Greater Regional Medical Center
Creston, Iowa

FINANCIAL REPORT

June 30, 2010

C O N T E N T S

Greater Regional Medical Center
OFFICIALS
June 30, 2010

CHIEF EXECUTIVE OFFICER

Monte Neitzel

CHIEF FINANCIAL OFFICER

Matt McCutchan

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Greater Regional Medical Center
Creston, Iowa

We have audited the accompanying balance sheets of Greater Regional Medical Center, and its component unit, Greater Regional Healthcare Foundation, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's and Foundation'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 Greater Regional Medical Center, and its component unit, Greater Regional Healthcare Foundation, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010 on our consideration of Greater Regional Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 21, 2010

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Greater Regional Medical Center
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Greater Regional Medical Center, we offer readers of the financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Medical Center, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Medical Center report information of the Medical Center using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Medical Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Medical Center operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets increased by $1,733,433, or 4%, to $48,265,022
- Total noncurrent assets whose use is limited increased by $288,754 to $5,310,739
- Total property and equipment decreased by $441,674 to $28,521,613
- Total fund equity increased by $2,942,279 to $33,932,542
- Total long-term debt decreased by $1,107,442 to $9,917,928
- Net patient service revenue increased by $3,667,659, or 12%, to $34,384,869
- Expenses increased by $2,627,347, or 8%, to $33,830,403

Financial Analysis of the Medical Center

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Medical Center and the changes in them. The Medical Center's fund equity, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's fund equity are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Medical Center's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30 2010	2009	2008
Current assets	$13,210,745	$11,313,434	$ 8,723,562
Noncurrent assets whose use is limited	5,310,739	5,021,985	7,596,793
Property and equipment	28,521,613	28,963,287	25,772,049
Other assets	1,221,925	1,232,883	1,243,841
Total assets	$48,265,022	$46,531,589	$43,336,245
Current liabilities	$ 3,965,890	$ 4,143,567	$ 3,832,897
Long-term debt, less current maturities	9,252,790	10,300,759	11,025,372
Other noncurrent liabilities	1,113,800	1,097,000	1,080,000
Total liabilities	$14,332,480	$15,541,326	$15,938,269
Invested in capital assets, net of related debt	$18,603,685	$17,937,917	$13,973,665
Restricted	621,093	623,208	755,310
Unrestricted	14,707,764	12,429,138	12,669,001
Total fund equity	$33,932,542	$30,990,263	$27,397,976

As depicted in Table 1, total assets increased in fiscal year 2010 to $48,265,022. The change in total assets is primarily a result of continuing operating income.

A summary of the Medical Center's historical statements of revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	2010	**2009**	**2008**
Net patient service revenue	$34,384,869	$30,717,210	$26,151,957
Other revenue	1,430,491	1,745,018	1,655,627
Total revenue	35,815,360	32,462,228	27,807,584
Salaries	13,696,452	11,979,609	10,915,847
Supplies and expenses	17,488,513	16,830,883	14,546,402
Provision for depreciation	2,645,438	2,392,564	1,813,122
Total expenses	33,830,403	31,203,056	27,275,371
Operating income	1,984,957	1,259,172	532,213
County taxes	1,142,643	1,153,342	1,147,598
Investment income	171,748	191,634	407,751
Interest expense	(518,123)	(571,374)	(466,543)
Unrestricted contributions	161,054	–	–
Loss on disposal of property and equipment	–	–	(449,098)
Transfer from related foundation	–	1,559,513	–
Total nonoperating gains	957,322	2,333,115	639,708
Change in fund equity	2,942,279	3,592,287	1,171,921
Total fund equity, beginning	30,990,263	27,397,976	26,226,055
Total fund equity, ending	$33,932,542	$30,990,263	$27,397,976

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenues, expenses and changes in fund equity between June 30, 2010 and 2009.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Medical, surgical and obstetrical discharges for fiscal year 2010 were 909 compared to 1,177 in fiscal year 2009. Average length of stay decreased as medical, surgical and obstetrical patient days decreased to 2,771 from 3,617 in 2009. Swing bed discharges for fiscal year 2010 were 88 compared to 98 in fiscal year 2009. Average length of stay decreased as swing bed patient days decreased to 768 from 956 in 2009. Volume on the outpatient side increased in 2010. In 2010, gross outpatient charges increased to $43,556,897 compared to $36,700,735 in 2009.

Price Increase: As is customary annually, the Medical Center did review its charge structure and incorporated certain price increases in 2010. Overall, gross patient service revenue increased to $52,111,330 from $47,071,847 in 2009. Laboratory and blood service, radiation therapy and Creston Medical Clinic reflected the most significant growth in 2010.

Payor Mix: The Medical Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts increased to $17,726,461 in 2010 from $16,354,637 in 2009. This represents 34% and 35% of gross patient charges for 2010 and 2009, respectively.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2010	**2009**	**2008**
Medicare	43%	42%	44%
Medicaid	9	9	9
Commercial insurance	43	44	41
Patients	5	5	6
Totals	100%	100%	100%

Other Revenue

Other revenue decreased to $1,430,491 in 2010 compared to $1,745,018 in 2009 due to decreased rental income from the Medical Arts Plaza.

Expenses

Approximately 40% of the Medical Center's expenses are for salaries. Total salaries increased by 14% to $13,696,452 in 2010 from $11,979,609 in 2009. The Medical Center departments experiencing the most significant increase in 2010 included hospice, Morning Star clinic, and Creston Medical Clinic.

