

# **Audubon County Memorial Hospital**

Accountants' Report and Financial Statements

June 30, 2010 and 2009



**Audubon County Memorial Hospital**  
**June 30, 2010 and 2009**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Audubon County Memorial Hospital  
Audubon, Iowa

We have audited the accompanying balance sheets of Audubon County Memorial Hospital as of June 30, 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 Audubon 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 November 19, 2010 on our consideration of Audubon County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*BKD, LLP*

Kansas City, Missouri  
November 19, 2010

# **Audubon 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 Audubon County Memorial Hospital (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

- Total cash and cash equivalents decreased between 2010 and 2009 by \$381,871 or 19% and decreased between 2009 and 2008 by \$721,812 or 56%.
- The Hospital's net assets increased \$592,575 or 3% in 2010 and increased \$559,473 or 4% in 2009.
- The Hospital reported an operating loss in 2010 of \$221,874 and operating loss in 2009 of \$424,620.
- Net nonoperating revenues decreased by \$169,424 or 17% in 2010 compared to 2009 and increased by \$30,302 or 3% in 2009 compared to 2008.

#### Using This Annual Report

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

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

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

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

### ***The Statement of Cash Flows***

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

### **The Hospital's Net Assets**

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$592,575 or 3% in 2010 over 2009 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 1,034,049	\$ 1,066,462	\$ 1,272,059
Other current assets	9,172,653	8,766,897	7,787,730
Capital assets, net	4,596,647	5,066,420	5,210,999
Other noncurrent assets	<u>3,635,227</u>	<u>3,096,168</u>	<u>3,129,427</u>
Total assets	<u><u>\$ 18,438,576</u></u>	<u><u>\$ 17,995,947</u></u>	<u><u>\$ 17,400,215</u></u>
<b>Liabilities</b>			
Current liabilities	\$ 1,328,534	\$ 1,478,480	\$ 1,425,721
Long-term debt	<u>-</u>	<u>-</u>	<u>16,500</u>
Total liabilities	<u>1,328,534</u>	<u>1,478,480</u>	<u>1,442,221</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,596,647	5,049,920	5,161,499
Restricted expendable	103,443	101,299	47
Restricted nonexpendable	10,000	10,000	10,000
Unrestricted	<u>12,399,952</u>	<u>11,356,248</u>	<u>10,786,448</u>
Total net assets	<u>17,110,042</u>	<u>16,517,467</u>	<u>15,957,994</u>
Total liabilities and net assets	<u><u>\$ 18,438,576</u></u>	<u><u>\$ 17,995,947</u></u>	<u><u>\$ 17,400,215</u></u>

In 2010, gross accounts receivable decreased by \$5,702, from fiscal year 2009. Provision for bad debt decreased by \$30,380 and contractual adjustments, excluding charity care, decreased by \$778,042. Charity care decreased by \$31,500 over 2009.

Cash and general fund deposits for the Hospital decreased by \$166,143. Board designated time certificates and savings increased by \$523,770. Interest earnings averaged 2.31% on general fund investments and 2.33% on plant fund investments. Marvin Jorgensen gave the Hospital a gift of \$100,000 in 2009 with the intention of recruiting a Mayo Clinic trained doctor. Due to the lack of success in recruiting such doctor, this gift was invested as a restricted fund until at a further time determination is made for use of the funds.

Capital assets increased by \$128,455 between year 2009 and 2010. Accumulated depreciation increased by \$598,228 for a net decrease in capital assets of \$469,773.

The Hospital paid off the loan to Guthrie County REC on the zero interest loan with final payments of \$16,500 for the year.

In 2009, gross accounts receivable increased by \$99,687 from fiscal year 2008. Net days in accounts receivable increased from 56 in 2008 to 45 in fiscal year 2009. Allowance for bad debt increased by \$62,778 and contractual adjustments decreased by \$153,890.

Cash and general fund deposits for the Hospital increased by \$543,011 from 2008 to 2009. Board-designated time certificates and saving increased by \$248,282 in 2009. Interest earnings averaged 3.61% on general fund investments and 3.76% on plant fund investments.

Capital assets actually increased by \$391,938 between year 2008 and 2009 and accumulated depreciation increased \$536,517 for a net decrease in capital assets of \$144,579.

### Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets increased by \$592,575 or 3% as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 8,704,880	\$ 8,363,383	\$ 7,983,315
Other operating revenues	<u>127,694</u>	<u>115,931</u>	<u>130,241</u>
Total operating revenues	<u>8,832,574</u>	<u>8,479,314</u>	<u>8,113,556</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	4,776,050	4,389,991	3,882,828
Medical professional fees	466,425	501,497	465,695
Depreciation and amortization	827,390	837,950	823,727
Other operating expenses	<u>2,984,583</u>	<u>3,174,496</u>	<u>2,989,226</u>
Total operating expenses	<u>9,054,448</u>	<u>8,903,934</u>	<u>8,161,476</u>
<b>Operating Loss</b>	<u>(221,874)</u>	<u>(424,620)</u>	<u>(47,920)</u>
<b>Nonoperating Revenues</b>			
Property taxes	511,099	494,055	470,761
Interest income	215,151	296,230	402,696
Non-capital gifts	<u>79,935</u>	<u>185,324</u>	<u>71,850</u>
Total nonoperating revenues	<u>806,185</u>	<u>975,609</u>	<u>945,307</u>
<b>Excess of Revenues Over Expenses Before Capital Grants and Contributions</b>	584,311	550,989	897,387
<b>Capital Grants and Contributions</b>	<u>8,264</u>	<u>8,484</u>	<u>492</u>
<b>Increase in Net Assets</b>	<u>\$ 592,575</u>	<u>\$ 559,473</u>	<u>\$ 897,879</u>

**Operating Income (Loss)**

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2010, 2009 and 2008, the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2010, the following changes were noted:

- Inpatient revenue decreased by \$96,847 in 2010, acute inpatient days decreased by 129 days with an average length of stay of 3.13 days, swing-bed days decreased by 24 days. The Hospital had an overall increase in patient charges for fiscal year 2010 of 5%.

- Outpatient revenue decreased by \$338,578.
- In 2010, overall, net patient service revenue increased by \$341,497 or 4.1% from fiscal year 2009.
- Operating expenses increased by \$150,514.

In 2009, the following changes were noted:

- Inpatient revenue decreased by \$87,406 in 2009, acute inpatient days decreased by 81 days with an average length of stay of 2.96 days, swing-bed days increased by 138 days for an average length of stay of 7.78 days and Hospice days decreased by 34 days. The Hospital had an overall increase of patient charges for fiscal year 2009 of 5%. Inpatient revenues for operating/recovery room took a decrease of 46% while radiology increased by 9% and lab decreased by 19%.
- Outpatient revenue increased by \$422,478 with an increase of 3,319 visits. There was a \$96,807 increase in ER professional fees due mainly to our taking on all physicians billing for ER services and paying the doctors to be on call. Outpatient radiology decreased by 6% and lab increased by 4%. Physical therapy increased by 24% and pharmacy decreased 8%.
- Overall, net patient service revenue increased by \$380,068 or 4.8% from fiscal year 2008. Gross hospital patient revenues increased by \$61,513 and contractual adjustments, excluding Exira Medical Clinic, decreased by \$187,424. With the addition of Exira Medical Clinic to operations on August 1, 2008, \$273,559 in gross revenue was generated with a \$79,650 contractual adjustment.
- Operating expenses increased by \$742,458. A total of \$329,793 of the increase was due to the Exira Medical Clinic in 2009.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which decreased by \$169,424 or 17% from 2010 to 2009 and decreased by \$30,302 or 3% from 2008 to 2009. Investment income decreased in 2010 and 2009 by \$81,079 and \$106,466, respectively.

Gifts for capital and noncapital items received in fiscal year 2010 decreased by \$105,609. Grants and gifts for capital and non-capital items received in fiscal year 2009 increased by \$121,466.

### ***Contributions***

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

### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenues in 2010, 2009 and 2008, discussed earlier.

## ***Capital Asset and Debt Administration***

### **Capital Assets**

At the end of 2010, the Hospital had \$4.6 million invested in capital assets, net of accumulated depreciation. Total additions in 2010 were \$365,889.

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

### **Debt**

The only long-term debt that the Hospital had was the zero interest note payable. Audubon County Memorial Hospital paid off all long-term debt during the year.

## ***Contacting the Hospital's Financial Management***

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

# Audubon County Memorial Hospital

## Balance Sheets

June 30, 2010 and 2009

### Assets

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,551,554	\$ 1,637,276
Certificates of deposit	6,282,228	6,229,901
Patient accounts receivable, net of allowance; 2010 – \$240,000, 2009 – \$143,271	1,034,049	1,066,462
Property taxes receivable	581,771	514,341
Other receivables	13,969	14,330
Estimated amounts due from third-party payers	365,000	-
Supplies	287,899	277,199
Prepaid expenses	90,232	93,850
	<u>10,206,702</u>	<u>9,833,359</u>
<b>Noncurrent Cash and Deposits</b>		
Internally designated	3,521,784	2,984,869
Restricted by donors for		
Scholarships	20	36
Endowment	10,000	10,000
Physician recruitment	103,423	101,263
	<u>3,635,227</u>	<u>3,096,168</u>
<b>Capital Assets, Net</b>	<u>4,596,647</u>	<u>5,066,420</u>
<b>Total Assets</b>	<u>\$ 18,438,576</u>	<u>\$ 17,995,947</u>

## Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ -	\$ 16,500
Accounts payable	338,208	352,186
Accrued expenses	408,555	423,453
Estimated amounts due to third-party payers	-	172,000
Deferred revenue for property taxes	581,771	514,341
	<u>1,328,534</u>	<u>1,478,480</u>
<b>Total liabilities</b>	<u>1,328,534</u>	<u>1,478,480</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	4,596,647	5,049,920
Restricted		
Expendable for scholarships	20	36
Expendable for physician recruitment	103,423	101,263
Nonexpendable endowment	10,000	10,000
Unrestricted	12,399,952	11,356,248
	<u>17,110,042</u>	<u>16,517,467</u>
<b>Total net assets</b>	<u>17,110,042</u>	<u>16,517,467</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 18,438,576</u></u>	<u><u>\$ 17,995,947</u></u>

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

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 8,987,911	\$ 8,676,794
Provision for uncollectible accounts	<u>(283,031)</u>	<u>(313,411)</u>
Net patient service revenue	8,704,880	8,363,383
Other	<u>127,694</u>	<u>115,931</u>
Total operating revenues	<u>8,832,574</u>	<u>8,479,314</u>
<b>Operating Expenses</b>		
Salaries and wages	3,469,603	3,353,907
Employee benefits	1,306,447	1,036,084
Medical professional fees	466,425	501,497
Supplies and other	2,063,296	2,141,532
General services	284,568	368,694
Administrative services	577,374	603,566
Insurance	59,345	60,704
Depreciation	<u>827,390</u>	<u>837,950</u>
Total operating expenses	<u>9,054,448</u>	<u>8,903,934</u>
<b>Operating Loss</b>	<u>(221,874)</u>	<u>(424,620)</u>
<b>Nonoperating Revenues</b>		
Property taxes	511,099	494,055
Investment income	215,151	296,230
Noncapital gifts	<u>79,935</u>	<u>185,324</u>
Total nonoperating revenues	<u>806,185</u>	<u>975,609</u>
<b>Excess of Revenues Over Expenses Before Capital Grants and Contributions</b>	584,311	550,989
<b>Capital Grants and Contributions</b>	<u>8,264</u>	<u>8,484</u>
<b>Increase in Net Assets</b>	592,575	559,473
<b>Net Assets, Beginning of Year</b>	<u>16,517,467</u>	<u>15,957,994</u>
<b>Net Assets, End of Year</b>	<u>\$ 17,110,042</u>	<u>\$ 16,517,467</u>

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

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 8,204,317	\$ 8,516,980
Payments to suppliers and contractors	(3,471,752)	(3,622,706)
Payments to employees	(4,790,948)	(4,417,209)
Other receipts, net	<u>127,694</u>	<u>115,931</u>
Net cash provided by operating activities	<u>69,311</u>	<u>592,996</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	511,099	494,055
Noncapital gifts	<u>79,935</u>	<u>185,324</u>
Net cash provided by noncapital financing activities	<u>591,034</u>	<u>679,379</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on capital debt	(16,500)	(33,000)
Capital grants and gifts	8,264	8,484
Proceeds from sale of capital assets	1,260	4,104
Purchase of capital assets	<u>(362,857)</u>	<u>(655,648)</u>
Net cash used in capital and related financing activities	<u>(369,833)</u>	<u>(676,060)</u>
<b>Investing Activities</b>		
Interest on deposits	202,007	316,723
Purchase of deposits	(7,928,013)	(9,863,345)
Proceeds from disposition of deposits	<u>7,817,365</u>	<u>9,672,119</u>
Net cash provided by investing activities	<u>91,359</u>	<u>125,497</u>
<b>Increase in Cash and Cash Equivalents</b>	381,871	721,812
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,018,579</u>	<u>1,296,767</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,400,450</u>	<u>\$ 2,018,579</u>

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

	<b>2010</b>	<b>2009</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 1,551,554	\$ 1,637,276
Cash in noncurrent cash and deposits		
Internally designated	848,896	381,303
	\$ 2,400,450	\$ 2,018,579
 <b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (221,874)	\$ (424,620)
Depreciation	827,390	837,950
Loss on sale of capital assets	7,012	47
Changes in operating assets and liabilities		
Patient accounts receivable, net	32,413	205,597
Supplies, prepaid expenses and other current assets	(6,721)	(33,355)
Estimated amounts due from and to third-party payers	(537,000)	59,377
Accounts payable and accrued expenses	(31,909)	(52,000)
Net cash provided by operating activities	\$ 69,311	\$ 592,996
 <b>Supplemental Cash Flow Information</b>		
Capital asset acquisitions included in accounts payable	\$ 44,907	\$ 41,874

# **Audubon 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***

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

##### ***Basis of Accounting and Presentation***

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

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

##### ***Reporting Entity***

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

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

# **Audubon County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2010 and 2009**

#### ***Use of Estimates***

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

#### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, cash equivalents consisted primarily of interest-bearing accounts.

