Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

FINANCIAL REPORT

June 30, 2010

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Orange City Municipal Hospital
d/b/a Orange City Area Health System
OFFICIALS
June 30, 2010

Before January, 2010

Board of Trustees	**Expiration of term**
Tim Zeutenhorst, Chairman	January, 2012
Randy Jacobsma, Vice Chairman	January, 2012
Les Douma, Secretary (resigned effective September 16, 2009)	January, 2010
Brenda Richardson	January, 2012
Gary Vande Vegte	January, 2010
Shirley Van Wechel	January, 2012
Russ Adams (appointed Secretary, effective September 16, 2009)	January, 2010

Administrator

Martin W. Guthmiller

Chief Financial Officer

Dina A. Baas

After January, 2010

Board of Trustees	**Expiration of term**
Tim Zeutenhorst, Chairman	January, 2012
Randy Jacobsma, Vice Chairman	January, 2012
Brenda Richardson, Secretary	January, 2014
Jerry Henrich (appointed effective January 20, 2010)	January, 2012
Gary Vande Vegte	January, 2014
Shirley Van Wechel	January, 2012
Russ Adams	January, 2014

Administrator

Martin W. Guthmiller

Chief Financial Officer

Dina A. Baas

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited the accompanying balance sheets of Orange City Municipal Hospital, d/b/a Orange City Area Health System, a component unit of the City of Orange City, Iowa, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. We have audited the statements of financial position of Orange City Area Health Foundation, a component unit of Orange City Municipal Hospital, as of June 30, 2010 and 2009, and the related statements of activities 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 Orange City Municipal Hospital as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statements of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2010, on our consideration of Orange City Municipal Hospital's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 6-11, schedule of funding progress for the retiree health plan on page 34, and budgetary comparison schedule on page 35, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on required supplementary information.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Orange City Municipal Hospital and Orange City Area Health Foundation taken as a whole. Other supplementary information included on pages 37-51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 7, 2010

Orange City Municipal Hospital
d/b/a Orange City Area Health System
Management's Discussion and Analysis

As management of Orange City Area Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2010, 2009 and 2008. Please read it in conjunction with the Health System's financial statements, which follow this section.

Financial Highlights

- Total assets decreased by $241,869 from FY 2009 or .45% to $53,396,727.
- Total assets whose use is limited increased by $1,549,632 from FY 2009 or 19.4%.
- Total fund equity decreased by $194,184 from FY 2009, primarily due to increase in operating expenses.
- Total long-term debt decreased by $681,578 from FY 2009.
- Net patient service revenue increased by $527,576 from FY 2009, primarily due to an increase in outpatient services.
- Expenses increased by $45,515 from FY 2009, which is due to a net increase in other professional services.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Area Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

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

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

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

Orange City Area Health System's Fund Equity

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the fund equity of Orange City Area Health System and the changes in them. Orange City Area Health System's fund equity – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in fund equity are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

A summary of Orange City Area Health System's balance sheets at June 30, 2010, 2009 and 2008 are presented in Table 1.

Table 1: Assets, Liabilities, and Fund Equity (in Thousands)

	2010	2009	2008
Assets:			
Current assets	$12,429	$12,298	$10,797
Assets whose use is limited, net of current	7,982	6,406	6,139
Capital assets, net	32,457	34,679	36,895
Other assets	529	256	265
Total assets	$53,397	$53,639	$54,096
Liabilities:			
Long-term debt outstanding	$24,678	$25,359	$26,016
Other current and noncurrent liabilities	5,101	4,468	3,888
Total liabilities	$29,779	$29,827	$29,904
Fund equity:			
Investment in capital assets, net of related debt	$ 7,087	$ 8,653	$10,808
Restricted	2,931	2,957	2,589
Unrestricted	13,600	12,202	10,795
Total fund equity	$23,618	$23,812	$24,192

Increase in current assets is due to an increase in cash and cash equivalents. The decrease in net capital assets is due to depreciation expense exceeding capital additions during 2010. Table 4, and note 5 of the financial statements, document the net capital activity and ending balances of capital assets for 2010.

Operating Results and Changes in Orange City Area Health System's Fund Equity

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2010, 2009 and 2008. In 2010, fund equity decreased by $194,184 over the prior year. As you can see, this decrease was attributable to nonoperating expenses exceeding operating income.

Table 2: Operating Results and Changes in Fund Equity (in Thousands)

	2010	2009	2008
Operating Revenues:			
Net patient service revenue	$32,694	$32,166	$31,849
Other operating revenue	1,947	1,905	1,801
Total operating revenue	34,641	34,071	33,650
Operating Expenses:			
Salaries and benefits	19,289	19,011	18,264
Provision for depreciation and amortization	2,954	3,049	3,024
Other operating expenses	11,464	11,601	11,212
Total operating expenses	33,707	33,661	32,500
Operating income	934	410	1,150
Nonoperating revenues and expenses:			
Investment income	173	163	188
Interest expense	(1,337)	(1,357)	(1,567)
Other nonoperating revenues and expenses, net	–	(2)	1
Total nonoperating revenues (expenses)	(1,164)	(1,196)	(1,378)
(Deficit) of revenues over expenses before contributions	(230)	(786)	(228)
Contributions	36	406	1,115
Change in fund equity	(194)	(380)	887
Total fund equity, beginning	23,812	24,192	23,305
Total fund equity, ending	$23,618	$23,812	$24,192

Operating and Financial Performance

The following summarizes Orange City Area Health System's statement of revenue, expenses and changes in fund equity between June 30, 2010, 2009 and 2008.

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

Volume: Hospital discharges for fiscal year 2010 were 957 compared to 1,064 in fiscal year 2009. Average length of stay increased slightly. Patient days decreased from 4,193 to 3,867 in 2010. Volume on the inpatient side decreased during 2010. In 2010, gross inpatient charges increased from $7,088,172 to $7,177,437 in 2010. Gross out patient charges increased from $32,271,645 to $32,952,267 in 2010.

Price Increase: As is customary, the Hospital did review its charge structure and incorporated certain price increases in 2010. Daily room rates increased by 4.5%, while outpatient charges were not adjusted, resulting in a 1% aggregate price increase.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were $12,024,680 in 2010 compared to $11,554,164 in 2009. This represents 27% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payor for the years ended June 30, 2010, 2009 and 2008.

