Henry County Soldiers' and Sailors' Memorial Hospital d/b/a

Henry County Health Center

Mt. Pleasant, Iowa

Financial Statements
June 30, 2008 and 2007

Together with Independent Auditor's Report

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Henry County Soldiers' and Sailors' Memorial Hospital d/b/a

Henry County Health Center

Officials
June 30, 2008

Name	Title	Term Expires
County Board of Supervisors:		
Gary See	Member	December 2008
Mark Lindeen	Chairperson	December 2010
Tom Young	Vice-Chairperson	December 2008
Hospital Board of Trustees:		
Jan Towne	Chairperson	December 2010
Kent Severson	Vice-Chairperson	December 2010
Lee Benjamin	Secretary/Treasurer	December 2010
Robert Meyer	Trustee	December 2012
Richard Garrels	Trustee	December 2008
Carmen Heaton	Trustee	December 2008
Marvin Day	Trustee	December 2012
Hospital Officials:		
Dan Sheehan	Prior President/ Chief Executive Officer	Resigned July 30, 2008
David Muhs	Chief Financial Officer	
Ann Corrigan, RN	VP of Patient Care Services	
Robert Miller	Interim President / Chief Executive Officer	

SEIM JOHNSON

Independent Auditor's Report

To the Board of Trustees
Henry County Soldiers' and Sailors' Memorial Hospital
d/b/a Henry County Health Center
Mt. Pleasant, Iowa:

We have audited the accompanying basic financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the year ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. 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 the Health Center as of June 30, 2008 and 2007, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2008 on our consideration of the Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and page 21 are not required parts of the basic financial statements but are supplementary information required by the Government 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, included in Exhibits 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 9, 2008.

Seim Johnson Sestak & Quist, LLP > 8807 Indian Hills Drive, Suite 300 > Omaha, NE 68114-4123 > Tel: 402.330.2660 > Fax: 402.330.5108 > SeimJohnson.com

This discussion and analysis of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2008 and 2007. This discussion and analysis should be read in conjunction with financial statements, which begin on page 8.

Financial Highlights

- The Health Center's net assets increased in 2008 by $1,222,577 or 4%. In 2007, net assets increased by $2,982,137 or 11%.
- The Health Center reported an operating loss in 2008 of $1,233,968 compared to an operating income of $1,278,251 in 2007.
- The Health Center's non-operating revenues increased by $505,050 in 2008 compared to 2007.

Using This Annual Report

The Health Center'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 financial statements and related notes provide information about the activities of the Health Center, including resources held by the Health Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Analysis of the Health Center's finances begins on page 8. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Health Center's resources and activities in a way that helps answer the question of whether the Health Center, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 Health Center's net assets and changes in them. Over time, increases or decreases in net assets are an indicator of whether its financial health is improving or deteriorating. To access the overall health of the Health Center, non-financial factors, such as changes in the patient base of the Health Center and measures of the quality of service it provides to the community, as well as local economic factors, need to be considered.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

Net Assets

The Health Center's net assets are the difference between assets and liabilities reported in the Balance Sheet on page 8. The Health Center's net assets increased this past year by $1,222,577 or 4%, as shown in **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

		2008	2007	Change From Prior Year	% Change
Assets:					
Current assets	$	8,035,138	8,277,973	(242,835)	-3%
Capital assets, net	$	16,311,988	17,713,749	(1,401,761)	-8%
Assets limited as to use	$	17,785,587	15,499,159	2,286,428	15%
Investments	$	2,517,519	2,250,860	266,659	12%
Other non-current assets	$	2,059,120	1,824,828	234,292	13%
Total assets	$	**46,709,352**	**45,566,569**	**1,142,783**	**3%**
Liabilities:					
Long-term debt outstanding	$	12,615,000	13,040,008	(425,008)	-3%
Estimated third-party payor settlements	$	350,811	731,250	(380,439)	-52%
Other current and noncurrent liabilities	$	3,213,643	2,487,990	725,653	29%
Total liabilities	$	**16,179,454**	**16,259,248**	**(79,794)**	**-1%**
Net assets:					
Invested in capital assets, net of related debt	$	3,696,988	4,673,741	(976,753)	-21%
Restricted	$	1,130,000	1,130,000	0	0%
Unrestricted	$	25,702,910	23,503,580	2,199,330	9%
Total net assets	$	**30,529,898**	**29,307,321**	**1,222,577**	**4%**

Operating Results and Changes in Net Assets

In 2008, the Health Center's net assets increased by $1,222,577 or 4%, as shown in **Table 2**. This increase is made up of several different components.

Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets

		2008	2007	Change from Prior Year	% Change
Operating Revenue:					
Net patient service revenue	$	25,805,223	26,505,218	(699,995)	-3%
Provision for bad debt	$	(1,124,017)	(922,062)	(201,955)	22%
Other operating revenues	$	1,240,282	1,244,980	(4,698)	0%
Total operating revenue	$	**25,921,488**	**26,828,136**	**(906,648)**	**-3%**
Operating Expenses:					
Salaries and benefits	$	13,827,816	13,062,965	764,851	6%
Purchased services and other	$	10,485,313	9,539,254	946,059	10%
Depreciation and amortization	$	2,063,809	2,152,772	(88,963)	-4%
Interest	$	778,518	794,894	(16,376)	-2%
Total operating expenses	$	**27,155,456**	**25,549,885**	**1,605,571**	**6%**
Operating income (loss)	$	**(1,233,968)**	**1,278,251**	**(2,512,219)**	**-197%**
Non-operating Revenues and Expenses					
Property taxes	$	431,499	438,196	(6,697)	-2%
Investment income	$	1,274,547	797,857	476,690	60%
Other non-operating revenues	$	387,493	352,436	35,057	10%
Total non-operating revenues, net	$	**2,093,539**	**1,588,489**	**505,050**	**32%**
Excess of revenue over expenses	$	**859,571**	**2,866,740**	**(2,007,169)**	**-70%**
Change in unrealized gain and losses	$	**363,006**	**115,397**	**247,609**	**215%**
Increase in net assets	$	**1,222,577**	**2,982,137**	**(1,759,560)**	**-59%**
Net assets beginning of year	$	**29,307,321**	**26,325,184**	**2,982,137**	**11%**
Net assets end of year	$	**30,529,898**	**29,307,321**	**1,222,577**	**4%**

Operating Income

The first component of the overall change in the Health Center's net assets is its operating income — generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships.
- Salary adjustments to stay competitive.
- Employee health insurance.
- Professional/Physician contracts for ancillary departments.

