

Adair County Memorial Hospital
Accountants' Report and Financial Statements
June 30, 2010 and 2009



Adair County Memorial Hospital

June 30, 2010 and 2009

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Adair County Memorial Hospital
Greenfield, Iowa

We have audited the accompanying balance sheets of Adair County Memorial Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adair County Memorial Hospital as of June 30, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2010, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

BKD, LLP

Kansas City, Missouri
October 5, 2010

Adair County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

Introduction

This management's discussion and analysis of the financial performance of Adair County Memorial Hospital and Adair County Health Foundation (collectively referred to as the Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- The Hospital's net assets increased by \$236,171 resulting from \$164,797 of the Hospital's excess revenues over expenses and capital grants and contributions of \$71,374.
- The Hospital's patient service revenues increased \$240,833 or 3% from 2009 to 2010 and \$916,492 or 12% from 2008 to 2009.
- The accounts receivable increased 12% between 2009 and 2010 compared to having decreased .8% between 2008 and 2009. Allowance for uncollectible accounts was approximately 18% of gross accounts receivable for 2010.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$236,171 or 3% and \$401,097 or 6% in 2010 and 2009, respectively, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2010	2009	2008
Assets			
Patient accounts receivable, net	\$ 1,219,698	\$ 1,092,672	\$ 1,101,082
Other current assets	6,253,719	5,408,783	6,417,431
Capital assets, net	9,452,529	10,257,816	8,790,576
Other noncurrent assets	<u>1,262,665</u>	<u>1,375,765</u>	<u>2,024,376</u>
Total assets	<u>\$ 18,188,611</u>	<u>\$ 18,135,036</u>	<u>\$ 18,333,465</u>
Liabilities			
Current liabilities	\$ 2,145,299	\$ 2,129,574	\$ 2,606,341
Long-term debt	<u>9,039,236</u>	<u>9,237,557</u>	<u>9,360,316</u>
Total liabilities	<u>11,184,535</u>	<u>11,367,131</u>	<u>11,966,657</u>
Net Assets			
Invested in capital assets, net of related debt	957,946	2,303,607	75,836
Restricted expendable	54,274	862,554	865,816
Unrestricted	<u>5,991,856</u>	<u>3,601,744</u>	<u>5,425,156</u>
Total net assets	<u>7,004,076</u>	<u>6,767,905</u>	<u>6,366,808</u>
Total liabilities and net assets	<u>\$ 18,188,611</u>	<u>\$ 18,135,036</u>	<u>\$ 18,333,465</u>

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's excess of revenues over expenses was \$164,797 down from \$379,009 in 2009, as shown in Table 2. This decrease is made up primarily of a decrease in volumes across the Hospital in response to a down turn in the local economy.

Table 2: Operating Results and Changes in Net Assets

	2010	2009	2008
Operating Revenues			
Net patient service revenue	\$ 8,266,636	\$ 8,025,803	\$ 7,184,175
Other operating revenues	<u>378,353</u>	<u>341,755</u>	<u>325,535</u>
Total operating revenues	<u>8,644,989</u>	<u>8,367,558</u>	<u>7,509,710</u>
Operating Expenses			
Salaries and wages and employee benefits	4,935,319	4,628,076	4,206,317
Medical and professional fees	1,423,440	1,297,206	1,353,961
Depreciation and amortization	1,002,129	784,402	304,211
Other operating expenses	<u>2,029,058</u>	<u>2,213,831</u>	<u>2,080,995</u>
Total operating expenses	<u>9,389,946</u>	<u>8,923,515</u>	<u>7,945,484</u>
Operating Loss	<u>(744,957)</u>	<u>(555,957)</u>	<u>(435,774)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,173,736	1,117,127	1,077,798
Interest expense	(405,037)	(329,124)	(6,142)
Interest income	83,194	105,670	124,150
Non-capital grants and gifts	<u>57,861</u>	<u>41,293</u>	<u>29,513</u>
Total nonoperating revenues	<u>909,754</u>	<u>934,966</u>	<u>1,225,319</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	164,797	379,009	789,545
Capital Grants and Contributions	<u>71,374</u>	<u>22,088</u>	<u>380,217</u>
Increase in Net Assets	<u>\$ 236,171</u>	<u>\$ 401,097</u>	<u>\$ 1,169,762</u>

Operating Loss

The Hospital recorded an operating loss for 2010 of \$744,957; a 34% increase over 2009. Revenues were up 3% from 2009 and expenses were up 5% in 2010. The Hospital recorded an operating loss for 2009 of \$555,957 up 11% from 2008. Revenues and expenses were up approximately 11% in 2009. There was a decline in operations in 2009 and 2010. Service volumes were low compared with prior years especially inpatient and swing-bed. Admissions and patient days were both down over the last two years.

Non-operating Revenues and Expenses

Non-operating revenue decreased \$50,701 (excluding interest expense) from 2009. The 4% increase (which excludes interest expense) was due primarily to the increase in property taxes and noncapital grants and gifts. With the completion of the construction project, interest expense on the related debt increased \$75,913 in 2010. Non-operating revenue increased in 2009 over 2008 by 3%, there was no increase in the tax levy that year either, and unrestricted contributions were lower in 2009 than 2008.

