Audubon County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2008 and 2007

Audubon County Memorial Hospital

June 30, 2008 and 2007

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the accompanying balance sheets of Audubon 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 Audubon 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 October 27, 2008, on our consideration of Audubon County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
October 27, 2008

Audubon 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 Audubon 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

- Total cash and cash equivalents decreased between 2008 and 2007 by $565,531 or 30% and increased between 2007 and 2006 by $723,201 or 63%.
- The Hospital's net assets increased $897,879 or 6% in 2008 over 2007 and increased $1,985,041 or 15% in 2007 over 2006.
- The Hospital reported an operating loss in 2008 of $47,920 and operating income in 2007 of $548,470.
- Net nonoperating revenues decreased by $470,887 or 33% in 2008 compared to 2007 and increased by $742,549 or 110% in 2007 compared to 2006.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash 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 $897,879 or 6% in 2008 over 2007 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2008	2007	2006
Assets			
Patient accounts receivable, net	$ 1,272,059	$ 1,063,633	$ 822,686
Other current assets	7,787,730	7,305,610	4,784,244
Capital assets, net	5,210,999	4,997,671	5,146,859
Other noncurrent assets	3,129,427	3,014,569	3,526,458
Total assets	$ 17,400,215	$ 16,381,483	$ 14,280,247
Liabilities			
Current liabilities	$ 1,425,721	$ 1,271,868	$ 1,122,673
Long-term debt	16,500	49,500	82,500
Total liabilities	1,442,221	1,321,368	1,205,173
Net Assets			
Invested in capital assets, net of related debt	5,161,499	4,915,171	5,031,359
Restricted expendable	47	55	45
Restricted nonexpendable	10,000	10,000	10,000
Unrestricted	10,786,448	10,134,889	8,033,670
Total net assets	15,957,994	15,060,115	13,075,074
Total liabilities and net assets	$ 17,400,215	$ 16,381,483	$ 14,280,247

In 2008, gross accounts receivable increased by $134,034 from fiscal year 2007. Net days in accounts receivable increased from 47 in 2007 to 56 in fiscal year 2008. Allowance for bad debt increased by $15,440 and contractual adjustments decreased by $89,832.

Cash and general fund deposits for the Hospital increased by $999,935. Board-designated time certificates and saving decreased by $251,875 for the year due to the building project completion totaling $1.143 million. Interest earnings averaged 5.11% on general fund investments and 5.14% on plant fund investments.

Capital assets increased by $982,945 between year 2007 and 2008 due mainly to the building project along with an increase in accumulated depreciation of $769,617 for a net increase in capital assets of $213,328.

Long-term debt continues to decrease each year by $33,000. This represents a zero interest ten-year loan from Guthrie County REC.

In 2007, gross accounts receivable increased by $299,750 from fiscal year 2006. Net days in accounts receivable increased from 41 in 2006 to 47 in fiscal year 2007. Allowance for bad debt decreased by $64,200 and contractual adjustments increased by $82,800, mostly due to managed care contracts.

Cash and general fund deposits increased by $1.074 million due to the Hospital's ability to invest most of the net income for the fiscal year and increased interest rates. Board-designated time certificates and savings have also increased by $411,675 for the year due to the ability to fund depreciation at 100% and not spend the full amount funded on capital assets.

Capital assets actually increased by $591,273 between year 2006 and 2007 due to a building project along with an increase in accumulated depreciation of $740,831 for a net decrease in assets of $149,188.

Long-term debt continues to decrease each year by $33,000. This represents a zero interest ten-year loan from Guthrie County REC.

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased by $897,879 or 6% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Operating Revenues			
Net patient service revenue	$ 7,983,315	$ 8,223,487	$ 7,322,553
Other operating revenues	130,241	108,452	105,843
Total operating revenues	8,113,556	8,331,939	7,428,396
Operating Expenses			
Salaries and wages and employee benefits	3,882,828	3,581,449	3,482,796
Medical professional fees	465,695	545,487	549,347
Depreciation and amortization	823,727	804,321	767,206
Other operating expenses	2,989,226	2,852,212	2,541,711
Total operating expenses	8,161,476	7,783,469	7,341,060
Operating Income (Loss)	(47,920)	548,470	87,336
Nonoperating Revenues			
Property taxes	470,761	473,050	419,812
Interest income	402,696	351,222	231,756
Non-capital gifts	71,850	591,922	22,077
Total nonoperating revenues	945,307	1,416,194	673,645
Excess of Revenues Over Expenses Before Capital Grants and Contributions	897,387	1,964,664	760,981
Capital Grants and Contributions	492	20,377	41,241
Increase in Net Assets	$ 897,879	$ 1,985,041	$ 802,222

