# Decatur County Hospital
**Leon, Iowa**

**Financial Statements**
**June 30, 2011 and 2010**

**Together with Independent Auditor's Report**

## Decatur County Hospital

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# Decatur County Hospital

## Officials
## June 30, 2011

| Board of Trustees | Title | Term Expires |
|---|---|---|
| Guy Clark | President | December 2016 |
| Gwen Simpson | Treasurer | December 2012 |
| Heidi Bell | Secretary | December 2014 |
| Linda Chastain | Trustee | December 2014 |
| Leon Kessel | Trustee | December 2014 |
| Tom Thomas, III | Trustee | December 2012 |
| Sheri Untiedt | Trustee | December 2012 |

| Hospital Officials | Title | Term Expires |
|---|---|---|
| Lynn Milnes | Administrator | Indefinite |
| Tara Spidle | Chief Financial Officer | Indefinite |

SEIM JOHNSON

## Independent Auditor's Report

To the Board of Trustees of
Decatur County Hospital
Leon, Iowa:

We have audited the accompanying basic financial statements of Decatur County Hospital (Hospital) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. 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 and provisions 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 the Hospital as of June 30, 2011 and 2010, and the results of its operations, changes in net assets 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 November 2, 2011 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and page 23 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, included in Exhibits 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Seim Johnson, LLP

Omaha, Nebraska,
November 2, 2011.



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### Introduction

This management's discussion and analysis of the financial performance of Decatur County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

### Financial Highlights

- Cash, cash equivalents and short-term investments increased between 2011 and 2010 by $534,275 or 16% and increased between 2010 and 2009 by $3,422 or .1%.

- The Hospital's net assets increased $904,535 or 11% in 2011 and increased $799,213 or 11% in 2010.

- The Hospital reported an operating loss in 2011 of $67,887 and operating loss in 2010 of $35,482. The operating loss in 2011 was a decrease of $32,405 from the operating loss reported in 2010 and the operating loss in 2010 was a decrease of $66,170 from the operating income reported in 2009.

- Net nonoperating revenues increased by $120,847 or 16% in 2011 compared to 2010 and increased by $28,029 or 4% in 2010 compared to 2009.

### Required Financial Statements

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

- The Balance Sheets include all of DCH's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of DCH creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of DCH, and assessing the liquidity and the financial flexibility of DCH.

- All of the current year's revenues and expenses are accounted for in the Statements of Revenue Expenses, and Changes in Net Assets. This statement measures improvements in DCH' operations over the past 2 years and can be used to determine whether DCH has been able to recover all of its costs through its patient service revenue and other revenue sources.

- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about DCH's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

### Financial Analysis of Decatur County Hospital

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about DCH's activities. These two statements report the net assets of DCH and changes in them. Increases or decreases in DCH's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

### The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by $904,535 or 11%, in 2011 over 2010 net assets as shown in Table 1.

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

| | | 2011 | 2010 | 2009 | 2011 Change |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Current assets | $ | 5,421,418 | 5,259,501 | 4,482,831 | 3.1% |
| Assets limited as to use or restricted | | 1,875,593 | 1,828,149 | 1,786,178 | 2.6% |
| Capital assets, net | | 3,901,381 | 2,620,114 | 2,685,525 | 48.9% |
| Other assets, net | | 8,434 | -- | -- | 100.0% |
| **Total assets** | | 11,206,826 | 9,707,764 | 8,954,534 | 15.4% |
| **Liabilities:** | | | | | |
| Long-term debt outstanding | | 35,977 | 78,648 | 166,276 | (54.3%) |
| Other current and noncurrent liabilities | | 2,012,483 | 1,375,285 | 1,333,640 | 46.3% |
| **Total liabilities** | | 2,048,460 | 1,453,933 | 1,499,916 | 40.9% |
| **Net assets:** | | | | | |
| Invested in capital assets, net of related debt | | 3,788,963 | 2,453,838 | 2,436,249 | 54.4% |
| Unrestricted | | 5,369,403 | 5,799,993 | 5,018,369 | (7.4%) |
| **Total net assets** | $ | 9,158,366 | 8,253,831 | 7,454,618 | 11.0% |

In 2011, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents increased by $497,669 due to an increase in cash collections and two lump sum interim settlement adjustments from third party payors.
- Internally designated assets increased by $47,444 or 3% primarily due to reinvested interest on certificates of deposits and capital campaign funds for the construction project.
- Net capital assets increased by $1,281,267 or 49% due to the beginning of the construction project and an increase in construction in progress.
- Total liabilities increased from 2010 by $594,527 due to an estimated third-party payor settlement of $615,986.

In 2010, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents decreased by $22,429 due to increased employee wages due to a market adjustment.
- Internally designated assets increased by $41,971 or 2% primarily due to reinvested interest on certificates of deposits.
- Net capital assets decreased by $65,411 or 2% due to increased depreciation expense.

- Total liabilities decreased from 2009 by $45,983 or 3% due to further reductions in long term debt during the year.

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by $904,535 or 11% as shown in Table 2. This increase is made up of several different components and represents an increase of $105,322 compared with the increase in net assets for 2010 of $799,213. The Hospital's change in net assets increased from $735,484 in 2009 to $799,213 in 2010.

