

Monroe County Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Monroe County Hospital
June 30, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Monroe County Hospital
Albia, Iowa

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2007 and 2006. Other accountants have applied similar limited procedures to management's discussion and analysis for 2005. We did not audit the information and express no opinion on it.

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

/s/ **BKD, LLP**

Kansas City, Missouri
December 17, 2007

Monroe County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Introduction

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

Financial Highlights

- Cash and cash equivalents increased between 2007 and 2006 by \$183,895 or 12% and decreased between 2006 and 2005 by \$659,157 or 29%.
- The Hospital's net assets increased \$199,382 or 4% in 2007 and decreased \$520,210 or 10% in 2006.
- The Hospital reported operating losses in both 2007 \$(176,400) and 2006 \$(852,186). The operating loss decreased by \$675,786 in 2007.
- Net nonoperating revenues increased by \$68,117 or 22% in 2007 compared to 2006 and increased by \$2,713 or 1% in 2006 compared to 2005.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$199,382 or 4% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
		<i>(Restated)</i>	<i>(Restated)</i>
Assets			
Patient accounts receivable, net	\$ 1,660,376	\$ 1,285,800	\$ 1,722,144
Other current assets	2,672,987	2,639,366	3,090,208
Capital assets, net	6,314,093	7,129,457	7,859,058
Other noncurrent assets	<u>940,187</u>	<u>847,848</u>	<u>850,821</u>
Total assets	<u>\$ 11,587,643</u>	<u>\$ 11,902,471</u>	<u>\$ 13,522,231</u>
Liabilities			
Current liabilities	\$ 2,195,575	\$ 2,082,619	\$ 2,787,928
Long-term debt	<u>4,535,626</u>	<u>5,162,792</u>	<u>5,557,033</u>
Total liabilities	<u>6,731,201</u>	<u>7,245,411</u>	<u>8,344,961</u>
Net Assets			
Invested in capital assets, net of related debt	1,464,870	1,602,900	1,964,761
Restricted			
Expendable	434,097	626,282	621,283
Nonexpendable	179,880	179,880	179,880
Unrestricted	<u>2,777,595</u>	<u>2,247,998</u>	<u>2,411,346</u>
Total net assets	<u>4,856,442</u>	<u>4,657,060</u>	<u>5,177,270</u>
Total liabilities and net assets	<u>\$ 11,587,643</u>	<u>\$ 11,902,471</u>	<u>\$ 13,522,231</u>

In 2007, a significant change in the Hospital's assets was the increase in patient accounts receivable. Net patient accounts receivable increased by \$374,576 (29%). The increase results from some changes in coding staffing and processes, which increased uncoded accounts receivable.

In 2007, there were no significant changes to the Hospital's liabilities, other than the reduction of long-term debt.

In 2006, a significant change in the Hospital's assets was the decrease in patient accounts receivable. Although net patient service revenues increased in 2006 by \$1,043,648, (12%) as compared to 2005, net patient accounts receivable decreased by \$436,344 (25%). The decrease results primarily from changes in billing and collection processes including the creation of a financial counseling program for inpatients and outpatient surgeries and outsourcing all collection activities.

In 2006, a significant change in the Hospital's liabilities was the net decrease in the amount due to third party payers of \$815,867. This decrease is primarily due to an estimated receivable on the 2006 Medicare cost report as the Hospital was underpaid on an interim basis by Medicare. In 2005, the Hospital was overpaid by Medicare on an interim basis.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$199,382 or 4% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	2005
		<i>(Restated)</i>	<i>(Restated)</i>
Operating Revenues			
Net patient service revenue	\$ 11,115,034	\$ 9,798,553	\$ 8,754,905
Other operating revenues	<u>176,145</u>	<u>138,470</u>	<u>129,185</u>
Total operating revenues	<u>11,291,179</u>	<u>9,937,023</u>	<u>8,884,090</u>
Operating Expenses			
Salaries and wages and employee benefits	5,822,347	5,550,725	4,992,736
Medical and professional fees	621,874	618,236	667,800
Depreciation and amortization	992,320	1,006,864	854,632
Other operating expenses	<u>4,031,038</u>	<u>3,613,384</u>	<u>3,040,721</u>
Total operating expenses	<u>11,467,579</u>	<u>10,789,209</u>	<u>9,555,889</u>
Operating Loss	<u>(176,400)</u>	<u>(852,186)</u>	<u>(671,799)</u>
Nonoperating Revenues (Expenses)			
Property taxes	575,397	549,968	532,624
Interest expense	(325,048)	(339,904)	(293,133)
Interest income	55,835	38,256	29,474
Non-capital grants and gifts	<u>69,598</u>	<u>59,345</u>	<u>35,987</u>
Total nonoperating revenues	<u>375,782</u>	<u>307,665</u>	<u>304,952</u>
Excess (Deficit) of Revenues and Gains Over Expenses	199,382	(544,521)	(366,847)
Capital Grants and Contributions	<u>—</u>	<u>24,311</u>	<u>11,753</u>
Increase (Decrease) in Net Assets	<u>\$ 199,382</u>	<u>\$ (520,210)</u>	<u>\$ (355,094)</u>