#### ***Property Taxes***

In both of the years ended June 30, 2010 and 2009, the Hospital received approximately 6% of its financial support from property tax revenues, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

#### ***Risk Management***

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

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

# Audubon County Memorial Hospital

## Notes to Financial Statements

June 30, 2010 and 2009

### ***Investments and Investment Income***

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

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

### ***Patient Accounts Receivable***

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

### ***Supplies***

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

### ***Capital Assets***

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

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

### ***Compensated Absences and Benefits***

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

# **Audubon County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2010 and 2009**

### ***Net Assets***

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

### ***Net Patient Service Revenue***

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

### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$22,468 and \$53,967 for 2010 and 2009, respectively.

### ***Income Taxes***

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

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

### ***Subsequent Events***

Subsequent events have been evaluated through November 19, 2010, which is the date the financial statements were available to be issued.

# Audubon County Memorial Hospital

## Notes to Financial Statements

June 30, 2010 and 2009

### 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.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

**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 61% and 62% 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. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

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

### Note 3: Deposits, Investments and Investment Income

#### *Deposits*

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

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

#### *Investments*

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain

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

high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2010 and 2009.

At June 30, 2010 and 2009, the Foundation had the following investments and maturities:

<b>Type</b>	<b>Fair Value</b>	<b>June 30, 2010 Maturities in Years Less Than 1</b>
Money market mutual funds - Foundation	\$ 11,350	\$ 11,350
Mutual funds - Foundation	102,148	
	<u>\$ 113,498</u>	

<b>Type</b>	<b>Fair Value</b>	<b>June 30, 2009 Maturities in Years Less Than 1</b>
Money market mutual funds - Foundation	\$ 10,035	\$ 10,035
Mutual funds - Foundation	90,318	
	<u>\$ 100,353</u>	

**Summary of Carrying Values**

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

	<b>2010</b>	<b>2009</b>
Carrying value		
Deposits	\$ 11,355,131	\$ 10,862,472
Investments	113,498	100,353
Other	380	520
	<u>\$ 11,469,009</u>	<u>\$ 10,963,345</u>

# Audubon County Memorial Hospital

## Notes to Financial Statements

June 30, 2010 and 2009

	2010	2009
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,551,554	\$ 1,637,276
Certificates of deposit	6,282,228	6,229,901
Noncurrent cash and deposits		
Internally designated	3,521,784	2,984,869
Restricted by donors for		
Scholarships	20	36
Endowment	10,000	10,000
Physician recruitment	103,423	101,263
	\$ 11,469,009	\$ 10,963,345

### **Investment Income**

Investment income for the years ended June 30, 2010 and 2009 consisted of:

	2010	2009
Interest and dividend income	\$ 206,179	\$ 315,208
Net increase (decrease) in fair value of investments	8,972	(18,978)
	\$ 215,151	\$ 296,230

### **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:

	2010	2009
Medicare	\$ 471,929	\$ 503,590
Medicaid	24,768	27,195
Other third-party payers	431,150	472,775
Patients	346,202	206,173
	1,274,049	1,209,733
Less allowance for uncollectible accounts	240,000	143,271
	\$ 1,034,049	\$ 1,066,462

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

**Note 5: Capital Assets**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers/ Adjustments</b>	<b>Ending Balance</b>
<b>2010</b>					
Land	\$ 68,389	\$ -	\$ -	\$ -	\$ 68,389
Land improvements	423,029	-	-	-	423,029
Buildings	7,473,650	11,272	5,878	-	7,479,044
Fixed equipment	678,527	-	2,394	-	676,133
Major movable equipment	4,007,360	320,541	229,162	-	4,098,739
Construction in progress	7,853	34,076	-	-	41,929
	<u>12,658,808</u>	<u>365,889</u>	<u>237,434</u>	<u>-</u>	<u>12,787,263</u>
Less accumulated depreciation					
Land improvements	279,547	22,307	-	-	301,854
Buildings	4,013,035	380,237	5,878	-	4,387,394
Fixed equipment	506,057	22,365	2,394	-	526,028
Major movable equipment	2,793,749	402,481	220,890	-	2,975,340
	<u>7,592,388</u>	<u>827,390</u>	<u>229,162</u>	<u>-</u>	<u>8,190,616</u>
Capital assets, net	<u>\$ 5,066,420</u>	<u>\$ (461,501)</u>	<u>\$ 8,272</u>	<u>\$ -</u>	<u>\$ 4,596,647</u>

