



Ellsworth Municipal Hospital
"Caring for People in Special Ways"

ELLSWORTH MUNICIPAL HOSPITAL

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**ELLSWORTH MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
John Swartz	Chairperson	2010
Diana Ruhl	Secretary	2012
Kraig Kasischke	Member	2010
Steve Howard	Member	2012
Mike Stensland	Member	2012
<u>Hospital Officials</u>		
John O'Brien	Administrator	
Betty Riley	Chief Financial Officer	



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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheets of the primary government of Ellsworth Municipal Hospital as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The financial statements referred to above include only the primary government of Ellsworth Municipal Hospital. The financial statements do not include the financial data for Ellsworth Municipal Hospital's legally separate component unit (Ellsworth Municipal Hospital Foundation), which accounting principles generally accepted in the United States of America require to be reported with the financial data of Ellsworth Municipal Hospital.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the primary government of Ellsworth Municipal Hospital as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

However, the primary government financial statements, because they do not include the financial data of the component unit of Ellsworth Municipal Hospital, do not purport to, and do not, present fairly the financial position of Ellsworth Municipal Hospital, as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, does not establish a definition of operating revenues and expenses versus non-operating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in non-operating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2008, on our consideration of Ellsworth Municipal 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 audits.

Management's Discussion and Analysis on pages 4 and 5 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. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
October 14, 2008

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

This section of Ellsworth Municipal Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2008. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets decreased by \$410,267 or 2.83%.
- The Hospital's assets exceeded liabilities by \$10,606,266 at June 30, 2008.
- During the year, the Hospital's operating revenues increased 4.9% to \$18,278,739 while the operating expenses increased 4.6% to \$18,059,439. The Hospital had operating income of \$219,300 which is 1.2% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$749,003 during the fiscal year. The source of funding for these items was derived from operations and notes payable.

Overview of the Financial Statements

The basic financial statements of the Hospital report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2008, reports total assets of \$14,106,162, total liabilities of \$3,499,896, and net assets of \$10,606,266.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$18,278,739 and total operating expenses of \$18,059,439 during fiscal year 2008. The operating income was \$219,300 in 2008, compared to \$153,791 in 2007.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Long-term Debt

At year-end, Ellsworth Municipal Hospital had \$1,689,752 in short-term and long-term debt. The debt was incurred to build the Medical Office building attached to the Hospital and for the upgrade to the air conditioning system.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

Factors Bearing on Financial Future

The Hospital is moving forward in a number of areas that will have an impact on the financial future of Ellsworth Municipal Hospital. An electronic health records system called EHR10 will be installed starting September 6, 2008. This will include physician order entry, computerized pharmacy administration, results reporting, radiology dictation and many other features. The current anticipated capital cost is approximately \$500,000 - \$600,000. The Hospital has applied for a USDA combination grant/loan of \$850,000 to help pay for this project. There will also be an additional cost per year of approximately \$200,000 to maintain and upgrade the software on the system.

The hospital is in the process of looking to replace its Clinic in Ackley, Iowa. We are currently working with a company that has done other projects in Ackley called TurnKey. As envisioned, TurnKey would build and own the building with EMH leasing the space. We have also had support from the City of Ackley through proposed TIF districts and other support. We would anticipate this would be a fifteen-year lease. This new building would replace an approximately 40-year-old building, which was built in stages and is becoming outdated.

The EMH Foundation is helping to take the lead in a fundraising effort to start next year to help build a new building that would house space for a new Emergency Department, Radiology space, new OR's and supporting mechanical space. In addition, the Hospital's master plan is to provide a more efficient facility for the future, including a single entrance, new registration areas, updated patient areas, and more support space.

I am pleased to report that Ellsworth Municipal Hospital was able to recruit a psychiatrist, Dr. Robert Stern, to support both our inpatient and outpatient mental health program. With the closure of the Fort Dodge inpatient facility, our unit has become significantly busier. One of the issues that will be investigated over the next year is how reimbursement for mental health services can be improved on both the State and national level.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Ellsworth Municipal Hospital
Attn: Chief Financial Officer
110 Rocksylvania Avenue
Iowa Falls, IA 50126

ELLSWORTH MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 458,493	\$ 968,367
Receivables		
Patient, net of estimated uncollectibles		
of \$2,453,000 in 2008 and \$2,011,000 in 2007	3,115,449	3,148,810
Other	117,661	84,337
Supplies	369,991	376,943
Prepaid expense	<u>69,445</u>	<u>83,569</u>
Total current assets	<u>4,131,039</u>	<u>4,662,026</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital acquisitions	1,338,647	1,268,892
Internally designated for health benefits	11,116	9,425
Restricted by contributors for capital improvements	<u>1,047,783</u>	<u>1,016,598</u>
Internally designated or restricted for capital improvements		
and health benefits	2,397,546	2,294,915
Restricted under bond agreement	<u>308,452</u>	<u>308,452</u>
Total assets limited as to use or restricted	<u>2,705,998</u>	<u>2,603,367</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>6,676,823</u>	<u>6,684,225</u>
OTHER ASSETS		
Investments in affiliated organizations - Note 9	578,545	551,065
Deferred financing costs, net of accumulated		
amortization of \$17,901 in 2008 and \$15,912 in 2007	<u>13,757</u>	<u>15,746</u>
Total other assets	<u>592,302</u>	<u>566,811</u>
Total assets	<u>\$ 14,106,162</u>	<u>\$ 14,516,429</u>