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2007, 2006 and 2005, the Hospital reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2007 decreased by \$675,786 or 79% as compared to 2006. The primary components of the change in operations were:

- Net patient service revenue increased \$1,316,481 or 13% over 2006 primarily due to an increase in rates of 9.8% effective July 1, 2006. Total outpatient visits also increased 1,436 or 6% over 2006.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$271,622 or 4.9%. The increase is due to annual salary adjustments of 4.5% and increased investments in employee education and employee satisfaction programs.
- The Hospital did not experience significant payments to the Medicare program for cost reports filings or reopenings and completed 2007 with a combined net receivable of \$9,982 between the Medicare and Medicaid filed cost reports.

The operating loss for 2006 increased by \$180,387 as compared to 2005. The primary components of the change in operations were:

- Net patient service revenue increased \$1,043,648 or 12% over 2005 primarily due to an increase in rates of 8% effective July 1, 2005 and another increase of 10% effective February 1, 2006.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$557,989 or 11%. The increase is due to the employment of two additional physicians and increased investments in employee education and employee satisfaction programs.
- Other operating expenses increased \$572,663. Included in this amount is \$312,486 related to the physician clinic for clinic expenses due to the addition of two new physicians in 2006.
- The Hospital was required to make payments to Medicare of approximately \$145,000 due to cost report reopenings, which had not been contemplated.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense, all of which remained relatively constant in 2007 as compared to 2006.

Nonoperating revenues remained relatively constant in 2006 over 2005.

Contributions

The Hospital received contributions of \$25,312 in 2007, a decrease of \$6,970 from 2006.

The Hospital received contributions of \$32,282 in 2006, an increase of \$31,538 from 2005.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2007 and 2006, discussed earlier. Except in 2006, the net amounts due to third-party payers related to cost report settlements decreased \$895,867.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$6.3 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2007, the Hospital acquired capital assets costing \$186,956.

In 2006, the Hospital acquired capital assets costing \$277,263.

Debt

At June 30, 2007, the Hospital had \$5,076,197 in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital completed a debt refinancing with the new debt amount of \$4,410,000 in 2007. The Hospital issued no new debt in 2006 other than capital leases of \$77,020.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.932.2134.

Monroe County Hospital

Balance Sheets

June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
		<i>(Restated)</i>
Current Assets		
Cash and cash equivalents	\$ 1,746,910	\$ 1,198,338
Assets held under bond indenture agreement	—	300,243
Patient accounts receivable, net of allowance; 2007 – \$356,602, 2006 – \$333,275	1,660,376	1,285,800
Property taxes receivable	592,619	571,125
Estimated amounts due from third-party payers	83,000	239,000
Other receivables	27,264	65,194
Supplies	205,097	233,635
Prepaid expenses	<u>18,097</u>	<u>31,831</u>
Total current assets	<u>4,333,363</u>	<u>3,925,166</u>
Noncurrent Cash and Deposits		
Internally designated for capital acquisitions	97,548	125,698
Externally restricted		
Held under bond indenture agreement	435,785	746,526
By donors	<u>179,880</u>	<u>179,880</u>
	713,213	1,052,104
Less amount required to meet current obligations	<u>—</u>	<u>300,243</u>
	<u>713,213</u>	<u>751,861</u>
Capital Assets, Net of Accumulated Depreciation	<u>6,314,093</u>	<u>7,129,457</u>
Other Assets		
Deferred financing costs (net of amortization; 2007 – \$35,473, 2006 – \$29,213)	<u>226,974</u>	<u>95,987</u>
Total Assets	<u>\$ 11,587,643</u>	<u>\$ 11,902,471</u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
		<i>(Restated)</i>
Current Liabilities		
Current maturities of long-term debt	\$ 540,571	\$ 459,752
Accounts payable	545,086	483,790
Accrued vacation	316,880	292,899
Accrued payroll and related liabilities	198,731	154,809
Accrued interest	1,688	120,244
Deferred revenue for property taxes	<u>592,619</u>	<u>571,125</u>
Total current liabilities	2,195,575	2,082,619
Long-term Debt	<u>4,535,626</u>	<u>5,162,792</u>
Total liabilities	<u>6,731,201</u>	<u>7,245,411</u>
Net Assets		
Invested in capital assets, net of related debt	1,464,870	1,602,900
Restricted – expendable for debt service	434,097	626,282
Restricted – nonexpendable endowment	179,880	179,880
Unrestricted	<u>2,777,595</u>	<u>2,247,998</u>
Total net assets	<u>4,856,442</u>	<u>4,657,060</u>
Total Liabilities and Net Assets	<u>\$ 11,587,643</u>	<u>\$ 11,902,471</u>