Approximately 52% of the Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by 4% to $17,488,513 in 2010 from $16,830,883 in 2009. The Medical Center departments experiencing the most significant increases in 2010 included emergency room, radiation therapy and Creston Medical Clinic.

Approximately 8% of the Medical Center's expenses relate to provision for depreciation. The provision for depreciation increased to $2,645,438 in 2010 from $2,392,564 in 2009.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to $957,322 in 2010 from $2,333,115 in 2009, primarily due to a significant transfer from related foundation in 2009.

Property and Equipment

A summary of the Medical Center's property and equipment is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	2010	**2009**	**2008**
Land	$ 149,491	$ 149,491	$ 149,491
Land improvements	3,224,132	3,216,281	2,143,165
Building and improvements	26,805,461	18,984,244	5,970,697
Fixed equipment	5,523,362	5,328,149	5,235,196
Major movable equipment	12,438,226	11,691,059	10,565,880
Buildings leased to others	–	7,246,108	7,246,108
Crestridge Estates	3,363,382	3,363,382	3,363,382
Construction in progress	903,373	224,949	10,135,842
Subtotal	52,407,427	50,203,663	44,809,761
Less accumulated depreciation	(23,885,814)	(21,240,376)	(19,037,712)
Net property and equipment	$28,521,613	$28,963,287	$25,772,049

At the end of 2010, the Hospital had $28,521,613 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2010, $2,203,764 was spent to acquire property and equipment. Construction in progress at year end consists primarily of architect and engineering costs for future construction and renovation of the Medical Center.

Debt Administration

At year end, the Medical Center had $9,658,691 in current and long-term debt related to Hospital Revenue Bonds, a decrease of $477,981 from 2009. This decrease is the result of the required payments made on the outstanding bonds for fiscal year 2010. More detailed information about the Medical Center's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 67% of the Medical Center's total liabilities as of year end.

At year end, the Medical Center had $259,237 in current and long-term notes payable, a decrease of $629,461 from 2009. This decrease is the result of payments made on the outstanding notes for fiscal year 2010. More detailed information about the Medical Center's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 2% of the Medical Center's total liabilities at year end.

Performance Compared to County Hospital Budget

The Medical Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Medical Center budget and GAAP basis are presented in the Notes to Financial Statements. A comparison of the Medical Center's fiscal year 2010 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

Table 5
Actual vs County Hospital Budget

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	$ 1,142,643	$ 1,081,974	$ 60,669
Other revenues/receipts	35,987,108	43,502,813	(7,515,705)
	37,129,751	44,584,787	(7,455,036)
Expenses/expenditures	35,014,294	41,738,765	(6,724,471)
Net	$ 2,115,457	$ 2,846,022	$ (730,565)

Actual other revenues/receipts results were lower than County Hospital budget primarily due to less loan proceeds. Expenses/expenditures were lower than County Hospital budget primarily due to less construction costs.

Economic and Other Factors and Next Year's Budget

The Medical Center's board and management considered many factors when setting the fiscal year 2011 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Greater Regional Medical Center's Management

This financial report is designed to provide users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about this report or need additional information, contact Greater Regional Medical Center at (641) 782-7091 or write care of: Chief Financial Officer, Greater Regional Medical Center, 1700 West Townline, Creston, Iowa 50801.

Greater Regional Medical Center
BALANCE SHEETS
June 30, 2010 and 2009

ASSETS

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2010	2009	2010	2009
CURRENT ASSETS				
Cash	$ 4,088,705	$ 4,791,784	$ 43,918	$ 75,110
Assets whose use is limited, required for current liabilities	474,657	464,338	–	–
Certificates of deposit	2,501,184	415,146	–	–
Mutual funds	1,038,998	–	95,622	82,854
Patient receivables, less allowances for contractual adjustments and bad debts	3,631,093	3,405,694	–	–
Other receivables	33,305	522,900	–	–
Contributions receivable, current portion	–	–	55,135	169,490
Estimated third-party payor settlements	–	500,000	–	–
Inventories	799,170	721,785	–	–
Prepaid expenses	643,633	491,787	–	–
Total current assets	13,210,745	11,313,434	194,675	327,454
ASSETS WHOSE USE IS LIMITED				
Designated by board for plant replacement and expansion				
Cash	3,394,656	2,104,982	–	–
Certificates of deposit	1,769,647	2,746,448	–	–
Interest receivable	–	11,685	–	–
	5,164,303	4,863,115	–	–
Restricted for payment of long-term debt and interest				
Cash, debt service reserve fund	621,093	623,208	–	–
Total assets whose use is limited	5,785,396	5,486,323	–	–
Less assets whose use is limited and that are required for current liabilities	474,657	464,338	–	–
Noncurrent assets whose use is limited	5,310,739	5,021,985	–	–
PROPERTY AND EQUIPMENT	52,407,427	50,203,663	–	–
Less accumulated depreciation	23,885,814	21,240,376	–	–
Total property and equipment	28,521,613	28,963,287	–	–
OTHER ASSETS				
Contributions receivable, less current portion	–	–	20,600	85,466
Unamortized financing costs	141,925	152,883	–	–
Succeeding year property tax receivable	1,080,000	1,080,000	–	–
Total other assets	1,221,925	1,232,883	20,600	85,466
Totals	$48,265,022	$46,531,589	$ 215,275	$ 412,920

