

Audubon County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2009 and 2008



Audubon County Memorial Hospital
June 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the accompanying balance sheets of Audubon County Memorial Hospital as of June 30, 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 Audubon 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 October 20, 2009 on our consideration of Audubon County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
October 20, 2009

Audubon 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 Audubon 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

- Total cash and cash equivalents increased between 2009 and 2008 by \$721,812 or 56% and decreased between 2008 and 2007 by \$565,531 or 30%.
- The Hospital's net assets increased \$559,473 or 4% in 2009 and increased \$897,879 or 6% in 2008.
- The Hospital reported an operating loss in 2009 of \$424,620 and operating loss in 2008 of \$47,920.
- Net nonoperating revenues increased by \$30,302 or 3% in 2009 compared to 2008 and decreased by \$470,887 or 33% in 2008 compared to 2007.

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 \$559,473 or 4% in 2009 over 2008 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 1,066,462	\$ 1,272,059	\$ 1,063,633
Other current assets	8,766,897	7,787,730	7,305,610
Capital assets, net	5,066,420	5,210,999	4,997,671
Other noncurrent assets	<u>3,096,168</u>	<u>3,129,427</u>	<u>3,014,569</u>
Total assets	<u>\$ 17,995,947</u>	<u>\$ 17,400,215</u>	<u>\$ 16,381,483</u>
Liabilities			
Current liabilities	\$ 1,478,480	\$ 1,425,721	\$ 1,271,868
Long-term debt	<u>-</u>	<u>16,500</u>	<u>49,500</u>
Total liabilities	<u>1,478,480</u>	<u>1,442,221</u>	<u>1,321,368</u>
Net Assets			
Invested in capital assets, net of related debt	5,049,920	5,161,499	4,915,171
Restricted expendable	101,299	47	55
Restricted nonexpendable	10,000	10,000	10,000
Unrestricted	<u>11,356,248</u>	<u>10,786,448</u>	<u>10,134,889</u>
Total net assets	<u>16,517,467</u>	<u>15,957,994</u>	<u>15,060,115</u>
Total liabilities and net assets	<u>\$ 17,995,947</u>	<u>\$ 17,400,215</u>	<u>\$ 16,381,483</u>

In 2009, gross accounts receivable decreased by \$99,687, from fiscal year 2008. Net days in accounts receivable decreased from 56 in 2008 to 45 in 2009. Provision for bad debt increased by \$62,778 and contractual adjustments, excluding charity care, decreased by \$153,890. Charity care increased by \$46,116 over 2008.

Cash and general fund deposits for the Hospital increased by \$543,011. Board designated time certificates and savings increased by \$248,282. Interest earnings averaged 3.61% on general fund investments and 3.76% on plant fund investments. Marvin Jorgensen gave the Hospital a gift of \$100,000 with the intention of recruiting a Mayo Clinic trained doctor. Due to the lack of success in recruiting such doctor, this gift was invested as a restricted fund until at a further time determination is made for use of the funds.

Capital assets increased by \$391,938 between year 2008 and 2009. The major purchases for the fiscal year 2009 were digital mammography and hardware and software for the Healthland computer system. Accumulated depreciation increased by \$536,517 for a net decrease in capital assets of \$144,579.

The Hospital continues to pay \$33,000 per year to Guthrie County REC on the zero interest loan. As of the end of fiscal year 2009, the Hospital has only \$16,500 or two more payments left on the loan.

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

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

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

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

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$559,473 or 4% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues			
Net patient service revenue	\$ 8,363,383	\$ 7,983,315	\$ 8,223,487
Other operating revenues	115,931	130,241	108,452
Total operating revenues	<u>8,479,314</u>	<u>8,113,556</u>	<u>8,331,939</u>
Operating Expenses			
Salaries and wages and employee benefits	4,389,991	3,882,828	3,581,449
Medical professional fees	501,497	465,695	545,487
Depreciation and amortization	837,950	823,727	804,321
Other operating expenses	3,174,496	2,989,226	2,852,212
Total operating expenses	<u>8,903,934</u>	<u>8,161,476</u>	<u>7,783,469</u>
Operating Income (Loss)	<u>(424,620)</u>	<u>(47,920)</u>	<u>548,470</u>
Nonoperating Revenues			
Property taxes	494,055	470,761	473,050
Interest income	296,230	402,696	351,222
Non-capital gifts	185,324	71,850	591,922
Total nonoperating revenues	<u>975,609</u>	<u>945,307</u>	<u>1,416,194</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	550,989	897,387	1,964,664
Capital Grants and Contributions	<u>8,484</u>	<u>492</u>	<u>20,377</u>
Increase in Net Assets	<u>\$ 559,473</u>	<u>\$ 897,879</u>	<u>\$ 1,985,041</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2009 and 2008, the Hospital reported an operating loss. In 2007, the Hospital reported an operating income. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2009, the following changes were noted:

- Inpatient revenue decreased by \$87,406 in 2009, acute inpatient days decreased by 81 days with an average length of stay of 2.96 days, swing-bed days increased by 138 days for an average length of stay of 7.78 days, and Hospice days decreased by 34 days. The Hospital had an overall increase in patient charges for fiscal year 2009 of 5%. Inpatient revenues for operating/recovery room took a decrease of 46% while radiology increased by 9% and lab decreased by 19%.

- Outpatient revenue increased by \$422,478 with an increase of 3,319 visits. There was a \$96,807 increase in ER professional fees due mainly to our taking on all physicians billing for ER services and paying the doctors to be on call. Outpatient Radiology decreased by 6% and lab increased by 4%. Physical therapy increased by 24% and pharmacy decreased by 8%.
- Overall, net patient service revenue increased by \$380,068 or 4.8% from fiscal year 2008. Gross hospital patient revenues increased by \$61,513 and contractual adjustments, excluding Exira Medical Clinic, decreased by \$187,424. With the addition of Exira Medical Clinic to our operations on August 1, 2008, \$273,559 in gross revenue was generated with a \$79,650 contractual adjustment.
- Operating expenses increased by \$742,458. A total of \$329,793 of the increase is due to the Exira Medical Clinic.

In 2008, the following changes were noted:

- Inpatient revenue increased by only \$61,449 in 2008, while acute inpatient days increased by 15 days, swing-bed days decreased by 105 days and hospice patient days increased by 39. The Hospital had an overall patient charge increase for 2008 of 3%.
- Outpatient revenues increased by \$222,664 with an increase in patient visits of 857.
- Overall, net patient service revenue decreased by \$240,172 or 2.9% from fiscal year 2007. Gross patient revenues increased by \$284,113, but contractual adjustments brought the revenue down by \$524,285 for a net decrease. Charity care decreased by \$19,331 and provision for bad debt increased by \$151,418.
- Operating expenses increased by \$378,007 or a 4.8% increase. This is due to an increase in supply costs and wage increases for the year of 3%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which increased by \$30,302 or 3% from 2008 to 2009 and decreased by \$470,887 or 33% from 2007 to 2008. Investment income decreased in 2009 and increased in 2008 by \$106,466 and \$51,474, respectively.

Gifts for capital and noncapital items received in fiscal year 2009 increased by \$121,466. Grants and gifts for capital and non-capital items received in fiscal year 2008 decreased by \$539,957. This is primarily due to a large gift to the Audubon County Hospital Foundation of \$409,500 in 2007.

Contributions

The Hospital received a contribution of \$100,000 for physician recruitment in 2009.

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

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenues in 2009, 2008 and 2007, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the Hospital had \$5.1 million invested in capital assets, net of accumulated depreciation. Total additions in 2009 were \$697,522.

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

Debt

The only long-term debt that the Hospital has is the zero interest note payable. Audubon County Memorial Hospital has \$16,500 remaining on the note to be paid in 2010.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 712.563.2611.

