

**Adair County Memorial Hospital**  
Accountants' Report and Financial Statements  
June 30, 2008 and 2007



# Adair County Memorial Hospital

June 30, 2008 and 2007

## Contents

<b>Independent Accountants' Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>2</b>
<b>Financial Statements</b>	
Balance Sheets .....	6
Statements of Revenues, Expenses and Changes in Net Assets .....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	10
<b>Supplementary Information</b>	
Combining Balance Sheet – June 30, 2008 .....	22
Combining Schedule of Revenues, Expenses and Changes in Net Assets .....	23
Schedules of Patient Service Revenues .....	24
Schedules of Other Revenues .....	26
Schedules of Operating Expenses.....	27
Schedules of Patient Receivables and Allowance for Uncollectible Accounts .....	28
Schedules of Supplies and Prepaid Expense.....	29
Schedule of Officials – Year Ended June 30, 2008 .....	30
Schedules of Financial and Statistical Data .....	31
Schedule of Insurance Coverage – Year Ended June 30, 2008.....	32
<b>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.....</b>	<b>33</b>
<b>Schedule of Findings and Responses .....</b>	<b>37</b>



## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

We have audited the accompanying balance sheets of Adair County Memorial Hospital as of June 30, 2008 and 2007, 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 Adair County Memorial Hospital as of June 30, 2008 and 2007, 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 September 29, 2008, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2008 and 2007. We did not audit the information and express no opinion on it.

Board of Trustees  
Adair County Memorial Hospital  
Page 2

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 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.

BKD, LLP

Kansas City, Missouri  
September 29, 2008

# **Adair County Memorial Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2008 and 2007**

#### Introduction

This management's discussion and analysis of the financial performance of Adair County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### Financial Highlights

- The Hospital's net assets increased by \$1,169,762 resulting from \$789,545 of the Hospital's excess revenues and capital grants and contributions from the Foundation's capital campaign pledges of \$380,217.
- The Hospital's patient service revenues increased \$425,158 or 6% from 2007 to 2008 and \$63,367 or 1% from 2006 to 2007.
- The accounts receivable increased 9% between 2007 and 2008 and had increased 19% between 2006 and 2007. Allowance for uncollectible accounts stayed around 20% of gross accounts receivable.
- \$4.5 million of the debt taken on last year is due June 2009. The Hospital intends to refinance the amount due in June 2009 with a low interest USDA loan.

#### 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 \$1,169,762 or 23% in 2008 over 2007 and \$1,247,460 or 32% in 2007 over 2006 as shown in Table 1.

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 1,101,082	\$ 1,010,977	\$ 854,274
Other current assets	6,417,431	3,726,192	3,704,309
Capital assets, net	8,790,576	1,871,264	1,327,526
Other noncurrent assets	2,024,376	9,662,670	21,739
<b>Total assets</b>	<b>\$ 18,333,465</b>	<b>\$ 16,271,103</b>	<b>\$ 5,907,848</b>
<b>Liabilities</b>			
Current liabilities	\$ 2,606,341	\$ 1,966,182	\$ 1,788,387
Long-term debt	9,360,316	9,107,875	169,875
<b>Total liabilities</b>	<b>11,966,657</b>	<b>11,074,057</b>	<b>1,958,262</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	75,836	1,626,361	1,091,111
Restricted expendable	865,816	515,105	50,434
Unrestricted	5,425,156	3,055,580	2,808,041
<b>Total net assets</b>	<b>6,366,808</b>	<b>5,197,046</b>	<b>3,949,586</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,333,465</b>	<b>\$ 16,271,103</b>	<b>\$ 5,907,848</b>

## **Operating Results and Changes in the Hospital's Net Assets**

In 2008 and 2007, the Hospital's excess of revenues over expenses increased by \$789,545 and \$769,744, respectively, as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 7,184,175	\$ 6,759,017	\$ 6,695,650
Other operating revenues	325,535	285,634	299,072
<b>Total operating revenues</b>	<u>7,509,710</u>	<u>7,044,651</u>	<u>6,994,722</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	4,206,317	3,990,617	3,959,007
Medical and professional fees	1,353,961	1,365,045	1,378,815
Depreciation and amortization	304,211	224,076	204,274
Other operating expenses	2,080,995	1,886,480	1,960,976
<b>Total operating expenses</b>	<u>7,945,484</u>	<u>7,466,218</u>	<u>7,503,072</u>
<b>Operating Loss</b>	<u>(435,774)</u>	<u>(421,567)</u>	<u>(508,350)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	1,077,798	1,022,452	838,564
Interest expense	(6,142)	(9,264)	(15,991)
Interest income	124,150	115,686	83,236
Non-capital grants and gifts	29,513	62,437	13,520
<b>Total nonoperating revenues</b>	<u>1,225,319</u>	<u>1,191,311</u>	<u>919,329</u>
<b>Excess of Revenues over Expenses Before Capital Grants and Contributions</b>	789,545	769,744	410,979
<b>Capital Grants and Contributions</b>	<u>380,217</u>	<u>477,716</u>	<u>95,526</u>
<b>Increase in Net Assets</b>	<u>\$ 1,169,762</u>	<u>\$ 1,247,460</u>	<u>\$ 506,505</u>

**Operating Loss**

The Hospital recorded an operating loss for 2008 and 2007 that was virtually the same both years. Revenues and expenses were up approximately 6% in 2008. There was improvement in operations in 2007, the loss decreased 17% from 2006. A charge structure review was conducted and recommendations were implemented to better align our charge structure with the market. Service volumes were very consistent with last year. Home Care continued to show a solid increase for the second year in a row. Volumes in 2007 were flat compared to 2006, but expenses were down resulting in a lower operating loss in 2007 compared to 2006.

