



Ellsworth Municipal Hospital  
*"Caring for People in Special Ways"*

# ELLSWORTH MUNICIPAL HOSPITAL

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

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



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited the accompanying balance sheets of Ellsworth Municipal Hospital and its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2009 and 2008, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), 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 Ellsworth Municipal Hospital and its discretely presented component unit 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 non-operating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in non-operating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2009, on our consideration of Ellsworth Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 4 and 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

*Eide Bailly LLP*

Dubuque, Iowa  
September 18, 2009

**ELLSWORTH MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009 AND 2008**

This section of Ellsworth Municipal Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 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 by \$569,131 or 4.03% from June 30, 2008 to June 30, 2009. The Hospital's total assets decreased by \$410,267 or 2.83% from June 30, 2007 to June 30, 2008.
- The Hospital's assets exceeded liabilities by \$10,912,459 and \$10,606,266 at June 30, 2009 and 2008, respectively.
- From fiscal year 2008 to 2009, the Hospital's operating revenues increased 7.6% to \$19,671,655 while the operating expenses increased 8.5% to \$19,587,199. The Hospital had an operating income in 2009 of \$84,456 which is 0.4% of total operating revenues. From fiscal year 2007 to 2008, the Hospital's operating revenues increased 4.9% to \$18,278,739 while the operating expenses increased 4.6% to \$18,059,439. The Hospital had an operating income in 2008 of \$219,300 which is 1.2% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$516,267 and \$749,003 during the fiscal years ended June 30, 2009 and 2008, respectively. The source of funding for these items was derived from operations and notes payable.

### **Overview of the Financial Statements**

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

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2009, reports total assets of \$14,675,293, total liabilities of \$3,762,834, and net assets of \$10,912,459. The balance sheet at June 30, 2008, reports total assets of \$14,106,162, total liabilities of \$3,499,896, and net assets of \$10,606,266.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$19,671,655 and total operating expenses of \$19,587,199 during fiscal year 2009. The operating income was \$84,456 in 2009, compared to \$219,300 in 2008.

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

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

**ELLSWORTH MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009 AND 2008**

## **Long-term Debt**

At year-end, Ellsworth Municipal Hospital had \$1,904,645 in short-term and long-term debt. The debt was incurred to build the Medical Office building attached to the Hospital, for the upgrade to the air conditioning system, and transition to electronic health records.

## **Factors Bearing on Financial Future**

The Hospital implemented an Electronic Health Record in September 2008. Ellsworth Municipal Hospital was part of a network of seven rural hospitals in conjunction with Mercy Medical Center – North Iowa that has installed the Electronic Health Record system. Since the installation, the federal government has notified the health care industry that it will be providing incentives to hospitals that have systems installed prior to 2011 and will begin penalizing hospitals that do not have an Electronic Health Record system by 2015.

The Hospital is currently in the process of replacing the leased clinic in Ackley, Iowa. The older building which was built in the early 60's no longer meets the needs of the community and is being replaced by a new facility approximately six blocks away. The services, staff, and patients served will remain the same in the community. The building is being constructed by Turn Key and Associates and will be leased by Ellsworth Municipal Hospital for 15 years. The City of Ackley has provided support through TIF grants and support from the community to the Ellsworth Municipal Hospital Foundation. It is anticipated the building will open in the late fall or early winter.

Dr. Don Boldt retired from his practice. He was replaced in Ackley by Dr. Laura Brunsen who moved there from the Iowa Falls Clinic. The Iowa Falls Clinic is currently recruiting a family practitioner to replace Dr. Brunsen.

The upcoming year will see a potential significant amount of change as the country looks at redesigning its health care system. The President has made this one of the priorities of his administration and there is a large amount of effort to redesign a system that currently has 44 million uncovered citizens. The effects of the changes on the federal and state level will probably be felt for a number of years as policy changes are designed and implemented. It should be noted that the state of Iowa is considered one of the high quality, low cost states within the nation.

The Hospital has been very short of space and has leased the building on the southwest corner of the campus to provide additional non-patient care office space. This is an interim solution as the Hospital goes through a master planning process to help design the physical plant for the next 30 to 40 years. Ellsworth Municipal Hospital has asked for community input through public meetings and is also using consultants from Shive Hattery and Les Leider Consulting. The acceptance of a master planning process will give the Hospital direction as it moves forward into the future.

## **Requests for Information**

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

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

**ELLSWORTH MUNICIPAL HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents - Note 4	\$ 1,476,063	\$ 458,493
Receivables		
Patient, net of estimated uncollectibles		
of \$2,495,000 in 2009 and \$2,453,000 in 2008	2,983,023	3,115,449
Estimated third-party payor settlements	71,000	-
Other	84,049	117,661
Supplies	364,409	369,991
Prepaid expense	<u>65,541</u>	<u>69,445</u>
Total current assets	<u>5,044,085</u>	<u>4,131,039</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Internally designated for capital acquisitions	1,263,827	1,338,647
Internally designated for health benefits	20,556	11,116
Restricted by contributors for capital improvements	<u>1,071,528</u>	<u>1,047,783</u>
Internally designated or restricted for capital		
improvements and health benefits	2,355,911	2,397,546
Restricted under bond agreement	<u>308,452</u>	<u>308,452</u>
Total assets limited as to use or restricted	<u>2,664,363</u>	<u>2,705,998</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>6,349,980</u>	<u>6,676,823</u>
<b>OTHER ASSETS</b>		
Investments in affiliated organizations - Note 9	605,097	578,545
Deferred financing costs, net of accumulated		
amortization of \$19,890 in 2009 and \$17,901 in 2008	<u>11,768</u>	<u>13,757</u>
Total other assets	<u>616,865</u>	<u>592,302</u>
Total assets	<u>\$ 14,675,293</u>	<u>\$ 14,106,162</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 6	\$ 327,876	\$ 251,458
Accounts payable		
Trade	395,191	338,449
Affiliated organization - Note 10	135,213	188,458
Estimated third-party payor settlements	-	60,000
Accrued expenses		
Salaries and wages	445,529	401,122
Vacation	730,468	704,043
Payroll taxes and other payroll withholdings	<u>151,788</u>	<u>118,072</u>
 Total current liabilities	 <b>2,186,065</b>	 2,061,602
 LONG-TERM DEBT, less current maturities - Note 6	 <u>1,576,769</u>	 <u>1,438,294</u>
 Total liabilities	 <u>3,762,834</u>	 <u>3,499,896</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,445,335	4,987,071
Restricted		
Under bond agreement	308,452	308,452
Plant replacement and expansion funds	935,679	934,753
Unrestricted	<u>5,222,993</u>	<u>4,375,990</u>
 Total net assets	 <u>10,912,459</u>	 <u>10,606,266</u>
  Total liabilities and net assets	  <u>\$ 14,675,293</u>	  <u>\$ 14,106,162</u>

