

Decatur County Hospital

Accountants' Report and Financial Statements

June 30, 2008 and 2007



Decatur County Hospital

June 30, 2008 and 2007

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Decatur County Hospital
Leon, Iowa

We have audited the accompanying balance sheets of Decatur County 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 Decatur County 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 November 17, 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. However, we did not audit the information and express no opinion on it.

Board of Trustees
Decatur County Hospital
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Our audit was 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.

/s/ **BKD, LLP**

Kansas City, Missouri
November 17, 2008

Decatur County 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 Decatur County 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

- Cash, cash equivalents and short-term investments increased between 2008 and 2007 by \$1,096,955 or 78% and increased between 2007 and 2006 by \$431,495 or 44%.
- The Hospital's net assets increased \$623,898 or 10% in 2008 and increased \$1,087,735 or 22% in 2007.
- The Hospital reported operating loss in 2008 of \$63,328 and operating income in 2007 of \$377,894. The operating loss in 2008 decreased by \$441,222 from the operating income reported in 2007 and operating income in 2007 increased by \$896,283 from the operating loss reported in 2006.
- Net nonoperating revenues decreased by \$22,615 or 3% in 2008 compared to 2007 and decreased by \$130,708 or 16% 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.

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

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 \$623,898 or 10% in 2008 over 2007 net assets as shown in Table 1.

Decatur County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

Table 1: Assets, Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Patient accounts receivable, net	\$ 971,033	\$ 1,000,205	\$ 872,527
Other current assets	3,410,543	2,673,952	1,831,024
Noncurrent cash and deposits	1,715,781	1,652,724	2,131,064
Capital assets, net	<u>3,002,121</u>	<u>3,305,344</u>	<u>3,230,583</u>
Total assets	<u>\$ 9,099,478</u>	<u>\$ 8,632,225</u>	<u>\$ 8,065,198</u>
Liabilities			
Current liabilities	\$ 1,503,837	\$ 1,446,784	\$ 2,030,958
Long-term debt	<u>876,507</u>	<u>1,090,205</u>	<u>1,026,739</u>
Total liabilities	<u>2,380,344</u>	<u>2,536,989</u>	<u>3,057,697</u>
Net Assets			
Invested in capital assets, net of related debt	1,897,932	1,996,317	1,938,294
Unrestricted	<u>4,821,202</u>	<u>4,098,919</u>	<u>3,069,207</u>
Total net assets	<u>6,719,134</u>	<u>6,095,236</u>	<u>5,007,501</u>
Total liabilities and net assets	<u>\$ 9,099,478</u>	<u>\$ 8,632,225</u>	<u>\$ 8,065,198</u>

In 2008, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents increased by \$1,085,598 due to increase cash collections and receiving two lump sum interim settlement adjustments from third party payers during 2008 that will be settled with the current year cost reports subsequent to year end.
- Internally designated assets increased by \$63,057 or 4% primarily due to reinvested interest on certificates of deposits.
- Net capital assets decreased by \$303,223 or 9% due to fewer fixed asset additions and increased depreciation expense.
- Total liabilities decreased from 2007 due to a reduction in accounts payable outstanding at year end and reductions in long term debt during the year.

In 2007, significant changes in the Hospital's assets were due to:

- Patient accounts receivable increased \$127,678 or 15% over 2006. The percentage of accounts receivable by financial class remained fairly consistent with the exception of the commercial

Decatur County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

class. In 2007, 44% of account receivable was in the commercial class as opposed to 34% in 2006. Gross patient revenue for the commercial class increased by \$68,125 or 3% in 2007.

- Estimated amounts due from third-party payers increased \$1,110,489.
- Internally designated assets decreased by \$478,340 or 22%.
- Net capital assets increased due to the additions to equipment, including a new ambulance and a CT Scanner.

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased by \$623,898 or 10% as shown in Table 2. This increase is made up of several different components and represents a decrease of \$463,837 compared with the increase in net assets for 2007 of \$1,087,735. The Hospital's change in net assets increased from \$322,160 in 2006 to \$1,087,735 in 2007.