Operating expenses increased 6% from the prior year. Two new FTEs were added due to our growth.

**Nonoperating Revenues and Expenses**

Nonoperating revenue increased over 2007 by only 3%, there was no increase in the tax levy and unrestricted contributions were down in 2008. In 2007, there was an increase of 30% compared to 2006 due to an increase in grants and contributions, interest income and property taxes.

## **Contributions**

The Hospital had a decrease in contributions in 2008. The noncapital contributions shrunk \$32,924 from 2007. Restricted capital contributions and grants remained strong amounting to \$380,217, including \$337,136 from the Foundation Capital Campaign. The majority of the funds are designated to be used for the building project.

## **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 2008, 2007 and 2006, discussed earlier.

## **Capital Asset and Debt Administration**

### **Capital Assets**

Capital assets increased \$6,919,312 over 2007. This increase was due to the addition of a new inpatient wing and family practice clinic. The cost of the entire project is expected to be approximately \$9.8 million. A significant portion of the funding will be obtained through a low interest loan from USDA and the remainder comes from revenue bonds and a capital fundraising campaign.

### **Debt**

The Hospital did not enter any new capital leases in 2008.

The details of the notes payable are:

There is a mortgage to finance the purchase of the home health agency building. The mortgage has monthly payments of \$726 through July 2012. The interest is variable and is adjustable in sixty months from July 2007. At June 30, 2008, the interest rate is 4.00%. A note payable to finance the purchase of medical and office equipment costs of a family practice clinic was paid off during 2008. There is a note payable for the purchase of a house and land used for office space adjacent to the Hospital with monthly payments of \$506, including interest at 4.5% through February 2024. Finally, there is a note payable for a boiler system in monthly installments of \$2,440, including interest at 4.75% through September 2008.

The Hospital issued \$9 million in revenue bonds to finance the expansion and renovation project. The \$4.5 million have an interest rate of 4% and will mature in June 2009. A low interest USDA loan has been secured to pay those bonds at maturity. The other \$4.5 million is in long-term bonds with varying maturities, with final maturity December 2037 and the average interest rate on these bonds is 4.96%.

## **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 641.743.7238.

# Adair County Memorial Hospital

## Balance Sheets

June 30, 2008 and 2007

### Assets

	<u>2008</u>	<u>2007</u>
<b>Current Assets</b>		
Cash	\$ 3,524,985	\$ 1,354,449
Promises to contribute - current portion	93,142	96,654
Short-term investments	589,662	981,798
Restricted cash - project fund	830,376	-
Patient accounts receivable, net of allowance; 2008 - \$229,500, 2007 - \$274,650	1,101,082	1,010,977
Property taxes receivable	1,025,951	986,950
Other receivables	19,198	17,659
Estimated amounts due from third-party payers	43,500	4,418
Supplies	190,006	184,164
Prepaid expenses	100,611	100,100
	<u>7,518,513</u>	<u>4,737,169</u>
<b>Noncurrent Deposits and Other</b>		
Certificates of deposit	1,040,248	110,380
Externally restricted		
Promises to contribute	328,066	395,853
Held under bond indenture agreement	557,379	8,966,668
	<u>1,925,693</u>	<u>9,472,901</u>
Promises to contribute due in one year	93,142	96,654
	<u>1,832,551</u>	<u>9,376,247</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>8,790,576</u>	<u>1,871,264</u>
<b>Other Assets</b>		
Deferred financing costs	191,825	277,727
Other Assets	-	8,696
	<u>191,825</u>	<u>286,423</u>
<b>Total Assets</b>	<u>\$ 18,333,465</u>	<u>\$ 16,271,103</u>

## Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 47,799	\$ 62,000
Accounts payable	312,079	218,178
Accounts payable - capital assets	835,294	306,415
Accrued payroll and related liabilities	352,027	292,014
Accrued interest	33,191	100,625
Deferred revenue for property taxes	1,025,951	986,950
	<u>2,606,341</u>	<u>1,966,182</u>
<b>Long-term Debt</b>	<u>9,360,316</u>	<u>9,107,875</u>
	<u>11,966,657</u>	<u>11,074,057</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	75,836	1,626,361
Restricted-expendable for		
Capital assets	856,955	510,117
Specific operating activities	8,861	4,988
Unrestricted	5,425,156	3,055,580
	<u>6,366,808</u>	<u>5,197,046</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,333,465</u>	<u>\$ 16,271,103</u>

**Adair County Memorial Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision		
for uncollectible accounts	\$ 7,404,311	\$ 6,922,776
Provision for uncollectible accounts	(220,136)	(163,759)
Net patient service revenue	7,184,175	6,759,017
Other	325,535	285,634
	7,509,710	7,044,651
<b>Operating Expenses</b>		
Salaries and wages	3,239,140	3,050,794
Employee benefits	967,177	939,823
Medical professional fees	1,353,961	1,365,045
Supplies and expenses	1,227,922	1,202,018
General services	221,780	192,827
Administrative services	518,586	432,203
Depreciation and amortization	304,211	224,076
Loss on disposal of equipment	47,780	-
Insurance	64,927	59,432
	7,945,484	7,466,218
<b>Operating Loss</b>	<b>(435,774)</b>	<b>(421,567)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	1,077,798	1,022,452
Interest expense	(6,142)	(9,264)
Interest income	124,150	115,686
Noncapital grants and gifts	29,513	62,437
	1,225,319	1,191,311
<b>Excess of Revenues over Expenses Before Capital Grants and Contributions</b>	<b>789,545</b>	<b>769,744</b>
<b>Capital Grants and Contributions</b>	<b>380,217</b>	<b>477,716</b>
<b>Increase in Net Assets</b>	<b>1,169,762</b>	<b>1,247,460</b>
<b>Net Assets, Beginning of Year</b>	<b>5,197,046</b>	<b>3,949,586</b>
<b>Net Assets, End of Year</b>	<b>\$ 6,366,808</b>	<b>\$ 5,197,046</b>

