
Swing bed	993,692	997,868	(4,176)
Long term care	1,470,009	1,381,067	88,942
	4,381,617	4,028,536	353,081
OTHER NURSING SERVICES			
Operating and recovery rooms	3,088,197	3,339,711	(251,514)
Central supply	295,232	268,804	26,428
Emergency services	4,258,251	3,794,270	463,981
	7,641,680	7,402,785	238,895
OTHER PROFESSIONAL SERVICES			
Laboratory and blood bank	2,682,861	2,170,964	511,897
Electrocardiology	458,112	383,231	74,881
Radiology	2,540,531	2,146,619	393,912
CT scans	2,126,462	1,756,471	369,991
Magnetic resonance imaging	1,357,819	1,432,405	(74,586)
Pharmacy	2,252,812	2,082,676	170,136
Anesthesiology	525,900	599,410	(73,510)
Respiratory therapy	554,331	489,840	64,491
Physical therapy	1,295,847	1,337,515	(41,668)
Speech therapy	57,633	55,188	2,445
Occupational therapy	306,335	330,682	(24,347)
Medical arts	306,144	272,387	33,757
Physician clinic	400,817	659,097	(258,280)
Peasley clinic	250,617	126,205	124,412
	15,116,221	13,842,690	1,273,531
	27,139,518	25,274,011	1,865,507
Charity care charges foregone, based on established rates	(253,595)	(212,296)	(41,299)
Total gross patient service revenue	26,885,923	25,061,715	1,824,208
Provisions for contractual adjustments and bad debts	(9,357,388)	(8,212,122)	(1,145,266)
Net patient service revenue	$17,528,535	$16,849,593	$ 678,942

Inpatient			Outpatient		
Year ended June 30		Increase	Year ended June 30		Increase
2007	2006	(decrease)	2007	2006	(decrease)
$1,853,116	$ 1,600,701	$ 252,415			
64,800	48,900	15,900			
993,692	997,868	(4,176)			
1,470,009	1,381,067	88,942			
4,381,617	4,028,536	353,081			
1,007,510	1,221,627	(214,117)	$2,080,687	$ 2,118,084	$ (37,397)
290,502	265,655	24,847	4,730	3,149	1,581
149,894	141,857	8,037	4,108,357	3,652,413	455,944
1,447,906	1,629,139	(181,233)	6,193,774	5,773,646	420,128
523,489	426,403	97,086	2,159,372	1,744,561	414,811
28,577	25,620	2,957	429,535	357,611	71,924
172,917	144,002	28,915	2,367,614	2,002,617	364,997
201,156	181,264	19,892	1,925,306	1,575,207	350,099
67,963	71,633	(3,670)	1,289,856	1,360,772	(70,916)
791,228	791,522	(294)	1,461,584	1,291,154	170,430
109,725	144,150	(34,425)	416,175	455,260	(39,085)
488,387	428,209	60,178	65,944	61,631	4,313
396,322	382,838	13,484	899,525	954,677	(55,152)
20,418	29,112	(8,694)	37,215	26,076	11,139
135,660	133,313	2,347	170,675	197,369	(26,694)
–	–	–	306,144	272,387	33,757
–	–	–	400,817	659,097	(258,280)
–	–	–	250,617	126,205	124,412
2,935,842	2,758,066	177,776	12,180,379	11,084,624	1,095,755
$8,765,365	$ 8,415,741	$ 349,624	$18,374,153	$16,858,270	$1,515,883

Jefferson County Hospital
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30		Increase
	2007	2006	(decrease)
Contractual adjustments			
Medicare	$5,563,708	$4,766,938	$ 796,770
Medicaid	930,332	899,109	31,223
Wellmark	1,403,650	1,242,108	161,542
Provision for bad debts	891,035	610,403	280,632
Discounts and other adjustments	568,663	693,564	(124,901)
Totals	$9,357,388	$8,212,122	$1,145,266

OTHER REVENUE

	Year ended June 30		
	2007	2006	(Decrease)
Employee and guest meals	$ 150,044	$ 153,866	$ (3,822)
Lifeline	57,043	57,467	(424)
Specialty clinics rent	33,544	37,541	(3,997)
Rental income, net	30,493	52,749	(22,256)
Miscellaneous, net	47,225	214,186	(166,961)
Totals	$ 318,349	$ 515,809	$ (197,460)

