



Financial Statements  
June 30, 2011 and 2010

# Ellsworth Municipal Hospital

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Ellsworth Municipal Hospital  
Board of Trustees and Hospital Officials

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



## Independent Auditor's Report

The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited the accompanying balance sheets of Ellsworth Municipal Hospital and the statements of financial position of its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth Municipal Hospital and its discretely presented component unit as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2011, on our consideration of Ellsworth Municipal Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Eide Bailly LLP*

Dubuque, Iowa  
November 3, 2011

This discussion and analysis of the financial performance of Ellsworth Municipal Hospital provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

### **Overview of the Financial Statements**

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also 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 Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and Foundation and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$15,582,072, total liabilities of \$3,257,322, and net assets of \$12,324,750.
- The Statements of Revenues, Expenses and Changes in Net Assets indicates total operating revenues of \$19,312,559, a decrease of 0.90% from the previous fiscal year, total operating expenses of \$19,378,054, an increase 0.05% from the previous fiscal year, resulting in an operating loss of \$65,495. A net non-operating gain of \$364,908 brings the excess of revenues over expenses to \$299,413, an 0.90% increase from the previous fiscal year.
- The Hospital's current assets exceeded its current liabilities by \$3,840,735 at June 30, 2011, providing a 2.8 current ratio.
- The Hospital recorded an excess of revenues over expenses for fiscal year ending June 30, 2011, amounting to \$299,413.
- Gross outpatient charges increased 8.70% during fiscal year 2011.
- Total operating expenses increased 0.05% from the previous fiscal year.
- Gross days in accounts receivable continue to be very favorable at 52 on June 30, 2011
- Total patient days and outpatient visits amount to:
  - 2,633-Acute (2.0% decline)
  - 1,368- SNF Care (4.3% increase)
  - 25,789 Outpatient visits (7.6% decrease)

## Organization Highlights

The organization continued to make many positive changes over this last fiscal year, including:

- Retained Trauma Level IV status
- Began offering digital mammography services
- Hired a new Chief Executive Officer
- Hired a new OR/ER Director
- Began implementation of new clinic billing system called NextGen

**Condensed Financial Statements**

*Balance Sheets*

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,560,016	\$ 2,755,513	\$ 1,476,063
Receivables			
Patient, net of estimated uncollectibles	2,641,775	2,547,152	2,983,023
Estimated third-party payor settlements	189,000	-	71,000
Other	85,133	85,535	84,049
Other assets	<u>473,896</u>	<u>429,123</u>	<u>429,950</u>
Total current assets	<u>5,949,820</u>	<u>5,817,323</u>	<u>5,044,085</u>
Assets limited as to use or restricted	<u>2,811,293</u>	<u>2,734,217</u>	<u>2,664,363</u>
Total capital assets, net	<u>6,127,605</u>	<u>6,124,902</u>	<u>6,349,980</u>
Other assets			
Investments in affiliated organizations	685,564	591,897	605,097
Deferred financing costs, net	<u>7,790</u>	<u>9,779</u>	<u>11,768</u>
Total other assets	<u>693,354</u>	<u>601,676</u>	<u>616,865</u>
Total assets	<u>\$ 15,582,072</u>	<u>\$ 15,278,118</u>	<u>\$ 14,675,293</u>