Operating Income (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 2008, the Hospital reported an operating loss. In 2007 and 2006, the Hospital reported an operating income. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2008, the following changes were noted:

- Inpatient revenue increased by only $61,449 in 2008, while acute inpatient days increased by 15 days, swing-bed days decreased by 105 days and hospice patient days increased by 39. The Hospital had an overall patient charge increase for 2008 of 3%.

- Outpatient revenues increased by $222,664 with an increase in patient visits of 857.

- Overall, net patient service revenue decreased by $240,172 or 2.9% from fiscal year 2007. Gross patient revenues increased by $284,113, but contractual adjustments brought the revenue down by $524,285 for a net decrease. Charity care decreased by $19,331 and provision for bad debt increased by $151,418.

- Operating expenses increased by $378,007 or a 4.8% increase. This is due to an increase in supply costs and wage increases for the year of 3%.

In 2007, the following changes were noted:

- Inpatient revenue decreased by only $24,063 in 2007, while patient days decreased by 123 (this includes acute care and swing bed); however, the Hospital increased patient charges for fiscal year 2007 by 5%.

- Outpatient revenues increased by $1,272,241 with an increase in outpatient visits of 1,218.

- Overall, net patient service revenue increased by $900,934 or a 12% increase from fiscal year 2006 to 2007. Net patient service revenue also includes a decrease in the provision for bad debt by $87,322 and an increase in contractual adjustments of $433,966.

- Operating expenses increased by 6%, some of this was attributed to an increase in wages and benefits of 2.8% and an increase in depreciation of 4.4%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which decreased by $470,887 or 33% from 2007 to 2008 and increased by $742,549 or 110% from 2006 to 2007. The increase in investment income in 2008 and 2007 was $51,474 and $119,466, respectively. The Hospital increased investments for longer terms at higher interest rates to earn additional interest income. Increases in 2007 were due to the receipt of additional non-capital gifts in 2007 not recurring in 2008. The increase in 2007 also includes an increase in property taxes of $53,238, which is due to an increase in the county tax asking of $50,000 for fiscal year 2007.

Gifts for capital and noncapital items received in fiscal year 2008 decreased by $539,957. This is primarily due to a large gift to the Audubon County Hospital Foundation of $409,500 in 2007. Grants and gifts for capital and non-capital items received in fiscal year 2007 increased by $612,299.

Contributions

The Hospital received contributions of $72,342 from various individuals (see above) in 2008, a decrease of $539,957 from 2007.

The Hospital received contributions of $612,299 from various individuals in 2007, an increase of $548,982 from 2006.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenues in 2008, 2007 and 2006, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the Hospital had $5.2 million invested in capital assets, net of accumulated depreciation. A building project for an addition of a fitness center, medical records and an education room was completed in January of 2008, adding a total of $1.1 million in capital assets.

At the end of 2007, the Hospital had $5.0 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2007, the Hospital purchased new capital assets costing $657,603. This includes construction in progress of $381,683 for a building project.

Debt

The only long-term debt that the Hospital has is the zero interest note payable. Audubon County Memorial Hospital pays $33,000 on this loan annually.

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 712.563.2611.

Audubon County Memorial Hospital

Balance Sheets

June 30, 2008 and 2007

Assets

	2008	2007
Current Assets		
Cash and cash equivalents	$ 1,096,176	$ 1,292,522
Certificates of deposit	5,845,197	5,019,305
Patient accounts receivable, net of allowance; 2008 – $120,000, 2007 – $104,560	1,272,059	1,063,633
Property taxes receivable	494,333	471,496
Other receivables	27,158	25,080
Estimated amounts due from third-party payers	-	225,000
Supplies	255,659	215,147
Prepaid expenses	69,207	57,060
Total current assets	9,059,789	8,369,243
Noncurrent Cash and Deposits		
Internally designated	2,736,587	3,004,514
Restricted by donors for		
Scholarships	47	55
Endowment	10,000	10,000
Certificates of deposit	382,793	-
	3,129,427	3,014,569
Capital Assets, Net	5,210,999	4,997,671
Total Assets	$ 17,400,215	$ 16,381,483

