



Financial Statements
June 30, 2010 and 2009

Ellsworth Municipal Hospital

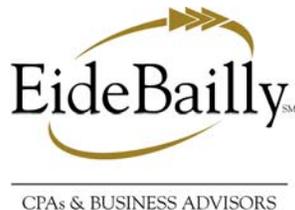
ELLSWORTH MUNICIPAL HOSPITAL

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Steve Howard	Chairperson	2012
Diana Ruhl	Secretary	2012
Amanda Wood	Member	2014
Francis Fritz	Member	2014
Mike Stensland	Member	2012
<u>Hospital Officials</u>		
John O'Brien	Administrator	
Michael White	Chief Financial Officer	



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheets of Ellsworth Municipal Hospital and the statements of financial position of its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2010 and 2009, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010, on our consideration of Ellsworth Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 28 and 29 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 supplementary information. We did not audit the information and express no opinion on it.

Eide Sully LLP

Dubuque, Iowa
September 15, 2010

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

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

Financial Highlights

- The Hospital's total assets increased by \$602,825 or 4.11% from June 30, 2009 to June 30, 2010. The Hospital's total assets increased by \$569,131 or 4.03% from June 30, 2008 to June 30, 2009.
- The Hospital's assets exceeded liabilities by \$11,495,220 and \$10,912,459 at June 30, 2010 and 2009, respectively.
- From fiscal year 2009 to 2010, the Hospital's operating revenues decreased 0.9% to \$19,484,060 while the operating expenses decreased 1.1% to \$19,367,710. The Hospital had an operating income in 2010 of \$116,350 which is 0.6% of total operating revenues. From fiscal year 2008 to 2009, the Hospital's operating revenues increased 7.6% to \$19,671,655 while the operating expenses increased 8.5% to \$19,587,199. The Hospital had an operating income in 2009 of \$84,456 which is 0.4% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$663,755 and \$516,267 during the fiscal years ended June 30, 2010 and 2009, respectively. The source of funding for these items was derived from operations and notes payable.

Overview of the Financial Statements

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

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2010, reports total assets of \$15,278,118, total liabilities of \$3,782,898, and net assets of \$11,495,220. The balance sheet at June 30, 2009, reports total assets of \$14,675,293, total liabilities of \$3,762,834, and net assets of \$10,912,459.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$19,484,060 and total operating expenses of \$19,367,710 during fiscal year 2010. The operating income was \$116,350 in 2010, compared to \$84,456 in 2009.

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

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

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009**

Long-term Debt

At year-end, Ellsworth Municipal Hospital had \$1,718,728 in short-term and long-term debt. The debt was incurred to build the Medical Office building attached to the Hospital, for the upgrade to the air conditioning system, transition to electronic health records, and the purchase of a new ultrasound machine.

Factors Bearing on Financial Future

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

The Hospital replaced the leased clinic in Ackley, Iowa. The older building which was built in the early 1960's no longer met the needs of the community and was replaced by a new facility approximately six blocks away. The services, staff, and patients served remain the same in the community. The building was constructed by Turn Key and Associates and is leased by Ellsworth Municipal Hospital for 15 years. The City of Ackley provided support through TIF grants and support from the community to the Ellsworth Municipal Hospital Foundation.

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

The Hospital made the difficult decision to close the inpatient mental health unit on March 31, 2010. Medicare and Medicaid reimbursement simply did not cover the costs of operating the unit. This closure resulted in the elimination of 24 positions. Gross revenue and statistics are negatively impacted by this closure, but it is anticipated to have a positive impact to operating margins.

Requests for Information

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

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

ELLSWORTH MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 2,755,513	\$ 1,476,063
Receivables		
Patient, net of estimated uncollectibles		
of \$2,100,000 in 2010 and \$2,495,000 in 2009	2,547,475	2,983,023
Estimated third-party payor settlements	-	71,000
Other	85,212	84,049
Supplies	375,354	364,409
Prepaid expense	<u>53,769</u>	<u>65,541</u>
 Total current assets	 <u>5,817,323</u>	 <u>5,044,085</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital acquisitions	1,316,255	1,263,827
Internally designated for health benefits	6,530	20,556
Restricted by contributors for capital improvements	<u>1,102,980</u>	<u>1,071,528</u>
Internally designated or restricted for capital		
improvements and health benefits	2,425,765	2,355,911
Restricted under bond agreement	<u>308,452</u>	<u>308,452</u>
 Total assets limited as to use or restricted	 <u>2,734,217</u>	 <u>2,664,363</u>
 CAPITAL ASSETS, net - Note 5	 <u>6,124,902</u>	 <u>6,349,980</u>
OTHER ASSETS		
Investments in affiliated organizations - Note 9	591,897	605,097
Deferred financing costs, net of accumulated		
amortization of \$21,879 in 2010 and \$19,890 in 2009	<u>9,779</u>	<u>11,768</u>
 Total other assets	 <u>601,676</u>	 <u>616,865</u>
 Total assets	 <u>\$ 15,278,118</u>	 <u>\$ 14,675,293</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 6	\$ 369,319	\$ 327,876
Accounts payable		
Trade	371,817	395,191
Affiliated organization - Note 10	107,233	135,213
Estimated third-party payor settlements	369,000	-
Accrued expenses		
Salaries and wages	432,416	445,529
Vacation	640,045	730,468
Payroll taxes and other payroll withholdings	<u>143,659</u>	<u>151,788</u>
 Total current liabilities	 2,433,489	 2,186,065
 LONG-TERM DEBT, less current maturities - Note 6	 <u>1,349,409</u>	 <u>1,576,769</u>
 Total liabilities	 <u>3,782,898</u>	 <u>3,762,834</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,406,174	4,445,335
Restricted		
Expendable under bond agreement	308,452	308,452
Expendable plant replacement and expansion funds	935,679	935,679
Unrestricted	<u>5,844,915</u>	<u>5,222,993</u>
 Total net assets	 <u>11,495,220</u>	 <u>10,912,459</u>
 Total liabilities and net assets	 <u>\$ 15,278,118</u>	 <u>\$ 14,675,293</u>

ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 261,550	\$ 381,429
Unconditional promises to give	7,997	10,093
Interest receivable	<u>10,970</u>	<u>403</u>
Total current assets	280,517	391,925
INVESTMENTS	<u>843,407</u>	<u>335,803</u>
Total assets	<u>\$ 1,123,924</u>	<u>\$ 727,728</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Ellsworth Municipal Hospital	<u>\$ 41,086</u>	<u>\$ 16,127</u>
NET ASSETS		
Unrestricted	243,109	322,934
Temporarily restricted	<u>839,729</u>	<u>388,667</u>
Total net assets	<u>1,082,838</u>	<u>711,601</u>
Total liabilities and net assets	<u>\$ 1,123,924</u>	<u>\$ 727,728</u>

ELLSWORTH MUNICIPAL 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 \$1,114,240 in 2010 and \$1,148,643 in 2009) - Notes 2 and 3	\$ 18,744,164	\$ 18,804,316
Other operating revenues	<u>739,896</u>	<u>867,339</u>
TOTAL OPERATING REVENUES	<u>19,484,060</u>	<u>19,671,655</u>
OPERATING EXPENSES		
Salaries and wages	8,980,251	9,299,945
Employee benefits	2,334,428	2,258,574
Supplies and other expenses	7,077,614	7,103,693
Depreciation and amortization	890,907	843,959
Interest	<u>84,510</u>	<u>81,028</u>
TOTAL OPERATING EXPENSES	<u>19,367,710</u>	<u>19,587,199</u>
OPERATING INCOME	<u>116,350</u>	<u>84,456</u>
NON-OPERATING REVENUES (EXPENSES)		
Tax revenue	-	-
Investment income	107,280	96,122
Net gain on affiliated organizations - Note 9	72,888	114,880
Gain (loss) on sale of capital assets	<u>110</u>	<u>(1,141)</u>
NET NON-OPERATING REVENUES	<u>180,278</u>	<u>209,861</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	296,628	294,317
Capital contributions and grants	<u>286,133</u>	<u>11,876</u>
INCREASE IN NET ASSETS	582,761	306,193
NET ASSETS BEGINNING OF YEAR	<u>10,912,459</u>	<u>10,606,266</u>
NET ASSETS END OF YEAR	<u>\$ 11,495,220</u>	<u>\$ 10,912,459</u>

See notes to financial statements.

ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ -	\$ 807,809	\$ 807,809
Investment income	23,801	-	23,801
Net assets released from restrictions	<u>356,747</u>	<u>(356,747)</u>	<u>-</u>
 Total revenues	 <u>380,548</u>	 <u>451,062</u>	 <u>831,610</u>
EXPENSES			
Gifts to Ellsworth Municipal Hospital	391,213	-	391,213
Office expenses	34	-	34
Contract labor	<u>69,126</u>	<u>-</u>	<u>69,126</u>
 Total expenses	 <u>460,373</u>	 <u>-</u>	 <u>460,373</u>
 INCREASE (DECREASE) IN NET ASSETS	 (79,825)	 451,062	 371,237
 NET ASSETS BEGINNING OF YEAR	 <u>322,934</u>	 <u>388,667</u>	 <u>711,601</u>
 NET ASSETS END OF YEAR	 <u>\$ 243,109</u>	 <u>\$ 839,729</u>	 <u>\$ 1,082,838</u>

See notes to financial statements.