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION**  
**BALANCE SHEETS**  
**JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 381,429	\$ 224,467
Interest receivable	403	958
Unconditional promises to give	<u>10,093</u>	<u>-</u>
Total current assets	391,925	225,425
<b>INVESTMENTS</b>	<u>335,803</u>	<u>305,606</u>
Total assets	<u>\$ 727,728</u>	<u>\$ 531,031</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to Ellsworth Municipal Hospital	<u>\$ 16,127</u>	<u>\$ 4,553</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	270,479	384,122
Board designated - endowment	<u>59,301</u>	<u>-</u>
Total unrestricted net assets	329,780	384,122
Temporarily restricted	<u>381,821</u>	<u>142,356</u>
Total net assets	<u>711,601</u>	<u>526,478</u>
Total liabilities and net assets	<u>\$ 727,728</u>	<u>\$ 531,031</u>

**ELLSWORTH MUNICIPAL 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 \$1,148,643 in 2009 and \$1,048,707 in 2008) - Notes 2 and 3	<b>\$ 18,804,316</b>	\$ 17,454,271
Other operating revenues	<b>867,339</b>	824,468
<b>TOTAL OPERATING REVENUES</b>	<b><u>19,671,655</u></b>	<u>18,278,739</u>
OPERATING EXPENSES		
Salaries and wages	<b>9,299,945</b>	8,364,030
Employee benefits	<b>2,258,574</b>	1,980,649
Supplies and other expenses	<b>7,103,693</b>	6,862,843
Depreciation and amortization	<b>843,959</b>	757,918
Interest	<b>81,028</b>	93,999
<b>TOTAL OPERATING EXPENSES</b>	<b><u>19,587,199</u></b>	<u>18,059,439</u>
<b>OPERATING INCOME</b>	<b><u>84,456</u></b>	<u>219,300</u>
NON-OPERATING REVENUES (EXPENSES)		
Tax revenue	-	-
Investment income	<b>96,122</b>	122,511
Net gain on affiliated organizations - Note 9	<b>114,880</b>	180,300
Loss on sale of property and equipment	<b>(1,141)</b>	(376)
<b>NET NON-OPERATING REVENUES</b>	<b><u>209,861</u></b>	<u>302,435</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<b>294,317</b>	521,735
Capital contributions and grants	<b>11,876</b>	100,449
<b>INCREASE IN NET ASSETS</b>	<b>306,193</b>	622,184
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>10,606,266</u></b>	<u>9,984,082</u>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 10,912,459</u></b>	<u>\$ 10,606,266</u>

See notes to financial statements.

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Contributions	\$ 25,276	\$ 265,263	\$ 290,539
Investment income	617	1,240	1,857
Net assets released from restrictions	<u>27,038</u>	<u>(27,038)</u>	<u>-</u>
Total revenues	52,931	239,465	292,396
EXPENSES			
Gifts to Ellsworth Municipal Hospital	<u>107,273</u>	<u>-</u>	<u>107,273</u>
INCREASE (DECREASE) IN NET ASSETS	(54,342)	239,465	185,123
NET ASSETS BEGINNING OF YEAR	<u>384,122</u>	<u>142,356</u>	<u>526,478</u>
NET ASSETS END OF YEAR	<u>\$ 329,780</u>	<u>\$ 381,821</u>	<u>\$ 711,601</u>

See notes to financial statements.

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2008		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 55,423	\$ 175,287	\$ 230,710
16,202	(4,542)	11,660
<u>129,730</u>	<u>(129,730)</u>	<u>-</u>
201,355	41,015	242,370
<u>191,647</u>	<u>-</u>	<u>191,647</u>
9,708	41,015	50,723
<u>374,414</u>	<u>101,341</u>	<u>475,755</u>
<u>\$ 384,122</u>	<u>\$ 142,356</u>	<u>\$ 526,478</u>

**ELLSWORTH MUNICIPAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 18,805,742	\$ 16,547,632
Payments of salaries and wages	(9,229,113)	(8,211,714)
Payments of supplies and other expenses	(9,315,751)	(8,687,054)
Other receipts and payments, net	<u>900,951</u>	<u>791,144</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,161,829</u>	<u>440,008</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(516,267)	(749,003)
Proceeds from sale of property and equipment	-	100
Payments on long-term debt	(269,489)	(380,105)
Proceeds from issuance of long-term debt	484,382	-
Interest payments on long-term debt	(80,845)	(94,023)
Capital contributions and grants	<u>11,876</u>	<u>100,449</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(370,343)</u>	<u>(1,122,582)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in assets limited as to use or restricted and other assets	29,962	(93,811)
Distribution from affiliated organizations	100,000	144,000
Investment income	<u>96,122</u>	<u>122,511</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>226,084</u>	<u>172,700</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,017,570</b>	(509,874)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>458,493</u>	<u>968,367</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,476,063</u>	<u>\$ 458,493</u>

(continued)

