



Financial Statements
June 30, 2010 and 2009

Hancock County Memorial Hospital

HANCOCK COUNTY MEMORIAL HOSPITAL

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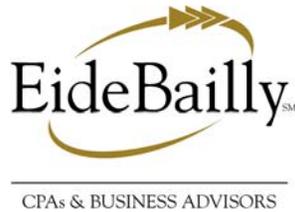
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**HANCOCK COUNTY MEMORIAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

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

Hospital Officials

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



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheets of Hancock County Memorial Hospital as of June 30, 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 Hancock County Memorial Hospital as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in non-operating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 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 audits.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 26 and 27 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Eide Bailly LLP

Dubuque, Iowa
October 20, 2010

Hancock County Memorial Hospital Management's Discussion and Analysis

This section of Hancock County Memorial Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2010. We encourage readers to consider this analysis in conjunction with the Hospital's financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by \$909,937 or 6%. A significant portion of this increase was in Non-Current Cash/Investments.
- The Hospital's assets exceeded liabilities by \$12,775,392 at June 30, 2010.
- During the year, the Hospital's total operating revenues increased 2.0% to \$11,889,360, while the operating expenses increased 2.4% to \$12,216,444. The Hospital had a loss from operations of (\$327,084), which is (2.8) % of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$792,193 during the fiscal year. The majority source of funding for these items was derived from operations and a \$285,000 loan coming from 1st State Bank for a digital mammography unit.

Overview of the Financial Statements

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

The balance sheet provides information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2010, reports total assets of \$17,186,158, total liabilities of \$4,410,766 and net assets of \$12,775,392.

The statement of revenues, expenses, and changes in net assets provides information on the Hospital's revenues and expenses. This statement indicates total operating revenues of \$11,889,360 and total operating expenses of \$12,216,444 during fiscal year 2010. The operating loss was (\$327,084) in 2010, compared to an operating loss of (\$272,107) in 2009.

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

Long-term Debt

At year-end, Hancock County Memorial Hospital had \$2,397,196 in long-term debt. The debt was incurred for the 1st floor Hospital remodeling project, Garner Medical Clinic building, 2nd floor Hospital renovation and HVAC upgrade project, chemistry analyzer equipment capitalized lease, ultrasound equipment capitalized lease, and the digital mammography loan.

Factors Bearing on Financial Future

Hancock County Memorial Hospital has developed a Master Facility Plan that would include additional renovations and upgrades to the facility. As of the report date, Hospital management has approved the Private Room/OP Service Expansion Project estimated at \$12,646,947. This project should go out to bid Fall 2010, with ground-breaking Spring 2011.

Requests for Information

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

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

HANCOCK COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,372,224	\$ 2,304,092
Assets limited as to use or restricted - Note 4	82,500	75,000
Receivables		
Patient, net of estimated uncollectibles		
of \$945,000 in 2010 and \$861,000 in 2009	1,847,411	1,648,156
Succeeding year property tax	964,349	894,911
Note	30,258	31,941
Other	14,588	34,131
Inventory	171,363	162,794
Prepaid expense	98,401	82,163
Total current assets	<u>4,581,094</u>	<u>5,233,188</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	3,351,527	1,609,221
Restricted under bond agreement	411,620	380,451
Restricted Foundation fund	468,185	414,059
Restricted plant replacement and expansion funds	28,436	70,971
Restricted for current liabilities	<u>(82,500)</u>	<u>(75,000)</u>
Assets limited as to use or restricted, less amounts restricted		
for current liabilities	<u>4,177,268</u>	<u>2,399,702</u>
CAPITAL ASSETS, net - Note 6	<u>8,034,159</u>	<u>8,207,879</u>
OTHER ASSETS		
Real estate held for investment - Note 7	281,284	281,284
Bond issuance costs, net of accumulated amortization	95,382	106,383
Joint venture - Note 8	16,416	40,563
Physician recruitment fees, net of accumulated amortization	555	7,222
Total other assets	<u>393,637</u>	<u>435,452</u>
Total assets	<u>\$ 17,186,158</u>	<u>\$ 16,276,221</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 9	\$ 403,324	\$ 325,273
Accounts payable		
Trade	175,420	72,331
Related party	161,827	150,173
Estimated third-party payor settlements	244,000	205,000
Accrued expenses		
Salaries, wages, and vacation	365,930	358,814
Interest	7,234	7,949
Payroll taxes and employee benefits	64,807	103,990
Deferred revenue for succeeding year property tax receivable	<u>964,352</u>	<u>894,911</u>
 Total current liabilities	 2,386,894	 2,118,441
 LONG-TERM DEBT, less current maturities - Note 9	 <u>1,993,872</u>	 <u>2,125,722</u>
 Total liabilities	 <u>4,380,766</u>	 <u>4,244,163</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,636,963	5,756,884
Restricted		
Expendable under bond agreement	411,620	380,451
Expendable Foundation fund	12,109	12,134
Expendable plant replacement and expansion funds	28,436	70,971
Unrestricted	<u>6,716,264</u>	<u>5,811,618</u>
 Total net assets	 <u>12,805,392</u>	 <u>12,032,058</u>
 Total liabilities and net assets	 <u>\$ 17,186,158</u>	 <u>\$16,276,221</u>