See notes to financial statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 251,458	\$ 380,125
Accounts payable		
Trade	338,449	113,820
Affiliated organization - Note 10	188,458	284,621
Estimated third-party payor settlements	60,000	1,000,000
Accrued expenses		
Salaries and wages	401,122	333,377
Vacation	704,043	619,472
Payroll taxes and other payroll withholdings	118,072	111,200
	<u>2,061,602</u>	<u>2,842,615</u>
LONG-TERM DEBT, less current maturities - Note 6	<u>1,438,294</u>	<u>1,689,732</u>
Total liabilities	<u>3,499,896</u>	<u>4,532,347</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,987,071	4,614,368
Restricted		
Under bond agreement	308,452	308,452
Plant replacement and expansion funds	934,753	934,753
Unrestricted	4,375,990	4,126,509
	<u>10,606,266</u>	<u>9,984,082</u>
Total liabilities and net assets	<u>\$ 14,106,162</u>	<u>\$ 14,516,429</u>

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$1,048,707 in 2008 and \$743,928 in 2007) - Notes 2 and 3	\$ 17,454,271	\$ 16,557,000
Other operating revenues	<u>824,468</u>	<u>869,792</u>
TOTAL OPERATING REVENUES	<u>18,278,739</u>	<u>17,426,792</u>
OPERATING EXPENSES		
Salaries and wages	8,364,030	7,969,424
Employee benefits	1,980,649	1,942,902
Supplies and other expenses	6,862,843	6,422,932
Depreciation and amortization	757,918	822,504
Interest	<u>93,999</u>	<u>115,239</u>
TOTAL OPERATING EXPENSES	<u>18,059,439</u>	<u>17,273,001</u>
OPERATING INCOME	<u>219,300</u>	<u>153,791</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income	122,511	113,383
Net gain on affiliated organizations	180,300	140,557
Gain (loss) on sale of property and equipment	<u>(376)</u>	<u>448</u>
NET NON-OPERATING REVENUES	<u>302,435</u>	<u>254,388</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	521,735	408,179
Capital contributions and grants	<u>100,449</u>	<u>-</u>
INCREASE IN NET ASSETS	622,184	408,179
NET ASSETS BEGINNING OF YEAR	<u>9,984,082</u>	<u>9,575,903</u>
NET ASSETS END OF YEAR	<u>\$ 10,606,266</u>	<u>\$ 9,984,082</u>

See notes to financial statements.

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 16,547,632	\$ 17,438,032
Payments of salaries and wages	(8,211,714)	(7,816,376)
Payments of supplies and other expenses	(8,687,054)	(8,436,978)
Other receipts and payments, net	<u>791,144</u>	<u>847,913</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>440,008</u>	<u>2,032,591</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(749,003)	(837,548)
Proceeds from sale of property and equipment	100	1,095
Payments on long-term debt	(380,105)	(478,170)
Interest payments on long-term debt	(94,023)	(115,523)
Capital contributions and grants	<u>100,449</u>	<u>-</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,122,582)</u>	<u>(1,430,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use or restricted and other assets	(93,811)	7,246
Distribution from affiliated organizations	144,000	-
Investment income	<u>122,511</u>	<u>113,383</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>172,700</u>	<u>120,629</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(509,874)	723,074
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>968,367</u>	<u>245,293</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 458,493</u>	<u>\$ 968,367</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 219,300	\$ 153,791
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	757,918	822,504
Interest expense considered capital and related financing activity	94,023	115,523
Provision for bad debts	1,048,707	743,928
Changes in assets and liabilities		
Patient receivables	(1,015,346)	(1,312,896)
Estimated third-party payor settlements	(940,000)	1,450,000
Other receivables	(33,324)	(21,879)
Supplies	6,952	14,754
Prepaid expense	14,124	70,740
Accounts payable	128,466	(228,456)
Accrued expenses	159,188	224,582
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 440,008</u>	<u>\$ 2,032,591</u>

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ellsworth Municipal Hospital (“the Hospital”) is a municipal hospital of the City of Iowa Falls, organized under Chapter 392, of the Code of Iowa. The Hospital provides health care services in accordance with a Master Affiliation Agreement with Mercy Medical Center – North Iowa as discussed further in Note 10. Services are provided primarily to residents of Hardin and surrounding counties in central Iowa. The Hospital is considered an enterprise fund of the City of Iowa Falls. The Hospital is exempt from income taxes as a political subdivision.

The Hospital’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Ellsworth Municipal Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. Ellsworth Municipal Hospital Foundation is a component unit of the Hospital. However, the Hospital has elected to exclude the Foundation from these financial statements.

Basis of Presentation

The balance sheet displays the Hospital’s assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists 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.

Restricted 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 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 Hospital’s policy to use restricted resources first.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues 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 Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds 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.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted and investments in affiliated organizations.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. Accounts 90 days past due are individually analyzed for collectibility. Accounts deemed uncollectible are written-off on a monthly basis.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's 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. Management also reviews accounts to determine if classification as charity care is appropriate.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Supplies

Supplies are valued at cost using the first-in, first-out method.

Deferred Financing Costs

Deferred financing costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$1,989 for the years ended June 30, 2008 and 2007, respectively.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Land, buildings, and equipment donated for the Hospital's operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	3-15 years

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for internally-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating revenue to the extent expended within the period.

Compensated Absences

The Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including interest income, grants and unrestricted contributions, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

Grants and Contributions

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 restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$84,948 and \$66,960 for advertising costs for the years ended June 30, 2008 and 2007, respectively.

Charity Care

To fulfill its mission of community service, the Hospital 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 recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

Investment Income

Interest on cash and deposits is included in non-operating revenues and expenses.

Reclassification

Certain items from the 2007 financial statements have been reclassified to conform to the current year presentation.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2008 and 2007, were \$98,351 and \$57,636, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost to charge ratio calculation, for the years ended June 30, 2008 and 2007, were \$60,539 and \$37,043, respectively.