Table 3: Payor Mix

	Year ended June 30,		
	2010	2009	2008
Medicare	42.5%	43.8%	44.7%
Wellmark	26.9%	25.1%	23.2%
Medicaid	5.9%	7.0%	5.9%
Commercial Insurance	22.7%	22.1%	23.5%
Self Pay	2.0%	2.0%	2.7%
Total	100.0%	100.0%	100.0%

Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, decreased from 23,224 resident days in 2009 to 21,727 resident days in 2010. In addition, the Hospital leases office space located in the downtown campus to various organizations.

Expenses

Fifty-four percent of Orange City Area Health System's expenses are attributed to salaries and benefits. Total salaries and benefits decreased by approximately $100,000, from $19.4 million to $19.3 million.

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, Orange City Area Health System had approximately $32.4 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment.

The following table summarizes Orange City Area Health System's capital assets as of June 30, 2010, 2009 and 2008.

Table 4: Capital Assets (in Thousands)

	2010	2009	2008
Land	$ 942	$ 942	$ 942
Land improvements	2,332	2,332	2,317
Buildings	17,653	17,653	17,622
Fixed equipment	23,375	23,343	23,259
Major moveable equipment	12,751	12,221	11,506
Construction in progress	–	–	13
Total	57,053	56,491	55,659
Less accumulated depreciation and amortization	(24,596)	(21,812)	(18,764)
Net property and equipment	$32,457	$ 34,679	$36,895

Long -Term Debt

At June 30, 2010, Orange City Area Health System had $25 million in short and long-term debt related primarily to hospital revenue capital loan notes. More detailed information is presented in Note 7 to the Financial Statements.

Performance Compared to Budget

The following table compares fiscal year 2010 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	Budget	Actual	Dollar Variance	Percent Variance
Gross patient service revenue	$44,234	$44,904	$ 670	1.5%
Contractual adjustments	(9,875)	(11,230)	(1,355)	(13.7)%
Provision for bad debts	(1,271)	(794)	477	37.5%
Charity care	(476)	(186)	290	60.9%
Net patient service revenue	32,612	32,694	82	0.2%
Other operating revenue	1,677	1,947	270	16.1)%
Total operating revenue	34,289	34,641	352	0.1%
Operating expenses	33,637	33,707	70	0.2%
Operating income	652	934	282	43.2%
Income from investments	152	173	21	13.8%
Other nonoperating, including contributions	(1,247)	(1,301)	(54)	4.3%
Excess (deficit) of revenues over expenses	$ (443)	$ (194)	$ 249	56.2%

Economic and Other Factors and Next Year's Budget

Orange City Area Health System's Board and management considered many factors when setting the fiscal year 2011 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- Commercial insurance and health network reimbursement rates
- The aging of the population in our market area
- Major employers
- Legislation
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements
- Contribution receivable collections
- Rising costs of employee benefits

Contacting Orange City Area Health System's Finance Department

Orange City Area Health System's financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Area Health System's accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Area Health System, 1000 Lincoln Circle SE, Orange City, IA 51041.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
BALANCE SHEETS

ASSETS	June 30 2010	June 30 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 6,797,795	$ 6,251,437
Assets whose use is limited, required for current liabilities	998,311	1,023,784
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2010 $1,736,000; 2009 $2,505,500	3,886,408	4,221,111
Estimated third-party payor settlements	61,000	152,500
Inventories	499,271	559,333
Prepaid expenses	186,609	89,349
Total current assets	12,429,394	12,297,514
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	233,593	233,465
Certificates of deposit	4,663,356	3,384,209
U.S. Government agency securities	286,908	72,611
Accrued interest receivable	20,553	20,236
	5,204,410	3,710,521
Designated by board for deferred compensation		
Mutual funds	844,308	762,396
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	2,923,811	2,949,284
Restricted by donors for specific purpose		
Cash	7,324	8,020
Total assets whose use is limited	8,979,853	7,430,221
Less assets whose use is limited and that are required for current liabilities	998,311	1,023,784
Noncurrent assets whose use is limited	7,981,542	6,406,437
PROPERTY AND EQUIPMENT	57,053,120	56,491,383
Less accumulated depreciation	24,596,556	21,812,702
Total property and equipment	32,456,564	34,678,681
OTHER ASSETS		
Unamortized financing costs	69,383	72,467
Other	459,844	183,497
Total other assets	529,227	255,964
Totals	$53,396,727	$53,638,596

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	June 30 2010	June 30 2009
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 692,000	$ 667,000
Accounts payable	1,004,961	817,578
Accrued payroll and vacation pay	1,670,190	1,611,682
Payroll taxes	99,725	91,707
Accrued interest payable	439,833	447,941
Estimated third-party payor settlements	270,000	–
Deposits	49,000	53,500
Total current liabilities	4,225,709	3,689,408
LONG-TERM DEBT		
Hospital revenue capital loan notes	25,225,505	25,810,083
Rural economic development loan	144,000	216,000
	25,369,505	26,026,083
Less current maturities	692,000	667,000
Total long-term debt	24,677,505	25,359,083
OTHER LIABILITIES		
Deferred compensation liability	844,308	762,396
Other post-employment benefits	31,680	16,000
Total other liabilities	875,988	778,396
Total liabilities	29,779,202	29,826,887
COMMITMENTS AND CONTINGENCIES		
FUND EQUITY		
Invested in capital assets, net of related debt	7,087,059	8,652,598
Restricted	2,931,135	2,957,304
Unrestricted	13,599,331	12,201,807
Total fund equity	23,617,525	23,811,709
Totals	$53,396,727	$53,638,596

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2010	**2009**
NET PATIENT SERVICE REVENUE, net of provisions for bad debts 2010 $794,442; 2009 $1,357,140	$32,693,650	$32,166,074
OTHER REVENUE	1,946,985	1,904,902
Total revenue	34,640,635	34,070,976
EXPENSES		
Nursing service	8,617,160	8,782,104
Other professional service	14,053,744	13,622,613
General service	1,731,702	1,797,305
Fiscal and administrative service and unassigned expenses	6,349,662	6,409,922
Provision for depreciation	2,954,192	3,049,001
Total expenses	33,706,460	33,660,945
Operating income	934,175	410,031
NONOPERATING GAINS (LOSSES)		
Investment income	172,901	163,312
Interest and amortization expense	(1,337,057)	(1,357,328)
Nonoperating income from auxiliary activity, net	(696)	(10,187)
Unrestricted contributions	495	8,033
Total nonoperating gains (losses)	(1,164,357)	(1,196,170)
(Deficit) of revenues over expenses before contributions	(230,182)	(786,139)
CONTRIBUTIONS	35,998	405,615
Change in fund equity	(194,184)	(380,524)
TOTAL FUND EQUITY		
Beginning	23,811,709	24,192,233
Ending	$23,617,525	$23,811,709