Contributions

The Hospital had an increase in total contributions in 2010. The noncapital grants and gifts were \$57,861 in 2010 compared to \$41,293 in 2009. Restricted capital contributions and grants increased in 2010 to \$71,374 from \$22,088 in 2009. The majority of the funds are designated to be used for the building project. Some funds were also raised for ambulance and radiology.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and non-operating revenues and expenses discussed earlier. No new debt was incurred.

Capital Asset and Debt Administration

Capital Assets

Capital assets decreased \$805,287 from 2009. This decrease was due to the completion of the building and renovation project resulting in much higher depreciation over asset additions in 2010. The cost of the entire project, including furnishings and equipment, was \$9.4 million. A significant portion of the funding was obtained through a low interest loan from USDA and the remainder was funded through the issuance of revenue bonds and a capital fundraising campaign.

Debt

The Hospital did not enter any new notes payable or capital leases in 2010.

The details of the notes payable are:

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

To finance the expansion and renovation project, the Hospital carries \$4.5 million in long-term bonds with varying maturities, with final maturity December 2037 and the average interest rate on these bonds is 4.96%. The project is further funded by a USDA loan at 4.125% with final maturity May 15, 2039. There is also a no interest REC loan for \$300,000 issued September 2007. Annual payments of \$30,000 are due every September with maturity September 2017.

Financial Summary

Adair County Memorial Hospital's (ACMH) revenue generated from billing patient services\$10,449,198

Because of contractual requirements with payers such as Medicare, Medicaid and insurance companies and some patient's inability to pay ACMH could not collect.....\$ 2,182,562

In addition, ACMH received contributions, taxes, investment and income other revenues totaling\$ 1,764,518

ACMH paid salaries, wages and employee benefits of.....\$ 4,935,319

Supplies and Professional fees cost\$ 1,423,440

Other expenses, including depreciation and interest expense were\$ 3,436,224

Therefore, the increase in net assets - the amount to help with asset replacement and growth and expansion is..... \$ 236,171

Adair County Memorial Hospital employs	107
Patient care days provided for 2010	956
Emergency Room visits for 2010	1,606
Home Health visits for 2010	7,499

Contacting the Hospital's Financial Management

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

Adair County Memorial Hospital

Balance Sheets

June 30, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$ 2,226,330	\$ 1,343,329
Promises to contribute - current portion	102,056	91,493
Short-term investments	1,955,829	1,132,153
Restricted cash - project fund	-	845,129
Assets Held Under Bond Indenture Agreement - current	64,531	61,870
Patient accounts receivable, net of allowance; 2010 - \$297,800, 2009 - \$232,993	1,219,698	1,092,672
Property taxes receivable	1,244,074	1,084,083
Other receivables	17,808	19,146
Estimated amounts due from third-party payers	278,000	497,991
Supplies	198,562	199,400
Prepaid expenses	166,529	134,189
	<u>7,473,417</u>	<u>6,501,455</u>
Noncurrent Deposits and Other		
Certificates of deposit	411,762	538,728
Externally restricted		
Cash restricted by donors	54,274	-
Promises to contribute	-	251,015
Held under bond indenture agreement	575,447	521,663
Promises to contribute	173,197	-
	<u>1,214,680</u>	<u>1,311,406</u>
Promises to contribute due in one year	102,056	91,493
	<u>1,112,624</u>	<u>1,219,913</u>
Capital Assets, Net of Accumulated Depreciation	<u>9,452,529</u>	<u>10,257,816</u>
Other Assets		
Deferred financing costs	150,041	155,852
Total Assets	<u><u>\$ 18,188,611</u></u>	<u><u>\$ 18,135,036</u></u>

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 204,492	\$ 122,839
Accounts payable	256,250	293,366
Accounts payable - capital assets	7,638	137,154
Accrued payroll and related liabilities	391,971	450,959
Accrued interest	40,874	41,173
Deferred revenue for property taxes	<u>1,244,074</u>	<u>1,084,083</u>
Total current liabilities	2,145,299	2,129,574
Long-term Debt	<u>9,039,236</u>	<u>9,237,557</u>
Total liabilities	<u>11,184,535</u>	<u>11,367,131</u>
Net Assets		
Invested in capital assets, net of related debt	957,946	2,303,607
Restricted-expendable for		
Capital assets	54,274	859,600
Specific operating activities	-	2,954
Unrestricted	<u>5,991,856</u>	<u>3,601,744</u>
Total net assets	<u>7,004,076</u>	<u>6,767,905</u>
Total Liabilities and Net Assets	<u><u>\$ 18,188,611</u></u>	<u><u>\$ 18,135,036</u></u>

