

**Adair County Memorial Hospital**  
Accountants' Report and Financial Statements  
June 30, 2009 and 2008

**Adair County Memorial Hospital**  
**June 30, 2009 and 2008**

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

Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

We have audited the accompanying balance sheets of Adair County Memorial Hospital as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adair County Memorial Hospital as of June 30, 2009 and 2008, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2009 and 2008. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, changes in financial position and cash flows of the individual organizations. The supplementary information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKA LLP

Kansas City, Missouri  
September 21, 2009

# Adair County Memorial Hospital

## Management's Discussion and Analysis

### Years Ended June 30, 2009 and 2008

#### Introduction

This management's discussion and analysis of the financial performance of Adair County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### Financial Highlights

- The Hospital's net assets increased by \$401,097 resulting from \$267,291 of the Hospital and Foundation's excess revenues and capital grants and contributions of \$133,806.
- The Hospital's patient service revenues increased \$916,492 or 12% from 2008 to 2009 and \$425,158 or 6% from 2007 to 2008.
- The accounts receivable decreased .8% between 2008 and 2009 and after having increased 9% between 2007 and 2008. Allowance for uncollectible accounts stayed around 20% of gross accounts receivable.
- \$4.5 million of the debt taken on in 2007 was due June 2009. The Hospital refinanced the amount in May 2009 with a low interest USDA loan.
- A new clinic was opened in Stuart March 1, 2009 and the Rural Health Clinic was discontinued June 30, 2009.

#### Using This Annual Report

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

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

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

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

### ***The Statement of Cash Flows***

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

### **The Hospital's Net Assets**

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$401,097 or 6% and \$1,169,762 or 23% in 2009 and 2008 respectively as shown in Table 1.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>			
Patient accounts receivable, net	\$ 1,092,672	\$ 1,101,082	\$ 1,010,977
Other current assets	5,346,913	6,417,431	3,726,192
Capital assets, net	10,257,816	8,790,576	1,871,264
Other noncurrent assets	1,437,635	2,024,376	9,662,670
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 18,135,036</u>	<u>\$ 18,333,465</u>	<u>\$ 16,271,103</u>
<b>Liabilities</b>			
Current liabilities	\$ 2,129,574	\$ 2,606,341	\$ 1,966,182
Long-term debt	9,237,557	9,360,316	9,107,875
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>11,367,131</u>	<u>11,966,657</u>	<u>11,074,057</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,303,607	75,836	1,626,361
Restricted expendable	862,554	865,816	515,105
Unrestricted	3,601,744	5,425,156	3,055,580
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total net assets	<u>6,767,905</u>	<u>6,366,808</u>	<u>5,197,046</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 18,135,036</u>	<u>\$ 18,333,465</u>	<u>\$ 16,271,103</u>

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

In 2009, the Hospital's excess of revenues over expenses was \$379,009 down from \$789,545 in 2008, as shown in Table 2. This decrease is made up primarily of a decrease in volumes across the health system in response to a down turn in the local economy. Especially hard hit was Inpatient and Skilled nursing services.

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 8,025,803	\$ 7,184,175	\$ 6,759,017
Other operating revenues	341,755	325,535	285,634
<b>Total operating revenues</b>	<b>8,367,558</b>	<b>7,509,710</b>	<b>7,044,651</b>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	4,628,076	4,206,317	3,990,617
Medical and professional fees	1,297,206	1,353,961	1,365,045
Depreciation and amortization	784,402	304,211	224,076
Other operating expenses	2,213,831	2,080,995	1,886,480
<b>Total operating expenses</b>	<b>8,923,515</b>	<b>7,945,484</b>	<b>7,466,218</b>
<b>Operating Loss</b>	<b>(555,957)</b>	<b>(435,774)</b>	<b>(421,567)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	1,117,127	1,077,798	1,022,452
Interest expense	(329,124)	(6,142)	(9,264)
Interest income	105,670	124,150	115,686
Non-capital grants and gifts	41,293	29,513	62,437
<b>Total nonoperating revenues</b>	<b>934,966</b>	<b>1,225,319</b>	<b>1,191,311</b>
<b>Excess of Revenues over Expenses Before Capital Grants and Contributions</b>	<b>379,009</b>	<b>789,545</b>	<b>769,744</b>
<b>Capital Grants and Contributions</b>	<b>22,088</b>	<b>380,217</b>	<b>477,716</b>
<b>Increase in Net Assets</b>	<b>\$ 401,097</b>	<b>\$ 1,169,762</b>	<b>\$ 1,247,460</b>

### **Operating Loss**

The Hospital recorded an operating loss for 2009 of \$555,957; a 28% increase over 2008. Revenues were up 11% from 2008 and expenses were up 12% in 2009. The Hospital recorded an operating loss for 2008 and 2007 that was virtually the same both years. Revenues and expenses were up approximately 6% in 2008. There was a decline in operations in 2009. The charge structure was reviewed in the clinics and changes implemented to better align our charge structure with the market and with payers. Service volumes were low compared with last year. A new clinic was opened in Stuart. A provider was added to our health system and additional support staff was added. The new clinic has done very well in its first four months.

## ***Non-operating Revenues and Expenses***

Non-operating revenue increased \$32,629 (excluding interest expense) over 2008. The 3% increase was due to grants and gifts; there was no increase in the tax levy. With the completion of the construction project, interest expense on the related debt increased \$322,982 in 2009. Non-operating revenue increased in 2008 over 2007 by 3%, there was no increase in the tax levy that year either, and unrestricted contributions were lower in 2008 than 2007.