Audubon County Memorial Hospital

Balance Sheets

June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 1,637,276	\$ 1,096,176
Certificates of deposit	6,229,901	5,845,197
Patient accounts receivable, net of allowance; 2009 – \$143,271, 2008 – \$120,000	1,066,462	1,272,059
Property taxes receivable	514,341	494,333
Other receivables	14,330	27,158
Supplies	277,199	255,659
Prepaid expenses	93,850	69,207
	<u>9,833,359</u>	<u>9,059,789</u>
Total current assets		
	<u>9,833,359</u>	<u>9,059,789</u>
Noncurrent Cash and Deposits		
Internally designated	2,984,869	2,736,587
Restricted by donors for		
Scholarships	36	47
Endowment	10,000	10,000
Physician recruitment	101,263	-
Certificates of deposit	-	382,793
	<u>3,096,168</u>	<u>3,129,427</u>
Capital Assets, Net	<u>5,066,420</u>	<u>5,210,999</u>
Total Assets	<u>\$ 17,995,947</u>	<u>\$ 17,400,215</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Current maturities of long-term debt	\$ 16,500	\$ 33,000
Accounts payable	352,186	223,717
Accrued expenses	423,453	450,671
Estimated amounts due to third-party payers	172,000	224,000
Deferred revenue for property taxes	514,341	494,333
	<hr/>	<hr/>
Total current liabilities	1,478,480	1,425,721
Long-term Debt	<hr/>	<hr/>
	-	16,500
Total liabilities	<hr/>	<hr/>
	1,478,480	1,442,221
Net Assets		
Invested in capital assets, net of related debt	5,049,920	5,161,499
Restricted		
Expendable for scholarships	36	47
Expendable for physician recruitment	101,263	-
Nonexpendable endowment	10,000	10,000
Unrestricted	11,356,248	10,786,448
	<hr/>	<hr/>
Total net assets	16,517,467	15,957,994
Total Liabilities and Net Assets	<hr/>	<hr/>
	\$ 17,995,947	\$ 17,400,215

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

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 8,676,794	\$ 8,233,948
Provision for uncollectible accounts	<u>(313,411)</u>	<u>(250,633)</u>
Net patient service revenue	8,363,383	7,983,315
Other	<u>115,931</u>	<u>130,241</u>
Total operating revenues	<u>8,479,314</u>	<u>8,113,556</u>
Operating Expenses		
Salaries and wages	3,353,907	2,881,966
Employee benefits	1,036,084	1,000,862
Medical professional fees	501,497	465,695
Supplies and other	2,141,532	2,045,519
General services	368,694	348,713
Administrative services	603,566	536,516
Insurance	60,704	58,478
Depreciation	<u>837,950</u>	<u>823,727</u>
Total operating expenses	<u>8,903,934</u>	<u>8,161,476</u>
Operating Loss	<u>(424,620)</u>	<u>(47,920)</u>
Nonoperating Revenues		
Property taxes	494,055	470,761
Investment income	296,230	402,696
Noncapital gifts	<u>185,324</u>	<u>71,850</u>
Total nonoperating revenues	<u>975,609</u>	<u>945,307</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	550,989	897,387
Capital Grants and Contributions	<u>8,484</u>	<u>492</u>
Increase in Net Assets	559,473	897,879
Net Assets, Beginning of Year	<u>15,957,994</u>	<u>15,060,115</u>
Net Assets, End of Year	<u>\$ 16,517,467</u>	<u>\$ 15,957,994</u>

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

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 8,516,980	\$ 7,951,174
Payments to suppliers and contractors	(3,622,706)	(3,261,944)
Payments to employees	(4,417,209)	(3,793,406)
Other receipts, net	<u>115,931</u>	<u>130,241</u>
Net cash provided by operating activities	<u>592,996</u>	<u>1,026,065</u>
Noncapital Financing Activities		
Property taxes supporting operations	494,055	470,761
Noncapital gifts	<u>185,324</u>	<u>71,850</u>
Net cash provided by noncapital financing activities	<u>679,379</u>	<u>542,611</u>
Capital and Related Financing Activities		
Principal paid on capital debt	(33,000)	(33,000)
Capital grants and gifts	8,484	492
Proceeds from sale of capital assets	4,104	-
Purchase of capital assets	<u>(655,648)</u>	<u>(1,194,460)</u>
Net cash used in capital and related financing activities	<u>(676,060)</u>	<u>(1,226,968)</u>
Investing Activities		
Interest on deposits	316,723	402,696
Purchase of deposits	(9,863,345)	(8,317,995)
Proceeds from disposition of deposits	9,672,119	6,992,008
Change in investments	<u>-</u>	<u>16,052</u>
Net cash provided by (used in) investing activities	<u>125,497</u>	<u>(907,239)</u>
Increase (Decrease) in Cash and Cash Equivalents	721,812	(565,531)
Cash and Cash Equivalents, Beginning of Year	<u>1,296,767</u>	<u>1,862,298</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,018,579</u>	<u>\$ 1,296,767</u>