HANCOCK 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>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$646,511 in 2010 and \$464,975 in 2009) - Notes 2 and 3	\$ 11,715,320	\$ 11,515,875
Other operating revenues	<u>204,040</u>	<u>137,620</u>
TOTAL OPERATING REVENUES	<u>11,919,360</u>	<u>11,653,495</u>
OPERATING EXPENSES		
Salaries and wages	4,226,986	4,067,022
Employee benefits	1,067,126	1,040,326
Supplies and other expenses	5,818,041	5,791,211
Depreciation	960,322	862,602
Interest and amortization	<u>143,969</u>	<u>164,441</u>
TOTAL OPERATING EXPENSES	<u>12,216,444</u>	<u>11,925,602</u>
OPERATING LOSS	<u>(297,084)</u>	<u>(272,107)</u>
NON-OPERATING REVENUES (EXPENSES)		
County tax revenue	894,943	835,535
Investment income	62,195	60,991
Rental income	38,774	52,114
Non-capital contributions received, net of related fundraising expenses	32,808	(15,695)
Gain (loss) on sale of capital assets	(5,539)	3,801
Other income	<u>858</u>	<u>21,245</u>
NET NON-OPERATING REVENUES	<u>1,024,039</u>	<u>957,991</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	726,955	685,884
Capital contributions and grants	<u>46,379</u>	<u>48,983</u>
INCREASE IN NET ASSETS	773,334	734,867
NET ASSETS, BEGINNING OF YEAR	<u>12,032,058</u>	<u>11,297,191</u>
NET ASSETS, END OF YEAR	<u>\$ 12,805,392</u>	<u>\$ 12,032,058</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 11,555,065	\$ 11,400,371
Payments of salaries and wages	(4,219,870)	(4,053,730)
Payments of supplies and other expenses	(6,834,414)	(6,951,077)
Other receipts and payments, net	<u>225,266</u>	<u>235,542</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>726,047</u>	<u>631,106</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-capital contributions received, net of related fundraising expenses	32,808	(15,695)
County tax revenue received	894,943	835,535
Other income	4	6
Rental income	<u>38,774</u>	<u>52,114</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>966,529</u>	<u>871,960</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(792,193)	(674,086)
Gain from sale of capital assets	50	3,801
Decrease in construction payables	-	(251,459)
Principal payments on long-term debt	(338,799)	(289,319)
Proceeds from issuance of long-term debt	285,000	-
Interest payments on long-term debt	(127,010)	(134,688)
Capital contributions and grants	<u>46,379</u>	<u>48,983</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(926,573)</u>	<u>(1,296,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	62,195	60,991
Distribution from joint venture	25,000	-
(Increase) decrease in assets limited as to use or restricted	<u>(1,785,066)</u>	<u>230,982</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(1,697,871)</u>	<u>291,973</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(931,868)	498,271
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,304,092</u>	<u>1,805,821</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,372,224</u>	<u>\$ 2,304,092</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (297,084)	\$ (272,107)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	960,322	862,602
Amortization	17,669	28,086
Interest expense considered capital and related financing activity	126,300	136,355
Provision for bad debts	646,511	464,975
Changes in assets and liabilities		
Patient receivables	(845,766)	(630,479)
Other receivables	21,226	97,922
Inventory	(8,569)	26,458
Prepaid expense	(16,238)	(6,011)
Accounts payable - trade and related party	114,743	(187,456)
Accrued expenses	(32,067)	60,761
Estimated third-party payor settlements	<u>39,000</u>	<u>50,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 726,047</u>	<u>\$ 631,106</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hancock County Memorial Hospital (Hospital) is the county hospital of Hancock County, in the City of Britt, organized under Chapter 347 of the Code of Iowa. It is also organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is exempt from income taxes as a political subdivision. However, the Hospital would be subject to federal income tax on any unrelated business taxable income. The Hospital provides health care services under the name of Hancock County Memorial Hospital in accordance with a Master Affiliation Agreement – see Note 12. Services are provided primarily to residents of Hancock County and the surrounding area in north central Iowa.