Adair County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 8,561,148	\$ 8,320,803
Provision for uncollectible accounts	(294,512)	(295,000)
Net patient service revenue	8,266,636	8,025,803
Other	378,353	341,755
Total operating revenues	8,644,989	8,367,558
Operating Expenses		
Salaries and wages	3,809,716	3,613,952
Employee benefits	1,125,603	1,014,124
Medical professional fees	1,423,440	1,297,206
Supplies and expenses	1,107,290	1,275,942
General services	282,522	309,852
Administrative services	567,445	553,195
Depreciation and amortization	1,002,129	784,402
Loss on disposal of equipment	13,794	(195)
Insurance	58,007	75,037
Total operating expenses	9,389,946	8,923,515
Operating Loss	(744,957)	(555,957)
Nonoperating Revenues (Expenses)		
Property taxes	1,173,736	1,117,127
Interest expense	(405,037)	(329,124)
Interest income	83,194	105,670
Noncapital grants and gifts	57,861	41,293
Total nonoperating revenues	909,754	934,966
Excess of Revenues over Expenses Before Capital Grants and Contributions	164,797	379,009
Capital Grants and Contributions	71,374	22,088
Increase in Net Assets	236,171	401,097
Net Assets, Beginning of Year	6,767,905	6,366,808
Net Assets, End of Year	\$ 7,004,076	\$ 6,767,905

Adair County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Receipts from and on behalf of patients	\$ 8,359,601	\$ 7,579,722
Payments to suppliers and contractors	(3,507,322)	(4,769,392)
Payments to and on behalf of employees	(4,994,606)	(4,487,971)
Other receipts, net	369,128	305,568
Net cash provided by (used in) operating activities	226,801	(1,372,073)
Noncapital Financing Activities		
Property taxes	1,173,736	1,117,127
Noncapital grants and gifts	57,861	41,293
Net cash provided by noncapital financing activities	1,231,597	1,158,420
Capital and Related Financing Activities		
Proceeds from issuance of capital debt	-	4,500,000
Gifts for capital purchases	71,374	22,088
Principal paid on capital debt and leases	(116,668)	(4,547,719)
Deferred financing costs	-	12,353
Interest paid on capital debt and leases	(405,037)	(329,124)
Purchase of capital assets	(334,341)	(1,724,795)
Net cash used in capital and related financing activities	(784,672)	(2,067,197)
Investing Activities		
Interest on deposits and investments	83,194	105,670
Purchase of investments	1,302,087	1,113,503
Change in non-current cash and investments	(1,966,861)	(1,105,226)
Net cash provided by (used in) investing activities	(581,580)	113,947
Increase (Decrease) in Cash	92,146	(2,166,903)
Cash, Beginning of Year	2,188,458	4,355,361
Cash, End of Year	\$ 2,280,604	\$ 2,188,458

Adair County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 2,226,330	\$ 1,343,329
Restricted cash - project fund	-	845,129
Cash restricted by donors	54,274	-
Total cash	\$ 2,280,604	\$ 2,188,458
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (744,957)	\$ (555,957)
Depreciation and amortization	1,002,129	784,402
(Gain) loss on disposals of capital assets	13,794	(195)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(127,026)	8,410
Supplies	838	(9,394)
Prepaid expenses and other assets	(32,340)	(33,578)
Estimated amounts due from and to third-party payers	219,991	(454,491)
Accounts payable and accrued expenses	(105,628)	(1,073,382)
Other assets and liabilities	-	(37,888)
Net cash provided by (used in) operating activities	\$ 226,801	\$ (1,372,073)
Supplemental Cash Flows Information		
Capital assets acquisitions included in liabilities	\$ 7,638	\$ 137,154

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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

Nature of Operations

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

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

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Property Taxes

The Hospital received approximately 12% of its financial support from property tax revenues in the years ended June 30, 2010 and 2009, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

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

Patient Accounts Receivable

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

Supplies

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

Noncurrent Deposits and Other

Noncurrent deposits and other include (1) assets restricted by donors, (2) assets restricted under indenture agreements, (3) internally designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes and (4) promises to contribute. Internally designated amounts include certificates of deposit.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Capital Assets

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

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

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

	2010	2009
Interest costs capitalized (net of interest earnings on project funds)	\$ -	\$ 47,555
Interest costs charged to expense	405,037	329,124
Total interest incurred (net of interest earnings on project funds)	\$ 405,037	\$ 376,679

Deferred Financing Costs

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

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Net Assets

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$42,859 and \$15,064 for 2010 and 2009, respectively.

Medical Malpractice Coverage and Claims

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

Income Taxes

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

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Reclassification

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

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

Approximately 59% and 61% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2010 and 2009, respectively.

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

Note 3: Deposits, Investments and Interest Income

Deposits

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

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2010 and 2009. The Hospital's deposits in banks at June 30, 2010 and 2009 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had only certificates of deposit investments at June 30, 2010 and 2009.