## ***Contributions***

The Hospital had a decrease in total contributions in 2009. The noncapital contributions were \$41,293 in 2009 compared to \$29,513 in 2008. Restricted capital contributions and grants fell off in 2009 to \$133,806 from \$380,217 in 2008. The majority of the funds are designated to be used for the building project. Some funds were also raised for cardiac rehab and radiology.

## ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in the operating loss and non-operating revenues and expenses discussed earlier. No new debt was incurred, just the refinancing by USDA. Payments on the debt incurred for the renovation project, and decrease in revenues, have attributed to the decrease in cash flows.

## ***Capital Asset and Debt Administration***

### Capital Assets

Capital assets increased \$1,467,240 over 2008. This increase was due to the completion of the renovation of the older portions of the Hospital. The cost of the entire project, including furnishings and equipment, was \$9.4 million. A significant portion of the funding was obtained through a low interest loan from USDA and the remainder comes from revenue bonds and a capital fundraising campaign.

### Debt

The Hospital did not enter any new capital leases in 2009.

The details of the notes payable are:

There is a mortgage to finance the purchase of the home health agency building. The mortgage has monthly payments of \$726 through July 2012. The interest is variable and is adjustable in sixty months from July 2007. At June 30, 2009, the interest rate is 4.00%. There is a note payable for the purchase of a house and land used for office space adjacent to the Hospital with monthly payments of \$506, including interest at 4.5% through February 2024. The note payable for a boiler system was paid in full in September 2008.

The Hospital issued \$9 million in revenue bonds to finance the expansion and renovation project. \$4.5 million is in long-term bonds with varying maturities, with final maturity December 2037 and the average interest rate on these bonds is 4.96%. \$4.5 million have an interest rate of 4% and matured in June 2009. A low interest USDA loan paid those bonds at maturity. The USDA loan is at 4.125% with final maturity May 15, 2039. There is also a no interest REC loan for \$300,000 issued September 2007. Annual payments of \$30,000 are due every September with maturity September 2017.

### ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.743.7238.

# Adair County Memorial Hospital

## Balance Sheets

June 30, 2009 and 2008

### Assets

	<u>2009</u>	<u>2008</u>
<b>Current Assets</b>		
Cash	\$ 1,343,329	\$ 3,524,985
Promises to contribute - current portion	91,493	93,142
Short-term investments	1,132,153	589,662
Restricted cash - project fund	845,129	830,376
Patient accounts receivable, net of allowance; 2009 - \$232,993, 2008 - \$229,500	1,092,672	1,101,082
Property taxes receivable	1,084,083	1,025,951
Other receivables	19,146	19,198
Estimated amounts due from third-party payers	497,991	43,500
Supplies	199,400	190,006
Prepaid expenses	134,189	100,611
	<u>6,439,585</u>	<u>7,518,513</u>
<b>Noncurrent Deposits and Other</b>		
Certificates of deposit	538,728	1,040,248
Externally restricted		
Promises to contribute	251,015	328,066
Held under bond indenture agreement	583,533	557,379
	<u>1,373,276</u>	<u>1,925,693</u>
Promises to contribute due in one year	91,493	93,142
	<u>1,281,783</u>	<u>1,832,551</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>10,257,816</u>	<u>8,790,576</u>
<b>Other Assets</b>		
Deferred financing costs	155,852	191,825
<b>Total Assets</b>	<u>\$ 18,135,036</u>	<u>\$ 18,333,465</u>

## Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 122,839	\$ 47,799
Accounts payable	293,366	312,079
Accounts payable - capital assets	137,154	835,294
Accrued payroll and related liabilities	450,959	352,027
Accrued interest	41,173	33,191
Deferred revenue for property taxes	<u>1,084,083</u>	<u>1,025,951</u>
Total current liabilities	2,129,574	2,606,341
<b>Long-term Debt</b>	<u>9,237,557</u>	<u>9,360,316</u>
Total liabilities	<u>11,367,131</u>	<u>11,966,657</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,303,607	75,836
Restricted-expendable for		
Capital assets	859,600	856,955
Specific operating activities	2,954	8,861
Unrestricted	<u>3,601,744</u>	<u>5,425,156</u>
Total net assets	<u>6,767,905</u>	<u>6,366,808</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,135,036</u>	<u>\$ 18,333,465</u>

**Adair County Memorial Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 8,320,803	\$ 7,404,311
Provision for uncollectible accounts	(295,000)	(220,136)
Net patient service revenue	8,025,803	7,184,175
Other	341,755	325,535
Total operating revenues	8,367,558	7,509,710
<b>Operating Expenses</b>		
Salaries and wages	3,613,952	3,239,140
Employee benefits	1,014,124	967,177
Medical professional fees	1,297,206	1,353,961
Supplies and expenses	1,275,942	1,227,922
General services	309,852	221,780
Administrative services	553,195	518,586
Depreciation and amortization	784,402	304,211
Loss on disposal of equipment	(195)	47,780
Insurance	75,037	64,927
Total operating expenses	8,923,515	7,945,484
<b>Operating Loss</b>	<b>(555,957)</b>	<b>(435,774)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	1,117,127	1,077,798
Interest expense	(329,124)	(6,142)
Interest income	105,670	124,150
Noncapital grants and gifts	41,293	29,513
Total nonoperating revenues	934,966	1,225,319
<b>Excess of Revenues over Expenses Before     Capital Grants and Contributions</b>	<b>379,009</b>	<b>789,545</b>
<b>Capital Grants and Contributions</b>	<b>22,088</b>	<b>380,217</b>
<b>Increase in Net Assets</b>	<b>401,097</b>	<b>1,169,762</b>
<b>Net Assets, Beginning of Year</b>	<b>6,366,808</b>	<b>5,197,046</b>
<b>Net Assets, End of Year</b>	<b>\$ 6,767,905</b>	<b>\$ 6,366,808</b>