2009		
Unrestricted	Temporarily Restricted	Total
\$ 25,276	\$ 265,263	\$ 290,539
1,857	-	1,857
<u>26,099</u>	<u>(26,099)</u>	<u>-</u>
<u>53,232</u>	<u>239,164</u>	<u>292,396</u>
43,732	-	43,732
-	-	-
<u>63,541</u>	<u>-</u>	<u>63,541</u>
<u>107,273</u>	<u>-</u>	<u>107,273</u>
(54,041)	239,164	185,123
<u>376,975</u>	<u>149,503</u>	<u>526,478</u>
<u>\$ 322,934</u>	<u>\$ 388,667</u>	<u>\$ 711,601</u>

ELLSWORTH MUNICIPAL 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	\$ 19,619,712	\$ 18,805,742
Payments of salaries and wages	(9,083,787)	(9,229,113)
Payments of supplies and other expenses	(9,470,515)	(9,315,751)
Other receipts and payments, net	<u>738,733</u>	<u>900,951</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,804,143</u>	<u>1,161,829</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(663,755)	(516,267)
Proceeds from sale of capital assets	25	-
Payments on long-term debt	(333,607)	(269,489)
Proceeds from issuance of long-term debt	147,690	484,382
Interest payments on long-term debt	(84,693)	(80,845)
Capital contributions and grants	<u>286,133</u>	<u>11,876</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(648,207)</u>	<u>(370,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use or restricted and other assets	(58,766)	29,962
Distribution from affiliated organizations	75,000	100,000
Investment income	<u>107,280</u>	<u>96,122</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>123,514</u>	<u>226,084</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,279,450	1,017,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,476,063</u>	<u>458,493</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,755,513</u>	<u>\$ 1,476,063</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 116,350	\$ 84,456
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	890,907	843,959
Interest expense considered capital and related financing activity	84,693	80,845
Provision for bad debts	1,114,240	1,148,643
Changes in assets and liabilities		
Patient receivables	(678,692)	(1,016,217)
Estimated third-party payor settlements	440,000	(131,000)
Other receivables	(1,163)	33,612
Supplies	(10,945)	5,582
Prepaid expense	11,772	3,904
Accounts payable	(51,354)	3,497
Accrued expenses	<u>(111,665)</u>	<u>104,548</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,804,143</u>	<u>\$ 1,161,829</u>

ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 371,237	\$ 185,123
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in unrealized gains and losses on investments	(1,240)	11,652
Changes in assets and liabilities		
Interest receivable	(10,567)	555
Unconditional promises to give	2,096	(10,093)
Due to Ellsworth Municipal Hospital	24,959	11,574
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>386,485</u>	<u>198,811</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	<u>(506,364)</u>	<u>(41,849)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(119,879)	156,962
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>381,429</u>	<u>224,467</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 261,550</u>	<u>\$ 381,429</u>

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Reporting Entity

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

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

Basis of Presentation

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

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

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 when purchased, excluding assets limited as to use or restricted and investments in affiliated organizations.

Patient Receivables

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

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

ELLSWORTH MUNICIPAL 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.

Supplies

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

Deferred Financing Costs

Deferred financing costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$1,989 for the years ended June 30, 2010 and 2009, respectively.

Capital Assets

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

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

Assets Limited as to Use or Restricted

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

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

Compensated Absences

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.

(continued on next page)

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$45,998 and \$55,265 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.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Accounting for Uncertainty in Taxes

The Hospital has 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. 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 September 15, 2010, the date which the financial statements were available to be issued.

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 \$125,592 and \$103,565, 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 \$72,000 and \$59,000, 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.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010, and 49% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009. The 2010 net patient service revenue increased approximately \$130,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

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.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 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>\$ 32,525,449</u>	<u>\$ 32,754,686</u>
Contractual adjustments:		
Medicare	(7,887,271)	(7,588,812)
Medicaid	(1,350,419)	(1,666,036)
Blue Cross	(1,827,878)	(1,987,247)
Other	<u>(1,601,477)</u>	<u>(1,559,632)</u>
Total contractual adjustments	<u>(12,667,045)</u>	<u>(12,801,727)</u>
Net patient service revenue	19,858,404	19,952,959
Provision for bad debts	<u>(1,114,240)</u>	<u>(1,148,643)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 18,744,164</u>	<u>\$ 18,804,316</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.

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, warrants or improvement certificates of a drainage district, and common stocks.

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

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	\$ 2,859,660	\$ 1,589,317
Certificates of deposit	2,612,327	2,531,515
Interest receivable	<u>17,743</u>	<u>19,594</u>
 Total deposits	 <u>\$ 5,489,730</u>	 <u>\$ 4,140,426</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 2,755,513	\$ 1,476,063
Assets limited as to use or restricted	<u>2,734,217</u>	<u>2,664,363</u>
	 <u>\$ 5,489,730</u>	 <u>\$ 4,140,426</u>