Summary of Carrying Values

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

	<u>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 5,288,173	\$ 4,442,872
Included in the following balance sheet captions		
Cash	\$ 2,226,330	\$ 1,343,329
Restricted cash - project fund	-	845,129
Assets held under bond indenture agreement - current	64,531	61,870
Assets held under bond indenture agreement	575,447	521,663
Short-term investments	1,955,829	1,132,153
Cash restricted by donors	54,274	-
Other noncurrent cash and deposits	411,762	538,728
	<u>\$ 5,288,173</u>	<u>\$ 4,442,872</u>

Interest Income

Interest income for the years ended June 30, 2010 and 2009, amounted to \$83,194 and \$105,670, respectively.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2010 and 2009 consisted of:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 391,653	\$ 330,630
Medicaid	111,405	122,996
Other third-party payers	492,885	480,182
Patients	<u>521,555</u>	<u>391,857</u>
	1,517,498	1,325,665
Less allowance for uncollectible accounts	<u>297,800</u>	<u>232,993</u>
	<u><u>\$ 1,219,698</u></u>	<u><u>\$ 1,092,672</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers/ Adjustments</u>	<u>Ending Balance</u>
2010					
Land	\$ 50,806	\$ -	\$ -	\$ -	\$ 50,806
Land improvements	356,241	-	-	-	356,241
Buildings and leasehold improvements	9,242,460	-	-	-	9,242,460
Fixed equipment	943,003	-	(39,314)	-	903,689
Major movable equipment	1,668,216	35,518	(150,793)	638,971	2,191,912
Construction in progress	<u>498,337</u>	<u>169,307</u>	<u>-</u>	<u>(638,971)</u>	<u>28,673</u>
	<u>12,759,063</u>	<u>204,825</u>	<u>(190,107)</u>	<u>-</u>	<u>12,773,781</u>
Less accumulated depreciation					
Land improvements	(122,159)	(25,177)	-	-	(147,336)
Buildings and leasehold improvements	(1,120,074)	(512,353)	-	-	(1,632,427)
Fixed equipment	(297,944)	(94,226)	31,306	-	(360,864)
Major movable equipment	<u>(961,070)</u>	<u>(364,562)</u>	<u>145,007</u>	<u>-</u>	<u>(1,180,625)</u>
	<u>(2,501,247)</u>	<u>(996,318)</u>	<u>176,313</u>	<u>-</u>	<u>(3,321,252)</u>
Capital assets, net	<u><u>\$ 10,257,816</u></u>	<u><u>\$ (791,493)</u></u>	<u><u>\$ (13,794)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,452,529</u></u>

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

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

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term Debt					
Union State Bank Notes (A)	\$ 90,396		\$ (11,668)	\$ 78,728	\$ 11,548
Hospital revenue bonds					
Series 2007A (B)	4,500,000		(75,000)	4,425,000	80,000
REC Loan (D)	270,000		(30,000)	240,000	30,000
USDA Series A and B (E)	4,500,000	\$ -	-	4,500,000	82,944
Total long-term debt	\$ 9,360,396	\$ -	\$ (116,668)	\$ 9,243,728	\$ 204,492

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term Debt					
Union State Bank Notes (A)	\$ 108,114		\$ (17,718)	\$ 90,396	\$ 11,080
Hospital revenue bonds					
Series 2007A (B)	4,500,000		-	4,500,000	75,000
Hospital revenue bonds					
Series 2007B (C)	4,500,000		(4,500,000)	-	-
REC Loan (D)	300,000		(30,000)	270,000	30,000
USDA Series A and B (E)	-	\$ 4,500,000	-	4,500,000	6,759
Total long-term debt	\$ 9,408,114	\$ 4,500,000	\$ (4,547,718)	\$ 9,360,396	\$ 122,839

- (A) The Union State Bank notes payable consists of two separate notes with monthly payments of approximately \$1,232 in the aggregate, interest rates ranging from 4.0% to 4.50%, collateralized by property and equipment, due at various dates through 2024.
- (B) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially at varying amounts through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%; collateralized by the Hospital's net revenues.

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

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

- (C) Series 2007B Subordinate Hospital Revenue Bond Anticipation Note; \$4,500,000 maturing May 2009 with semiannual interest payments at 4.05%. The Hospital was approved for a loan through USDA Rural Development for a total of \$4,500,000 which was used to refinance the principal of this Bond at maturity.
- (D) The REC Loan is a Rural Economic Development Loan for \$300,000 to finance an addition to the Hospital. The Loan is a zero interest bearing loan and the Hospital is required to make annual payments of \$30,000 over the next ten years; the first payment was due August 2008.
- (E) The USDA 2009 Series A and B bonds; \$4,500,000 maturing May 2039 with interest only payments monthly for the first 24 months, interest at 4.125%. Payments including principal and interest are \$266,760 on an aggregate basis.

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2011	\$ 44,813	\$ 41,548	\$ 3,265
2012	44,818	42,034	2,784
2013	36,210	33,807	2,403
2014	36,069	33,837	2,232
2015	36,087	34,013	2,074
2016-2020	120,353	113,010	7,343
2021-2024	22,255	20,479	1,776
	<u>\$ 340,605</u>	<u>\$ 318,728</u>	<u>\$ 21,877</u>

The Series 2007A Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$561,335). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$561,335 at June 30, 2010.

The Series 2007A Note Resolution also requires that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$78,643 and \$234,572 at June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, deposits in the Sinking Fund were in excess of required amounts of \$14,113 and \$183,721, respectively.