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

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

**Note 6: Medical Malpractice Insurance**

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

**Note 7: Employee Health Claims**

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

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

material amount in the near term. Changes in the balance of claims liabilities during 2010 and 2009 are summarized as follows:

	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 50,000	\$ 144,832
Current year claims and changes in estimates	757,388	608,518
Claim payments	(781,622)	(703,350)
Balance, end of year	\$ 25,766	\$ 50,000

**Note 8: Long-term Debt**

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

	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt Note payable, non-interest bearing (A)	\$ 16,500	\$ -	\$ (16,500)	\$ -	\$ -
	<b>2009</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt Note payable, non-interest bearing (A)	\$ 49,500	\$ -	\$ (33,000)	\$ 16,500	\$ 16,500

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

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

**Note 9: Operating Leases**

On January 1, 2010, the Hospital, as lessor, leased an area of the Hospital building to be used as medical office space under ten-year operating lease agreements. The leases contain provisions to automatically renew for another ten-year period, unless written termination notice is given 90 days prior to renewal. Rental income will be recognized over the term of the leases. Lease payments to be received on a monthly basis total \$1,333.

Future minimum rentals receivable at June 30, 2010, were:

2011	\$	16,000
2012		16,000
2013		16,000
2014		16,000
2015		16,000
Thereafter		72,000
Future minimum lease payments	\$	152,000

**Note 10: Pension Plan**

***Plan Description***

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

***Funding Policy***

Plan members are required to contribute 4.30% and 4.10% 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 \$228,948, \$207,820 and \$171,200, 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.

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

**Note 11: Administration and Support Services Agreement**

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$265,130 and \$256,671 were incurred for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the Hospital had accounts payable to the Organization of \$47,597 and \$22,726, respectively.

**Note 12: Budget and Budgetary Accounting**

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

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

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 511,099	\$ -	\$ 511,099	\$ 514,341
Other revenues/receipts	<u>9,075,629</u>	<u>(500,563)</u>	<u>8,575,066</u>	<u>8,774,691</u>
	9,586,728	(500,563)	9,086,165	9,289,032
Expenses/disbursements	<u>9,003,166</u>	<u>39,663</u>	<u>9,042,829</u>	<u>9,095,168</u>
	583,562	(540,226)	43,336	193,864
Balance, beginning of year	<u>16,209,543</u>	<u>(676,386)</u>	<u>15,533,157</u>	<u>15,533,157</u>
Balance, end of year	<u>\$ 16,793,105</u>	<u>\$ (1,216,612)</u>	<u>\$ 15,576,493</u>	<u>\$ 15,727,021</u>

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

**Note 13: Significant Estimates and Concentrations**

***Current Economic Conditions***

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

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

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital.

## **Supplementary Information**

**Audubon County Memorial Hospital**  
**Combining Balance Sheet**  
**June 30, 2010**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,447,889	\$ 103,665		\$ 1,551,554
Certificates of deposit	6,182,228	100,000		6,282,228
Patient accounts receivable, net of allowance; 2010 – \$240,000	1,034,049			1,034,049
Property taxes receivable	581,771			581,771
Estimated amounts due from third-party payers	365,000			365,000
Other receivables	13,969			13,969
Supplies	287,899			287,899
Prepaid expenses	90,232			90,232
	<u>10,003,037</u>	<u>203,665</u>		<u>10,206,702</u>
<b>Noncurrent Cash and Deposits</b>				
Internally designated	3,408,286	113,498		3,521,784
Restricted by donors for				
Scholarships	20			20
Endowment	10,000			10,000
Physician recruitment	103,423			103,423
	<u>3,521,729</u>	<u>113,498</u>		<u>3,635,227</u>
<b>Capital Assets, Net</b>	<u>4,596,647</u>			<u>4,596,647</u>
<b>Total Assets</b>	<u>\$ 18,121,413</u>	<u>\$ 317,163</u>	<u>\$ -</u>	<u>\$ 18,438,576</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 338,208			\$ 338,208
Accrued expenses	408,329	\$ 226		408,555
Deferred revenue for property taxes	581,771			581,771
	<u>1,328,308</u>	<u>226</u>		<u>1,328,534</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt Restricted	4,596,647			4,596,647
Expendable for scholarships	20			20
Expendable for physician recruitment	103,423			103,423
Nonexpendable endowment	10,000			10,000
Unrestricted	12,083,015	316,937		12,399,952
	<u>16,793,105</u>	<u>316,937</u>		<u>17,110,042</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,121,413</u>	<u>\$ 317,163</u>	<u>\$ -</u>	<u>\$ 18,438,576</u>