NOTE 3 – NET PATIENT SERVICE REVENUE

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

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2006. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2005.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 2%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2008, and 37% and 2%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2007.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Total patient service revenue	<u>\$ 30,580,339</u>	<u>\$ 28,171,462</u>
Contractual adjustments:		
Medicare	(7,519,018)	(7,064,333)
Medicaid	(1,475,866)	(1,200,699)
Blue Cross	(1,595,173)	(1,239,001)
Other	<u>(1,487,304)</u>	<u>(1,366,501)</u>
Total contractual adjustments	<u>(12,077,361)</u>	<u>(10,870,534)</u>
Net patient service revenue	18,502,978	17,300,928
Provision for bad debts	<u>(1,048,707)</u>	<u>(743,928)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 17,454,271</u>	<u>\$ 16,557,000</u>

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2008 and 2007, were entirely covered by Federal depository insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

At June 30, 2008 and 2007, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2008</u>	<u>2007</u>
Checking and savings accounts	\$ 696,055	\$ 1,189,898
Certificates of deposit	2,449,672	2,360,870
Interest receivable	<u>18,764</u>	<u>20,966</u>
 Total deposits	 <u>\$ 3,164,491</u>	 <u>\$ 3,571,734</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 458,493	\$ 968,367
Assets limited as to use or restricted	<u>2,705,998</u>	<u>2,603,367</u>
	<u>\$ 3,164,491</u>	<u>\$ 3,571,734</u>

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Summaries of land, buildings, and equipment at June 30, 2008 and 2007, are as follows:

	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 691,757	\$ -	\$ -	\$ -	\$ 691,757
Building	4,729,181	9,986	-	78,929	4,818,096
Fixed equipment	6,202,814	7,295	(3,789)	432,789	6,639,109
Major movable equipment	3,792,515	90,251	(439,268)	7,876	3,451,374
Construction in progress	246,205	641,471	-	(519,594)	368,082
Total	15,662,472	\$ 749,003	\$ (443,057)	\$ -	15,968,418
Accumulated depreciation					
Land improvements	366,247	\$ 26,528	\$ -	\$ -	392,775
Building	2,273,967	164,300	(3,790)	-	2,434,477
Fixed equipment	3,626,789	257,251	(438,791)	-	3,445,249
Major movable equipment	2,711,244	307,850	-	-	3,019,094
Total	8,978,247	\$ 755,929	\$ (442,581)	\$ -	9,291,595
Land, buildings, and equipment, net	<u>\$ 6,684,225</u>				<u>\$ 6,676,823</u>
	June 30, 2006				June 30, 2007
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 689,757	\$ 2,000	\$ -	\$ -	\$ 691,757
Building	4,729,181	-	-	-	4,729,181
Fixed equipment	6,105,518	87,540	(31,461)	41,217	6,202,814
Major movable equipment	3,784,093	502,355	(493,933)	-	3,792,515
Construction in progress	41,767	245,655	-	(41,217)	246,205
Total	15,350,316	\$ 837,550	\$ (525,394)	\$ -	15,662,472
Accumulated depreciation					
Land improvements	338,767	\$ 27,480	\$ -	\$ -	366,247
Building	2,113,095	160,872	-	-	2,273,967
Fixed equipment	3,401,484	256,766	(31,461)	-	3,626,789
Major movable equipment	2,829,131	375,397	(493,284)	-	2,711,244
Total	8,682,477	\$ 820,515	\$ (524,745)	\$ -	8,978,247
Land, buildings, and equipment, net	<u>\$ 6,667,839</u>				<u>\$ 6,684,225</u>

(continued on next page)

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Construction in progress at June 30, 2008, represents various projects at different stages of completion. The major project with costs currently in construction in progress is the Electronic Health Records project. Approximately \$344,000 of construction in progress is for the Electronic Health Records project, which is expected to be completed in September 2008. The estimated total cost of this project is \$500,000 and will ultimately be financed with borrowed funds. Other costs in construction in progress relate to projects such as the Acute Care Room Remodel project, Pharmacy Remodel project, and roofing for many Hospital buildings. It is anticipated that these projects will be financed with Hospital funds as well as donations from the Foundation.

NOTE 6 – LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2008 and 2007, is as follows:

	Balance June 30, 2007	Additions	Payments	Balance June 30, 2008	Amounts Due Within One Year
1998 Hospital revenue bonds	\$ 1,842,552	\$ -	\$ (197,088)	\$ 1,645,464	\$ (207,170)
Hospital revenue note - Green Belt Bank and Trust	216,472	-	(172,184)	44,288	(44,288)
Obligations under capital lease - Note 7	<u>10,833</u>	<u>-</u>	<u>(10,833)</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 2,069,857</u>	<u>\$ -</u>	<u>\$ (380,105)</u>	<u>1,689,752</u>	<u>\$ (251,458)</u>
Less current maturities				<u>(251,458)</u>	
Long-term debt, less current maturities				<u>\$ 1,438,294</u>	
	Balance June 30, 2006	Additions	Payments	Balance June 30, 2007	Amounts Due Within One Year
1998 Hospital revenue bonds	\$ 2,030,046	\$ -	\$ (187,494)	\$ 1,842,552	\$ (197,106)
Hospital revenue note - Green Belt Bank and Trust	381,005	-	(164,533)	216,472	(172,186)
Obligations under capital lease	<u>136,976</u>	<u>-</u>	<u>(126,143)</u>	<u>10,833</u>	<u>(10,833)</u>
Total long-term debt	<u>\$ 2,548,027</u>	<u>\$ -</u>	<u>\$ (478,170)</u>	2,069,857	<u>\$ (380,125)</u>
Less current maturities				<u>(380,125)</u>	
Long-term debt, less current maturities				<u>\$ 1,689,732</u>	

(continued on next page)

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

1998 Hospital Revenue Bonds Payable

City of Iowa Falls Hospital Revenue Bonds, payable to Iowa Falls State Bank and Green Belt Bank and Trust issued November 1, 1998, in accordance with Chapter 384, Code of Iowa, with interest of 5%. Interest only payments were paid monthly through May 1, 2000, with interest and principal payments due monthly thereafter. Monthly deposits into a sinking fund are required for payment of interest and principal. A debt service reserve fund, which is to be maintained at \$284,725, is fully funded.