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$33,389,466	$33,557,817
Cash paid to suppliers for goods and services	(11,960,834)	(11,567,987)
Cash paid to employees for services	(18,619,875)	(18,805,521)
Other operating revenue received	1,727,358	1,910,695
Net cash provided by operating activities	4,536,115	5,095,004
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating income from auxiliary activities, net	(696)	(10,187)
Unrestricted contributions received	495	8,033
Net cash (used in) noncapital financing activities	(201)	(2,154)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(732,075)	(832,427)
Principal paid on long-term debt	(667,000)	(72,000)
Restricted contributions	35,998	405,615
Interest paid on long-term debt	(1,331,660)	(1,343,823)
Net cash (used in) capital and related financing activities	(2,694,737)	(1,842,635)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,629,442)	(3,292,825)
Proceeds from maturities of certificates of deposit	2,350,293	1,540,811
Purchase of U.S. Government Securities	(216,523)	(58,675)
Proceeds from maturity of U.S. Government Securities	2,226	1,749
Interest received	172,586	160,722
Net cash (used in) investing activities	(1,320,860)	(1,648,218)
NET INCREASE IN CASH AND CASH EQUIVALENTS	520,317	1,601,997
CASH AND CASH EQUIVALENTS		
Beginning	9,442,206	7,840,209
Ending	$ 9,962,523	$ 9,442,206

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2010	**2009**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 934,175	$ 410,031
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	2,954,192	3,049,001
Education assistance advances	(6,245)	(12,047)
Education assistance advances forgiven	10,026	10,115
Physician advances, net of refunds	(90,000)	(80,000)
Physician advances forgiven	25,000	87,292
Changes in assets and liabilities		
Decrease in patient receivables	334,703	961,243
Decrease in estimated third-party payor settlements	361,500	430,500
(Increase) in other receivables, net of nonoperating activities	(215,127)	(207)
(Increase) decrease in inventories	60,062	(25,182)
(Increase) decrease in prepaid expenses	(97,260)	70,200
Increase in accounts payable, net of amounts for property and equipment	186,996	17,055
Increase in other post-employment benefits	15,680	16,000
Increase in accrued payroll and vacation pay	58,895	139,507
Increase in payroll taxes	8,018	15,496
Increase (decrease) in deposits	(4,500)	6,000
Net cash provided by operating activities	$4,536,115	$5,095,004
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS		
Per balance sheets		
Current assets, cash and cash equivalents	$6,797,795	$6,251,437
Assets whose use is limited		
Designated by board for plant replacement and expansion	233,593	233,465
Restricted for payment of revenue notes and interest	2,923,811	2,949,284
Restricted by donors for specific purpose	7,324	8,020
Total per statements of cash flows	$9,962,523	$9,442,206

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Municipal Hospital)
STATEMENTS OF FINANCIAL POSITION

	June 30	
ASSETS	**2010**	**2009**
Cash	$ 19,530	$ 72,500
Certificates of deposit	20,327	19,827
Capital campaign contributions receivable, net of allowance 2010 $-0-; 2009 $40,000	8,475	41,313
Property and equipment	553,787	197,337
Other	633	3,084
Total assets	$ 602,752	$ 334,061
LIABILITIES AND NET ASSETS		
LIABILITIES		
Payable to Orange City Area Health System	$ 226,500	$ –
NET ASSETS		
Unrestricted	358,240	282,748
Temporarily restricted	18,012	51,313
Total net assets	376,252	334,061
Total liabilities and net assets	$ 602,752	$ 334,061

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Municipal Hospital)
STATEMENTS OF ACTIVITIES

	Year ended June 30, 2010			Year ended June 30, 2009		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
SUPPORT AND REVENUE						
Contributions	$ –	$ 91,370	$ 91,370	$ –	$ 101,156	$ 101,156
Interest income	600	37	637	704	–	704
Other	49	–	49	4,258	–	4,258
Net assets released from restrictions	124,708	(124,708)	–	448,135	(448,135)	–
Total support and revenue	125,357	(33,301)	92,056	453,097	(346,979)	106,118
EXPENSES						
Contributions and scholarship	37,365	–	37,365	407,770	–	407,770
Supporting services						
Management and general						
Property taxes	495	–	495	448	–	448
Uncollectible campaign contributions	4,342	–	4,342	–	–	–
Total management and general	4,837	–	4,837	448	–	448
Fundraising event	7,663	–	7,663	8,386	–	8,386
Total expenses	49,865	–	49,865	416,604	–	416,604
CHANGE IN NET ASSETS	75,492	(33,301)	42,191	36,493	(346,979)	(310,486)
NET ASSETS, beginning of year	282,748	51,313	334,061	246,255	398,292	644,547
NET ASSETS, end of year	$ 358,240	$ 18,012	$ 376,252	$ 282,748	$ 51,313	$ 334,061

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Municipal Hospital)
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 42,191	$ (310,486)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Decrease in capital campaign contributions receivable	32,838	356,979
Decrease in other assets	2,451	3,371
Net cash provided by operating activities	77,480	49,864
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(500)	(623)
Purchase of land	(356,450)	–
Net cash (used in) investing activities	(356,950)	(623)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Orange City Area Health System	226,500	–
NET INCREASE (DECREASE) IN CASH	(52,970)	49,241
CASH		
Beginning	72,500	23,259
Ending	$ 19,530	$ 72,500

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hospital is the municipal hospital of the City of Orange City, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Municipal Hospital, d/b/a Orange City Area Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital has 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. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2010 and 2009, Orange City Municipal Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation. The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *Financial Accounting Standards Board Accounting Standards Codification*. Under this Topic, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had $18,012 of temporarily restricted net assets at June 30, 2010. These net assets are to be used for the benefit of the Hospital or scholarships for eligible Hospital employees.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2010.