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

	2007	2006
		<i>(Restated)</i>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 11,483,762	\$ 10,060,746
Provision for uncollectible accounts	<u>(368,728)</u>	<u>(262,193)</u>
Net patient service revenue	11,115,034	9,798,553
Other	<u>176,145</u>	<u>138,470</u>
Total operating revenues	<u>11,291,179</u>	<u>9,937,023</u>
Operating Expenses		
Salaries and wages	4,631,597	4,386,031
Employee benefits	1,190,750	1,164,694
Medical professional fees	621,874	618,236
Supplies and expenses	2,552,387	2,110,061
General services	590,521	661,331
Administrative services	784,951	742,832
Depreciation	992,320	1,006,864
Insurance	<u>103,179</u>	<u>99,160</u>
Total operating expenses	<u>11,467,579</u>	<u>10,789,209</u>
Operating Loss	<u>(176,400)</u>	<u>(852,186)</u>
Nonoperating Revenues (Expenses)		
Property taxes	575,397	549,968
Interest expense	(325,048)	(339,904)
Interest income	55,835	38,256
Noncapital grants and gifts	<u>69,598</u>	<u>59,345</u>
Total nonoperating revenues	<u>375,782</u>	<u>307,665</u>
Excess (Deficit) of Revenues and Gains Over Expenses	199,382	(544,521)
Capital Grants and Contributions	<u>—</u>	<u>24,311</u>
Increase (Decrease) in Net Assets	<u>199,382</u>	<u>(520,210)</u>
Net Assets, Beginning of Year, As previously stated	—	5,204,272
Adjustment Applicable to Prior Years	<u>—</u>	<u>(27,002)</u>
Net Assets, Beginning of Year, Restated	<u>4,657,060</u>	<u>5,177,270</u>
Net Assets, End of Year	<u>\$ 4,856,442</u>	<u>\$ 4,657,060</u>

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

	2007	2006
		<i>(Restated)</i>
Operating Activities		
Receipts from and on behalf of patients	\$ 10,896,457	\$ 9,375,030
Payments to and on behalf of employees	(5,754,444)	(5,628,998)
Payments to suppliers and contractors	(4,648,845)	(4,235,509)
Other receipts, net	<u>214,075</u>	<u>168,920</u>
Net cash provided by (used in) operating activities	<u>707,243</u>	<u>(320,557)</u>
Noncapital Financing Activities		
Property taxes	575,397	549,968
Noncapital grants and gifts	<u>69,598</u>	<u>59,345</u>
Net cash provided by noncapital financing activities	<u>644,995</u>	<u>609,313</u>
Capital and Related Financing Activities		
Proceeds from capital debt	4,410,000	—
Principal paid on capital debt and leases	(4,890,197)	(451,020)
Interest paid on capital debt and leases	(443,603)	(343,754)
Deferred financing costs	(137,249)	—
Discount on debt issuance	(66,150)	—
Gifts and grants for capital purposes	—	24,311
Purchase of capital assets	<u>(71,194)</u>	<u>(200,243)</u>
Net cash used in capital and related financing activities	<u>(1,198,393)</u>	<u>(970,706)</u>
Investing Activities		
Interest on deposits	55,835	38,256
Increase in deposits	<u>(25,785)</u>	<u>(15,463)</u>
Net cash provided by investing activities	<u>30,050</u>	<u>22,793</u>
Increase (Decrease) in Cash and Cash Equivalents	183,895	(659,157)
Cash and Cash Equivalents, Beginning of Year	<u>1,565,315</u>	<u>2,224,472</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,749,210</u>	<u>\$ 1,565,315</u>

(Continued)

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

	2007	2006
		<i>(Restated)</i>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,746,910	\$ 1,198,338
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	2,300	125,698
Externally restricted	—	241,279
	<u>\$ 1,749,210</u>	<u>\$ 1,565,315</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (176,400)	\$ (852,186)
Depreciation and amortization	998,580	1,013,124
Loss on sale of assets	10,000	—
Changes in operating assets and liabilities		
Patient accounts receivable, net	(374,576)	436,344
Supplies	28,538	(16,978)
Estimated amounts due from and to third-party payers	156,000	(859,867)
Accounts payable and accrued expenses	13,436	(99,874)
Other assets and liabilities	51,665	58,880
Net cash provided by (used in) operating activities	<u>\$ 707,243</u>	<u>\$ (320,557)</u>
Supplemental Cash Flows Information		
Capital assets acquired under capital leases	\$ —	\$ 77,020
Capital assets included in accounts payable	115,762	—

Monroe County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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

Nature of Operations

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

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of savings accounts.

Monroe County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Property Taxes

The Hospital received approximately 5% of its financial support from property tax revenues in the years ended June 30, 2007 and 2006, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the county as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

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

Patient Accounts Receivable

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

Supplies

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

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	2 to 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight line method.