Hospital Revenue Note – Green Belt Bank and Trust

Green Belt Bank and Trust requires monthly payments of principal and interest of \$14,877 through October 1, 2008. Interest is charged at a rate of 4.50%.

Obligations Under Capital Lease

The Hospital, through the City of Iowa Falls, leases certain equipment under a capital lease arrangement. The lease has a term of five years with an effective interest rate of 5.18%, and requires monthly payments of \$10,871. This capital lease was paid off in 2008.

The bonds and note are payable solely and only from revenues and receipts of the Hospital.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 251,458	\$ 77,897	\$ 329,355
2010	217,769	66,956	284,725
2011	228,911	55,814	284,725
2012	240,622	44,103	284,725
2013	252,933	31,792	284,725
2014-2018	498,059	24,200	522,259
	<u>\$ 1,689,752</u>	<u>\$ 300,762</u>	<u>\$ 1,990,514</u>

NOTE 7 – LEASES

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2008 and 2007, for all operating leases was \$109,730 and \$80,824, respectively. The capitalized leased assets consist of:

	<u>2008</u>	<u>2007</u>
Major movable equipment	\$ 178,800	\$ 577,497
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(178,800)</u>	<u>(564,892)</u>
	<u>\$ -</u>	<u>\$ 12,605</u>

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Minimum future lease payments for the capital and operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2009	\$ -	\$ 264,514
2010	-	264,514
2011	-	193,413
2012	-	69,921
2013	-	22,344
Total minimum lease payments	-	<u>\$ 814,706</u>
Less interest	-	
Present value of minimum lease payments – Note 6	<u>\$ -</u>	

NOTE 8 – PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which as 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, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary, and the Hospital is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members were required to contribute 3.70% of their annual covered salary, and the Hospital was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by state statute. The Hospital’s contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$507,777, \$455,035, and \$423,873, respectively, equal to the required contributions for each year.

NOTE 9 – INVESTMENTS IN AFFILIATED ORGANIZATIONS

The Hospital has investments in two organizations, both of which are accounted for on the equity method. The following is a summary of these investments:

Iowa Falls Clinic

The Hospital is in a joint venture agreement with Mercy Medical Center – North Iowa to operate the Iowa Falls Clinic (“the Clinic”). The Clinic provides, develops, and coordinates all manner of clinical medical services to residents, visitors, and employees of Hardin County and the surrounding area.

The Hospital is a 50% owner of this Clinic and shares income or losses from Clinic operations at that percentage. The Hospital’s share of income, \$203,857 in 2008 and \$133,789 in 2007, is included in non-operating revenues. During the year ended June 30, 2008, the Hospital received equity distributions of \$144,000.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2008 and 2007, was \$188,969 and \$185,860, respectively. As of June 30, 2008 and 2007, the Hospital's records reflected a receivable from affiliated organizations of \$16,377 and \$25,582, respectively, relating to these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Assets	<u>\$ 1,094,175</u>	<u>\$ 990,695</u>
Current liabilities	<u>\$ 174,884</u>	<u>\$ 191,118</u>
Unrestricted net assets	<u>919,291</u>	<u>799,577</u>
Total liabilities and net assets	<u>\$ 1,094,175</u>	<u>\$ 990,695</u>
Net revenues	<u>\$ 3,840,722</u>	<u>\$ 3,533,037</u>
Net income	<u>\$ 407,714</u>	<u>\$ 267,578</u>

Greenbelt Home Care

The Hospital has a partnership interest in a joint venture of Greenbelt Home Care. During fiscal 2006, the Hospital forgave a loan of \$23,636 to Greenbelt Home Care in exchange for a 10% increase in its partnership interest. After the transaction, the Hospital has a 30% interest in the joint venture of Greenbelt Home Care and shares any income or loss at that percentage. The Hospital has contributed \$51,932 of capital to this joint venture, and loaned \$3,507 as of June 30, 2008. The Hospital's share of the joint venture gains and losses was \$(23,557) in 2008 and \$6,768 in 2007 and is included in non-operating revenues.

NOTE 10 – RELATED ORGANIZATIONS

Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa region under the name of Ellsworth Municipal Hospital. As a part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services for the Hospital. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$1,782,464 and \$1,600,033 for the years ended June 30, 2008 and 2007, respectively.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were \$384,715 and \$357,640 for the years ended June 30, 2008 and 2007, respectively.

Due to Affiliated Organization

As of June 30, 2008 and 2007, the Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$188,458 and \$284,621, respectively, for the various services and distributions related to these agreements.

Ellsworth Municipal Hospital Foundation

The Foundation was organized under the provisions of the Internal Revenue Code Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Ellsworth Municipal Hospital, and the Hospital is the sole corporate member of the Foundation. As of June 30, 2008 and 2007, the Foundation had a payable to the Hospital in the amount of \$4,553 and \$7,435, respectively, which is recorded with other receivables on the balance sheet of the Hospital.