**Adair County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 7,579,722	\$ 7,054,988
Payments to suppliers and contractors	(4,769,392)	(3,299,628)
Payments to and on behalf of employees	(4,487,971)	(4,113,113)
Other receipts, net	305,568	346,358
Net cash used in operating activities	(1,372,073)	(11,395)
<b>Noncapital Financing Activities</b>		
Property taxes	1,117,127	1,077,798
Noncapital grants and gifts	41,293	29,513
Net cash provided by noncapital financing activities	1,158,420	1,107,311
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of capital debt	4,500,000	300,000
Gifts for capital purchases	22,088	380,217
Principal paid on capital debt and leases	(4,547,719)	(61,760)
Deferred financing costs	12,353	-
Interest paid on capital debt and leases	(329,124)	(472,448)
Purchase of capital assets	(1,724,795)	(6,300,995)
Net cash used in capital and related financing activities	(2,067,197)	(6,154,986)
<b>Investing Activities</b>		
Interest on deposits and investments	105,670	124,150
Purchase of investments	1,113,503	525,068
Change in non-current cash and investments	(1,105,226)	7,410,764
Net cash provided by investing activities	113,947	8,059,982
<b>Increase (Decrease) in Cash</b>	(2,166,903)	3,000,912
<b>Cash, Beginning of Year</b>	4,355,361	1,354,449
<b>Cash, End of Year</b>	\$ 2,188,458	\$ 4,355,361

**Adair County Memorial Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 1,343,329	\$ 3,524,985
Restricted cash - project fund	845,129	830,376
	\$ 2,188,458	\$ 4,355,361
 <b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Used in Operating Activities</b>		
Operating loss	\$ (555,957)	\$ (435,774)
Depreciation and amortization	784,402	304,211
(Gain) loss on disposals of capital assets	(195)	47,780
Changes in operating assets and liabilities		
Patient accounts receivable, net	8,410	(90,105)
Supplies	(9,394)	(5,842)
Prepaid expenses and other assets	(33,578)	(511)
Estimated amounts due from and to third-party payers	(454,491)	189,078
Accounts payable and accrued expenses	(1,073,382)	(39,082)
Other assets and liabilities	(37,888)	18,850
Net cash used in operating activities	\$ (1,372,073)	\$ (11,395)
 <b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in liabilities	\$ 137,154	\$ 835,294

# **Adair County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2009 and 2008**

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

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

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

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

##### ***Basis of Accounting and Presentation***

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

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

##### ***Use of Estimates***

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

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

***Property Taxes***

The Hospital received approximately 12% of its financial support from property tax revenues in the years ended June 30, 2009 and 2008, 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 proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

***Risk Management***

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

***Patient Accounts Receivable***

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

***Supplies***

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

***Noncurrent Deposits and Other***

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

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

**Capital Assets**

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

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

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

	<b>2009</b>	<b>2008</b>
Interest costs capitalized (net of interest earnings on project funds)	\$ 47,555	\$ 199,841
Interest costs charged to expense	329,124	6,142
Total interest incurred (net of interest earnings on project funds)	\$ 376,679	\$ 205,983

**Deferred Financing Costs**

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

**Compensated Absences and Benefits**

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.

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As the Hospital does not provide such benefits, the new standard had no impact on the accompanying financial statements.

# **Adair County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2009 and 2008**

### ***Net Assets***

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

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

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

### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$15,064 and \$30,478 for 2009 and 2008, respectively.

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

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

### ***Income Taxes***

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Foundation is generally exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of state law.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

***Reclassification***

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Net Patient Service Revenue**

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

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

Approximately 61% and 62% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2009 and 2008, respectively.

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

**Note 3: Deposits, Investments and Interest Income**

***Deposits***

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

# Adair County Memorial Hospital

## Notes to Financial Statements

June 30, 2009 and 2008

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2009 and 2008. The Hospital's deposits in banks at June 30, 2009 and 2008 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 had only certificates of deposit investments at June 30, 2009 and 2008.

### **Summary of Carrying Values**

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

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 4,442,872	\$ 6,542,650
Included in the following balance sheet captions		
Cash	\$ 1,343,329	\$ 3,524,985
Restricted cash - project fund	845,129	830,376
Assets held under bond indenture agreement	583,533	557,379
Short-term investments	1,132,153	589,662
Other noncurrent cash and deposits	538,728	1,040,248
	<u>\$ 4,442,872</u>	<u>\$ 6,542,650</u>

### **Interest Income**

Interest income for the years ended June 30, 2009 and 2008, amounted to \$105,670 and \$124,150, respectively.