The rate of healthcare inflation has a direct impact on the cost of services provided by the Health Center. A component of the Health Center's costs is expenses for wages & benefits. In 2008 wages & benefit costs totaled $13,827,816. In 2007 wages & benefit costs totaled $13,062,965. Part of the reason for this increase is that health insurance claims increased $408,050 or 55% in 2008.

The Health Center at times provides care for patients who have little or no health insurance or other means of repayment. The level of services provided to these patients increased to $222,278 in 2008 compared to $131,588 in 2007. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Health Center.

Nonoperating Revenues and Expenses

Non-operating revenues consist primarily of property taxes levied by the Health Center, interest revenue, and investment earnings. The county tax levy was the same per $1,000 of valuation for 2008 as it was in 2007, at $.75677 per $1.000 of valuation. The county tax levy amounted to $439,402 in 2008 and $435,540 in 2007.

Cash Flows

Changes in cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by operating activities decreased in 2008 due to capital purchases, including a construction project that was completed and prior year end cost report adjustments.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the Health Center had $16,311,988 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008, the Health Center purchased new equipment costing $1,168,383. Slightly more, $1,400,000 was spent to acquire new equipment in 2007.

Debt

At year-end, the Health Center had $12,615,000 in capital loan notes outstanding. No new debt was issued in 2008 or 2007. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole. There have been no changes in the Health Center's debt ratings in the past two years.

Other Economic Factors

The 2008 fiscal year provided the Health Center substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2008 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

Contacting Health Center Financial Management

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Health Center finances. Questions about this report or requests for additional information should be directed to:

Henry County Health Center
Attn: David J. Muhs, CFO
407 South White Street
Mount Pleasant IA 52641
319-385-3141

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a
Henry County Health Center

Balance Sheets
June 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash and cash equivalents	$ 2,031,409	2,949,727
Assets limited as to use or restricted	918,410	420,010
Receivables -		
Patient, net of allowance for doubtful accounts of $1,000,000 in 2008 and 2007, respectively	3,340,455	3,315,740
Other receivables	281,072	166,713
Current portion of notes receivable	13,661	96,341
Inventories	650,198	619,854
Prepaid expenses	299,933	270,186
Succeeding year property tax receivable	500,000	439,402
Total current assets	8,035,138	8,277,973
Assets limited as to use or restricted	17,785,587	15,499,159
Investments	2,517,519	2,250,860
Capital assets, net	16,311,988	17,713,749
Other assets	1,754,616	1,458,203
Deferred financing costs	304,504	366,625
Total assets	$ 46,709,352	45,566,569
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 855,000	425,008
Accounts payable	776,018	671,917
Accrued salaries and vacation	1,372,791	1,231,573
Other accrued expenses	564,834	145,098
Estimated third-party payor settlements	350,811	731,250
Deferred revenue for succeeding year property tax receivable	500,000	439,402
Total current liabilities	4,419,454	3,644,248
Long-term liabilities:		
Long-term debt, net of current portion	11,760,000	12,615,000
Total liabilities	16,179,454	16,259,248
Net assets:		
Invested in capital assets, net of related debt	3,696,988	4,673,741
Restricted	1,130,000	1,130,000
Unrestricted	25,702,910	23,503,580
Total net assets	30,529,898	29,307,321
Total liabilities and net assets	$ 46,709,352	45,566,569

See notes to financial statements

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	2008	2007
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	$ 25,805,223	26,505,218
Provision for bad debt	1,124,017	922,062
Net patient and service revenue	24,681,206	25,583,156
Other operating revenue	1,240,282	1,244,980
Total operating revenue	25,921,488	26,828,136
OPERATING EXPENSES:		
Salaries	11,051,530	10,543,389
Employee benefits	2,776,286	2,519,576
Professional fees	1,999,285	1,615,077
Supplies	4,299,574	4,094,733
Other expenses	4,186,454	3,829,444
Depreciation and amortization	2,063,809	2,152,772
Interest	778,518	794,894
Total operating expenses	27,155,456	25,549,885
OPERATING INCOME (LOSS)	(1,233,968)	1,278,251
NONOPERATING REVENUES, NET:		
County tax revenues	431,499	438,196
Investment income, net	1,274,547	797,857
Noncapital grants and contributions	37,683	29,574
Gain from equity investments	304,210	203,502
Gain (loss) from disposal of capital assets	(33,216)	17,006
Rental activity, net	78,816	102,354
Nonoperating revenues, net	2,093,539	1,588,489
EXCESS OF REVENUE OVER EXPENSES	859,571	2,866,740
CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	363,006	115,397
INCREASE IN NET ASSETS	1,222,577	2,982,137
NET ASSETS, beginning of year	29,307,321	26,325,184
NET ASSETS, end of year	$ 30,529,898	29,307,321

See notes to financial statements

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a
Henry County Health Center

Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

		2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from patients and third party payors	$	24,276,052	25,614,349
Cash paid for employee salaries and benefits		(13,686,598)	(12,909,097)
Cash paid to suppliers and contractors		(10,316,644)	(10,301,590)
Other receipts and payments, net		1,240,282	1,244,980
Net cash provided by operating activities		1,513,092	3,648,642
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
County tax receipts		431,499	438,196
Noncapital grants and contributions		37,683	29,574
Net cash provided by noncapital financing activities		469,182	467,770
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payments on capital lease obligations		(70,008)	(98,011)
Payments on long-term debt		(355,000)	(320,000)
Interest payments		(776,918)	(796,237)
Purchase of property and equipment, net		(911,303)	(1,536,242)
Net cash used in capital and related financing activities		(2,113,229)	(2,750,490)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income		907,565	782,455
Deposits to investments		(674,737)	(917,053)
Proceeds from sale of investments		499,717	749,618
Deposits to assets limited as to use or restricted, net		(10,798,801)	(7,736,662)
Procees from sale of assets limited as to use or restricted		8,652,322	4,897,527
Proceeds from equity investments		269,595	187,579
Proceeds from rental activities, net		356,976	349,522
Net cash used in investing activities		(787,363)	(1,687,014)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(918,318)	(321,092)
CASH AND CASH EQUIVALENTS - Beginning of year		2,949,727	3,270,819
CASH AND CASH EQUIVALENTS - End of year	$	2,031,409	2,949,727

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

The Health Center entered into a capital lease obligation in the amount of $168,019 for new equipment in 2007.

See notes to financial statements

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2008 and 2007

		2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$	(1,233,968)	1,278,251
Adjustments to reconcile operating income to net cash provided by operating activities -			
Depreciation and amortization		2,063,809	2,152,772
Interest expense included in operating expenses		778,518	794,894
Forgiveness of notes and physician receivables		360,882	242,292
(Increase) decrease in current assets -			
Receivables -			
Patients		(24,715)	(140,057)
Other		(114,359)	(32,301)
Current portion of notes receivable		(115,000)	(131,332)
Inventories		(30,344)	(3,116)
Prepaid expenses		(29,747)	(43,282)
Increase (decrease) in current liabilities -			
Accounts payable		104,101	(794,597)
Accrued salaries and vacation		141,218	135,825
Other accrued expenses		(6,864)	18,043
Estimated third-party payor settlements		(380,439)	171,250
Net cash provided by operating activities	$	1,513,092	3,648,642

See notes to financial statements

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and a summary of significant accounting policies of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center). These policies are in accordance with accounting principles generally accepted in the United States of America. The Health Center is a Critical Access Hospital, operating with 25 acute-care beds and 49 long-term care beds. The Health Center also has related health care ancillary and outpatient services.

A. *Reporting Entity*

Accounting principles generally accepted in the United States of America require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The Health Center was organized in 1919 under Chapter 347 of the Iowa Code. The Health Center is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. It has the right to sue and to be sued and has the right to buy, sell, lease or mortgage property in its own name. Based upon these criteria, the Health Center is considered a primary government and there are no agencies or entities which should be presented with the Health Center.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

<u>Invested in capital assets, net of related debt</u> – This component of net assets consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

<u>Restricted net assets</u> – This component of net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Health Center's policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Health Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under note agreements.

G. *Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market.

I. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The 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.

J. *Assets Limited as to Use or Restricted*

By Board of Trustees - Periodically, the Health Center's Board of Trustees has set aside assets for future capital improvements and debt retirement. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

Under Hospital Revenue Capital Loan Notes Agreements – These funds are reserve funds held as security for the Series 2002 and 2000 Notes. These funds are used for the payment of principal and interest on the Series 2002 and 2000 Notes when insufficient funds are available in the sinking fund.

K. *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value as determined by quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income is restricted by donor or law Unrealized gains and losses on investments are excluded from the excess of revenue over expenses unless the investments are trading securities. Periodically the Health Center reviews its investments to determine whether any unrealized losses are other than temporary. During 2008 and 2007, there were no investment declines that were determined to be other than temporary.

The investments in joint ventures and cooperative arrangements with other health care entities are accounted for by the equity method of accounting, under which the net income or loss of the affiliates is recognized as income or expense and distributions are treated as reductions to the investments account. The Health Center has a 25% interest in Southeastern Renal Dialysis, L.C.; a 50% interest in Southeastern Health Group, L.C.; and a 49% interest in Henry County Medical Software, L.L.C.

L. Capital Assets

Capital asset acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

The Health Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assts such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

M. Deferred Financing Costs

Deferred financing costs related to the issuance of the Hospital Revenue Capital Loan Notes are being amortized over the life of the related notes under the effective interest method. Amortization expense of $62,121 and $63,243 for 2008 and 2007, respectively, is included in depreciation and amortization in the accompanying statements of revenues, expenses and changes in net assets.

N. Compensated Absences

Paid Time Off (PTO) vests quarterly and may be carried forward by an employee in an amount not to exceed 496 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2008 and 2007 was $803,945 and $697,179, respectively.

Short-term disability does not vest and, therefore, no liability has been accrued. The payment for short-term disability is based on 70% of the regular earnings of the employee and is available for up to eight weeks.

O. Self-Insured Employee Health Benefits

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

P. *Income Taxes*

Under the Code of Iowa, Chapter 347, the Health Center is an instrumentality of the County of Henry, Iowa. As such, the Health Center is exempt from paying income taxes.

Q. *Excess of Revenue Over (Under) Expenses*

The statements of operations include excess of revenue over (under) expense as a performance indicator. Changes in unrestricted net assets that are excluded from excess of revenue over (under) expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of an interest rate swap agreement, minimum pension liability adjustments, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

R. *Net Patient Service Revenue*

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

S. *Grants and Contributions*

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

T. *Charity Care*

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

U. *County Tax Revenue*

Taxes are included in nonoperating gains when received and distributed by the Country Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

V. *Risk Management*

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

(2) Cash, Investments and Assets Limited as to Use or Restricted

The Health Center'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.