See Notes to Financial Statements

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Current maturities of long-term debt	$ 33,000	$ 33,000
Accounts payable	223,717	406,123
Accrued expenses	450,671	361,249
Estimated amounts due to third-party payers	224,000	-
Deferred revenue for property taxes	494,333	471,496
Total current liabilities	1,425,721	1,271,868
Long-term Debt	16,500	49,500
Total liabilities	1,442,221	1,321,368
Net Assets		
Invested in capital assets, net of related debt	5,161,499	4,915,171
Restricted		
Expendable for scholarships	47	55
Nonexpendable endowment	10,000	10,000
Unrestricted	10,786,448	10,134,889
Total net assets	15,957,994	15,060,115
Total Liabilities and Net Assets	$ 17,400,215	$ 16,381,483

Audubon County Memorial Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 8,233,948	$ 8,322,702
Provision for uncollectible accounts	(250,633)	(99,215)
Net patient service revenue	7,983,315	8,223,487
Other	130,241	108,452
Total operating revenues	8,113,556	8,331,939
Operating Expenses		
Salaries and wages	2,881,966	2,698,388
Employee benefits	1,000,862	883,061
Medical professional fees	465,695	545,487
Supplies and other	2,045,519	1,976,604
General services	348,713	319,237
Administrative services	536,516	498,142
Insurance	58,478	58,229
Depreciation	823,727	804,321
Total operating expenses	8,161,476	7,783,469
Operating Income (Loss)	(47,920)	548,470
Nonoperating Revenues		
Property taxes	470,761	473,050
Investment income	402,696	351,222
Noncapital gifts	71,850	591,922
Total nonoperating revenues	945,307	1,416,194
Excess of Revenues Over Expenses Before Capital Grants and Contributions	897,387	1,964,664
Capital Grants and Contributions	492	20,377
Increase in Net Assets	897,879	1,985,041
Net Assets, Beginning of Year	15,060,115	13,075,074
Net Assets, End of Year	$ 15,957,994	$ 15,060,115

Audubon County Memorial Hospital

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	2008	2007
Operating Activities		
Receipts from and on behalf of patients	$ 7,951,174	$ 7,668,550
Payments to suppliers and contractors	(3,261,944)	(3,086,780)
Payments to employees	(3,793,406)	(3,567,174)
Other receipts, net	130,241	108,452
Net cash provided by operating activities	1,026,065	1,123,048
Noncapital Financing Activities		
Property taxes supporting operations	470,761	473,050
Noncapital gifts	71,850	591,922
Net cash provided by noncapital financing activities	542,611	1,064,972
Capital and Related Financing Activities		
Principal paid on capital debt	(33,000)	(33,000)
Capital grants and gifts	492	20,377
Proceeds from sale of capital assets	-	700
Purchase of capital assets	(1,194,460)	(501,968)
Net cash used in capital and related financing activities	(1,226,968)	(513,891)
Investing Activities		
Interest on deposits	402,696	351,222
Purchase of deposits	(8,317,995)	(6,152,566)
Proceeds from disposition of deposits	6,992,008	4,987,314
Change in investments	16,052	(136,898)
Net cash used in investing activities	(907,239)	(950,928)
Increase (Decrease) in Cash and Cash Equivalents	(565,531)	723,201
Cash and Cash Equivalents, Beginning of Year	1,862,298	1,139,097
Cash and Cash Equivalents, End of Year	$ 1,296,767	$ 1,862,298

Audubon County Memorial Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 1,096,176	$ 1,292,522
Cash in noncurrent cash and deposits		
Internally designated	200,591	569,776
	$ 1,296,767	$ 1,862,298
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (47,920)	$ 548,470
Depreciation	823,727	804,321
Loss on sale of capital assets	1,772	1,770
Changes in operating assets and liabilities		
Patient accounts receivable, net	(208,426)	(240,947)
Supplies, prepaid expenses and other current assets	(54,737)	(14,051)
Estimated amounts due from and to third-party payers	449,000	30,000
Accounts payable and accrued expenses	62,649	(6,515)
Net cash provided by operating activities	$ 1,026,065	$ 1,123,048
Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ -	$ 155,635

Audubon 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

Audubon County Memorial Hospital ("Hospital") is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital and Audubon County Hospital Foundation (Foundation) are collectively referred to here as the Organization. The Organization primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Audubon County area and the surrounding area in South Central Iowa. Audubon County Hospital Foundation ("Foundation") is organized under Chapter 504A of the Code of Iowa.