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

**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, 2009 and 2008 consisted of:

	<b>2009</b>	<b>2008</b>
Medicare	\$ 330,630	\$ 465,009
Medicaid	122,996	114,433
Other third-party payers	480,182	368,500
Patients	391,857	382,640
	1,325,665	1,330,582
Less allowance for uncollectible accounts	232,993	229,500
	\$ 1,092,672	\$ 1,101,082

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2009 and 2008 follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers/ Adjustments</b>	<b>Ending Balance</b>
<b>2009</b>					
Land	\$ 25,806	\$ 25,000	\$ -	\$ -	\$ 50,806
Land improvements	303,824	13,985	-	38,432	356,241
Buildings and leasehold improvements	6,209,144	228,153	(3,223)	2,808,386	9,242,460
Fixed equipment	601,376	345,403	(3,776)	-	943,003
Major movable equipment	1,583,837	279,872	(203,850)	8,357	1,668,216
Construction in progress	2,055,792	1,297,720	-	(2,855,175)	498,337
	10,779,779	2,190,133	(210,849)	-	12,759,063
Less accumulated depreciation					
Land improvements	(98,766)	(23,393)	-	-	(122,159)
Buildings and leasehold improvements	(677,803)	(445,494)	3,223	-	(1,120,074)
Fixed equipment	(242,512)	(59,208)	3,776	-	(297,944)
Major movable equipment	(970,122)	(194,798)	203,850	-	(961,070)
	(1,989,203)	(722,893)	210,849	-	(2,501,247)
Capital assets, net	\$ 8,790,576	\$ 1,467,240	\$ -	\$ -	\$ 10,257,816

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

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

# Adair County Memorial Hospital

## Notes to Financial Statements

June 30, 2009 and 2008

### Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2009 and 2008:

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-term Debt</b>					
Union State Bank Notes (A)	\$ 108,113		\$ (17,718)	\$ 90,395	\$ 11,080
Hospital revenue bonds					
Series 2007A (B)	4,500,000		-	4,500,000	75,000
Hospital revenue bonds					
Series 2007B (C)	4,500,000		(4,500,000)	-	
REC Loan (D)	300,000		(30,000)	270,000	30,000
USDA Series A and B (E)	-	\$ 4,500,000	-	4,500,000	6,759
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total long-term debt	\$ 9,408,113	\$ 4,500,000	\$ (4,547,718)	\$ 9,360,395	\$ 122,839

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

- (A) The Union State Bank notes payable consists of four separate notes with monthly payments of approximately \$6,300 in the aggregate, interest rates ranging from 3.95% to 4.75%, collateralized by property and equipment, due at various dates through 2024.
- (B) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially at varying amounts through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%; collateralized by the Hospital's net revenues.

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

# Adair County Memorial Hospital

## Notes to Financial Statements

June 30, 2009 and 2008

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

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2010	\$ 44,810	\$ 41,080	\$ 3,730
2011	44,811	41,548	3,263
2012	44,362	41,579	2,783
2013	37,245	34,842	2,403
2014	36,071	33,839	2,232
2015-2019	150,354	141,999	8,355
2020-2024	28,330	25,508	2,822
	\$ 385,983	\$ 360,395	\$ 25,588

The Series 2007A Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$306,669). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$306,669 at June 30, 2009.

The Series 2007A Note Resolution also requires that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$234,572 and \$231,061 at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, deposits in the Sinking Fund were in excess of required amounts of \$183,721 and \$108,721, respectively.

# Adair County Memorial Hospital

## Notes to Financial Statements

June 30, 2009 and 2008

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2010	\$ 313,134	\$ 81,759	\$ 231,375
2011	559,486	162,944	396,542
2012	561,061	171,431	389,630
2013	557,492	175,065	382,427
2014	558,771	183,852	374,919
2015-2019	2,804,072	1,056,873	1,747,199
2020-2024	2,795,913	1,303,493	1,492,420
2025-2029	2,791,139	1,622,922	1,168,217
2030-2034	2,787,880	2,036,520	751,360
2035-2039	2,436,260	2,205,141	231,119
	<u>\$ 16,165,208</u>	<u>\$ 9,000,000</u>	<u>\$ 7,165,208</u>

### Note 7: Restricted Net Assets

At June 30, 2009 and 2008, restricted expendable net assets were available for the following purposes:

	2009	2008
Building and equipment	\$ 859,600	\$ 856,955
Specific operating expenses	2,954	8,861
	<u>\$ 862,554</u>	<u>\$ 865,816</u>

### Note 8: Pension Plan

#### *Plan Description*

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

# Adair County Memorial Hospital

## Notes to Financial Statements

June 30, 2009 and 2008

### **Funding Policy**

Plan members are required to contribute 4.1% and 3.9% of their annual covered salaries and the Hospital is required to contribute 6.35% and 6.05% of annual covered payroll for 2009 and 2008, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$221,949, \$189,712 and \$170,458, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.35% of annual covered salary for 2009.

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

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$226,227 and \$174,620 were incurred for the years ended June 30, 2009 and 2008, respectively.