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

| | | 2011 | 2010 | 2009 | 2011 Change |
|---|---|---|---|---|---|
| **Operating revenue:** | | | | | |
| Net patient service revenue | $ | 8,788,407 | 9,204,516 | 8,598,170 | (4.5%) |
| Provision for bad debt | | (411,322) | (395,634) | (325,937) | 4.0% |
| Other operating revenues | | 208,775 | 211,301 | 168,552 | (1.2%) |
| **Total operating revenue** | | 8,585,860 | 9,020,183 | 8,440,785 | (4.8%) |
| **Operating expenses:** | | | | | |
| Salaries and benefits | | 4,579,598 | 4,820,268 | 4,334,356 | (5.0%) |
| Purchased services and other | | 3,617,625 | 3,815,199 | 3,617,986 | (5.2%) |
| Depreciation and amortization | | 446,890 | 404,954 | 414,509 | 10.4% |
| Interest | | 9,634 | 15,244 | 43,246 | (36.8%) |
| **Total operating expenses** | | 8,653,747 | 9,055,665 | 8,410,097 | (4.4%) |
| **Operating income (loss)** | | (67,887) | (35,482) | 30,688 | 91.3% |
| **Nonoperating revenue and expenses** | | | | | |
| Property taxes | | 702,302 | 632,161 | 608,111 | 11.1% |
| Investment income | | 60,554 | 84,096 | 75,479 | (28.0%) |
| Non-capital grants and contributions | | 90,816 | 16,568 | 21,206 | 448.1% |
| **Total nonoperating revenue, net** | | 853,672 | 732,825 | 704,796 | 16.5% |
| **Excess revenue over expenses before grants and contributions** | | 785,785 | 697,343 | 735,484 | 12.7% |
| **Grants and contributions** | | 118,750 | 101,870 | -- | 16.6% |
| **Increase in net assets** | | 904,535 | 799,213 | 735,484 | 13.2% |
| **Net assets beginning of year** | | 8,253,831 | 7,454,618 | 6,719,134 | 10.7% |
| **Net assets end of year** | **$** | 9,158,366 | 8,253,831 | 7,454,618 | 11.0% |

### Operating Income/(Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2011 and 2010, the Hospital reported an operating loss and in 2009 reported operating income. The Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area and the results of operations often reflect losses from operations. As a result of the operating losses, the Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss of $67,887 for 2011 was a decrease of $32,405 from the operating loss in 2010 of $35,482. The primary components of the change in operating results in 2011 are:

- Net patient service revenue decreased $431,797 or 5% from 2010 and total operating expenses in 2011 decreased $401,918 or 4% from 2010.

- Gross patient service revenue increased $1,028,976 or 9% in 2011 as compared to 2010; however, contractual adjustments increased $1,445,085 from 2010 primarily due to an increase in Medicare allowances.

- Salaries and wages and employee benefits decreased 5% or $240,670 in 2011 due to decrease in full time equivalents (FTEs). The number of FTEs were 82 in 2011 and 88 in 2010, a 7% decrease.

- Professional fees decreased in 2011 by $151,975 or 9% due to therapy services being performed in-house, and decrease within pharmacy and anesthesia due to decreased patient volumes.

- Depreciation expense increased in 2011 by $41,936 or 10% primarily due to additions of approximately $450,000.

The operating loss of $35,482 for 2010 was a decrease of $66,170 from the operating income in 2009 of $30,688. The primary components of the change in operating results in 2010 are:

- Net patient service revenue increased $536,649 from 2009 and total operating expenses in 2010 increased $645,568 or 8% over 2009.

- Gross patient service revenue increased $601,572 or 5% in 2010 as compared to 2009; however, contractual adjustments decreased $4,774 from 2009 primarily due to a decrease in Medicare allowances.

- Salaries and wages and employee benefits increased 11% or $485,912 in 2010 due to salary and wage adjustments, and increases in IPERS and health insurance costs. The number of full time equivalents (FTEs) were 87 in 2010 and 2009.

- Professional fees increased in 2010 by $282,516 or 20% due to a contract for cardiology services and an increase in emergency room coverage fees.

- Depreciation expense decreased in 2010 by $9,555 or 2% primarily due to the CPSI computer system being fully depreciated as of August 2008.

### Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and grants and contributions. Property taxes increased $70,141 from 2010, or 11%. Investment income decreased $23,542, or 28%. Grants and contributions increased $74,248 largely due from the net pledges receivable of approximately $70,000 for the construction project.

### The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating results and nonoperating revenues and expenses in 2011 and 2010, discussed earlier.

### Capital Asset and Debt Administration

Capital Assets

At the end of 2011 and 2010, the Hospital had $3,901,381 and $2,620,114, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011 and 2010, the Hospital purchased new capital assets costing $1,734,156 and $339,543, respectively.

Debt

At June 30, 2011 and 2010, the Hospital had $112,418 and $166,276, respectively, in loans and capital lease obligations outstanding. New debt issued in 2011 was for new copier capital leases. No new debt was issued in 2010.

### Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.446.4871.

## Decatur County Hospital

### Balance Sheets
### June 30, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 1,246,422 | 748,753 |
| Short-term investments | | 1,887,697 | 1,851,091 |
| Receivables - | | | |
| Patients, net of estimated uncollectible accounts of $208,000 in 2011 and $224,000 in 2010 | | 1,112,727 | 1,212,461 |
| Property taxes | | 711,319 | 684,179 |
| Other | | 96,445 | 32,196 |
| Inventories | | 214,654 | 187,805 |
| Prepaid expenses | | 152,154 | 172,377 |
| Estimated third-party payor settlements | | -- | 370,639 |
| Total current assets | | 5,421,418 | 5,259,501 |
| Assets limited as to use or restricted | | 1,875,593 | 1,828,149 |
| Capital assets, net of accumulated depreciation | | 3,901,381 | 2,620,114 |
| Other assets, net | | 8,434 | -- |
| Total assets | $ | 11,206,826 | 9,707,764 |
| **LIABILITIES AND NET ASSETS** | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | $ | 76,441 | 87,628 |
| Accounts payable- | | | |
| Trade | | 182,839 | 202,987 |
| Construction | | 60,898 | 28,464 |
| Salaries, wages and accrued vacation payable | | 365,000 | 372,027 |
| Estimated third-party payor settlements | | 615,986 | -- |
| Deferred revenue for property taxes | | 711,319 | 684,179 |
| Total current liabilities | | 2,012,483 | 1,375,285 |
| Long-term debt, net of current portion | | 35,977 | 78,648 |
| Total liabilities | | 2,048,460 | 1,453,933 |
| Commitments and contingencies | | | |
| Net assets: | | | |
| Invested in capital assets, net of related debt | | 3,788,963 | 2,453,838 |
| Unrestricted | | 5,369,403 | 5,799,993 |
| Total net assets | | 9,158,366 | 8,253,831 |
| Total liabilities and net assets | $ | 11,206,826 | 9,707,764 |