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

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

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

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 – CAPITAL ASSETS

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

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land and land improvements	\$ 691,757	\$ -	\$ -	\$ -	\$ 691,757
Building	4,938,024	-	-	-	4,938,024
Fixed equipment	6,860,472	-	-	14,688	6,875,160
Major movable equipment	3,917,833	597,483	(291,351)	-	4,223,965
Construction in progress	66,022	66,272	-	(14,688)	117,606
Total	16,474,108	\$ 663,755	\$ (291,351)	\$ -	16,846,512
Accumulated depreciation					
Land improvements	419,259	\$ 26,339	\$ -	\$ -	445,598
Building	2,608,015	164,813	-	-	2,772,828
Fixed equipment	3,715,752	281,760	-	-	3,997,512
Major movable equipment	3,381,102	415,600	(291,030)	-	3,505,672
Total	10,124,128	\$ 888,512	\$ (291,030)	\$ -	10,721,610
Capital assets, net	\$ 6,349,980				\$ 6,124,902
	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land and land improvements	\$ 691,757	\$ -	\$ -	\$ -	\$ 691,757
Building	4,818,096	74,644	-	45,284	4,938,024
Fixed equipment	6,639,108	78,403	-	142,961	6,860,472
Major movable equipment	3,451,375	21,788	(10,577)	455,247	3,917,833
Construction in progress	368,082	341,432	-	(643,492)	66,022
Total	15,968,418	\$ 516,267	\$ (10,577)	\$ -	16,474,108
Accumulated depreciation					
Land improvements	392,775	\$ 26,484	\$ -	\$ -	419,259
Building	2,434,477	173,538	-	-	2,608,015
Fixed equipment	3,445,249	279,939	(9,436)	-	3,715,752
Major movable equipment	3,019,094	362,008	-	-	3,381,102
Total	9,291,595	\$ 841,969	\$ (9,436)	\$ -	10,124,128
Capital assets, net	\$ 6,676,823				\$ 6,349,980

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ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Construction in progress mainly consists of costs incurred to date to develop a master facility plan. It also includes costs incurred to date for a few other projects.

NOTE 6 – 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
1998 Hospital revenue bonds	\$ 1,438,294	\$ -	\$ (217,769)	\$ 1,220,525	\$ (228,911)
Hospital note payable - Iowa Falls State Bank	-	147,690	(4,448)	143,242	(26,755)
USDA loan	412,037	-	(88,860)	323,177	(91,614)
Hospital note payable - Cedar Rapids Bank and Trust	54,314	-	(22,530)	31,784	(22,039)
Total long-term debt	<u>\$ 1,904,645</u>	<u>\$ 147,690</u>	<u>\$ (333,607)</u>	1,718,728	<u>\$ (369,319)</u>
Less current maturities				<u>(369,319)</u>	
Long-term debt, less current maturities				<u>\$ 1,349,409</u>	

	Balance June 30, 2008	Additions	Payments	Balance June 30, 2009	Amounts Due Within One Year
1998 Hospital revenue bonds	\$ 1,645,464	\$ -	\$ (207,170)	\$ 1,438,294	\$ (217,769)
Hospital revenue note - Green Belt Bank and Trust	44,288	-	(44,288)	-	-
USDA loan	-	412,037	-	412,037	(89,363)
Hospital note payable - Cedar Rapids Bank and Trust	-	72,345	(18,031)	54,314	(20,744)
Total long-term debt	<u>\$ 1,689,752</u>	<u>\$ 484,382</u>	<u>\$ (269,489)</u>	1,904,645	<u>\$ (327,876)</u>
Less current maturities				<u>(327,876)</u>	
Long-term debt, less current maturities				<u>\$ 1,576,769</u>	

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ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Year Ending June 30,	Long-term Debt		
	Principal	Interest	Total
2011	\$ 369,319	\$ 72,385	\$ 441,704
2012	371,453	55,473	426,926
2013	380,916	38,227	419,143
2014	338,513	21,437	359,950
2015	258,527	6,008	264,535
	<u>\$ 1,718,728</u>	<u>\$ 193,530</u>	<u>\$ 1,912,258</u>

1998 Hospital Revenue Bonds Payable

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

Hospital Note Payable – Iowa Falls State Bank

Iowa Falls State Bank requires monthly payments of principal and interest of \$2,800 through April 2015. Interest is charged at a rate of 5.15%.

USDA Loan

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

Hospital Note Payable – Cedar Rapids Bank and Trust

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

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

NOTE 7 – LEASES

The Hospital leases certain equipment and a building under noncancelable long-term lease agreements. These leases have been recorded as operating leases. Total lease expense for the years ended June 30, 2010 and 2009, for all operating leases was \$372,493 and \$285,729, respectively.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Minimum future lease payments for the operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2011	\$ 376,477
2012	245,593
2013	179,264
2014	128,990
2015	123,389
2016-2020	476,940
2021-2025	381,552
Total minimum lease payments	<u>\$ 1,912,205</u>

NOTE 8 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 4.30% 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 \$578,792, \$585,421, and \$511,011, respectively, equal to the required contributions for each year.

NOTE 9 – INVESTMENTS IN AFFILIATED ORGANIZATIONS

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

Iowa Falls Clinic

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

The Hospital is a 50% owner of this Clinic and shares income or losses from Clinic operations at that percentage. The Hospital's share of income, \$76,260 in 2010 and \$140,118 in 2009, is included in non-operating revenues. During the years ended June 30, 2010 and 2009, the Hospital received equity distributions of \$75,000 and \$100,000, respectively.