The Hospital is also required to maintain a Coverage Ratio of 1.20% beginning in 2010.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2011	\$ 559,486	\$ 162,944	\$ 396,542
2012	561,061	171,431	389,630
2013	557,492	175,065	382,427
2014	558,771	183,852	374,919
2015	559,794	192,798	366,996
2016-2020	2,805,261	1,104,236	1,701,025
2021-2025	2,794,792	1,360,969	1,433,823
2026-2030	2,789,686	1,696,681	1,093,005
2031-2035	2,783,150	2,127,999	655,151
2036-2039	1,889,338	1,749,025	140,313
	<u>\$ 15,858,831</u>	<u>\$ 8,925,000</u>	<u>\$ 6,933,831</u>

Note 7: Restricted Net Assets

At June 30, 2010 and 2009, restricted expendable net assets were available for the following purposes:

	2010	2009
Building and equipment	\$ 54,274	\$ 859,600
Specific operating expenses	-	2,954
	<u>\$ 54,274</u>	<u>\$ 862,554</u>

Note 8: Pension Plan

Plan Description

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

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Funding Policy

Plan members are required to contribute 4.3% and 4.1% of their annual covered salaries and the Hospital is required to contribute 6.65% and 6.35% of annual covered payroll for 2010 and 2009, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2010, 2009 and 2008 were \$250,732, \$221,949 and \$189,712, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.65% of annual covered salary for 2010.

Note 9: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$386,081 and \$226,227 were incurred for the years ended June 30, 2010 and 2009, respectively.

Note 10: Budget and Budgetary Accounting

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2010:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,173,736	\$ -	\$ 1,173,736	\$ 1,184,331
Other revenues/receipts	8,873,290	(347,017)	8,526,273	9,182,228
	10,047,026	(347,017)	9,700,009	10,366,559
Expenses/disbursements	9,730,787	137,130	9,867,917	10,256,339
	316,239	(484,147)	(167,908)	110,220
Balance, beginning of year	6,513,511	(522,755)	5,259,474	5,259,474
Balance, end of year	<u>\$ 6,829,750</u>	<u>\$ (1,006,902)</u>	<u>\$ 5,091,566</u>	<u>\$ 5,369,694</u>

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Note 11: Significant Estimates and Concentrations

Current Economic Conditions

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

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

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

Supplementary Information

Adair County Memorial Hospital
Combining Balance Sheet
June 30, 2010

Assets

	Adair County Memorial Hospital	Foundation	Total
Current Assets			
Cash	\$ 2,225,201	\$ 1,129	\$ 2,226,330
Promises to contribute - current portion		102,056	102,056
Short term investments	1,955,829		1,955,829
Assets Held Under Bond Indenture Agreement - current	64,531		64,531
Patient accounts receivable, net of allowance; of \$297,800	1,219,698		1,219,698
Property taxes receivable	1,244,074		1,244,074
Other receivables	17,808		17,808
Estimates due from third-party payers	278,000		278,000
Supplies	198,562		198,562
Prepaid expenses	166,529		166,529
	<u>7,370,232</u>	<u>103,185</u>	<u>7,473,417</u>
Noncurrent Deposits and Other			
Certificates of deposit	411,762		411,762
Externally restricted			
Cash restricted by donors	54,274		54,274
Held under bond indenture agreement	575,447		575,447
Promises to contribute		173,197	173,197
	<u>1,041,483</u>	<u>173,197</u>	<u>1,214,680</u>
Promises to contribute due in one year		102,056	102,056
	<u>1,041,483</u>	<u>71,141</u>	<u>1,112,624</u>
Capital Assets, Net of Accumulated Depreciation	<u>9,452,529</u>		<u>9,452,529</u>
Other Assets			
Deferred financing costs	150,041		150,041
Total Assets	<u>\$ 18,014,285</u>	<u>\$ 174,326</u>	<u>\$ 18,188,611</u>

Liabilities and Net Assets

	Adair County		
	Memorial		
	Hospital	Foundation	Total
Current Liabilities			
Current maturities of long-term debt	\$ 204,492		\$ 204,492
Accounts payable	256,250		256,250
Accounts payable - capital assets	7,638		7,638
Accrued payroll and related liabilities	391,971		391,971
Accrued interest	40,874		40,874
Deferred revenue for property taxes	1,244,074		1,244,074
	<u>2,145,299</u>		<u>2,145,299</u>
Total current liabilities	2,145,299		2,145,299
Long-term Debt	<u>9,039,236</u>		<u>9,039,236</u>
Total liabilities	<u>11,184,535</u>		<u>11,184,535</u>
Net Assets			
Invested in capital assets, net of related debt	957,946		957,946
Restricted-expendable for			
Capital assets	54,274		54,274
Unrestricted	5,817,530	\$ 174,326	5,991,856
	<u>6,829,750</u>	<u>174,326</u>	<u>7,004,076</u>
Total net assets	6,829,750	174,326	7,004,076
Total Liabilities and Net Assets	<u>\$ 18,014,285</u>	<u>\$ 174,326</u>	<u>\$ 18,188,611</u>