*See notes to financial statements*

## Decatur County Hospital

### Statements of Revenue, Expenses and Changes in Net Assets
### For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| OPERATING REVENUE: | | |
| Net patient service revenue before provision for bad debt | $ 8,788,407 | 9,204,516 |
| Provision for bad debt | (411,322) | (395,634) |
| Net patient service revenue | 8,377,085 | 8,808,882 |
| Other operating revenue | 208,775 | 211,301 |
| Total operating revenue | 8,585,860 | 9,020,183 |
| EXPENSES: | | |
| Salaries | 3,392,607 | 3,597,776 |
| Employee benefits | 1,186,991 | 1,222,492 |
| Purchased services and professional fees | 1,555,630 | 1,707,605 |
| Supplies and other | 2,061,995 | 2,107,594 |
| Depreciation and amortization | 446,890 | 404,954 |
| Interest expense | 9,634 | 15,244 |
| Total operating expenses | 8,653,747 | 9,055,665 |
| OPERATING LOSS | (67,887) | (35,482) |
| NONOPERATING REVENUE: | | |
| Property taxes | 702,302 | 632,161 |
| Investment income | 60,554 | 84,096 |
| Noncapital grants and contributions | 90,816 | 16,568 |
| Nonoperating revenue | 853,672 | 732,825 |
| EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS | 785,785 | 697,343 |
| GIFTS, GRANTS AND BEQUESTS FOR PURCHASE OF PROPERTY AND EQUIPMENT | 118,750 | 101,870 |
| INCREASE IN NET ASSETS | 904,535 | 799,213 |
| NET ASSETS, Beginning of year | 8,253,831 | 7,454,618 |
| NET ASSETS, End of year | $ 9,158,366 | 8,253,831 |

*See notes to financial statements*

## Decatur County Hospital

### Statements of Cash Flows
### For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third-party payors | $ 9,463,444 | 7,946,168 |
| Cash paid to employees | (4,586,625) | (4,783,677) |
| Cash paid to suppliers and contractors | (3,644,399) | (3,747,449) |
| Other receipts and payments, net | 213,988 | 204,979 |
| Net cash provided by (used in) operating activities | 1,446,408 | (379,979) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Noncapital grants and contributions | 90,816 | 16,568 |
| County tax receipts | 702,302 | 632,161 |
| Net cash provided by noncapital financing activities | 793,118 | 648,729 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of property and equipment | (1,659,296) | (311,079) |
| Principal payments on long-term debt | (90,285) | (83,000) |
| Interest payments on long-term debt | (9,634) | (15,244) |
| Payments for bond issuance costs | (8,434) | -- |
| Capital grants and contributions | 49,288 | 101,870 |
| Net cash used in capital and related financing activities | (1,718,361) | (307,453) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments and assets limited as to use or restricted | (84,050) | (67,822) |
| Investment income | 60,554 | 84,096 |
| Net cash provided by (used in) investing activities | (23,496) | 16,274 |
| NET INREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 497,669 | (22,429) |
| CASH AND CASH EQUIVALENTS, Beginning of year | 748,753 | 771,182 |
| CASH AND CASH EQUIVALENTS, End of year | $ 1,246,422 | 748,753 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Equipment acquired under capital lease obligations | $ 36,427 | -- |

*See notes to financial statements*

## Decatur County Hospital

### Statements of Cash Flows (Continued)
### For the Years Ended June 30, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | | |
| Operating loss | $ | (67,887) | (35,482) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 446,890 | 404,954 |
| Interest expense included in operating expenses | | 9,634 | 15,244 |
| (Increase) decrease in current assets - | | | |
| Receivables - | | | |
| Patients | | 99,734 | (289,077) |
| Property taxes | | (27,140) | (76,620) |
| Other | | 5,213 | (6,322) |
| Inventories | | (26,849) | 375 |
| Prepaid expenses | | 20,223 | (30,965) |
| Estimated third-party payor settlements | | 370,639 | (370,639) |
| Increase (decrease) in current liabilities - | | | |
| Accounts payable | | (20,148) | 98,340 |
| Accrued salaries, vacation and benefits payable | | (7,027) | 36,591 |
| Estimated third-party payor settlements | | 615,986 | (202,998) |
| Deferred revenue for property taxes | | 27,140 | 76,620 |
| Net cash provided by (used in) operating activities | $ | 1,446,408 | (379,979) |

*See notes to financial statements*

## (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Decatur County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital, operating with 25 acute-care beds. The Hospital also has related health care ancillary and outpatient services.

### *A. Reporting Entity*

The financial statements of the Hospital are used to account for the provisions of acute hospital and physician clinic services to the residents of Decatur County and the surrounding area.

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, 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. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. A Critical Access Hospital (CAH) is an acute care facility that provides emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

The Hospital’s application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective July 1, 2002.

### *B. Industry Environment*

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, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations 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 compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

*C. Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in two categories:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

*D. Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue 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 accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is 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.

*E. Use of Estimates*

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

*F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or donor.