### **Note 10: Budget and Budgetary Accounting**

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2009:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,117,127	\$ -	\$ 1,117,127	\$ 1,025,951
Other revenues/receipts	8,585,262	(121,832)	8,463,430	7,860,876
	9,702,389	(121,832)	9,580,557	8,886,827
Expenses/disbursements	9,218,877	(594,779)	8,624,098	7,982,098
	483,512	472,947	956,459	904,729
Balance, beginning of year	6,029,999	169,493	6,199,492	6,199,492
Balance, end of year	\$ 6,513,511	\$ 642,440	\$ 7,155,951	\$ 7,104,221

**Adair County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

**Note 11: Significant Estimates and Concentrations**

***Current Economic Conditions***

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

## **Supplementary Information**

**Adair County Memorial Hospital**  
**Combining Balance Sheet**  
**June 30, 2009**

**Assets**

	<b>Adair County Memorial Hospital</b>	<b>Foundation</b>	<b>Total</b>
<b>Current Assets</b>			
Cash	\$ 1,339,950	\$ 3,379	\$ 1,343,329
Promises to contribute - current portion		91,493	91,493
Short term investments	1,132,153		1,132,153
Restricted cash - project fund	845,129		845,129
Patient accounts receivable, net of allowance; of \$232,993	1,092,672		1,092,672
Property taxes receivable	1,084,083		1,084,083
Other receivables	19,146		19,146
Estimates due from third-party payers	497,991		497,991
Supplies	199,400		199,400
Prepaid expenses	134,189		134,189
	<hr/>	<hr/>	<hr/>
Total current assets	6,344,713	94,872	6,439,585
	<hr/>	<hr/>	<hr/>
<b>Noncurrent Deposits and Other</b>			
Certificates of deposit	538,728		538,728
Externally restricted			
Promises to contribute		251,015	251,015
Held under bond indenture agreement	583,533		583,533
	<hr/>	<hr/>	<hr/>
	1,122,261	251,015	1,373,276
Promises to contribute due in one year		91,493	91,493
	<hr/>	<hr/>	<hr/>
	1,122,261	159,522	1,281,783
	<hr/>	<hr/>	<hr/>
<b>Capital Assets, Net of Accumulated Depreciation</b>	10,257,816		10,257,816
	<hr/>		<hr/>
<b>Other Assets</b>			
Deferred financing costs	155,852		155,852
	<hr/>		<hr/>
<b>Total Assets</b>	\$ 17,880,642	\$ 254,394	\$ 18,135,036
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Liabilities and Net Assets

	<b>Adair County</b>		
	<b>Memorial</b>		<b>Total</b>
	<b>Hospital</b>	<b>Foundation</b>	
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 122,839		\$ 122,839
Accounts payable	293,366		293,366
Accounts payable - capital assets	137,154		137,154
Accrued payroll and related liabilities	450,959		450,959
Accrued interest	41,173		41,173
Deferred revenue for property taxes	1,084,083		1,084,083
	<u>2,129,574</u>		<u>2,129,574</u>
Total current liabilities	2,129,574		2,129,574
<b>Long-term Debt</b>	<u>9,237,557</u>		<u>9,237,557</u>
	<u>11,367,131</u>		<u>11,367,131</u>
Total liabilities	<u>11,367,131</u>		<u>11,367,131</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,303,607		2,303,607
Restricted-expendable for			
Capital assets	605,206	\$ 254,394	859,600
Specific operating activities	2,954		2,954
Unrestricted	3,601,744		3,601,744
	<u>6,513,511</u>	<u>254,394</u>	<u>6,767,905</u>
Total net assets	<u>6,513,511</u>	<u>254,394</u>	<u>6,767,905</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 17,880,642</u></u>	<u><u>\$ 254,394</u></u>	<u><u>\$ 18,135,036</u></u>

**Adair County Memorial Hospital**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**June 30, 2009**

	<b>Adair County Memorial Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 8,320,803			\$ 8,320,803
Provision for uncollectible accounts	(295,000)			(295,000)
Net patient service revenue	8,025,803			8,025,803
Other	341,755			341,755
Total operating revenues	<u>8,367,558</u>			<u>8,367,558</u>
<b>Operating Expenses</b>				
Salaries and wages	3,613,952			3,613,952
Employee benefits	1,014,124			1,014,124
Medical professional fees	1,297,206			1,297,206
Supplies and expenses	1,275,942			1,275,942
General services	309,852			309,852
Administrative services	519,433	\$ 145,480	\$ (111,718)	553,195
Depreciation and amortization	784,402			784,402
Loss on disposal of equipment	(195)			(195)
Insurance	75,037			75,037
Total operating expenses	<u>8,889,753</u>	<u>145,480</u>	<u>(111,718)</u>	<u>8,923,515</u>
<b>Operating Loss</b>	<u>(522,195)</u>	<u>(145,480)</u>	<u>111,718</u>	<u>(555,957)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Property taxes	1,117,127			1,117,127
Interest expense	(329,124)			(329,124)
Interest income	105,670			105,670
Noncapital grants and gifts	9,095	32,198		41,293
Total nonoperating revenues	<u>902,768</u>	<u>32,198</u>		<u>934,966</u>
<b>Excess of Revenues over Expenses Before Capital Grants and Contributions</b>	380,573	(113,282)	111,718	379,009
<b>Capital Grants and Contributions</b>	<u>102,939</u>	<u>30,867</u>	<u>(111,718)</u>	<u>22,088</u>
<b>Increase (Decrease) in Net Assets</b>	483,512	(82,415)	-	401,097
<b>Net Assets, Beginning of Year</b>	<u>6,029,999</u>	<u>336,809</u>	<u>-</u>	<u>6,366,808</u>
<b>Net Assets, End of Year</b>	<u>\$ 6,513,511</u>	<u>\$ 254,394</u>	<u>\$ -</u>	<u>\$ 6,767,905</u>