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.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be closely related. The Foundation's objectives are to "promote the best interest of the Audubon County Memorial Hospital and to promote and strive for improvement and betterment of said facilities and services." It is organized primarily to hold certain assets for and benefit the Hospital.

Audubon County Hospital Foundation is combined with data of the Hospital for financial reporting purposes using the blending method. The Foundation is a legally separate corporation that is, in substance, a part of the Hospital's operations. Transactions between the Hospital and the Foundation are eliminated in preparation of the financial statements.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008 and 2007, cash equivalents consisted primarily of interest-bearing accounts.

Property Taxes

The Hospital received approximately 6% 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 and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

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.

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

Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. 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. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital, such as permanent endowments. 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 $7,851 and $27,182 for 2008 and 2007, 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.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

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 tentative rates 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 57% and 61% 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 discounts from established charges and prospectively determined rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial 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. Certificates of deposit are considered deposits.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities 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, 2008 and 2007.

At June 30, 2008 and 2007, the Foundation had the following investments and maturities:

Type	Fair Value	June 30, 2008 Maturities in Years Less Than 1
Money market mutual funds - Foundation	$ 11,994	$ 11,994
Mutual funds - Foundation	108,852	
	$ 120,846	

Type	Fair Value	June 30, 2007 Maturities in Years Less Than 1
Money market mutual funds - Foundation	$ 19,567	$ 19,567
Mutual funds - Foundation	117,331	
	$ 136,898	

Summary of Carrying Values

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

	2008	2007
Carrying value		
Deposits	$ 9,949,654	$ 9,189,198
Investments	120,846	136,898
Other	300	300
	$ 10,070,800	$ 9,326,396

	2008	2007
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,096,176	$ 1,292,522
Certificates of deposit	5,845,197	5,019,305
Noncurrent cash and deposits		
Internally designated	2,736,587	3,004,514
Restricted by donors for		
Scholarships	47	55
Endowment	10,000	10,000
Certificates of deposit	382,793	-
	$ 10,070,800	$ 9,326,396

Investment Income

Investment income for the years ended June 30, 2008 and 2007 consisted of:

	2008	2007
Interest and dividend income	$ 409,731	$ 346,123
Net increase (decrease) in fair value of investments	(7,035)	5,099
	$ 402,696	$ 351,222

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:

	2008	2007
Medicare	$ 636,549	$ 511,658
Medicaid	46,207	44,309
Other third-party payers	495,537	416,328
Patients	213,766	195,898
	1,392,059	1,168,193
Less allowance for uncollectible accounts	120,000	104,560
	$ 1,272,059	$ 1,063,633

Note 5: Capital Assets

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

2008	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 68,389	$ -	$ -	$ -	$ 68,389
Land improvements	394,425	17,275	-	11,329	423,029
Buildings	6,238,144	23,588	2,026	1,138,593	7,398,299
Fixed equipment	655,060	14,315	1,818	10,970	678,527
Major movable equipment	3,546,224	192,362	52,036	-	3,686,550
Construction in progress	381,683	791,285	-	(1,160,892)	12,076
	11,283,925	1,038,825	55,880	-	12,266,870
Less accumulated depreciation					
Land improvements	232,330	24,910	-	-	257,240
Buildings	3,282,934	359,819	405	-	3,642,348
Fixed equipment	458,162	26,052	1,667	-	482,547
Major movable equipment	2,312,828	412,946	52,036	(2)	2,673,736
	6,286,254	823,727	54,108	(2)	7,055,871
Capital assets, net	$ 4,997,671	$ 215,098	$ 1,772	$ 2	$ 5,210,999

2007	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 68,389	$ -	$ -	$ -	$ 68,389
Land improvements	394,425	-	-	-	394,425
Buildings	6,235,544	2,600	-	-	6,238,144
Fixed equipment	628,860	26,200	-	-	655,060
Major movable equipment	3,365,064	247,120	65,960	-	3,546,224
Construction in progress	-	381,683	-	-	381,683
	10,692,282	657,603	65,960	-	11,283,925
Less accumulated depreciation					
Land improvements	204,677	27,653	-	-	232,330
Buildings	2,943,587	339,347	-	-	3,282,934
Fixed equipment	431,052	27,110	-	-	458,162
Major movable equipment	1,966,107	410,211	63,490	-	2,312,828
	5,545,423	804,321	63,490	-	6,286,254
Capital assets, net	$ 5,146,859	$ (146,718)	$ 2,470	$ -	$ 4,997,671

Construction in progress in 2007 relates to a building addition that was completed in 2008.