*G. Patient Receivables, Net*

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, 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.

*H. Inventories*

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

*I. Property Tax Receivable*

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

*J. Assets Limited as to Use or Restricted*

*By Board of Trustees* – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

*K. Short-Term Investments*

Short-term investments are assets available for operations without donor imposed restrictions for capital acquisition or endowment. Short-term investments consist of certificates of deposit and accrued interest, which are recorded at fair value.

*L. Capital Assets*

Capital assets acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided in the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. Lives range by capital asset classification as follows:

| | |
|---|---|
| Land improvements | 10 to 25 years |
| Buildings and building improvements | 5 to 40 years |
| Equipment, computers, and furniture | 3 to 20 years |

*M. Bond Financing Costs*

Bond financing costs related to the issuance of Hospital Revenue Bonds are included with other assets in the balance sheet and will be amortized over the life of the related notes on a straight-line basis. No amortization expense was incurred for 2011 or 2010 as the Hospital Revenue Bonds were issued September 2011.

*N. Compensated Absences*

Hospital employees accumulate a limited amount of earned but unused Paid Time Off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount of 240 hours. PTO expense is accrued as an expense and a liability as it is earned. Accrued PTO payable at June 30, 2011 and 2010 was $191,519 and $192,132 respectively.

*O. Deferred Revenue*

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

*P. Statement of Revenue, Expenses and Changes in Net Assets*

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

*Q. 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 per discharge or per ambulatory payment classification, reimbursed costs, discounted charges, and per diem payments. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. 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.

*R. Grants and Contributions*

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue 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 unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions or that are restricted to a specific operating purpose are reported after nonoperating revenues and expenses.

*S. Income Taxes*

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Decatur, Iowa. As such, the Hospital is exempt from paying income taxes.

*T. Operating Revenue and Expenses*

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

*U. 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. Because the Hospital does not pursue collection of these amounts determined to qualify as charity care, they are not reported in the statements of operations. Charges excluded from revenue under the Hospital's charity care policy were $91,752 and $63,526 for 2011 and 2010, respectively.

*U. 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

*V. Subsequent Events*

The Hospital considered events occurring through November 2, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

*W. Reclassification*

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 reporting format.

**(2) Cash, Investments and Assets Limited as to Use or Restricted**

The Hospital's deposits in banks at June 30, 2011 and 2010 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, and warrants or improvement certificates of a drainage district.

The Hospital manages the following risks in accordance with their formal investment policy:

*Interest Rate Risk:* The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

*Custodial credit risk*: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial

credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Short-Term Investments: | | | |
| Certificates of deposit | $ | 1,887,697 | 1,851,091 |
| Assets Limited as to Use or Restricted: | | | |
| By the Board of Trustees for: | | | |
| Capital improvements: | | | |
| Cash and cash equivalents | $ | 84,742 | 65,536 |
| Certificates of deposit | | 1,786,359 | 1,751,894 |
| Accrued interest | | 4,492 | 10,719 |
| Total assets limited as to use or restricted | $ | 1,875,593 | 1,828,149 |

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2011 and 2010 is summarized as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Interest | $ | 60,554 | 84,096 |

## (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** - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare 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 Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2009.

**Medicaid** - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

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.

The Hospital reports net patient services revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 52.0% and 10.0%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011, and 52.2% and 9.3%, respectively, for the year ended June 30, 2010. Laws and regulations governing the Medicare and Medicaid 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 2011 and 2010 net patient service revenue increased approximately $33,000 and $313,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, review and investigations.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2011 and 2010 are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| Gross patient service revenue: | | | |
| Hospital - | | | |
| Inpatient | $ | 1,860,110 | 1,910,198 |
| Outpatient | | 10,089,402 | 9,101,040 |
| Swingbed | | 854,854 | 783,506 |
| Surgery Clinic | | 39,945 | 20,591 |
| Total gross patient service revenue | | 12,844,311 | 11,815,335 |
| Contractual adjustments: | | | |
| Medicare | | (2,375,772) | (1,269,157) |
| Medicaid | | (462,482) | (275,000) |
| Other | | (1,125,898) | (1,003,136) |
| Charity care services | | (91,752) | (63,526) |
| Total contractual adjustments | | (4,055,904) | (2,610,819) |
| Net patient service revenue before provision for bad debt | $ | 8,788,407 | 9,204,516 |

## (4) Composition of Patient Receivables

Patient receivables as of June 30, 2011 and 2010 consist of the following:

| | | 2011 | 2010 |
|---|---|---|---|
| Patient accounts | $ | 1,576,727 | 1,878,461 |
| Less estimated third-party contractual adjustments | | (256,000) | (442,000) |
| Less allowance for doubtful accounts | | (208,000) | (224,000) |
| | $ | 1,112,727 | 1,212,461 |

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

| | 2011 | 2010 |
|---|---|---|
| Medicare | 28.2% | 36.3% |
| Medicaid | 11.1 | 11.3 |
| Blue Cross | 13.0 | 12.8 |
| Other third party payor | 18.3 | 17.6 |
| Private pay | 29.4 | 22.0 |
| | 100.0% | 100.0% |