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ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2010 and 2009, were \$213,689 and \$213,971, respectively. As of June 30, 2010 and 2009, the Hospital's records reflected a receivable from affiliated organizations of \$16,961 and \$28,049, respectively, relating to these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Assets	<u>\$ 1,139,902</u>	<u>\$ 1,180,771</u>
Current liabilities	<u>\$ 137,856</u>	<u>\$ 181,244</u>
Unrestricted net assets	<u>1,002,046</u>	<u>999,527</u>
 Total liabilities and net assets	 <u>\$ 1,139,902</u>	 <u>\$ 1,180,771</u>
 Total revenues, gain, and other support	 <u>\$ 3,423,286</u>	 <u>\$ 3,817,614</u>
 Revenues in excess of expenses before distribution to owners	 <u>\$ 152,519</u>	 <u>\$ 280,236</u>

Greenbelt Home Care

The Hospital has a partnership interest in a joint venture of Greenbelt Home Care. During fiscal year 2006, the Hospital forgave a loan of \$23,636 to Greenbelt Home Care in exchange for a 10% increase in its partnership interest. After the transaction, the Hospital has a 30% interest in the joint venture of Greenbelt Home Care and shares any income or loss at that percentage. The Hospital has contributed \$51,932 of capital to this joint venture, and loaned \$3,507 as of June 30, 2010. The Hospital's share of the joint venture gains and losses was \$(3,092) in 2010 and \$(25,238) in 2009 and is included in non-operating revenues.

NOTE 10 – RELATED ORGANIZATIONS

Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa region under the name of Ellsworth Municipal Hospital. As a part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services for the Hospital. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,211,801 and \$1,993,665 for the years ended June 30, 2010 and 2009, respectively.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were \$526,833 and \$439,362 for the years ended June 30, 2010 and 2009, respectively.

Due to Affiliated Organization

As of June 30, 2010 and 2009, the Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$107,233 and \$135,213, respectively, for the various services and distributions related to these agreements.

Receivable from Ellsworth Municipal Hospital Foundation

As of June 30, 2010 and 2009, the Hospital's records reflect a receivable from Ellsworth Municipal Hospital Foundation of \$41,086 and \$16,127, respectively, which is included in other receivables on the balance sheets.

NOTE 11 – CONTINGENCIES

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 not be material to the financial position of the Hospital.

Malpractice Insurance

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

Health Care Legislation and Regulation

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

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

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 12 – RISK MANAGEMENT

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

NOTE 13 – 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	33%	33%
Medicaid	3	3
Commercial insurance	19	21
Other third-party payors and patients	<u>45</u>	<u>43</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

Ellsworth Municipal Hospital

ELLSWORTH MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS – BUDGET AND ACTUAL (ACCRUAL BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Estimated revenues/receipts	\$ 19,950,471	\$ 21,520,638	\$ (1,570,167)
Expenses/disbursements	<u>19,367,710</u>	<u>20,763,881</u>	<u>1,396,171</u>
Net	582,761	<u>\$ 756,757</u>	<u>\$ (173,996)</u>
Balance, beginning of year	<u>10,912,459</u>		
Balance, end of year	<u>\$ 11,495,220</u>		

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
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.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. 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

Ellsworth Municipal Hospital



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

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Ellsworth Municipal Hospital and its discretely presented component unit taken as a whole. The supplementary information 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 40 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Dubuque, Iowa
September 15, 2010