Compensated Absences

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

Net Assets

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

Monroe County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Net Patient Service Revenue

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

Contributions

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$61,329 and \$55,706 for 2007 and 2006, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Monroe County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 2: Net Patient Service Revenue

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

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

Approximately 56% and 59% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, respectively.

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

The Hospital was required to make additional payments of approximately \$145,000 in 2006 for prior Medicare cost report reopenings, which had not been included in the estimated amounts due to third parties at June 30, 2005.

The Hospital recorded approximately \$80,000 of amounts due from Medicare related to 2006 and 2005 as part of the restated financial statements (*see Note 13*).

Note 3: Deposits, Investments and Interest Income

Deposits

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

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

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

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2007 and 2006.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2007	2006
Carrying value		
Deposits	\$ <u>2,460,123</u>	\$ <u>2,250,442</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,746,910	\$ 1,198,338
Assets held under bond indenture agreement	—	300,243
Noncurrent cash and deposits	<u>713,213</u>	<u>751,861</u>
	<u>\$ 2,460,123</u>	<u>\$ 2,250,442</u>

Interest Income

Interest income for the years ended June 30, 2007 and 2006, amounted to \$55,835 and \$38,256, respectively.

Note 4: Patient Accounts Receivable

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

	2007	2006
Medicare	\$ 711,512	\$ 533,353
Medicaid	51,071	67,511
Other third-party payers	660,491	558,811
Patients	<u>593,904</u>	<u>459,400</u>
	2,016,978	1,619,075
Less allowance for uncollectible accounts	<u>356,602</u>	<u>333,275</u>
	<u>\$ 1,660,376</u>	<u>\$ 1,285,800</u>

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

Note 5: Capital Assets

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2007					
Land	\$ 62,600	\$ —	\$ —	\$ —	\$ 62,600
Land improvements	700,307	6,315	—	—	706,622
Buildings and leasehold improvements	6,779,740	15,695	—	1,369	6,796,804
Fixed equipment	4,650,617	12,236	—	870	4,663,723
Major movable equipment	5,467,084	34,191	40,000	517	5,461,792
Construction in progress	<u>6,500</u>	<u>118,519</u>	<u>—</u>	<u>(2,756)</u>	<u>122,263</u>
	<u>17,666,848</u>	<u>186,956</u>	<u>40,000</u>	<u>—</u>	<u>17,813,804</u>
Less accumulated depreciation					
Land improvements	533,162	25,103	—	—	558,265
Buildings and leasehold improvements	2,942,746	229,748	—	—	3,172,494
Fixed equipment	3,045,752	150,824	—	—	3,196,576
Major movable equipment	<u>4,015,731</u>	<u>586,645</u>	<u>30,000</u>	<u>—</u>	<u>4,572,376</u>
	<u>10,537,391</u>	<u>992,320</u>	<u>30,000</u>	<u>—</u>	<u>11,499,711</u>
Capital assets, net	<u>\$ 7,129,457</u>	<u>\$ (805,364)</u>	<u>\$ 10,000</u>	<u>\$ —</u>	<u>\$ 6,314,093</u>
2006 (Restated)					
Land	\$ 62,600	\$ —	\$ —	\$ —	\$ 62,600
Land improvements	700,307	—	—	—	700,307
Buildings and leasehold improvements	6,767,223	10,752	—	1,765	6,779,740
Fixed equipment	4,650,617	—	—	—	4,650,617
Major movable equipment	5,208,838	258,228	—	18	5,467,084
Construction in progress	<u>—</u>	<u>8,283</u>	<u>—</u>	<u>(1,783)</u>	<u>6,500</u>
	<u>17,389,585</u>	<u>277,263</u>	<u>—</u>	<u>—</u>	<u>17,666,848</u>
Less accumulated depreciation					
Land improvements	506,909	26,253	—	—	533,162
Buildings and leasehold improvements	2,712,913	229,833	—	—	2,942,746
Fixed equipment	2,888,280	157,472	—	—	3,045,752
Major movable equipment	<u>3,422,425</u>	<u>593,306</u>	<u>—</u>	<u>—</u>	<u>4,015,731</u>
	<u>9,530,527</u>	<u>1,006,864</u>	<u>—</u>	<u>—</u>	<u>10,537,391</u>
Capital assets, net	<u>\$ 7,859,058</u>	<u>\$ (729,601)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,129,457</u>

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

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

Note 7: Long-term Obligations

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

	Beginning Balance	2007		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Hospital revenue refunding bonds, Series 2007 (A)	\$ —	\$ 4,410,000	\$ —	\$ 4,410,000	\$ 245,000
Hospital revenue bonds, Series 2001 (B)	4,345,000	—	(4,345,000)	—	—
Hospital revenue note (C)	261,981	—	(261,981)	—	—
Capital lease obligations (D)	1,015,563	—	(283,216)	732,347	295,571
Less unamortized bond discount	—	(66,150)	—	(66,150)	—
Total long-term debt	<u>\$ 5,622,544</u>	<u>\$ 4,343,850</u>	<u>\$ (4,890,197)</u>	<u>\$ 5,076,197</u>	<u>\$ 540,571</u>