**Condensed Financial Statements**

*Balance Sheets (continued)*

	<u>June 30,</u> 2011	<u>June 30,</u> 2010	<u>June 30,</u> 2009
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 484,213	\$ 369,319	\$ 327,876
Accounts payable			
Trade	182,615	371,817	395,191
Affiliated organization	254,129	107,233	135,213
Estimated third-party payor settlements	-	369,000	-
Accrued expenses	<u>1,188,128</u>	<u>1,216,120</u>	<u>1,327,785</u>
Total current liabilities	2,109,085	2,433,489	2,186,065
Long-Term Debt, Less Current Maturities	<u>1,148,237</u>	<u>1,349,409</u>	<u>1,576,769</u>
Total liabilities	<u>3,257,322</u>	<u>3,782,898</u>	<u>3,762,834</u>
Net Assets			
Invested in capital assets, net of related debt	4,495,155	4,406,174	4,445,335
Restricted			
Expendable under bond agreement	308,452	308,452	308,452
Expendable plant replacement and expansion funds	935,679	935,679	935,679
Unrestricted	<u>6,585,464</u>	<u>5,844,915</u>	<u>5,222,993</u>
Total net assets	<u>12,324,750</u>	<u>11,495,220</u>	<u>10,912,459</u>
Total liabilities and net assets	<u><u>\$ 15,582,072</u></u>	<u><u>\$ 15,278,118</u></u>	<u><u>\$ 14,675,293</u></u>

*Statements of Revenues, Expenses, and Changes in Net Assets*

	June 30, 2011	June 30, 2010	June 30, 2009
Operating Revenues			
Net patient service revenue	\$ 18,652,917	\$ 18,744,164	\$ 18,804,316
Other operating revenues	659,642	739,896	867,339
Total operating revenues	<u>19,312,559</u>	<u>19,484,060</u>	<u>19,671,655</u>
Operating Expenses			
Salaries and wages	8,360,435	8,980,251	9,299,945
Employee benefits	2,214,849	2,330,524	2,258,574
Supplies and other expenses	7,772,369	7,081,518	7,103,693
Depreciation and amortization	953,321	890,907	843,959
Interest	77,080	84,510	81,028
Total operating expenses	<u>19,378,054</u>	<u>19,367,710</u>	<u>19,587,199</u>
Operating Income (Loss)	<u>(65,495)</u>	<u>116,350</u>	<u>84,456</u>
Nonoperating Revenues			
Investment income	105,914	107,280	96,122
Net gain on affiliated organizations	258,989	72,888	114,880
Gain (loss) on sale of capital assets	5	110	(1,141)
Net Nonoperating Revenues	<u>364,908</u>	<u>180,278</u>	<u>209,861</u>
Revenues in Excess of Expenses	299,413	296,628	294,317
Capital Contributions and Grants	<u>530,117</u>	<u>286,133</u>	<u>11,876</u>
Increase in Net Assets	829,530	582,761	306,193
Net Assets Beginning of Year	<u>11,495,220</u>	<u>10,912,459</u>	<u>10,606,266</u>
Net Assets End of Year	<u>\$ 12,324,750</u>	<u>\$ 11,495,220</u>	<u>\$ 10,912,459</u>

### **Capital Assets**

Ellsworth Municipal Hospital purchased a new digital mammography machine and a new analyzer for the lab. In addition, a new anesthesia machine was purchased through a donation from the Foundation.

### **Long-Term Debt**

At year end, Ellsworth Municipal Hospital had \$1,632,450 in short-term and long-term debt. The debt was incurred to build the Medical Office building attached to the Hospital, for the upgrade to the air conditioning system, transition to electronic health records, a new ultrasound machine, a new digital mammography machine, and a new analyzer for the lab.

### **Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considers many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments

### **Summary**

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 239 employees provides to every person they serve. We would also like to thank each member of the Hospital's Medical Staff for their dedication and support provided.