**Adair County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 7,054,988	\$ 6,647,896
Payments to suppliers and contractors	(3,299,628)	(3,500,401)
Payments to and on behalf of employees	(4,113,113)	(3,962,501)
Other receipts, net	346,358	187,971
Net cash used in operating activities	(11,395)	(627,035)
<b>Noncapital Financing Activities</b>		
Property taxes	1,077,798	1,022,452
Noncapital grants and gifts	29,513	62,437
Net cash provided by noncapital financing activities	1,107,311	1,084,889
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of capital debt	300,000	9,000,000
Gifts for capital purchases	380,217	477,716
Principal paid on capital debt and leases	(61,760)	(66,540)
Deferred financing costs	-	(257,614)
Interest paid on capital debt and leases	(472,448)	(9,264)
Purchase of capital assets	(6,300,995)	(367,844)
Net cash provided by (used in) capital and related financing activities	(6,154,986)	8,776,454
<b>Investing Activities</b>		
Interest on deposits and investments	124,150	115,686
Purchase of investments	525,068	(9,265,867)
Change in non-current cash and investments	7,410,764	(88,341)
Net cash provided by (used in) investing activities	8,059,982	(9,238,522)
<b>Increase (Decrease) in Cash</b>	3,000,912	(4,214)
<b>Cash, Beginning of Year</b>	1,354,449	1,358,663
<b>Cash, End of Year</b>	\$ 4,355,361	\$ 1,354,449

**Adair County Memorial Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 3,524,985	\$ 1,354,449
Restricted cash - project fund	830,376	-
	<b>\$ 4,355,361</b>	<b>\$ 1,354,449</b>
 <b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (435,774)	\$ (421,567)
Depreciation and amortization	304,211	224,076
Loss on disposals of capital assets	47,780	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(90,105)	(156,703)
Supplies	(5,842)	24,091
Prepaid expenses and other assets	(511)	(7,211)
Estimated amounts due from and to third-party payers	(39,082)	45,582
Accounts payable and accrued expenses	189,078	(335,303)
Other assets and liabilities	18,850	-
Net cash used in operating activities	<b>\$ (11,395)</b>	<b>\$ (627,035)</b>
 <b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in liabilities	<b>\$ 835,294</b>	<b>\$ 407,040</b>

# **Adair County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2008 and 2007**

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

##### ***Nature of Operations***

Adair County Memorial Hospital (Hospital) is a 25-bed public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Adair County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Adair County area.

The Hospital is the beneficiary of the Adair County Health Foundation, a legally separate not-for-profit corporation. The Foundation was formed to “protect and promote the best interest of the Adair County Memorial Hospital and Adair County Home Care and to promote and strive for improvement and betterment of their facilities and services. The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

##### ***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.

# **Adair County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2008 and 2007**

#### ***Property Taxes***

The Hospital received approximately 12% of its financial support from property tax revenues in the years ended June 30, 2008 and 2007, 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.

#### ***Noncurrent Deposits and Other***

Noncurrent deposits and other include (1) assets restricted by donors, (2) assets restricted under indenture agreements, and (3) internally designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Such amounts include cash, certificates of deposit and promises to contribute by donors.

# Adair County Memorial Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

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

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2008</u>	<u>2007</u>
Interest costs capitalized (net of interest earnings on project funds)	\$ 199,841	\$ 14,200
Interest costs charged to expense	<u>6,142</u>	<u>9,264</u>
Total interest incurred (net of interest earnings on project funds)	<u>\$ 205,983</u>	<u>\$ 23,464</u>

### 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 bonds outstanding method.

### Compensated Absences

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

# **Adair County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2008 and 2007**

#### ***Net Assets***

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

#### ***Net Patient Service Revenue***

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

#### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$30,478 and \$27,722 for 2008 and 2007, respectively.

#### ***Medical Malpractice Coverage and Claims***

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.

#### ***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.

# Adair County Memorial Hospital

## Notes to Financial Statements

### June 30, 2008 and 2007

#### **Reclassification**

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation. The reclassifications had no effect on the changes in financial position.

#### **Note 2: Net Patient Service Revenue**

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

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

Approximately 63% and 58% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2008 and 2007, respectively.

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

#### **Note 3: Deposits, Investments and 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, 2008 and 2007. The Hospital's deposits in banks at June 30, 2008 and 2007 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.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**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 only certificates of deposit investments at June 30, 2008 and 2007.