	Beginning Balance	2006		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Hospital revenue bonds, Series 2001 (B)	\$ 4,520,000	\$ —	\$ (175,000)	\$ 4,345,000	\$ 180,000
Hospital revenue note (C)	271,658	—	(9,677)	261,981	10,161
Capital lease obligations (D)	<u>1,204,886</u>	<u>77,020</u>	<u>(266,343)</u>	<u>1,015,563</u>	<u>269,591</u>
Total long-term debt	<u>\$ 5,996,544</u>	<u>\$ 77,020</u>	<u>\$ (451,020)</u>	<u>\$ 5,622,544</u>	<u>\$ 459,752</u>

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

- (A) Hospital Revenue Refunding Bonds, Series 2007, originally aggregating \$4,410,000, were issued by the Hospital to refund the remaining 2001 and 1993 Series Notes. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.15% to 4.85%, on June 1 and December 1 each year until 2021. Series 2007 Bonds maturing on or after June 1, 2016 are subject to redemption by the Hospital, prior to the stated maturity, at any time on or after June 1, 2015, in whole or in part at a redemption price equal to 100% of principal plus accrued interest. Bonds are collateralized by net revenues of the Hospital.
- (B) Hospital Revenue Bonds, Series 2001, originally aggregating \$5,000,000, were issued by the Hospital to finance building improvements and refund 1980 bonds. The bonds were payable in annual principal and semiannual interest installments, including interest of 4.55% to 6.10%, on July 1 and January 1 of each year until July 2021.

The Hospital issued Hospital Revenue Refunding Notes, Series 2007, and refunded its outstanding 2001 note in the principal amount of \$4,165,000. Proceeds from the notes were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the refunded notes. This advance refunding transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 2001 notes at the time of the refunding. Accordingly, the 2001 notes, aggregating \$4,165,000 on June 30, 2007, remain outstanding, but are excluded from the Hospital's balance sheets.

- (C) Hospital Revenue Note dated August 1993 with an original principal amount of \$352,500. The note was payable in yearly installments of \$23,283, including interest at 5%, payable on July 1 of each year until July 2023. The Hospital had reserved the right to repay the principal of this note due July 1, 2005 to 2023.

The Hospital issued Hospital Revenue Refunding Notes, Series 2007, and refunded its outstanding 1993 note in the principal amount of \$251,820.

- (D) At varying rates of imputed interest from 5.0% to 7.2% maturing through 2011 and collateralized by leased equipment. Equipment under capital leases is as follows:

	2007	2006
Equipment	\$ 1,457,278	\$ 1,457,278
Less accumulated depreciation	1,128,173	723,955
	\$ 329,105	\$ 733,323

The economic gain resulting from the refunding of the 1993 Hospital Revenue Note and the Series 2001 Bonds was approximately \$140,000.

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

The Series 2007 Revenue Bonds provide that a Debt Service Reserve Fund be maintained in the amount of the final reserve requirement of \$435,785.

The Series 2007 indenture agreement also requires certain funds be established for semiannual interest and annual principal payments to be funded monthly. These funds and the Debt Service reserve funds are included in noncurrent cash and deposits except for amounts required to meet current obligations in the coming year. The indenture agreements also require the Hospital to comply with certain restrictive covenants, including minimum insurance coverage and restrictions on occurrence of additional debt.

The debt service requirements for the Hospital revenue bonds Series 2007 as of June 30, 2007, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2008	\$ 430,881	\$ 245,000	\$ 185,881
2009	435,785	245,000	190,785
2010	435,373	255,000	180,373
2011	434,407	265,000	169,407
2012	432,880	275,000	157,880
2013 – 2017	2,172,935	1,580,000	592,935
2018 – 2021	<u>1,734,935</u>	<u>1,545,000</u>	<u>189,935</u>
	<u>\$ 6,077,196</u>	<u>\$ 4,410,000</u>	<u>\$ 1,667,196</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest, together with the present value of the future minimum lease payments as of June 30, 2007:

Year Ending June 30,	Amount
2008	\$ 335,809
2009	234,560
2010	217,444
2011	<u>15,936</u>
Total minimum lease payments	803,749
Less amount representing interest	<u>71,402</u>
Present value of future minimum lease payments	<u>\$ 732,347</u>

Monroe County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 8: Designated Net Assets

At June 30, 2007 and 2006, restricted expendable net assets of \$435,785 and \$746,526, respectively, were available for debt service reserve and sinking funds related to indenture agreements.