# Adair County Memorial Hospital

## Schedules of Patient Service Revenues

### June 30, 2009 and 2008

	2009				2008			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
<b>Daily Patient Services</b>								
Medical and surgical	\$ 436,089	\$ 436,089	\$ -	\$ -	\$ 605,723	\$ 605,723	\$ -	\$ -
Swing bed	123,659	-	-	123,659	129,187	-	-	129,187
Hospital Physician	26,075	889	25,186	-	26,255	-	26,255	-
	<u>585,823</u>	<u>436,978</u>	<u>25,186</u>	<u>123,659</u>	<u>761,165</u>	<u>605,723</u>	<u>26,255</u>	<u>129,187</u>
<b>Nursing Services</b>								
Operating and recovery rooms	707,075	13,998	693,077	-	583,497	21,504	561,993	-
Emergency room	249,355	591	248,764	-	229,440	856	228,584	-
Emergency physicians	186,462	-	186,462	-	164,453	-	164,453	-
	<u>1,142,892</u>	<u>14,589</u>	<u>1,128,303</u>	<u>-</u>	<u>977,390</u>	<u>22,360</u>	<u>955,030</u>	<u>-</u>
<b>Other Professional Services</b>								
Laboratory	1,674,444	182,603	1,466,029	25,812	1,510,997	200,691	1,274,061	36,245
Central services and supplies	179,704	28,457	144,403	6,844	198,247	48,698	141,715	7,834
Blood administration	53,608	19,574	34,034	-	32,366	17,818	14,548	-
Electrocardiology	216,076	29,174	186,001	901	219,952	26,992	189,632	3,328
Ambulance	349,535	2,843	344,820	1,872	349,685	5,845	343,249	591
Radiology	535,181	30,195	503,853	1,133	549,938	42,090	506,560	1,288
MRI	290,516	5,966	282,103	2,447	340,249	13,260	326,989	-
Mammography	66,359	-	66,359	-	55,263	-	55,263	-
CT	968,122	91,213	875,299	1,610	712,193	93,438	618,755	-
Home health	635,676	-	635,676	-	570,877	-	570,877	-
Pharmacy	339,945	127,341	171,040	41,564	428,218	211,657	165,188	51,373
Intravenous therapy	58,749	11,646	46,865	238	66,902	18,756	47,409	737
Ultrasound	148,152	4,712	142,891	549	133,772	3,877	129,895	-
Anesthesiology	143,757	2,222	141,535	-	161,734	4,403	157,331	-
Respiratory therapy	95,018	83,801	6,847	4,370	141,211	122,975	5,808	12,428
Physical therapy	400,677	9,076	355,266	36,335	406,968	10,184	364,306	32,478
Occupational therapy	27,431	2,523	5,673	19,235	26,481	1,871	7,675	16,935
Speech therapy	10,151	1,666	6,450	2,035	14,652	1,832	11,042	1,778
Sleep studies	2,079	-	2,079	-	-	-	-	-
Fontanelle Clinic	230,202	-	230,202	-	249,930	-	249,930	-
Stuart Clinic	378,679	-	378,679	-	165,384	-	165,384	-
Physician fees	876,846	-	876,846	-	851,074	1,452	849,622	-
Cardiac Rehab	51,950	-	51,950	-	-	-	-	-
Observation rooms	172,065	638	171,427	-	144,140	662	143,478	-
	<u>7,904,922</u>	<u>633,650</u>	<u>7,126,327</u>	<u>144,945</u>	<u>7,330,233</u>	<u>826,501</u>	<u>6,338,717</u>	<u>165,015</u>

See Independent Accountants' Report

**Adair County Memorial Hospital**  
**Schedules of Patient Service Revenues (Continued)**  
**June 30, 2009 and 2008**

	2009				2008			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
<b>Gross Patient Service Revenue</b>	\$ 9,633,637	\$ 1,085,217	\$ 8,279,816	\$ 268,604	\$ 9,070,867	\$ 1,454,584	\$ 7,322,081	\$ 294,202
<b>Contractual Adjustments</b>	1,312,834				1,666,556			
<b>Net Patient Service Revenue before</b>								
<b>Provision for Uncollectible Accounts</b>	8,320,803				7,404,311			
<b>Provision for Uncollectible Accounts</b>	(295,000)				(220,136)			
<b>Net Patient Service Revenue</b>	<u>\$ 8,025,803</u>				<u>\$ 7,184,175</u>			

**Adair County Memorial Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 36,121	\$ 40,215
Lifeline	32,895	34,310
Grant	236,512	216,755
Other	<u>36,227</u>	<u>34,255</u>
	<u>\$ 341,755</u>	<u>\$ 325,535</u>

