

**FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**



HANCOCK COUNTY MEMORIAL HOSPITAL

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HANCOCK COUNTY MEMORIAL HOSPITAL

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**HANCOCK COUNTY MEMORIAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Mary Kopacek	Chairperson	December 31, 2010
Rob Willms	Vice-Chairperson/Treasurer	December 31, 2010
Brian Cataldo	Secretary	December 31, 2012
Dorothy Denny	Member	December 31, 2014
DeAnna Kelly	Member	December 31, 2014
Bill Paulus	Member	December 31, 2012
Ron Eden	Member	December 31, 2010

Hospital Officials

Vance Jackson	Administrator
Laura Zwiefel	Chief Nursing Officer/Clinical Services
Julie Damm	Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheets of Hancock 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 Hancock County Memorial Hospital as of June 30, 2009 and 2008, 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.

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 nonoperating 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 13, 2009, on our consideration of Hancock 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 audits.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 25 and 26 are not required parts of the basic financial statements but are 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". The signature is written in black ink and is positioned above the typed text.

Dubuque, Iowa
October 13, 2009

Hancock County Memorial Hospital Management's Discussion and Analysis

This section of Hancock County Memorial Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2009. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased 2.0% from 2008 to \$324,362 and 5.2% from 2007 to \$793,218. A significant portion of the increase from 2008 was in current assets.
- The Hospital's assets exceeded liabilities by \$12,032,058 at June 30, 2009.
- During the year, the Hospital's total operating revenues increased 5.2% from 2008 to \$11,653,495 and 10.9% from 2007 to \$11,075,904, while the operating expenses increased 5.5% from 2008 to \$11,925,602 and 13.7% from 2007 to \$11,308,515. The Hospital had a loss from operations of (\$272,107), which is (-2.3) % of total operating revenues.
- The Hospital made capital asset investments totaling \$818,473 during the fiscal year. The source of funding for these items was derived from operations.

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 sheet provides information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2009, reports total assets of \$16,276,221, total liabilities of \$4,244,163 and net assets of \$12,032,058.

The statement of revenues, expenses, and changes in net assets provides information on the Hospital's revenues and expenses. This statement indicates total operating revenues of \$11,653,495 and total operating expenses of \$11,925,602 during fiscal year 2009. The operating loss was (\$272,107) in 2009, compared to an operating loss of (\$232,611) in 2008, and an operating income of \$21,129 in 2007.

There are notes to the financial statements included in this annual financial 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, Hancock County Memorial Hospital had \$2,125,722 in long-term debt. The debt was incurred for the 1st floor Hospital remodeling project, Garner Medical Clinic building, 2nd floor Hospital renovation and HVAC upgrade project, chemistry analyzer equipment capitalized lease, and from the ultrasound equipment capitalized lease.

Factors Bearing on Financial Future

Hancock County Memorial Hospital has developed a Master Facility Plan that would include additional renovations and upgrades to the facility. As of the report date, Hospital management is still in the decision-making stages regarding the size and timing of the project. This will cover a three to five year period anticipating enhanced services, growth, and hopefully, increased utilization and technology improvements.

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:

Hancock County Memorial Hospital
Attn: Chief Financial Officer
532 1st St NW
Britt, IA 50423-1227

HANCOCK COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,304,092	\$ 1,805,821
Assets limited as to use or restricted - Note 4	75,000	70,000
Receivables		
Patient, net of estimated uncollectibles		
of \$861,000 in 2009 and \$700,000 in 2008	1,648,156	1,482,652
Succeeding year property tax	894,911	834,000
Note	31,941	33,792
Other	34,131	130,202
Inventory	162,794	189,252
Prepaid expense	82,163	76,152
Total current assets	<u>5,233,188</u>	<u>4,621,871</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	1,609,221	1,884,066
Restricted under bond agreement	380,451	361,689
Restricted foundation fund	414,059	388,958
Restricted plant replacement and expansion funds	70,971	70,971
Restricted for current liabilities	<u>(75,000)</u>	<u>(70,000)</u>
Assets limited as to use or restricted, less amounts restricted		
for current liabilities	<u>2,399,702</u>	<u>2,635,684</u>
CAPITAL ASSETS, net - Note 6	<u>8,207,879</u>	<u>8,252,007</u>
OTHER ASSETS		
Real estate held for investment - Note 7	281,284	281,284
Bond issuance costs, net of accumulated amortization	106,383	117,384
Joint venture - Note 8	40,563	19,324
Physician recruitment fees, net of accumulated amortization	<u>7,222</u>	<u>24,305</u>
Total other assets	<u>435,452</u>	<u>442,297</u>
Total assets	<u>\$ 16,276,221</u>	<u>\$15,951,859</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 9	\$ 325,273	\$ 280,462
Accounts payable		
Trade	72,331	232,694
Construction	-	251,459
Related party	150,173	177,266
Estimated third-party payor settlements	205,000	155,000
Accrued expenses		
Salaries, wages, and vacation	358,814	345,522
Interest	7,949	8,892
Payroll taxes and employee benefits	103,990	56,521
Deferred revenue for succeeding year property tax receivable	<u>894,911</u>	<u>834,000</u>
 Total current liabilities	 2,118,441	 2,341,816
 LONG-TERM DEBT, less current maturities - Note 9	 <u>2,125,722</u>	 <u>2,312,852</u>
 Total liabilities	 <u>4,244,163</u>	 <u>4,654,668</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,756,884	5,658,693
Restricted		
Under bond agreement	380,451	361,689
Foundation fund	12,134	20,874
Plant replacement and expansion funds	70,971	70,971
Unrestricted	<u>5,811,618</u>	<u>5,184,964</u>
 Total net assets	 <u>12,032,058</u>	 <u>11,297,191</u>
 Total liabilities and net assets	 <u>\$ 16,276,221</u>	 <u>\$15,951,859</u>