Note 9: Restricted Net Assets

The Hospital was named as a recipient of future investment income from a perpetual endowment fund created under the last will and testament of Denzil F. and Alice E. Patton. The will stipulated that the corpus is to be held for fifty years under the administration of a trustee and the net investment income is to be distributed each year to the Hospital. After time restriction is met, the principal balance may be used for the operations of the Hospital. The time restriction expires January 2051. Assets of this trust are included in the accompanying financial statements as externally restricted by donors. Trust income received is reported as other income.

Note 10: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$259,887, \$240,018 and \$216,536, respectively, which equaled the required contributions for each year.

Note 11: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization for network administration and support services. Administration and support services fees of \$364,153 and \$357,147 were incurred for the years ended June 30, 2007 and 2006, respectively.

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

Note 12: Budget and Budgetary Accounting

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

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

	<u>Actual</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Amended Budget</u>
Amount to be raised by taxation	\$ 575,397	\$ —	\$ 575,397	\$ 571,125
Other revenues/receipts	<u>11,416,612</u>	<u>(218,576)</u>	<u>11,198,036</u>	<u>11,764,386</u>
Total revenues/receipts	11,992,009	(218,576)	11,773,433	12,335,511
Expenses/disbursements	<u>11,792,627</u>	<u>(28,836)</u>	<u>11,763,791</u>	<u>12,982,067</u>
Increase (decrease) in net assets	199,382	(189,740)	9,642	(646,556)
Balance, beginning of year	<u>4,657,060</u>	<u>(564,718)</u>	<u>4,092,342</u>	<u>4,092,342</u>
Balance, end of year	<u>\$ 4,856,442</u>	<u>\$ (754,458)</u>	<u>\$ 4,101,984</u>	<u>\$ 3,445,786</u>

Note 13: Restatement of Prior Year Financial Statements

The financial statements for 2006 have been retroactively restated for a computational error in depreciation expense (net of the related Medicare reimbursement impact), which resulted in a decrease in the change in net assets and beginning net assets for 2006 of \$78,502 and \$27,002, respectively.

Supplementary Information

Monroe County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2007 and 2006

	2007			2006 (Restated)		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Acute nursing care	\$ 892,009	\$ 892,009		\$ 767,741	\$ 767,741	
Extended care	245,663	245,663		284,440	284,440	
Skilled care	<u>311,088</u>	<u>311,088</u>		<u>292,783</u>	<u>292,783</u>	
	<u>1,448,760</u>	<u>1,448,760</u>		<u>1,344,964</u>	<u>1,344,964</u>	
Nursing Services						
Operating room	1,039,859	169,636	\$ 870,223	654,643	169,839	\$ 484,804
Recovery room	18,711	11,547	7,164	24,188	14,042	10,146
Emergency room	<u>1,128,011</u>	<u>52,339</u>	<u>1,075,672</u>	<u>1,038,980</u>	<u>41,175</u>	<u>997,805</u>
	<u>2,186,581</u>	<u>233,522</u>	<u>1,953,059</u>	<u>1,717,811</u>	<u>225,056</u>	<u>1,492,755</u>
Other Professional Services						
Central services and supplies	93,612	33,220	60,392	86,134	36,630	49,504
Hospice	450,753	6,885	443,868	277,609	4,431	273,178
Home health	6,708		6,708	3,431		3,431
Ambulance	608,153	49,351	558,802	550,723	135,544	415,179
Laboratory	2,225,581	236,549	1,989,032	1,763,242	205,512	1,557,730
Radiology	500,600	50,073	450,527	454,828	39,594	415,234
Electrocardiology	140,586	12,607	127,979	115,323	12,166	103,157
Respiratory therapy	400,252	336,672	63,580	277,383	254,988	22,395
Pharmacy	3,013,881	1,022,260	1,991,621	2,280,041	901,203	1,378,838
Anesthesiology	215,293	29,084	186,209	177,292	46,224	131,068
Physical therapy	463,919	88,355	375,564	458,850	89,760	369,090
Speech therapy	4,698	2,253	2,445	30,182	10,731	19,451
CT scan and MRI	1,986,855	248,069	1,738,786	1,682,608	195,430	1,487,178
Cardiac rehab	93,863		93,863	80,670		80,670
Occupational therapy	162,192	78,883	83,309	123,343	70,455	52,888
Outpatient clinic	177		177	10,027		10,027
Physician clinic	<u>1,185,872</u>		<u>1,185,872</u>	<u>1,113,844</u>		<u>1,113,844</u>
	<u>11,552,995</u>	<u>2,194,261</u>	<u>9,358,734</u>	<u>9,485,530</u>	<u>2,002,668</u>	<u>7,482,862</u>
Gross Patient Service Revenue	15,188,336	\$ <u>3,876,543</u>	\$ <u>11,311,793</u>	12,548,305	\$ <u>3,572,688</u>	\$ <u>8,975,617</u>
Contractual Adjustments	<u>(3,704,574)</u>			<u>(2,487,559)</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	11,483,762			10,060,746		
Provision for Uncollectible Accounts	<u>(368,728)</u>			<u>(262,193)</u>		
Net Patient Service Revenue	\$ <u>11,115,034</u>			\$ <u>9,798,553</u>		