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: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $30,000 per covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on con-

sideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. Changes in the balance of claims liabilities during 2008 and 2007 are summarized as follows:

	2008	2007
Balance, beginning of year	$ 60,773	$ 94,300
Current year claims and changes in estimates	575,285	621,623
Claim payments	(491,226)	(655,150)
Balance, end of year	$ 144,832	$ 60,773

Note 8: Long-term Debt

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

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, non-interest bearing (A)	$ 82,500	$ -	$ (33,000)	$ 49,500	$ 33,000

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, non-interest bearing (A)	$ 115,500	$ -	$ (33,000)	$ 82,500	$ 33,000

(A) Note Payable, which is non-interest bearing dated September 1999, for the construction of an in-house physicians clinic and for the construction of a clinic in Exira, Iowa. The note payable calls for repayment through September 2009 with quarterly installments of $8,250.

The debt service requirements as of June 30, 2008 are as follows:

Year Ending June 30,	Total to be Paid	Principal
2009	$ 33,000	$ 33,000
2010	16,500	16,500
	$ 49,500	$ 49,500

Note 9: Operating Leases

On January 1, 2000, the Hospital, as lessor, leased an area of the Hospital building to be used as medical office space under ten-year operating lease agreements. The leases contain provisions to automatically renew for another ten-year period, unless written termination notice is given 90 days prior to renewal. Rental income will be recognized over the term of the leases. Lease payments to be received on a monthly basis total $1,333 after July 31, 2008.

Future minimum rentals receivable at June 30, 2008, were:

2009	$ 17,143
2010	8,000
Future minimum lease payments	$ 25,143

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 3.9% 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 $171,200, $152,700 and $149,200, respectively, which equaled the required contributions for each year.

Note 11: 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 $238,771 and $222,890 were incurred for the years ended June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, the Hospital had accounts payable to the Organization of approximately $26,976 and $24,700, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Hospital 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:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 470,761	$ -	$ 470,761	$ 471,496
Other revenues/receipts	8,550,066	(240,574)	8,309,492	8,236,240
	9,020,827	(240,574)	8,780,253	8,707,736
Expenses/disbursements	8,118,916	(38,312)	8,080,604	8,930,701
	901,911	(202,262)	699,649	(222,965)
Balance, beginning of year	14,520,565	(593,677)	13,926,888	13,926,888
Balance, end of year	$ 15,422,476	$ (795,939)	$ 14,626,537	$ 13,703,923

Supplementary Information

Audubon County Memorial Hospital

Combining Balance Sheet

June 30, 2008

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 1,074,472	$ 21,704		$ 1,096,176
Certificates of deposit	5,834,935	10,262		5,845,197
Patient accounts receivable, net of allowance; 2008 – $120,000	1,272,059			1,272,059
Property taxes receivable	494,333			494,333
Other receivables	27,158			27,158
Supplies	255,659			255,659
Prepaid expenses	69,207			69,207
Total current assets	9,027,823	31,966		9,059,789
Noncurrent Cash and Deposits				
Internally designated	2,615,741	120,846		2,736,587
Restricted by donors for				-
Scholarships	47			47
Endowment	10,000			10,000
Certificates of deposit		382,793		382,793
	2,625,788	503,639		3,129,427
Capital Assets, Net	5,210,892	107		5,210,999
Total Assets	$16,864,503	$ 535,712	$ -	$ 17,400,215
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	$ 33,000			$ 33,000
Accounts payable	223,717			223,717
Accrued expenses	450,477	$ 194		450,671
Estimated amounts due to third-party payers	224,000			224,000
Deferred revenue for property taxes	494,333			494,333
Total current liabilities	1,425,527	194		1,425,721
Long-term Debt	16,500			16,500
Total liabilities	1,442,027	194		1,442,221
Net Assets				
Invested in capital assets, net of related debt	5,161,392	107		5,161,499
Restricted				
Expendable for scholarships	47			47
Nonexpendable endowment	10,000			10,000
Unrestricted	10,251,037	535,411		10,786,448
Total net assets	15,422,476	535,518		15,957,994
Total Liabilities and Net Assets	$16,864,503	$ 535,712	$ -	$ 17,400,215