**Audubon County Memorial Hospital**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2010**

	<b>Audubon County Memorial Hospital</b>	<b>Audubon County Hospital Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 8,987,911			\$ 8,987,911
Provision for uncollectible accounts	(283,031)			(283,031)
Net patient service revenue	8,704,880			8,704,880
Other	127,694			127,694
Total operating revenues	<u>8,832,574</u>			<u>8,832,574</u>
<b>Operating Expenses</b>				
Salaries and wages	3,433,269	\$ 36,334		3,469,603
Employee benefits	1,306,447			1,306,447
Medical professional fees	466,425			466,425
Supplies and other	2,063,296			2,063,296
General services	284,568			284,568
Administrative services	562,426	40,368	\$ (25,420)	577,374
Insurance	59,345			59,345
Depreciation	827,390			827,390
Total operating expenses	<u>9,003,166</u>	<u>76,702</u>	<u>(25,420)</u>	<u>9,054,448</u>
<b>Operating Income (Loss)</b>	<u>(170,592)</u>	<u>(76,702)</u>	<u>25,420</u>	<u>(221,874)</u>
<b>Nonoperating Revenues</b>				
Property taxes	511,099			511,099
Investment income	199,445	15,706		215,151
Noncapital gifts	9,926	70,009		79,935
Total nonoperating revenues	<u>720,470</u>	<u>85,715</u>		<u>806,185</u>
<b>Excess of Revenues Over Expenses Before Capital Grants and Contributions</b>	549,878	9,013	25,420	584,311
<b>Capital Grants and Contributions</b>	<u>33,684</u>		<u>(25,420)</u>	<u>8,264</u>
<b>Increase in Net Assets</b>	583,562	9,013	-	592,575
<b>Net Assets, Beginning of Year</b>	<u>16,209,543</u>	<u>307,924</u>	<u>-</u>	<u>16,517,467</u>
<b>Net Assets, End of Year</b>	<u>\$ 16,793,105</u>	<u>\$ 316,937</u>	<u>\$ -</u>	<u>\$ 17,110,042</u>

**Audubon County Memorial Hospital**  
**Schedules of Patient Service Revenues – Hospital**  
**Years Ended June 30, 2010 and 2009**

	2010			2009		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Daily Patient Services</b>						
Medical and surgical	\$ 351,927	\$ 219,552	\$ 132,375	\$ 425,848	\$ 286,769	\$ 139,079
Skilled nursing care	172,032	172,032		171,387	171,387	
Coronary care	5,026	5,026		3,420	3,420	
	<u>528,985</u>	<u>396,610</u>	<u>132,375</u>	<u>600,655</u>	<u>461,576</u>	<u>139,079</u>
<b>Nursing Services</b>						
Emergency	651,498	15,663	635,835	506,324	9,543	496,781
Operating room	1,082,095	45,152	1,036,943	1,210,656	37,815	1,172,841
Recovery room	99,766	4,097	95,669	113,378	3,443	109,935
	<u>1,833,359</u>	<u>64,912</u>	<u>1,768,447</u>	<u>1,830,358</u>	<u>50,801</u>	<u>1,779,557</u>
<b>Other Professional Services</b>						
Anesthesiology	361,802	26,917	334,885	467,095	20,145	446,950
Radiology	2,966,206	181,369	2,784,837	3,001,654	275,260	2,726,394
Blood service	51,564	14,079	37,485	54,173	15,731	38,442
Laboratory	1,840,237	169,705	1,670,532	1,814,234	184,674	1,629,560
Intravenous therapy	46,313	19,518	26,795	15,645	6,688	8,957
Respiratory therapy	43,365	20,003	23,362	43,376	20,483	22,893
Physical therapy	302,058	46,906	255,152	317,144	43,905	273,239
Speech therapy	11,769	5,289	6,480	11,496	5,340	6,156
Occupational therapy	71,292	36,656	34,636	28,578	24,100	4,478
Electrocardiology	105,184	17,002	88,182	102,724	23,998	78,726
Cardiology	82,177		82,177	70,002		70,002
Cardiac rehabilitation	14,534		14,534	17,606		17,606
Electroencephalography	2,977		2,977	2,362		2,362
Medical and surgical supplies	539,517	125,085	414,432	689,136	124,285	564,851
Pharmacy	1,379,368	285,827	1,093,541	1,597,541	253,602	1,343,939
Sleep study	63,618		63,618	45,682		45,682
Clinic	99,715	5,465	94,250	119,903	1,602	118,301
Exira Medical Clinic	322,321		322,321	273,559		273,559
Psychiatry	1,137		1,137			
	<u>8,305,154</u>	<u>953,821</u>	<u>7,351,333</u>	<u>8,671,910</u>	<u>999,813</u>	<u>7,672,097</u>
<b>Patient Service Revenue</b>	10,667,498	<u>\$ 1,415,343</u>	<u>\$ 9,252,155</u>	11,102,923	<u>\$ 1,512,190</u>	<u>\$ 9,590,733</u>
<b>Contractual Adjustments</b>	<u>(1,679,587)</u>			<u>(2,426,129)</u>		
<b>Net Patient Service Revenue Before Provision for Uncollectible Accounts</b>	8,987,911			8,676,794		
<b>Provision for Uncollectible Accounts</b>	<u>(283,031)</u>			<u>(313,411)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 8,704,880</u>			<u>\$ 8,363,383</u>		