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

	2009	2008
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 1,637,276	\$ 1,096,176
Cash in noncurrent cash and deposits		
Internally designated	381,303	200,591
	\$ 2,018,579	\$ 1,296,767
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	\$ (424,620)	\$ (47,920)
Depreciation	837,950	823,727
Loss on sale of capital assets	47	1,772
Changes in operating assets and liabilities		
Patient accounts receivable, net	205,597	(208,426)
Supplies, prepaid expenses and other current assets	(33,355)	(54,737)
Estimated amounts due from and to third-party payers	(52,000)	62,649
Accounts payable and accrued expenses	59,377	449,000
Net cash provided by operating activities	\$ 592,996	\$ 1,026,065
 Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	\$ 41,874	\$ -

Audubon 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

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

Basis of Accounting and Presentation

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

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

Reporting Entity

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

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

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of interest-bearing accounts.

Property Taxes

In both of the years ended June 30, 2009 and 2008, the Hospital received approximately 6% of its financial support from property tax revenues, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Investments and Investment Income

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

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Net Assets

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$53,967 and \$7,851 for 2009 and 2008, respectively.

Income Taxes

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

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

Subsequent Events

Subsequent events have been evaluated through October 20, 2009, which is the date the financial statements were available to be issued.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 2: Net Patient Service Revenue

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

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

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 62% and 57% 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 discounts from established charges and prospectively determined rates.

Note 3: Deposits, Investments and Investment Income

Deposits

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

The Hospital had no bank balances exposed to custodial credit risk at June 30, 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. Certificates of deposit are considered deposits.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2009 and 2008.

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

At June 30, 2009 and 2008, the Foundation had the following investments and maturities:

Type	Fair Value	June 30, 2009 Maturities in Years Less Than 1
Money market mutual funds - Foundation	\$ 10,035	\$ 10,035
Mutual funds - Foundation	90,318	
	\$ 100,353	
		June 30, 2008 Maturities in Years Less Than 1
Type	Fair Value	Less Than 1
Money market mutual funds - Foundation	\$ 11,994	\$ 11,994
Mutual funds - Foundation	108,852	
	\$ 120,846	

Summary of Carrying Values

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

	2009	2008
Carrying value		
Deposits	\$ 10,862,472	\$ 9,949,654
Investments	100,353	120,846
Other	520	300
	\$ 10,963,345	\$ 10,070,800

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

	2009	2008
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,637,276	\$ 1,096,176
Certificates of deposit	6,229,901	5,845,197
Noncurrent cash and deposits		
Internally designated	2,984,869	2,736,587
Restricted by donors for		
Scholarships	36	47
Endowment	10,000	10,000
Physician recruitment	101,263	-
Certificates of deposit	-	382,793
	\$ 10,963,345	\$ 10,070,800

Investment Income

Investment income for the years ended June 30, 2009 and 2008 consisted of:

	2009	2008
Interest and dividend income	\$ 315,208	\$ 409,731
Net decrease in fair value of investments	(18,978)	(7,035)
	\$ 296,230	\$ 402,696

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:

	2009	2008
Medicare	\$ 503,590	\$ 636,549
Medicaid	27,195	46,207
Other third-party payers	472,775	495,537
Patients	206,173	213,766
	1,209,733	1,392,059
Less allowance for uncollectible accounts	143,271	120,000
	\$ 1,066,462	\$ 1,272,059

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 5: Capital Assets

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2009					
Land	\$ 68,389	\$ -	\$ -	\$ -	\$ 68,389
Land improvements	423,029	-	-	-	423,029
Buildings	7,398,299	13,447	10,742	72,646	7,473,650
Fixed equipment	678,527	-	-	-	678,527
Major movable equipment	3,686,550	490,240	294,842	125,412	4,007,360
Construction in progress	12,076	193,835	-	(198,058)	7,853
	<u>12,266,870</u>	<u>697,522</u>	<u>305,584</u>	<u>-</u>	<u>12,658,808</u>
Less accumulated depreciation					
Land improvements	257,240	22,307	-	-	279,547
Buildings	3,642,348	381,429	10,742	-	4,013,035
Fixed equipment	482,547	23,510	-	-	506,057
Major movable equipment	<u>2,673,736</u>	<u>410,704</u>	<u>290,691</u>	<u>-</u>	<u>2,793,749</u>
	<u>7,055,871</u>	<u>837,950</u>	<u>301,433</u>	<u>-</u>	<u>7,592,388</u>
Capital assets, net	<u>\$ 5,210,999</u>	<u>\$ (140,428)</u>	<u>\$ 4,151</u>	<u>\$ -</u>	<u>\$ 5,066,420</u>