The Health Center 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 Health Center manages the following risks in accordance with their formal investment policy:

Credit Risk: The Health Center has invested in U.S. Treasuries and Government Agencies securities. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The Health Center has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days. When investing assets of the Health Center for a period longer than 397 days, the Health Center shall request competitive investment proposals for comparable credit and term investments from a minimum of two investment providers.

The weighted average duration of securities invested in U.S. Treasury and Government Agencies was 33 months as of June 30, 2008.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Health Center's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Health Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Health Center's agent in the Health Center's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2008 and 2007 is as follows:

	2008	2007
Investments:		
Operating reserves:		
Money market funds	$ 140,688	118,994
U.S. treasury and government agencies securities	2,349,579	2,108,221
Accrued interest	27,252	23,645
Total Investments	$ 2,517,519	2,250,860
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Money market funds	$ 905,840	1,126,904
U.S. treasury and government agencies securities	9,381,291	7,901,163
Accrued interest	112,077	105,533
	10,399,208	9,133,600
Bond retirement and sinking fund accounts:		
Money market funds	169,312	145,778
U.S. treasury and government agencies securities	6,964,865	5,196,790
Accrued interest	40,612	313,001
	7,174,789	5,655,569
By bond agreements:		
Reserve account:		
Certificates of deposit	1,130,000	1,130,000
Total assets limited as to use or restricted	18,703,997	15,919,169
Less amounts required to meet current obligations	918,410	420,010
Long-term portion	$ 17,785,587	15,499,159

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2008 and 2007 is summarized as follows:

	2008	2007
Interest and dividends	$ 971,491	908,114
Realized gains and losses, net	303,056	(110,257)
	1,274,547	797,857
Change in unrealized gains, net	363,006	115,397
Total investment return	$ 1,637,553	913,254

(3) Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audit thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2005.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center.

The Health Center has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Health Center under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Health Center's patient service revenue at its established rates and revenue deductions by major third-party payors:

	2008	2007
Gross patient service revenue:		
Inpatient services and swing bed	$ 8,522,560	9,480,878
Outpatient	30,790,025	27,865,157
Long-term care	2,126,291	2,131,905
Clinic	331,353	324,036
Total gross patient service revenue	41,770,229	39,801,976
Deductions form patient service revenue:		
Medicare	10,487,781	9,230,839
Medicaid	1,476,334	1,165,819
Other payors	3,778,613	2,768,512
Charity care	222,278	131,588
Total deductions from patient service revenue	15,965,006	13,296,758
Net patient service revenue before provision for bad debt	$ 25,805,223	26,505,218

The Health Center reports net patient service revenue at estimated net realizable amounts form patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The 2007 and 2008 net patient service revenue decreased by approximately $500,000 and $760,000 cost report settlements in excess of amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounts for approximately 35% and 10%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2008 compared to 38% for Medicare and 10% for Medicaid in 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded settlement estimates will change by a material amount in the near term since various cost reporting periods have not been audited by the fiscal intermediary.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2008 and 2007 consist of the following:

	2008	2007
Patient accounts	$ 5,860,455	5,465,740
Less estimated third-party contractual adjustments	(1,520,000)	(1,150,000)
Less allowance for doubtful accounts	(1,000,000)	(1,000,000)
	$ 3,340,455	3,315,740

The Health Center is located in Mt. Pleasant, Iowa. The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2008	2007
Medicare	26%	28%
Medicaid	6	5
Blue Cross	20	17
Other third-party payors	18	15
Private pay	30	35
	100%	100%

(5) Capital Assets

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

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated:				
Land	$ 802,420	71,524	--	873,944
Construction in progress	333,152	272,903	(599,625)	6,430
Total capital assets, not being depreciated	1,135,572	344,427	(599,625)	880,374
Capital assets, being depreciated:				
Land improvements	1,493,949	73,389	(102,099)	1,465,239
Buildings	23,660,389	555,359	(151,832)	24,063,916
Fixed equipment	7,110,659	49,365	(21,445)	7,138,579
Major moveable equipment	11,087,553	490,270	(721,262)	10,856,561
Total capital assets, being depreciated	43,352,550	1,168,383	(996,638)	43,524,295
Less accumulated depreciation:				
Land improvements	(1,324,823)	(52,840)	102,099	(1,275,564)
Buildings	(11,871,912)	(991,559)	144,157	(12,719,314)
Fixed equipment	(5,585,234)	(220,443)	19,898	(5,785,779)
Major moveable equipment	(7,992,404)	(1,015,007)	695,387	(8,312,024)
Total accumulated depreciation	(26,774,373)	(2,279,849)	961,541	(28,092,681)
Total capital assets, being depreciated, net	16,578,177	(1,111,466)	(35,097)	15,431,614
Total capital assets, net	$ 17,713,749	(767,039)	(634,722)	16,311,988

	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets, not being depreciated:				
Land	$ 788,325	14,095	--	802,420
Construction in progress	27,917	333,152	(27,917)	333,152
Total capital assets, not being depreciated	816,242	347,247	(27,917)	1,135,572
Capital assets, being depreciated:				
Land improvements	1,495,779	--	(1,830)	1,493,949
Buildings	23,387,293	249,409	23,687	23,660,389
Fixed equipment	7,110,659	--	--	7,110,659
Major moveable equipment	10,640,455	1,154,306	(707,208)	11,087,553
Total capital assets, being depreciated	42,634,186	1,403,715	(685,351)	43,352,550
Less accumulated depreciation:				
Land improvements	(1,283,361)	(43,292)	1,830	(1,324,823)
Buildings	(10,869,330)	(995,750)	(6,832)	(11,871,912)
Fixed equipment	(5,365,668)	(219,566)	--	(5,585,234)
Major moveable equipment	(7,602,890)	(1,078,089)	688,575	(7,992,404)
Total accumulated depreciation	(25,121,249)	(2,336,697)	683,573	(26,774,373)
Total capital assets, being depreciated, net	17,512,937	(932,982)	(1,778)	16,578,177
Total capital assets, net	$ 18,329,179	(585,735)	(29,695)	17,713,749