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

	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 39,544	\$ 35,239
Medical records	3,454	2,341
Rent	102,052	66,899
Other	<u>31,095</u>	<u>33,991</u>
	<u>\$ 176,145</u>	<u>\$ 138,470</u>

Monroe County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2007 and 2006

	2007			2006 (Restated)		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,027,233	\$ 858,055	\$ 169,178	\$ 952,115	\$ 803,096	\$ 149,019
Extended care	268,221	264,789	3,432	250,108	246,230	3,878
Emergency room	753,300	385,293	368,007	656,961	389,989	266,972
Operating and recovery rooms	397,276	241,652	155,624	328,562	220,047	108,515
Nursing administration	65,706	64,846	860	52,539	51,438	1,101
	<u>2,511,736</u>	<u>1,814,635</u>	<u>697,101</u>	<u>2,240,285</u>	<u>1,710,800</u>	<u>529,485</u>
Other Professional Services						
Laboratory	490,580	219,736	270,844	474,362	208,408	265,954
Radiology	376,074	304,443	71,631	431,928	348,648	83,280
Respiratory therapy	90,149	64,482	25,667	85,414	61,854	23,560
Pharmacy	775,418	90,903	684,515	622,700	84,951	537,749
Anesthesiology	94,760		94,760	97,124		97,124
Physical therapy	207,071		207,071	206,823		206,823
Speech pathology	3,054		3,054	19,825		19,825
CT scan	15,885		15,885	12,786		12,786
Ultrasound	91,453	53,295	38,158	10,689		10,689
Mammography	5,535		5,535	8,855		8,855
MRI	65,040		65,040	77,014		77,014
Nuclear scanning	19,037		19,037	10,698		10,698
Cardiac rehab	33,740	29,461	4,279	33,760	28,071	5,689
Occupational therapy	100,898		100,898	71,673		71,673
Medical records	139,844	123,249	16,595	129,753	106,548	23,205
Outpatient clinic	62,692	58,369	4,323	67,411	61,962	5,449
Physician clinic	1,124,933	423,679	701,254	1,031,370	412,089	619,281
Infection control	2,533		2,533	3,779		3,779
Hospice	309,336	201,529	107,807	248,997	176,127	72,870
Home health	6,240		6,240	1,406		1,406
Ambulance	214,626	182,592	32,034	280,656	239,553	41,103
	<u>4,228,898</u>	<u>1,751,738</u>	<u>2,477,160</u>	<u>3,927,023</u>	<u>1,728,211</u>	<u>2,198,812</u>
General Services						
Operation of plant	488,290	122,764	365,526	574,170	114,894	459,276
Dietary	359,498	195,106	164,392	323,257	174,933	148,324
Environmental services	158,006	113,282	44,724	159,768	119,248	40,520
Housekeeping	70,535	54,656	15,879	65,731	52,520	13,211
	<u>1,076,329</u>	<u>485,808</u>	<u>590,521</u>	<u>1,122,926</u>	<u>461,595</u>	<u>661,331</u>
Administrative Services	<u>1,364,367</u>	<u>579,416</u>	<u>784,951</u>	<u>1,228,257</u>	<u>485,425</u>	<u>742,832</u>
Employee Benefits	<u>1,190,750</u>		<u>1,190,750</u>	<u>1,164,694</u>		<u>1,164,694</u>
Depreciation	<u>992,320</u>		<u>992,320</u>	<u>1,006,864</u>		<u>1,006,864</u>
Insurance	<u>103,179</u>		<u>103,179</u>	<u>99,160</u>		<u>99,160</u>
	<u>\$ 11,467,579</u>	<u>\$ 4,631,597</u>	<u>\$ 6,835,982</u>	<u>\$ 10,789,209</u>	<u>\$ 4,386,031</u>	<u>\$ 6,403,178</u>

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

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2007	2006	2007	2006
Days Since Discharge or date of service				
0 – 30	\$ 1,074,745	\$ 1,050,530	45%	57%
31 – 60	515,536	214,235	21	11
61 – 90	257,202	124,730	11	7
91 – 120	94,857	72,527	4	4
121 and over	<u>457,907</u>	<u>383,813</u>	<u>19</u>	<u>21</u>
	<u>2,400,247</u>	<u>1,845,835</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	383,269	226,760		
Allowance for uncollectible accounts	<u>356,602</u>	<u>333,275</u>		
	<u>739,871</u>	<u>560,035</u>		
	<u>\$ 1,660,376</u>	<u>\$ 1,285,800</u>		

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 333,275	\$ 320,625
Provision for year	368,728	262,193
Recoveries of accounts previously written off	<u>91,311</u>	<u>182,628</u>
	793,314	765,446
Less accounts written off	<u>436,712</u>	<u>432,171</u>
Balance, end of year	<u>\$ 356,602</u>	<u>\$ 333,275</u>