## (5) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

| | | June 30, 2010 | Additions | Transfers and Disposals | June 30, 2011 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ | 44,272 | -- | -- | 44,272 |
| Construction in progress | | 21,636 | 1,206,589 | -- | 1,228,225 |
| Total capital assets, not being depreciated | | 65,908 | 1,206,589 | -- | 1,272,497 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | | 136,779 | -- | -- | 136,779 |
| Hospital buildings | | 4,290,824 | 82,011 | -- | 4,372,835 |
| Major moveable equipment | | 3,153,412 | 445,556 | (75,339) | 3,523,629 |
| Total capital assets, being depreciated | | 7,581,015 | 527,567 | (75,339) | 8,033,243 |
| Less accumulated depreciation: | | | | | |
| Land improvements | | 76,852 | 4,273 | -- | 81,125 |
| Hospital buildings | | 2,488,465 | 143,534 | -- | 2,631,999 |
| Major moveable equipment | | 2,461,492 | 299,083 | (69,340) | 2,691,235 |
| Total accumulated depreciation | | 5,026,809 | 446,890 | (69,340) | 5,404,359 |
| Total capital assets, being depreciated, net | | 2,554,206 | 80,677 | (5,999) | 2,628,884 |
| Total capital assets, net | $ | 2,620,114 | 1,287,266 | (5,999) | 3,901,381 |

| | | June 30, 2009 | Additions | Transfers and Disposals | June 30, 2010 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ | 44,272 | -- | -- | 44,272 |
| Construction in progress | | -- | 21,636 | -- | 21,636 |
| Total capital assets, not being depreciated | | 44,272 | 21,636 | -- | 65,908 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | | 116,814 | 19,965 | -- | 136,779 |
| Hospital buildings | | 4,290,824 | -- | -- | 4,290,824 |
| Major moveable equipment | | 2,899,161 | 297,942 | (43,691) | 3,153,412 |
| Total capital assets, being depreciated | | 7,306,799 | 317,907 | (43,691) | 7,581,015 |
| Less accumulated depreciation: | | | | | |
| Land improvements | | 72,878 | 3,974 | -- | 76,852 |
| Hospital buildings | | 2,341,876 | 146,589 | -- | 2,488,465 |
| Major moveable equipment | | 2,250,792 | 254,391 | (43,691) | 2,461,492 |
| Total accumulated depreciation | | 4,665,546 | 404,954 | (43,691) | 5,026,809 |
| Total capital assets, being depreciated, net | | 2,641,253 | (87,047) | -- | 2,554,206 |
| Total capital assets, net | $ | 2,685,525 | (65,411) | -- | 2,620,114 |

Total depreciation for the year ended June 30, 2011 and 2010, including depreciation on rental property owned by the Hospital, was $446,890 and $404,954 respectively.

Construction in progress at June 30, 2011 consists mainly of architecture and design costs related to the construction of a new hospital facility beginning July 2011. The estimated cost of the new facility is approximately $19,000,000. The project will be capitalized upon completion, with expected completion no later than September 2013. The project will be financed by the issuance of $15,103,000 of tax exempt bonds in September 2011 and approximately $4,000,000 in operating cash and pledges.

Management has considered the accounting for conditional asset retirement obligations, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. On June 7, 2010, the Decatur County Hospital Board of Trustees approved a resolution to replace the Hospital's existing facility. The Hospital is aware that the existing facility contains materials that would require specialized removal. In addition, the demolition of the facility is contingent on total costs and sources of funds. Management believes that there is an indeterminate settlement date for the asset retirement obligations noted above because of the range of time over which the Hospital may settle the obligations is unknown and cannot be estimated.

## (6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2011 and 2010 consisted of the following:

| | | June 30, 2010 | Borrowings | Payments | June 30, 2011 | Due Within One Year |
|---|---|---|---|---|---|---|
| Capital Lease Obligations (A) | | 166,276 | 36,427 | (90,285) | 112,418 | 76,441 |
| | $ | 166,276 | 36,427 | (90,285) | 112,418 | 76,441 |

| | June 30, 2009 | Borrowings | Payments | June 30, 2010 | Due Within One Year |
|---|---|---|---|---|---|
| Capital Lease Obligations (A) | $ 249,276 | -- | (83,000) | 166,276 | 87,628 |
| | $ 249,276 | -- | (83,000) | 166,276 | 87,628 |

(A) Capital lease obligations at varying rates of imputed interest from 7.0% to 7.2% maturing through 2016 and collateralized by leased equipment.

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

| | 2011 | 2010 |
|---|---|---|
| Cost | $ 512,354 | 475,927 |
| Less: Accumulated amortization | (431,978) | (347,249) |
| Net book value | $ 80,376 | 128,678 |

The following is a schedule by year of future minimum lease payments under capital lease obligations as of June 30, 2011:

| Year | Interest Rates | Principal | Interest | Total |
|---|---|---|---|---|
| 2012 | 7.00 - 7.17 | $ 76,441 | 3,837 | 80,278 |
| 2013 | 7.00 | 9,516 | 1,392 | 10,908 |
| 2014 | 7.00 | 9,953 | 955 | 10,908 |
| 2015 | 7.00 | 10,410 | 498 | 10,908 |
| 2016 | 7.00 | 6,098 | 71 | 6,169 |
| | | $ 112,418 | 6,753 | 119,171 |

## (7) 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, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the Hospital is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2011, 2011 and 2010 were $243,069, $243,106, and $207,060, respectively.

## (8) Management Contract

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2011 and 2010 were approximately $346,433 and $366,312, respectively.

## (9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of $1,000,000 for injuries per occurrence and $3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides $3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

## (10) Commitments and Contingencies

*Operating Leases*

The Hospital leases certain equipment under an operating lease expiring in July 2016. Total rental expense in 2011 and 2010 for this equipment was $220,056 and $232,327, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011, that have initial lease terms in excess of one year:

| Year | Amount |
|---|---|
| 2012 | $ 53,496 |
| 2013 | 27,288 |
| 2014 | 20,538 |
| 2015 | 19,278 |
| 2016 | 10,637 |

## (11) Subsequent Events

Subsequent to June 30, 2011, the Hospital entered into a capital lease agreement for an ultrasound machine costing $142,312.