Decatur County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Operating Revenues			
Net patient service revenue	\$ 8,016,415	\$ 7,979,792	\$ 6,929,718
Other operating revenues	161,877	126,862	135,618
Total operating revenues	<u>8,178,292</u>	<u>8,106,654</u>	<u>7,065,336</u>
Operating Expenses			
Salaries and wages and employee benefits	4,105,648	3,982,961	3,642,951
Purchased services and professional fees	1,370,420	1,316,442	1,515,379
Depreciation and amortization	530,673	462,387	431,688
Other operating expenses	2,234,879	1,966,970	1,993,707
Total operating expenses	<u>8,241,620</u>	<u>7,728,760</u>	<u>7,583,725</u>
Operating Income (Loss)	<u>(63,328)</u>	<u>377,894</u>	<u>(518,389)</u>
Nonoperating Revenues (Expenses)			
Property taxes	591,637	587,724	583,575
Interest expense	(72,526)	(68,929)	(71,206)
Interest income	134,260	119,870	77,995
Noncapital grants and gifts	33,855	71,176	250,185
Total nonoperating revenues	<u>687,226</u>	<u>709,841</u>	<u>840,549</u>
Increase in Net Assets	<u>\$ 623,898</u>	<u>\$ 1,087,735</u>	<u>\$ 322,160</u>

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

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 and 2006, the Hospital reported an operating loss and in 2007 reported operating income. The Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area and the results of operations often reflect losses from operations. As a result of the operating losses, the Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss of \$63,328 for 2008 was a decrease of \$441,222 from the operating income in 2007 of \$377,894. The primary components of the decrease and the operating loss in 2008 are:

- Net patient service revenue increased \$36,623 from 2007 and total operating expenses in 2008 increased \$512,860 or 7% over 2007.
- Gross patient service revenue increased \$773,266 or 7.3% in 2008 as compared to 2007; however, contractual adjustments increased 33% from 2007 primarily due to prior year cost report settlements reducing contractual allowances in 2007 and an increase in the Medicare Advantage contractual allowances in 2008.
- Salaries and wages and employee benefits increased 3% or \$122,687 in 2008 due to a salary and wage adjustment. The number of full time equivalents (FTEs) decreased from 94 in 2007 to 88 in 2008.
- Professional fees increased in 2008 by \$53,978 or 4% due to an increase in use of contracted services for emergency room coverage.
- Depreciation expense increased in 2008 by \$68,286 or 15% due to the purchase of the PAC radiology equipment in 2008 and purchases in 2007 having a full year of depreciation expense in the current year.

The operating income for 2007 increased by \$896,283 as compared to the operating loss in 2006. The primary components of the increased operating income are:

- The 2007 Medicare cost report resulted in an estimated settlement due to the Hospital of approximately \$576,000.
- Salaries and wages and employee benefits increased 9% or \$340,010 in 2007 due to increases in health insurance. The number of full time equivalents (FTEs) also increased from 2006 to 2007 at 83 to 94.
- Depreciation expense increased in 2007 due to the purchase of new equipment.

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and interest expense, and grants, all of which remained relatively constant in 2008 as compared to 2007, except for the increase in interest income of \$14,390 and the decrease in grant revenue of \$37,321.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2008 and 2007, the Hospital had \$3,002,121 and \$3,305,344, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2008 and 2007, the Hospital purchased new capital assets costing \$227,450 and \$585,249, respectively.

Debt

At June 30, 2008 and 2007, the Hospital had \$1,085,739 and \$1,394,986, respectively, in loans and capital lease obligations outstanding. No new debt issued in 2008. New debt issued in 2007 was for the lease agreement for the CT Scanner.

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 641.446.4871.

Decatur County Hospital
Balance Sheets
June 30, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 2,287,637	\$ 1,202,039
Short-term investments	220,256	208,899
Patient accounts receivable, net of allowance; 2008 - \$175,000, 2007 - \$170,200	971,033	1,000,205
Estimated amounts due from third-party payers	-	411,000
Property taxes receivable	581,820	565,501
Other receivables	15,098	12,446
Supplies	163,904	200,863
Prepaid expenses	141,828	73,204
	<u>4,381,576</u>	<u>3,674,157</u>
Noncurrent Cash and Deposits		
Internally restricted		
Board designated	<u>1,715,781</u>	<u>1,652,724</u>
Capital Assets		
Land and land improvements	161,086	161,086
Buildings and leasehold improvements	4,242,803	4,230,658
Major moveable equipment	2,849,269	2,608,156
Construction in progress	-	25,808
	<u>7,253,158</u>	<u>7,025,708</u>
Less accumulated depreciation	<u>4,251,037</u>	<u>3,720,364</u>
	<u>3,002,121</u>	<u>3,305,344</u>
Total Assets	<u>\$ 9,099,478</u>	<u>\$ 8,632,225</u>