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

Reporting Entity

For financial reporting purposes, Hancock County Memorial Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Hancock County Memorial Hospital Foundation meets these criteria and is included in the Hospital's financial statements under the provisions of GASB Statement No. 14. Hancock County Memorial Hospital has no other component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets:*
 - *Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
 - *Expendable* – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Property Tax Receivable

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

Inventory

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

Investments

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

Issuance Costs

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

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	10-40 years
Buildings and improvements	10-50 years
Equipment	3-20 years

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Assets Limited as to Use or Restricted

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

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

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010 and 2009.

Deferred Revenue

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

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$43,547 and \$41,028 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Investment Income

Interest on cash and deposits is included in non-operating revenues and expenses.

County Tax Revenue

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

Accounting for Uncertainty in Taxes

The Hospital has adopted the provisions of FASB Accounting Standards Codification Topic 740-10 (previously Financial Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes*) on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Hospital will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent Events

The Hospital has evaluated subsequent events through October 20, 2010, the date which the financial statements were available to be issued.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

Other Significant Accounting Policies

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

NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$148,730 and \$82,507 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost-to-charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$100,000 and \$58,000, respectively.

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

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

NOTE 3 – NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2008.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2007.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Revenue from the Medicare and Medicaid programs accounted for approximately 56% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010, and 54% and 3%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 17,688,414</u>	<u>\$ 16,626,151</u>
Contractual adjustments:		
Medicare	(3,009,037)	(2,451,500)
Medicaid	(384,363)	(355,972)
Blue Cross	(1,537,366)	(1,378,766)
Other	<u>(395,817)</u>	<u>(459,063)</u>
Total contractual adjustments	<u>(5,326,583)</u>	<u>(4,645,301)</u>
Net patient service revenue	<u>12,361,831</u>	11,980,850
Provision for bad debts	<u>(646,511)</u>	<u>(464,975)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,715,320</u>	<u>\$ 11,515,875</u>

NOTE 4 – CASH AND DEPOSITS

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.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2010 and 2009, the Hospital's carrying amounts of cash and deposits are as follows:

Deposits and Investments

	<u>2010</u>	<u>2009</u>
Hancock County Memorial Hospital:		
Checking and savings accounts	\$ 1,339,863	\$ 839,415
Money market accounts	226,940	343,059
Certificates of deposit	2,154,297	760,671
Interest receivable	5,358	1,355
Federal loan securities	<u>65,125</u>	<u>116,143</u>
	<u>3,791,583</u>	<u>2,060,643</u>
Hancock County Memorial Hospital Foundation:		
Checking and savings accounts	75,576	68,427
Money market accounts	2,119	3,293
Certificates of deposit	198,552	171,833
Mutual funds	129,006	114,541
Interest receivable	227	373
Beneficial interest in net assets of Community Foundation	<u>62,705</u>	<u>55,592</u>
	<u>468,185</u>	<u>414,059</u>
Total deposits	<u>\$ 4,259,768</u>	<u>\$ 2,474,702</u>

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

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

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 – BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

Hancock County Memorial Hospital Foundation is a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held in perpetuity. Hancock County Memorial Hospital Foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The funds which have been invested directly by Hancock County Memorial Hospital are recorded as a beneficial interest in net assets of the Community Foundation at the fair market value of its interest in the Community Foundation. These funds amounted to \$62,705 and \$55,592 at June 30, 2010 and 2009, respectively.