Summarized financial information from the financial statements of Ellsworth Municipal Hospital Foundation as of and for the years ended June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Assets	<u>\$ 531,031</u>	<u>\$ 483,190</u>
Liabilities	<u>\$ 4,553</u>	<u>\$ 7,435</u>
Net assets	<u>526,478</u>	<u>475,755</u>
 Total liabilities and net assets	 <u>\$ 531,031</u>	 <u>\$ 483,190</u>
Revenues	<u>\$ 242,370</u>	<u>\$ 189,760</u>
Net income	<u>\$ 50,723</u>	<u>\$ 48,190</u>

NOTE 11 – CONTINGENCIES

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Healthcare Legislation and Regulation

The healthcare 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 healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 12 - COMMITMENTS

The Hospital has entered into a rental agreement effective July 1, 2007, and ending June 30, 2010. The rental agreement is for the clinic building in Ackley. The following schedule represents the commitment for future rent payments:

<u>Year Ending June 30</u>	
2009	\$ 25,200
2010	\$ 25,200

Rent expense of \$25,200 and \$20,800 on the rental agreement is included in the clinic's expenses for the years ended June 30, 2008 and 2007, respectively.

NOTE 13 – BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The reported expenses for the year ended June 30, 2008, were \$18,059,439 as compared to the budget amount of \$18,337,702. The reported revenues for the same period were \$18,681,623 as compared to the budget amount of \$18,528,337.

NOTE 14 – RISK MANAGEMENT

The Hospital 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. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 15 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	33%	37%
Medicaid	5	2
Commercial insurance	23	26
Other third-party payors and patients	<u>39</u>	<u>35</u>
	<u>100%</u>	<u>100%</u>



Ellsworth Municipal Hospital
"Caring for People in Special Ways"



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the primary government of Ellsworth Municipal Hospital taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 36 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
October 14, 2008

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ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2008 AND 2007

	TOTAL	
	2008	2007
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 2,144,816	\$ 2,128,117
Swing-bed	586,090	222,192
INN care	5,600	12,150
Psychiatric care	2,523,800	2,109,457
Nursery	102,451	98,640
Subtotal	<u>5,362,757</u>	<u>4,570,556</u>
OTHER PROFESSIONAL SERVICES		
Operating room	1,352,022	1,357,559
Recovery room	40,720	48,712
Labor and delivery rooms	127,327	150,546
Anesthesiology	578,609	638,268
Radiology	5,283,726	4,710,047
Laboratory	5,072,379	4,559,823
Blood	59,400	60,222
Intravenous therapy	221,044	250,276
Respiratory therapy	1,189,483	1,322,593
Physical therapy	911,639	721,600
Occupational therapy	489,055	446,358
Speech therapy	158,750	115,483
Electrocardiology	265,265	238,180
Cardiac rehabilitation	210,101	211,962
Medical and surgical supplies	711,238	820,576
Pharmacy	1,980,199	2,150,824
Emergency services	2,005,060	1,448,461
Surgical clinic	741,386	728,702
Psychiatrist	713,026	619,144
Clinic	2,427,691	2,343,740
Partial hospital psychiatric	347,110	265,860
Psychiatric counseling	294,871	271,359
Chemical dependency	113,347	156,868
Diabetic education	22,485	21,379
Subtotal	<u>25,315,933</u>	<u>23,658,542</u>
Total	<u>30,678,690</u>	<u>28,229,098</u>
Charity care	<u>(98,351)</u>	<u>(57,636)</u>
Total patient service revenue	<u>30,580,339</u>	<u>28,171,462</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(7,519,018)	(7,064,333)
Medicaid	(1,475,866)	(1,200,699)
Blue Cross	(1,595,173)	(1,239,001)
Other	(1,487,304)	(1,366,501)
Total contractual adjustments	<u>(12,077,361)</u>	<u>(10,870,534)</u>
NET PATIENT SERVICE REVENUE	<u>18,502,978</u>	17,300,928
PROVISION FOR BAD DEBTS	<u>(1,048,707)</u>	(743,928)
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 17,454,271</u>	<u>\$ 16,557,000</u>