Accounting Estimates and Assumptions

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

Investments and Investment Income

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

Type	Method
Interest-earning investment contracts	
Nonnegotiable certificates of deposit	Cost
Open-end mutual funds	
Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company)	Amortized cost
Publicly traded mutual funds	Fair value based on quoted market prices
Debt securities	
Negotiable certificates of deposit and U.S. Government Agency Securities	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations are recorded as additions at fair value at the date of receipt.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation is computed using these asset lives:

Land improvements	5 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	5 to 25 years

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Contributions Receivable

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Foundation's Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted fund equity

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

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

When both restricted and unrestricted fund equity are available for use, generally it is the Hospital’s policy to use restricted fund equity first.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT amount to be cash equivalents.

Statements of Revenues, Expenses, and Changes in Fund Equity

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

Net Patient Service Revenue

Patient service revenue is reported at the Hospital's established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

Charity Care

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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Costs of Borrowing

Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method.

Income Taxes

Effective July 1, 2009, the Foundation has adopted the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the *FASB Accounting Standards Codification*. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's federal income tax returns, open by statute, are subject to examination by the tax authorities. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through October 7, 2010, which was the date the financial statements were available to be issued.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2010, which include bank balances, negotiable and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C 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.

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. All investments listed below, except the U.S. Government agency securities, are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

As of June 30, 2010, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

	Maturities	
Investments		
Edward D. Jones & Co., money market funds	Daily	$ 3,699
Negotiable certificates of deposit	05/16/11 - 05/14/12	125,000
U.S. Government agency securities	01/15/15 - 11/01/31	286,908
Mutual funds	Daily	844,308
Iowa Public Agency Investment Trust	Daily	3,158,063
Totals		$4,417,978

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. The investment policy limits the investing of operating funds to instruments that mature within three hundred ninety-seven days. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. However, this does not apply to the Series 2006 Capital loan notes. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of $1,925,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST (continued)

	Year ended June 30, 2010			Year ended June 30, 2009		
	Reserve Fund	Sinking Fund	Total	Reserve Fund	Sinking Fund	Total
BALANCE, beginning	$1,925,500	$1,023,784	$2,949,284	$1,925,500	$ 645,225	$2,570,725
Transfers from current assets cash and cash equivalents	–	1,899,718	1,899,718	–	1,700,823	1,700,823
Interest income	–	1,469	1,469	–	21,559	21,559
Payment of notes and interest	–	(1,926,660)	(1,926,660)	–	(1,343,823)	(1,343,823)
BALANCE, ending	$1,925,500	$ 998,311	$2,923,811	$1,925,500	$1,023,784	$2,949,284

NOTE 4 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	June 30	
	2010	2009
Receivable from patients	$1,447,009	$1,723,364
Receivable from insurance carriers	2,285,991	2,927,296
Receivable from Medicare	1,490,446	1,581,419
Receivable from Medicaid	398,962	494,532
Total patient receivables	5,622,408	6,726,611
Less allowances for contractual and other adjustments	(1,736,000)	(2,505,500)
Totals	$3,886,408	$4,221,111

NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in the Hospital's property and equipment for the year ended June 30, 2010 and 2009 follows:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Land	$ 942,036	$ –	$ –	$ –	$ 942,036
Land improvements	2,332,209	–	–	–	2,332,209
Buildings	17,652,859	–	–	–	17,652,859
Fixed equipment	23,342,850	32,332	–	–	23,375,182
Major movable equipment	12,221,429	699,743	(170,338)	–	12,750,834
Totals	56,491,383	732,075	(170,338)	–	57,053,120
Less accumulated depreciation and amortization	(21,812,702)	(2,954,192)	170,338	–	(24,596,556)
Net property and equipment	$34,678,681	$(2,222,117)	$ –	$ –	$32,456,564

NOTE 5 PROPERTY AND EQUIPMENT (continued)

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Land	$ 942,036	$ –	$ –	$ –	$ 942,036
Land improvements	2,316,854	15,355	–	–	2,332,209
Buildings	17,622,259	30,600	–	–	17,652,859
Fixed equipment	23,258,867	–	–	83,983	23,342,850
Major movable equipment	11,505,801	687,134	–	28,494	12,221,429
Construction in progress	13,139	99,338	–	(112,477)	–
Totals	55,658,956	832,427	–	–	56,491,383
Less accumulated depreciation and amortization	(18,763,701)	(3,049,001)	–	–	(21,812,702)
Net property and equipment	$36,895,255	$(2,216,574)	$ –	$ –	$34,678,681

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2010 and 2009 follows:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Land	$ 197,337	$ 356,450	$ –	$ –	$ 553,787

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Land	$ 197,337	$ –	$ –	$ –	$ 197,337

NOTE 6 CONTRIBUTIONS RECEIVABLE

At June 30, 2010 the Foundation's contributions receivable consisted of contributions pledged for the health campus.

A summary of the activity in contributions receivable for the year ended June 30, 2010 is as follows:

Beginning contributions receivable	$ 41,313
Contributions made during the year	4,502
Payments received	(35,998)
Decrease in allowance for uncollectible contributions receivable, net of accounts written-off	(1,342)
Ending contributions receivable	$ 8,475

Contributions receivable at June 30, 2010, are expected to be received during the year ending June 30, 2011.

NOTE 7 LONG-TERM DEBT

The City Council of Orange City adopted a resolution authorizing obtaining a $360,000 subordinate Hospital Revenue Capital Loan Notes, Series 2006. The note is secured by a related security agreement and real estate mortgage, and is to be repaid in quarterly installments of $18,000. The note is noninterest bearing and the outstanding balance at June 30, 2010 is $144,000.

The City Council of Orange City adopted a resolution authorizing the issuance of $6,800,000 of Hospital Revenue Capital Loan Notes Series 2007 dated December 13, 2007, to refinance existing indebtedness. The notes mature serially through September 1, 2021, with interest payable on March 1 and September 1 at annual rates varying from 3.55% - 4.65%. Notes maturing after September 1, 2016 may be called for redemption, by the issuer and paid before maturity on said date or any date thereafter. The balance outstanding at June 30, 2010 is $6,380,000.