NOTE 6 – CAPITAL ASSETS

Summaries of capital assets at June 30, 2010 and 2009, are as follows:

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land and land improvements	\$ 459,704	\$ 5,319	\$ (2,000)	\$ 2,640	\$ 465,663
Building	6,652,246	1,127	-	10,551	6,663,924
Fixed equipment	3,475,876	-	(37,701)	-	3,438,175
Major movable equipment	4,406,341	603,844	(87,150)	21,175	4,944,210
Construction in progress	91,095	181,903	-	(34,366)	238,632
Total	<u>15,085,262</u>	<u>\$ 792,193</u>	<u>\$ (126,851)</u>	<u>\$ -</u>	<u>15,750,604</u>
Accumulated depreciation					
Land improvements	307,213	\$ 20,557	\$ (2,000)	\$ -	325,770
Building	2,874,208	246,905	-	-	3,121,113
Fixed equipment	927,281	205,222	(32,111)	-	1,100,392
Major movable equipment	2,768,681	487,638	(87,149)	-	3,169,170
Total	<u>6,877,383</u>	<u>\$ 960,322</u>	<u>\$ (121,260)</u>	<u>\$ -</u>	<u>7,716,445</u>
Capital assets, net	<u>\$ 8,207,879</u>				<u>\$ 8,034,159</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 448,630	\$ -	\$ -	\$ 11,074	\$ 459,704
Building	5,465,027	-	-	1,187,219	6,652,246
Fixed equipment	1,784,979	-	(23,312)	1,714,209	3,475,876
Major movable equipment	3,602,935	260,362	(150,788)	693,832	4,406,341
Construction in progress	3,139,318	558,111	-	(3,606,334)	91,095
Total	<u>14,440,889</u>	<u>\$ 818,473</u>	<u>\$ (174,100)</u>	<u>\$ -</u>	<u>15,085,262</u>
Accumulated depreciation					
Land improvements	286,507	\$ 20,706	\$ -	\$ -	307,213
Building	2,626,851	247,357	-	-	2,874,208
Fixed equipment	744,391	206,202	(23,312)	-	927,281
Major movable equipment	2,531,133	388,337	(150,789)	-	2,768,681
Total	<u>6,188,882</u>	<u>\$ 862,602</u>	<u>\$ (174,101)</u>	<u>\$ -</u>	<u>6,877,383</u>
Capital assets, net	<u>\$ 8,252,007</u>				<u>\$ 8,207,879</u>

The majority of construction in progress at June 30, 2010, represents architect fees incurred for the Private Room/OP Service Expansion Project. Hospital management expects completion of the project in the spring of 2013 at an estimated cost of \$12,647,000.

NOTE 7 – REAL ESTATE HELD FOR INVESTMENT

The real estate held for investment consists of 151 acres of farmland in Hancock County. The asset value of \$281,284 represents the original purchase price. At June 30, 2010 and 2009, the estimated market value was in excess of the carrying value.

NOTE 8 – JOINT VENTURE

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2010 and 2009, is as follows:

	Balance June 30, 2009	Additions	Payments	Balance June 30, 2010	Amounts Due Within One Year
Hospital revenue note, series A	\$ 430,000	\$ -	\$ (95,000)	\$ 335,000	\$ 105,000
Hospital general obligation county bonds	240,000	-	(55,000)	185,000	60,000
USDA - RECD hospital general obligation bonds	530,159	-	(53,824)	476,335	56,453
USDA - hospital revenue note #1	327,940	-	(23,754)	304,186	24,664
USDA - hospital revenue note #2	471,129	-	(25,101)	446,028	26,283
Farmers Trust & Savings Bank	266,671	-	(26,572)	240,099	28,200
2010 Digital Mammography loan First State Bank	-	285,000	(13,156)	271,844	53,028
Capitalized lease obligations - Note 10	185,096	-	(46,392)	138,704	49,696
Total long-term debt	<u>\$2,450,995</u>	<u>\$ 285,000</u>	<u>\$ (338,799)</u>	<u>2,397,196</u>	<u>\$ 403,324</u>
Less current maturities				<u>(403,324)</u>	
Long-term debt, less current maturities				<u>\$ 1,993,872</u>	

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

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

USDA – RECD hospital general obligation bonds require monthly payments of principal and interest, with interest at the rate of 4.88%. Principal and interest payments are due through December 2017.

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

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

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

First State Bank requires monthly payments of principal and interest, with interest at the rate of 3.95%. Principal and interest payments are due through March 2015.