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Current maturities of long-term debt	\$ 209,232	\$ 304,781
Accounts payable	241,351	259,173
Accrued expenses payable to employees	290,434	317,329
Estimated amounts due to third-party payers	181,000	-
Deferred revenue for property taxes	581,820	565,501
	<hr/>	<hr/>
Total current liabilities	1,503,837	1,446,784
	<hr/>	<hr/>
Long-term Debt	876,507	1,090,205
	<hr/>	<hr/>
Total liabilities	2,380,344	2,536,989
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	1,897,932	1,996,317
Unrestricted	4,821,202	4,098,919
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Total net assets	6,719,134	6,095,236
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Total Liabilities and Net Assets	\$ 9,099,478	\$ 8,632,225
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Decatur County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 8,331,283	\$ 8,233,417
Provision for uncollectible accounts	<u>(314,868)</u>	<u>(253,625)</u>
Net patient service revenue	8,016,415	7,979,792
Other	<u>161,877</u>	<u>126,862</u>
Total operating revenues	<u>8,178,292</u>	<u>8,106,654</u>
Operating Expenses		
Salaries and wages	3,140,917	3,092,084
Employee benefits	964,731	890,877
Purchased services and professional fees	1,370,420	1,316,442
Depreciation and amortization	530,673	462,387
Supplies and other expenses	<u>2,234,879</u>	<u>1,966,970</u>
Total operating expenses	<u>8,241,620</u>	<u>7,728,760</u>
Operating Income (Loss)	<u>(63,328)</u>	<u>377,894</u>
Nonoperating Revenues (Expenses)		
Property taxes	591,637	587,724
Interest expense	(72,526)	(68,929)
Interest income	134,260	119,870
Noncapital grants and gifts	<u>33,855</u>	<u>71,176</u>
Total nonoperating revenues	<u>687,226</u>	<u>709,841</u>
Increase in Net Assets	623,898	1,087,735
Net Assets, Beginning of Year	<u>6,095,236</u>	<u>5,007,501</u>
Net Assets, End of Year	<u>\$ 6,719,134</u>	<u>\$ 6,095,236</u>

Decatur County Hospital
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Activities		
Cash received from patients and third parties	\$ 8,637,587	\$ 6,741,625
Cash paid to employees	(4,132,543)	(3,865,830)
Cash paid to suppliers	(3,673,236)	(3,336,263)
Other receipts and payments, net	159,225	177,985
Net cash provided by (used in) operating activities	991,033	(282,483)
Non-Capital Financing Activities		
Tax appropriations	591,637	587,724
Restricted and unrestricted contributions and grants	33,855	71,176
Net cash provided by non-capital financing activities	625,492	658,900
Capital and Related Financing Activities		
Purchase of property and equipment	(209,000)	(197,425)
Cash received from sale of property and equipment	-	8,350
Principal payments on long-term debt	(309,247)	(285,128)
Interest payments on long-term debt	(72,526)	(68,929)
Net cash used in capital and related financing activities	(590,773)	(543,132)
Investing Activities		
Change in noncurrent cash	12,679	7,296
Purchases of investments	(397,144)	(1,561,028)
Proceeds from disposition of investments	280,781	2,272,810
Investment income	134,260	119,870
Net cash provided by investing activities	30,576	838,948
Increase in Cash and Cash Equivalents	1,056,328	672,233
Cash and Cash Equivalents, Beginning of Year	1,282,372	610,139
Cash and Cash Equivalents, End of Year	\$ 2,338,700	\$ 1,282,372
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 2,287,637	\$ 1,202,039
Internally restricted		
Board designated	51,063	80,333
	\$ 2,338,700	\$ 1,282,372

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

	2008	2007
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided By (Used In) Operating Activities		
Income (loss) from operations	\$ (63,328)	\$ 377,894
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	530,673	462,387
Loss on sale of assets	-	39,751
Decrease (increase) in		
Patient receivables	29,172	(127,678)
Other receivables	(2,652)	11,372
Supplies	36,959	(20,589)
Prepaid expenses	(68,624)	13,215
Increase (decrease) in		
Accounts payable	(36,272)	(45,477)
Accrued salaries, wages, benefits and other	(26,895)	117,131
Third-party payer settlements payable/receivable	592,000	(1,110,489)
	<u>\$ 991,033</u>	<u>\$ (282,483)</u>
Net cash provided by (used in) operating activities	<u>\$ 991,033</u>	<u>\$ (282,483)</u>
Capital asset included in accounts payable	<u>\$ 18,450</u>	<u>\$ -</u>

Decatur County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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

Nature of Operations

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

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Cash Equivalents

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

Decatur County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

Property Taxes

The Hospital received approximately 7% 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 cost, determined using the first-in, first-out method.