(6) Other Assets

Other assets held by the Health Center as of June 30, 2008 and 2007 are as follows:

		2008	2007
Investments in joint ventures and cooperative arrangements with other health care entities	$	1,089,930	1,052,815
Physician receivables		470,560	228,809
Notes receivable		207,787	272,920
		1,768,277	1,554,544
Less current portion of notes receivable		13,661	96,341
	$	1,754,616	1,458,203

Physician receivables are related to physician income guarantee agreements to recruit physicians to the community of Mount Pleasant, Iowa. An offsetting physician income guarantee liability of $441,667 representing the maximum potential payments under the agreements is included in other accrued expenses. All monies advanced under these agreements will be forgiven up to a five year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

(7) Long-Term Debt

Long-term debt activity of the Health Center as of June 30, 2008 and 2007 consisted of the following:

		June 30, 2007	Borrowings	Payments	June 30, 2008	Due Within One Year
Series 2000 (A) (C)	$	7,590,000	--	(250,000)	7,340,000	730,000
Series 2002 (B) (C)		5,380,000	--	(105,000)	5,275,000	125,000
Capital lease obligation (D)		70,008	--	(70,008)	--	--
	$	13,040,008	--	(425,008)	12,615,000	855,000

		June 30, 2006	Borrowings	Payments	June 30, 2007	Due Within One Year
Series 2000 (A) (C)	$	7,795,000	--	(205,000)	7,590,000	250,000
Series 2002 (B) (C)		5,495,000	--	(115,000)	5,380,000	105,000
Capital lease obligation (D)		--	168,019	(98,011)	70,008	70,008
	$	13,290,000	168,019	(418,011)	13,040,008	425,008

(A) The Health Center issued $9,000,000 of Hospital Revenue Capital Loan Notes in 2000. The proceeds of these bonds were used to pay a portion of the cost to constructing and equipping an addition to the Health Center facility. The Series 2000 notes bear interest at rates ranging form 6.05% to 8% payable semi-annually. Annual principal payments are due in amounts ranging from $730,000 to $1,545,000 through June 2019.

(B) The Health Center issued $6,055,000 of Hospital Revenue Capital Loan Refunding Notes, Series 2002. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 1993 and for paying bond issuance costs incurred. The Series 2002 notes bear interest at rates ranging from 3.9% to 5.25%. Annual principal payments are due in amounts ranging from $125,000 to $750,000 through June 2017.

(C) The Series 2000 and 2002 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Health Center. The terms of the trust indenture require the Health Center to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Health Center to maintain a sinking fund account and to maintain a specified debt service coverage ratio.

(D) Capital lease obligation at 0% imputed interest collateralized by leased equipment with a cost of $168,019.

Year	Principal	Interest	Total
2009	$ 855,000	760,918	1,615,918
2010	900,000	711,753	1,611,753
2011	950,000	663,288	1,613,288
2012	1,000,000	611,476	1,611,476
2013	1,055,000	554,721	1,609,721
2014 – 2018	6,310,000	1,789,076	8,099,076
2019	1,545,000	108,150	1,653,150
	$ 12,615,000	5,199,382	17,814,382

(8) Professional Liability Insurance

The Health Center carries a professional liability policy (including malpractice) providing coverage of $1,000,000 for injuries per occurrence and $3,000,000 aggregate coverage. In addition, the Health Center carries an umbrella policy which also provides $3,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Health Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(9) Pension Plan

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

Plan members are required to contribute 3.90% of their annual salary and the Health Center is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were $658,204, $591,613 and $561,362 respectively, equal to the required contributions for each year.

(10) Contingencies

The Health Center is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Health Center's future financial position or results from operations.

(11) Self-Funded Health Insurance

The Health Center has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Health Center's matching funds are deposited into a separate benefit trust account. Under the self-insured plan, the Health Center pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Health Center incurred health insurance expenses of $914,165 and $742,577 as of June 30, 2008 and 2007, respectively.

(12) Deferred Compensation Plan

The Health Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Health Center employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan complies with IRC Section 457(g), which requires the plan to hold its assets in trust. Under these requirements, the Health Center does not own the amounts deferred by employees and, therefore, the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled $2,016,179 and $2,250,878 as of June 30, 2008 and 2007, respectively.

Budgetary Comparison Schedule of Revenue, Expenses And Changes in Net Assets – Budget and Actual (Cash Basis) June 30, 2008 and 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2008, the Health Center's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	$ 431,499	431,499	--
Estimated other revenues / receipts	27,946,534	36,828,726	(8,882,192)
Expenses / Disbursements	27,155,456	35,613,316	8,457,860
Net	1,222,577	1,646,909	(424,332)
Balance beginning of year	29,307,321	17,136,608	
Balance end of year	$ 30,529,898	18,783,517	