### **Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

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

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents - Note 4	\$ 2,560,016	\$ 2,755,513
Receivables		
Patient, net of estimated uncollectibles of \$2,066,000 in 2011 and \$2,100,000 in 2010	2,641,775	2,547,152
Estimated third-party payor settlements	189,000	-
Other	85,133	85,535
Supplies	371,961	375,354
Prepaid expenses	101,935	53,769
Total current assets	<u>5,949,820</u>	<u>5,817,323</u>
Assets Limited as to Use or Restricted - Note 4		
Internally designated for capital acquisitions	1,565,647	1,483,556
Internally designated for health benefits	1,515	6,530
Restricted by contributors for capital improvements	935,679	935,679
Internally designated or restricted for capital improvements and health benefits	2,502,841	2,425,765
Restricted under bond agreement	308,452	308,452
Total assets limited as to use or restricted	<u>2,811,293</u>	<u>2,734,217</u>
Capital Assets, Net - Note 5		
Capital assets not being depreciated	641,697	318,735
Depreciable capital assets, net of accumulated depreciation	5,485,908	5,806,167
Total capital assets, net	<u>6,127,605</u>	<u>6,124,902</u>
Other Assets		
Investments in affiliated organizations - Note 9	685,564	591,897
Deferred financing costs, net of accumulated amortization of \$23,868 in 2011 and \$21,879 in 2010	7,790	9,779
Total other assets	<u>693,354</u>	<u>601,676</u>
Total assets	<u>\$ 15,582,072</u>	<u>\$ 15,278,118</u>

See Notes to Financial Statements

Ellsworth Municipal Hospital  
Balance Sheets  
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 484,213	\$ 369,319
Accounts payable		
Trade	182,615	371,817
Affiliated organization - Note 10	254,129	107,233
Estimated third-party payor settlements	-	369,000
Accrued expenses		
Salaries and wages	468,570	432,416
Vacation	573,259	640,045
Payroll taxes and other payroll withholdings	146,299	143,659
Total current liabilities	2,109,085	2,433,489
Long-Term Debt, Less Current Maturities - Note 6	1,148,237	1,349,409
Total liabilities	3,257,322	3,782,898
Net Assets		
Invested in capital assets, net of related debt	4,495,155	4,406,174
Restricted		
Expendable under bond agreement	308,452	308,452
Expendable plant replacement and expansion funds	935,679	935,679
Unrestricted	6,585,464	5,844,915
Total net assets	12,324,750	11,495,220
Total liabilities and net assets	\$ 15,582,072	\$ 15,278,118

Ellsworth Municipal Hospital Foundation  
 Statements of Financial Position  
 June 30, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 59,825	\$ 261,550
Unconditional promises to give	2,000	7,997
Interest receivable	13,771	10,970
Total current assets	75,596	280,517
Investments	640,805	843,407
Total assets	\$ 716,401	\$ 1,123,924
Liabilities and Net Assets		
Current Liabilities		
Due to Ellsworth Municipal Hospital - Note 10	\$ 31,348	\$ 41,086
Net Assets		
Unrestricted	224,780	243,109
Temporarily restricted	460,273	839,729
Total net assets	685,053	1,082,838
Total liabilities and net assets	\$ 716,401	\$ 1,123,924

Ellsworth Municipal Hospital  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$1,208,706 in 2011 and \$1,114,240 in 2010) - Notes 2 and 3	\$ 18,652,917	\$ 18,744,164
Other operating revenues	659,642	739,896
Total Operating Revenues	19,312,559	19,484,060
Operating Expenses		
Salaries and wages	8,360,435	8,980,251
Employee benefits	2,214,849	2,330,524
Supplies and other expenses	7,772,369	7,081,518
Depreciation and amortization	953,321	890,907
Interest	77,080	84,510
Total Operating Expenses	19,378,054	19,367,710
Operating Income (Loss)	(65,495)	116,350
Nonoperating Revenues		
Investment income	105,914	107,280
Net gain on affiliated organizations - Note 9	258,989	72,888
Gain on sale of capital assets	5	110
Net Nonoperating Revenues	364,908	180,278
Revenues in Excess of Expenses	299,413	296,628
Capital Contributions and Grants	530,117	286,133
Increase in Net Assets	829,530	582,761
Net Assets Beginning of Year	11,495,220	10,912,459
Net Assets End of Year	\$ 12,324,750	\$ 11,495,220