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.

Decatur County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

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

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.

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, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. 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 \$24,230 and \$17,499 for 2008 and 2007, respectively.

Decatur County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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.

Reclassifications

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 and defined capital cost 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 were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

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.

Decatur County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

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.

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's investment policy does not limit investments on interest rate risk and credit risk. The Hospital complies with State of Iowa statutes in regards to interest rate credit risk.

At June 30, 2008 and 2007 the Hospital's deposits and investments at fair market value are as follows:

	2008	2007
Carrying value - Deposits	\$ 4,223,674	\$ 3,063,662
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,287,637	\$ 1,202,039
Short-term investments	220,256	208,899
Other noncurrent cash and deposits	1,715,781	1,652,724
	\$ 4,223,674	\$ 3,063,662

Interest Income

Interest income for the years ended June 30, 2008 and 2007, amounted to \$134,260 and \$119,870, respectively.

Decatur County 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:

	2008	2007
Medicare	\$ 224,785	\$ 313,007
Medicaid	57,590	74,085
Patients and other third-party payers	863,658	783,313
	1,146,033	1,170,405
Less allowance for uncollectible accounts	175,000	170,200
	\$ 971,033	\$ 1,000,205

Note 5: Capital Assets

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

	2008	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 44,272	\$ -	\$ -	\$ -	\$ -	\$ 44,272
Land improvements	116,814	-	-	-	-	116,814
Buildings and leasehold improvements	4,230,658	12,145	-	-	-	4,242,803
Major movable equipment	2,608,156	203,707	-	37,406	-	2,849,269
Construction in progress	25,808	11,598	-	(37,406)	-	-
	7,025,708	227,450	-	-	-	7,253,158
Less accumulated depreciation						
Land improvements	(59,799)	(7,494)	-	-	-	(67,293)
Buildings and leasehold improvements	(2,055,947)	(141,723)	-	-	-	(2,197,670)
Major movable equipment	(1,604,618)	(381,456)	-	-	-	(1,986,074)
	(3,720,364)	(530,673)	-	-	-	(4,251,037)
Capital assets, net	\$ 3,305,344	\$ (303,223)	\$ -	\$ -	\$ -	\$ 3,002,121

Decatur County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

2007	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 44,272	\$ -	\$ -	\$ -	\$ 44,272
Land improvements	116,814	-	-	-	116,814
Buildings and leasehold improvements	4,230,657	1	-	-	4,230,658
Major movable equipment	2,473,661	559,440	(424,945)	-	2,608,156
Construction in progress	48,101	25,808	(48,101)	-	25,808
	<u>6,913,505</u>	<u>585,249</u>	<u>(473,046)</u>	<u>-</u>	<u>7,025,708</u>
Less accumulated depreciation					
Land improvements	(52,305)	(7,494)	-	-	(59,799)
Buildings and leasehold improvements	(1,914,279)	(141,668)	-	-	(2,055,947)
Major movable equipment	(1,716,338)	(313,225)	424,945	-	(1,604,618)
	<u>(3,682,922)</u>	<u>(462,387)</u>	<u>424,945</u>	<u>-</u>	<u>(3,720,364)</u>
Capital assets, net	<u>\$ 3,230,583</u>	<u>\$ 122,862</u>	<u>\$ (48,101)</u>	<u>\$ -</u>	<u>\$ 3,305,344</u>

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.