HANCOCK 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 (net of provision for bad debts of \$464,975 in 2009 and \$303,340 in 2008) - Notes 2 and 3	\$ 11,515,875	\$10,886,978
Other operating revenues	<u>137,620</u>	<u>188,926</u>
TOTAL OPERATING REVENUES	<u>11,653,495</u>	<u>11,075,904</u>
OPERATING EXPENSES		
Salaries and wages	4,067,022	3,863,752
Employee benefits	1,040,326	1,008,152
Supplies and other expenses	5,791,211	5,619,589
Depreciation	862,602	635,721
Interest and amortization	<u>164,441</u>	<u>181,301</u>
TOTAL OPERATING EXPENSES	<u>11,925,602</u>	<u>11,308,515</u>
OPERATING LOSS	<u>(272,107)</u>	<u>(232,611)</u>
NON-OPERATING REVENUES (EXPENSES)		
County tax revenue	835,535	802,705
Investment income	60,991	165,837
Rental income	52,114	39,800
Non-capital contributions, net of related fundraising expenses	(15,695)	12,552
Gain on sale of capital assets	3,801	1,362
Other income	<u>21,245</u>	<u>26,970</u>
NET NON-OPERATING REVENUES	<u>957,991</u>	<u>1,049,226</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS		
Capital contributions and grants	<u>48,983</u>	<u>47,025</u>
INCREASE IN NET ASSETS	734,867	863,640
NET ASSETS, BEGINNING OF YEAR	<u>11,297,191</u>	<u>10,433,551</u>
NET ASSETS, END OF YEAR	<u>\$ 12,032,058</u>	<u>\$11,297,191</u>

See notes to financial statements.

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 11,400,371	\$ 10,707,616
Payments of salaries and wages	(4,053,730)	(3,794,986)
Payments of supplies and other expenses	(6,951,077)	(6,665,969)
Other receipts and payments, net	<u>235,542</u>	<u>88,601</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>631,106</u>	<u>335,262</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-capital contributions received, net of related fundraising expenses	(15,695)	12,552
County tax revenue received	835,535	802,705
Other income	6	3,432
Rental income	<u>52,114</u>	<u>39,800</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>871,960</u>	<u>858,489</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(674,086)	(3,197,994)
Proceeds from sale of capital assets	3,801	4,900
Increase (decrease) in construction payables	(251,459)	251,459
Principal payments on long-term debt	(289,319)	(268,506)
Interest payments on long-term debt	(134,688)	(150,289)
Capital contributions and grants	<u>48,983</u>	<u>47,025</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,296,768)</u>	<u>(3,313,405)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	60,991	165,837
Distribution from joint venture	-	85,000
Decrease in investments	-	22,815
Decrease in physician recruitment fees	-	1,112
Decrease in assets limited as to use or restricted	<u>230,982</u>	<u>1,215,702</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>291,973</u>	<u>1,490,466</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	498,271	(629,188)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,805,821</u>	<u>2,435,009</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,304,092</u>	<u>\$ 1,805,821</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (272,107)	\$ (232,611)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	862,602	635,721
Amortization	11,001	11,001
Interest expense considered capital and related financing activity	153,440	170,300
Provision for bad debts	464,975	303,340
Changes in assets and liabilities		
Patient receivables	(630,479)	(377,702)
Other receivables	97,922	(100,325)
Inventory	26,458	(8,945)
Prepaid expense	(6,011)	18,829
Accounts payable - trade and related	(187,456)	(28,789)
Accrued expenses	60,761	49,443
Estimated third-party payor settlements	<u>50,000</u>	<u>(105,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 631,106</u>	<u>\$ 335,262</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

The Hospital entered into a capital lease obligation of \$147,000 for equipment in 2009.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hancock County Memorial Hospital (Hospital) is the county hospital of Hancock County, in the City of Britt, organized under Chapter 347 of the Code of Iowa. The Hospital provides health care services under the name of Hancock County Memorial Hospital in accordance with a Master Affiliation Agreement – see Note 12. Services are provided primarily to residents of Hancock County and the surrounding area in north central Iowa. 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, Hancock County Memorial 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. Hancock County Memorial Hospital Foundation meets these criteria and is included in the Hospital's financial statements under the provisions of GASB Statement No. 14. Hancock County Memorial Hospital has no other component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheets display 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.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, excluding assets limited as to use or restricted and investments.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed. Accounts past due more than 85 days are turned over to collection agents.