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	TOTAL	
	2010	2009
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 2,197,254	\$ 1,963,275
Swing-bed	826,585	663,119
INN care	1,561	5,936
Psychiatric care	1,389,966	2,512,785
Nursery	102,108	117,220
Subtotal	<u>4,517,474</u>	<u>5,262,335</u>
OTHER PROFESSIONAL SERVICES		
Operating room	2,036,733	1,631,098
Recovery room	73,592	64,919
Labor and delivery rooms	147,892	155,402
Anesthesiology	711,333	633,117
Radiology	5,595,283	5,734,814
Laboratory	5,671,574	5,433,846
Intravenous therapy	676	111,852
Respiratory therapy	707,932	1,011,850
Physical therapy	1,042,379	971,719
Occupational therapy	451,422	527,818
Speech therapy	168,489	149,129
Electrocardiology	320,711	326,370
Cardiac rehabilitation	233,880	236,474
Medical and surgical supplies	1,040,060	808,557
Pharmacy	2,987,718	2,663,779
Emergency services	2,224,310	2,074,260
Surgical clinic	693,832	771,482
Psychiatrist	438,626	718,311
Clinic	3,001,497	2,715,199
Partial hospital psychiatric	120,984	356,096
Psychiatric counseling	377,495	341,190
Chemical dependency	53,960	136,321
Diabetic education	33,189	22,313
Subtotal	<u>28,133,567</u>	<u>27,595,916</u>
Total	<u>32,651,041</u>	<u>32,858,251</u>
Charity care	<u>(125,592)</u>	<u>(103,565)</u>
Total patient service revenue	<u>32,525,449</u>	<u>32,754,686</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(7,887,271)	(7,588,812)
Medicaid	(1,350,419)	(1,666,036)
Blue Cross	(1,827,878)	(1,987,247)
Other	(1,601,477)	(1,559,632)
Total contractual adjustments	<u>(12,667,045)</u>	<u>(12,801,727)</u>
NET PATIENT SERVICE REVENUE	<u>19,858,404</u>	19,952,959
PROVISION FOR BAD DEBTS	<u>(1,114,240)</u>	<u>(1,148,643)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 18,744,164</u>	<u>\$ 18,804,316</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 1,999,100	\$ 1,730,691	\$ 198,154	\$ 232,584
826,585	663,119	-	-
1,561	5,936	-	-
1,389,966	2,512,785	-	-
<u>102,108</u>	<u>117,220</u>	<u>-</u>	<u>-</u>
<u>4,319,320</u>	<u>5,029,751</u>	<u>198,154</u>	<u>232,584</u>
271,472	239,131	1,765,261	1,391,967
18,612	16,013	54,980	48,906
145,962	151,181	1,930	4,221
129,533	126,372	581,800	506,745
647,949	655,904	4,947,334	5,078,910
1,404,680	1,439,107	4,266,894	3,994,739
468	68,120	208	43,732
363,362	671,982	344,570	339,868
393,091	344,638	649,288	627,081
372,307	422,543	79,115	105,275
85,315	48,781	83,174	100,348
55,620	41,752	265,091	284,618
256	-	233,624	236,474
235,407	165,537	804,653	643,020
1,398,888	1,333,766	1,588,830	1,330,013
149,413	201,092	2,074,897	1,873,168
-	-	693,832	771,482
-	-	438,626	718,311
-	-	3,001,497	2,715,199
-	424	120,984	355,672
-	-	377,495	341,190
-	-	53,960	136,321
-	-	33,189	22,313
<u>5,672,335</u>	<u>5,926,343</u>	<u>22,461,232</u>	<u>21,669,573</u>
<u>\$ 9,991,655</u>	<u>\$ 10,956,094</u>	<u>\$ 22,659,386</u>	<u>\$ 21,902,157</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Rent	\$ 125,160	\$ 125,160
Contributions for operations	105,080	45,522
Lab fees	72,939	119,003
Foundation services	69,126	63,536
Guest meals	67,833	68,567
Health program	51,276	38,132
Purchase discounts and rebates	45,120	26,960
Grants	45,023	174,030
Management fees	34,500	49,600
Clinic fees	34,372	61,202
Housekeeping services	24,768	28,788
Therapy services	18,476	4,265
Healthy hearts	15,152	26,157
Miscellaneous pharmacy sales	6,472	6,505
Medical records transcripts	3,292	3,835
Vending machines	3,049	3,221
Laundry	284	332
Other	<u>17,974</u>	<u>22,524</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 739,896</u>	<u>\$ 867,339</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 114,956	\$ 179,938
Supplies and other expenses	<u>130,472</u>	<u>115,951</u>
	<u>245,428</u>	<u>295,889</u>
ADULTS AND PEDIATRICS		
Salaries and wages	1,443,595	1,297,660
Supplies and other expenses	<u>202,173</u>	<u>388,552</u>
	<u>1,645,768</u>	<u>1,686,212</u>
PSYCHIATRIC CARE		
Salaries and wages	605,381	830,189
Supplies and other expenses	<u>38,461</u>	<u>142,056</u>
	<u>643,842</u>	<u>972,245</u>
NURSERY		
Salaries and wages	52,032	49,692
Supplies and other expenses	<u>11,876</u>	<u>22,127</u>
	<u>63,908</u>	<u>71,819</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	423,523	392,680
Supplies and other expenses	<u>189,439</u>	<u>175,764</u>
	<u>612,962</u>	<u>568,444</u>
LABOR AND DELIVERY ROOMS		
Salaries and wages	56,391	78,504
Supplies and other expenses	<u>7,826</u>	<u>39,267</u>
	<u>64,217</u>	<u>117,771</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>17,245</u>	<u>21,870</u>