INPATIENT		OUTPATIENT	
2008	2007	2008	2007
\$ 1,938,973	\$ 1,970,267	\$ 205,843	\$ 157,850
586,090	222,192	-	-
5,600	12,150	-	-
2,521,326	2,108,596	2,474	861
102,451	98,640	-	-
<u>5,154,440</u>	<u>4,411,845</u>	<u>208,317</u>	<u>158,711</u>
258,520	267,488	1,093,502	1,090,071
12,464	12,965	28,256	35,747
123,260	146,541	4,067	4,005
146,316	145,390	432,293	492,878
705,266	716,931	4,578,460	3,993,116
1,270,186	1,214,848	3,802,193	3,344,975
34,324	36,637	25,076	23,585
154,594	183,092	66,450	67,184
963,855	1,054,398	225,628	268,195
330,912	243,089	580,727	478,511
369,201	325,793	119,854	120,565
73,850	50,994	84,900	64,489
43,548	53,761	221,717	184,419
230	342	209,871	211,620
197,347	218,662	513,891	601,914
1,174,706	1,244,058	805,493	906,766
220,173	121,361	1,784,887	1,327,100
-	-	741,386	728,702
-	-	713,026	619,144
-	-	2,427,691	2,343,740
2,900	870	344,210	264,990
548	122	294,323	271,237
-	-	113,347	156,868
-	-	22,485	21,379
<u>6,082,200</u>	<u>6,037,342</u>	<u>19,233,733</u>	<u>17,621,200</u>
<u>\$ 11,236,640</u>	<u>\$ 10,449,187</u>	<u>\$ 19,442,050</u>	<u>\$ 17,779,911</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OTHER OPERATING REVENUES		
Rent	\$ 125,160	\$ 125,160
Grants	96,259	33,143
Lab fees	82,335	74,884
Guest meals	65,649	62,137
Clinic fees	64,392	81,069
Purchase discounts and rebates	62,300	48,178
Health program	61,564	58,760
Foundation services	58,529	140,380
Contributions for operations	39,947	8,598
Management fees	34,601	34,600
Pharmacy service	32,368	41,490
Healthy hearts	32,332	37,172
Housekeeping services	28,788	25,680
Miscellaneous pharmacy sales	12,691	11,246
Vending machines	3,250	3,636
Medical records transcripts	2,122	1,275
Therapy services	1,507	40,518
Telemedicine grant	502	3,600
Laundry	313	466
Massage	-	11,921
Other	19,859	25,879
	<u>19,859</u>	<u>25,879</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 824,468</u>	<u>\$ 869,792</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 188,415	\$ 173,473
Supplies and other expenses	<u>101,311</u>	<u>88,001</u>
	<u>289,726</u>	<u>261,474</u>
ADULTS AND PEDIATRICS		
Salaries and wages	1,249,024	1,196,175
Supplies and other expenses	<u>181,295</u>	<u>174,359</u>
	<u>1,430,319</u>	<u>1,370,534</u>
INTENSIVE CARE UNIT		
Supplies and other expenses	<u>-</u>	<u>516</u>
PSYCHIATRIC CARE		
Salaries and wages	771,977	696,335
Supplies and other expenses	<u>80,151</u>	<u>47,009</u>
	<u>852,128</u>	<u>743,344</u>
NURSERY		
Salaries and wages	31,039	46,373
Supplies and other expenses	<u>4,247</u>	<u>10,199</u>
	<u>35,286</u>	<u>56,572</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	366,800	372,032
Supplies and other expenses	<u>154,627</u>	<u>159,962</u>
	<u>521,427</u>	<u>531,994</u>
LABOR AND DELIVERY ROOMS		
Salaries and wages	67,486	101,224
Supplies and other expenses	<u>180,380</u>	<u>17,584</u>
	<u>247,866</u>	<u>118,808</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>15,677</u>	<u>17,397</u>
NONPHYSICIAN ANESTHETISTS		
Salaries and wages	149,969	165,444
Supplies and other expenses	<u>72,903</u>	<u>34,225</u>
	<u>222,872</u>	<u>199,669</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RADIOLOGY		
Salaries and wages	\$ 372,829	\$ 329,257
Supplies and other expenses	<u>690,310</u>	<u>629,298</u>
	<u>1,063,139</u>	<u>958,555</u>
LABORATORY		
Salaries and wages	354,634	347,480
Supplies and other expenses	<u>472,670</u>	<u>497,753</u>
	<u>827,304</u>	<u>845,233</u>
RESPIRATORY THERAPY		
Salaries and wages	43,853	51,024
Supplies and other expenses	<u>34,964</u>	<u>55,877</u>
	<u>78,817</u>	<u>106,901</u>
PHYSICAL THERAPY		
Salaries and wages	266,272	197,423
Supplies and other expenses	<u>46,388</u>	<u>120,067</u>
	<u>312,660</u>	<u>317,490</u>
OCCUPATIONAL THERAPY		
Salaries and wages	95,774	93,058
Supplies and other expenses	<u>8,149</u>	<u>8,132</u>
	<u>103,923</u>	<u>101,190</u>
SPEECH THERAPY		
Salaries and wages	73,252	73,125
Supplies and other expenses	<u>3,438</u>	<u>5,273</u>
	<u>76,690</u>	<u>78,398</u>
ELECTROCARDIOLOGY		
Salaries and wages	8,438	7,745
Supplies and other expenses	<u>24,902</u>	<u>21,358</u>
	<u>33,340</u>	<u>29,103</u>
CARDIAC REHABILITATION		
Salaries and wages	100,004	118,392
Supplies and other expenses	<u>21,926</u>	<u>23,831</u>
	<u>121,930</u>	<u>142,223</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>228,278</u>	<u>233,341</u>

(continued)