Subsequent to June 30, 2011, the Hospital issued $15,103,000 in Revenue Bonds. No proceeds from the bonds had been received as of June 30, 2011.

## Decatur County Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
### Budget and Actual (Cash Basis)
### For the Year Ended June 30, 2011

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Decatur County Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Hospital's expenditures exceeded amounts budgeted.

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

| | | Actual Accrual Basis | Accrual Adjustments | Actual Cash Basis | | Budgeted Amounts | Variance Favorable (Unfavorable) |
|---|---|---|---|---|---|---|---|
| Estimated amount to be raised by taxation | $ | 702,302 | -- | 702,302 | | 684,179 | 18,123 |
| Estimated other revenues / receipts | | 8,855,980 | 1,019,902 | 9,875,882 | | 9,069,103 | 806,779 |
| | | 9,558,282 | 1,019,902 | 10,578,184 | | 9,753,282 | 824,902 |
| Expenses / Disbursements | | 8,653,747 | 1,336,492 | 9,990,239 | | 9,241,047 | (749,192) |
| Net | | 904,535 | (316,590) | 587,945 | $ | 512,235 | 75,710 |
| Balance beginning of year | | 8,253,831 | (3,026,360) | 5,227,471 | | | |
| Balance end of year | $ | 9,158,366 | (3,342,950) | 5,815,416 | | | |

## Decatur County Hospital

**Exhibit 1**

### Net Patient Service Revenue
### For the Years Ended June 30, 2011 and 2010

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Inpatient | Outpatient | Swing Bed | Total | Inpatient | Outpatient | Swing Bed | Total |
| NURSING SERVICES: | | | | | | | | |
| Medical, surgical and obstetrics | $ 622,984 | 362,800 | -- | 985,784 | 632,263 | 282,204 | -- | 914,467 |
| Skilled nursing | -- | -- | 278,637 | 278,637 | -- | -- | 249,041 | 249,041 |
| Respite | -- | -- | 30,814 | 30,814 | -- | -- | 62,714 | 62,714 |
| Observation | -- | 254,382 | -- | 254,382 | -- | 199,302 | -- | 199,302 |
| | 622,984 | 617,182 | 309,451 | 1,549,617 | 632,263 | 481,506 | 311,755 | 1,425,524 |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| Operating and recovery rooms | 135,847 | 980,641 | 4,623 | 1,121,111 | 144,176 | 1,002,118 | -- | 1,146,294 |
| Laboratory | 180,230 | 1,840,631 | 53,411 | 2,074,272 | 186,678 | 1,627,877 | 38,791 | 1,853,346 |
| Central services and supply | 53,330 | 118,597 | 4,334 | 176,261 | 51,236 | 101,342 | 1,766 | 154,344 |
| Emergency and outpatient service | 11,196 | 1,046,446 | -- | 1,057,642 | 11,303 | 838,409 | -- | 849,712 |
| Ambulance | 17,455 | 757,336 | -- | 774,791 | 16,493 | 684,190 | -- | 700,683 |
| Electrocardiology | 7,992 | 87,172 | 444 | 95,608 | 6,379 | 72,009 | 570 | 78,958 |
| Radiology | 57,655 | 1,168,461 | 13,713 | 1,239,829 | 55,124 | 1,074,492 | 8,190 | 1,137,806 |
| CT scanner | 68,591 | 697,109 | -- | 765,700 | 80,833 | 517,530 | -- | 598,363 |
| Vascular imaging | 9,729 | 254,922 | 1,069 | 265,720 | 12,381 | 282,524 | 2,404 | 297,309 |
| Cardiac rehab | -- | 158,466 | 3,080 | 161,546 | -- | 187,286 | 2,498 | 189,784 |
| Pharmacy | 441,207 | 1,238,268 | 202,118 | 1,881,593 | 437,855 | 1,236,010 | 159,836 | 1,833,701 |
| Anesthesiology | 42,694 | 394,373 | -- | 437,067 | 55,322 | 397,005 | -- | 452,327 |
| Respiratory therapy | 190,814 | 212,659 | 87,243 | 490,716 | 206,687 | 178,488 | 115,310 | 500,485 |
| Physical therapy | 16,603 | 426,381 | 94,387 | 537,371 | 9,705 | 328,991 | 70,015 | 408,711 |
| Occupational therapy | 2,411 | 81,974 | 74,580 | 158,965 | 1,308 | 66,331 | 65,130 | 132,769 |
| Speech therapy | 1,372 | 1,301 | 6,401 | 9,074 | 2,455 | 14,636 | 7,241 | 24,332 |
| Clinics | -- | 39,945 | -- | 39,945 | -- | 20,591 | -- | 20,591 |
| Diabetic education | -- | 7,483 | -- | 7,483 | -- | 10,296 | -- | 10,296 |
| | 1,237,126 | 9,512,165 | 545,403 | 11,294,694 | 1,277,935 | 8,640,125 | 471,751 | 10,389,811 |
| GROSS PATIENT SERVICE REVENUE | $ 1,860,110 | 10,129,347 | 854,854 | 12,844,311 | 1,910,198 | 9,121,631 | 783,506 | 11,815,335 |
| LESS: | | | | | | | | |
| Contractual allowances and other deductions, primarily Medicare and Medicaid | | | | (3,964,152) | | | | (2,547,293) |
| Charity care services and other discounts, based on charges forgone | | | | (91,752) | | | | (63,526) |
| NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT | | | | 8,788,407 | | | | 9,204,516 |
| PROVISION FOR BAD DEBT | | | | (411,322) | | | | (395,634) |
| NET PATIENT SERVICE REVENUE | | | | $ 8,377,085 | | | | $ 8,808,882 |