The City Council of Orange City adopted a resolution authorizing the issuance of $19,255,000 of Hospital Revenue Capital Loan Notes Series 2008 dated January 8, 2008, to refinance existing indebtedness. The notes mature serially through September 1, 2032, with interest payable on March 1 and September 1 at annual rates varying from 5.50% to 5.60%. Notes maturing after September 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole from time to time in part, in any order at maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to the date of call. The balance outstanding at June 30, 2010 is $19,080,000.

As to the capital loan notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest and do not constitute an indebtedness of the City. The net revenues are pledged through September, 2032. As of June 30, 2010 the remaining principal and interest on the Series 2008 and 2007 was $44,341,424, net of unamortized discount of $234,495. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Capital Loan Notes for the years ended June 30, 2010 and 2009:

	Year ended June 30	
	2010	**2009**
Change in fund equity	$ (194,184)	$ (380,524)
Provision for depreciation	2,954,192	3,049,001
Interest and amortization expense	1,337,057	1,357,328
Pledged net revenues	$4,097,065	$4,025,805
Principal and interest requirements		
Capital Loan Notes, Series 2007	$ 689,033	$ 276,383
Capital Loan Notes, Series 2008	1,237,627	1,067,440
Subordinate Capital Loan Note, Series 2006	72,000	72,000
Totals	$1,998,660	$1,415,823

NOTE 7 LONG-TERM DEBT (continued)

The following summarizes the maturities of long-term debt:

	Subordinate revenue capital loan note		Revenue notes payable		
	Principal	Interest	Principal	Interest	Total
Year ending June 30					
2011	$ 72,000	$ –	$ 620,000	$ 1,306,689	$ 1,998,689
2012	72,000	–	650,000	1,280,328	2,002,328
2013	–	–	675,000	1,252,443	1,927,443
2014	–	–	705,000	1,222,888	1,927,888
2015	–	–	735,000	1,191,573	1,926,573
2016 to 2020	–	–	4,230,000	5,413,484	9,643,484
2021 to 2025	–	–	5,405,000	4,229,521	9,634,521
2026 to 2030	–	–	7,110,000	2,525,858	9,635,858
2031 to 2033	–	–	5,330,000	458,640	5,788,640
Total	144,000	–	25,460,000	18,881,424	44,485,424
Less unamortized discount	–	–	(234,495)	–	(234,495)
Totals	$ 144,000	$ –	$25,225,505	$18,881,424	$44,250,929

Long-term debt activity for the years ended June 30, 2010 and 2009 follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2010					
Hospital revenue notes	$26,055,000	$ –	$ 595,000	$25,460,000	$ 620,000
Subordinate Hospital Revenue Capital Loan Note	216,000	–	72,000	144,000	72,000
Totals	$26,271,000	$ –	$ 667,000	$25,604,000	$ 692,000
2009					
Hospital revenue notes	$26,055,000	$ –	$ –	$26,055,000	$ 595,000
Subordinate Hospital Revenue Capital Loan Note	288,000	–	72,000	216,000	72,000
Totals	$26,343,000	$ –	$ 72,000	$26,271,000	$ 667,000

NOTE 8 DEFINED BENEFIT PENSION PLAN

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.

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

For the year ended June 30, 2010, plan members were required to contribute 4.30% of their annual salary and the Hospital is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were $985,438, $941,174 and $847,707, respectively, equal to the required contributions for each year.

NOTE 9 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to $40,000 per person and approximately $2,179,146 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2010 and 2009 was $1,854,132 and $1,803,452, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of $844,308 and $762,396 to reflect the fair value of these program assets as of June 30, 2010 and 2009, respectively, and related liability to participants.

NOTE 10 OTHER POST EMPLOYMENT BENEFITS

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 252 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plan is self-insured and is administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2010, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	$ 16,000
Interest on net OPEB obligation	(480)
Adjustment to annual required contribution	160
Annual OPEB cost	15,680
Contributions made	–
Increase in net OPEB obligation	15,680
Net OPEB obligation, beginning of year	16,000
Net OPEB obligation, end of year	$ 31,680

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (continued)

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the Hospital contributed $-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2010	$ 15,680	0%	$ 31,680

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2010, the actuarial accrued liability was approximately $95,500 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of $95,500. As of June 30, 2010, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2008 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are based on the RP-2000 Combined Mortality Rates, applied on a gender-specific basis. Termination rates used in the actuarial valuation are based upon national termination studies performed by the Society of Actuaries. They were adjusted to reflect the recent lower termination rates experienced by the Hospital. Retirement rates used in the actuarial valuation were developed based upon recent Hospital experience.

Projected weighted average claim costs of the medical plan are approximately $750 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 11 MALPRACTICE CLAIMS

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

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

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

NOTE 12 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 and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, services related to Medicare and Medicaid 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 fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

Other

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

NOTE 13 CHARITY CARE

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

	2010	2009
Charges foregone, based on established rates	$ 185,684	$ 213,795
Equivalent percentage of charity care patients to all patients served	0.4%	0.5%

NOTE 14 HOSPITAL 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 15 LEASE COMMITMENT AND SPACE LEASED TO OTHERS

The Hospital leases MRI medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of $23,295, beginning in May 2007, through the end of the lease. The minimum rental commitment for the year ending June 30, 2011 is $139,773.

The Hospital, through various agreements, leases office space within the downtown campus to various organizations. The leases, which are for various terms, each call for lease rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2010 and 2009 included $156,410 and $136,128, respectively, of aggregate rental income under the lease agreements.

NOTE 16 ORANGE CITY AREA HEALTH FOUNDATION

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured significant contribution commitments in a capital campaign to benefit the Hospital's construction of a replacement campus. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made restricted contributions of $35,998 and $405,615 to the Hospital for the years ended June 30, 2010 and 2009, respectively. The Foundation's audited statements of financial position as of June 30, 2010 and 2009, and audited statement of activities and cash flows for the years then ended, are included on pages 17 - 19.

REQUIRED SUPPLEMENTARY INFORMATION

Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b - a)/c)
July 1, 2009	$ –	$95.5	$95.5	0.0%	$16,229	0.6%
July 1, 2010	$ –	$95.5	$95.5	0.0%	$16,003	0.6%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk of Orange City to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2010 (Hospital only, excluding Foundation).

	Total Per Hospital Statements	Budget	Amount Over (Under) Budget
Total expenses	$(33,706,460)	$(33,637,670)	$ 68,790

See accompanying auditor's report.