**ELLSWORTH MUNICIPAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 84,456	\$ 219,300
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	843,959	757,918
Interest expense considered capital and related financing activity	80,845	94,023
Provision for bad debts	1,148,643	1,048,707
Changes in assets and liabilities		
Patient receivables	(1,016,217)	(1,015,346)
Estimated third-party payor settlements	(131,000)	(940,000)
Other receivables	33,612	(33,324)
Supplies	5,582	6,952
Prepaid expense	3,904	14,124
Accounts payable	3,497	128,466
Accrued expenses	104,548	159,188
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,161,829</u>	<u>\$ 440,008</u>

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 185,123	\$ 50,723
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Donation of investment	(13,843)	(13,843)
Change in unrealized gains and losses on investments	(301)	7,147
Changes in assets and liabilities		
Interest receivable	555	1,095
Unconditional promises to give	(10,093)	-
Due to Ellsworth Municipal Hospital	11,574	(2,882)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>173,015</u>	<u>42,240</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in investments	<u>(16,053)</u>	<u>64,947</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	156,962	107,187
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>224,467</u>	<u>117,280</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 381,429</u>	<u>\$ 224,467</u>

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Ellsworth Municipal Hospital (“the Hospital”) is a municipal hospital of the City of Iowa Falls, organized under Chapter 392 of the Code of Iowa. The Hospital provides health care services in accordance with a Master Affiliation Agreement with Mercy Medical Center – North Iowa as discussed further in Note 10. Services are provided primarily to residents of Hardin and surrounding counties in central Iowa. The Hospital is considered an enterprise fund of the City of Iowa Falls. The Hospital is exempt from income taxes as a political subdivision. Furthermore, the Hospital has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

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

*Reporting Entity*

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

Ellsworth Municipal Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. It is organized under the provisions of the Internal Revenue Service Code Section 501(c)(3). The Foundation’s financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Hospital in support of its operations and programs. The Hospital does not appoint a voting majority of the Foundation’s Board of Trustees or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Hospital.

*Basis of Presentation*

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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

*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 as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

*Use of Estimates*

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

*Cash and Cash Equivalents*

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

*Patient Receivables*

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

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

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

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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*Supplies*

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

*Deferred Financing Costs*

Deferred financing costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$1,989 for the years ended June 30, 2009 and 2008, respectively.

*Land, Buildings, and Equipment*

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

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

*Assets Limited as to Use or Restricted*

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

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

*Compensated Absences*

The Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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*Operating Revenues and Expenses*

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

*Net Patient Service Revenue*

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

*Grants and Contributions*

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$55,265 and \$84,948 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.

*Subsequent Events*

The Hospital has evaluated subsequent events through September 18, 2009, the date which the financial statements were available to be issued.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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*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.

**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 \$103,565 and \$98,351, 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 \$64,000 and \$61,000, 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.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
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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 49% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009, and 53% and 8%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2008. The 2009 net patient service revenue increased approximately \$340,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

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>
Total patient service revenue	<u>\$ 32,754,686</u>	<u>\$ 30,580,339</u>
Contractual adjustments:		
Medicare	(7,588,812)	(7,519,018)
Medicaid	(1,666,036)	(1,475,866)
Blue Cross	(1,987,247)	(1,595,173)
Other	<u>(1,559,632)</u>	<u>(1,487,304)</u>
Total contractual adjustments	<u>(12,801,727)</u>	<u>(12,077,361)</u>
Net patient service revenue	<u>19,952,959</u>	18,502,978
Provision for bad debts	<u>(1,148,643)</u>	<u>(1,048,707)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 18,804,316</u>	<u>\$ 17,454,271</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.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	\$ 1,589,317	\$ 696,055
Certificates of deposit	2,531,515	2,449,672
Interest receivable	<u>19,594</u>	<u>18,764</u>
 Total deposits	 <u>\$ 4,140,426</u>	 <u>\$ 3,164,491</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 1,476,063	\$ 458,493
Assets limited as to use or restricted	<u>2,664,363</u>	<u>2,705,998</u>
	<u>\$ 4,140,426</u>	<u>\$ 3,164,491</u>

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

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

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

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT**

Summaries of land, buildings, and equipment at June 30, 2009 and 2008, are as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
<b>Cost</b>					
Land and land improvements	\$ 691,757	\$ -	\$ -	\$ -	\$ 691,757
Building	4,818,096	74,644	-	45,284	4,938,024
Fixed equipment	6,639,109	78,403	-	142,961	6,860,473
Major movable equipment	3,451,374	21,788	(10,577)	455,247	3,917,832
Construction in progress	368,082	341,432	-	(643,492)	66,022
<b>Total</b>	<b>15,968,418</b>	<b>\$ 516,267</b>	<b>\$ (10,577)</b>	<b>\$ -</b>	<b>16,474,108</b>
<b>Accumulated depreciation</b>					
Land improvements	392,775	\$ 26,484	\$ -	\$ -	419,259
Building	2,434,477	173,538	-	-	2,608,015
Fixed equipment	3,445,249	279,939	(9,436)	-	3,715,752
Major movable equipment	3,019,094	362,008	-	-	3,381,102
<b>Total</b>	<b>9,291,595</b>	<b>\$ 841,969</b>	<b>\$ (9,436)</b>	<b>\$ -</b>	<b>10,124,128</b>
Land, buildings, and equipment, net	<u>\$ 6,676,823</u>				<u>\$ 6,349,980</u>
	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
<b>Cost</b>					
Land and land improvements	\$ 691,757	\$ -	\$ -	\$ -	\$ 691,757
Building	4,729,181	9,986	-	78,929	4,818,096
Fixed equipment	6,202,814	7,295	(3,789)	432,789	6,639,109
Major movable equipment	3,792,515	90,251	(439,268)	7,876	3,451,374
Construction in progress	246,205	641,471	-	(519,594)	368,082
<b>Total</b>	<b>15,662,472</b>	<b>\$ 749,003</b>	<b>\$ (443,057)</b>	<b>\$ -</b>	<b>15,968,418</b>
<b>Accumulated depreciation</b>					
Land improvements	366,247	\$ 26,528	\$ -	\$ -	392,775
Building	2,273,967	164,300	(3,790)	-	2,434,477
Fixed equipment	3,626,789	257,251	(438,791)	-	3,445,249
Major movable equipment	2,711,244	307,850	-	-	3,019,094
<b>Total</b>	<b>8,978,247</b>	<b>\$ 755,929</b>	<b>\$ (442,581)</b>	<b>\$ -</b>	<b>9,291,595</b>
Land, buildings, and equipment, net	<u>\$ 6,684,225</u>				<u>\$ 6,676,823</u>