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
PHARMACY		
Salaries and wages	\$ 280,083	\$ 306,268
Supplies and other expenses	<u>440,648</u>	<u>510,182</u>
	<u>720,731</u>	<u>816,450</u>
CENTRAL SUPPLY		
Salaries and wages	46,489	45,226
Supplies and other expenses	<u>19,704</u>	<u>19,575</u>
	<u>66,193</u>	<u>64,801</u>
EMERGENCY SERVICES		
Salaries and wages	450,875	392,866
Supplies and other expenses	<u>396,903</u>	<u>263,468</u>
	<u>847,778</u>	<u>656,334</u>
SURGICAL CLINIC		
Salaries and wages	313,399	332,922
Supplies and other expenses	<u>116,057</u>	<u>106,545</u>
	<u>429,456</u>	<u>439,467</u>
CLINIC		
Salaries and wages	840,280	761,713
Supplies and other expenses	<u>1,501,170</u>	<u>1,509,482</u>
	<u>2,341,450</u>	<u>2,271,195</u>
OUTREACH CLINIC		
Salaries and wages	17,379	20,808
Supplies and other expenses	<u>8,020</u>	<u>8,039</u>
	<u>25,399</u>	<u>28,847</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>12,957</u>	<u>19,309</u>
PARTIAL HOSPITAL PSYCHIATRIC		
Salaries and wages	97,056	86,930
Supplies and other expenses	<u>2,721</u>	<u>4,770</u>
	<u>99,777</u>	<u>91,700</u>
PSYCHIATRIC COUNSELING		
Salaries and wages	141,205	130,167
Supplies and other expenses	<u>2,215</u>	<u>1,904</u>
	<u>143,420</u>	<u>132,071</u>
CHEMICAL DEPENDENCY		
Salaries and wages	81,636	83,737
Supplies and other expenses	<u>2,771</u>	<u>3,456</u>
	<u>84,407</u>	<u>87,193</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
DIABETIC EDUCATION		
Salaries and wages	\$ 32,398	\$ 24,625
Supplies and other expenses	<u>2,308</u>	<u>2,357</u>
	<u>34,706</u>	<u>26,982</u>
SOCIAL SERVICES		
Salaries and wages	11,753	11,706
Supplies and other expenses	<u>313</u>	<u>232</u>
	<u>12,066</u>	<u>11,938</u>
MEDICAL RECORDS		
Salaries and wages	264,528	256,644
Supplies and other expenses	<u>23,450</u>	<u>21,834</u>
	<u>287,978</u>	<u>278,478</u>
DIETARY		
Salaries and wages	205,546	200,119
Supplies and other expenses	<u>145,186</u>	<u>134,817</u>
	<u>350,732</u>	<u>334,936</u>
OPERATION OF PLANT		
Salaries and wages	207,519	202,717
Supplies and other expenses	<u>562,562</u>	<u>544,910</u>
	<u>770,081</u>	<u>747,627</u>
HOUSEKEEPING		
Salaries and wages	185,331	173,836
Supplies and other expenses	<u>23,362</u>	<u>20,727</u>
	<u>208,693</u>	<u>194,563</u>
LAUNDRY AND LINEN		
Salaries and wages	21,412	19,994
Supplies and other expenses	<u>13,301</u>	<u>14,458</u>
	<u>34,713</u>	<u>34,452</u>
MARKETING AND COMMUNITY HEALTH PROMOTIONS		
Salaries and wages	219,403	203,656
Supplies and other expenses	<u>163,966</u>	<u>156,435</u>
	<u>383,369</u>	<u>360,091</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	807,972	746,930
Supplies and other expenses	<u>1,103,613</u>	<u>936,250</u>
	<u>1,911,585</u>	<u>1,683,180</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	\$ 757,918	\$ 822,504
Interest	93,999	115,239
Employee benefits	<u>1,980,649</u>	<u>1,942,902</u>
	<u>2,832,566</u>	<u>2,880,645</u>
TOTAL OPERATING EXPENSES	<u>\$ 18,059,439</u>	<u>\$ 17,273,001</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2008 AND 2007

ANALYSIS OF AGING	2008		2007	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 2,712,274	48.71%	\$ 2,551,556	49.45%
31 to 60 days	930,553	16.71%	825,635	16.00%
61 to 90 days	386,609	6.94%	358,898	6.96%
91 days and over	<u>1,539,312</u>	<u>27.64%</u>	<u>1,423,791</u>	<u>27.59%</u>
	5,568,748	100.00%	5,159,880	100.00%
Less: Allowance for doubtful accounts	764,000		678,000	
Allowance for contractual adjustments	<u>1,689,299</u>		<u>1,333,070</u>	
Net	<u>\$ 3,115,449</u>		<u>\$ 3,148,810</u>	
Net patient service revenue (net of provision for bad debts) per calendar day	<u>\$ 47,820</u>		<u>\$ 45,362</u>	
Days of net revenue in net accounts receivable at year end	<u>65</u>		<u>69</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2008	2007
Beginning Balance	<u>\$ 678,000</u>	<u>\$ 604,366</u>
Add:		
Provision for bad debts	1,048,707	743,928
Recoveries previously written off	<u>218,003</u>	<u>291,421</u>
	<u>1,266,710</u>	<u>1,035,349</u>
Less:		
Accounts written off	<u>(1,180,710)</u>	<u>(961,715)</u>
Ending Balance	<u>\$ 764,000</u>	<u>\$ 678,000</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
SUPPLIES		
Pharmacy	\$ 201,515	\$ 207,535
Operating room and central supply	71,660	79,609
Central stores	58,181	52,436
Laboratory	31,310	30,624
Dietary	<u>7,325</u>	<u>6,739</u>
Total supplies	<u>\$ 369,991</u>	<u>\$ 376,943</u>
PREPAID EXPENSE		
Service contracts	\$ 31,188	\$ 25,353
Insurance	23,759	44,751
Dues	8,735	11,171
Other	<u>5,763</u>	<u>2,294</u>
Total prepaid expense	<u>\$ 69,445</u>	<u>\$ 83,569</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
JUNE 30, 2008 AND 2007

	Balance July 1, 2007	Interest Earned	Interest Received	Balance June 30, 2008
Debt service reserve fund				
1998 Hospital revenue bonds	\$ 284,725	\$ 13,276	\$ (13,276)	\$ 284,725
Revenue bond sinking fund				
1998 Hospital revenue bonds	<u>23,727</u>	<u>-</u>	<u>-</u>	<u>23,727</u>
 Total	 <u>\$ 308,452</u>	 <u>\$ 13,276</u>	 <u>\$ (13,276)</u>	 <u>\$ 308,452</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Acute	3,045	3,356
Swing-bed	1,055	1,069
Inn Care	35	80
Newborn	187	207
Psychiatric	2,720	2,506
Totals	<u>7,042</u>	<u>7,218</u>
DISCHARGES		
Acute	958	1,056
Swing-bed	134	129
Inn Care	9	20
Newborn	98	104
Psychiatric	613	586
Totals	<u>1,812</u>	<u>1,895</u>
AVERAGE LENGTH OF STAY		
Acute	3.18	3.18
Swing-bed	7.87	8.29
Psychiatric	4.44	4.28
BEDS		
Acute	25	25
Psychiatric	10	10
OCCUPANCY PERCENTAGE		
Acute	33%	37%
Psychiatric	75%	69%



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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

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheets of the primary government of Ellsworth Municipal Hospital as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated October 14, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ellsworth Municipal 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 our opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the 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 Ellsworth Municipal Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of Ellsworth Municipal Hospital's financial statements that is more than inconsequential will not be prevented or detected by Ellsworth Municipal Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Ellsworth Municipal Hospital'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Ellsworth Municipal Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Ellsworth Municipal Hospital'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 Ellsworth Municipal Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. 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 matters are not intended to constitute legal interpretations of those statutes.