Decatur County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 7: 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:

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Great Western Bank (A)	\$ 592,348	\$ -	\$ (61,672)	\$ 530,676	\$ 58,263
American State Bank (B)	270,370	-	(47,134)	223,236	49,416
Capital lease obligations (C)	<u>532,268</u>	<u>-</u>	<u>(200,441)</u>	<u>331,827</u>	<u>101,553</u>
Total long-term debt	<u>\$ 1,394,986</u>	<u>\$ -</u>	<u>\$ (309,247)</u>	<u>\$ 1,085,739</u>	<u>\$ 209,232</u>
	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Great Western Bank (A)	\$ 648,772	\$ -	\$ (56,424)	\$ 592,348	\$ 54,933
American State Bank (B)	314,953	-	(44,583)	270,370	46,775
Capital lease obligations (C)	<u>328,565</u>	<u>387,824</u>	<u>(184,121)</u>	<u>532,268</u>	<u>203,073</u>
Total long-term debt	<u>\$ 1,292,290</u>	<u>\$ 387,824</u>	<u>\$ (285,128)</u>	<u>\$ 1,394,986</u>	<u>\$ 304,781</u>

- (A) Great Western note payable requires monthly payments of principal and interest with interest at variable rates ranging from 5.59% to 7.95%. This note is collateralized by patient revenues. Principal and interest payments are due through August 2015.
- (B) American State Bank note payable requires monthly payments of principal and interest with interest at a rate of 5.5%. This note is collateralized by patient revenues. Principal and interest are due through July 2012.
- (C) Capital lease obligations at varying rates of imputed interest from 5.0% to 7.2% maturing through 2012 and collateralized by leased equipment. Equipment includes the following property under capital leases:

Decatur County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

	2008	2007
Equipment	\$ 1,366,794	\$ 1,366,794
Less accumulated depreciation	945,623	691,287
	\$ 421,171	\$ 675,507

The debt service requirements as of June 30, 2008 are as follows for Great Western and American State Bank notes payable:

	Total to be Paid	Principal	Interest
2009	\$ 149,153	\$ 107,679	\$ 41,474
2010	149,154	114,000	35,154
2011	149,153	120,694	28,459
2012	149,154	127,780	21,374
2013	96,878	81,924	14,954
2014-2016	218,855	201,835	17,020
	\$ 912,347	\$ 753,912	\$ 158,435

The following is a schedule by year of future minimum lease payments under capital lease obligations as of June 30, 2008:

2009	\$ 121,658
2010	92,493
2011	92,494
2012	69,370
Total minimum lease payments	376,015
Less amount representing interest	(44,188)
Present value of future minimum lease payments	\$ 331,827

Decatur County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 8: Operating Leases

The Hospital leases equipment under noncancelable operating leases. Future minimum lease payments at June 30, 2008, are:

2009	\$	133,692
2010		104,803
2011		55,172
2012		7,501
2013		<u>-</u>
Future minimum lease payments	\$	<u><u>301,168</u></u>

Rental expense for all operating leases was \$134,942 and \$92,013 for the years ended June 30, 2008 and 2007, respectively.

Note 9: Designated Net Assets

The Board of Trustees has designated \$1,715,781 and \$1,652,724 of net assets for capital acquisitions at June 30, 2008 and 2007, respectively. Designated funds remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Such designated funds are reflected in other noncurrent cash and investments in the accompanying balance sheets.

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.

Decatur County 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. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were \$180,170, \$176,741 and \$157,642, respectively, which equaled the required contributions for each year.

Note 11: Contractual Arrangement

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2008 and 2007 were approximately \$357,200 and \$295,700, respectively. Accounts payable due to Mercy for the years ended June 30, 2008 and 2007 were \$56,000 and \$66,000, respectively.

Note 12: Budget and Budgetary Accounting

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2008:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 591,637	\$ -	\$ 591,637	\$ 592,273
Other revenues/receipts	<u>8,346,407</u>	<u>618,520</u>	<u>8,964,927</u>	<u>7,886,281</u>
	8,938,044	618,520	9,556,564	8,478,554
Expenses/disbursements	<u>8,314,146</u>	<u>94,832</u>	<u>8,408,978</u>	<u>8,020,890</u>
	623,898	523,688	1,147,586	457,664
Balance, beginning of year	<u>5,007,501</u>	<u>(1,121,216)</u>	<u>3,886,285</u>	<u>3,886,285</u>
Balance, end of year	<u><u>\$ 5,631,399</u></u>	<u><u>\$ (597,528)</u></u>	<u><u>\$ 5,033,871</u></u>	<u><u>\$ 4,343,949</u></u>