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**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 6 – 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	<b>Balance June 30, 2009</b>	Amounts Due Within One Year
1998 Hospital revenue bonds	\$ 1,645,464	\$ -	\$ (207,170)	<b>\$ 1,438,294</b>	\$ (217,769)
Hospital revenue note - Green Belt Bank and Trust	44,288	-	(44,288)	-	-
USDA loan	-	412,037	-	<b>412,037</b>	(89,363)
Hospital note payable - Cedar Rapids Bank and Trust	-	72,345	(18,031)	<b>54,314</b>	(20,744)
<b>Total long-term debt</b>	<b><u>\$ 1,689,752</u></b>	<b><u>\$ 484,382</u></b>	<b><u>\$ (269,489)</u></b>	<b><u>1,904,645</u></b>	<b><u>\$ (327,876)</u></b>
Less current maturities				<b><u>(327,876)</u></b>	
Long-term debt, less current maturities				<b><u>\$ 1,576,769</u></b>	
	Balance June 30, 2007	Additions	Payments	Balance June 30, 2008	Amounts Due Within One Year
1998 Hospital revenue bonds	\$ 1,842,552	\$ -	\$ (197,088)	\$ 1,645,464	\$ (207,170)
Hospital revenue note - Green Belt Bank and Trust	216,472	-	(172,184)	44,288	(44,288)
Obligations under capital lease	10,833	-	(10,833)	-	-
<b>Total long-term debt</b>	<b><u>\$ 2,069,857</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (380,105)</u></b>	<b>1,689,752</b>	<b><u>\$ (251,458)</u></b>
Less current maturities				<b><u>(251,458)</u></b>	
Long-term debt, less current maturities				<b><u>\$ 1,438,294</u></b>	

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**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

*1998 Hospital Revenue Bonds Payable*

City of Iowa Falls Hospital Revenue Bonds, payable to Iowa Falls State Bank and Green Belt Bank and Trust issued November 1, 1998, in accordance with Chapter 384, Code of Iowa, with interest of 5%, through May 2015. Interest only payments were paid monthly through May 1, 2000, with interest and principal payments due monthly thereafter. Monthly deposits into a sinking fund are required for payment of interest and principal. A debt service reserve fund, which is to be maintained at \$284,725, is fully funded.

*Hospital Revenue Note – Green Belt Bank and Trust*

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

*USDA Loan*

USDA requires monthly payments of principal and interest of \$8,218 through December 2013. Interest is charged at a rate of 2.49%.

*Hospital Note Payable – Cedar Rapids Bank and Trust*

Cedar Rapids Bank and Trust requires monthly payments of principal and interest of \$1,956 through December 2011. Interest is charged at a rate of 6.073%.

The bonds, loan, and notes are payable solely and only from revenues and receipts of the Hospital.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 327,876	\$ 79,127	\$ 407,003
2011	342,564	64,243	406,807
2012	346,067	49,005	395,072
2013	349,223	34,113	383,336
2014	306,729	19,116	325,845
2015	232,186	5,348	237,534
	<u>\$ 1,904,645</u>	<u>\$ 250,952</u>	<u>\$ 2,155,597</u>

**NOTE 7 – LEASES**

The Hospital leases certain equipment and a building under noncancelable long-term lease agreements. These leases have been recorded as operating leases. Total lease expense for the years ended June 30, 2009 and 2008, for all operating leases was \$131,447 and \$109,730, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
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Minimum future lease payments for the operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2010	\$ 294,129
2011	247,487
2012	116,603
2013	50,274
Total minimum lease payments	<u>\$ 708,493</u>

The Hospital has also entered into a lease agreement for a clinic building in Ackley. However, the monthly lease payments have not yet been determined.

**NOTE 8 – 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 contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$577,808, \$507,777, and \$455,035, respectively, equal to the required contributions for each year.

**NOTE 9 – INVESTMENTS IN AFFILIATED ORGANIZATIONS**

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

*Iowa Falls Clinic*

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

The Hospital is a 50% owner of this Clinic and shares income or losses from Clinic operations at that percentage. The Hospital's share of income, \$140,118 in 2009 and \$203,857 in 2008, is included in non-operating revenues. During the years ended June 30, 2009 and 2008, the Hospital received equity distributions of \$100,000 and \$144,000, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
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The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2009 and 2008, were \$213,971 and \$188,969, respectively. As of June 30, 2009 and 2008, the Hospital's records reflected a receivable from affiliated organizations of \$28,049 and \$16,377, respectively, relating to these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Assets	<u>\$ 1,180,771</u>	<u>\$ 1,094,175</u>
Current liabilities	<u>\$ 181,244</u>	<u>\$ 174,884</u>
Unrestricted net assets	<u>999,527</u>	<u>919,291</u>
 Total liabilities and net assets	 <u>\$ 1,180,771</u>	 <u>\$ 1,094,175</u>
 Total revenues, gain, and other support	 <u>\$ 3,817,614</u>	 <u>\$ 3,840,722</u>
 Revenues in excess of expenses before distribution to owners	 <u>\$ 280,236</u>	 <u>\$ 407,714</u>

*Greenbelt Home Care*

The Hospital has a partnership interest in a joint venture of Greenbelt Home Care. During fiscal year 2006, the Hospital forgave a loan of \$23,636 to Greenbelt Home Care in exchange for a 10% increase in its partnership interest. After the transaction, the Hospital has a 30% interest in the joint venture of Greenbelt Home Care and shares any income or loss at that percentage. The Hospital has contributed \$51,932 of capital to this joint venture, and loaned \$3,507 as of June 30, 2009. The Hospital's share of the joint venture gains and losses was \$(25,238) in 2009 and \$(23,557) in 2008 and is included in non-operating revenues.