Ellsworth Municipal Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of Ellsworth Municipal Hospital in a separate letter dated October 14, 2008.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Ellsworth Municipal Hospital and other parties to whom Ellsworth Municipal Hospital may report. 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 personnel of Ellsworth Municipal Hospital 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
October 14, 2008

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 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. This is not an unusual condition in organizations of your size.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Ellsworth Municipal Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-08 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Ellsworth Municipal Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to the Financial Statements: (continued)

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the Hospital’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-B-08 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-C-08 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-D-08 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-E-08 Deposits and Investments – 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 were noted.



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INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited, 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, the financial statements of Ellsworth Municipal Hospital as of June 30, 2008, and have issued our report thereon dated October 14, 2008.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital was not in compliance with any of the terms, covenants, provisions, or conditions of Section Fifteen "Patient Rates and Charges" of the loan agreement dated November 1, 1998, relating to the issue of Hospital Revenue Bonds with Iowa Falls State Bank and Green Belt Bank and Trust, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees, management of Ellsworth Municipal Hospital, and the City of Iowa Falls, Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
October 14, 2008

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The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the financial statements of Ellsworth Municipal Hospital for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated June 4, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Ellsworth Municipal Hospital. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Ellsworth Municipal Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you and management on August 11, 2008 and in accordance to our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ellsworth Municipal Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors.

Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We discussed all adjustments to the financial statements with the Hospital's staff during the audit. The following adjustments were made during the fiscal year 2008 audit:

Increase in net assets prior to audit adjustments	\$	677,966
To adjust estimated third-party payor settlements		209,183
To adjust allowances for contractual adjustments		(200,000)
To adjust grant receivable		(40,000)
To adjust accounts payable		(14,447)
To adjust investment in Greenbelt Home Care		<u>(10,518)</u>
Increase in net assets as reported	\$	<u>622,184</u>

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hospital's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Other Comments

We have included additional comments regarding the Hospital's operations as well as a comment for informational purposes only. These comments are not a result of an in-depth study of any specific areas but are based on observations made during the course of our audit.

This information is intended solely for the use of the officials, employees, and constituents of Ellsworth Municipal Hospital and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Ellsworth Municipal Hospital.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 14, 2008

ELLSWORTH MUNICIPAL HOSPITAL

YEAR ENDED JUNE 30, 2008

OTHER COMMENTS

Segregation of Duties and Compensating Controls over Accounting Procedures

We realize that an optimal segregation of duties in organizations of your size is difficult. However, during our review of the internal controls of Ellsworth Municipal Hospital related to accounting functions, we identified some areas where other compensating controls or monitoring procedures could be implemented to obtain the maximum internal control possible under the circumstances. Those recommendations are as follows:

Oversight Over Payroll Disbursements - Proper Employees

It is our understanding that the department heads receive departmental reports which include salaries by job type that are charged to their departments in total. As an additional control over payroll, we recommend that, at least quarterly, they are provided a report that details the employees charged to their department to verify that all employees are appropriate.

Oversight over Expenditures - Maintaining the Approved Vendor List

We understand that the purchasing clerk has the authority to add and delete vendors in the system rather than the accounts payable clerk. While we consider this a good control, in addition, we recommend that the Chief Financial Officer generate and review a "vendor addition/deletion" report periodically for unusual activity/vendors.

Oversight Over Disbursements - Accounting for Pre-Numbered Checks

It is our understanding that the checks (and/or check register) and supporting documentation are presented to the Chief Financial Officer (CFO) for approval by the accounts payable clerk. The checks are prenumbered. As an additional control over disbursements, we recommend that the CFO account for the sequential numbering of all checks. For example, the CFO should log the check numbers into a spreadsheet to keep track of checks approved to ensure that all checks generated are presented for approval.

ELLSWORTH MUNICIPAL HOSPITAL

YEAR ENDED JUNE 30, 2008

OTHER COMMENTS

The following additional comment is provided for informational purposes only.

Revised Guidelines on Good Governance for Tax Exempt Entities

The issue of corporate governance of tax exempt organizations has emerged as a major focal point for the Internal Revenue Service (IRS) and is a key factor addressed in the newly revised Form 990, Return of Organization Exempt from Income Tax effective for 2008. These guidelines can be found in the IRS document "Governance and Related Topics – 501(c)(3) Organizations," at the following link: http://www.irs.gov/pub/irs-tege/governance_practices.pdf. While tax law does not mandate the guidelines, they are a clear indication of the IRS' strong commitment to monitoring governance practices of the tax-exempt community. The IRS has indicated its belief that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets and serve charitable interests than one without some of the recommended guidelines. The IRS document is in line with the redesigned Form 990 governance questions and focuses on six specific topics:

- Mission
- Organizational Documents
- Governing Body
- Governance & Management Policies
- Financial Statements & Form 990 Reporting
- Transparency and Accountability

The IRS intends to monitor the organizations' practices by utilizing primarily yes/no questions and detailed descriptions of policies and procedures on the new Form 990.

Although these guidelines are directed towards 501(c)(3) organizations, all tax-exempt entities should consider the same governance practices. We recommend all tax-exempt organizations review the guidelines in detail, as well as the specific questions in Part VI of the 2008 Form 990 and consider whether current practices should be modified or new practices adopted. By reviewing the Hospital's governance practices now, the Hospital will be prepared to respond to the governance-related questions on the 2008 Form 990, if applicable, and portray a positive image to the IRS and the public.