Supplementary Information

Decatur County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical and surgical	\$ 842,077	\$ 584,737	\$ 257,340	\$ 679,264	\$ 521,135	\$ 158,129
Skilled nursing	192,575	192,575	-	186,572	186,572	-
Respite	129,124	129,124	-	153,818	153,818	-
Observation	259,276	-	259,276	297,094	-	297,094
	<u>1,423,052</u>	<u>906,436</u>	<u>516,616</u>	<u>1,316,748</u>	<u>861,525</u>	<u>455,223</u>
Other Professional Services						
Operating room	1,103,169	98,261	1,004,908	1,131,620	130,825	1,000,795
Laboratory	1,537,852	208,961	1,328,891	1,468,157	213,186	1,254,971
Central services and supplies	134,454	25,454	109,000	135,356	27,872	107,484
Emergency room	608,224	3,586	604,638	600,339	2,458	597,881
Ambulance	737,585	8,285	729,300	628,777	9,013	619,764
Electrocardiology	68,199	6,228	61,971	67,518	6,360	61,158
Radiology	1,080,581	76,271	1,004,310	1,107,590	62,530	1,045,060
CT scans	492,997	60,441	432,556	380,733	43,817	336,916
Vascular imaging	152,694	8,932	143,762	148,498	6,874	141,624
Cardiac rehabilitation	116,074	610	115,464	97,352	696	96,656
Pharmacy	2,448,709	655,979	1,792,730	1,982,429	574,182	1,408,247
Anesthesiology	482,872	35,497	447,375	494,902	47,564	447,338
Respiratory therapy	466,330	285,499	180,831	441,006	217,477	223,529
Physical therapy	321,052	62,528	258,524	413,655	77,728	335,927
Occupational therapy	127,693	80,830	46,863	86,832	56,447	30,385
Speech therapy	9,103	4,503	4,600	29,972	11,202	18,770
Clinics	17,901	-	17,901	18,905	-	18,905
Diabetic education	5,714	-	5,714	10,600	-	10,600
	<u>9,911,203</u>	<u>1,621,865</u>	<u>8,289,338</u>	<u>9,244,241</u>	<u>1,488,231</u>	<u>7,756,010</u>
Gross Patient Service Revenue	<u>11,334,255</u>	<u>\$ 2,528,301</u>	<u>\$ 8,805,954</u>	<u>\$ 10,560,989</u>	<u>\$ 2,349,756</u>	<u>\$ 8,211,233</u>
Contractual Adjustments	<u>3,002,972</u>			<u>2,327,572</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	<u>8,331,283</u>			<u>8,233,417</u>		
Provision for Uncollectible Accounts	<u>(314,868)</u>			<u>(253,625)</u>		
Net Patient Service Revenue	<u>\$ 8,016,415</u>			<u>\$ 7,979,792</u>		

Decatur County Hospital
Schedules of Other Revenues
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cafeteria	\$ 40,165	\$ 42,349
Laundry	1,037	1,025
Medical records	3,412	2,248
Miscellaneous	<u>117,263</u>	<u>81,240</u>
	<u>\$ 161,877</u>	<u>\$ 126,862</u>

Decatur County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 69,025	\$ 66,558	\$ 2,467	\$ 62,535	\$ 58,800	\$ 3,735
Medical and surgical	855,270	800,084	55,186	863,498	813,946	49,552
	<u>924,295</u>	<u>866,642</u>	<u>57,653</u>	<u>926,033</u>	<u>872,746</u>	<u>53,287</u>
Other Professional Services						
Operating room	298,295	166,017	132,278	234,741	169,012	65,729
Central supplies	12,291	-	12,291	71,259	-	71,259
Emergency room	223,669	208,866	14,803	216,308	209,624	6,684
Radiology	456,659	190,028	266,631	376,271	183,997	192,274
Ambulance	235,047	206,145	28,902	221,725	196,870	24,855
Ultrasound	31,986	-	31,986	39,085	-	39,085
Cardiac rehabilitation	57,112	52,158	4,954	60,991	41,115	19,876
Laboratory	458,328	147,004	311,324	441,924	141,859	300,065
Pharmacy	518,382	36,588	481,794	346,930	33,008	313,922
Social services	13,019	-	-	22,262	21,692	570
Home health	25,553	22,022	3,531	11,668	9,213	2,455
Anesthesiology	4,887	-	4,887	5,819	-	5,819
Respiratory therapy	119,523	80,497	39,026	121,171	84,506	36,665
Physical therapy	137,491	126,120	11,371	141,637	124,449	17,188
Occupational therapy	41,713	40,071	1,642	25,205	24,761	444
Clinics	25,008	22,245	2,763	27,341	21,190	6,151
Medical records	124,126	100,169	23,957	118,074	98,382	19,692
Quality assurance	22,336	21,924	412	35,008	32,256	2,752
	<u>2,805,425</u>	<u>1,432,873</u>	<u>1,372,552</u>	<u>2,517,419</u>	<u>1,391,934</u>	<u>1,125,485</u>
General Services						
Operation of plant	408,659	116,059	292,600	406,518	112,465	294,053
Laundry	10,123	12,519	(2,396)	10,493	10,677	(184)
Dietary	252,291	175,993	76,298	264,993	182,191	82,802
Housekeeping	111,832	86,496	25,336	115,501	94,383	21,118
	<u>782,905</u>	<u>391,067</u>	<u>391,838</u>	<u>797,505</u>	<u>399,716</u>	<u>397,789</u>
Administrative Services						
Employee Benefits	791,613	450,335	341,278	744,210	427,688	316,522
Purchased Services and Professional Fees	964,731	-	964,731	890,877	-	890,877
Depreciation and amortization	1,370,420	-	1,370,420	1,316,442	-	1,316,442
Insurance	530,673	-	530,673	462,387	-	462,387
	<u>71,558</u>	<u>71,558</u>	<u>71,558</u>	<u>73,887</u>	<u>73,887</u>	<u>73,887</u>
	<u>\$ 8,241,620</u>	<u>\$ 3,140,917</u>	<u>\$ 5,100,703</u>	<u>\$ 7,728,760</u>	<u>\$ 3,092,084</u>	<u>\$ 4,636,676</u>