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.

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.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year 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.

Inventory

Inventory is valued at cost using the first-in, first-out method.

Investments

Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

Issuance Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the interest method. Amortization of deferred financing costs is capitalized during the period of construction of capital assets.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for Hospital 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. Such amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	10-40 years
Buildings and improvements	10-50 years
Equipment	3-20 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, subsequently use for other purposes.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 operations of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating revenues to the extent expended within the period.

Compensated Absences

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 sheets. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and nonexchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$41,028 and \$43,439 for advertising costs for the years ended June 30, 2009 and 2008, 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.

County Tax Revenue

Taxes are included in non-operating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Subsequent Events

The Hospital has evaluated subsequent events through October 13, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$82,507 and \$168,950 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, were \$58,000 and \$121,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

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, 2007.

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, 2006.

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 54% and 3%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009, and 52% and 3%, respectively, of the Hospital's net patient service revenue, for the year ended June 30, 2008.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 16,708,658	\$ 15,500,112
Less: charity care	<u>(82,507)</u>	<u>(168,950)</u>
Total patient service revenue	<u>16,626,151</u>	<u>15,331,162</u>
Contractual adjustments:		
Medicare	(2,451,500)	(2,454,544)
Medicaid	(355,972)	(336,927)
Blue Cross	(1,378,766)	(949,178)
Other	<u>(459,063)</u>	<u>(400,195)</u>
Total contractual adjustments	<u>(4,645,301)</u>	<u>(4,140,844)</u>
Net patient service revenue	11,980,850	11,190,318
Provision for bad debts	<u>(464,975)</u>	<u>(303,340)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,515,875</u>	<u>\$ 10,886,978</u>

NOTE 4 – CASH AND DEPOSITS

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.

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.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

At June 30, 2009 and 2008, the Hospital's carrying amounts of cash and deposits are as follows:

Deposits and Investments

	<u>2009</u>	<u>2008</u>
Hancock County Memorial Hospital:		
Checking and savings accounts	\$ 839,415	\$ 740,286
Money market accounts	343,059	435,280
Certificates of deposit	760,671	1,043,987
Interest receivable	1,355	3,795
Federal loan securities	116,143	92,786
Asset and mortgage backed securities	-	592
	<u>2,060,643</u>	<u>2,316,726</u>
Hancock County Memorial Hospital Foundation:		
Checking and savings accounts	68,427	95,113
Money market accounts	3,293	-
Certificates of deposit	171,833	107,401
Mutual funds	114,541	111,942
Interest receivable	373	792
Beneficial interest in net assets of community foundation	55,592	73,710
	<u>414,059</u>	<u>388,958</u>
Total deposits	<u>\$ 2,474,702</u>	<u>\$ 2,705,684</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.

NOTE 5 – BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

Hancock County Memorial Hospital Foundation is a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held in perpetuity. Hancock County Memorial Hospital Foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The funds which have been invested directly by Hancock County Memorial Hospital are recorded as a beneficial interest in net assets of the Community Foundation at the fair market value of its interest in the Community Foundation. These funds amounted to \$55,592 and \$73,710 at June 30, 2009 and 2008, respectively.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 6 – CAPITAL ASSETS

Summaries of capital assets at June 30, 2009 and 2008, are as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 448,630	\$ -	\$ -	\$ 11,074	\$ 459,704
Building	5,465,027	-	-	1,187,219	6,652,246
Fixed equipment	1,784,979	-	(23,312)	1,714,209	3,475,876
Major movable equipment	3,602,935	260,362	(150,788)	693,832	4,406,341
Construction in progress	3,139,318	558,111	-	(3,606,334)	91,095
Total	14,440,889	\$ 818,473	\$ (174,100)	\$ -	15,085,262
Accumulated depreciation					
Land improvements	286,507	\$ 20,706	\$ -	\$ -	307,213
Building	2,626,851	247,357	-	-	2,874,208
Fixed equipment	744,391	206,202	(23,312)	-	927,281
Major movable equipment	2,531,133	388,337	(150,789)	-	2,768,681
Total	6,188,882	\$ 862,602	\$ (174,101)	\$ -	6,877,383
Capital assets, net	\$ 8,252,007				\$ 8,207,879
	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 433,991	\$ 14,639	\$ -	\$ -	\$ 448,630
Building	5,465,027	-	-	-	5,465,027
Fixed equipment	1,786,299	-	(1,320)	-	1,784,979
Major movable equipment	3,497,058	164,451	(70,574)	12,000	3,602,935
Construction in progress	153,525	2,997,793	-	(12,000)	3,139,318
Total	11,335,900	\$ 3,176,883	\$ (71,894)	\$ -	14,440,889
Accumulated depreciation					
Land improvements	255,673	\$ 30,834	\$ -	\$ -	286,507
Building	2,431,189	195,662	-	-	2,626,851
Fixed equipment	647,328	98,306	(1,243)	-	744,391
Major movable equipment	2,287,326	310,919	(67,112)	-	2,531,133
Total	5,621,516	\$ 635,721	\$ (68,355)	\$ -	6,188,882
Capital assets, net	\$ 5,714,384				\$ 8,252,007

(continued on next page)

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

The majority of construction in progress at June 30, 2009, represents architect fees incurred for a second floor Hospital remodel project. As of the report date, Hospital management is still in the decision making stages regarding the size and timing of the project.