# Adair County Memorial Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Medical and surgical	\$ 918,706	\$ 773,632	\$ 145,074	\$ 931,442	\$ 752,193	\$ 179,249
Emergency room	323,940	45,720	278,220	251,942	32,284	219,658
Operating and recovery rooms	110,759	67,153	43,606	81,483	45,582	35,901
Nursing administration	66,824	65,071	1,753	63,591	62,732	859
Hospital physicians	44,443	-	44,443	50,227	-	50,227
	<u>1,464,672</u>	<u>951,576</u>	<u>513,096</u>	<u>1,378,685</u>	<u>892,791</u>	<u>485,894</u>
<b>Other Professional Services</b>						
Laboratory	431,622	177,279	254,343	416,594	162,153	254,441
Blood administration	12,832	-	12,832	11,917	-	11,917
Electrocardiology	68,922	9,637	59,285	70,722	8,431	62,291
Ambulance	237,313	211,642	25,671	234,419	194,959	39,460
Radiology	364,063	207,918	156,145	345,681	192,025	153,656
MRI	60,515	-	60,515	72,125	-	72,125
Mammography	11,152	-	11,152	33,530	-	33,530
CT	317,760	-	317,760	179,661	-	179,661
Ultrasound	10,937	-	10,937	15,270	-	15,270
Home health	614,136	468,749	145,387	586,854	448,900	137,954
Pharmacy	194,710	-	194,710	133,725	-	133,725
Intravenous solutions	1,912	-	1,912	2,047	-	2,047
Anesthesiology	70,275	-	70,275	98,445	-	98,445
Respiratory therapy	17,809	-	17,809	14,983	-	14,983
Physical therapy	126,092	-	126,092	112,789	-	112,789
Occupational therapy	12,012	-	12,012	19,252	-	19,252
Speech therapy	6,657	-	6,657	10,822	-	10,822
Stuart Clinic	355,361	220,850	134,511	229,341	108,546	120,795
Fontanelle Clinic	253,970	146,402	107,568	271,312	120,804	150,508
Greenfield clinic	554,567	277,186	277,381	693,434	260,517	432,917
Renal Clinic	36,147	26,479	9,668	25,579	19,736	5,843
Medical records	96,008	83,657	12,351	97,137	78,248	18,889
Observation care	2,245	2,245	-	643	643	-
Cardiac Rehab	27,783	15,239	12,544	-	-	-
Lifeline	23,521	986	22,535	15,128	459	14,669
	<u>3,908,321</u>	<u>1,848,269</u>	<u>2,060,052</u>	<u>3,691,410</u>	<u>1,595,421</u>	<u>2,095,989</u>
<b>General Services</b>						
Operation of plant	283,372	50,135	233,237	207,472	47,714	159,758
Dietary	160,198	110,327	49,871	156,901	119,393	37,508
Housekeeping	144,955	118,211	26,744	119,643	95,129	24,514
	<u>588,525</u>	<u>278,673</u>	<u>309,852</u>	<u>484,016</u>	<u>262,236</u>	<u>221,780</u>
<b>Administrative Services</b>	1,054,867	535,434	519,433	1,002,378	488,692	513,686
<b>Employee Benefits</b>	1,014,124	-	1,014,124	967,177	-	967,177
<b>Depreciation and Amortization</b>	784,402	-	784,402	304,211	-	304,211
<b>Loss on disposal of equipment</b>	(195)	-	(195)	-	-	-
<b>Insurance</b>	75,037	-	75,037	64,927	-	64,927
	<u>2,928,235</u>	<u>535,434</u>	<u>2,392,801</u>	<u>2,338,693</u>	<u>488,692</u>	<u>1,850,001</u>
	<u>\$ 8,889,753</u>	<u>\$ 3,613,952</u>	<u>\$ 5,275,801</u>	<u>\$ 7,892,804</u>	<u>\$ 3,239,140</u>	<u>\$ 4,653,664</u>

**Adair County Memorial Hospital**  
**Schedules of Patient Receivables and**  
**Allowance for Uncollectible Accounts**  
**Years Ended June 30, 2009 and 2008**

**Schedules of Patient Receivables**

	<b>Amounts</b>		<b>Percent to Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Days Since Discharge				
0 – 60	\$ 1,198,933	\$ 1,045,641	78%	68%
61 – 120	171,218	206,342	11%	13%
121 – 365	106,583	217,252	7%	14%
366 and over	69,156	86,447	4%	5%
	<u>1,545,890</u>	<u>1,555,682</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	220,225	225,100		
Allowance for uncollectible accounts	<u>232,993</u>	<u>229,500</u>		
	<u>453,218</u>	<u>454,600</u>		
	<u><u>\$ 1,092,672</u></u>	<u><u>\$ 1,101,082</u></u>		

**Allowance for Uncollectible Accounts**

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 229,500	\$ 274,650
Provision for year	295,000	220,136
Recoveries of accounts previously written off	129,586	151,606
	<u>654,086</u>	<u>646,392</u>
Less accounts written off	421,093	416,892
Balance, end of year	<u><u>\$ 232,993</u></u>	<u><u>\$ 229,500</u></u>

**Adair County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expense**  
**Years Ended June 30, 2009 and 2008**

**Supplies**

	<b>2009</b>	<b>2008</b>
General	\$ 142,982	\$ 139,152
Pharmacy	43,022	39,956
Clinics and Home Care	13,396	10,898
	\$ 199,400	\$ 190,006

**Prepaid Expense**

	<b>2009</b>	<b>2008</b>
Insurance	\$ 93,376	\$ 79,038
Maintenance and other	40,813	21,573
	\$ 134,189	\$ 100,611

# Adair County Memorial Hospital

## Schedule of Officials Year Ended June 30, 2009

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Willard Olesen	Chairperson	2014
Everett Shepherd	Vice Chairperson	2012
Paul Nelson	Treasurer	2010
Roberta Caltrider	Secretary	2014
Mike Cass	Member	2010
Ron Martin	Member	2012
<b>Hospital Officials</b>		
Myrna Erb-Gundel	Chief Executive Officer	
Lisa Blazek	Chief Financial Officer	