**NOTE 10 – RELATED ORGANIZATIONS**

*Master Affiliation Agreement*

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa region under the name of Ellsworth Municipal Hospital. As a part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services for the Hospital. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$1,993,665 and \$1,782,464 for the years ended June 30, 2009 and 2008, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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*Management Services Agreement*

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were \$439,362 and \$384,715 for the years ended June 30, 2009 and 2008, respectively.

*Due to Affiliated Organization*

As of June 30, 2009 and 2008, the Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$135,213 and \$188,458, respectively, for the various services and distributions related to these agreements.

**NOTE 11 – CONTINGENCIES**

*Malpractice Insurance*

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

*Health Care Legislation and Regulation*

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

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

**NOTE 12 - COMMITMENT**

The Hospital has entered into a rental agreement effective July 1, 2007, and ending June 30, 2010. The rental agreement is for the clinic building in Ackley. The commitment for future rent payments consists of \$25,200 due in fiscal year 2010.

Rent expense of \$25,200 on the rental agreement is included in the clinic's expenses for the years ended June 30, 2009 and 2008, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 13 – BUDGET AND BUDGETARY ACCOUNTING**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The reported expenses for the year ended June 30, 2009, were \$19,587,199 as compared to the budget amount of \$19,184,558. The reported revenues for the same period were \$19,893,392 as compared to the budget amount of \$19,652,368.

**NOTE 14 – RISK MANAGEMENT**

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

**NOTE 15 – CONCENTRATION OF CREDIT RISK**

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	33%	33%
Medicaid	3	5
Commercial insurance	21	23
Other third-party payors and patients	<u>43</u>	<u>39</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>



Ellsworth Municipal Hospital  
*"Caring for People in Special Ways"*



CPAs & BUSINESS ADVISORS

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

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The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Ellsworth Municipal Hospital and its discretely presented component unit taken as a whole. The supplementary information and the 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 37 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.

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

Dubuque, Iowa  
September 18, 2009

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	TOTAL	
	2009	2008
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 1,963,275	\$ 2,144,816
Swing-bed	663,119	586,090
INN care	5,936	5,600
Psychiatric care	2,512,785	2,523,800
Nursery	117,220	102,451
Subtotal	<u>5,262,335</u>	<u>5,362,757</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	1,631,098	1,352,022
Recovery room	64,919	40,720
Labor and delivery rooms	155,402	127,327
Anesthesiology	633,117	578,609
Radiology	5,734,814	5,283,726
Laboratory	5,400,590	5,072,379
Blood	33,256	59,400
Intravenous therapy	111,852	221,044
Respiratory therapy	1,011,850	1,189,483
Physical therapy	971,719	911,639
Occupational therapy	527,818	489,055
Speech therapy	149,129	158,750
Electrocardiology	326,370	265,265
Cardiac rehabilitation	236,474	210,101
Medical and surgical supplies	808,557	711,238
Pharmacy	2,663,779	1,980,199
Emergency services	2,074,260	2,005,060
Surgical clinic	771,482	741,386
Psychiatrist	718,311	713,026
Clinic	2,715,199	2,427,691
Partial hospital psychiatric	356,096	347,110
Psychiatric counseling	341,190	294,871
Chemical dependency	136,321	113,347
Diabetic education	22,313	22,485
Subtotal	<u>27,595,916</u>	<u>25,315,933</u>
Total	32,858,251	30,678,690
Charity care	<u>(103,565)</u>	<u>(98,351)</u>
Total patient service revenue	<u>32,754,686</u>	<u>30,580,339</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(7,588,812)	(7,519,018)
Medicaid	(1,666,036)	(1,475,866)
Blue Cross	(1,987,247)	(1,595,173)
Other	(1,559,632)	(1,487,304)
Total contractual adjustments	<u>(12,801,727)</u>	<u>(12,077,361)</u>
NET PATIENT SERVICE REVENUE	19,952,959	18,502,978
PROVISION FOR BAD DEBTS	<u>(1,148,643)</u>	<u>(1,048,707)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 18,804,316</u>	<u>\$ 17,454,271</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 1,730,691	\$ 1,938,973	\$ 232,584	\$ 205,843
663,119	586,090	-	-
5,936	5,600	-	-
2,512,785	2,521,326	-	2,474
117,220	102,451	-	-
<u>5,029,751</u>	<u>5,154,440</u>	<u>232,584</u>	<u>208,317</u>
239,131	258,520	1,391,967	1,093,502
16,013	12,464	48,906	28,256
151,181	123,260	4,221	4,067
126,372	146,316	506,745	432,293
655,904	705,266	5,078,910	4,578,460
1,422,479	1,270,186	3,978,111	3,802,193
16,628	34,324	16,628	25,076
68,120	154,594	43,732	66,450
671,982	963,855	339,868	225,628
344,638	330,912	627,081	580,727
422,543	369,201	105,275	119,854
48,781	73,850	100,348	84,900
41,752	43,548	284,618	221,717
-	230	236,474	209,871
165,537	197,347	643,020	513,891
1,333,766	1,174,706	1,330,013	805,493
201,092	220,173	1,873,168	1,784,887
-	-	771,482	741,386
-	-	718,311	713,026
-	-	2,715,199	2,427,691
424	2,900	355,672	344,210
-	548	341,190	294,323
-	-	136,321	113,347
-	-	22,313	22,485
<u>5,926,343</u>	<u>6,082,200</u>	<u>21,669,573</u>	<u>19,233,733</u>
<u>\$ 10,956,094</u>	<u>\$ 11,236,640</u>	<u>\$ 21,902,157</u>	<u>\$ 19,442,050</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Grants	\$ 174,030	\$ 96,259
Rent	125,160	125,160
Lab fees	119,003	82,335
Guest meals	68,567	65,649
Foundation services	63,536	58,529
Clinic fees	61,202	64,392
Management fees	49,600	34,601
Contributions for operations	45,522	39,947
Health program	38,132	61,564
Housekeeping services	28,788	28,788
Purchase discounts and rebates	26,960	62,300
Healthy hearts	26,157	32,332
Miscellaneous pharmacy sales	6,505	12,691
Therapy services	4,265	1,507
Medical records transcripts	3,835	2,122
Vending machines	3,221	3,250
Laundry	332	313
Pharmacy service	-	32,368
Telemedicine grant	-	502
Other	<u>22,524</u>	<u>19,859</u>
<b>TOTAL OTHER OPERATING REVENUES</b>	<b><u>\$ 867,339</u></b>	<b><u>\$ 824,468</u></b>