**Summary of Carrying Values**

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

	<u>2008</u>	<u>2007</u>
Carrying value		
Deposits	\$ 6,542,650	\$ 11,413,295
Included in the following balance sheet captions		
Cash	\$ 3,524,985	\$ 1,354,449
Restricted cash - current	830,376	-
Assets held under bond indenture agreement	557,379	8,966,668
Short-term investments	589,662	981,798
Other noncurrent cash and deposits	1,040,248	110,380
	<u>\$ 6,542,650</u>	<u>\$ 11,413,295</u>

**Interest Income**

Interest income for the years ended June 30, 2008 and 2007, amounted to \$124,150 and \$115,686, respectively.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**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, 2008 and 2007 consisted of:

	<b>2008</b>	<b>2007</b>
Medicare	\$ 465,009	\$ 285,947
Medicaid	114,433	106,564
Other third-party payers	368,500	404,508
Patients	382,640	488,608
	1,330,582	1,285,627
Less allowance for uncollectible accounts	229,500	274,650
	<b>\$ 1,101,082</b>	<b>\$ 1,010,977</b>

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2008 and 2007 follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers/ Adjustments</b>	<b>Ending Balance</b>
<b>2008</b>					
Land	\$ 25,806	\$ -	\$ -	\$ -	\$ 25,806
Land improvements	164,742	8,800	(13,868)	144,150	303,824
Buildings and leasehold improvements	925,494	-	(105,417)	5,389,067	6,209,144
Fixed equipment	592,976	229,156	(220,756)	-	601,376
Major movable equipment	1,566,150	424,835	(407,148)	-	1,583,837
Construction in progress	989,193	6,599,816	-	(5,533,217)	2,055,792
	4,264,361	7,262,607	(747,189)	-	10,779,779
Less accumulated depreciation					
Land improvements	(99,211)	(10,158)	10,603	-	(98,766)
Buildings and leasehold improvements	(672,577)	(83,023)	77,797	-	(677,803)
Fixed equipment	(441,179)	(21,798)	220,465	-	(242,512)
Major movable equipment	(1,180,130)	(180,536)	390,544	-	(970,122)
	(2,393,097)	(295,515)	699,409	-	(1,989,203)
Capital assets, net	<b>\$ 1,871,264</b>	<b>\$ 6,967,092</b>	<b>\$ (47,780)</b>	<b>\$ -</b>	<b>\$ 8,790,576</b>

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
<b>2007</b>					
Land	\$ 25,806	\$ -	\$ -	\$ -	\$ 25,806
Land improvements	164,742	-	-	-	164,742
Buildings and leasehold improvements	925,494	-	-	-	925,494
Fixed equipment	592,976	-	-	-	592,976
Major movable equipment	1,553,652	64,573	(52,075)	-	1,566,150
Construction in progress	298,995	710,311	-	(20,113)	989,193
	<u>3,561,665</u>	<u>774,884</u>	<u>(52,075)</u>	<u>(20,113)</u>	<u>4,264,361</u>
Less accumulated depreciation					
Land improvements	(89,186)	(10,025)	-	-	(99,211)
Buildings and leasehold improvements	(650,202)	(22,375)	-	-	(672,577)
Fixed equipment	(424,578)	(16,601)	-	-	(441,179)
Major movable equipment	(1,070,173)	(162,032)	52,075	-	(1,180,130)
	<u>(2,234,139)</u>	<u>(211,033)</u>	<u>52,075</u>	<u>-</u>	<u>(2,393,097)</u>
Capital assets, net	<u>\$ 1,327,526</u>	<u>\$ 563,851</u>	<u>\$ -</u>	<u>\$ (20,113)</u>	<u>\$ 1,871,264</u>

The Hospital began a construction project to expand the Hospital facility during the year ended June 30, 2007. Total costs expected on the project are \$9,800,000. The Hospital financed \$9,000,000 of this project with the Series 2007 Hospital Revenue and Anticipation Notes (see Note 6) and the remainder is to be financed with Hospital funds and capital contributions.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**Note 6: Long-term Obligations**

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2008 and 2007:

	<b>2008</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>Long-term debt</b>					
Union State Bank Notes (A)	\$ 169,875	\$ -	\$ (61,760)	\$ 108,115	\$ 17,799
Hospital revenue bonds					
Series 2007A (B)	4,500,000	-	-	4,500,000	-
Hospital revenue bonds					
Series 2007B (C)	4,500,000	-	-	4,500,000	-
REC Loan (D)	-	300,000		300,000	30,000
<b>Total long-term debt</b>	<b>\$ 9,169,875</b>	<b>\$ 300,000</b>	<b>\$ (61,760)</b>	<b>\$ 9,408,115</b>	<b>\$ 47,799</b>

	<b>2007</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>Long-term debt</b>					
Union State Bank Notes (A)	\$ 236,415	\$ -	\$ (66,540)	\$ 169,875	\$ 62,000
Hospital revenue bonds					
Series 2007A (B)	-	4,500,000	-	4,500,000	-
Hospital revenue bonds					
Series 2007B (C)	-	4,500,000	-	4,500,000	-
<b>Total long-term debt</b>	<b>\$ 236,415</b>	<b>\$ 9,000,000</b>	<b>\$ (66,540)</b>	<b>\$ 9,169,875</b>	<b>\$ 62,000</b>

- (A) The Union State Bank notes payable consists of four separate notes with monthly payments approximately \$6,300 in the aggregate, interest rates ranging from 3.95% to 4.75%, collateralized by property and equipment, due at various dates through 2028.
- (B) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially at varying amounts through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

- (C) Series 2007B Subordinate Hospital Revenue Bond Anticipation Note; \$4,500,000 maturing June 2009 with semiannual interest payments at 4.05%. The Hospital has been approved for a loan through USDA Rural Development for a total of \$4,500,000 which will be used to refinance the principal of this Bond at maturity. The terms of the USDA loan include interest only payments monthly for the first 24 months, then principal and interest to maturity in 2039, interest at 4.125%.
- (D) The REC Loan is a Rural Economic Development Loan for \$300,000 to finance an addition to the Hospital. The Loan is a zero interest bearing loan and the Hospital is required to make annual payments of \$30,000 over the next ten years with first payment due in August 2008.