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

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

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

<u>Year Ending June 30,</u>	<u>Long-term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2011	\$ 403,324	\$ 114,746	\$ 518,070
2012	403,262	90,754	494,016
2013	424,096	68,814	492,910
2014	239,767	50,939	290,706
2015	213,785	39,819	253,604
2016-2020	587,509	82,663	670,172
2021-2025	125,453	7,940	133,393
	<u>\$2,397,196</u>	<u>\$ 455,675</u>	<u>\$2,852,871</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 10 – LEASES

The Hospital leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2010 and 2009, for all operating leases was \$109,211 and \$88,708, respectively. The capitalized leased assets consist of:

	<u>2010</u>	<u>2009</u>
Major movable equipment	\$ 239,528	\$ 239,528
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(89,262)</u>	<u>(46,644)</u>
	<u>\$ 150,266</u>	<u>\$ 192,884</u>

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

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2011	\$ 56,618	\$ 145,424
2012	39,392	139,824
2013	33,650	78,956
2014	22,434	68,000
2015	-	68,000
2016-2020	<u>-</u>	<u>297,250</u>
Total minimum lease payments	152,094	<u>\$ 797,454</u>
Less interest	<u>(13,390)</u>	
Present value of minimum lease payments - Note 9	<u>\$ 138,704</u>	

NOTE 11 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 4.30% of their annual covered salary, and the Hospital is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Hospital was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009, and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$275,777, \$275,047, and \$245,856, respectively, equal to the required contributions for each year.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 12 – RELATED ORGANIZATIONS

Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region under the name of Hancock County Memorial Hospital. As a part of the Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services and other services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,153,814 and \$2,251,801 for the years ended June 30, 2010 and 2009, respectively.

The Hospital's Master Affiliation Agreement with Mercy Medical Center – North Iowa was amended effective July 1, 2008. Operating losses or operating gains that are less than \$300,000 are allocated entirely to the Hospital. Operating losses or operating gains equal to or in excess of \$300,000 are shared equally between the Hospital and Mercy Medical Center – North Iowa. There was no payment due to either party under the terms of the agreement for the year ended June 30, 2010.

Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. Expenses for the administrative and management services received for the years ended June 30, 2010 and 2009, were \$642,714 and \$591,395, respectively.

Due to Affiliated Organization

As of June 30, 2010 and 2009, Hancock County Memorial Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$161,827 and \$150,173, respectively, for the various services and distributions related to these agreements.

NOTE 13 – CONTINGENCIES

Malpractice Insurance

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

Litigations, Claims, and Other Disputes

The Hospital is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will be resolved without material adverse effects to the Hospital's financial position or results of operations.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

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

NOTE 14 – DEFERRED COMPENSATION AGREEMENTS

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

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

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was \$396,879 and \$347,386 at June 30, 2010 and 2009, respectively.

NOTE 15 – RISK MANAGEMENT

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

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 16 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	42%	42%
Medicaid	3	3
Commercial insurance	25	20
Other third-party payors and patients	<u>30</u>	<u>35</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

Hancock County Memorial Hospital

HANCOCK COUNTY MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 894,943	\$ -	\$ 894,943	\$ 894,908	\$ 35
Estimated other revenues/receipts	<u>12,094,835</u>	<u>142,898</u>	<u>12,237,733</u>	<u>13,821,554</u>	<u>(1,583,821)</u>
	12,989,778	142,898	13,132,676	14,716,462	(1,583,786)
Expenses/disbursements	<u>12,216,444</u>	<u>63,034</u>	<u>12,279,478</u>	<u>12,881,292</u>	<u>601,814</u>
Net	773,334	79,864	853,198	1,835,170	<u>\$ (981,972)</u>
Balance, beginning of year	<u>12,032,058</u>	<u>(7,253,264)</u>	<u>4,778,794</u>	<u>11,883,141</u>	
Balance, end of year	<u>\$ 12,805,392</u>	<u>\$ (7,173,400)</u>	<u>\$ 5,631,992</u>	<u>\$ 13,718,311</u>	

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010**

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2010.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2010 and 2009

Hancock County Memorial Hospital



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

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the schedule of statistical information on page 37 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
October 20, 2010

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	TOTAL	
	2010	2009
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,444,292	\$ 1,328,855
OTHER PROFESSIONAL SERVICES		
Operating room	1,055,095	939,427
Recovery room	262,719	249,001
Radiology	2,787,457	2,570,247
Nuclear medicine	32,552	22,896
Laboratory	4,654,568	4,422,036
Blood	58,352	57,663
Respiratory therapy	324,596	251,511
Physical therapy	591,864	654,842
Occupational therapy	123,817	113,400
Speech therapy	46,442	33,113
Electrocardiology	235,479	187,651
Medical and surgical supplies	182,270	164,333
Pharmacy	1,276,073	1,230,063
Cardiac rehabilitation	111,336	110,611
Diabetic education	31,510	25,596
Massage therapy	11,191	14,797
Nail care	16,411	13,881
Britt clinic	1,402,104	1,340,995
Garner clinic	1,237,148	1,245,903
Wesley clinic	230,924	322,789
Kanawha clinic	108,592	112,119
Emergency services	1,516,391	1,296,929
Specialty surgeon	17,879	-
Garner clinic - recreational therapy	78,082	-
Total	17,837,144	16,708,658
Charity care	(148,730)	(82,507)
Total patient service revenue	17,688,414	16,626,151
CONTRACTUAL ADJUSTMENTS		
Medicare	(3,009,037)	(2,451,500)
Medicaid	(384,363)	(355,972)
Blue Cross	(1,537,366)	(1,378,766)
Other	(395,817)	(459,063)
Total contractual adjustments	(5,326,583)	(4,645,301)
NET PATIENT SERVICE REVENUE	12,361,831	11,980,850
PROVISION FOR BAD DEBTS	(646,511)	(464,975)
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	\$ 11,715,320	\$ 11,515,875