Adair County Memorial Hospital
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

	Adair County Memorial Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 8,561,148			\$ 8,561,148
Provision for uncollectible accounts	(294,512)			(294,512)
Net patient service revenue	8,266,636			8,266,636
Other	378,353			378,353
Total operating revenues	<u>8,644,989</u>			<u>8,644,989</u>
Operating Expenses				
Salaries and wages	3,809,716			3,809,716
Employee benefits	1,125,603			1,125,603
Medical professional fees	1,423,440			1,423,440
Supplies and expenses	1,107,290			1,107,290
General services	282,522			282,522
Administrative services	503,249	\$ 139,476	\$ (75,280)	567,445
Depreciation and amortization	1,002,129			1,002,129
Loss on disposal of equipment	13,794			13,794
Insurance	58,007			58,007
Total operating expenses	<u>9,325,750</u>	<u>139,476</u>	<u>(75,280)</u>	<u>9,389,946</u>
Operating Loss	<u>(680,761)</u>	<u>(139,476)</u>	<u>75,280</u>	<u>(744,957)</u>
Nonoperating Revenues (Expenses)				
Property taxes	1,173,736			1,173,736
Interest expense	(405,037)			(405,037)
Interest income	83,194			83,194
Noncapital grants and gifts	197	57,664		57,861
Total nonoperating revenues	<u>852,090</u>	<u>57,664</u>		<u>909,754</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	171,329	(81,812)	75,280	164,797
Capital Grants and Contributions	<u>144,910</u>	<u>1,744</u>	<u>(75,280)</u>	<u>71,374</u>
Increase (Decrease) in Net Assets	316,239	(80,068)	-	236,171
Net Assets, Beginning of Year	<u>6,513,511</u>	<u>254,394</u>	<u>-</u>	<u>6,767,905</u>
Net Assets, End of Year	<u>\$ 6,829,750</u>	<u>\$ 174,326</u>	<u>\$ -</u>	<u>\$ 7,004,076</u>

Adair County Memorial Hospital

Schedules of Patient Service Revenues

June 30, 2010 and 2009

	2010				2009			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	\$ 307,453	\$ 307,453	\$ -	\$ -	\$ 436,089	\$ 436,089	\$ -	\$ -
Swing-bed	182,724	-	-	182,724	123,659	-	-	123,659
Hospital physicians	45,202	-	45,202	-	26,075	889	25,186	-
	<u>535,379</u>	<u>307,453</u>	<u>45,202</u>	<u>182,724</u>	<u>585,823</u>	<u>436,978</u>	<u>25,186</u>	<u>123,659</u>
Nursing Services								
Operating and recovery rooms	596,107	11,853	584,254	-	707,075	13,998	693,077	-
Emergency room	245,987	1,908	244,079	-	249,355	591	248,764	-
Emergency physicians	204,602	77	204,525	-	186,462	-	186,462	-
	<u>1,046,696</u>	<u>13,838</u>	<u>1,032,858</u>	<u>-</u>	<u>1,142,892</u>	<u>14,589</u>	<u>1,128,303</u>	<u>-</u>
Other Professional Services								
Laboratory	1,939,350	113,662	1,783,647	42,041	1,674,444	182,603	1,466,029	25,812
Central services and supplies	176,812	28,559	139,371	8,882	179,704	28,457	144,403	6,844
Blood administration	31,038	9,664	21,374	-	53,608	19,574	34,034	-
Electrocardiology	256,848	12,060	244,533	255	216,076	29,174	186,001	901
Ambulance	414,065	18,630	395,435	-	349,535	2,843	344,820	1,872
Radiology	592,218	14,991	573,744	3,483	535,181	30,195	503,853	1,133
MRI	308,030	5,691	302,339	-	290,516	5,966	282,103	2,447
Mammography	63,364	-	63,364	-	66,359	-	66,359	-
CT	939,938	66,164	871,300	2,474	968,122	91,213	875,299	1,610
Home health	578,883	-	578,883	-	635,676	-	635,676	-
Pharmacy	427,763	101,281	234,744	91,738	339,945	127,341	171,040	41,564
Intravenous therapy	48,034	7,161	40,843	30	58,749	11,646	46,865	238
Ultrasound	159,343	2,868	156,069	406	148,152	4,712	142,891	549
Anesthesiology	162,630	1,584	161,046	-	143,757	2,222	141,535	-
Respiratory therapy	48,748	30,534	11,466	6,748	95,018	83,801	6,847	4,370
Sleep studies	-	-	-	-	2,079	-	2,079	-
Physical therapy	440,258	6,246	383,458	50,554	400,677	9,076	355,266	36,335
Occupational therapy	40,036	1,962	7,922	30,152	27,431	2,523	5,673	19,235
Speech therapy	3,289	360	308	2,621	10,151	1,666	6,450	2,035
Fontanelle Clinic	249,834	-	249,834	-	230,202	-	230,202	-
Stuart Clinic	778,328	-	778,328	-	378,679	-	378,679	-
Physician fees	905,190	608	904,582	-	876,846	-	876,846	-
Cardiac Rehab	120,826	-	120,826	-	51,950	-	51,950	-
Observation rooms	182,298	471	181,827	-	172,065	638	171,427	-
	<u>8,867,123</u>	<u>422,496</u>	<u>8,205,243</u>	<u>239,384</u>	<u>7,904,922</u>	<u>633,650</u>	<u>7,126,327</u>	<u>144,945</u>