Audubon County Memorial Hospital

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2008

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	$ 8,233,948			$ 8,233,948
Provision for uncollectible accounts	(250,633)			(250,633)
Net patient service revenue	7,983,315			7,983,315
Other	130,241			130,241
Total operating revenues	8,113,556			8,113,556
Operating Expenses				
Salaries and wages	2,849,690	$ 32,276		2,881,966
Employee benefits	1,000,862			1,000,862
Medical professional fees	465,695			465,695
Supplies and other	2,045,519			2,045,519
General services	348,713			348,713
Administrative services	526,552	47,212	$ (37,248)	536,516
Insurance	58,478			58,478
Depreciation	823,407	320		823,727
Total operating expenses	8,118,916	79,808	(37,248)	8,161,476
Operating Income (Loss)	(5,360)	(79,808)	37,248	(47,920)
Nonoperating Revenues				
Property taxes	470,761			470,761
Investment income	386,618	16,078		402,696
Noncapital gifts	12,152	59,698		71,850
Total nonoperating revenues	869,531	75,776		945,307
Excess of Revenues Over Expenses Before Capital Grants and Contributions	864,171	(4,032)	37,248	897,387
Capital Grants and Contributions	37,740		(37,248)	492
Increase (Decrease) in Net Assets	901,911	(4,032)	-	897,879
Net Assets, Beginning of Year	14,520,565	539,550	-	15,060,115
Net Assets, End of Year	$ 15,422,476	$ 535,518	$ -	$15,957,994

Audubon County Memorial Hospital

Schedules of Patient Service Revenues – Hospital

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	$ 525,024	$ 323,371	$ 201,653	$ 474,295	$ 287,032	$ 187,263
Skilled nursing care	114,297	114,297		148,132	148,132	
Coronary care	4,557	4,557		2,528	2,528	
	643,878	442,225	201,653	624,955	437,692	187,263
Nursing Services						
Emergency	292,243	5,584	286,659	280,276	6,013	274,263
Operating room	1,250,753	71,465	1,179,288	1,154,980	59,865	1,095,115
Recovery room	107,104	4,809	102,295	112,047	4,456	107,591
	1,650,100	81,858	1,568,242	1,547,303	70,334	1,476,969
Other Professional Services						
Anesthesiology	433,908	27,486	406,422	442,750	25,278	417,472
Radiology	3,159,610	251,504	2,908,106	2,978,183	253,222	2,724,961
Blood service	62,053	24,400	37,653	52,629	21,157	31,472
Laboratory	1,789,433	239,317	1,550,116	1,599,002	192,507	1,406,495
Intravenous therapy	19,008	9,394	9,614	18,352	9,044	9,308
Respiratory therapy	77,400	32,458	44,942	68,879	35,051	33,828
Physical therapy	254,387	35,186	219,201	298,690	51,165	247,525
Speech therapy	3,979	3,083	896	10,871	3,118	7,753
Occupational therapy	10,999	8,668	2,331	6,879	5,670	1,209
Electrocardiology	112,978	34,988	77,990	102,778	28,214	74,564
Cardiology	66,699		66,699	74,079	1,315	72,764
Cardiac rehabilitation	26,843		26,843	23,451		23,451
Electroencephalography	3,528		3,528	2,349		2,349
Medical and surgical supplies	604,641	157,435	447,206	610,401	149,633	460,768
Pharmacy	1,718,594	259,807	1,458,787	1,898,049	264,382	1,633,667
Sleep study	33,288		33,288	45,691		45,691
Clinic	88,463	1,995	86,468	78,447	573	77,874
Psychiatry	8,062		8,062			
	8,473,873	1,085,721	7,388,152	8,311,480	1,040,329	7,271,151
Patient Service Revenue	10,767,851	$ 1,609,804	$ 9,158,047	10,483,738	$ 1,548,355	$ 8,935,383
Contractual Adjustments	(2,533,903)			(2,161,036)		
Net Patient Service Revenue Before Provision for Uncollectable Accounts	8,233,948			8,322,702		
Provision for Uncollectible Accounts	(250,633)			(99,215)		
Net Patient Service Revenue	$ 7,983,315			$ 8,223,487		