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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

Note 6: Medical Malpractice Insurance

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

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$30,000 per covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a

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

material amount in the near term. Changes in the balance of claims liabilities during 2009 and 2008 are summarized as follows:

	2009	2008
Balance, beginning of year	\$ 144,832	\$ 60,773
Current year claims and changes in estimates	608,518	575,285
Claim payments	(703,350)	(491,226)
Balance, end of year	\$ 50,000	\$ 144,832

Note 8: Long-term Debt

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

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt Note payable, non-interest bearing (A)	\$ 49,500	\$ -	\$ (33,000)	\$ 16,500	\$ 16,500
	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt Note payable, non-interest bearing (A)	\$ 82,500	\$ -	\$ (33,000)	\$ 49,500	\$ 33,000

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

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

The debt service requirements as of June 30, 2009 are as follows:

Year Ending June 30,	Total to be Paid	Principal
2010	\$ 16,500	\$ 16,500

Note 9: Operating Leases

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

Future minimum rentals receivable at June 30, 2009, were:

2010	\$ 8,000
Future minimum lease payments	\$ 8,000

Note 10: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 4.10% 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 \$207,820, \$171,200 and \$152,700, 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.

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

Note 11: Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$256,671 and \$238,771 were incurred for the years ended June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, the Hospital had accounts payable to the Organization of \$22,726 and \$26,976, respectively.

Note 12: Budget and Budgetary Accounting

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

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

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 494,055	\$ -	\$ 494,055	\$ 494,333
Other revenues/receipts	<u>9,156,435</u>	<u>153,597</u>	<u>9,310,032</u>	<u>8,304,815</u>
	9,650,490	153,597	9,804,087	8,799,148
Expenses/disbursements	<u>8,863,423</u>	<u>(67,906)</u>	<u>8,795,517</u>	<u>9,076,400</u>
	787,067	221,503	1,008,570	(277,252)
Balance, beginning of year	<u>15,422,476</u>	<u>(949,889)</u>	<u>14,472,587</u>	<u>14,472,587</u>
Balance, end of year	<u><u>\$ 16,209,543</u></u>	<u><u>\$ (728,386)</u></u>	<u><u>\$ 15,481,157</u></u>	<u><u>\$ 14,195,335</u></u>

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

Note 13: 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 recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital.

Supplementary Information

Audubon County Memorial Hospital
Combining Balance Sheet
June 30, 2009

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,614,032	\$ 23,244		\$ 1,637,276
Certificates of deposit	6,045,390	184,511		6,229,901
Patient accounts receivable, net of allowance; 2009 – \$143,271	1,066,462			1,066,462
Property taxes receivable	514,341			514,341
Other receivables	14,330			14,330
Supplies	277,199			277,199
Prepaid expenses	93,850			93,850
	<u>9,625,604</u>	<u>207,755</u>		<u>9,833,359</u>
Noncurrent Cash and Deposits				
Internally designated	2,884,516	100,353		2,984,869
Restricted by donors for				-
Scholarships	36			36
Endowment	10,000			10,000
Physician recruitment	101,263			101,263
	<u>2,995,815</u>	<u>100,353</u>		<u>3,096,168</u>
Capital Assets, Net	<u>5,066,420</u>			<u>5,066,420</u>
Total Assets	<u>\$ 17,687,839</u>	<u>\$ 308,108</u>	<u>\$ -</u>	<u>\$ 17,995,947</u>
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 16,500			\$ 16,500
Accounts payable	352,186			352,186
Accrued expenses	423,269	\$ 184		423,453
Estimated amounts due to third-party payers	172,000			172,000
Deferred revenue for property taxes	514,341			514,341
	<u>1,478,296</u>	<u>184</u>		<u>1,478,480</u>
Net Assets				
Invested in capital assets, net of related debt	5,049,920			5,049,920
Restricted				
Expendable for scholarships	36			36
Expendable for physician recruitment	101,263			101,263
Nonexpendable endowment	10,000			10,000
Unrestricted	11,048,324	307,924		11,356,248
	<u>16,209,543</u>	<u>307,924</u>		<u>16,517,467</u>
Total Liabilities and Net Assets	<u>\$ 17,687,839</u>	<u>\$ 308,108</u>	<u>\$ -</u>	<u>\$ 17,995,947</u>