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2010	2009	2010	2009
CURRENT LIABILITIES				
Current maturities of long-term debt	$ 665,138	$ 724,611	$ –	$ –
Accounts payable				
Trade	1,212,280	1,189,628	–	–
Construction	–	519,766	–	–
Accrued employee compensation	1,454,067	1,144,916	–	–
Payroll taxes and amounts withheld from employees	209,748	135,308	–	–
Accrued interest	124,657	129,338	–	16,159
Estimated third-party payor settlements	300,000	300,000	–	–
Total current liabilities	3,965,890	4,143,567		16,159
LONG-TERM LIABILITIES				
Long-term debt, less current maturities	9,252,790	10,300,759	–	290,000
Deferred revenue for succeeding year property tax receivable	1,080,000	1,080,000	–	–
Other long-term liability	33,800	17,000	–	–
Total long-term liabilities	10,366,590	11,397,759	–	290,000
FUND EQUITY				
Invested in capital assets, net of related debt	18,603,685	17,937,917	–	–
Restricted	621,093	623,208	–	–
Unrestricted	14,707,764	12,429,138	215,275	106,761
Total fund equity	33,932,542	30,990,263	215,275	106,761
Totals	$48,265,022	$46,531,589	$ 215,275	$ 412,920

Greater Regional Medical Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
Year ended June 30, 2010 and 2009

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2010	2009	2010	2009
NET PATIENT SERVICE REVENUE, net of provision for bad debts 2010 $1,644,539; 2009 $1,521,840	$34,384,869	$30,717,210	$ –	$ –
OTHER REVENUE	1,430,491	1,745,018	23,899	39,972
Total revenue	35,815,360	32,462,228	23,899	39,972
EXPENSES				
Nursing service	8,288,088	8,380,685	–	–
Other professional service	12,105,038	9,674,591	–	–
General service	2,364,810	2,291,812	–	–
Fiscal and administrative service and unassigned expenses	8,427,029	8,463,404	42,834	11,999
Provision for depreciation	2,645,438	2,392,564	–	–
Total expenses	33,830,403	31,203,056	42,834	11,999
Operating income (loss)	1,984,957	1,259,172	(18,935)	27,973
NONOPERATING GAINS (LOSSES)				
County taxes	1,142,643	1,153,342	–	–
Investment income	171,748	191,634	233	1,458
Unrealized gain (loss) on investments	–	–	9661	(20,338)
Interest expense	(518,123)	(571,374)	–	(16,159)
Unrestricted contributions	161,054	–	117,555	10,900
Transfer from related foundation, (to) Medical Center	–	1,559,513	–	(1,559,513)
Total nonoperating gains (losses)	957,322	2,333,115	127,449	(1,583,652)
Change in fund equity	2,942,279	3,592,287	108,514	(1,555,679)
TOTAL FUND EQUITY				
Beginning	30,990,263	27,397,976	106,761	1,662,440
Ending	$33,932,542	$30,990,263	$ 215,275	$ 106,761

See Notes to Financial Statements.

Greater Regional Medical Center
STATEMENTS OF CASH FLOWS
Year ended June 30, 2010 and 2009

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from patients and third-party payors	$34,659,470	$31,382,276	$ –	$ –
Cash paid to suppliers for goods and services	(17,114,257)	(17,123,783)	(42,834)	(11,999)
Cash paid to employees for services	(13,387,301)	(11,894,907)	–	–
Other operating revenue received	1,430,491	1,745,018	23,899	39,972
Net cash provided by (used in) operating activities	5,588,403	4,108,604	(18,935)	27,973
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
County taxes received	1,142,643	1,153,342	–	–
Contributions received	161,054	–	101,396	–
Net cash provided by noncapital financing activities	1,303,697	1,153,342	101,396	–
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of property and equipment	(2,723,530)	(4,247,139)	–	(513,585)
Contributions received	–	–	179,221	306,522
Proceeds from issuance of long-term debt	–	–	–	400,000
Principal payments on long-term debt	(1,107,442)	(773,014)	(290,000)	(160,000)
Interest paid on long-term debt	(511,846)	(547,232)	–	–
Net cash provided by (used in) capital and related financing activities	(4,342,818)	(5,567,385)	(110,779)	32,937
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	183,433	184,432	233	1,457
Purchase of investments	(3,898,015)	(2,099,112)	(3,107)	(21,314)
Proceeds from maturities of investments	1,749,780	1,794,653	–	–
Net cash (used in) investing activities	(1,964,802)	(120,027)	(2,874)	(19,857)
NET INCREASE (DECREASE) IN CASH	584,480	(425,466)	(31,192)	41,053
CASH				
Beginning	7,519,974	7,945,440	75,110	34,057
Ending	$ 8,104,454	$ 7,519,974	$ 43,918	$ 75,110

See Notes to Financial Statements.