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenues			
Contributions	\$ 47,519	\$ 147,875	\$ 195,394
Investment income	25,813	-	25,813
Net assets released from restrictions	527,331	(527,331)	-
Total revenues	<u>600,663</u>	<u>(379,456)</u>	<u>221,207</u>
Expenses			
Gifts to Ellsworth Municipal Hospital	555,875	-	555,875
Office expenses	41	-	41
Contract labor	63,076	-	63,076
Total expenses	<u>618,992</u>	<u>-</u>	<u>618,992</u>
Increase (Decrease) in Net Assets	(18,329)	(379,456)	(397,785)
Net Assets Beginning of Year	<u>243,109</u>	<u>839,729</u>	<u>1,082,838</u>
Net Assets End of Year	<u>\$ 224,780</u>	<u>\$ 460,273</u>	<u>\$ 685,053</u>

See Notes to Financial Statements

Ellsworth Municipal Hospital Foundation  
 Statements of Activities and Changes in Net Assets  
 Years Ended June 30, 2011 and 2010

2010		
Unrestricted	Temporarily Restricted	Total
\$ -	\$ 807,809	\$ 807,809
23,801	-	23,801
356,747	(356,747)	-
380,548	451,062	831,610
391,213	-	391,213
34	-	34
69,126	-	69,126
460,373	-	460,373
(79,825)	451,062	371,237
322,934	388,667	711,601
\$ 243,109	\$ 839,729	\$ 1,082,838

Ellsworth Municipal Hospital  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 18,000,294	\$ 19,620,035
Payments of salaries and wages	(8,391,067)	(9,083,787)
Payments of supplies and other expenses	(10,071,657)	(9,470,515)
Other receipts and payments, net	660,044	738,410
Net Cash Provided by Operating Activities	197,614	1,804,143
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(954,035)	(663,755)
Proceeds from sale of capital assets	5	25
Payments on long-term debt	(430,395)	(333,607)
Proceeds from issuance of long-term debt	344,117	147,690
Interest payments on long-term debt	(77,080)	(84,693)
Capital contributions and grants	530,117	286,133
Net Cash used for Capital and Related Financing Activities	(587,271)	(648,207)
Cash Flows from Investing Activities		
Purchase of investments	-	(58,766)
Proceeds from sale of investments	88,246	-
Distribution from affiliated organizations	-	75,000
Investment income	105,914	107,280
Net Cash Provided by Investing Activities	194,160	123,514
Net Increase (Decrease) in Cash and Cash Equivalents	(195,497)	1,279,450
Cash and Cash Equivalents at Beginning of Year	2,755,513	1,476,063
Cash and Cash Equivalents at End of Year	\$ 2,560,016	\$ 2,755,513

Ellsworth Municipal Hospital  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities		
Operating income (loss)	\$ (65,495)	\$ 116,350
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	953,321	890,907
Interest expense considered capital and related financing activity	77,080	84,693
Provision for bad debts	1,208,706	1,114,240
Changes in assets and liabilities		
Patient receivables	(1,303,329)	(678,369)
Estimated third-party payor settlements	(558,000)	440,000
Other receivables	402	(1,486)
Supplies	3,393	(10,945)
Prepaid expenses	(48,166)	11,772
Accounts payable	(42,306)	(51,354)
Accrued expenses	(27,992)	(111,665)
Net Cash Provided by Operating Activities	<u>\$ 197,614</u>	<u>\$ 1,804,143</u>

Supplemental Disclosure of Cash Flow Information

The Hospital entered into a capital lease obligation in the amount of \$232,200 for new equipment in 2011.

The Hospital signed a promissory note in the amount of \$111,917 for new equipment in 2011.