SUPPLEMENTARY INFORMATION

Orange City Municipal Hospital
d/b/a Orange City Area Health System
AGE ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2010	Amounts June 30 2009	Percent to total June 30 2010	Percent to total June 30 2009
HOSPITAL PATIENTS				
0 - 30 days	$2,826,125	$2,836,402	61.73%	48.84%
31 - 60 days	738,154	898,510	16.12	15.47
61 - 90 days	263,956	360,165	5.76	6.20
91 - 180 days	434,132	347,341	9.48	5.98
Over 6 months	316,228	1,365,318	6.91	23.51
Totals	4,578,595	5,807,736	100.00%	100.00%
CLINIC PATIENTS				
0 - 30 days	662,036	552,228	63.42%	60.10%
31 - 60 days	111,067	123,584	10.64	13.45
61 - 90 days	76,957	75,603	7.37	8.23
Over 91 days	193,753	167,460	18.57	18.22
Totals	1,043,813	918,875	100.00%	100.00%
	5,622,408	6,726,611		
Allowances				
Uncollectible accounts	580,000	1,353,000		
Contractual adjustments	1,156,000	1,152,500		
Total allowances	1,736,000	2,505,500		
Totals	$3,886,408	$4,221,111		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	Year ended June 30 2010	Year ended June 30 2009
BALANCE, beginning	$1,353,000	$1,075,000
Provision for bad debts	794,442	1,357,140
Recoveries of accounts written off previously	325,319	169,449
Accounts written off	(1,892,761)	(1,248,589)
BALANCE, ending	$ 580,000	$1,353,000

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
INVENTORIES

	June 30	
	2010	**2009**
General stores	$ 255,519	$ 289,330
Central supply	44,265	48,656
Operating room	118,618	136,716
Radiology	5,660	6,524
Medical clinics	45,553	41,642
Laboratory	29,656	36,465
Totals	$ 499,271	$ 559,333

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
INSURANCE COVERAGE
June 30, 2010

Cincinnati Insurance Company (policy expiration July 1, 2011)	
Building and contents, builders risk, fire and extended coverage	
(100% co-insurance, replacement value, and special causes of loss)	$49,275,322
Downtown Campus (80% Co-insurance, functional replacement, and special clauses)	$5,408,000
	$5,000 deductible
Blanket earnings and expense	$20,153,000
Owned automobiles	
Liability	$1,000,000
Collision and comprehensive	$1,000 deductible
Uninsured/underinsured motorist	$1,000,000
Medical payments	$5,000
Blanket fidelity bond	
Employees	$150,000
	$2,500 deductible
Accounts receivable records	$1,000,000
	$5,000 deductible
Equipment floater	$27,000
Cincinnati Insurance Company (policy expiration July 1, 2011)	
Directors, officers and hospital staff liability	$1,000,000
	$15,000 deductible
Employment practices liability	$1,000,000
	$25,000 deductible
PIC Wisconsin Insurance Company (policy expiration July 1, 2011)	
Employee benefit liability	$1,000,000
Professional liability—hospital	$1,000,000/3,000,000
Professional liability—physicians	$1,000,000/3,000,000
General liability	$1,000,000/3,000,000
Excess professional liability	$2,000,000
Excess liability hospital	$2,000,000
Farm Bureau Mutual Insurance Company (policy expiration April 1, 2011)	
Workers' compensation	Statutory

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
PATIENT SERVICE REVENUE

	Total		Inpatient	
	Year ended June 30		Year ended June 30	
	2010	2009	2010	2009
DAILY PATIENT SERVICES				
Medical, surgical and obstetric	$ 4,286,584	$ 4,170,546	$2,408,520	$2,375,848
Special care	64,760	55,132	64,760	55,132
Long term care	4,119,483	3,958,070	–	–
Nursery	319,516	287,883	319,516	287,883
	8,790,343	8,471,631	2,792,796	2,718,863
OTHER NURSING SERVICES				
Operating and recovery room	4,011,725	3,585,682	721,057	635,998
Central service and supply	1,309,283	1,248,212	665,148	631,858
Emergency service	1,753,069	1,970,219	65,685	88,646
Ambulance	333,863	384,362	22,926	23,491
Home Health	1,176,972	1,090,878	–	–
Hospice	648,270	955,121	–	–
	9,233,182	9,234,474	1,474,816	1,379,993
OTHER PROFESSIONAL SERVICES				
Laboratory	3,819,485	3,720,135	508,163	574,303
Radiology	5,429,298	5,598,339	261,735	326,902
Pharmacy	3,820,202	3,375,582	1,205,749	1,153,491
Anesthesiology	1,657,002	1,840,176	498,093	478,004
Respiratory therapy and oxygen	437,578	453,016	289,416	298,950
Physical therapy	1,415,903	1,456,456	106,873	117,381
Cardio pulmonary	633,478	696,722	34,620	33,810
Pulmonary rehabilitation	3,178	675	–	–
Speech therapy	32,163	32,199	5,176	6,475
Audiology	81,773	296,966	–	–
Orange City medical clinic	7,037,674	6,357,630	–	–
Hospers medical clinic	308,704	309,062	–	–
Paullina medical clinic	563,757	533,277	–	–
Specialty clinics	161,389	125,336	–	–
Surgery	1,478,905	1,432,357	–	–
	26,880,489	26,227,928	2,909,825	2,989,316
	44,904,014	43,934,033	$7,177,437	$7,088,172
Charity care charges foregone, based on established rates	185,684	213,795		
Total gross patient service revenue	44,718,330	43,720,238		
Provisions for contractual and other adjustments	12,024,680	11,554,164		
Net patient service revenue	$32,693,650	$32,166,074		

See accompanying auditor's report.