Greater Regional Medical Center
STATEMENTS OF CASH FLOWS (continued)
Year ended June 30, 2010 and 2009

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2010	2009	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	$1,984,957	$1,259,172	$ (18,935)	$ 27,973
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	2,645,438	2,392,564	–	–
Changes in assets and liabilities				
(Increase) decrease in patient receivables	(225,399)	565,066	–	–
(Increase) decrease in other receivables	489,595	(421,489)	–	–
Decrease in net estimated third-party payor settlements	500,000	100,000	–	–
(Increase) in inventories	(77,385)	(59,614)	–	–
(Increase) in prepaid expenses	(151,846)	(12,832)	–	–
Increase in accounts payable, trade	22,652	90,266	–	–
Increase in accrued employee compensation	309,151	84,702	–	–
Increase in payroll taxes and amounts withheld from employees	74,440	93,769	–	–
Increase in other long-term liability	16,800	17,000	–	–
Net cash provided by (used in) operating activities	$5,588,403	$4,108,604	$ (18,935)	$ 27,973
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET				
Per balance sheet				
Current assets, cash	$4,088,705	$4,791,784	$ 43,918	$ 75,110
Assets whose use is limited				
Designated by board for plant replacement and expansion, cash	3,394,656	2,104,982	–	–
Restricted for payment of long-term debt and interest, cash	621,093	623,208	–	–
Total per statement of cash flows	$8,104,454	$7,519,974	$ 43,918	$ 75,110
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITES				
Property and equipment transferred from related foundation	$ –	$1,559,513	$ –	$1,559,513

See Notes to Financial Statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Medical Center is a county public Medical Center organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Union County, Iowa. The Medical Center is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, Greater Regional Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center 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 Medical Center. These criteria also include organizations that are fiscally dependent on the Medical Center. The Medical Center has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Greater Regional Healthcare Foundation.

The Foundation is a legally separate nonprofit corporation. The Medical Center does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. The accounts and transactions of the Foundation are included by discrete presentation within these financial statements as required by accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The Medical Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Medical Center is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Medical Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

Pursuant to Governmental Accounting Standards Board, GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Medical Center has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board, FASB issued on or before November 30, 1989.

Contributions Receivable

Contributions are recorded as receivables and contribution support in the year received.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

The Medical Center's investments and the methods used in determining the reported amounts are as follows:

Type	Method
Interest-earning investment contracts	
Nonnegotiable certificates of deposit	Cost
Mutual funds	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains, and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

The Foundation carries investments in marketable securities with readily determinable fair values and at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the change in fund equity in the accompanying statements of revenues, expenses, and changes in fund equity.

Inventories

Inventories are stated at average cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Medical Center is four to forty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

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. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the 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.

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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

Net 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. 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.

Revenues, Expenses and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Credit Policy

The Medical Center grants credit to patients, substantially all of whom are residents of the County.

Accounting Estimates and Assumptions

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

Income Taxes

The Foundation is exempt from federal income tax under applicable provisions of the Internal Revenue Code.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain amounts have been reclassified in the 2009 financial statements in order to conform with the 2010 presentation, with no effect on the change in fund equity.

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center 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; warrants or improvement certificates of a drainage district and common stocks.

The mutual fund investments, consisting of U.S. Government Agency securities, are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Medical Center’s name. The mutual fund investments are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

The Medical Center’s mutual fund investments at June 30, 2010 are as follows:

	Maturities	Fair value
Mutual fund	Daily	$1,038,998

As to interest rate risk, the Medical Center's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	Year ended June 30	
	2010	2009
Medicare	$1,839,672	$1,799,593
Medicaid	512,458	420,827
Commercial insurance	2,419,760	3,137,178
Patients	2,309,203	678,096
Total patient receivables	7,081,093	6,035,694
Less allowances for contractual adjustments and bad debts	(3,450,000)	(2,630,000)
Net patient receivables	$3,631,093	$3,405,694

NOTE 4 CONTRIBUTIONS RECEIVABLE

The Foundation conducts ongoing campaigns to provide support for the operations of the Foundation. Contributions receivable represent unconditional promises to give as follows:

	June 30	
	2010	2009
Unconditional promises to give	$ 83,735	$ 299,956
Less allowance for uncollectible promises	8,000	45,000
Net contributions receivable	$ 75,735	$ 254,956

The contributions receivable are due as follows:

	2010	2009
Less than one year	$ 55,135	$ 169,490
One to five years	20,600	85,466
Total contributions receivable	$ 75,735	$ 254,956

NOTE 5 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Medical Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

Other

The Medical Center has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

NOTE 6 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	June 30, 2010		June 30, 2009	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 149,491	$ –	$ 149,491	$ –
Land improvements	3,224,132	1,398,985	3,216,281	1,230,304
Building and improvements	26,805,461	7,166,337	18,984,244	3,311,322
Fixed equipment	5,523,362	4,541,658	5,328,149	4,351,193
Major movable equipment	12,438,226	9,643,994	11,691,059	8,707,824
Buildings leased to others	–	–	7,246,108	2,664,188
Crestridge Estates	3,363,382	1,134,840	3,363,382	975,545
Construction in progress	903,373	–	224,949	–
Totals	$52,407,427	$23,885,814	$50,203,663	$21,240,376

At June 30, 2010 construction in progress consists primarily of architect and engineering costs for future construction and renovation of the Medical Center. During the year ended June 30, 2009, the Medical Center completed a $13 million renovation and addition, including equipment, primarily relating to the emergency room and cancer center.