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a

Henry County Health Center

Exhibit 1

Patient Service Revenue
For the Years Ended June 30, 2008 and 2007

	2008					2007				
	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total
DAILY PATIENT SERVICES:										
Long term care	$ --	--	--	2,126,291	2,126,291	--	--	--	2,131,905	2,131,905
Medical and surgical	1,654,822	--	--	--	1,654,822	1,742,011	--	--	--	1,742,011
Swing bed	487,200	--	--	--	487,200	559,415	--	--	--	559,415
Observation	245,388	--	--	--	245,388	251,590	--	--	--	251,590
Nursery	130,032	--	--	--	130,032	136,110	--	--	--	136,110
	2,517,442	--	--	2,126,291	4,643,733	2,689,126	--	--	2,131,905	4,821,031
OTHER NURSING SERVICES:										
Operating and recovery room	1,275,010	5,641,015	--	--	6,916,025	1,689,628	4,616,099	--	--	6,305,727
Emergency services	80,564	3,012,554	--	--	3,093,118	132,209	2,628,086	--	--	2,760,295
Delivery and labor room	215,877	64,307	--	--	280,184	204,399	64,473	--	--	268,872
Aide	--	39,227	--	--	39,227	--	36,089	--	--	36,089
	1,571,451	8,757,103	--	--	10,328,554	2,026,236	7,344,747	--	--	9,370,983
OTHER PROFESSIONAL SERVICES:										
Pharmacy	1,547,353	5,355,572	--	--	6,902,925	1,774,869	4,548,947	--	--	6,323,816
Laboratory	564,160	3,175,031	--	--	3,739,191	583,495	3,041,601	--	--	3,625,096
CT scans	162,482	2,478,965	--	--	2,641,447	169,226	2,450,571	--	--	2,619,797
Physical, occupational and respiratory therapy	1,152,424	1,660,178	--	--	2,812,602	1,138,778	1,456,692	--	--	2,595,470
Anesthesiology	310,989	1,800,157	--	--	2,111,146	428,378	1,613,657	--	--	2,042,035
Radiology	68,394	1,639,600	--	--	1,707,994	85,955	1,544,851	--	--	1,630,806
MRI	48,067	1,200,615	--	--	1,248,682	64,102	1,305,668	--	--	1,369,770
Ambulance	20,138	1,278,737	--	--	1,298,875	23,896	1,213,042	--	--	1,236,938
EKG	31,130	962,566	--	--	993,696	36,993	1,040,616	--	--	1,077,609
Chemotherapy	73,866	854,015	--	--	927,881	20,827	755,877	--	--	776,704
Nuclear medicine	77,772	619,787	--	--	697,559	74,320	610,813	--	--	685,133
Ultrasound	45,212	680,241	--	--	725,453	36,750	607,772	--	--	644,522
Central supply	258,126	327,458	--	--	585,584	283,178	313,862	--	--	597,040
Clinic	--	--	331,353	--	331,353	--	--	324,036	--	324,036
Dialysis	73,554	--	--	--	73,554	44,299	--	--	--	44,299
Pain management	--	--	--	--	--	450	16,441	--	--	16,891
	4,433,667	22,032,922	331,353	--	26,797,942	4,765,516	20,520,410	324,036	--	25,609,962
Gross patient service revenue	8,522,560	30,790,025	331,353	2,126,291	41,770,229	9,480,878	27,865,157	324,036	2,131,905	39,801,976
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE										
Contractual allowances and other deductions, primarily Medicare and Medicaid					(15,742,728)					(13,165,170)
Charity care services					(222,278)					(131,588)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT					25,805,223					26,505,218
Provision for bad debt					(1,124,017)					(922,062)
NET PATIENT SERVICE REVENUE					24,681,206					25,583,156

Other Operating Revenue
For the Years Ended June 30, 2008 and 2007

		2008	2007
Public health grants	$	519,059	498,629
Management services, physician billings		177,132	190,279
Professional services to others		166,347	169,551
Reference lab		35,565	92,536
Rental income		56,261	45,977
Miscellaneous		285,918	248,008
	$	1,240,282	1,244,980