Decatur County 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 – 30	\$ 775,907	\$ 967,639	57%	63%
31 – 60	234,513	231,667	17%	15%
61 – 90	99,961	140,357	7%	9%
91 – 120	91,065	61,051	7%	4%
121 and over	150,587	127,991	9%	8%
	<u>1,352,033</u>	<u>1,528,705</u>	<u>100%</u>	<u>100%</u>
Less contractual allowances	<u>206,000</u>	<u>358,300</u>		
	1,146,033	1,170,405		
Less allowance for uncollectible accounts	<u>175,000</u>	<u>170,200</u>		
	<u>\$ 971,033</u>	<u>\$ 1,000,205</u>		

Allowance for Uncollectible Accounts

	2008	2007
Balance, beginning of year	\$ 170,200	\$ 200,735
Provision for year	314,868	253,625
Recoveries of accounts previously written off	<u>148,788</u>	<u>174,203</u>
	633,856	628,563
Less accounts written off	<u>458,856</u>	<u>458,363</u>
Balance, end of year	<u>\$ 175,000</u>	<u>\$ 170,200</u>

Decatur County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2008 and 2007

Supplies

	<u>2008</u>	<u>2007</u>
Medical/surgical	\$ 1,156	\$ 1,156
Emergency	1,689	1,689
Radiology	2,902	4,508
Laboratory	38,814	45,445
Plant operation and maintenance	19,190	27,495
Respiratory therapy	1,126	1,126
Dietary	6,307	6,874
Operating room	28,447	59,534
Pharmacy	46,954	43,592
Housekeeping	2,227	1,807
Laundry	<u>15,092</u>	<u>7,637</u>
	<u>\$ 163,904</u>	<u>\$ 200,863</u>

Prepaid Expenses

	<u>2008</u>	<u>2007</u>
Insurance	\$ 40,180	\$ 2,245
Maintenance and other	<u>101,648</u>	<u>70,959</u>
	<u>\$ 141,828</u>	<u>\$ 73,204</u>

Decatur County Hospital

Schedule of Officials

Year Ended June 30, 2008

Name	Title	Term Expires
Board of Trustees		
Guy Clark	Chairman	2010
Gwen Simpson	Secretary	2012
Sherry Untiedt	Treasurer	2008
Delbert Lee	Member	2012
Linda Chastain	Member	2010
David Stone	Member	2012
Leon Kessel	Member	2010
Hospital Officials		
Lynn Milnes	Chief Executive Officer	
Melissa Walter	Chief Financial Officer	

Decatur County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2008 and 2007

	2008	2007
Patient Days		
Medicare	1,156	1,216
Medicaid	55	41
Private and other	1,381	1,451
	2,592	2,708
Medicare and Medicaid Percent	46.7%	46.4%
Percent of Occupancy	28.4%	29.7%
Discharges		
Medicare	233	228
Medicaid	23	13
Private and other	124	107
	380	348
Average Length of Stay Acute Days	3.06	2.91