Ellsworth Municipal Hospital Foundation  
 Statements of Cash Flows  
 Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (397,785)	\$ 371,237
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities		
Change in unrealized gains and losses on investments	(2,001)	(1,240)
Changes in assets and liabilities		
Interest receivable	(2,801)	(10,567)
Unconditional promises to give	5,997	2,096
Due to Ellsworth Municipal Hospital	(9,738)	24,959
Net Cash Provided by (Used for) Operating Activities	(406,328)	386,485
Cash Flows from Investing Activities		
Proceeds from sale of investments	204,603	-
Purchase of investments	-	(506,364)
Net Cash Provided by (Used for) Investing Activities	204,603	(506,364)
Net Decrease in Cash and Cash Equivalents	(201,725)	(119,879)
Cash and Cash Equivalents at Beginning of Year	261,550	381,429
Cash and Cash Equivalents at End of Year	\$ 59,825	\$ 261,550

## **Note 1 - Organization and Summary of Significant Accounting Policies**

### **Organization**

Ellsworth Municipal Hospital (Hospital) is a municipal hospital of the City of Iowa Falls, organized under Chapter 392 of the Code of Iowa. The Hospital provides health care services in accordance with a Master Affiliation Agreement with Mercy Medical Center – North Iowa as discussed further in Note 10. Services are provided primarily to residents of Hardin and surrounding counties in central Iowa. The Hospital is considered an enterprise fund of the City of Iowa Falls.

### **Tax Exempt Status**

The Hospital is an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3). The Hospital is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Hospital believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hospital would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Reporting Entity**

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

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

### **Basis of Presentation**

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

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

*Restricted net assets:*

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

### **Measurement Focus and Basis of Accounting**

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

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

### **Use of Estimates**

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

### **Cash and Cash Equivalents**

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

### **Patient Receivables**

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

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

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

### **Supplies**

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

### **Deferred Financing Costs**

Deferred financing costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$1,989 for the years ended June 30, 2011 and 2010.

### **Capital Assets**

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

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

### **Assets Limited as to Use or Restricted**

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

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

### **Compensated Absences**

Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected vacation payouts is recorded as a current liability on the balance sheet, based on pay rates in effect at June 30, 2011 and 2010.

### **Operating Revenues and Expenses**

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including investment income, grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

### **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

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

### **Contributions and Grants**

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

### **Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$54,490 and \$45,998 for advertising costs for the years ended June 30, 2011 and 2010, respectively.

### **Charity Care**

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

### **Investment Income**

Interest on cash and deposits is included in nonoperating revenues.

### **Subsequent Events**

The Hospital has evaluated subsequent events through November 3, 2011, the date which the financial statements were available to be issued.

### **Reclassifications**

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

## **Note 2 - Charity Care and Community Benefits**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$457,136 and \$125,592, for the years ended June 30, 2011 and 2010, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost-to-charge ratio calculation, for the years ended June 30, 2011 and 2010, were \$257,000 and \$72,000, respectively.

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

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

### Note 3 - Net Patient Service Revenue

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

**Medicare:** The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2009.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2008.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 59% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011, and 53% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010. The 2011 and 2010 net patient service revenue increased approximately \$44,000 and \$130,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated and 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, reviews, and investigations.

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

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

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

	2011	2010
Total Patient Service Revenue	\$ 32,869,806	\$ 32,525,449
Contractual Adjustments:		
Medicare	(7,896,106)	(7,887,271)
Medicaid	(1,549,464)	(1,350,419)
Blue Cross	(2,160,268)	(1,827,878)
Other	(1,402,345)	(1,601,477)
Total contractual adjustments	(13,008,183)	(12,667,045)
Net Patient Service Revenue	19,861,623	19,858,404
Provision for Bad Debts	(1,208,706)	(1,114,240)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 18,652,917	\$ 18,744,164

**Note 4 - Cash and Deposits**

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

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

At June 30, 2011 and 2010, the Hospital's carrying amounts of cash and deposits are as follows:

	2011	2010
Checking and Savings Accounts	\$ 2,660,284	\$ 2,859,660
Certificates of Deposit	2,693,265	2,612,327
Interest Receivable	17,760	17,743
Total deposits	\$ 5,371,309	\$ 5,489,730