**Adair County Memorial Hospital**  
**Schedules of Financial and Statistical Data**  
**Years Ended June 30, 2009 and 2008**

	2009	2008
<b>Patient Days (Exclusive of swing bed)</b>		
Medicare	539	800
Medicaid	32	54
Private and other	117	165
	688	1,019
 <b>Medicare and Medicaid Percent</b>	 83%	 84%
 <b>Discharges (Exclusive of swing bed)</b>		
Medicare	167	226
Medicaid	13	20
Private and other	45	75
	225	321
 <b>Average Length of Stay in Days</b>	 3.06	 3.17

**Adair County Memorial Hospital**  
**Schedule of Insurance Coverage**  
**Year Ended June 30, 2009**

Chubb Group of Insurance Companies	
Policy No. 3579-39-80, expiring October 1, 2009	
Property blanket building and contents	\$14,568,172
Loss of income and extra expense	6,112,744
Personal property in-transit	25,000
Personal property at a temporary storage site	25,000
Valuable papers	500,000
Accounts receivable	500,000
EDP Media/Software	1,000,000
Employee dishonesty	100,000
Policy No.7498-06-84, expiring October 1, 2009	
Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	ACV w/\$1,000 ded
PIC Wisconsin	
Comprehensive hospital liability, expiring October 1, 2009	
Hospital professional liability, Policy No. 189	1,000,000/3,000,000
General liability, Policy No. 189	1,000,000/3,000,000
Employee benefits, Policy No. 189	1,000,000/3,000,000
Excess liability, expiring October 1, 2009	
Excess medical liability, Policy No. 190	1,000,000/1,000,000
Umbrella liability, Policy No. 190	1,000,000/1,000,000
Chubb Group of Insurance Companies.	
Policy No., expiring October 1, 2009	
Directors' and officers' liability	1,000,000/1,000,000
Additional Limit Dedicated for Executives	500,000

**Adair County Memorial Hospital**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2009**

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Amount
Community Facilities Loan	Rural Development/USDA	10.766	\$ <u>4,500,000</u>

**Note to Schedule**

1. This schedule includes the federal awards activity of Adair County Memorial Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

We have audited the financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2009, and have issued our report thereon dated September 21, 2009. 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, 2009 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, 2009. 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, 2009.

### 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, 2009 exceeded 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 and Hospital policy.

### Travel Expense

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

### Business Transactions

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

### Trustee Minutes

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

### Deposits and Investments

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

### Unclaimed Property

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

### Disbursements for Equipment and Supplies

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

### Compensation of Hospital Administrator, Assistants and Employees

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

### Internal Revenue Service Information Returns and Outside Services

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

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated September 21, 2009.

Board of Trustees  
Adair County Memorial Hospital  
Page 4

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

BKD LLP

Kansas City, Missouri  
September 21, 2009

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**Independent Accountants' Report on Compliance  
and Internal Control Over Compliance with Requirements  
Applicable to Major Federal Awards Programs**

Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

**Compliance**

We have audited the compliance of Adair County Memorial Hospital with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the compliance of Adair County Memorial Hospital based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, Adair County Memorial Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of Adair County Memorial Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD LLP

Kansas City, Missouri  
September 21, 2009

**Adair County Memorial Hospital**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2009**

**Summary of Auditor's Results**

1. The opinion(s) expressed in the independent accountants' report was (were):  
 Unqualified     Qualified     Adverse     Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
Significant deficiency(ies) noted considered material weakness(es)?     Yes     No  
Significant deficiency(ies) noted that are not considered to be a material weakness?     Yes     No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?     Yes     No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
Significant deficiency(ies) noted considered material weakness(es)?     Yes     No  
Significant deficiency(ies) noted that are not considered to be a material weakness?     Yes     No
  
5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):  
 Unqualified     Qualified     Adverse     Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?     Yes     No

**Adair County Memorial Hospital**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2009**

7. The Organization's major programs were:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Rural Housing Service/Community Facilities - USDA	10.766

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No

**Adair County Memorial Hospital**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2009**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
None		

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
None		

**Adair County Memorial Hospital**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2009**

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

Board of Trustees  
Adair County Memorial Hospital  
Greenfield, Iowa

In planning and performing our audit of the financial statements of Adair County Memorial Hospital for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

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

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

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2008 audit engagement in a letter dated September 29, 2008.

***Material Weaknesses***

No matters are reportable.

***Significant Deficiencies***

No matters are reportable.

## **Control Deficiencies**

### Audit Adjustments

During the course of performing the audit, we identified errors and misstatements resulting in audit journal entries to adjust the financial statement amounts. These differences were not identified by management's internal controls and affected interest expense, interest receivable, Medicare cost report settlements, bond issuance costs, amortization expense, buildings and building depreciation.

### Segregation of Duties

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

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

### Purchases Cycle

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

### Revenue and Cash Receipts Cycle

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

## **Other Matters**

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

### Current Economic Conditions

The current economic environment has created unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on liquidity, reduced governmental reimbursements and difficulty obtaining financing. The values of

the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to the allowance for accounts and contributions receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

- Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

\* \* \* \* \*

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

BKD LLP

Kansas City, Missouri  
September 21, 2009