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a

Exhibit 3

Henry County Health Center

Departmental Expenses
For the Years Ended June 30, 2008 and 2007

	2008				2007			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	TOTAL	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	TOTAL
NURSING SERVICES:								
Operating and recovery room	$ 655,027	--	1,508,833	2,163,860	631,838	--	1,538,597	2,170,435
Medical and surgical	1,598,140	57,151	520,307	2,175,599	1,557,170	35,162	567,339	2,159,671
Long-term care	1,092,571	590	683,669	1,776,830	1,032,539	1,963	620,415	1,654,917
Emergency room	488,947	929,971	199,608	1,618,526	459,096	842,174	189,212	1,490,482
Nursing administration	296,406	--	92,426	388,832	281,648	--	80,175	361,823
	4,131,092	987,712	3,004,844	8,123,648	3,962,291	879,299	2,995,738	7,837,328
OTHER PROFESSIONAL SERVICES:								
Pharmacy	327,229	--	1,738,920	2,066,149	306,328	--	1,542,785	1,849,113
Physical, occupational and speech therapy	241,657	365,018	113,096	719,771	231,230	333,128	88,402	652,760
Laboratory	408,685	135,550	525,856	1,070,091	365,000	149,268	479,851	994,119
Ambulance	579,219	--	278,791	858,010	558,468	1,382	282,644	842,494
Anesthesiology	659,638	--	124,746	784,384	683,272	--	145,232	828,504
Community health	424,142	5,111	261,832	691,084	395,207	5,891	208,937	610,035
Radiology	290,785	--	450,733	741,517	278,204	--	330,780	608,984
Respiratory therapy	242,454	16,838	94,562	353,854	233,144	18,300	114,626	366,070
EKG	144,320	1,000	42,384	187,704	134,140	3,000	48,194	185,334
Medical and surgical supplies	108,717	--	208,648	317,365	103,155	--	208,173	311,328
CT scans	45,379	--	242,652	288,031	42,449	--	183,498	225,947
Physician offices	136,472	--	43,433	179,905	152,859	--	36,128	188,987
MRI	--	--	304,880	304,880	--	--	350,087	350,087
Chemotherapy	108,042	132,405	52,170	292,617	101,813	--	37,171	138,984
Nuclear medicine	46,618	--	76,632	123,250	45,247	--	77,300	122,547
Ultrasound	83,567	--	33,672	117,239	53,481	15,610	33,837	102,928
Clinic	102,267	23,233	86,128	211,627	63,506	57,746	83,155	204,407
	3,949,190	679,154	4,679,134	9,307,479	3,747,503	584,325	4,250,800	8,582,628
GENERAL SERVICES:								
Plant	336,768	--	869,110	1,205,879	330,298	--	817,808	1,148,106
Dietary	312,440	--	506,926	819,367	306,126	--	459,478	765,604
Housekeeping	263,273	--	353,421	616,694	247,708	--	334,748	582,456
Laundrty and linen	22,996	--	1,471	24,467	24,363	--	(2,844)	21,519
	935,478	--	1,730,928	2,666,407	908,495	--	1,609,190	2,517,685
ADMINISTRATIVE SERVICES:								
Finance	207,331	--	170,511	377,842	199,539	--	169,960	369,499
Patient accounts	207,410	--	211,457	418,867	211,798	--	180,486	392,284
Regisration	269,876	--	80,993	350,868	260,923	--	91,692	352,615
Information technology	210,402	--	408,602	619,004	181,336	--	365,270	546,606
Administration	470,047	--	529,170	999,217	413,552	--	290,256	703,808
Human resources	198,189	--	141,371	339,559	194,866	--	145,404	340,270
Medical records	277,697	--	126,254	403,950	273,378	--	101,399	374,777
Other adminisrative services	194,818	332,418	179,051	706,288	189,708	151,453	243,558	584,719
	2,035,769	332,418	1,847,408	4,215,596	1,925,100	151,453	1,588,025	3,664,578
NONDEPARTMENTAL:								
Depreciation and amortization	--	--	2,063,809	2,063,809	--	--	2,152,772	2,152,772
Interest	--	--	778,518	778,518	--	--	794,894	794,894
	--	--	2,842,327	2,842,327	--	--	2,947,666	2,947,666
TOTAL EXPENSES	11,051,530	1,999,285	14,104,641	27,155,456	10,543,389	1,615,077	13,391,419	25,549,885

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2008 and 2007

ANALYSIS OF AGING:

	2008		2007	
Days Since Discharge	Amount	Percent of Total	Amount	Percent of Total
0-30	$ 3,421,160	57.85 %	3,161,793	57.85 %
31-60	966,658	12.70	694,086	12.70
61-90	414,765	7.07	386,440	7.07
91-120	212,600	4.62	252,597	4.62
121 and over	845,272	17.76	970,824	17.76
	5,860,455	100.00 %	5,465,740	100.00 %
Less:				
Allowance for doubtful accounts	(1,000,000)		(1,000,000)	
Allowance for contractual adjustments	(1,520,000)		(1,150,000)	
	$ 3,340,455		3,315,740	

	2008	2007
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	$ (1,000,000)	(1,037,143)
Provision of uncollectible accounts	1,124,017	922,062
Recoveries of accounts previously written off	324,339	347,102
Accounts written off	(1,448,356)	(1,232,021)
Balance, end of year	$ (1,000,000)	(1,000,000)

Inventory/Prepaid Expenses
For the Years Ended June 30, 2008 and 2007

		2008	2007
INVENTORY:			
Orthopedics	$	167,137	155,352
Pharmacy		264,119	249,139
Surgery		133,379	113,233
Central service		85,563	102,100
	$	650,198	619,824
PREPAID EXPENSES:			
Deposits	$	162,838	165,815
Service contracts		76,618	66,365
Insurance		40,539	18,357
Other		19,937	19,649
	$	299,933	270,186

Financial and Statistical Highlights
For the Years Ended June 30, 2008 and 2007

	2008	2007	2006
Patient days:			
Adult and pediatric -			
Medicare	1,203	1,349	1,905
All other	1,072	1,251	1,113
Swing-bed -			
Skilled	1,392	1,720	1,454
Intermediate	20	26	54
Newborn	296	306	317
Long-term care	16,596	17,267	17,260
Total	20,579	21,919	22,103
Patient discharges:			
Hospital adult and pediatric -			
Medicare	440	512	596
All other	381	449	446
Total	821	961	1,042
Average length of stay (based on discharge days):			
Hospital adult and pediatric -			
Medicare	2.73 days	2.63 days	3.21 days
All other	2.81 days	2.81 days	2.48 days
Surgical procedures	2,299	2,123	2,422
Emergency room visits	8,214	7,177	7,343
Number of employees - full-time equivalents	255.48	256.01	249.93

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

To the Board of Trustees
Henry County Soldiers' and Sailors' Memorial Hospital
d/b/a Henry County Health Center
Mt. Pleasant, Iowa:

We have audited the financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the year ended June 30, 2008 and 207, and have issued our report thereon, dated September 9, 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 Health Center'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 Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency, Item II-A08, described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance that the Health Center'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

Seim Johnson Sestak & Quist, LLP › 8807 Indian Hills Drive, Suite 300 › Omaha, NE 68114-4123 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal mattes are not intended to constitute legal interpretations of those statutes.

The Health Center's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Health Center in a separate letter dated September 9, 2008.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Health Center and other parties to who the Health Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 9, 2008.

Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements.

(b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-08

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Health Center continue to monitor and improve its segregation of duties.

Response: Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-08

Official Depositories: 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.

III-B-08

Certified Budget: Health Center disbursements during the year ended June 30, 2008 did not exceed amounts budgeted

III-C-08

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-08

Travel Expense: No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

III-E-08

Business Transactions: No business transactions between the Health Center and Health Center officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Health Center to $1,500 without publicly invited and opened written competitive bids.