## Other Operating Revenue
## For the Years Ended June 30, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| Meals sold | $ | 43,855 | 40,346 |
| Laundry | | 1,337 | 1,029 |
| Medical records transcriptions | | 31,395 | 29,842 |
| Outsourcing of occupational therapist | | 26,024 | 29,709 |
| Other | | 106,164 | 110,375 |
| | $ | 208,775 | 211,301 |

# Decatur County Hospital

**Exhibit 3**

## Departmental Expenses
## For the Years Ended June 30, 2011 and 2010

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Salaries and Wages | Professional Fees and Purchased Services | Supplies and Other | Total | Salaries and Wages | Professional Fees and Purchased Services | Supplies and Other | Total |
| NURSING SERVICES: | | | | | | | | |
| Medical and surgical | $ 60,251 | -- | 1,973 | 62,224 | 78,445 | -- | 4,087 | 82,532 |
| Administration | 766,913 | 3,796 | 59,585 | 830,294 | 908,793 | 1,745 | 63,333 | 973,871 |
| | 827,164 | 3,796 | 61,558 | 892,518 | 987,238 | 1,745 | 67,420 | 1,056,403 |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| Operating and recovery room | 212,637 | -- | 52,957 | 265,594 | 209,117 | -- | 58,458 | 267,575 |
| Central services and supply | -- | -- | 83,372 | 83,372 | -- | -- | 61,403 | 61,403 |
| Emergency room | 247,022 | 481,408 | 8,895 | 737,325 | 243,855 | 416,503 | 10,598 | 670,956 |
| Radiology | 188,656 | 304,487 | 271,018 | 764,161 | 172,476 | 314,673 | 276,822 | 763,971 |
| Ambulance | 194,931 | -- | 38,998 | 233,929 | 200,652 | -- | 25,792 | 226,444 |
| Ultrasound | -- | -- | 33,308 | 33,308 | -- | -- | 33,281 | 33,281 |
| Cardiac rehab | 71,923 | 114,880 | 5,392 | 192,195 | 98,985 | 141,273 | 6,532 | 246,790 |
| Laboratory | 180,709 | 3,415 | 294,169 | 478,293 | 179,211 | 7,268 | 303,933 | 490,412 |
| Pharmacy | 38,868 | 106,146 | 278,984 | 423,998 | 40,273 | 143,910 | 337,033 | 521,216 |
| Social services | 12,107 | -- | 44 | 12,151 | 14,660 | -- | 123 | 14,783 |
| Home health | 31,274 | 2,368 | 4,663 | 38,305 | 59,242 | 8,381 | 6,562 | 74,185 |
| Anesthesiology | -- | 147,437 | 3,516 | 150,953 | -- | 152,571 | 3,262 | 155,833 |
| Respiratory therapy | 69,417 | 28,900 | 27,168 | 125,485 | 65,010 | 69,727 | 25,527 | 160,264 |
| Physical therapy | 148,338 | 3,467 | 17,448 | 169,253 | 117,361 | 67,923 | 16,387 | 201,671 |
| Occupational therapy | 53,504 | 23,239 | 8,043 | 84,786 | 51,264 | 29,623 | 1,876 | 82,763 |
| Speech therapy | -- | -- | 1,350 | 1,350 | 6,951 | -- | 5,154 | 12,105 |
| Clinics | 34,606 | -- | 3,515 | 38,121 | 32,235 | -- | 3,840 | 36,075 |
| Medical records | 148,150 | 162 | 19,735 | 168,047 | 163,443 | 1,390 | 19,980 | 184,813 |
| Quality assurance | 24,663 | -- | 444 | 25,107 | 20,902 | -- | 509 | 21,411 |
| | 1,656,805 | 1,215,909 | 1,153,019 | 4,025,733 | 1,675,637 | 1,353,242 | 1,197,072 | 4,225,951 |
| GENERAL SERVICES: | | | | | | | | |
| Plant operation and maintenance | 126,803 | 120 | 390,111 | 517,034 | 129,571 | -- | 352,576 | 482,147 |
| Laundry and linen | 10,706 | 26,248 | 4,530 | 41,484 | 10,828 | 27,388 | 21,304 | 59,520 |
| Dietary | 175,602 | 38,553 | 68,716 | 282,871 | 189,794 | 37,642 | 73,431 | 300,867 |
| Housekeeping | 92,035 | 15,863 | 10,722 | 118,620 | 95,985 | 4,986 | 12,055 | 113,026 |
| | 405,146 | 80,784 | 474,079 | 960,009 | 426,178 | 70,016 | 459,366 | 955,560 |
| ADMINISTRATIVE SERVICES | 503,492 | 255,141 | 310,299 | 1,068,932 | 508,723 | 282,602 | 323,408 | 1,114,733 |
| NONDEPARTMENTAL: | | | | | | | | |
| Employee benefits | -- | -- | 1,186,991 | 1,186,991 | -- | -- | 1,222,492 | 1,222,492 |
| Depreciation and amortization | -- | -- | 446,890 | 446,890 | -- | -- | 404,954 | 404,954 |
| Interest | -- | -- | 9,634 | 9,634 | -- | -- | 15,244 | 15,244 |
| Insurance | -- | -- | 63,040 | 63,040 | -- | -- | 60,328 | 60,328 |
| | -- | -- | 1,706,555 | 1,706,555 | -- | -- | 1,703,018 | 1,703,018 |
| TOTAL EXPENSES | $ 3,392,607 | 1,555,630 | 3,705,510 | 8,653,747 | 3,597,776 | 1,707,605 | 3,750,284 | 9,055,665 |