NOTE 7 – REAL ESTATE HELD FOR INVESTMENT

The real estate held for investment consists of 151 acres of farmland in Hancock County. The asset value of \$281,284 represents the original purchase price. At June 30, 2009 and 2008, the estimated market value was in excess of the carrying value.

NOTE 8 – JOINT VENTURE

The joint venture represents a 25% investment in Mobile Radiology, LLC, a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting.

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2009 and 2008, is as follows:

	Balance June 30, 2008	Additions	Payments	Balance June 30, 2009	Amounts Due Within One Year
Hospital revenue note, series A	\$ 520,000	\$ -	\$ (90,000)	\$ 430,000	\$ 95,000
Hospital general obligation county bonds	290,000	-	(50,000)	240,000	55,000
USDA - RECD hospital general obligation bonds	581,427	-	(51,268)	530,159	53,772
USDA - hospital revenue note #1	350,594	-	(22,654)	327,940	23,519
USDA - hospital revenue note #2	495,187	-	(24,058)	471,129	25,191
Farmers Trust & Savings Bank	291,441	-	(24,770)	266,671	26,398
Capitalized lease obligations - Note 10	<u>64,665</u>	<u>147,000</u>	<u>(26,569)</u>	<u>185,096</u>	<u>46,393</u>
Total long-term debt	<u>\$2,593,314</u>	<u>\$ 147,000</u>	<u>\$ (289,319)</u>	<u>2,450,995</u>	<u>\$ 325,273</u>
Less current maturities				<u>(325,273)</u>	
Long-term debt, less current maturities				<u>\$ 2,125,722</u>	

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	Balance June 30, 2007	Additions	Payments	Balance June 30, 2008	Amounts Due Within One Year
Hospital revenue note, Series A	\$ 605,000	\$ -	\$ (85,000)	\$ 520,000	\$ 90,000
Hospital general obligation county bonds	340,000	-	(50,000)	290,000	50,000
USDA - RECD hospital general obligation bonds	630,260	-	(48,833)	581,427	51,219
USDA - hospital revenue note #1	372,199	-	(21,605)	350,594	22,426
USDA - hospital revenue note #2	518,246	-	(23,059)	495,187	24,145
Farmers Trust & Savings Bank	315,004	-	(23,563)	291,441	24,710
Capitalized lease obligations - Note 10	81,111	-	(16,446)	64,665	17,962
Total long-term debt	<u>\$2,861,820</u>	<u>\$ -</u>	<u>\$ (268,506)</u>	2,593,314	<u>\$ 280,462</u>
Less current maturities				<u>(280,462)</u>	
Long-term debt, less current maturities				<u>\$ 2,312,852</u>	

Hospital revenue note, Series A requires semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 5.75% to 7.00%. Principal and interest payments are due through December 2012.

Hospital general obligation county bonds require semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 4.00% to 5.50%. Principal and interest payments are due through December 2012.

USDA – RECD hospital general obligation bonds require monthly payments of principal and interest with interest at the rate of 4.875%. Principal and interest payments are due through December 2017.

USDA hospital revenue note #1 requires monthly payments of principal and interest with interest at the rate of 4.75%. Principal and interest payments are due through July 2020.

USDA hospital revenue note #2 requires monthly payments of principal and interest with interest at the rate of 4.25%. Principal and interest payments are due through June 2023.

Farmers Trust and Savings Bank requires monthly payments of principal and interest with interest at the rate of 6.63%. Principal and interest payments are due through June 2017.

Capitalized lease obligations consist of two lease agreements. The first agreement requires monthly payments of principal and interest with interest at the rate of 8.85%. Principal and interest payments are due through September 2011. The second agreement requires monthly payments of principal and interest with interest at the rate of 5.45%. Principal and interest payments are due through February 2014.

The bonds are payable solely and only from revenues and receipts of the Hospital and do not constitute an indebtedness of the County. The notes are secured by a Hospital building.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

<u>Year Ending June 30,</u>	<u>Long-term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2010	\$ 325,273	\$ 124,749	\$ 450,022
2011	350,297	104,823	455,120
2012	348,091	82,974	431,065
2013	366,655	63,305	429,960
2014	179,982	47,773	227,755
2015-2019	690,769	114,637	805,406
2020-2024	189,928	15,005	204,933
	<u>\$2,450,995</u>	<u>\$ 553,266</u>	<u>\$3,004,261</u>

NOTE 10 – LEASES

The Hospital leases certain equipment and building space 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, 2009 and 2008, for all operating leases was \$88,708 and \$56,590, respectively. The capitalized leased assets consist of:

	<u>2009</u>	<u>2008</u>
Major movable equipment	\$ 239,528	\$ 92,528
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(46,644)</u>	<u>(18,726)</u>
	<u>\$ 192,884</u>	<u>\$ 73,802</u>

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

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2010	\$ 56,618	\$ 136,674
2011	56,618	145,424
2012	39,392	139,824
2013	33,650	78,956
2014	22,433	68,000
2015-2019	-	340,000
2020-2024	-	25,250
Total minimum lease payments	208,711	<u>\$ 934,128</u>
Less interest	<u>(23,615)</u>	
Present value of minimum lease payments - Note 9	<u>\$ 185,096</u>	

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 11 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 4.10% of their annual covered salary, and the Hospital is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Hospital was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008, and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$275,047, \$245,856, and \$193,013, respectively, equal to the required contributions for each year.