Audubon County Memorial Hospital
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2009

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 8,676,794			\$ 8,676,794
Provision for uncollectible accounts	(313,411)			(313,411)
Net patient service revenue	8,363,383			8,363,383
Other	115,931			115,931
Total operating revenues	<u>8,479,314</u>			<u>8,479,314</u>
Operating Expenses				
Salaries and wages	3,319,376	\$ 34,531		3,353,907
Employee benefits	1,036,084			1,036,084
Medical professional fees	501,497			501,497
Supplies and other	2,141,532			2,141,532
General services	368,694			368,694
Administrative services	597,693	265,719	\$ (259,846)	603,566
Insurance	60,704			60,704
Depreciation	837,843	107		837,950
Total operating expenses	<u>8,863,423</u>	<u>300,357</u>	<u>(259,846)</u>	<u>8,903,934</u>
Operating Income (Loss)	<u>(384,109)</u>	<u>(300,357)</u>	<u>259,846</u>	<u>(424,620)</u>
Nonoperating Revenues				
Property taxes	494,055			494,055
Investment income	302,724	(6,494)		296,230
Noncapital gifts	106,067	79,257		185,324
Total nonoperating revenues	<u>902,846</u>	<u>72,763</u>		<u>975,609</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	518,737	(227,594)	259,846	550,989
Capital Grants and Contributions	<u>268,330</u>		<u>(259,846)</u>	<u>8,484</u>
Increase (Decrease) in Net Assets	787,067	(227,594)	-	559,473
Net Assets, Beginning of Year	<u>15,422,476</u>	<u>535,518</u>	<u>-</u>	<u>15,957,994</u>
Net Assets, End of Year	<u>\$ 16,209,543</u>	<u>\$ 307,924</u>	<u>\$ -</u>	<u>\$16,517,467</u>

Audubon County Memorial Hospital
Schedules of Patient Service Revenues – Hospital
Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	\$ 425,848	\$ 286,769	\$ 139,079	\$ 525,024	\$ 323,371	\$ 201,653
Skilled nursing care	171,387	171,387		114,297	114,297	
Coronary care	3,420	3,420		4,557	4,557	
	<u>600,655</u>	<u>461,576</u>	<u>139,079</u>	<u>643,878</u>	<u>442,225</u>	<u>201,653</u>
Nursing Services						
Emergency	506,324	9,543	496,781	292,243	5,584	286,659
Operating room	1,210,656	37,815	1,172,841	1,250,753	71,465	1,179,288
Recovery room	113,378	3,443	109,935	107,104	4,809	102,295
	<u>1,830,358</u>	<u>50,801</u>	<u>1,779,557</u>	<u>1,650,100</u>	<u>81,858</u>	<u>1,568,242</u>
Other Professional Services						
Anesthesiology	467,095	20,145	446,950	433,908	27,486	406,422
Radiology	3,001,654	275,260	2,726,394	3,159,610	251,504	2,908,106
Blood service	54,173	15,731	38,442	62,053	24,400	37,653
Laboratory	1,814,234	194,882	1,619,352	1,789,433	239,317	1,550,116
Intravenous therapy	15,645	6,688	8,957	19,008	9,394	9,614
Respiratory therapy	43,376	20,483	22,893	77,400	32,458	44,942
Physical therapy	317,144	43,905	273,239	254,387	35,186	219,201
Speech therapy	11,496	5,340	6,156	3,979	3,083	896
Occupational therapy	28,578	24,100	4,478	10,999	8,668	2,331
Electrocardiology	102,724	23,998	78,726	112,978	34,988	77,990
Cardiology	70,002		70,002	66,699		66,699
Cardiac rehabilitation	17,606		17,606	26,843		26,843
Electroencephalography	2,362		2,362	3,528		3,528
Medical and surgical supplies	689,136	124,285	564,851	604,641	157,435	447,206
Pharmacy	1,597,541	253,602	1,343,939	1,718,594	259,807	1,458,787
Sleep study	45,682		45,682	33,288		33,288
Clinic	119,903	1,602	118,301	88,463	1,995	86,468
Exira Medical Clinic	273,559		273,559			
Psychiatry				8,062		8,062
	<u>8,671,910</u>	<u>1,010,021</u>	<u>7,661,889</u>	<u>8,473,873</u>	<u>1,085,721</u>	<u>7,388,152</u>
Patient Service Revenue	11,102,923	<u>\$ 1,522,398</u>	<u>\$ 9,580,525</u>	10,767,851	<u>\$ 1,609,804</u>	<u>\$ 9,158,047</u>
Contractual Adjustments	(2,426,129)			(2,533,903)		
Net Patient Service Revenue Before						
Provision for Uncollectible Accounts	8,676,794			8,233,948		
Provision for Uncollectible Accounts	(313,411)			(250,633)		
Net Patient Service Revenue	<u>\$ 8,363,383</u>			<u>\$ 7,983,315</u>		