Included in the following balance sheet captions:

Cash and Cash Equivalents	\$ 2,560,016	\$ 2,755,513
Assets Limited as to Use or Restricted	2,811,293	2,734,217
	\$ 5,371,309	\$ 5,489,730

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

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

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

**Note 5 - Capital Assets**

Summaries of capital assets at June 30, 2011 and 2010, are as follows:

	June 30, 2010				June 30, 2011
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 201,128	\$ -	\$ -	\$ -	\$ 201,128
Construction in progress	117,607	491,233	-	(168,271)	440,569
Total capital assets not being depreciated	<u>318,735</u>	<u>491,233</u>	<u>-</u>	<u>(168,271)</u>	<u>641,697</u>
Capital Assets Being Depreciated:					
Land improvements	490,629	-	-	-	490,629
Buildings	4,938,025	-	-	117,502	5,055,527
Fixed equipment	6,875,160	16,148	-	50,769	6,942,077
Major moveable equipment	4,223,963	446,654	91,932	-	4,578,685
Total capital assets being depreciated	<u>16,527,777</u>	<u>462,802</u>	<u>91,932</u>	<u>168,271</u>	<u>17,066,918</u>
Less Accumulated Depreciation for:					
Land improvements	445,600	8,145	-	-	453,745
Buildings	2,776,617	149,907	-	-	2,926,524
Fixed equipment	4,441,949	283,819	-	-	4,725,768
Major moveable equipment	3,057,444	509,461	91,932	-	3,474,973
Total accumulated depreciated	<u>10,721,610</u>	<u>951,332</u>	<u>91,932</u>	<u>-</u>	<u>11,581,010</u>
Total Capital Assets Being Depreciated, Net	<u>5,806,167</u>	<u>(488,530)</u>	<u>-</u>	<u>168,271</u>	<u>5,485,908</u>
Total Capital Assets, Net	<u>\$ 6,124,902</u>	<u>\$ 2,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,127,605</u>

Construction in progress at June 30, 2011, primarily consists of costs related to the development of a master facility plan and preliminary planning costs for a potential hospital replacement facility. No contracts have been signed and there are no commitments related to the potential replacement facility as of June 30, 2011.

Ellsworth Municipal Hospital  
Notes to Financial Statements  
June 30, 2011 and 2010

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:					
Land	\$ 201,128	\$ -	\$ -	\$ -	\$ 201,128
Construction in progress	66,022	66,273	-	(14,688)	117,607
Total capital assets not being depreciated	<u>267,150</u>	<u>66,273</u>	<u>-</u>	<u>(14,688)</u>	<u>318,735</u>
Capital Assets Being Depreciated:					
Land improvements	490,629	-	-	-	490,629
Buildings	4,938,025	-	-	-	4,938,025
Fixed equipment	6,860,472	-	-	14,688	6,875,160
Major moveable equipment	3,917,832	597,482	291,351	-	4,223,963
Total capital assets being depreciated	<u>16,206,958</u>	<u>597,482</u>	<u>291,351</u>	<u>14,688</u>	<u>16,527,777</u>
Less Accumulated Depreciation for:					
Land improvements	419,261	26,339	-	-	445,600
Buildings	2,611,805	164,812	-	-	2,776,617
Fixed equipment	4,160,189	281,760	-	-	4,441,949
Major moveable equipment	2,932,873	415,601	291,030	-	3,057,444
Total accumulated depreciation	<u>10,124,128</u>	<u>888,512</u>	<u>291,030</u>	<u>-</u>	<u>10,721,610</u>
Total Capital Assets Being Depreciated, Net	<u>6,082,830</u>	<u>(291,030)</u>	<u>321</u>	<u>14,688</u>	<u>5,806,167</u>
Total Capital Assets, Net	<u>\$ 6,349,980</u>	<u>\$ (224,757)</u>	<u>\$ 321</u>	<u>\$ -</u>	<u>\$ 6,124,902</u>