Scheduled principal and interest payments on long-term debt other than Hospital Revenue Bonds are as follows:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2009	\$ 52,026	\$ 47,799	\$ 4,227
2010	44,783	41,051	3,732
2011	44,782	41,517	3,265
2012	44,783	42,005	2,778
2013	36,797	34,393	2,404
2014 – 2018	180,354	171,032	9,322
2019 – 2023	30,353	26,332	4,021
2024 – 2028	4,054	3,986	68
	<u>\$ 437,932</u>	<u>\$ 408,115</u>	<u>\$ 29,817</u>

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

Scheduled principal and interest payments on Hospital Revenue Bonds are as follows:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2009	\$ 399,691	\$ -	\$ 399,691
2010	552,615	152,541	400,074
2011	554,437	160,801	393,636
2012	556,011	169,197	386,814
2013	552,442	172,737	379,705
2014 – 2018	2,776,297	997,211	1,779,086
2019 – 2023	2,775,180	1,235,887	1,539,293
2024 – 2028	2,765,020	1,530,551	1,234,469
2029 – 2033	2,764,629	1,922,146	842,483
2034 – 2038	2,746,854	2,402,973	343,881
	<u>261,711</u>	<u>255,956</u>	<u>5,755</u>
	<u><u>\$ 16,704,887</u></u>	<u><u>\$ 9,000,000</u></u>	<u><u>\$ 7,704,887</u></u>

**Note 7: Restricted Net Assets**

At June 30, 2008 and 2007, restricted expendable net assets were available for the following purposes:

	<u>2008</u>	<u>2007</u>
Bulding and equipment	\$ 856,955	\$ 510,117
Specific operating expenses	<u>8,861</u>	<u>4,988</u>
	<u><u>\$ 865,816</u></u>	<u><u>\$ 515,105</u></u>

**Note 8: 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.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**Funding Policy**

Plan members are required to contribute 3.9% and 3.7% of their annual covered salaries and the Hospital is required to contribute 6.05% and 5.75% of annual covered payroll for 2008 and 2007, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were \$189,712, \$170,458 and \$168,113, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.05% of annual covered salary for 2008.

**Note 9: Network Administration and Support Services Agreement**

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$174,620 and \$150,610 were incurred for the years ended June 30, 2008 and 2007, respectively.

**Note 10: 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, 2008:

	<b>Actual</b>	<b>Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 1,077,798	\$ -	\$ 1,077,798	\$ 1,082,889
Other revenues/receipts	<u>8,099,656</u>	<u>238,611</u>	<u>8,338,267</u>	<u>7,667,666</u>
	9,177,454	238,611	9,416,065	8,750,555
Expenses/disbursements	<u>7,946,726</u>	<u>609,006</u>	<u>8,555,732</u>	<u>8,654,494</u>
	1,230,728	(370,395)	860,333	96,061
Balance, beginning of year	<u>4,799,271</u>	<u>(333,668)</u>	<u>4,465,603</u>	<u>4,465,603</u>
Balance, end of year	<u>\$ 6,029,999</u>	<u>\$ (704,063)</u>	<u>\$ 5,325,936</u>	<u>\$ 4,561,664</u>

## **Supplementary Information**

**Adair County Memorial Hospital**  
**Combining Balance Sheet**  
**June 30, 2008**

**Assets**

	<b>Adair County Memorial Hospital</b>	<b>Foundation</b>	<b>Total</b>
<b>Current Assets</b>			
Cash	\$ 3,516,242	\$ 8,743	\$ 3,524,985
Promises to contribute - current portion		93,142	93,142
Short term investments	589,662		589,662
Restricted cash - project fund	830,376		830,376
Patient accounts receivable, net of allowance; of \$229,500	1,101,082		1,101,082
Property taxes receivable	1,025,951		1,025,951
Other receivables	19,198		19,198
Estimates due from third-party payers	43,500		43,500
Supplies	190,006		190,006
Prepaid expenses	100,611		100,611
<b>Total current assets</b>	<b>7,416,628</b>	<b>101,885</b>	<b>7,518,513</b>
 <b>Noncurrent Deposits and Other</b>			
Certificates of deposit	1,040,248		1,040,248
Externally restricted			
Promises to contribute		328,066	328,066
Held under bond indenture agreement	557,379		557,379
	1,597,627	328,066	1,925,693
Promises to contribute due in one year		93,142	93,142
	1,597,627	234,924	1,832,551
 <b>Capital Assets, Net of Accumulated Depreciation</b>	<b>8,790,576</b>		<b>8,790,576</b>
 <b>Other Assets</b>			
Deferred financing costs	191,825		191,825
 <b>Total Assets</b>	<b>\$ 17,996,656</b>	<b>\$ 336,809</b>	<b>\$ 18,333,465</b>

## Liabilities and Net Assets

	<b>Adair County</b>		
	<b>Memorial</b>		
	<b>Hospital</b>	<b>Foundation</b>	<b>Total</b>
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 47,799		\$ 47,799
Accounts payable	312,079		312,079
Accounts payable - capital assets	835,294		835,294
Accrued payroll and related liabilities	352,027		352,027
Accrued interest	33,191		33,191
Deferred revenue for property taxes	1,025,951		1,025,951
			<hr/>
Total current liabilities	2,606,341		2,606,341
<b>Long-term Debt</b>			
	9,360,316		9,360,316
			<hr/>
Total liabilities	11,966,657		11,966,657
			<hr/>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	75,836		75,836
Restricted-expendable for			
Capital assets	520,146	\$ 336,809	856,955
Specific operating activities	8,861		8,861
Unrestricted	5,425,156		5,425,156
			<hr/>
Total net assets	6,029,999	336,809	6,366,808
			<hr/>
<b>Total Liabilities and Net Assets</b>	<b>\$ 17,996,656</b>	<b>\$ 336,809</b>	<b>\$ 18,333,465</b>
			<hr/> <hr/>