NOTE 12 – 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 Hancock County and the North Central Iowa region under the name of Hancock County Memorial Hospital. As a part of the 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 and other services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,251,801 and \$2,333,384 for the years ended June 30, 2009 and 2008, respectively.

Through June 30, 2008, operating income and losses from the operation of Hospital services in Hancock County were shared equally with Mercy Medical Center – North Iowa in accordance to the formulas outlined in the Master Affiliation Agreement. There was no payment due to either party under the terms of the agreement for the year ended June 30, 2008.

The Hospital's Master Affiliation Agreement with Mercy Medical Center – North Iowa was amended effective July 1, 2008. Operating losses or operating gains that are less than \$300,000 are allocated entirely to the Hospital. Operating losses or operating gains equal to or in excess of \$300,000 are shared equally between the Hospital and Mercy Medical Center – North Iowa. There was no payment due to either party under the terms of the agreement for the year ended June 30, 2009.

Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. Expenses for the administrative and management services received for the years ended June 30, 2009 and 2008, were \$591,395 and \$422,960, respectively.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Due to Affiliated Organization

As of June 30, 2009 and 2008, Hancock County Memorial Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$150,173 and \$177,266, respectively, for the various services and distributions related to these agreements.

NOTE 13 – 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.

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 14 – DEFERRED COMPENSATION AGREEMENTS

The Hospital has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specific dates. The Hospital does not make any contributions under the agreements. The agreements indicate the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provision of the Internal Revenue Code Section 457 was amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of the Hospital. The Governmental Accounting Standards Board (GASB) issued Statement 32 in October 1997. GASB 32 is effective for the year ended June 30, 1999, or on the date (if earlier) that the plan changes its trust provisions. The Hospital plan has been amended to hold the plan assets in trust for the plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was \$347,386 and \$405,308 at June 30, 2009 and 2008, respectively.

(continued on next page)

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 15 – RISK MANAGEMENT

Hancock County Memorial 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.

NOTE 16 – 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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	42%	37%
Medicaid	3	4
Commercial insurance	20	24
Other third-party payors and patients	<u>35</u>	<u>35</u>
	<u>100%</u>	<u>100%</u>



HANCOCK COUNTY MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2009

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 835,535	\$ -	\$ 835,535	\$ 833,999	\$ 1,536
Estimated other revenues/receipts	<u>11,840,629</u>	<u>(38,821)</u>	<u>11,801,808</u>	<u>13,328,389</u>	<u>(1,526,581)</u>
	12,676,164	(38,821)	12,637,343	14,162,388	(1,525,045)
Expenses/disbursements	<u>11,941,297</u>	<u>428,757</u>	<u>12,370,054</u>	<u>13,023,349</u>	<u>653,295</u>
Net	734,867	(467,578)	267,289	1,139,039	<u>\$ (871,750)</u>
Balance, beginning of year	<u>11,297,191</u>	<u>(6,785,686)</u>	<u>4,511,505</u>	<u>11,883,141</u>	
Balance, end of year	<u>\$ 12,032,058</u>	<u>\$ (7,253,264)</u>	<u>\$ 4,778,794</u>	<u>\$ 13,022,180</u>	

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2009.

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted.





CPAs & BUSINESS ADVISORS

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

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheets of Hancock 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 and have issued our report on pages 2-3. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information and Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
October 13, 2009