See Independent Accountants' Report

**Audubon County Memorial Hospital**  
**Schedules of Other Operating Revenues – Hospital**  
**Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Other Revenues</b>		
Cafeteria meals	\$ 19,296	\$ 22,167
Space rental	33,675	31,415
Grants	26,871	15,543
Loss on sale of capital assets	(7,012)	(47)
Other	<u>54,864</u>	<u>46,853</u>
	<u>\$ 127,694</u>	<u>\$ 115,931</u>

# Audubon County Memorial Hospital

## Schedules of Operating Expenses – Hospital

### Years Ended June 30, 2010 and 2009

	2010			2009		
	Total	Salaries	Other	Total	Salaries	Other
<b>Daily Patient Services</b>						
Nursing administration	\$ 76,933	\$ 66,456	\$ 10,477	\$ 78,248	\$ 65,391	\$ 12,857
Medical and surgical	782,041	752,740	29,301	783,493	751,821	31,672
Operating room	326,279	91,788	234,491	374,649	97,766	276,883
Emergency service	493,556	387,178	106,378	420,451	340,884	79,567
	<u>1,678,809</u>	<u>1,298,162</u>	<u>380,647</u>	<u>1,656,841</u>	<u>1,255,862</u>	<u>400,979</u>
<b>Other Professional Services</b>						
Laboratory	539,098	233,905	305,193	577,795	256,526	321,269
Central supply	270,651		270,651	368,439		368,439
Intravenous therapy	2,322		2,322	3,711		3,711
Electrocardiology	10,789	3,211	7,578	10,758	3,091	7,667
Electroencephalography	1,500		1,500	1,250		1,250
Cardiac rehabilitation	8,021	5,962	2,059	8,595	7,813	782
Cardiology	3,417		3,417	15,045		15,045
Radiology	932,550	189,161	743,389	843,802	185,058	658,744
Pharmacy	584,592	133,298	451,294	653,114	131,799	521,315
Anesthesiology	152,669		152,669	158,126		158,126
Respiratory therapy	40,190	33,709	6,481	46,286	38,492	7,794
Physical therapy	136,086	123,249	12,837	130,836	110,889	19,947
Speech therapy	8,128		8,128	8,201		8,201
Occupational therapy	18,633		18,633	13,546		13,546
Sleep study	25,750		25,750	21,450		21,450
Specialty clinics	139,672	133,883	5,789	141,796	132,041	9,755
Exira Medical Clinic	389,570	311,788	77,782	329,793	277,927	51,866
Medical records	181,686	128,084	53,602	177,407	124,264	53,143
Psychiatry	131	131				
	<u>3,445,455</u>	<u>1,296,381</u>	<u>2,149,074</u>	<u>3,509,950</u>	<u>1,267,900</u>	<u>2,242,050</u>
<b>General Services</b>						
Operation of plant	292,870	119,757	173,113	343,550	115,842	227,708
Dietary	206,220	126,945	79,275	241,622	134,876	106,746
Housekeeping	142,225	121,041	21,184	138,902	115,624	23,278
Laundry	32,850	21,854	10,996	33,870	22,908	10,962
	<u>674,165</u>	<u>389,597</u>	<u>284,568</u>	<u>757,944</u>	<u>389,250</u>	<u>368,694</u>
<b>Administrative Services</b>						
	1,011,555	449,129	562,426	1,004,057	406,364	597,693
<b>Employee Benefits</b>	<u>1,306,447</u>		<u>1,306,447</u>	<u>1,036,084</u>		<u>1,036,084</u>
<b>Insurance</b>	<u>59,345</u>		<u>59,345</u>	<u>60,704</u>		<u>60,704</u>
<b>Depreciation</b>	<u>827,390</u>		<u>827,390</u>	<u>837,843</u>		<u>837,843</u>
	<u>\$ 9,003,166</u>	<u>\$ 3,433,269</u>	<u>\$ 5,569,897</u>	<u>\$ 8,863,423</u>	<u>\$ 3,319,376</u>	<u>\$ 5,544,047</u>