**Adair County Memorial Hospital**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**June 30, 2008**

	Adair County Memorial Hospital	Foundation	Eliminations	Total
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 7,404,311			\$ 7,404,311
Provision for uncollectible accounts	(220,136)			(220,136)
Net patient service revenue	7,184,175			7,184,175
Other	325,535			325,535
Total operating revenues	<u>7,509,710</u>			<u>7,509,710</u>
<b>Operating Expenses</b>				
Salaries and wages	3,239,140			3,239,140
Employee benefits	967,177			967,177
Medical professional fees	1,353,961			1,353,961
Supplies and expenses	1,227,922			1,227,922
General services	221,780			221,780
Administrative services	513,686	\$ 426,056	\$ (421,156)	518,586
Depreciation and amortization	304,211			304,211
Loss on disposal of equipment	47,780			47,780
Insurance	64,927			64,927
Total operating expenses	<u>7,940,584</u>	<u>426,056</u>		<u>7,945,484</u>
<b>Operating Loss</b>	<u>(430,874)</u>	<u>(426,056)</u>		<u>(435,774)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Property taxes	1,077,798			1,077,798
Interest expense	(6,142)			(6,142)
Interest income	124,150			124,150
Noncapital grants and gifts	1,559	27,954		29,513
Total nonoperating revenues	<u>1,197,365</u>	<u>27,954</u>		<u>1,225,319</u>
<b>Excess of Revenues over Expenses Before Capital Grants and Contributions</b>	766,491	(398,102)		789,545
<b>Capital Grants and Contributions</b>	<u>464,237</u>	<u>337,136</u>	<u>(421,156)</u>	<u>380,217</u>
<b>Increase in Net Assets</b>	1,230,728	(60,966)	(421,156)	1,169,762
<b>Net Assets, Beginning of Year</b>	<u>4,799,271</u>	<u>397,775</u>		<u>5,197,046</u>
<b>Net Assets, End of Year</b>	<u>\$ 6,029,999</u>	<u>\$ 336,809</u>	<u>\$ (421,156)</u>	<u>\$ 6,366,808</u>

# Adair County Memorial Hospital

## Schedules of Patient Service Revenues

### June 30, 2008 and 2007

	2008				2007			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
<b>Daily Patient Services</b>								
Medical and surgical	\$ 605,723	\$ 605,723	\$ -	\$ -	\$ 579,108	\$ 579,108	\$ -	\$ -
Swing bed	129,187	-	-	129,187	90,764	-	-	90,764
Hospital Physician	26,255	-	26,255	-	40,425	850	39,575	-
	<u>761,165</u>	<u>605,723</u>	<u>26,255</u>	<u>129,187</u>	<u>710,297</u>	<u>579,958</u>	<u>39,575</u>	<u>90,764</u>
<b>Nursing Services</b>								
Operating and recovery rooms	583,497	21,504	561,993	-	518,305	22,368	495,937	-
Emergency room	229,440	856	228,584	-	236,980	1,952	235,028	-
Emergency physicians	164,453	-	164,453	-	153,703	471	153,232	-
	<u>977,390</u>	<u>22,360</u>	<u>955,030</u>	<u>-</u>	<u>908,988</u>	<u>24,791</u>	<u>884,197</u>	<u>-</u>
<b>Other Professional Services</b>								
Laboratory	1,510,997	200,691	1,274,061	36,245	1,270,171	166,719	1,087,711	15,741
Central services and supplies	198,247	48,698	141,715	7,834	223,999	57,836	159,759	6,404
Blood administration	32,366	17,818	14,548	-	39,863	14,992	24,871	-
Electrocardiology	219,952	26,992	189,632	3,328	222,612	25,512	196,784	316
Ambulance	349,685	5,845	343,249	591	271,281	3,628	267,653	-
Radiology	549,938	42,090	506,560	1,288	527,080	50,999	473,062	3,019
MRI	340,249	13,260	326,989	-	270,074	10,257	258,121	1,696
Mammography	55,263	-	55,263	-	48,876	-	48,876	-
CT	712,193	93,438	618,755	-	612,009	101,484	510,525	-
Home health	570,877	-	570,877	-	529,572	-	529,572	-
Pharmacy	428,218	211,657	165,188	51,373	534,055	200,920	286,801	46,334
Intravenous therapy	66,902	18,756	47,409	737	60,751	13,042	47,667	42
Ultrasound	133,772	3,877	129,895	-	152,379	10,849	140,331	1,199
Anesthesiology	161,734	4,403	157,331	-	151,956	7,382	144,574	-
Respiratory therapy	141,211	122,975	5,808	12,428	116,613	108,576	4,749	3,288
Physical therapy	406,968	10,184	364,306	32,478	405,826	8,184	378,402	19,240
Occupational therapy	26,481	1,871	7,675	16,935	39,000	1,899	24,445	12,656
Speech therapy	14,652	1,832	11,042	1,778	9,902	426	8,750	726
Sleep studies	2,079	-	2,079	-	-	-	-	-
Fontanelle Clinic	249,930	-	249,930	-	271,336	-	271,336	-
Stuart Clinic	165,384	-	165,384	-	177,963	-	177,963	-
Physician fees	851,074	1,452	849,622	-	820,399	2,946	817,453	-
Observation rooms	144,140	662	143,478	-	135,257	1,025	134,232	-
	<u>7,332,312</u>	<u>826,501</u>	<u>6,340,796</u>	<u>165,015</u>	<u>6,890,974</u>	<u>786,676</u>	<u>5,993,637</u>	<u>110,661</u>