Jefferson County Hospital
NURSING SERVICE EXPENSES

	Year ended June 30		Increase
	2007	2006	(decrease)
ADMINISTRATIVE			
Salaries	$ 205,797	$ 218,050	$ (12,253)
Supplies and expense	20,961	17,579	3,382
	226,758	235,629	(8,871)
MEDICAL AND SURGICAL AND OBSTETRIC			
Salaries	1,152,796	1,124,898	27,898
Supplies and expense	83,293	104,336	(21,043)
	1,236,089	1,229,234	6,855
CRITICAL CARE UNIT			
Salaries	25,462	17,240	8,222
Supplies and expense	–	59	(59)
	25,462	17,299	8,163
LONG TERM CARE			
Salaries	829,893	780,444	49,449
Supplies and expense	48,127	38,722	9,405
	878,020	819,166	58,854
OPERATING AND RECOVERY ROOMS			
Salaries	216,165	210,118	6,047
Supplies and expense	387,107	564,386	(177,279)
	603,272	774,504	(171,232)
CENTRAL SUPPLY			
Salaries	26,068	23,817	2,251
Supplies and expense	94,033	115,352	(21,319)
	120,101	139,169	(19,068)
EMERGENCY SERVICES			
Salaries	785,301	749,931	35,370
Professional fees	879,491	773,412	106,079
Supplies and expense	93,177	107,819	(14,642)
	1,757,969	1,631,162	126,807
Totals	$4,847,671	$4,846,163	$ 1,508

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES

	Year ended June 30		Increase
	2007	2006	(decrease)
LABORATORY AND BLOOD BANK			
Salaries	$ 345,114	$ 319,918	$ 25,196
Professional fees	104,925	95,218	9,707
Supplies and expense	261,938	252,263	9,675
	711,977	667,399	44,578
ELECTROCARDIOLOGY			
Salaries	60,083	58,125	1,958
Professional fees	4,704	3,360	1,344
Supplies and expense	17,632	7,402	10,230
	82,419	68,887	13,532
RADIOLOGY			
Salaries	405,737	366,365	39,372
Professional fees	193,893	181,497	12,396
Supplies and expense	168,330	156,726	11,604
	767,960	704,588	63,372
CT SCANS			
Supplies and expense	95,218	120,677	(25,459)
MAGNETIC RESONANCE IMAGING			
Professional fees	358,200	397,660	(39,460)
Supplies and expenses	12,479	14,409	(1,930)
	370,679	412,069	(41,390)
PHARMACY			
Salaries	131,031	33,888	97,143
Professional fees	143,841	286,975	(143,134)
Drugs	755,546	675,217	80,329
Supplies and expense	32,604	9,859	22,745
	1,063,022	1,005,939	57,083
ANESTHESIOLOGY			
Salaries	51,633	191,143	(139,510)
Professional fees	271,860	131,780	140,080
Supplies and expense	14,651	23,254	(8,603)
	338,144	346,177	(8,033)
RESPIRATORY THERAPY			
Salaries	38,110	35,739	2,371
Oxygen	16,987	18,244	(1,257)
Supplies and expense	6,976	10,146	(3,170)
	62,073	64,129	(2,056)
PHYSICAL THERAPY			
Salaries	19,424	21,766	(2,342)
Professional fees	604,808	545,922	58,886
Supplies and expense	26,085	28,336	(2,251)
	650,317	596,024	54,293
SPEECH THERAPY			
Professional fees	51,475	46,679	4,796

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30		Increase
	2007	2006	(decrease)
OCCUPATIONAL THERAPY			
Professional fees	$ 144,573	$ 137,247	$ 7,326
Supplies and expense	4,952	4,574	378
	149,525	141,821	7,704
PHYSICIANS CLINIC			
Salaries	287,438	308,832	(21,394)
Supplies and expense	45,744	43,993	1,751
	333,182	352,825	(19,643)
PEASLEY CLINIC			
Supplies and expense	66,479	35,365	31,114
MEDICAL RECORDS			
Salaries	238,901	259,582	(20,681)
Supplies and expense	60,521	54,571	5,950
	299,422	314,153	(14,731)
QUALITY ASSURANCE			
Salaries	174,451	167,883	6,568
Supplies and expense	30,510	19,441	11,069
	204,961	187,324	17,637
MEDICAL ARTS			
Salaries	–	160,934	(160,934)
Supplies and expense	253,886	203,891	49,995
	253,886	364,825	(110,939)
Totals	$5,500,739	$5,428,881	$ 71,858

Jefferson County Hospital
GENERAL SERVICE EXPENSES

	Year ended June 30		Increase
	2007	2006	(decrease)
DIETARY			
Salaries	$ 522,968	$ 476,283	$ 46,685
Food	276,575	307,586	(31,011)
Supplies and expense	51,627	67,819	(16,192)
	851,170	851,688	(518)
PLANT OPERATION AND MAINTENANCE			
Salaries	307,362	294,734	12,628
Utilities	390,803	409,321	(18,518)
Supplies and expense	116,439	118,341	(1,902)
	814,604	822,396	(7,792)
BIO MEDICAL			
Salaries	63,694	–	63,694
Supplies and expense	13,275	13,356	(81)
	76,969	13,356	63,613
HOUSEKEEPING			
Salaries	314,844	303,154	11,690
Supplies and expense	48,108	41,268	6,840
	362,952	344,422	18,530
LAUNDRY AND LINEN			
Salaries	79,553	68,820	10,733
Supplies and expense	28,901	15,119	13,782
	108,454	83,939	24,515
Totals	$2,214,149	$2,115,801	$ 98,348

Jefferson County Hospital
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES

	Year ended June 30		Increase
	2007	2006	(decrease)
FISCAL AND ADMINISTRATIVE SERVICE			
Salaries			
Administrative	$ 160,466	$ 217,926	$ (57,460)
Fiscal and accounting	455,288	461,944	(6,656)
Purchasing and stores	86,757	61,660	25,097
Public relations	51,157	49,981	1,176
Data processing	96,622	97,880	(1,258)
Human resources	87,852	–	87,852
Data processing expense	207,398	221,995	(14,597)
Human resources supplies and expenses	44,198	–	44,198
Professional fees	40,558	48,271	(7,713)
Office supplies and expenses	341,388	392,966	(51,578)
Telephone	49,964	50,430	(466)
Collection fees	55,059	48,687	6,372
Purchasing and stores expense	25,007	16,000	9,007
Public relations expense	4,091	12,460	(8,369)
UNASSIGNED EXPENSES			
Physician recruiting	91,016	45,436	45,580
Insurance	153,307	187,193	(33,886)
Employee benefits			
FICA	537,568	504,058	33,510
IPERS	410,021	403,116	6,905
Group health insurance	492,143	499,663	(7,520)
Group disability insurance	20,467	64,756	(44,289)
Workers' compensation	154,799	162,952	(8,153)
Unemployment compensation	42,624	19,334	23,290
Other employee benefits	12,826	2,052	10,774
Totals	$3,620,576	$3,568,760	$ 51,816

Jefferson County Hospital
COMPARATIVE REVENUES AND EXPENSES

	Year ended June 30			
	2007	**2006**	**2005**	**2004**
NET PATIENT SERVICE REVENUE	$17,528,535	$16,849,593	$15,759,988	$13,152,850
OTHER REVENUE	318,349	515,809	359,815	290,341
Total revenue	17,846,884	17,365,402	16,119,803	13,443,191
EXPENSES				
Salaries	7,219,967	7,081,055	6,846,012	5,967,226
Supplies, professional fees and other expenses	8,963,168	8,878,550	8,360,927	7,629,257
Provision for depreciation	1,215,946	1,238,209	1,124,658	1,047,908
Total expenses	17,399,081	17,197,814	16,331,597	14,644,391
Operating income (loss)	447,803	167,588	(211,794)	(1,201,200)
NONOPERATING GAINS (LOSSES)				
County taxes	771,104	771,527	763,477	766,405
Investment income and equity in net income (losses) of joint venture investments	436,420	246,082	115,512	(9,919)
Unrestricted contributions	–	29,468	813,817	15,393
Interest expense	(93,854)	(105,657)	(79,347)	(52,775)
Gain (loss) on sale of property and equipment	50,876	(8,584)	1,860	5,538
Total nonoperating gains (losses)	1,164,546	932,836	1,615,319	724,642
Excess (deficiency) of revenues over expenses before contributions	1,612,349	1,100,424	1,403,525	(476,558)
CONTRIBUTIONS	5,864	15,574	51,250	29,701
Change in fund equity	$ 1,618,213	$ 1,115,998	$ 1,454,775	$ (446,857)

Jefferson County Hospital
COMPARATIVE STATISTICS

	Year ended June 30	
	2007	**2006**
PATIENT DAYS		
Adult and pediatric	2,137	2,050
Swing bed		
Skilled nursing care	2,457	2,699
Long term care	13,028	12,927
Total patient days	17,622	17,676
ADMISSIONS		
Adult and pediatric	615	569
Swing bed	284	298
Long term care	17	19
Total admissions	916	886
DISCHARGES		
Adult and pediatric	612	572
Swing bed—skilled	281	296
Long term care	15	18
Total discharges	908	886
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.49	3.58
Swing bed	8.74	9.12
BEDS		
Adult and pediatric	25	25
Long term care	36	36
OCCUPANCY PERCENT		
Adult and pediatric	23.42%	22.47%
Swing bed	26.93%	29.58%
Long term care	99.15%	98.38%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	$48,023	$46,163
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	68	61

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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
Jefferson County Hospital
Fairfield, Iowa

We have audited the financial statements of Jefferson County Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 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 Jefferson County Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jefferson County 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 that are required to be reported under *Government Auditing Standards*. However, we noted an instance of noncompliance that is described in Part II in the accompanying schedule of findings.

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

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

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 19, 2007

Jefferson County Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007

Part I—Findings Related to the Financial Statements

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

Jefferson County Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007

Part II—Findings Related to Required Statutory Reporting

07-II-A CERTIFIED BUDGET

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

07-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

07-II-C TRAVEL EXPENSES

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

07-II-D BUSINESS TRANSACTIONS

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

07-II-E BOARD MINUTES

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

07-II-F DEPOSITS AND INVESTMENTS

A resolution naming official depositories has been adopted by the Board. As of June 30, 2007, we noted that the Hospital had funds held in a bank that exceeded the established depository resolution.

Recommendation

We recommend the Hospital review the depository resolution and amend it accordingly.

Response

We will review the depository resolution and make the necessary amendment.

Conclusion

Response accepted.