Adair County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
June 30, 2010 and 2009

	2010				2009			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Gross Patient Service Revenue	\$ 10,449,198	\$ 743,787	\$ 9,283,303	\$ 422,108	\$ 9,633,637	\$ 1,085,217	\$ 8,279,816	\$ 268,604
Contractual Adjustments	(1,888,050)				(1,312,834)			
Net Patient Service Revenue before								
Provision for Uncollectible								
Accounts	8,561,148				8,320,803			
Provision for Uncollectible Accounts	(294,512)				(295,000)			
Net Patient Service Revenue	\$ 8,266,636				\$ 8,025,803			

Adair County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cafeteria	\$ 37,340	\$ 36,121
Lifeline	28,490	32,895
Grant	271,474	236,512
Other	<u>41,049</u>	<u>36,227</u>
	<u>\$ 378,353</u>	<u>\$ 341,755</u>

Adair County Memorial Hospital

Schedules of Operating Expenses

Years Ended June 30, 2010 and 2009

	2010			2009		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 875,098	\$ 753,242	\$ 121,856	\$ 918,706	\$ 773,632	\$ 145,074
Emergency room	336,306	71,020	265,286	323,940	45,720	278,220
Operating and recovery rooms	101,429	61,307	40,122	110,759	67,153	43,606
Nursing administration	54,848	54,116	732	66,824	65,071	1,753
Hospital physicians	29,465	-	29,465	44,443	-	44,443
	<u>1,397,146</u>	<u>939,685</u>	<u>457,461</u>	<u>1,464,672</u>	<u>951,576</u>	<u>513,096</u>
Other Professional Services						
Laboratory	420,206	190,848	229,358	431,622	177,279	254,343
Blood administration	8,515	-	8,515	12,832	-	12,832
Electrocardiology	85,358	7,850	77,508	68,922	9,637	59,285
Ambulance	237,107	207,740	29,367	237,313	211,642	25,671
Radiology	369,296	184,574	184,722	364,063	207,918	156,145
MRI	67,555	-	67,555	60,515	-	60,515
Mammography	11,866	-	11,866	11,152	-	11,152
CT	253,835	-	253,835	317,760	-	317,760
Ultrasound	17,684	-	17,684	10,937	-	10,937
Home health	591,380	461,836	129,544	614,136	468,749	145,387
Pharmacy	200,064	7,990	192,074	194,710	-	194,710
Intravenous solutions	2,209	-	2,209	1,912	-	1,912
Anesthesiology	67,025	-	67,025	70,275	-	70,275
Respiratory therapy	6,171	-	6,171	17,809	-	17,809
Physical therapy	166,857	-	166,857	126,092	-	126,092
Occupational therapy	11,183	-	11,183	12,012	-	12,012
Speech therapy	3,541	-	3,541	6,657	-	6,657
Stuart Clinic	449,339	336,565	112,774	355,361	220,850	134,511
Fontanelle Clinic	268,331	180,407	87,924	253,970	146,402	107,568
Greenfield Clinic	669,265	292,895	376,370	554,567	277,186	277,381
Renal Clinic	49,829	45,753	4,076	36,147	26,479	9,668
Medical records	86,673	84,154	2,519	96,008	83,657	12,351
Observation care	-	-	-	2,245	2,245	-
Cardiac Rehab	69,497	56,164	13,333	27,783	15,239	12,544
Lifeline	18,817	1,558	17,259	23,521	986	22,535
	<u>4,131,603</u>	<u>2,058,334</u>	<u>2,073,269</u>	<u>3,908,321</u>	<u>1,848,269</u>	<u>2,060,052</u>
General Services						
Operation of plant	270,948	41,170	229,778	283,372	50,135	233,237
Dietary	145,988	108,007	37,981	160,198	110,327	49,871
Laundry	37,443	33,874	3,569	45,943	36,434	9,509
Housekeeping	94,927	83,733	11,194	99,012	81,777	17,235
	<u>549,306</u>	<u>266,784</u>	<u>282,522</u>	<u>588,525</u>	<u>278,673</u>	<u>309,852</u>
Administrative Services	1,048,162	544,913	503,249	1,054,867	535,434	519,433
Employee Benefits	1,125,603	-	1,125,603	1,014,124	-	1,014,124
Depreciation and Amortization	1,002,129	-	1,002,129	784,402	-	784,402
Loss on Disposal of Equipment	13,794	-	13,794	(195)	-	(195)
Insurance	58,007	-	58,007	75,037	-	75,037
	<u>3,247,695</u>	<u>544,913</u>	<u>2,702,782</u>	<u>2,928,235</u>	<u>535,434</u>	<u>2,392,801</u>
	<u>\$ 9,325,750</u>	<u>\$ 3,809,716</u>	<u>\$ 5,516,034</u>	<u>\$ 8,889,753</u>	<u>\$ 3,613,952</u>	<u>\$ 5,275,801</u>