See Independent Accountants' Report

Audubon County Memorial Hospital
Schedules of Other Operating Revenues – Hospital
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Other Revenues		
Cafeteria meals	\$ 22,167	\$ 19,649
Space rental	31,415	22,410
Grants	15,543	13,527
Loss on sale of capital assets	(47)	(1,772)
Other	46,853	76,427
	<u>46,853</u>	<u>76,427</u>
	<u>\$ 115,931</u>	<u>\$ 130,241</u>

Audubon County Memorial Hospital
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	\$ 78,248	\$ 65,391	\$ 12,857	\$ 79,551	\$ 70,632	\$ 8,919
Medical and surgical	783,493	751,821	31,672	750,797	716,677	34,120
Operating room	374,649	97,766	276,883	412,946	92,137	320,809
Emergency service	420,451	340,884	79,567	296,186	292,899	3,287
	<u>1,656,841</u>	<u>1,255,862</u>	<u>400,979</u>	<u>1,539,480</u>	<u>1,172,345</u>	<u>367,135</u>
Other Professional Services						
Laboratory	577,795	256,526	321,269	516,844	228,088	288,756
Central supply	368,439		368,439	274,606		274,606
Intravenous therapy	3,711		3,711	3,384		3,384
Electrocardiology	10,758	3,091	7,667	8,512	2,062	6,450
Electroencephalography	1,250		1,250	1,529	98	1,431
Cardiac rehabilitation	8,595	7,813	782	12,655	11,835	820
Cardiology	15,045		15,045	3,709		3,709
Radiology	843,802	185,058	658,744	864,353	178,341	686,012
Pharmacy	653,114	131,799	521,315	727,240	116,828	610,412
Anesthesiology	158,126		158,126	139,452		139,452
Respiratory therapy	46,286	38,492	7,794	46,904	40,950	5,954
Physical therapy	130,836	110,889	19,947	139,414	111,617	27,797
Speech therapy	8,201		8,201	2,773		2,773
Occupational therapy	13,546		13,546	9,575		9,575
Sleep study	21,450		21,450	16,445		16,445
Specialty clinics	141,796	132,041	9,755	150,678	142,189	8,489
Exira Medical Clinic	329,793	277,927	51,866			
Medical records	177,407	124,264	53,143	170,196	117,599	52,597
Psychiatry				5,417		5,417
	<u>3,509,950</u>	<u>1,267,900</u>	<u>2,242,050</u>	<u>3,093,686</u>	<u>949,607</u>	<u>2,144,079</u>
General Services						
Operation of plant	343,550	115,842	227,708	331,456	113,235	218,221
Dietary	241,622	134,876	106,746	228,758	134,113	94,645
Housekeeping	138,902	115,624	23,278	119,215	95,034	24,181
Laundry	33,870	22,908	10,962	30,186	18,520	11,666
	<u>757,944</u>	<u>389,250</u>	<u>368,694</u>	<u>709,615</u>	<u>360,902</u>	<u>348,713</u>
Administrative Services	<u>1,004,057</u>	<u>406,364</u>	<u>597,693</u>	<u>893,388</u>	<u>366,836</u>	<u>526,552</u>
Employee Benefits	<u>1,036,084</u>		<u>1,036,084</u>	<u>1,000,862</u>		<u>1,000,862</u>
Insurance	<u>60,704</u>		<u>60,704</u>	<u>58,478</u>		<u>58,478</u>
Depreciation	<u>837,843</u>		<u>837,843</u>	<u>823,407</u>		<u>823,407</u>
	<u>\$ 8,863,423</u>	<u>\$ 3,319,376</u>	<u>\$ 5,544,047</u>	<u>\$ 8,118,916</u>	<u>\$ 2,849,690</u>	<u>\$ 5,269,226</u>