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	TOTAL	
	2009	2008
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,328,855	\$ 1,283,853
OTHER PROFESSIONAL SERVICES		
Operating room	939,427	1,115,952
Recovery room	249,001	296,301
Radiology	2,570,247	2,353,242
Nuclear medicine	22,896	15,076
Laboratory	4,422,036	3,802,693
Blood	57,663	57,157
Respiratory therapy	251,511	192,751
Physical therapy	654,842	426,040
Occupational therapy	113,400	109,514
Speech therapy	33,113	16,790
Electrocardiology	187,651	181,884
Medical and surgical supplies	164,333	155,273
Pharmacy	1,230,063	1,175,301
Cardiac rehabilitation	110,611	107,751
Diabetic education	25,596	13,917
Massage therapy	14,797	10,878
Nail care	13,881	14,527
Britt clinic	1,340,995	1,331,403
Garner clinic	1,245,903	1,198,318
Wesley clinic	322,789	297,546
Kanawha clinic	112,119	107,239
Emergency services	1,296,929	1,236,706
Total	16,708,658	15,500,112
Charity care	(82,507)	(168,950)
Total patient service revenue	<u>16,626,151</u>	<u>15,331,162</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(2,451,500)	(2,454,544)
Medicaid	(355,972)	(336,927)
Blue Cross	(1,378,766)	(949,178)
Other	(459,063)	(400,195)
Total contractual adjustments	<u>(4,645,301)</u>	<u>(4,140,844)</u>
NET PATIENT SERVICE REVENUE	11,980,850	11,190,318
PROVISION FOR BAD DEBTS	<u>(464,975)</u>	<u>(303,340)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 11,515,875</u>	<u>\$ 10,886,978</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 1,272,597	\$ 1,196,023	\$ 56,258	\$ 87,830
21,455	3,992	917,972	1,111,960
1,547	1,352	247,454	294,949
181,278	142,914	2,388,969	2,210,328
-	-	22,896	15,076
529,489	426,114	3,892,547	3,376,579
24,826	19,375	32,837	37,782
162,294	153,249	89,217	39,502
113,793	78,126	541,049	347,914
81,902	76,215	31,498	33,299
25,244	11,247	7,869	5,543
23,250	20,260	164,401	161,624
22,754	14,884	141,579	140,389
557,179	622,909	672,884	552,392
-	-	110,611	107,751
-	-	25,596	13,917
-	-	14,797	10,878
-	-	13,881	14,527
-	-	1,340,995	1,331,403
-	-	1,245,903	1,198,318
-	-	322,789	297,546
-	-	112,119	107,239
42,940	28,894	1,253,989	1,207,812
<u>\$ 3,060,548</u>	<u>\$ 2,795,554</u>	<u>\$ 13,648,110</u>	<u>\$ 12,704,558</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Meals sold	\$ 72,956	\$ 84,790
Grant revenues	24,146	97,732
Dietary assessment and consulting	13,873	2,565
Medical records transcripts	5,426	1,333
Other	<u>21,219</u>	<u>2,506</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 137,620</u>	 <u>\$ 188,926</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 60,072	\$ 55,413
Supplies and other expenses	<u>659</u>	<u>285</u>
	<u>60,731</u>	<u>55,698</u>
ADULTS AND PEDIATRICS		
Salaries and wages	823,067	721,763
Supplies and other expenses	<u>251,103</u>	<u>318,776</u>
	<u>1,074,170</u>	<u>1,040,539</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	59,848	57,112
Supplies and other expenses	<u>133,282</u>	<u>130,573</u>
	<u>193,130</u>	<u>187,685</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>113,183</u>	<u>136,985</u>
RADIOLOGY		
Salaries and wages	233,546	219,998
Supplies and other expenses	<u>385,580</u>	<u>430,397</u>
	<u>619,126</u>	<u>650,395</u>
NUCLEAR MEDICINE		
Supplies and other expenses	<u>5,687</u>	<u>5,896</u>
LABORATORY		
Salaries and wages	326,005	319,892
Supplies and other expenses	<u>315,938</u>	<u>314,285</u>
	<u>641,943</u>	<u>634,177</u>
BLOOD		
Salaries and wages	1,637	2,198
Supplies and other expenses	<u>28,592</u>	<u>19,755</u>
	<u>30,229</u>	<u>21,953</u>
RESPIRATORY THERAPY		
Salaries and wages	304	1,326
Supplies and other expenses	<u>13,154</u>	<u>3,048</u>
	<u>13,458</u>	<u>4,374</u>
PHYSICAL THERAPY		
Salaries and wages	165,580	125,635
Supplies and other expenses	<u>15,207</u>	<u>14,874</u>
	<u>180,787</u>	<u>140,509</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 51,940</u>	<u>\$ 62,853</u>
SPEECH THERAPY		
Supplies and other expenses	<u>25,268</u>	<u>14,349</u>
ELECTROCARDIOLOGY		
Salaries and wages	4,877	7,596
Supplies and other expenses	<u>12,857</u>	<u>12,940</u>
	<u>17,734</u>	<u>20,536</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>51,898</u>	<u>46,360</u>
PHARMACY		
Salaries and wages	14,738	16,339
Supplies and other expenses	<u>506,399</u>	<u>488,301</u>
	<u>521,137</u>	<u>504,640</u>
CENTRAL SUPPLY		
Salaries and wages	60,029	61,606
Supplies and other expenses	<u>18,066</u>	<u>18,509</u>
	<u>78,095</u>	<u>80,115</u>
CARDIAC REHABILITATION		
Salaries and wages	33,850	19,610
Supplies and other expenses	<u>2,622</u>	<u>11,433</u>
	<u>36,472</u>	<u>31,043</u>
MASSAGE THERAPY		
Salaries and wages	12,546	11,092
Supplies and other expenses	<u>1,020</u>	<u>1,224</u>
	<u>13,566</u>	<u>12,316</u>
NAIL CARE		
Salaries and wages	14,215	14,840
Supplies and other expenses	<u>1,333</u>	<u>3,902</u>
	<u>15,548</u>	<u>18,742</u>
BRITT CLINIC		
Salaries and wages	381,933	419,116
Supplies and other expenses	<u>508,566</u>	<u>562,691</u>
	<u>890,499</u>	<u>981,807</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
GARNER CLINIC		
Salaries and wages	\$ 285,662	\$ 285,440
Supplies and other expenses	<u>641,682</u>	<u>659,480</u>
	<u>927,344</u>	<u>944,920</u>
WESLEY CLINIC		
Salaries and wages	97,729	95,638
Supplies and other expenses	<u>176,293</u>	<u>169,462</u>
	<u>274,022</u>	<u>265,100</u>
KANAWHA CLINIC		
Salaries and wages	45,328	50,360
Supplies and other expenses	<u>82,931</u>	<u>53,359</u>
	<u>128,259</u>	<u>103,719</u>
EMERGENCY SERVICES		
Salaries and wages	244,789	191,187
Supplies and other expenses	<u>875,504</u>	<u>867,763</u>
	<u>1,120,293</u>	<u>1,058,950</u>
AMBULANCE		
Supplies and other expenses	<u>-</u>	<u>2,828</u>
SOCIAL SERVICES		
Salaries and wages	9,409	5,073
Supplies and other expenses	<u>14</u>	<u>2</u>
	<u>9,423</u>	<u>5,075</u>
MEDICAL RECORDS		
Salaries and wages	166,587	165,863
Supplies and other expenses	<u>30,792</u>	<u>36,008</u>
	<u>197,379</u>	<u>201,871</u>
DIETARY		
Salaries and wages	198,174	190,830
Supplies and other expenses	<u>88,999</u>	<u>89,193</u>
	<u>287,173</u>	<u>280,023</u>
OPERATION OF PLANT		
Salaries and wages	201,940	212,373
Supplies and other expenses	<u>213,424</u>	<u>259,758</u>
	<u>415,364</u>	<u>472,131</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
HOUSEKEEPING		
Salaries and wages	\$ 84,567	\$ 85,300
Supplies and other expenses	<u>20,645</u>	<u>24,118</u>
	<u>105,212</u>	<u>109,418</u>
LAUNDRY AND LINEN		
Salaries and wages	5,890	4,339
Supplies and other expenses	<u>20,769</u>	<u>21,871</u>
	<u>26,659</u>	<u>26,210</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	534,700	523,813
Supplies and other expenses	<u>1,197,804</u>	<u>838,311</u>
	<u>1,732,504</u>	<u>1,362,124</u>
UNASSIGNED EXPENSES		
Depreciation	862,602	635,721
Interest and amortization	164,441	181,301
Employee benefits	<u>1,040,326</u>	<u>1,008,152</u>
	<u>2,067,369</u>	<u>1,825,174</u>
TOTAL OPERATING EXPENSES	<u>\$ 11,925,602</u>	<u>\$ 11,308,515</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2009 AND 2008