See Independent Accountants' Report

Adair County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2010 and 2009

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2010	2009	2010	2009
Days Since Discharge				
0 – 60	\$ 1,126,303	\$ 1,198,933	66%	78%
61 – 120	258,673	171,218	15%	11%
121 – 365	233,102	106,583	14%	7%
366 and over	76,766	69,156	5%	4%
	<u>1,694,844</u>	<u>1,545,890</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	177,346	220,225		
Allowance for uncollectible accounts	<u>297,800</u>	<u>232,993</u>		
	<u>475,146</u>	<u>453,218</u>		
	<u><u>\$ 1,219,698</u></u>	<u><u>\$ 1,092,672</u></u>		

Allowance for Uncollectible Accounts

	2010	2009
Balance, beginning of year	\$ 232,993	\$ 229,500
Provision for year	294,512	295,000
Recoveries of accounts previously written off	106,548	129,586
	<u>634,053</u>	<u>654,086</u>
Less accounts written off	<u>336,253</u>	<u>421,093</u>
Balance, end of year	<u><u>\$ 297,800</u></u>	<u><u>\$ 232,993</u></u>

Adair County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2010 and 2009

Supplies

	2010	2009
General	\$ 143,943	\$ 142,982
Pharmacy	43,116	43,022
Clinics and Home Care	11,503	13,396
	\$ 198,562	\$ 199,400

Prepaid Expense

	2010	2009
Insurance	\$ 85,064	\$ 93,376
Maintenance and other	81,465	40,813
	\$ 166,529	\$ 134,189

Adair County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2010

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

Adair County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2010 and 2009

	2010	2009
Patient Days (Exclusive of swing-bed)		
Medicare	298	539
Medicaid	32	32
Private and other	110	117
	440	688
Medicare and Medicaid Percent	75%	83%
Discharges (Exclusive of swing-bed)		
Medicare	93	167
Medicaid	15	13
Private and other	40	45
	148	225
Average Length of Stay in Days	2.97	3.06

Adair County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2010

Chubb Group of Insurance Companies

Policy No. 3579-39-80, expiring October 1, 2010

Property blanket building and contents	\$ 14,568,172
Loss of income and extra expense	6,112,744
Personal property in-transit	25,000
Personal property at a temporary storage site	25,000
Valuable papers	500,000
Accounts receivable	500,000
EDP Media/Software	1,000,000
Employee dishonesty	100,000

Policy No.7498-06-84, expiring October 1, 2010

Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	ACV w/\$1,000 ded

PIC Wisconsin

Comprehensive hospital liability, expiring October 1, 2010

Hospital professional liability, Policy No. 189	1,000,000/3,000,000
General liability, Policy No. 189	1,000,000/3,000,000
Employee benefits, Policy No. 189	1,000,000/3,000,000

Excess liability, expiring October 1, 2010

Excess medical liability, Policy No. 190	1,000,000/1,000,000
Umbrella liability, Policy No. 190	1,000,000/1,000,000

Chubb Group of Insurance Companies.

Policy No., expiring October 1, 2010

Directors' and officers' liability	1,000,000/1,000,000
Additional Limit Dedicated for Executives	500,000

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

Board of Trustees
Adair County Memorial Hospital
Greenfield, Iowa

We have audited the financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated October 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2010. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2010.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2010 did not exceed budgeted amounts.

Questionable Expenditures

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

Travel Expense

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

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

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

We noted certain matters that we reported to the Hospital's management in a separate letter dated October 5, 2010.

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

BKD, LLP

Kansas City, Missouri
October 5, 2010

Adair County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2010

Reference Number	Finding
None	

Board of Trustees
Adair County Memorial Hospital
Greenfield, Iowa

In planning and performing our audit of the financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Segregation of Duties

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

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

Revenue and Cash Receipts Cycle

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

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions.

Electronic Health Records

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Variables that determine the total funding available to a hospital include total discharges, the percentage of patient days attributable to Medicare Part A and Part C patients and the percentage of charges attributable to charity care. Implementing regulations to be issued by the Centers for Medicare & Medicaid Services (CMS) will determine how these variables are measured and what constitutes meaningful users of certified EHR technology.

Available funding will decrease significantly if the Hospital does not become a meaningful user of certified EHR technology until 2013 or later. Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, similar to reductions for failing to report quality measures, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

Health Care Reform

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system. While your Hospital may not be affected by reductions in payments, it could be affected by the economic environment in your community, including whether employers in your community continue to provide health insurance coverage for employees. The overall impact on the Hospital of the health care reform is not presently determinable.

Current Economic Conditions

The current protracted economic environment has continued to present unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on liquidity, reduced governmental reimbursements and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to the allowance for accounts and contributions receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity. Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

* * * * *

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

BKD, LLP

Kansas City, Missouri
October 5, 2010