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 1,324,619	\$ 1,272,597	\$ 119,673	\$ 56,258
79,075	21,455	976,020	917,972
11,638	1,547	251,081	247,454
155,175	181,278	2,632,282	2,388,969
-	-	32,552	22,896
522,551	529,489	4,132,017	3,892,547
39,490	24,826	18,862	32,837
198,421	162,294	126,175	89,217
130,186	113,793	461,678	541,049
108,976	81,902	14,841	31,498
32,489	25,244	13,953	7,869
13,624	23,250	221,855	164,401
47,329	22,754	134,941	141,579
686,081	557,179	589,992	672,884
-	-	111,336	110,611
-	-	31,510	25,596
-	-	11,191	14,797
-	-	16,411	13,881
-	-	1,402,104	1,340,995
-	-	1,237,148	1,245,903
-	-	230,924	322,789
-	-	108,592	112,119
42,194	42,940	1,474,197	1,253,989
-	-	17,879	-
-	-	78,082	-
<u>\$ 3,391,848</u>	<u>\$ 3,060,548</u>	<u>\$ 14,445,296</u>	<u>\$ 13,648,110</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Meals sold	\$ 73,346	\$ 72,956
Grant revenues	70,505	24,146
Dietary assessment and consulting	11,674	13,873
Medical records transcripts	3,573	5,426
Other	<u>44,942</u>	<u>21,219</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 204,040</u>	 <u>\$ 137,620</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 60,644	\$ 60,072
Supplies and other expenses	<u>206</u>	<u>659</u>
	<u>60,850</u>	<u>60,731</u>
ADULTS AND PEDIATRICS		
Salaries and wages	856,011	823,067
Supplies and other expenses	<u>210,208</u>	<u>251,103</u>
	<u>1,066,219</u>	<u>1,074,170</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	69,227	59,848
Supplies and other expenses	<u>145,218</u>	<u>133,282</u>
	<u>214,445</u>	<u>193,130</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>108,983</u>	<u>113,183</u>
RADIOLOGY		
Salaries and wages	247,271	233,546
Supplies and other expenses	<u>385,317</u>	<u>385,580</u>
	<u>632,588</u>	<u>619,126</u>
NUCLEAR MEDICINE		
Supplies and other expenses	<u>8,524</u>	<u>5,687</u>
LABORATORY		
Salaries and wages	315,220	326,005
Supplies and other expenses	<u>340,951</u>	<u>315,938</u>
	<u>656,171</u>	<u>641,943</u>
BLOOD		
Salaries and wages	1,381	1,637
Supplies and other expenses	<u>26,674</u>	<u>28,592</u>
	<u>28,055</u>	<u>30,229</u>
RESPIRATORY THERAPY		
Salaries and wages	-	304
Supplies and other expenses	<u>12,392</u>	<u>13,154</u>
	<u>12,392</u>	<u>13,458</u>
PHYSICAL THERAPY		
Salaries and wages	146,120	165,580
Supplies and other expenses	<u>17,785</u>	<u>15,207</u>
	<u>163,905</u>	<u>180,787</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 56,544</u>	<u>\$ 51,940</u>
 SPEECH THERAPY		
Supplies and other expenses	<u>29,585</u>	<u>25,268</u>
 ELECTROCARDIOLOGY		
Salaries and wages	6,010	4,877
Supplies and other expenses	<u>10,664</u>	<u>12,857</u>
	<u>16,674</u>	<u>17,734</u>
 MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>41,032</u>	<u>51,898</u>
 PHARMACY		
Salaries and wages	10,806	14,738
Supplies and other expenses	<u>495,164</u>	<u>506,399</u>
	<u>505,970</u>	<u>521,137</u>