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

Supplies

	2007	2006
General	\$ 103,996	\$ 134,193
Pharmacy	<u>101,101</u>	<u>99,442</u>
	<u>\$ 205,097</u>	<u>\$ 233,635</u>

Prepaid Expenses

	2007	2006
Insurance	\$ —	\$ 13,734
Lease	<u>18,097</u>	<u>18,097</u>
	<u>\$ 18,097</u>	<u>\$ 31,831</u>

Monroe County Hospital

Schedule of Officials

June 30, 2007

Name	Title	Term Expires December 31
Board of Trustees		
Dan Stocker	Chair	2012
Debbie Judge	Vice Chair	2010
Lorraine Starcevic	Secretary	2010
Tim Shehan	Member	2010
Marilee Scieszinski	Member	2009
Lana Kaldenberg	Member	2008
Alan Ammons	Member	2012
Hospital Officials		
Greg Paris	Administrator	
Heather Cain	Chief Financial Officer	

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

	2007	2006
Patient Days (Exclusive of Swing-bed)		
Medicare	797	1,032
Medicaid	58	24
Private and other	283	191
	1,138	1,247
Medicare and Medicaid Percent	75.1%	84.7%
Percent of Occupancy (Acute)	12.0%	14.0%
Discharges (Exclusive of Swing-bed)		
Medicare	246	301
Medicaid	15	14
Private and other	93	72
	354	387
Average Length of Stay in Days	3.2	3.2



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

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the financial statements of Monroe County Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 07-1, we consider to be a material weakness.

Compliance and Other Matters

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

We also noted a certain additional matters that are reported below or we reported to the Hospital management a separate letter dated December 17, 2007.

Compliance with Certain Provisions of Iowa Law

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

Official Depository Banks

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

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.

Questionable Expenditures

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

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

Prior to November 1, 2006, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2007 for the year ended June 30, 2006.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
December 17, 2007

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

Reference Number	Finding
07-1	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Audit adjustments relating to depreciation expense for 2007 and prior years were proposed to management.</p> <p>Context—Management’s financial statement preparation procedures were not sufficient to detect misstatements in the financial statements.</p> <p>Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner, resulting in a restatement of prior year’s financial statements.</p> <p>Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements.</p> <p>Recommendation—Management should review financial statements and supporting detail monthly before issuance for accuracy and completeness in conformity with Generally Accepted Accounting Principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>
07-2	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over external financial reporting.</p> <p>Condition—The Hospital’s financial statements required material adjusting journal entries for external financial statement presentation in accordance with generally accepted accounting principles.</p> <p>Context—Procedures related to review of non-standard journal entries led to adjustments that were required to comply with generally accepted accounting principles.</p> <p>Effect—Adjusting journal entries of material amounts were proposed and recorded by management.</p>

Monroe County Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2007

Reference Number	Finding
	<p>Cause—Closing and review procedures for certain non-standard journal entries and the related supporting detail did not detect certain mispostings.</p> <p>Recommendation—Management should modify review procedures for non-standard journal entries to ensure that the controls in place are sufficient for the preparation of financial statements in conformity with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions— Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year. While the journal entries were considered more than inconsequential to the financial statements, policies are in place to mitigate these adjustments from rising to the level of a material weakness in internal control.</p>



Board of Trustees
Monroe County Hospital
Albia, Iowa

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

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

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

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

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously, we made observations as a result of our 2006 audit engagement in a letter dated September 22, 2006.

Material Weaknesses

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

Significant Deficiencies

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

Control Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

Segregation of duties issues were noted in the following areas:

Cash Disbursements – The Accounts Payable Clerk has the ability to issue checks, has access to the signature plate, can record checks that are paid, adjust the expense accounts and reconcile bank balances to the general ledger.

Revenues and Cash Receipts – The Cash Receipts Clerk and Billing Clerk have the ability to receive cash, adjust patient accounts for payments received and change the patient billing files.

Payroll – The Payroll Manager has the ability to add employees to master files, issue checks, has access to the check signature plate, performs other recording functions and reconciles employee payroll records.

Other Matters

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

Documentation of Accounting Policies

The Hospital has no formal documentation of standard accounting procedures. We recommend documenting accounting procedures, such as general ledger maintenance, payroll processing, cash disbursement processing, and so forth, should an unforeseen emergency occur with accounting personnel. This would enable the accounting function to continue with a minimum of interruption to daily activities.

Foundation

The Hospital and related Foundation appear to meet the criteria that would require the Foundation be consolidated in the Hospital's financial statements. The Foundation was deemed to not be material for 2007. The Hospital will need to re-evaluate this in 2008.

Risk Assessment Audit Standards

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

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

These standards will have a significant impact on the Hospital's audit for the year ending June 30, 2008.

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This communication is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
December 17, 2007