**Note 6 - Long-Term Debt**

A schedule of changes in long-term debt at June 30, 2011 and 2010, is as follows:

	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011	Amounts Due Within One Year
1998 Hospital Revenue Bonds	\$ 1,220,525	\$ -	\$ 228,911	\$ 991,614	\$ 240,622
Hospital Note Payable -					
Iowa Falls State Bank	143,242	-	26,755	116,487	27,172
USDA Loan	323,177	-	91,390	231,787	93,914
Hospital Note Payable -					
Cedar Rapids Bank and Trust	31,784	-	22,151	9,633	9,633
Hospital Note Payable -					
Liberty Bank	-	111,917	17,464	94,453	36,335
Capitalized Lease					
Obligation - Note 7	-	232,200	43,724	188,476	76,537
	<u>\$ 1,718,728</u>	<u>\$ 344,117</u>	<u>\$ 430,395</u>	1,632,450	<u>\$ 484,213</u>
Total Long-Term Debt				(484,213)	
Less Current Maturities					
Long-Term Debt, Less				<u>\$ 1,148,237</u>	
Current Maturities					
	Balance	Additions	Payments	Balance	Amounts
	June 30,			June 30,	Due Within
	2009			2010	One Year
1998 Hospital Revenue Bonds	\$ 1,438,294	\$ -	\$ 217,769	\$ 1,220,525	\$ 228,911
Hospital Note Payable - Iowa					
Falls State Bank	-	147,690	4,448	143,242	26,755
USDA Loan	412,037	-	88,860	323,177	91,614
Hospital Note Payable -					
Cedar Rapids Bank and Trust	54,314	-	22,530	31,784	22,039
	<u>\$ 1,904,645</u>	<u>\$ 147,690</u>	<u>\$ 333,607</u>	1,718,728	<u>\$ 369,319</u>
Total Long-Term Debt				(369,319)	
Less Current Maturities					
Long-Term Debt, Less				<u>\$ 1,349,409</u>	
Current Maturities					

Year Ending June 30,	Long-term Debt		
	Principal	Interest	Total
2012	\$ 484,213	\$ 62,298	\$ 546,511
2013	497,743	42,119	539,862
2014	391,967	21,953	413,920
2015	258,527	6,008	264,535
2016	-	6,008	6,008
	<u>\$ 1,632,450</u>	<u>\$ 138,386</u>	<u>\$ 1,770,836</u>

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

**1998 Hospital Revenue Bonds Payable**

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

**Hospital Note Payable – Iowa Falls State Bank**

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

**USDA Loan**

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

**Hospital Note Payable – Cedar Rapids Bank and Trust**

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

**Hospital Note Payable – Liberty Bank**

Liberty Bank requires monthly payments of principal and interest of \$3,361 through December 2013. Interest is charged at a rate of 5.05%.

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

**Note 7 - Leases**

The Hospital leases certain equipment and a building under noncancelable long-term lease agreements. One lease has been recorded as a capitalized lease and the others as operating leases. Total lease expense for the years ended June 30, 2011 and 2010, for all operating leases was \$393,118 and \$372,493, respectively. The capitalized leased asset consists of:

	2011	2010
Major Movable Equipment	\$ 234,243	\$ -
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	(38,676)	-
	\$ 195,567	\$ -

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

Year Ending June 30,	Capital Leases	Operating Leases
2012	\$ 80,592	\$ 295,516
2013	80,592	229,187
2014	33,580	162,272
2015	-	123,389
2016	-	95,388
2017-2021	-	476,940
2022-2025	-	286,164
Total minimum lease payments	194,764	\$ 1,668,856
Less interest	(6,288)	
Present value of minimum lease payments - Note 6	\$ 188,476	

**Note 8 - Pension and Retirement Benefits**

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

Plan members are required to contribute 4.50% of their annual covered salary, and the Hospital is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Hospital was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute.