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 179,938	\$ 188,415
Supplies and other expenses	<u>115,951</u>	<u>101,311</u>
	<u>295,889</u>	<u>289,726</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	1,297,660	1,249,024
Supplies and other expenses	<u>388,552</u>	<u>181,295</u>
	<u>1,686,212</u>	<u>1,430,319</u>
<b>PSYCHIATRIC CARE</b>		
Salaries and wages	830,189	771,977
Supplies and other expenses	<u>142,056</u>	<u>80,151</u>
	<u>972,245</u>	<u>852,128</u>
<b>NURSERY</b>		
Salaries and wages	49,692	31,039
Supplies and other expenses	<u>22,127</u>	<u>4,247</u>
	<u>71,819</u>	<u>35,286</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	392,680	366,800
Supplies and other expenses	<u>175,764</u>	<u>154,627</u>
	<u>568,444</u>	<u>521,427</u>
<b>LABOR AND DELIVERY ROOMS</b>		
Salaries and wages	78,504	67,486
Supplies and other expenses	<u>39,267</u>	<u>180,380</u>
	<u>117,771</u>	<u>247,866</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>21,870</u>	<u>15,677</u>
<b>NONPHYSICIAN ANESTHETISTS</b>		
Salaries and wages	334,227	149,969
Supplies and other expenses	<u>4,620</u>	<u>72,903</u>
	<u>338,847</u>	<u>222,872</u>
<b>RADIOLOGY</b>		
Salaries and wages	385,231	372,829
Supplies and other expenses	<u>762,195</u>	<u>690,310</u>
	<u>1,147,426</u>	<u>1,063,139</u>

(continued)

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>LABORATORY</b>		
Salaries and wages	\$ 337,821	\$ 354,634
Supplies and other expenses	<u>451,135</u>	<u>472,670</u>
	<u>788,956</u>	<u>827,304</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	41,448	43,853
Supplies and other expenses	<u>45,612</u>	<u>34,964</u>
	<u>87,060</u>	<u>78,817</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	289,920	266,272
Supplies and other expenses	<u>25,981</u>	<u>46,388</u>
	<u>315,901</u>	<u>312,660</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	108,245	95,774
Supplies and other expenses	<u>6,942</u>	<u>8,149</u>
	<u>115,187</u>	<u>103,923</u>
<b>SPEECH THERAPY</b>		
Salaries and wages	73,551	73,252
Supplies and other expenses	<u>4,461</u>	<u>3,438</u>
	<u>78,012</u>	<u>76,690</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	8,180	8,438
Supplies and other expenses	<u>26,943</u>	<u>24,902</u>
	<u>35,123</u>	<u>33,340</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	95,814	100,004
Supplies and other expenses	<u>21,294</u>	<u>21,926</u>
	<u>117,108</u>	<u>121,930</u>
<b>MEDICAL AND SURGICAL SUPPLIES</b>		
Supplies and other expenses	<u>260,286</u>	<u>228,278</u>
<b>PHARMACY</b>		
Salaries and wages	208,977	280,083
Supplies and other expenses	<u>588,302</u>	<u>440,648</u>
	<u>797,279</u>	<u>720,731</u>

(continued)

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CENTRAL SUPPLY</b>		
Salaries and wages	\$ 37,592	\$ 46,489
Supplies and other expenses	<u>16,550</u>	<u>19,704</u>
	<u>54,142</u>	<u>66,193</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	614,796	450,875
Supplies and other expenses	<u>354,566</u>	<u>396,903</u>
	<u>969,362</u>	<u>847,778</u>
<b>SURGICAL CLINIC</b>		
Salaries and wages	386,916	313,399
Supplies and other expenses	<u>112,708</u>	<u>116,057</u>
	<u>499,624</u>	<u>429,456</u>
<b>CLINIC</b>		
Salaries and wages	1,225,337	840,280
Supplies and other expenses	<u>1,301,902</u>	<u>1,501,170</u>
	<u>2,527,239</u>	<u>2,341,450</u>
<b>OUTREACH CLINIC</b>		
Salaries and wages	20,349	17,379
Supplies and other expenses	<u>10,691</u>	<u>8,020</u>
	<u>31,040</u>	<u>25,399</u>
<b>ENTEROSTOMAL THERAPY</b>		
Supplies and other expenses	<u>5,549</u>	<u>12,957</u>
<b>PARTIAL HOSPITAL PSYCHIATRIC</b>		
Salaries and wages	88,415	97,056
Supplies and other expenses	<u>3,436</u>	<u>2,721</u>
	<u>91,851</u>	<u>99,777</u>
<b>PSYCHIATRIC COUNSELING</b>		
Salaries and wages	125,461	141,205
Supplies and other expenses	<u>2,380</u>	<u>2,215</u>
	<u>127,841</u>	<u>143,420</u>
<b>CHEMICAL DEPENDENCY</b>		
Salaries and wages	72,078	81,636
Supplies and other expenses	<u>3,247</u>	<u>2,771</u>
	<u>75,325</u>	<u>84,407</u>
<b>DIABETIC EDUCATION</b>		
Salaries and wages	28,846	32,398
Supplies and other expenses	<u>363</u>	<u>2,308</u>
	<u>29,209</u>	<u>34,706</u>