Decatur County Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2008

Chubb – Great Northern Insurance Company

Policy No.3584-64-01 WUC, expiring July 1, 2009

Blanket building and contents	\$ 10,947,612
Loss of income and extra expense	7,739,467
Personal property in-transit	50,000
Personal property at a temporary storage site	50,000
Nuclear hazard	5,000,000
Valuable papers	Included in blanket limit
Accounts receivable	1,700,000
EDP Media/Software	Included in blanket limit
Crime (employee dishonesty, deposit forgery and credit card forgery)	250,000

Chubb – Federal Insurance Company

Policy No. (08) 7354-2144, expiring July 1, 2009

Comprehensive automobile liability	
Liability	1,000,000

Policy No. 6800-7676, expiring July 1, 2009

Directors' and officers' liability	
Executive liability	1,000,000
Entity coverage	1,000,000
Employment practices	1,000,000
Antitrust violations	1,000,000

Midwest Medical Insurance Company

Comprehensive hospital liability, expiring June 30, 2009

Hospital professional liability, Policy No. IHP000087	1,000,000/3,000,000
General liability, Policy No. IHP000087	1,000,000/3,000,000
Employee benefits, Policy No. IHP000087	1,000,000/3,000,000

Excess liability, expiring June 30, 2009

Excess medical liability, Policy No. IHP000087	1,000,000/3,000,000
Umbrella liability, Policy No. IHP000087	3,000,000/3,000,000



**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
Decatur County Hospital
Leon, Iowa

We have audited the financial statements of Decatur County Hospital as of and for the year ended June 30, 2008, and have issued our report thereon dated November 17, 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 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 exceed amounts budgeted.

Criteria or Specific Requirement – Management is responsible for maintaining expenses to the amount budgeted.

Condition – Actual expenses exceeded those budgeted for the year ended June 30, 2008.

Context – Actual expenses exceeded those budgeted.

Effect – There was an excess of expenses to what was approved with the budget.

Cause – Actual expenses were greater than anticipated.

Recommendation – Management should maintain expenses to the amount budgeted yearly.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will seek to not have expenses in excess of budgeted amounts.

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. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

The Hospital is required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital had not filed the unclaimed property report for the year ended June 30, 2007.

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

Condition – A report noting no unclaimed property was not filed in fiscal year 2008, for the year ended June 30, 2007.

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

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

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

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

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform 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.

Publication of Bills Allowed and Salaries

Chapters 347.13 (14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” We noted no instances of noncompliance with this Code.

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

We also noted certain matters that we reported to the Hospital’s management in a separate letter dated November 17, 2008.

* * * * *

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

/s/ **BKD, LLP**

Kansas City, Missouri
November 17, 2008

Decatur County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2008

**Reference
Number**

Finding

No matters are reportable.



Board of Trustees and Management
Decatur County Hospital
Leon, Iowa

In planning and performing our audit of the financial statements of Decatur County Hospital (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 controls 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 November 27, 2007.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

Control Deficiencies

Internal Controls

Management is responsible for establishing and maintaining effective internal control over financial reporting. Individuals within the Hospital have incompatible duties within the financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. The following are positions in which incompatible duties were identified:

- The Accounts Payable/Payroll Clerk has conflicting duties in the purchases and payroll cycles
- The Chief Financial Officer also has conflicting duties in the purchases and payroll cycles
- One Business Office individual has conflicting duties in the revenue cycle

Management has implemented certain mitigating controls for these conflicts to help reduce the likelihood of material misstatement or fraud. We recommend the Hospital review duties assigned and evaluate if duties can be segregated further in order to strengthen the controls in the accounting cycles.

Audit Adjustments

During the course of performing the audit, we identified several accounts that were not properly recorded and, therefore, we proposed journal entries to the financial statements to properly record the accounts. The proposed adjustments affected accounts receivable and the allowance for uncollectible accounts and contractual adjustments, property taxes receivable, prepaid insurance, accounts payable, fixed assets and accrued expenses. These adjustments were not previously identified by management's internal controls; however, as part of the audit, management agreed with the adjustments and recorded all of the proposed adjustments.

We recommend management review these areas monthly and evaluate them for potential adjustments, so that any adjustments needed could be recorded in the interim financial statements.

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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.

/s/ **BKD, LLP**

Kansas City, Missouri
November 17, 2008