 CENTRAL SUPPLY		
Salaries and wages	60,685	60,029
Supplies and other expenses	<u>18,271</u>	<u>18,066</u>
	<u>78,956</u>	<u>78,095</u>
 CARDIAC REHABILITATION		
Salaries and wages	30,589	33,850
Supplies and other expenses	<u>3,975</u>	<u>2,622</u>
	<u>34,564</u>	<u>36,472</u>
 MASSAGE THERAPY		
Salaries and wages	10,253	12,546
Supplies and other expenses	<u>255</u>	<u>1,020</u>
	<u>10,508</u>	<u>13,566</u>
 NAIL CARE		
Salaries and wages	14,955	14,215
Supplies and other expenses	<u>4,528</u>	<u>1,333</u>
	<u>19,483</u>	<u>15,548</u>
 BRITT CLINIC		
Salaries and wages	530,596	381,933
Supplies and other expenses	<u>464,008</u>	<u>508,566</u>
	<u>994,604</u>	<u>890,499</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
GARNER CLINIC		
Salaries and wages	\$ 308,650	\$ 285,662
Supplies and other expenses	<u>659,671</u>	<u>641,682</u>
	<u>968,321</u>	<u>927,344</u>
WESLEY CLINIC		
Salaries and wages	77,642	97,729
Supplies and other expenses	<u>143,311</u>	<u>176,293</u>
	<u>220,953</u>	<u>274,022</u>
KANAWHA CLINIC		
Salaries and wages	42,518	45,328
Supplies and other expenses	<u>83,206</u>	<u>82,931</u>
	<u>125,724</u>	<u>128,259</u>
EMERGENCY SERVICES		
Salaries and wages	218,624	244,789
Supplies and other expenses	<u>876,752</u>	<u>875,504</u>
	<u>1,095,376</u>	<u>1,120,293</u>
SOCIAL SERVICES		
Salaries and wages	8,410	9,409
Supplies and other expenses	-	14
	<u>8,410</u>	<u>9,423</u>
MEDICAL RECORDS		
Salaries and wages	164,022	166,587
Supplies and other expenses	<u>32,805</u>	<u>30,792</u>
	<u>196,827</u>	<u>197,379</u>
DIETARY		
Salaries and wages	195,366	198,174
Supplies and other expenses	<u>68,856</u>	<u>88,999</u>
	<u>264,222</u>	<u>287,173</u>
OPERATION OF PLANT		
Salaries and wages	208,668	201,940
Supplies and other expenses	<u>242,881</u>	<u>213,424</u>
	<u>451,549</u>	<u>415,364</u>
HOUSEKEEPING		
Salaries and wages	89,340	84,567
Supplies and other expenses	<u>20,985</u>	<u>20,645</u>
	<u>110,325</u>	<u>105,212</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
LAUNDRY AND LINEN		
Salaries and wages	\$ 5,455	\$ 5,890
Supplies and other expenses	<u>20,631</u>	<u>20,769</u>
	<u>26,086</u>	<u>26,659</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	529,229	534,700
Supplies and other expenses	<u>1,250,507</u>	<u>1,197,804</u>
	<u>1,779,736</u>	<u>1,732,504</u>
SPECIALTY SURGEON		
Supplies and other expenses	<u>7,242</u>	<u>-</u>
GARNER CLINIC - RECREATIONAL THERAPY		
Salaries and wages	19,294	-
Supplies and other expenses	<u>30,910</u>	<u>-</u>
	<u>50,204</u>	<u>-</u>
UNASSIGNED EXPENSES		
Depreciation	960,322	862,602
Interest and amortization	143,969	164,441
Employee benefits	<u>1,067,126</u>	<u>1,040,326</u>
	<u>2,171,417</u>	<u>2,067,369</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,216,444</u>	<u>\$ 11,925,602</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND
COLLECTION STATISTICS
JUNE 30, 2010 AND 2009