A summary of changes in property and equipment for the year ended June 30, 2010 follows:

	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 149,491	$ –	$ –	$ –	$ 149,491
Land improvements	3,216,281	7,851	–	–	3,224,132
Building and improvements	18,984,244	–	–	7,821,217	26,805,461
Fixed equipment	5,328,149	100,715	–	94,498	5,523,362
Major movable equipment	11,691,059	718,062	–	29,105	12,438,226
Buildings leased to others	7,246,108	–	–	(7,246,108)	–
Crestridge Estates	3,363,382	–	–	–	3,363,382
Construction in progress	224,949	1,377,136	–	(698,712)	903,373
Totals	50,203,663	2,203,764	–	–	52,407,427
Less accumulated depreciation	(21,240,376)	(2,645,438)	–	–	(23,885,814)
Net property and equipment	$28,963,287	$ (441,674)	$ –	$ –	$28,521,613

NOTE 6 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2009 follows:

	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 149,491	$ –	$ –	$ –	$ 149,491
Land improvements	2,143,165	55,460	–	1,017,656	3,216,281
Building and improvements	5,970,697	1,368,630	–	11,644,917	18,984,244
Fixed equipment	5,235,196	19,240	–	73,713	5,328,149
Major movable equipment	10,565,880	1,085,941	189,900	229,138	11,691,059
Buildings leased to others	7,246,108	–	–	–	7,246,108
Crestridge Estates	3,363,382	–	–	–	3,363,382
Construction in progress	10,135,842	3,054,531	–	(12,965,424)	224,949
Totals	44,809,761	5,583,802	189,900	–	50,203,663
Less accumulated depreciation	(19,037,712)	(2,392,564)	(189,900)	–	(21,240,376)
Net property and equipment	$25,772,049	$3,191,238	$ –	$ –	$28,963,287

NOTE 7 BUILDINGS LEASED TO OTHERS

The Medical Center, through various agreements, leases an attached medical office building and spaces within the Medical Arts Plaza located adjacent to the Medical Center. The leases, which are for various terms, each call for base rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2010 and 2009 included $369,078 and $536,768, respectively, of aggregate rental income under the lease agreements.

NOTE 8 LONG-TERM DEBT

Long-term debt is summarized as follows:

	Year ended June 30	
	2010	2009
Hospital Revenue Bond, Series 2008	$4,203,691	$ 4,346,672
Hospital Revenue Bonds, Series 2002	5,455,000	5,790,000
Note payable, equipment	259,237	499,817
Note payable, other	–	388,881
Total	9,917,928	11,025,370
Less current maturities	665,138	724,611
Long-term debt, net of current maturities	$9,252,790	$10,300,759

Hospital Revenue Bond, Series 2008

The Medical Center has issued Hospital Revenue Bond, Series 2008 in the original amount of $4,500,000. The Bond is payable solely from future revenues of the Medical Center and is due each January 1 and July 1 through 2028. Interest is payable at 4.9% until 2013 when it will be adjusted to 50 basis points above the annualized interest rate on five year United States Treasury Bonds. The rate will further be adjusted in 2018 and 2023 in a similar manner. At June 30, 2010, the remaining balance on this Bond is $4,203,691. The Bond contains a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

NOTE 8 LONG-TERM DEBT (continued)

Hospital Revenue Bonds, Series 2002

The Medical Center has issued Hospital Revenue Bonds, Series 2002 in the original amount of $7,800,000. The Bonds are payable solely from future revenues of the Medical Center and are due serially each June 1 through 2022, at remaining interest rates ranging from 4.45% to 5.4%. At June 30, 2010, the remaining balance on these Bonds is $5,455,000. In addition, the Bonds require a Debt Service Reserve Fund be maintained at a minimum level of $620,000. The Bonds contain a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

As to the above Hospital Revenue Bonds, Series 2008 and Series 2002, the Medical Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Medical Center. The net revenues are pledged through July, 2028. As of June 30, 2010 the remaining principal and interest on the Series 2008 and Series 2002 bonds was $13,788,949. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Bonds for the years ended June 30, 2010 and 2009:

	Year ended June 30	
	2010	2009
Change in fund equity	$2,942,279	$3,592,287
Provision for depreciation	2,645,438	2,392,564
Interest expense, Hospital Revenue Bonds, Series 2008 and Series 2002	491,273	525,724
Pledged net revenues	$6,078,990	$6,510,575
Principal and interest requirements		
Hospital Revenue Bond, Series 2008	$ 354,195	$ 367,996
Hospital Revenue Bonds, Series 2002	619,765	617,873
Totals	$ 973,960	$ 985,869

NOTE 8 LONG-TERM DEBT (continued)

Note Payable, Equipment

The Medical Center has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of $15,688, including interest at 4.46% with the final payment due December, 2011. The note is collateralized by the equipment purchased by the Medical Center. At June 30, 2010, the remaining balance on this note is $259,237.

Maturities required on long-term debt are as follows:

Year ending June 30	Revenue Bond Series 2008	Revenue Bonds Series 2002	Note payable, equipment	Total principal	Interest	Total
2011	$ 150,073	$ 350,000	$ 165,065	$ 665,138	$ 482,505	$ 1,147,643
2012	157,517	365,000	94,172	616,689	452,183	1,068,872
2013	164,793	380,000	–	544,793	426,087	970,880
2014	173,503	400,000	–	573,503	400,707	974,210
2015	182,109	415,000	–	597,109	373,301	970,410
2016 to 2020	1,054,829	2,405,000	–	3,459,829	1,399,498	4,859,327
2021 to 2025	1,343,641	1,140,000	–	2,483,641	520,324	3,003,965
2026 to 2028	977,226	–	–	977,226	85,381	1,062,607
Totals	4,203,691	5,455,000	259,237	9,917,928	4,139,986	14,057,914
Less current maturities	150,073	350,000	165,065	665,138	482,505	1,147,643
Total long-term debt	$4,053,618	$5,105,000	$ 94,172	$9,252,790	$3,657,481	$12,910,271