See Independent Accountants' Report

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

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2009	2008	2009	2008
Days Since Discharge				
0 – 30	\$ 979,316	\$ 1,026,478	66%	65%
31 – 60	250,148	300,963	17%	19%
61 – 90	111,190	76,511	8%	5%
91 and over	132,718	169,107	9%	11%
	<u>1,473,372</u>	<u>1,573,059</u>	<u>100%</u>	<u>100%</u>
Less:				
Contractual allowances	263,639	181,000		
Allowance for uncollectible accounts	143,271	120,000		
	<u>\$ 1,066,462</u>	<u>\$ 1,272,059</u>		
Net Patient Service Revenue per Calendar day (Excluding provision for bad debt)	<u>\$ 23,772</u>	<u>\$ 22,559</u>		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>45</u>	<u>56</u>		

Allowance for Uncollectible Accounts

	2009	2008
Balance, beginning of year	\$ 120,000	\$ 104,560
Provision for year	313,411	250,633
Recoveries of accounts previously written off	229,881	272,715
	<u>663,292</u>	<u>627,908</u>
Less accounts written off	520,021	507,908
Balance, end of year	<u>\$ 143,271</u>	<u>\$ 120,000</u>

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

Supplies

	2009	2008
General stores	\$ 124,259	\$ 107,887
Pharmacy	134,906	123,446
Laboratory	18,034	24,326
	\$ 277,199	\$ 255,659

Prepaid Expense

	2009	2008
Insurance	\$ 33,671	\$ 22,383
Service contracts	52,694	39,515
Other	7,485	7,309
	\$ 93,850	\$ 69,207

Audubon County Memorial Hospital
Schedule of Officials – Hospital
Year Ended June 30, 2009

Name	Title	Term Expires
Board of Trustees		
Jay D. Mendenhall	Chairman	December 31, 2012
Daniel Smith	Vice Chairman	December 31, 2014
Karen E. Nelson	Secretary	December 31, 2012
Paul Schultz, DDS	Treasurer	December 31, 2012
Wayne Hansen	Member	December 31, 2010
Mark Kessler	Member	December 31, 2010
Connie S. Faga	Member	December 31, 2014
Hospital Officials		
Tom Smith	CEO/Administrator	
Joan Fancher	Assistant Administrator	
Karen McGuire	Chief Financial Officer	

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

	2009	2008
Patient Days		
Acute	548	629
Swing-bed	459	321
	1,007	950
Admissions (Acute)	183	205
Discharges (Acute)	183	206
Average Length of Stay in Days (Acute)	3	3
Beds	25	25
Occupancy percentage (Acute)	6.01%	6.89%

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

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2009, and have issued our report thereon dated October 20, 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 on the Hospital's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 09-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated October 20, 2009.

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 expenses/disbursements during the year ended June 30, 2009 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

Prior to November 1, 2007, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no exceptions to this requirement.

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

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

* * * * *

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

/s/ **BKD, LLP**

Kansas City, Missouri
October 20, 2009

Audubon County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2009

Reference Number	Finding
09-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—One individual has significant incompatible duties in the purchases cycle.</p> <p>Context—The individual responsible for processing cash disbursements has duties that include access to assets, recording and monitoring responsibilities.</p> <p>Effect—Potential misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

In planning and performing our audit of the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 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 October 27, 2008.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Refer to the 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*.

Other Control Deficiencies

Segregation of Duties

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

Revenue and Cash Receipts Cycle

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

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

Audit Adjustments

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements that were not previously identified by management's internal controls. These entries included adjustments to the bad debt and contractual allowances, FICA accrual and health insurance accrual.

Other Matter

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 this matter.

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 and difficulty obtaining financing. The values of the assets recorded in the financial statements could change, resulting in future adjustments to the allowance for accounts receivable, etc. that could negatively impact the Hospital.

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 the Board of Trustees and management, and is not intended to be, and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
October 20, 2009