See Independent Accountants' Report

**Adair County Memorial Hospital**  
**Schedules of Patient Service Revenues (Continued)**  
**June 30, 2008 and 2007**

	2008			2007			
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient	Swing Bed
Gross Patient Service Revenue	9,070,867	\$ 1,454,584	\$ 7,322,081	\$ 8,510,259	\$ 1,391,425	\$ 6,917,409	\$ 201,425
Contractual Adjustments	1,666,556			1,587,483			
Net Patient Service Revenue before Provision for Uncollectible Accounts	7,404,311			6,922,776			
Provision for Uncollectible Accounts	(220,136)			(163,759)			
Net Patient Service Revenue	<u>\$ 7,184,175</u>			<u>\$ 6,759,017</u>			

**Adair County Memorial Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
Cafeteria	\$ 40,215	\$ 48,809
Lifeline	34,310	28,160
Grant	216,755	172,047
Other	34,255	36,618
	\$ 325,535	\$ 285,634

# Adair County Memorial Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Medical and surgical	\$ 931,442	\$ 752,193	\$ 179,249	\$ 826,945	\$ 727,248	\$ 99,697
Emergency room	251,942	32,284	219,658	223,182	23,225	199,957
Operating and recovery rooms	81,483	45,582	35,901	94,949	37,716	57,233
Nursing administration	63,591	62,732	859	63,098	60,879	2,219
Hospital physicians	50,227	-	50,227	59,854	-	59,854
	<u>1,378,685</u>	<u>892,791</u>	<u>485,894</u>	<u>1,268,028</u>	<u>849,068</u>	<u>418,960</u>
<b>Other Professional Services</b>						
Laboratory	416,594	162,153	254,441	372,303	147,620	224,683
Blood administration	11,917	-	11,917	34,385	-	34,385
Electrocardiology	70,722	8,431	62,291	58,958	7,217	51,741
Ambulance	234,419	194,959	39,460	207,454	182,200	25,254
Radiology	345,681	192,025	153,656	358,070	182,615	175,455
MRI	72,125	-	72,125	61,531	-	61,531
Mammography	33,530	-	33,530	35,689	-	35,689
CT	179,661	-	179,661	165,788	-	165,788
Ultrasound	15,270	-	15,270	35,220	-	35,220
Home health	586,854	448,900	137,954	551,765	415,577	136,188
Pharmacy	133,725	-	133,725	168,443	-	168,443
Intravenous solutions	2,047	-	2,047	2,017	-	2,017
Anesthesiology	98,445	-	98,445	64,325	-	64,325
Respiratory therapy	14,983	-	14,983	12,812	-	12,812
Physical therapy	112,789	-	112,789	108,599	-	108,599
Occupational therapy	19,252	-	19,252	21,962	-	21,962
Speech therapy	10,822	-	10,822	10,600	-	10,600
Stuart Clinic	229,341	108,546	120,795	261,542	118,852	142,690
Fontanelle Clinic	271,312	120,804	150,508	296,303	124,776	171,527
Greenfield clinic	693,434	260,517	432,917	697,001	245,755	451,246
Renal Clinic	25,579	19,736	5,843	34,762	22,559	12,203
Medical records	97,137	78,248	18,889	85,423	70,339	15,084
Observation care	643	643	-	1,225	1,225	-
Lifeline	15,128	459	14,669	20,661	-	20,661
	<u>3,691,410</u>	<u>1,595,421</u>	<u>2,095,989</u>	<u>3,666,838</u>	<u>1,518,735</u>	<u>2,148,103</u>
<b>General Services</b>						
Operation of plant	207,472	47,714	159,758	169,405	38,775	130,630
Dietary	156,901	119,393	37,508	149,383	110,588	38,795
Housekeeping	119,643	95,129	24,514	112,342	88,940	23,402
	484,016	262,236	221,780	431,130	238,303	192,827
<b>Administrative Services</b>						
Employee Benefits	1,002,378	488,692	513,686	876,891	444,688	432,203
Depreciation and Amortization	967,177	-	967,177	939,823	-	939,823
Loss on disposal of equipment	304,211	-	304,211	224,076	-	224,076
Insurance	47,780	-	47,780	-	-	-
	64,927	-	64,927	59,432	-	59,432
	<u>2,386,473</u>	<u>488,692</u>	<u>1,897,781</u>	<u>2,100,222</u>	<u>444,688</u>	<u>1,655,534</u>
	\$ 7,940,584	\$ 3,239,140	\$ 4,701,444	\$ 7,466,218	\$ 3,050,794	\$ 4,415,424

**Adair County Memorial Hospital**  
**Schedules of Patient Receivables and**  
**Allowance for Uncollectible Accounts**  
**Years Ended June 30, 2008 and 2007**

**Schedules of Patient Receivables**

	Amounts		Percent to Total	
	2008	2007	2008	2007
Days Since Discharge				
0 – 60	\$ 1,045,641	\$ 900,258	67%	64%
61 – 120	206,342	204,923	13%	14%
121 – 365	217,252	213,046	14%	15%
366 and over	86,447	104,400	6%	7%
	<u>1,555,682</u>	<u>1,422,627</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	225,100	137,000		
Allowance for uncollectible accounts	<u>229,500</u>	<u>274,650</u>		
	<u>454,600</u>	<u>411,650</u>		
	<u><u>\$ 1,101,082</u></u>	<u><u>\$ 1,010,977</u></u>		