A summary of changes in long-term debt for the year ended June 30, 2010 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bond, Series 2008	$ 4,346,672	$ –	$ 142,981	$4,203,691	$ 150,073
Hospital Revenue Bonds, Series 2002	5,790,000	–	335,000	5,455,000	350,000
Notes payable, equipment	499,817	–	240,580	259,237	165,065
Note payable, other	388,881	–	388,881	–	–
Totals	$11,025,370	$ –	$1,107,442	$9,917,928	$ 665,138

A summary of changes in long-term debt for the year ended June 30, 2009 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bond, Series 2008	$ 4,500,000	$ –	$ 153,328	$ 4,346,672	$ 142,981
Hospital Revenue Bonds, Series 2002	6,110,000	–	320,000	5,790,000	335,000
Notes payable, equipment	779,931	–	280,114	499,817	225,903
Note payable, other	408,453	–	19,572	388,881	20,727
Totals	$11,798,384	$ –	$ 773,014	$11,025,370	$ 724,611

NOTE 8 LONG-TERM DEBT (continued)

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2010 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Note payable	$ 290,000	$ –	$ 290,000	$ –	$ –

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2009 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Note payable	$ 50,000	$ 400,000	$ 160,000	$ 290,000	$ –

NOTE 9 DEFINED BENEFIT PENSION PLAN

The Medical Center 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.

For the year ended June 30, 2010 regular plan members were required to contribute 4.3% of their annual salary and the Medical Center is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were $895,801, $751,099 and $641,180, respectively, equal to the required contributions for each year.

NOTE 10 CHARITY CARE

The Medical Center 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 and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2010 and 2009.

	2010	2009
Charges foregone, based on established rates	$ 460,500	$ 273,146
Equivalent percentage of charity care patients to all patients served	.9%	.6%

NOTE 11 MALPRACTICE CLAIMS

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are $1,000,000 per claim and $3,000,000 in the aggregate.

NOTE 11 MALPRACTICE CLAIMS (continued)

The Medical Center is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Medical Center.

Incidents occurring through June 30, 2010 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget for all funds following required public notice and hearings. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Medical Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

The following is a comparison of reported amounts to the Hospital budget:

	GAAP basis	Budget basis adjustments	Budget basis	County Hospital Budget
Amount to be raised by taxation	$ 1,142,643	$ –	$ 1,142,643	$ 1,081,974
Other revenues/receipts	35,630,039	357,069	35,987,108	43,502,813
	36,772,682	357,069	37,129,751	44,584,787
Expenses/expenditures	33,830,403	1,183,891	35,014,294	41,738,765
Net	2,942,279	(826,822)	2,115,457	2,846,022
Balance, beginning	30,990,263	(17,884,988)	13,105,275	6,265,365
Balance, ending	$33,932,542	$(18,711,810)	$15,220,732	$ 9,111,387

NOTE 13 MEDICAL BENEFIT PLAN

The Medical Center has entered into a self-insured medical benefit plan for virtually all employees. The plan is funded by both Medical Center and employee contributions. Claims for health care services for employees and their families are accrued when reported by the claims administrator. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to $75,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately $3,400,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2010 and 2009 were $2,910,855 and $3,041,113, respectively, included in fiscal and administrative and unassigned expenses.

NOTE 14 OTHER POST EMPLOYMENT BENEFITS

The Medical Center implemented Governmental Accounting Standards Board, GASB, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The Medical Center operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses and dependents. There are 249 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 102% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Medical Center. The Medical Center currently finances the retiree benefit plan on a pay-as-you-go basis.

The Medical Center's annual OPEB cost is calculated based on the annual required contribution, ARC, of the Medical Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Medical Center's annual OPEB cost, the amount actually contributed to the plan and changes in the Medical Center's net OPEB obligation:

	Year ended June 30	
	2010	2009
Annual required contribution, ARC	$ 37,000	$ 37,000
Interest on net OPEB obligation	700	–
Adjustment to annual required contribution	(900)	–
Annual OPEB cost	36,800	37,000
Contributions made	20,000	20,000
Increase in net OPEB obligation	16,800	17,000
Net OPEB obligation, beginning of year	17,000	–
Net OPEB obligation, end of year	$ 33,800	$ 17,000

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2010, the Medical Center contributed $20,000 to the plan. The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 and 2009 are summarized as follows:

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2010	$ 37,000	54%	$ 33,800
June 30, 2009	$ 37,000	54%	$ 17,000

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was $251,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of $251,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately $10,026,000, and the ratio of the UAAL to the covered payroll was 2.5%. As of June 30, 2010, there were no trust fund assets.

NOTE 14 OTHER POST EMPLOYMENT BENEFITS (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Following is a Schedule of Funding Progress for the Plan for the initial year of adoption of GASB Statement No. 45:

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
7/1/2009	$ –	$ 251,000	$ 251,000	0%	$10,026,000	2.5%

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the Medical Center's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately $1,100 per month for retirees. The salary increase rate was assumed to be 5% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 15 RISK MANAGEMENT

The Medical Center 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 Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Greater Regional Medical Center
Creston, Iowa

Our report on our audits of the basic financial statements of Greater Regional Medical Center, and its component unit, Greater Regional Healthcare Foundation, for 2010 and 2009 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 21, 2010