Outpatient		Swing bed		Intermediate care unit	
Year ended June 30		Year ended June 30		Year ended June 30	
2010	2009	2010	2009	2010	2009
$ 1,873,546	$ 1,790,446	$ 4,518	$ 4,252	$ –	$ –
–	–	–	–	–	–
–	–	319,620	354,065	3,799,863	3,604,005
–	–	–	–	–	–
1,873,546	1,790,446	324,138	358,317	3,799,863	3,604,005
3,285,639	2,949,684	5,029	–	–	–
633,580	610,948	10,555	5,406	–	–
1,687,384	1,881,195	–	378	–	–
310,937	360,871	–	–	–	–
1,176,972	1,090,878	–	–	–	–
648,270	955,121	–	–	–	–
7,742,782	7,848,697	15,584	5,784	–	–
3,263,421	3,104,030	47,901	41,802	–	–
5,160,806	5,262,677	6,757	8,760	–	–
2,218,620	1,871,294	320,798	279,612	75,035	71,185
1,155,524	1,360,878	3,385	1,294	–	–
90,940	102,484	57,222	51,582	–	–
1,198,113	1,197,955	110,917	141,120	–	–
594,855	657,830	4,003	5,082	–	–
3,178	675	–	–	–	–
18,280	20,051	8,707	5,673	–	–
81,773	296,966	–	–	–	–
7,037,674	6,357,630	–	–	–	–
308,704	309,062	–	–	–	–
563,757	533,277	–	–	–	–
161,389	125,336	–	–	–	–
1,478,905	1,432,357	–	–	–	–
23,335,939	22,632,502	559,690	534,925	75,035	71,185
$32,952,267	$32,271,645	$ 899,412	$ 899,026	$3,874,898	$3,675,190

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30	
	2010	2009
Contractual adjustments	$ 9,224,942	$ 8,357,955
Clinic discounts and adjustments	2,005,296	1,839,069
Provision for bad debts	794,442	1,357,140
Totals	$12,024,680	$11,554,164

OTHER REVENUE

	Year ended June 30	
	2010	2009
Cafeteria	$ 186,956	$ 182,753
Other	479,557	437,208
Lifeline	38,441	36,369
Landsmeer Ridge	1,242,031	1,248,572
Totals	$1,946,985	$1,904,902

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
NURSING SERVICE EXPENSES

	Year ended June 30	
	2010	**2009**
NURSING ADMINISTRATION		
Salaries	$ 110,756	$ 113,893
Supplies and expenses	34,854	46,567
	145,610	160,460
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,385,087	1,395,254
Supplies and expenses	364,275	407,000
	1,749,362	1,802,254
SPECIAL CARE		
Salaries	14,279	11,400
Supplies and expenses	37	348
	14,316	11,748
SWING BED		
Salaries	4,777	8,741
INTERMEDIATE CARE		
Hospital		
Salaries	914,975	868,304
Purchased services	100,136	153,315
Supplies and expenses	142,581	127,907
Heritage House		
Salaries	1,282,457	1,282,495
Supplies and expenses	400,852	469,093
	2,841,001	2,901,114
NURSERY		
Salaries	86,095	79,232
Supplies and expenses	14,560	9,510
	100,655	88,742
OPERATING AND RECOVERY ROOMS		
Salaries	630,358	680,087
Supplies and expenses	332,268	259,115
	962,626	939,202
CENTRAL SERVICE AND SUPPLY		
Billable supplies	631,730	640,633
Supplies and expenses	45,645	52,409
	677,375	693,042

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
NURSING SERVICE EXPENSES (continued)

	Year ended June 30	
	2010	**2009**
EMERGENCY SERVICE		
Salaries	$1,010,582	$1,074,410
Supplies and expenses	51,492	37,615
	1,062,074	1,112,025
AMBULANCE		
Salaries	63,218	62,096
Supplies and expenses	27,218	30,728
	90,436	92,824
HOME HEALTH		
Salaries	456,328	465,109
Purchased services	64,698	54,253
Supplies and expenses	78,652	104,737
	599,678	624,099
HOSPICE		
Salaries	223,556	231,219
Supplies and expenses	145,694	116,634
	369,250	347,853
Totals	$8,617,160	$8,782,104

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES

	Year ended June 30	
	2010	**2009**
LABORATORY		
Salaries	$ 428,936	$ 448,504
Professional fees	227,341	242,097
Supplies and expenses	368,428	331,562
	1,024,705	1,022,163
RADIOLOGY		
Salaries	922,970	928,769
Professional fees	13,850	8,050
Purchased services	701,643	708,506
Supplies and expenses	256,936	251,502
	1,895,399	1,896,827
ONCOLOGY		
Salaries	21,838	24,590
PHARMACY		
Salaries	61,440	59,539
Purchased services	1,446,583	1,186,186
Drugs	3,588	6,761
Supplies and expenses	1,516	1,712
	1,513,127	1,254,198
ANESTHESIOLOGY		
Salaries	206,560	351,387
Professional fees	493,574	339,547
Supplies and expenses	24,710	21,481
	724,844	712,415
RESPIRATORY THERAPY		
Salaries	106,024	107,811
Oxygen	23,122	21,906
Supplies and expenses	107,631	72,906
	236,777	202,623
PHYSICAL THERAPY		
Salaries	52,010	53,425
Purchased services	700,114	750,270
Supplies and expenses	23,230	13,494
	775,354	817,189
CARDIO PULMONARY		
Purchased services	59,968	71,740
Supplies and expenses	508	2,443
	60,476	74,183

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2010	2009
SPEECH THERAPY		
Purchased services	$ 23,731	$ 18,186
AUDIOLOGY		
Salaries	18,685	60,507
Purchased services	100	7
Supplies and expenses	24,899	100,098
	43,684	160,612
OCCUPATIONAL HEALTH SERVICES		
Salaries	79,347	84,694
Purchased services	861	270
Supplies and expenses	29,501	20,222
	109,709	105,186
ORANGE CITY MEDICAL CLINIC		
Salaries	3,022,468	2,889,439
Purchased services	712,349	668,799
Medical supplies	402,590	286,648
Supplies and expenses	37,297	53,493
Utilities	75,419	72,078
Telephone	958	1,452
Insurance	89,908	98,225
Employee benefits	636,306	613,965
	4,977,295	4,684,099
HOSPERS MEDICAL CLINIC		
Salaries	167,251	180,230
Purchased service	34,701	34,600
Medical supplies	23,822	19,490
Supplies and expenses	19,286	25,130
Utilities	1,579	1,768
Telephone	3,220	1,302
Employee benefits	45,463	42,025
	295,322	304,545
PAULLINA MEDICAL CLINIC		
Salaries	329,283	340,524
Purchased service	66,625	69,286
Medical supplies	23,425	22,340
Supplies and expenses	23,192	21,003
Utilities	6,414	6,310
Telephone	3,480	2,952
Employee benefits	70,556	71,382
	522,975	533,797
SPECIALTY CLINICS		
Salaries	108,253	127,165
Supplies and expenses	4,890	12,294
	113,143	139,459