See Independent Accountants' Report

Audubon County Memorial Hospital

Schedules of Other Operating Revenues – Hospital

Years Ended June 30, 2008 and 2007

	2008	2007
Other Revenues		
Cafeteria meals	$ 19,649	$ 19,802
Space rental	22,410	28,490
Grants	13,527	3,250
Loss on sale of capital assets	(1,772)	(1,770)
Other	76,427	58,680
	$ 130,241	$ 108,452

Audubon County Memorial Hospital

Schedules of Operating Expenses – Hospital

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	$ 79,551	$ 70,632	$ 8,919	$ 75,047	$ 67,552	$ 7,495
Medical and surgical	750,797	716,677	34,120	718,794	691,034	27,760
Operating room	412,946	92,137	320,809	266,233	86,789	179,444
Emergency service	296,186	292,899	3,287	283,766	282,448	1,318
	1,539,480	1,172,345	367,135	1,343,840	1,127,823	216,017
Other Professional Services						
Laboratory	516,844	228,088	288,756	508,926	224,476	284,450
Central supply	274,606		274,606	295,710	4,118	291,592
Intravenous therapy	3,384		3,384	3,604		3,604
Electrocardiology	8,512	2,062	6,450	8,571	912	7,659
Electroencephalography	1,529	98	1,431	956	250	706
Cardiac rehabilitation	12,655	11,835	820	10,305	8,516	1,789
Cardiology	3,709		3,709	7,169		7,169
Radiology	864,353	178,341	686,012	872,532	176,143	696,389
Pharmacy	727,240	116,828	610,412	794,186	104,429	689,757
Anesthesiology	139,452		139,452	149,145		149,145
Respiratory therapy	46,904	40,950	5,954	38,204	31,612	6,592
Physical therapy	139,414	111,617	27,797	140,608	49,876	90,732
Speech therapy	2,773		2,773	6,309		6,309
Occupational therapy	9,575		9,575	5,412		5,412
Sleep study	16,445		16,445	22,626		22,626
Specialty clinics	150,678	142,189	8,489	140,714	137,288	3,426
Medical records	170,196	117,599	52,597	142,152	103,435	38,717
Psychiatry	5,417		5,417			
	3,093,686	949,607	2,144,079	3,147,129	841,055	2,306,074
General Services						
Operation of plant	331,456	113,235	218,221	311,339	110,189	201,150
Dietary	228,758	134,113	94,645	221,665	135,528	86,137
Housekeeping	119,215	95,034	24,181	105,193	83,728	21,465
Laundry	30,186	18,520	11,666	29,867	19,382	10,485
	709,615	360,902	348,713	668,064	348,827	319,237
Administrative Services	893,388	366,836	526,552	846,439	355,616	490,823
Employee Benefits	1,000,862		1,000,862	883,061		883,061
Insurance	58,478		58,478	58,229		58,229
Depreciation	823,407		823,407	804,001		804,001
	$ 8,118,916	$ 2,849,690	$ 5,269,226	$ 7,750,763	$ 2,673,321	$ 5,077,442

See Independent Accountants' Report

Audubon County Memorial Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts – Hospital

Years Ended June 30, 2008 and 2007

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2008	2007	2008	2007
Days Since Discharge				
0 – 30	$ 1,026,478	$ 897,928	65%	62%
31 – 60	300,963	307,608	19%	22%
61 – 90	76,511	103,782	5%	7%
91 and over	169,107	129,707	11%	9%
	1,573,059	1,439,025	100%	100%
Less:				
Contractual allowances	181,000	270,832		
Allowance for uncollectible accounts	120,000	104,560		
	$ 1,272,059	$ 1,063,633		
Net Patient Service Revenue per Calendar day (Excluding provision for bad debt)	$ 22,559	$ 22,801		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	56	47		

Allowance for Uncollectible Accounts

	2008	2007
Balance, beginning of year	$ 104,560	$ 168,766
Provision for year	250,633	99,215
Recoveries of accounts previously written off	272,715	342,014
	627,908	609,995
Less accounts written off	507,908	505,435
Balance, end of year	$ 120,000	$ 104,560