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Greater Regional Medical Center
ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2010	Amounts June 30 2009	Percent to total June 30 2010	Percent to total June 30 2009
0 – 30 days (includes patients in Medical Center at end of year)	$3,886,238	$3,149,741	54.88%	52.19%
31 – 60 days	1,146,359	1,080,941	16.19	17.91
61 – 90 days	647,489	502,373	9.14	8.32
91 – 120 days	346,380	300,635	4.89	4.98
Over 120 days	1,054,627	1,002,004	14.90	16.60
Totals	7,081,093	6,035,694	100.00%	100.00%
Allowances				
Contractual				
Medicare	1,210,000	930,000		
Medicaid	460,000	260,000		
Other	560,000	480,000		
Bad debts	1,220,000	960,000		
Total allowances	3,450,000	2,630,000		
Totals	$3,631,093	$3,405,694		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	$ 94,205	$ 84,157		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	39	40		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	Amounts Year ended June 30 2010	Amounts Year ended June 30 2009	Percent of net patient service revenue Year ended June 30 2010	Percent of net patient service revenue Year ended June 30 2009
BALANCE, beginning	$ 960,000	$ 800,000		
ADD				
Provision for bad debts	1,644,539	1,521,840	4.78%	4.95%
Recoveries of accounts previously written off	683,451	611,852	1.99	1.99
	3,287,990	2,933,692		
DEDUCT				
Accounts written off	2,067,990	1,973,692	6.01	6.43
BALANCE, ending	$1,220,000	$ 960,000		

Greater Regional Medical Center
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	2010			2009
	Inpatient	**Outpatient**	**Total**	**Total**
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	$2,348,481	$ –	$ 2,348,481	$ 2,454,580
Special care	108,686	–	108,686	120,455
Swing bed	378,500	–	378,500	442,350
Cardiac monitors	–	–	–	36,750
Nursery	355,774	–	355,774	323,883
	3,191,441	–	3,191,441	3,378,018
OTHER NURSING SERVICES				
Operating room	1,477,893	5,446,042	6,923,935	6,646,843
Recovery room	535,590	1,512,095	2,047,685	2,040,815
Delivery and labor rooms	396,332	–	396,332	377,419
Central services and supply	89,291	353,340	442,631	764,832
Emergency room	13,154	3,801,312	3,814,466	3,245,727
Ambulance	–	793,486	793,486	804,258
Home health services	–	580,714	580,714	528,242
Outreach services	–	245,093	245,093	300,387
Hospice	–	1,462,260	1,462,260	1,867,056
	2,512,260	14,194,342	16,706,602	16,575,579
OTHER PROFESSIONAL SERVICES				
Laboratory and blood service	803,560	4,476,620	5,280,180	4,390,206
Electroencephalography	391	4,692	5,083	8,030
Electrocardiology	21,857	101,876	123,733	330,071
Cardiology and vascular testing	72,637	849,351	921,988	964,198
Radiology and ultrasound	146,447	2,969,252	3,115,699	2,931,478
Radiation therapy	2,581	4,262,106	4,264,687	3,343,825
Nuclear medicine	7,106	599,451	606,557	849,505
CT scans	219,645	3,520,272	3,739,917	3,262,281
Magnetic resonance imaging	37,028	1,582,261	1,619,289	1,249,323
Pharmacy and intravenous therapy	1,171,833	4,168,596	5,340,429	5,046,674
Anesthesiology	292,194	651,845	944,039	994,235
Respiratory therapy	359,146	485,412	844,558	822,567
Rehabilitation therapy	134,442	806,294	940,736	735,684
Cardiac rehabilitation	42,365	150,361	192,726	211,274
Outpatient clinics and chemotherapy	–	926,088	926,088	1,047,852
Lenox clinic	–	526,409	526,409	371,784
Morning Star clinic	–	964,427	964,427	832,409
Creston Medical Clinic	–	2,317,242	2,317,242	–
	3,311,232	29,362,555	32,673,787	27,391,396
Totals	$9,014,933	$43,556,897	52,571,830	47,344,993
Charity care charges foregone, based on established rates			(460,500)	(273,146)
Total gross patient service revenue			52,111,330	47,071,847
Provisions for contractual adjustments and bad debts			(17,726,461)	(16,354,637)
Total net patient service revenue			$34,384,869	$30,717,210

Greater Regional Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	2010	2009
Contractual adjustments		
Medicare	$ 8,367,608	$ 7,480,331
Medicaid	2,153,455	1,904,037
Other adjustments	5,560,859	5,448,429
Provision for bad debts	1,644,539	1,521,840
Totals	$17,726,461	$16,354,637

OTHER REVENUE

	Year ended June 30	
	2010	2009
Rental income		
Medical Arts Plaza	$ 369,078	$ 536,768
Crestridge Estates	510,124	554,183
Equipment	2,538	42,590
Pharmacy revenue, employees	262,057	237,795
Cafeteria sales	169,115	170,559
Meals on wheels	4,741	25,876
Sale of supplies and miscellaneous services to employees and others	39,334	45,288
Wellness	52,944	42,689
Lifeline	9,000	12,000
Miscellaneous	11,560	77,270
Totals	$1,430,491	$1,745,018

Greater Regional Medical Center
EXPENSES
Year ended June 30, 2010, with comparative totals for 2009