ANALYSIS OF AGING	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,412,471	56.29%	\$ 1,259,326	57.70%
31 to 60 days	437,114	17.42%	362,348	16.60%
61 to 90 days	159,831	6.37%	181,461	8.31%
91 days and over	<u>500,000</u>	<u>19.92%</u>	<u>379,535</u>	<u>17.39%</u>
	<u>2,509,416</u>	<u>100.00%</u>	2,182,670	100.00%
Less: Allowance for doubtful accounts	221,097		224,100	
Allowance for contractual adjustments	<u>640,163</u>		<u>475,918</u>	
Net	<u>\$ 1,648,156</u>		<u>\$ 1,482,652</u>	
Net patient service revenue per calendar day - excluding bad debts	<u>\$ 31,550</u>		<u>\$ 29,827</u>	
Days of net revenue in net accounts receivable at year end	<u>52</u>		<u>50</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS			2009	2008
Beginning balance			<u>\$ 224,100</u>	<u>\$ 300,000</u>
Add:				
Provision for bad debts			464,975	303,340
Recoveries previously written off			<u>126,766</u>	<u>161,391</u>
			<u>591,741</u>	<u>464,731</u>
Less:				
Accounts written off			<u>(594,744)</u>	<u>(540,631)</u>
Ending balance			<u>\$ 221,097</u>	<u>\$ 224,100</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
INVENTORY		
Central supply	\$ 68,558	\$ 65,267
Pharmacy	59,762	83,091
General	<u>34,474</u>	<u>40,894</u>
 Total inventory	 <u>\$ 162,794</u>	 <u>\$ 189,252</u>
 PREPAID EXPENSE		
Service contracts/other	\$ 58,060	\$ 47,325
Membership dues	13,201	13,944
Insurance	<u>10,902</u>	<u>14,883</u>
 Total prepaid expense	 <u>\$ 82,163</u>	 <u>\$ 76,152</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute (includes hospice)	1,019	1,046
Swing-bed*	<u>1,657</u>	<u>1,444</u>
Total	<u>2,676</u>	<u>2,490</u>
ADMISSIONS		
Acute (includes hospice)	352	350
Swing-bed*	<u>109</u>	<u>136</u>
Total	<u>461</u>	<u>486</u>
DISCHARGES		
Acute (includes hospice)	352	350
Swing-bed*	<u>113</u>	<u>138</u>
Total	<u>465</u>	<u>488</u>
AVERAGE LENGTH OF STAY		
Acute (includes hospice)	2.89	2.99
Swing-bed*	14.66	10.46
All patients	5.75	5.10
BEDS	25	25
PERCENTAGE OF OCCUPANCY		
Acute (includes hospice), based on 25 beds	11.2%	11.5%
Swing-bed, based on 10 beds	45.4%	39.6%
All patients, based on 25 beds	29.3%	27.3%
OUTPATIENT VISITS	17,905	18,059
PHYSICIAN CLINIC VISITS		
Britt	8,459	9,523
Garner	9,164	8,988
Kanawha	744	797
Wesley	<u>1,883</u>	<u>1,804</u>
Total	<u>20,250</u>	<u>21,112</u>