NONPHYSICIAN ANESTHETISTS		
Salaries and wages	313,602	334,227
Supplies and other expenses	<u>14,966</u>	<u>4,620</u>
	<u>328,568</u>	<u>338,847</u>
RADIOLOGY		
Salaries and wages	371,493	385,231
Supplies and other expenses	<u>818,935</u>	<u>762,195</u>
	<u>1,190,428</u>	<u>1,147,426</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
LABORATORY		
Salaries and wages	\$ 352,868	\$ 337,821
Supplies and other expenses	<u>522,748</u>	<u>451,135</u>
	<u>875,616</u>	<u>788,956</u>
RESPIRATORY THERAPY		
Salaries and wages	16,036	41,448
Supplies and other expenses	<u>48,598</u>	<u>45,612</u>
	<u>64,634</u>	<u>87,060</u>
PHYSICAL THERAPY		
Salaries and wages	306,055	289,920
Supplies and other expenses	<u>18,628</u>	<u>25,981</u>
	<u>324,683</u>	<u>315,901</u>
OCCUPATIONAL THERAPY		
Salaries and wages	107,756	108,245
Supplies and other expenses	<u>6,445</u>	<u>6,942</u>
	<u>114,201</u>	<u>115,187</u>
SPEECH THERAPY		
Salaries and wages	73,507	73,551
Supplies and other expenses	<u>5,305</u>	<u>4,461</u>
	<u>78,812</u>	<u>78,012</u>
ELECTROCARDIOLOGY		
Salaries and wages	4,979	8,180
Supplies and other expenses	<u>27,604</u>	<u>26,943</u>
	<u>32,583</u>	<u>35,123</u>
CARDIAC REHABILITATION		
Salaries and wages	82,527	95,814
Supplies and other expenses	<u>8,142</u>	<u>21,294</u>
	<u>90,669</u>	<u>117,108</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>334,165</u>	<u>260,286</u>
PHARMACY		
Salaries and wages	190,992	208,977
Supplies and other expenses	<u>604,903</u>	<u>588,302</u>
	<u>795,895</u>	<u>797,279</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CENTRAL SUPPLY		
Salaries and wages	\$ 17,645	\$ 37,592
Supplies and other expenses	<u>16,075</u>	<u>16,550</u>
	<u>33,720</u>	<u>54,142</u>
EMERGENCY SERVICES		
Salaries and wages	658,616	614,796
Supplies and other expenses	<u>351,145</u>	<u>354,566</u>
	<u>1,009,761</u>	<u>969,362</u>
SURGICAL CLINIC		
Salaries and wages	426,875	386,916
Supplies and other expenses	<u>72,077</u>	<u>112,708</u>
	<u>498,952</u>	<u>499,624</u>
CLINIC		
Salaries and wages	1,101,608	1,225,337
Supplies and other expenses	<u>1,431,724</u>	<u>1,301,902</u>
	<u>2,533,332</u>	<u>2,527,239</u>
OUTREACH CLINIC		
Salaries and wages	19,719	20,349
Supplies and other expenses	<u>8,102</u>	<u>10,691</u>
	<u>27,821</u>	<u>31,040</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>8,231</u>	<u>5,549</u>
PARTIAL HOSPITAL PSYCHIATRIC		
Salaries and wages	29,764	88,415
Supplies and other expenses	<u>1,079</u>	<u>3,436</u>
	<u>30,843</u>	<u>91,851</u>
PSYCHIATRIC COUNSELING		
Salaries and wages	154,319	125,461
Supplies and other expenses	<u>2,446</u>	<u>2,380</u>
	<u>156,765</u>	<u>127,841</u>
CHEMICAL DEPENDENCY		
Salaries and wages	54,504	72,078
Supplies and other expenses	<u>1,481</u>	<u>3,247</u>
	<u>55,985</u>	<u>75,325</u>
DIABETIC EDUCATION		
Salaries and wages	37,160	28,846
Supplies and other expenses	<u>6,921</u>	<u>363</u>
	<u>44,081</u>	<u>29,209</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
SOCIAL SERVICES		
Salaries and wages	\$ 13,798	\$ 13,457
Supplies and other expenses	<u>121</u>	<u>241</u>
	<u>13,919</u>	<u>13,698</u>
MEDICAL RECORDS		
Salaries and wages	270,403	281,914
Supplies and other expenses	<u>21,585</u>	<u>52,624</u>
	<u>291,988</u>	<u>334,538</u>
DIETARY		
Salaries and wages	222,022	217,254
Supplies and other expenses	<u>130,813</u>	<u>148,194</u>
	<u>352,835</u>	<u>365,448</u>
OPERATION OF PLANT		
Salaries and wages	175,728	184,431
Supplies and other expenses	<u>469,206</u>	<u>463,524</u>
	<u>644,934</u>	<u>647,955</u>
HOUSEKEEPING		
Salaries and wages	152,671	177,307
Supplies and other expenses	<u>26,174</u>	<u>24,915</u>
	<u>178,845</u>	<u>202,222</u>
LAUNDRY AND LINEN		
Salaries and wages	24,991	20,110
Supplies and other expenses	<u>9,670</u>	<u>9,793</u>
	<u>34,661</u>	<u>29,903</u>
MARKETING AND COMMUNITY HEALTH PROMOTIONS		
Salaries and wages	245,736	243,583
Supplies and other expenses	<u>119,187</u>	<u>153,564</u>
	<u>364,923</u>	<u>397,147</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	858,999	850,022
Supplies and other expenses	<u>1,393,646</u>	<u>1,336,088</u>
	<u>2,252,645</u>	<u>2,186,110</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	890,907	843,959
Interest	84,510	81,028
Employee benefits	<u>2,334,428</u>	<u>2,258,574</u>
	<u>3,309,845</u>	<u>3,183,561</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 19,367,710</u></u>	<u><u>\$ 19,587,199</u></u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND
COLLECTION STATISTICS
JUNE 30, 2010 AND 2009