See Independent Accountants' Report

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

**Schedules of Patient Receivables**

	Amounts		Percent to Total	
	2010	2009	2010	2009
Days Since Discharge				
0 – 30	\$ 756,145	\$ 979,316	52%	66%
31 – 60	318,424	250,148	22%	17%
61 – 90	136,966	111,190	9%	8%
91 and over	<u>256,135</u>	<u>132,718</u>	<u>17%</u>	<u>9%</u>
	1,467,670	1,473,372	<u>100%</u>	<u>100%</u>
Less:				
Contractual allowances	193,621	263,639		
Allowance for uncollectible accounts	<u>240,000</u>	<u>143,271</u>		
	<u>\$ 1,034,049</u>	<u>\$ 1,066,462</u>		
Net Patient Service Revenue per Calendar day (Excluding provision for bad debt)	<u>\$ 24,624</u>	<u>\$ 23,772</u>		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>42</u>	<u>45</u>		

**Allowance for Uncollectible Accounts**

	2010	2009
Balance, beginning of year	\$ 143,271	\$ 120,000
Provision for year	283,031	313,411
Recoveries of accounts previously written off	<u>281,911</u>	<u>229,881</u>
	708,213	663,292
Less accounts written off	<u>468,213</u>	<u>520,021</u>
Balance, end of year	<u>\$ 240,000</u>	<u>\$ 143,271</u>

**Audubon County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expenses – Hospital**  
**Years Ended June 30, 2010 and 2009**

**Supplies**

	<u>2010</u>	<u>2009</u>
General stores	\$ 140,447	\$ 124,259
Pharmacy	128,160	134,906
Laboratory	<u>19,292</u>	<u>18,034</u>
	<u>\$ 287,899</u>	<u>\$ 277,199</u>

**Prepaid Expenses**

	<u>2010</u>	<u>2009</u>
Insurance	\$ 25,688	\$ 33,671
Service contracts	54,075	52,694
Other	<u>10,469</u>	<u>7,485</u>
	<u>\$ 90,232</u>	<u>\$ 93,850</u>

**Audubon County Memorial Hospital**  
**Schedule of Officials – Hospital**  
**Year Ended June 30, 2010**

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

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

	<u>2010</u>	<u>2009</u>
<b>Patient Days</b>		
Acute	419	548
Swing-bed	<u>435</u>	<u>459</u>
	<u>854</u>	<u>1,007</u>
<b>Admissions (Acute)</b>	134	183
<b>Discharges (Acute)</b>	134	183
<b>Average Length of Stay in Days (Acute)</b>	3	3
<b>Beds</b>	25	25
<b>Occupancy percentage (Acute)</b>	4.59%	6.01%

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

Board of Trustees  
Audubon County Memorial Hospital  
Audubon, Iowa

We have audited the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated November 19, 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 on 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 over financial reporting 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. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses as item 10-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

### ***Compliance and Other Matters***

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

We also noted certain matters we reported to the Hospital's management in a separate letter dated November 19, 2010.

### ***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 expenses/disbursements during the year ended June 30, 2010 did not exceed amounts budgeted.

#### Questionable Expenditures

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

#### Travel Expense

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

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

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

\* \* \* \* \*

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

*BKD, LLP*

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

<b>Reference Number</b>	<b>Finding</b>
10-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—One individual has significant incompatible duties in the purchases cycle.</p> <p>Context—The individual responsible for processing cash disbursements has duties that include access to assets, recording and monitoring responsibilities.</p> <p>Effect—Potential misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>

Board of Trustees  
Audubon County Memorial Hospital  
Audubon, Iowa

In planning and performing our audit of the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 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 we consider to be significant deficiencies.

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 and significant deficiencies.

### ***Significant Deficiencies***

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

## **Other Control Deficiencies**

### Segregation of Duties

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

#### Revenue and Cash Receipts Cycle

- Some business office employees have the ability to receive payments, generate patient bills, change patient billing information and reconcile cash receipts to bank deposit records.
- The Foundation employee has duties, which include receiving contributions, preparing receipts lists and reporting amounts to be recorded.

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

## **Other Matters**

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

### 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 decline continues to present difficult circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets recorded in the financial statements could change, resulting in future adjustments to the allowance for accounts receivable, etc. that could negatively impact the Hospital.

Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

\* \* \* \* \*

This communication is intended solely for the information and use of 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  
November 19, 2010