Audubon County Memorial Hospital

Schedules of Supplies and Prepaid Expense – Hospital

Years Ended June 30, 2008 and 2007

Supplies

	2008	2007
General stores	$ 107,887	$ 98,567
Pharmacy	123,446	99,733
Laboratory	24,326	16,847
	$ 255,659	$ 215,147

Prepaid Expense

	2008	2007
Insurance	$ 22,383	$ 13,927
Service contracts	39,515	38,876
Other	7,309	4,257
	$ 69,207	$ 57,060

Audubon County Memorial Hospital

Schedule of Officials – Hospital

Year Ended June 30, 2008

Name	Title	Term Expires
	Board of Trustees	
Jay D. Mendenhall	Chairman	December 31, 2012
Daniel Smith	Vice Chairman	December 31, 2008
Karen E. Nelson	Secretary	December 31, 2012
Paul Schultz, DDS	Treasurer	December 31, 2012
Wayne Hansen	Member	December 31, 2010
Mark Kessler	Member	December 31, 2010
Connie S. Faga	Member	December 31, 2008
	Hospital Officials	
Tom Smith	CEO/Administrator	
Joan Fancher	Assistant Administrator	
Karen McGuire	Chief Financial Officer	

Audubon County Memorial Hospital

Schedules of Financial and Statistical Data – Hospital

Years Ended June 30, 2008 and 2007

	2008	2007
Patient Days		
Acute	629	614
Swing-bed	321	426
	950	1,040
Admissions (Acute)	205	215
Discharges (Acute)	206	213
Average Length of Stay in Days (Acute)	3	3
Beds	25	25
Occupancy percentage (Acute)	6.89%	6.73%

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
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2008, and have issued our report thereon dated October 27, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings and responses as item 08-1 to be a significant deficiency in internal control over financial reporting.

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Beyond Your Numbers

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, we believe the significant deficiency described above is not 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 certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated October 27, 2008.

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 expenses/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.

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 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, 2007, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no exceptions to 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.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
October 27, 2008

Audubon County Memorial Hospital

Schedule of Findings and Responses

Year Ended June 30, 2008

Reference Number	Finding
08-1	Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition—One individual has significant incompatible duties in the purchases cycle. Context—The individual responsible for processing cash disbursements has duties that include access to assets, recording and monitoring responsibilities. Effect—Potential misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause—Duties in the purchases cycle are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

In planning and performing our audit of the financial statements of Audubon County Memorial Hospital as of and 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 17, 2007.

Material Weaknesses

No matters are reportable.

Significant 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 and monitoring of transactions. To reduce the possibility of errors or fraud going undetected in the normal course of business, we encourage management to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

We observed that the following individual having incompatible duties within the financial statement reporting transaction cycles:

Purchases and Cash Disbursement Cycle

- The Chief Financial Officer has the ability to issue a check, authorize payment, record accounts payable, change vendor master files, record journal entries and perform reconciliations.

Other Control Deficiencies

Segregation of Duties

We observed that the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Revenue and Cash Receipts Cycle

- The Business Office Manager has the ability to receive payments, record discounts and adjustments and change online patient billing and master files.
- Another Hospital employee has the ability to receive payments, generate patient bills, change patient billing information and reconcile cash receipts to bank deposit records.
- The Foundation employee has duties, which include receiving contributions, preparing receipts lists and reporting amounts to be recorded.

Although there are some mitigating procedures in place to compensate for the lack of segregation of duties, the above circumstances create situations where intentional or unintentional errors could occur and not be detected timely. While we realize it may be a challenge to eliminate all conflicting duties, it is important for management and the Board of Trustees to be aware of this risk and consider re-assigning duties.

Pricing of Inventory

An inventory item selected for price testing was not recorded at the proper amount per the most recent invoice. We recommend that all inventory items are recorded at the acquisition cost.

Contractual and Bad Debt Allowances

The Hospital calculates allowances for accounts receivable on a monthly basis. However, there was a discrepancy between the Hospital calculation and the allowance calculated using actual interim payment percentages. We encourage management to review the monthly allowance calculation and compare to realized reimbursement rates and payment percentages.

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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
October 27, 2008