ANALYSIS OF AGING	June 30, 2010		June 30, 2009	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 2,342,425	50.40%	\$ 2,733,608	49.90%
31 to 60 days	627,214	13.50%	854,812	15.61%
61 to 90 days	261,049	5.61%	325,449	5.94%
91 days and over	<u>1,416,787</u>	<u>30.49%</u>	<u>1,564,154</u>	<u>28.55%</u>
	4,647,475	100.00%	5,478,023	100.00%
Less: Allowance for doubtful accounts	653,000		765,000	
Allowance for contractual adjustments	<u>1,447,000</u>		<u>1,730,000</u>	
Net	<u>\$ 2,547,475</u>		<u>\$ 2,983,023</u>	

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

	2010	2009
Beginning balance	\$ <u>765,000</u>	\$ <u>764,000</u>
Add:		
Provision for bad debts	1,114,240	1,148,643
Recoveries previously written off	<u>214,087</u>	<u>222,555</u>
	<u>1,328,327</u>	<u>1,371,198</u>
Less:		
Accounts written off	<u>(1,440,327)</u>	<u>(1,370,198)</u>
Ending balance	<u>\$ 653,000</u>	<u>\$ 765,000</u>

COLLECTION STATISTICS

	2010	2009
Net accounts receivable - patients	\$ 2,547,475	\$ 2,983,023
Number of days charges outstanding	50	58
Uncollectible accounts (1)	1,239,832	1,252,208
Percentage of uncollectible accounts to total charges	3.8%	3.8%

(1) Includes provision for bad debts and charity care.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
SUPPLIES		
Pharmacy	\$ 216,004	\$ 214,675
Operating room and central supply	74,385	58,557
Central stores	45,029	48,637
Laboratory	30,855	33,919
Dietary	<u>9,081</u>	<u>8,621</u>
Total supplies	<u>\$ 375,354</u>	<u>\$ 364,409</u>
PREPAID EXPENSE		
Service contracts	\$ 25,640	\$ 27,447
Insurance	14,313	25,100
Dues	12,410	9,089
Other	<u>1,406</u>	<u>3,905</u>
Total prepaid expense	<u>\$ 53,769</u>	<u>\$ 65,541</u>

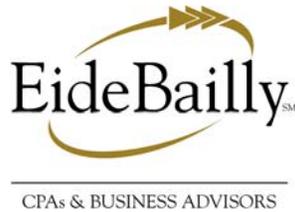
ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
JUNE 30, 2010 AND 2009

	Balance July 1, 2009	Interest Earned	Interest Received	Balance June 30, 2010
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Debt service reserve fund				
1998 Hospital revenue bonds	\$ 284,725	\$ 8,541	\$ (8,541)	\$ 284,725
Revenue bond sinking fund				
1998 Hospital revenue bonds	<u>23,727</u>	<u>-</u>	<u>-</u>	<u>23,727</u>
 Total	 <u>\$ 308,452</u>	 <u>\$ 8,541</u>	 <u>\$ (8,541)</u>	 <u>\$ 308,452</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	2,689	2,562
Swing-bed	1,311	1,094
Inn Care	16	78
Newborn	166	203
Psychiatric *	1,522	2,565
Totals	<u>5,704</u>	<u>6,502</u>
DISCHARGES		
Acute	910	883
Swing-bed	160	124
Inn Care	2	12
Newborn	88	111
Psychiatric *	407	645
Totals	<u>1,567</u>	<u>1,775</u>
AVERAGE LENGTH OF STAY		
Acute	2.95	2.90
Swing-bed	8.19	8.82
Psychiatric	3.74	3.98
BEDS		
Acute	25	25
Psychiatric *	10	10
OCCUPANCY PERCENTAGE		
Acute and swing-bed	44%	40%
Psychiatric	56%	70%

* The Psychiatric unit closed in March 2010.



**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
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheets of Ellsworth Municipal Hospital and the statements of financial position of its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2010 and 2009, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended, and have issued our report thereon dated September 15, 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 Ellsworth Municipal Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 Ellsworth Municipal Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Ellsworth Municipal Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Ellsworth Municipal Hospital and are reported in Part 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.

Ellsworth Municipal Hospital's responses to the 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 Ellsworth Municipal Hospital and other parties to whom Ellsworth Municipal Hospital may report, and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Dubuque, Iowa
September 15, 2010

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

Conclusion – Response accepted.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

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

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).

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

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

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

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.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-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-B-10 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

- II-C-10 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

- II-D-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

- II-E-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.



INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheet of Ellsworth Municipal Hospital as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Ellsworth Municipal Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

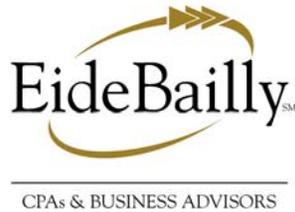
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth Municipal Hospital as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles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

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

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

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

Dubuque, Iowa
September 15, 2010



To the Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the financial statements of Ellsworth Municipal Hospital for the year ended June 30, 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 July 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 Ellsworth Municipal 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 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, 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.

We discussed all adjustments to the financial statements with management during the audit. The following adjustments were made during the 2010 audit, with adjustments equal to or greater than \$15,000 listed separately:

To record additional accounts payable	\$	(35,644)
To adjust inventory		(15,227)
To adjust accrued expenses		27,928
To adjust estimated third-party payor settlements		224,563
Other adjustments		(1,954)

The net effect of the adjustments was to increase net assets by \$199,666.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 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.

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

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

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

Dubuque, Iowa
September 15, 2010



To the Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

In planning and performing our audit of the financial statements of Ellsworth Municipal 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 Ellsworth Municipal 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 Ellsworth Municipal Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Ellsworth Municipal 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). Ellsworth Municipal Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size. 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 Ellsworth Municipal Hospital and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dubuque, Iowa
September 15, 2010