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2010	**2009**
OTOLARYNGOLOGY		
Supplies and expenses	$ 25,728	$ 25,728
SURGERY		
Salaries	656,340	627,593
Purchased services	76	645
Supplies and expenses	62,340	66,174
Utilities	2,557	3,190
	721,313	697,602
LANDSMEER RIDGE		
Salaries	397,336	400,164
Purchased services	8,716	8,974
Medical supplies	1,781	1,938
Supplies and expenses	179,395	167,330
Utilities	82,760	81,556
Telephone	11,388	10,060
Insurance	4,380	4,380
	685,756	674,402
SOCIAL SERVICE		
Salaries	84,638	83,590
MEDICAL RECORDS		
Salaries	158,594	155,701
Supplies and expenses	39,336	35,518
	197,930	191,219
Totals	$14,053,744	$13,622,613

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
GENERAL SERVICE EXPENSES

	Year ended June 30	
	2010	**2009**
DIETARY		
Salaries	$ 260,728	$ 276,473
Food	336,803	346,712
Supplies and expenses	61,226	71,274
	658,757	694,459
PLANT OPERATION AND MAINTENANCE		
Salaries	148,004	149,840
Utilities	471,022	451,851
Purchased services	91,488	38,118
Supplies and expenses	86,268	147,433
	796,782	787,242
HOUSEKEEPING		
Salaries	193,530	213,725
Supplies and expenses	54,981	71,366
	248,511	285,091
LAUNDRY AND LINEN		
Salaries	22,168	25,116
Supplies and expenses	5,484	5,397
	27,652	30,513
Totals	$1,731,702	$1,797,305

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES

	Year ended June 30	
	2010	**2009**
FISCAL AND ADMINISTRATIVE SERVICE		
Administrative and general		
Salaries	$ 645,575	$ 644,936
Management fees	322,527	338,636
Professional services	38,804	28,608
Collection	51,554	45,544
Telephone	57,934	55,793
Supplies and expenses	772,805	822,972
	1,889,199	1,936,489
Human resources		
Salaries	124,777	124,000
Supplies and expenses	73,610	133,764
	198,387	257,764
Regulatory affairs		
Salaries	64,143	64,897
Supplies and expenses	1,367	693
	65,510	65,590
Community relations		
Salaries	58,337	64,877
Supplies and expenses	87,235	105,420
	145,572	170,297
Receiving and stores		
Salaries	112,646	114,377
Supplies and expenses	17,430	31,637
	130,076	146,014
Admissions		
Salaries	209,116	212,254
Supplies and expenses	6,840	7,559
	215,956	219,813
Total fiscal and administrative expenses	2,644,700	2,795,967
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,571,739	1,565,632
Group health insurance	1,519,259	1,478,198
Other	161,359	153,120
Insurance	452,605	417,005
Total unassigned expenses	3,704,962	3,613,955
Totals	$6,349,662	$6,409,922

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
COMPARATIVE STATISTICS

	Year ended June 30	
	2010	**2009**
PATIENT DAYS		
Adult and pediatric	2,970	3,154
Nursery	581	536
Swing bed		
Skilled nursing care	853	1,020
Intermediate care	11	11
Intermediate care		
Hospital	11,568	11,847
Heritage House	16,327	16,330
Totals	32,310	32,898
ADMISSIONS		
Adult and pediatric	841	937
Swing bed		
Skilled nursing care	92	110
Intermediate care	17	10
Intermediate care		
Hospital	18	13
Heritage House	14	27
Total admissions	982	1,097
DISCHARGES		
Adult and pediatric	854	941
Swing bed		
Skilled nursing care	88	113
Intermediate care	15	10
Intermediate care		
Hospital	20	15
Heritage House	16	23
Total discharges	993	1,102
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.48	3.35
Swing bed		
Skilled nursing care	9.69	9.03
Intermediate care	0.73	1.10
Intermediate care		
Hospital	578.40	789.80
Heritage House	1,020.44	710.00

See accompanying auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
COMPARATIVE STATISTICS (continued)

	Year ended June 30	
	2010	**2009**
BEDS		
Adult, pediatric and swing bed	25	25
Intermediate care		
Hospital	33	33
Heritage House	50	50
OCCUPANCY PERCENT		
Adult, pediatric and swing bed	42.1%	45.9%
Intermediate care		
Hospital	96.0%	98.4%
Heritage House	89.5%	89.5%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY		
Hospital	$71,071	$71,250
Medical Clinics	$18,500	$16,876
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR		
Hospital	39.2	48.2
Medical Clinics	48.0	46.5

See accompanying auditor's report.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited the financial statements of Orange City Municipal Hospital d/b/a Orange City Area Health System (Hospital), and its component unit, Orange City Area Health System Foundation (Foundation) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 7, 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 audits, we considered the Hospital's and Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's and Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation's internal control over financial reporting.

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

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

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Compliance and Other Matters

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

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

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

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 7, 2010

Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FINDINGS
Year ended June 30, 2010

Part I–Findings Related to the Financial Statements

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

Part II–Findings Related to Required Statutory Reporting

10-II-A OFFICIAL DEPOSITORIES

Comment

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2010 at one financial institution.

Recommendation

We recommend the Hospital's depository resolution be reviewed with the maximum deposit amounts adjusted as needed.

Response

The depository resolution has been reviewed and updated as necessary.

Conclusion

Response accepted.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

10-II-C TRAVEL EXPENSES

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

10-II-D BUSINESS TRANSACTIONS

No transactions between the Hospital and a Hospital official were noted.

Part II–Findings Related to Required Statutory Reporting (continued)

10-II-E BOARD MINUTES

Comment

The Board of Trustees periodically enters into closed session to conduct business without specifically citing the reason under Iowa Code section 21.5.

Recommendation

We recommend documenting in the board minutes the specific reason included under Iowa Code section 21.5 before going into closed session.

Response

The board minutes will reflect the necessary disclosures required before entering closed sessions.

Conclusion

Response accepted.

10-II-F DEPOSITS AND INVESTMENTS

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