III-F-08

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

III-G-08

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

III-H-08

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Health Center publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2008

Finding	Status	Corrective Action Plan or Other Explanation
07-II-A	Segregation of duties in the accounting and data processing areas	Unresolved, similar finding reported at 08-II-A

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Manager

Marcus P. Goldenstein, Staff Auditor

SEIM JOHNSON

September 9, 2008

To the Board of Directors
Henry County Soldiers' and Sailors' Memorial Hospital
d/b/a Henry County Health Center
Mount Pleasant, Iowa:

In planning and performing our audit of the financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center), 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 Health Center'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 Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A 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 a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

The following is a description of the identified significant deficiency that we determined did not constitute a material weakness.

Segregation of Duties over Financial Reporting

One important aspect of internal control over financial reporting is segregation of duties among employees to prevent an individual employee the ability to circumvent the system of internal control. In reviewing the process and controls of the Health Center, due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Health Center continue to monitor and improve its segregation of duties.

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Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties.

The following are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Health Center's policies and procedures:

Medicare Reimbursement Issues – 2005 Appeal

The Health Center's Medicare cost report was selected for detailed audit by the fiscal intermediary (Cahaba) for the cost reporting period ending June 30, 2005, which coincides with the Health Center's move to the critical access hospital program. Certain adjustments made by Cahaba had a significant impact on reimbursement. The Health Center has contested several of these adjustments and has filed an appeal with the Provider Reimbursement Review Board (PRRB).

Effective May 1, 2008, Wisconsin Physicians Service (WPS) became the Health Center's new fiscal intermediary. During the PRRB appeal process WPS will review the adjustments that were proposed by Cahaba.

Medicare Reimbursement

The Health Center has been designated as a critical access hospital (CAH). Under the CAH program, providers are reimbursed 101% of allowable cost as computed on the Medicare cost report for providing services to Medicare beneficiaries. The Medicare program does not recognize certain costs (bad debts, Physician recruitment, etc.) and requires certain allocation methodologies that may not be beneficial to the computation of reimbursable costs. The Medicare cost report separates departments into the following categories:

- General cost centers (support departments)
- Reimbursable cost centers (routine and ancillary departments)
- Non-reimbursable cost centers (non-hospital departments and services)

Costs included in general cost centers are allocated to the reimbursable and non-reimbursable departments utilizing various statistical methods. The existence and size of these non-reimbursable cost centers directly impacts the allocation of the general service costs to the Medicare reimbursable departments. In light of recent Medicare audits conducted by Cahaba, we assisted the Health Center in evaluating the following non-reimbursable departments:

- Park Place
- Public Health
- Medical Office Buildings
- Emergency Medical Services
- Obstetric Services

We understand management has reviewed these concepts and is aware of the negative Medicare and Medicaid reimbursement impact caused by the Health Center's non-reimbursable departments. We would be happy to discuss this issue in further detail.

Estimating Interim Contractual Adjustments and Related Settlements

Tremendous detail is required to accurately estimate Medicare and Medicaid contractual allowances and related settlements. We recommend performing a detail analysis of operating expenses, contractual allowance expense and related settlement accounts on a regular basis to ensure that third party payor settlements and patient accounts receivable are recorded at net realizable values in the Health Center's interim financial statements. We assisted Management in preparing a detailed estimate at June 30, 2008.

Self-Funded Health Insurance

The Health Center utilizes a self-funded health insurance plan for its employees. Due to each employee and their dependents claim processing procedures, at any given point in time, the Health Center will have a liability for incurred but not yet reported healthcare claims. The Health Center is limited to the amount of claims paid per participant on annual basis. Once the claims paid threshold is met by the participant, the Health Center will be reimbursed for any subsequent payments made in the plan year. It is important to estimate and record a periodic liability, net of any unpaid receivables, associated with these types of claims on the Health Center's financial statements to ensure their accuracy. Based upon our audit procedures, the amount of unrecorded liability for claims was estimated without the inclusion of claims receivable. We recommend the Health Center monitor the net liability and periodically review the liability with insurance industry standards and actual Health Center claims activity.

Employee Handbook, Policy and Procedures Manual

As part of the audit we obtained the most recent employee handbook, as well as the policy and procedures manual from management for review. During this review, we noted that policies and procedures related to paid time off were documented but were not being followed in the everyday operations of the Health Center. We also noted the Health Center has a prompt pay discount for employees that are not documented in the employee handbook. We recommend that management review all manuals and determine if additions or adjustment to the policies and procedures are necessary to incorporate the operational activity of the Health Center.

Property and Equipment

The Health Center has a policy that all additions in excess of $5,000 will be capitalized and depreciated over the asset's useful life. During our review of the equipment expense account it was noted that a piece of equipment which met the Health Center's capitalization policy was inadvertently expensed. We recommend that management review its policies and procedures for monitoring the capitalization of purchases to adhere to the capitalization policy.

New Auditing Standards

Risk Assessment Standards – Statement of Auditing Standards No. 104-111

The AICPA has issued eight new standards, Statement of Auditing Standards No. 104-111, to establish new standards and provide guidance concerning the auditor's assessment of risk in a financial statement audit and the design and performance of audit procedures responsive to the assessed risks. The primary objective of the statements is to enhance auditors' application of the audit risk model in practice by specifying:

- More in-depth understanding of the entity and its environment, including internal controls, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based upon that understanding.

- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

These new audit standards were implemented during the 2008 audit of the financial statements.

The recommendations that we have outlined above are for management's use only and are not intended to be part of a formal report which would customarily be delivered to outside lenders, third-party payors, etc. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

Sincerely,

SEIM, JOHNSON, SESTAK & QUIST, LLP

Brian D. Green

BDG:kd