* Includes swing-bed and swing-bed self-pay patients



CPAs & BUSINESS ADVISORS

**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
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheets of Hancock 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 and have issued our report thereon dated October 13, 2009. 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 Hancock County Memorial 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 Hancock County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hancock County Memorial 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 Hancock County Memorial 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 Hancock County Memorial Hospital's financial statements that is more than inconsequential will not be prevented or detected by Hancock County Memorial Hospital's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs 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 Hancock County Memorial 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 Hancock County Memorial 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 the Hospital's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part IV of the accompanying Schedule of Findings and Questioned Costs. 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.

Hancock County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hancock County Memorial 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 13, 2009



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

Compliance

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

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

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

Internal Control Over Compliance

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

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

A control deficiency in Hancock County Memorial Hospital's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hancock County Memorial Hospital's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Hancock County Memorial Hospital's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by Hancock County Memorial Hospital's internal control. We did not consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Hancock County Memorial Hospital's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on Hancock County Memorial Hospital's response, we did not audit Hancock County Memorial Hospital's response, and accordingly, we express no opinion on it.

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

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

Dubuque, Iowa
October 13, 2009

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

Grantor/Program	CFDA Number	Agency or Pass- through Number	Program Expenditures
United States Department of Agriculture			
Pass-thru program from:			
Mercy Medical Center			
Distance Learning and Telemedicine Loans and Grants	10.855	713-B-17	<u>\$ 24,113</u>
Department of Health and Human Services			
Direct Program			
Research on Healthcare Costs, Quality, and Outcomes	93.226		564,267
Direct Program			
State Rural Hospital Flexibility Program	93.241		4,118
Direct Program			
Small Rural Hospital Improvement Grant Program	93.301		1,994
Pass-thru program from:			
Waverly Health Center			
National Bioterrorism Hospital Preparedness Program	93.889	5889BHP02	<u>14,881</u>
Total Department of Health and Human Services			<u>585,260</u>
			<u><u>\$ 609,373</u></u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Hancock County Health Services provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Research on Healthcare Costs, Quality, and Outcomes	93.226	\$ 551,681

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, but were not considered material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, but was not considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 93.226 – Research on Healthcare Costs, Quality, and Outcomes.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Hancock County Memorial Hospital did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A 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.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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

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 the 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.

II-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Hancock County Memorial 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 GAAP. 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.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital 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.

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

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

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. 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 III: Findings and Questioned Costs for Federal Awards:

SIGNIFICANT DEFICIENCY

**CFDA Number 93.226: Research on Healthcare Costs, Quality, and Outcomes
Department of Health and Human Services**

III-A-09 Segregation of Duties over Federal Expenditures – A lack of segregation of duties over expenditures, including those related to federal programs, exists in the Finance Department of Hancock County Memorial Hospital. See audit finding II-A-09.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.

IV-B-09 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.

IV-C-09 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

IV-D-09 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

IV-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-F-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

- IV-G-09 Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the County as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” The Hospital published a schedule of bills allowed and a schedule of salaries paid as required by the Code.
- IV-H-09 Chapter 28E Organization – The Hospital has entered into a joint venture agreement under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. The joint venture has conducted an audit in compliance with the provisions of Chapter 28E.



CPAs & BUSINESS ADVISORS

To the Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the financial statements of Hancock County Memorial Hospital (Hospital) for the year ended June 30, 2009, and have issued our report thereon dated October 13, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2009. Professional standards also require that we provide you with the following information related to our audit.

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 Hancock County Memorial 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, 2009. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that 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.

Depreciation Expense – Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

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We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

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 adjustment was made during the fiscal year 2009 audit:

Increase in net assets prior to audit adjustment	\$ 651,182
To adjust estimated third-party payor settlements	<u>83,685</u>
Increase in net assets as reported	<u>\$ 734,867</u>

The net effect of the adjustment was to increase net assets by \$88,685.

In addition, the following balance sheet reclassifications were detected as a result of our audit procedures and have been corrected by management.

To increase cash and to increase accrued payroll taxes	\$ 42,830
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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 13, 2009.

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.

This information is intended solely for the use of the Board of Trustees and management of Hancock County Memorial 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 Hancock County Memorial Hospital.

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

Dubuque, Iowa
October 13, 2009

xc: Mr. Vance Jackson