(continued)

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>SOCIAL SERVICES</b>		
Salaries and wages	\$ 13,457	\$ 11,753
Supplies and other expenses	<u>241</u>	<u>313</u>
	<u>13,698</u>	<u>12,066</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	281,914	264,528
Supplies and other expenses	<u>52,624</u>	<u>23,450</u>
	<u>334,538</u>	<u>287,978</u>
<b>DIETARY</b>		
Salaries and wages	217,254	205,546
Supplies and other expenses	<u>148,194</u>	<u>145,186</u>
	<u>365,448</u>	<u>350,732</u>
<b>OPERATION OF PLANT</b>		
Salaries and wages	184,431	207,519
Supplies and other expenses	<u>463,524</u>	<u>562,562</u>
	<u>647,955</u>	<u>770,081</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	177,307	185,331
Supplies and other expenses	<u>24,915</u>	<u>23,362</u>
	<u>202,222</u>	<u>208,693</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	20,110	21,412
Supplies and other expenses	<u>9,793</u>	<u>13,301</u>
	<u>29,903</u>	<u>34,713</u>
<b>MARKETING AND COMMUNITY HEALTH PROMOTIONS</b>		
Salaries and wages	243,583	219,403
Supplies and other expenses	<u>153,564</u>	<u>163,966</u>
	<u>397,147</u>	<u>383,369</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	850,022	807,972
Supplies and other expenses	<u>1,336,088</u>	<u>1,103,613</u>
	<u>2,186,110</u>	<u>1,911,585</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation and amortization	843,959	757,918
Interest	81,028	93,999
Employee benefits	<u>2,258,574</u>	<u>1,980,649</u>
	<u>3,183,561</u>	<u>2,832,566</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 19,587,199</u></u>	<u><u>\$ 18,059,439</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2009 AND 2008**

ANALYSIS OF AGING  Days Since Discharge	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 2,733,608	49.90%	\$ 2,712,274	48.71%
31 to 60 days	854,812	15.61%	930,553	16.71%
61 to 90 days	325,449	5.94%	386,609	6.94%
91 days and over	<u>1,564,154</u>	<u>28.55%</u>	<u>1,539,312</u>	<u>27.64%</u>
	<b>5,478,023</b>	<b>100.00%</b>	5,568,748	100.00%
Less: Allowance for doubtful accounts	765,000		764,000	
Allowance for contractual adjustments	<u>1,730,000</u>		<u>1,689,299</u>	
Net	<u>\$ 2,983,023</u>		<u>\$ 3,115,449</u>	
Net patient service revenue (net of provision for bad debts) per calendar day	<u>\$ 51,519</u>		<u>\$ 47,820</u>	
Days of net revenue in net accounts receivable at year end	<u>58</u>		<u>65</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	2009	2008
Beginning Balance	<u>\$ 764,000</u>	<u>\$ 678,000</u>
Add:		
Provision for bad debts	1,148,643	1,048,707
Recoveries previously written off	<u>222,555</u>	<u>218,003</u>
	<u>1,371,198</u>	<u>1,266,710</u>
Less:		
Accounts written off	<u>(1,370,198)</u>	<u>(1,180,710)</u>
Ending Balance	<u>\$ 765,000</u>	<u>\$ 764,000</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE  
JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>SUPPLIES</b>		
Pharmacy	\$ 214,675	\$ 201,515
Operating room and central supply	58,557	71,660
Central stores	48,637	58,181
Laboratory	33,919	31,310
Dietary	<u>8,621</u>	<u>7,325</u>
 Total supplies	 <u>\$ 364,409</u>	 <u>\$ 369,991</u>
 <b>PREPAID EXPENSE</b>		
Service contracts	\$ 27,447	\$ 31,188
Insurance	25,100	23,759
Dues	9,089	8,735
Other	<u>3,905</u>	<u>5,763</u>
 Total prepaid expense	 <u>\$ 65,541</u>	 <u>\$ 69,445</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULES OF BOND INVESTMENT TRANSACTIONS  
JUNE 30, 2009 AND 2008**

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	Balance July 1, 2008	Interest Earned	Interest Received	Balance June 30, 2009
Debt service reserve fund				
1998 Hospital revenue bonds	\$ 284,725	\$ 11,771	\$ (11,771)	\$ 284,725
Revenue bond sinking fund				
1998 Hospital revenue bonds	<u>23,727</u>	-	-	<u>23,727</u>
 Total	 <u>\$ 308,452</u>	 <u>\$ 11,771</u>	 <u>\$ (11,771)</u>	 <u>\$ 308,452</u>

**ELLSWORTH MUNICIPAL HOSPITAL**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>PATIENT DAYS</b>		
Acute	<b>2,562</b>	3,045
Swing-bed	<b>1,094</b>	1,055
Inn Care	<b>78</b>	35
Newborn	<b>203</b>	187
Psychiatric	<b>2,565</b>	2,720
Totals	<b><u>6,502</u></b>	<u>7,042</u>
<b>DISCHARGES</b>		
Acute	<b>883</b>	958
Swing-bed	<b>124</b>	134
Inn Care	<b>12</b>	9
Newborn	<b>111</b>	98
Psychiatric	<b>645</b>	613
Totals	<b><u>1,775</u></b>	<u>1,812</u>
<b>AVERAGE LENGTH OF STAY</b>		
Acute	<b>2.90</b>	3.18
Swing-bed	<b>8.82</b>	7.87
Psychiatric	<b>3.98</b>	4.44
<b>BEDS</b>		
Acute	<b>25</b>	25
Psychiatric	<b>10</b>	10
<b>OCCUPANCY PERCENTAGE</b>		
Acute and swing-bed	<b>40%</b>	45%
Psychiatric	<b>70%</b>	75%



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**

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The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited the accompanying balance sheets of Ellsworth Municipal Hospital and its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2009 and 2008, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended, and have issued our report thereon dated September 18, 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 Ellsworth Municipal Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about Ellsworth Municipal Hospital's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Ellsworth Municipal Hospital and are reported in Part 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.