	2010			2009
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	$ 118,375	$ 2,718	$ 121,093	$ 109,852
Medical and surgical	1,571,058	178,113	1,749,171	1,886,888
Special care	79,823	8,420	88,243	89,405
Obstetric nursing, delivery and labor rooms	488,764	67,281	556,045	552,631
Operating and recovery rooms	973,070	694,831	1,667,901	1,735,007
Central services and supply	–	272,012	272,012	390,817
Emergency room	734,401	1,090,343	1,824,744	1,609,265
Ambulance	111,374	35,096	146,470	149,192
Home health services	383,850	101,883	485,733	431,278
Outreach services	148,033	58,681	206,714	253,636
Hospice	858,614	311,348	1,169,962	1,172,714
Total nursing service	5,467,362	2,820,726	8,288,088	8,380,685
OTHER PROFESSIONAL SERVICE				
Laboratory	400,558	655,544	1,056,102	1,019,244
Pathology	–	94,875	94,875	42,706
Blood service	–	116,685	116,685	117,078
Electroencephalography	–	336	336	1,680
Cardiology and vascular testing	–	22,624	22,624	27,405
Radiology and ultrasound	608,421	532,140	1,140,561	1,142,317
Radiation therapy	230,979	999,198	1,230,177	1,052,936
Nuclear medicine	–	102,475	102,475	94,357
CT scans	–	139,359	139,359	179,234
Magnetic resonance imaging	55,663	423,425	479,088	375,527
Pharmacy	428,779	1,989,476	2,418,255	2,255,522
Intravenous therapy	–	979	979	34,986
Anesthesiology	–	49,219	49,219	45,992
Respiratory therapy	178,812	96,237	275,049	304,296
Rehabilitation therapy	418,451	180,691	599,142	569,526
Cardiac rehabilitation	52,042	17,048	69,090	65,249
Outpatient clinics and chemotherapy	204,773	51,961	256,734	235,023
Lenox clinic	180,927	124,980	305,907	280,655
Morning Star clinic	725,450	285,009	1,010,459	678,206
Medical Arts Plaza	–	132,570	132,570	176,259
Crestridge Estates	79,062	229,215	308,277	345,999
Creston Medical Clinic	1,257,444	343,274	1,600,718	–
Social services	56,399	1,334	57,733	50,260
Health information services	453,823	91,635	545,458	492,086
Quality assurance	81,426	11,740	93,166	88,048
Total other professional service	5,413,009	6,692,029	12,105,038	9,674,591

Greater Regional Medical Center
EXPENSES (continued)
Year ended June 30, 2010, with comparative totals for 2009

	2010			2009
	Salaries	Other	Total	Total
GENERAL SERVICE				
Dietary	$ 613,183	$ 235,541	$ 848,724	$ 866,567
Plant operation	268,810	788,574	1,057,384	961,532
Housekeeping	329,818	83,242	413,060	401,247
Laundry	25,764	13,779	39,543	53,274
Linen	–	6,099	6,099	9,192
Total general service	1,237,575	1,127,235	2,364,810	2,291,812
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative	345,845	173,995	519,840	802,591
Accounting	154,470	28,905	183,375	255,058
Human resources	149,518	69,954	219,472	180,477
Business office	492,645	79,049	571,694	618,912
Purchasing	157,560	37,493	195,053	194,152
Computer support	175,136	282,764	457,900	78,260
Public relations	–	168,556	168,556	170,945
Telephone	–	59,255	59,255	56,275
Professional fees	–	154,652	154,652	123,956
Collection fees	–	148,981	148,981	126,067
Receivables management fee	–	117,734	117,734	120,845
Dues and subscriptions	–	33,277	33,277	34,348
Travel and mileage	–	7,760	7,760	7,112
Publication fees	–	2,027	2,027	2,406
Physician recruitment	–	175,966	175,966	400,075
UNASSIGNED EXPENSES				
Wellness	88,195	34,456	122,651	113,921
Volunteer services	15,137	10,474	25,611	26,789
FICA	–	966,682	966,682	860,315
IPERS	–	895,801	895,801	751,099
Group health and life insurance	–	3,061,975	3,061,975	3,191,452
Workers' compensation insurance	–	184,210	184,210	176,910
Insurance	–	154,557	154,557	171,439
Total fiscal and administrative service and unassigned expenses	1,578,506	6,848,523	8,427,029	8,463,404
PROVISION FOR DEPRECIATION	–	2,645,438	2,645,438	2,392,564
Total expenses	$13,696,452	$20,133,951	$33,830,403	$31,203,056

Greater Regional Medical Center
COMPARATIVE STATISTICS

	Year ended June 30	
	2010	2009
PATIENT DAYS		
Medical, surgical and obstetrical	2,771	3,617
Swing bed	768	956
Nursery	475	451
Totals	4,014	5,024
DISCHARGES		
Medical, surgical and obstetrical	909	1,177
Swing bed	88	98
Nursery	225	223
Totals	1,222	1,498
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	3.05	3.07
Swing bed	8.73	9.76
Nursery	2.11	2.02

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S 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*

Board of Trustees
Greater Regional Medical Center
Creston, Iowa

We have audited the financial statements of Greater Regional Medical Center, and its component unit, Greater Regional Healthcare Foundation, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 21, 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 Organizations' 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 Organizations' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Organizations' 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.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Medical Center'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 Medical Center. 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of Union County and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 21, 2010

Greater Regional Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2010

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

Greater Regional Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2010

Part II—Findings Related to Required Statutory Reporting

10-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2010.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

10-II-C TRAVEL EXPENSES

No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

10-II-D BUSINESS TRANSACTIONS

No business transactions were found between the Medical Center and Medical Center officials and/or employees.

10-II-E BOARD MINUTES

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

10-II-F DEPOSITS AND INVESTMENTS

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