**Allowance for Uncollectible Accounts**

	2008	2007
Balance, beginning of year	\$ 274,650	\$ 257,695
Provision for year	220,136	163,759
Recoveries of accounts previously written off	151,606	35,527
	<u>646,392</u>	<u>456,981</u>
Less accounts written off	416,892	182,331
	<u>229,500</u>	<u>274,650</u>
Balance, end of year	<u><u>\$ 229,500</u></u>	<u><u>\$ 274,650</u></u>

**Adair County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expense**  
**Years Ended June 30, 2008 and 2007**

**Supplies**

	<b>2008</b>	<b>2007</b>
General	\$ 139,152	\$ 133,710
Pharmacy	39,956	38,285
Clinics and Home Care	10,898	12,169
	\$ 190,006	\$ 184,164

**Prepaid Expense**

	<b>2008</b>	<b>2007</b>
Insurance	\$ 79,038	\$ 80,937
Maintenance and other	21,573	19,163
	\$ 100,611	\$ 100,100

# Adair County Memorial Hospital

## Schedule of Officials Year Ended June 30, 2008

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Roger Queck	Chairperson	2008
Everett Shepherd	Vice Chairperson	2012
Paul Nelson	Treasurer	2010
Kara Ladd	Secretary	2008
Mike Cass	Member	2010
Roberta Caltrider	Member	2008
<b>Hospital Officials</b>		
Myrna Erb-Gundel	Chief Executive Officer	
Lisa Blazek	Chief Financial Officer	

**Adair County Memorial Hospital**  
**Schedules of Financial and Statistical Data**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Patient Days (Exclusive of swing bed)</b>		
Medicare	800	741
Medicaid	54	32
Private and other	165	247
	1,019	1,020
<b>Medicare and Medicaid Percent</b>	84%	76%
<b>Discharges (Exclusive of swing bed)</b>		
Medicare	226	215
Medicaid	20	16
Private and other	75	105
	321	336
<b>Average Length of Stay in Days</b>	3.17	3.04

**Adair County Memorial Hospital**  
**Schedule of Insurance Coverage**  
**Year Ended June 30, 2008**

Chubb Group of Insurance Companies

Policy No. 3579-39-80, expiring October 1, 2008

Property blanket building and contents	\$ 12,758,507
Loss of income and extra expense	6,112,744
Personal property in-transit	25,000
Personal property at a temporary storage site	25,000
Valuable papers	500,000
Accounts receivable	500,000
EDP Media/Software	200,000
Employee dishonesty	100,000

Policy No., expiring October 1, 2008

Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	Actual cash value

PIC Wisconsin

Comprehensive hospital liability, expiring October 1, 2008

Hospital professional liability, Policy No. 129611	1,000,000/3,000,000
General liability, Policy No. 129611	1,000,000/3,000,000
Employee benefits, Policy No. 129611	1,000,000/3,000,000
Excess liability, expiring October 1, 2008	
Excess medical liability, Policy No. 129611	1,000,000/1,000,000
Umbrella liability, Policy No. 129611	1,000,000/1,000,000

Chubb Group of Insurance Companies

Policy No., expiring October 1, 2008

Directors' and officers' liability	1,000,000/1,000,000
------------------------------------	---------------------



---

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

Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

We have audited the financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. 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 to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the 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 a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

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

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

## **Compliance and Other Matters**

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

### **Compliance with Certain Provisions of Iowa Law**

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2008 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, 2008. 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, 2008.

#### 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, 2008 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 and Hospital policy.

#### Travel Expense

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

### Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the 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 non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

### Unclaimed Property

The Hospital was required to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

### Disbursements for Equipment and Supplies

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

### 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.

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated September 29, 2008.

Board of Trustees  
Adair County Memorial Hospital  
Page 4

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

BKD, LLP

Kansas City, Missouri  
September 29, 2008

**Adair County Memorial Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2008**

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
None		



Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

In planning and performing our audit of the financial statements of Adair County Memorial Hospital for the year ended June 30, 2008, 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 2007 audit engagement in a letter dated October 30, 2007.

### ***Material Weaknesses***

No matters are reportable.

### ***Significant Deficiencies***

No matters are reportable.

## **Control Deficiencies**

### Audit Adjustments

During the course of performing the audit, we identified errors and misstatements resulting in audit journal entries to adjust the financial statement amounts. These differences were not identified by management's internal controls and affected account receivable allowances, accounts payable, construction in process, bond issuance costs, fixed assets, supply expenses and accrued interest.

### Segregation of Duties

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

During our audit, we observed that the following individuals having incompatible duties within the financial statement reporting transaction cycles, identified below as either their primary duty or as a backup function:

#### *Purchases Cycle*

- The Accounts Payable Clerk, as primary duties, has the ability to generate a payment, access signed checks, record accounts payable and checks issued and can change master files for vendors.

#### *Revenue and Cash Receipts Cycle*

- The Business Office Manager has backup duties that include the ability to record discounts and adjustments to patient accounts, prepares cash receipt listing and credits patient's account for payments received. Primary duties include the ability to receive payments from patients and insurance companies, and authorize bad debt write-offs. The combination of these primary and backup duties results in an incompatible mix of duties.

\* \* \* \* \*

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

BKD, LLP

Kansas City, Missouri  
September 29, 2008