ANALYSIS OF AGING Days Since Discharge	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,562,208	55.95%	\$ 1,412,471	56.29%
31 to 60 days	512,485	18.35%	437,114	17.42%
61 to 90 days	174,338	6.24%	159,831	6.37%
91 days and over	543,297	19.46%	500,000	19.92%
	2,792,328	100.00%	2,509,416	100.00%
Less: Allowance for doubtful accounts	321,690		221,097	
Allowance for contractual adjustments	623,227		640,163	
Net	\$ 1,847,411		\$ 1,648,156	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Beginning balance	\$ 221,097	\$ 224,100
Add:		
Provision for bad debts	646,511	464,975
Recoveries previously written off	98,804	126,766
	745,315	591,741
Less:		
Accounts written off	(644,722)	(594,744)
Ending balance	\$ 321,690	\$ 221,097

COLLECTION STATISTICS

Net accounts receivable - patients	\$ 1,847,411	\$ 1,648,156
Number of days charges outstanding (1)	58	52
Uncollectible accounts (2)	\$ 811,868	\$ 567,284
Percentage of uncollectible accounts to total charges	4.6%	3.4%

(1) Based on average daily net patient service revenue for April, May, and June

(2) Includes provision for bad debts, charity care, and collection fees

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
INVENTORY		
Central supply	\$ 75,012	\$ 68,558
Pharmacy	51,103	59,762
General	<u>45,248</u>	<u>34,474</u>
Total inventory	<u>\$ 171,363</u>	<u>\$ 162,794</u>
PREPAID EXPENSE		
Service contracts/other	\$ 72,080	\$ 58,060
Membership dues	11,825	13,201
Insurance	<u>14,496</u>	<u>10,902</u>
Total prepaid expense	<u>\$ 98,401</u>	<u>\$ 82,163</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute (includes hospice)	891	1,019
Swing-bed*	<u>1,676</u>	<u>1,657</u>
Total	<u><u>2,567</u></u>	<u><u>2,676</u></u>
ADMISSIONS		
Acute (includes hospice)	341	352
Swing-bed*	<u>126</u>	<u>109</u>
Total	<u><u>467</u></u>	<u><u>461</u></u>
DISCHARGES		
Acute (includes hospice)	340	352
Swing-bed*	<u>120</u>	<u>113</u>
Total	<u><u>460</u></u>	<u><u>465</u></u>
AVERAGE LENGTH OF STAY		
Acute (includes hospice)	2.62	2.89
Swing-bed*	13.97	14.66
All patients	5.58	5.75
BEDS	25	25
PERCENTAGE OF OCCUPANCY		
Acute (includes hospice), based on 25 beds	9.8%	11.2%
Swing-bed, based on 10 beds	45.9%	45.4%
All patients, based on 25 beds	28.1%	29.3%
OUTPATIENT VISITS	17,982	17,905
PHYSICIAN CLINIC VISITS		
Britt	8,924	8,459
Garner	8,886	9,164
Kanawha	2,027	744
Wesley	<u>1,358</u>	<u>1,883</u>
Total	<u><u>21,195</u></u>	<u><u>20,250</u></u>

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



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheets of Hancock County Memorial Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated October 20, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 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 was not designed to 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 certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a 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 financial statements of Hancock County Memorial Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses, and accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hancock County Memorial Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

Dubuque, Iowa
October 20, 2010

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-10 Segregation of Duties

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

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

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

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-10 Preparation of Financial Statements

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

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

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

Condition – Hancock County Memorial Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

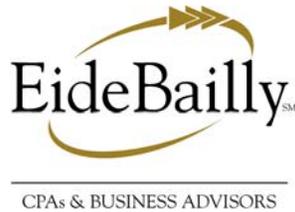
Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-10 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-10 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.
- II-G-10 Publication of Bills Allowed and Salaries – Chapter 347.13(11) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the County as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” The Hospital published a schedule of bills allowed and a schedule of salaries paid as required by the Code.
- II-H-10 Chapter 28E Organization – The Hospital has entered into a joint venture agreement under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. The joint venture has conducted an audit in compliance with the provisions of Chapter 28E.



The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the financial statements of Hancock County Memorial Hospital for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Hospital are described in Note 1 to the financial statements. The Hospital adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009, as disclosed in the financial statements. Other than the adoption of ASC 740-10, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2010. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Hospital's financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense.

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

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

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

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustment was proposed as a result of the audit:

To adjust estimated third-party payor settlements	\$ (60,811)
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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Hospital’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

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

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

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

Dubuque, Iowa
October 20, 2010



The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

In planning and performing our audit of the financial statements of Hancock 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 such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a 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 consider the following deficiencies in the Hospital's internal control to be significant deficiencies:

Preparation of Financial Statements

A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Hancock County Memorial Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective. The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Segregation of Duties

One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult.

We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

This communication is intended solely for the information and use of the officials, employees, and constituents of Hancock County Memorial Hospital, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
October 20, 2010