Ellsworth Municipal 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.

We also noted certain additional matters that we reported to management of Ellsworth Municipal Hospital in a separate letter dated September 18, 2009.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Ellsworth Municipal Hospital and other parties to whom Ellsworth Municipal Hospital may report, 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 Ellsworth Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

Dubuque, Iowa  
September 18, 2009



CPAs & BUSINESS ADVISORS

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

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The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

Compliance

We have audited the compliance of Ellsworth Municipal Hospital with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The major federal program of Ellsworth Municipal 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 the management of Ellsworth Municipal Hospital. Our responsibility is to express an opinion on Ellsworth Municipal 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 Ellsworth Municipal Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ellsworth Municipal Hospital's compliance with those requirements.

In our opinion, Ellsworth Municipal 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 Ellsworth Municipal 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 Ellsworth Municipal 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 Ellsworth Municipal 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 Ellsworth Municipal 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.

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A control deficiency in Ellsworth Municipal 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 Ellsworth Municipal 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 Ellsworth Municipal 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 Ellsworth Municipal 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.

Ellsworth Municipal 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 Ellsworth Municipal Hospital's response, we did not audit Ellsworth Municipal 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 Ellsworth Municipal Hospital and other parties to whom Ellsworth Municipal 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  
September 18, 2009

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2009**

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
United States Department of Agriculture Direct Program Distance Learning and Telemedicine Loans and Grants	10.855		<u>\$ 515,046</u>
Department of Health and Human Services Pass-through program from: Hancock County Health Services Research on Healthcare Costs, Quality, and Outcomes	93.226	1 P20 H5015396-01	6,513
Pass-through program from: Mercy Medical Center State Rural Hospital Flexibility Program	93.241	5888CA16 / 5889CA01	7,281
Pass-through program from: Iowa Department of Public Health State Rural Hospital Improvement Grant Program	93.301	5889SH18	6,126
Pass-through program from: Grinnell Regional Medical Center National Bioterrorism Hospital Preparedness Program	93.889	5889BHP01	<u>10,484</u>
Total Department of Health and Human Services			<u>30,404</u>
			<u><u>\$ 545,450</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2009**

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Ellsworth Municipal 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.

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

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**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 10.855 – Distance Learning and Telemedicine Loans and Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ellsworth Municipal 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.

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

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**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 Ellsworth Municipal Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

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 – Ellsworth Municipal Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by 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.

**ELLSWORTH MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

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**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 10.855: Distance Learning and Telemedicine Loans and Grants  
United States Department of Agriculture**

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 Ellsworth Municipal Hospital. See audit finding II-A-09.

**Part IV: Other Findings Related to Required Statutory Reporting:**

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

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

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

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



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT  
ON DEBT AGREEMENT COVENANTS**

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The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Ellsworth Municipal Hospital as of June 30, 2009, and have issued our report thereon dated September 18, 2009.

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

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

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

Dubuque, Iowa  
September 18, 2009



CPAs & BUSINESS ADVISORS

The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited the financial statements of Ellsworth Municipal Hospital for the year ended June 30, 2009, and have issued our report thereon dated September 18, 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 15, 2009. Professional standards also require that we communicate to you 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 Ellsworth Municipal Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 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 – The 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 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. The following significant misstatements were detected as a result of our audit procedures and have been corrected by management.

Increase in net assets prior to audit adjustments	\$ 220,820
To adjust estimated third-party payor settlements	121,107
To adjust accrued FICA and Medicare liabilities	(29,909)
Other adjustments	<u>(5,825)</u>
 Increase in net assets as reported	 <u>\$ 306,193</u>

The net effect of the adjustments was to increase net assets by \$85,373.

*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 September 18, 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.

**Other Comments**

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

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

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

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

Dubuque, Iowa  
September 18, 2009

# ELLSWORTH MUNICIPAL HOSPITAL

YEAR ENDED JUNE 30, 2009

## OTHER COMMENTS

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### **Segregation of Duties and Compensating Controls over Accounting Procedures**

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

#### ***Oversight Over Disbursements – Check Mailing***

It is our understanding that the accounts payable clerk mails all checks after processing accounts payable. The current procedure gives the clerk an opportunity to process a fictitious invoice. As an additional control over accounts payable, we recommend that another employee control the check mailing process. This will help to segregate duties within the accounts payable function and reduce the possibility of a fictitious invoice being processed.

#### ***Disbursement Approval***

During our review of the cash disbursements process, we noted an instance where a fixed asset purchase requiring board approval was not approved. We understand that because of the timing of purchases and billing, it may not be feasible for disbursements to be approved before their payment date. However, board approval after the disbursements are made is still important. We recommend that a monthly check register be included in the monthly board packets and that this listing be approved at the monthly board meetings to ensure proper approval of disbursements.

#### ***Bank Reconciliations***

During our audit, we noticed that bank reconciliations are not reviewed by the Chief Financial Officer (CFO). We recommend that a review process be implemented and reconciliations be reviewed and approved on a timely basis.

#### ***Oversight Over Payroll Disbursements - Proper Employees***

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

#### ***Oversight over Expenditures - Maintaining the Approved Vendor List***

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

# ELLSWORTH MUNICIPAL HOSPITAL

YEAR ENDED JUNE 30, 2009

OTHER COMMENTS (continued)

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## *Oversight Over Disbursements - Accounting for Pre-Numbered Checks*

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