## Patient Receivables and Allowance for Doubtful Accounts
## For the Years Ended June 30, 2011 and 2010

ANALYSIS OF AGING:

| Days Since Discharge | 2011 Amount | 2011 Percent of Total | 2010 Amount | 2010 Percent of Total |
|---|---|---|---|---|
| 0 - 30 | $ 908,814 | 57.63 % | 1,019,373 | 54.27 % |
| 31 - 60 | 247,702 | 15.71 | 362,125 | 19.27 |
| 61 - 90 | 153,232 | 9.72 | 157,961 | 8.41 |
| 91 - 120 | 82,732 | 5.25 | 103,311 | 5.50 |
| 121 and over | 184,247 | 11.69 | 235,691 | 12.55 |
| | 1,576,727 | 100.00 % | 1,878,461 | 100.00 % |
| Less: | | | | |
| Allowance for doubtful accounts | (208,000) | | (224,000) | |
| Allowance for contractual adjustments | (256,000) | | (442,000) | |
| | $ 1,112,727 | | 1,212,461 | |

| ALLOWANCE FOR DOUBTFUL ACCOUNTS: | 2011 | 2010 |
|---|---|---|
| Balance, beginning of year | $ 224,000 | 188,536 |
| Provision of uncollectible accounts | 411,322 | 395,634 |
| Recoveries of accounts previously written off | 137,029 | 158,462 |
| Accounts written off | (564,351) | (518,632) |
| Balance, end of year | $ 208,000 | 224,000 |

## Inventories / Prepaid Expenses
## For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| INVENTORY: | | |
| Laboratory | 46,390 | 37,893 |
| Plant operations and maintenance | 81,343 | 55,953 |
| Dietary | 6,572 | 5,235 |
| Operating room | 19,286 | 19,747 |
| Pharmacy | 50,056 | 58,708 |
| Laundry | 10,148 | 10,269 |
| CT scan | 131 | -- |
| Ambulance | 324 | -- |
| Physical therapy | 404 | -- |
| | $ 214,654 | 187,805 |
| PREPAID EXPENSES: | | |
| Insurance | $ 70,785 | 91,091 |
| Maintenance contracts | 81,369 | 81,286 |
| | $ 152,154 | 172,377 |

## Financial Statistical Highlights
## For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Patient days: | | |
| Adult and pediatric- | | |
| Medicare | 556 | 578 |
| Other | 261 | 298 |
| | 817 | 876 |
| Swing bed - Skilled | 787 | 738 |
| Respite | 210 | 424 |
| Total | 1,814 | 2,038 |
| Patient discharges: | | |
| Adult and pediatric- | | |
| Medicare | 154 | 163 |
| Other | 99 | 114 |
| | 253 | 277 |
| Swing bed - Skilled | 65 | 73 |
| Respite | 11 | 13 |
| Total | 329 | 363 |
| Average length of stay: | | |
| Adult and pediatric- | | |
| Medicare | 3.61 days | 3.55 days |
| Other | 2.64 days | 2.61 days |
| Swing bed - Skilled | 12.11 days | 10.11 days |
| Respite | 19.09 days | 32.62 days |
| Surgical procedures | 344 | 371 |
| Emergency room visits | 2,538 | 2,423 |
| Number of employees - full-time equivalents | 82.21 | 87.68 |

SEIM JOHNSON

# 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

To the Board of Trustees of
Decatur County Hospital
Leon, Iowa:

We have audited the financial statements of Decatur County Hospital (Hospital), as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon, dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned costs as Item II-A-11 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as Item II-B-11 to be a significant deficiency.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's 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*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.



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Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 Decatur County Hospital, and other parties to whom Decatur County Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim Johnson, LLP

Omaha, Nebraska,
November 2, 2011.

## Part I: Summary of the Independent Auditor's Results

a. An unqualified opinion was issued on the financial statements.

b. One material weakness and two significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.

c. The audit did not disclose any non-compliance which is material to the financial statements.

## Part II: Findings Related to the Financial Statements

### Instances of Non-Compliance

No matters were reported.

### Material Weakness

II-A-11

*Criteria:* The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

*Condition:* We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.

*Effect:* Audit entries were required to adjust the estimated third party payor settlements and to record pledges receivable and the relating contribution income discounted at present value.

*Cause:* Allowance balances requiring estimation and judgment were incorrectly recorded. Management did not recognize a need to record pledges receivable and contribution revenue relating to the construction project as the transaction is not a normal transaction for the Hospital.

*Recommendation:* The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated. The Hospital should also consult professional advice related to abnormal transactions related to the construction project.

*Response:* The Hospital concurs with the recommendation.

*Conclusion:* Response accepted.

### Significant Deficiencies

II-B-11

*Criteria:* Proper segregation of duties ensures an adequate internal control structure.

*Condition:* We identified instances where a lack of segregation of duties exists.

*Effect:* Without proper segregation of duties, a greater risk of fraud and defalcation may exist.

*Cause:* Due to a limited number of administrative personnel, a lack of segregation of duties exists.

*Recommendation:* We recommend the Hospital continue to monitor and improve its segregation of duties.

| | |
|---|---|
| *Response:* | Management is aware of this control deficiency and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties. |
| *Conclusion:* | Response accepted. |

**Part III: Other Findings Related to Required Statutory Reporting**

**III-A-11**

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

**III-B-11**

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

**III-C-11**

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to $1,500 without publicly invited and opened written competitive bids.

**III-D-11**

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

**III-E-11**

Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

**III-F-11**

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category…" We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

## Summary Schedule of Prior Year Audit Findings
## For the Year Ended June 30, 2011

There were no prior year audit findings that were not reported in the current year.

## Audit Staff
## For the Year Ended June 30, 2011

**This audit was performed by:**

- Randy D. Hoffman, CPA, FHFMA, Partner
- Jeremy Behrens, CPA, CHFP, Manager
- Natalie E. Miller, CPA, Senior Auditor
- Marc D. Behrens, Staff Auditor