The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$560,932, \$578,792, and \$585,421, respectively, equal to the required contributions for each year.

### **Note 9 - Investments in Affiliated Organizations**

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

#### **Iowa Falls Clinic**

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

The Hospital is a 50% owner of this Clinic and shares income or losses from Clinic operations at that percentage. The Hospital's share of income, \$233,423 in 2011 and \$76,260 in 2010, is included in nonoperating revenues. During the year ended June 30, 2011, the Hospital did not receive any equity distributions. During the year ended June 30, 2010, the Hospital received equity distributions of \$75,000.

The Hospital provides space, contracted services, and supplies for the daily operations of the Clinic. Rent, contracted services, and supplies revenue for the years ended June 30, 2011 and 2010, were \$1,133,255 and \$1,075,884, respectively. As of June 30, 2011, the Hospital's records reflected a payable to the Iowa Falls Clinic of \$147,635 relating to these services. As of June 30, 2010, the Hospital's records reflected a receivable from the Iowa Falls Clinic of \$16,961 relating to these services. These amounts are netted with investments in affiliated organizations on the balance sheet.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Assets	\$ 1,942,054	\$ 1,139,902
Current Liabilities	\$ 473,163	\$ 137,856
Unrestricted Net Assets	1,468,891	1,002,046
Total liabilities and net assets	\$ 1,942,054	\$ 1,139,902
Total Revenues, Gain, and Other Support	\$ 3,761,613	\$ 3,423,286
Revenues in Excess of Expenses Before Distribution to Owners	\$ 466,845	\$ 152,519

### Greenbelt Home Care

The Hospital has a partnership interest in a joint venture of Greenbelt Home Care. During fiscal year 2006, the Hospital forgave a loan of \$23,636 to Greenbelt Home Care in exchange for a 10% increase in its partnership interest. After the transaction, the Hospital has a 30% interest in the joint venture of Greenbelt Home Care and shares any income or loss at that percentage. The Hospital has contributed \$77,219 of capital to this joint venture, and loaned \$3,507 as of June 30, 2011. The Hospital's share of the joint venture gains and losses was \$25,287 in 2011 and (\$3,092) in 2010, and is included in nonoperating revenues.

## Note 10 - Related Organizations

### Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa region under the name of Ellsworth Municipal Hospital. As a part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services for the Hospital. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,567,476 and \$2,211,801 for the years ended June 30, 2011 and 2010, respectively.

### Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were \$658,350 and \$526,833 for the years ended June 30, 2011 and 2010, respectively.

### **Due to Affiliated Organization**

As of June 30, 2011 and 2010, the Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$254,129 and \$107,233, respectively, for the various services and distributions related to these agreements.

### **Receivable from Ellsworth Municipal Hospital Foundation**

As of June 30, 2011 and 2010, the Hospital's records reflect a receivable from Ellsworth Municipal Hospital Foundation of \$31,348 and \$41,086, respectively, which is included in other receivables on the balance sheets.

## **Note 11 - Contingencies**

### **Litigations, Claims, and Other Disputes**

The Hospital is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Hospital.

### **Malpractice Insurance**

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

### **Health Care Legislation and Regulation**

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

## **Note 12 - Risk Management**

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

**Note 13 - Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	31%	33%
Medicaid	4%	3%
Commercial Insurance	26%	19%
Other Third-Party Payors	<u>39%</u>	<u>45%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>



Required Supplementary Information  
June 30, 2011

# Ellsworth Municipal Hospital

**Ellsworth Municipal Hospital**  
 Budget Comparison Schedule of Revenues, Expenses, and Changes in Net Assets –  
 Budget and Actual (Accrual Basis)  
 Required Supplementary Information  
 Year Ended June 30, 2011

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	<u>Actual Accrual Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Estimated Revenues/Receipts	\$ 20,207,584	\$ 18,953,247	\$ 1,254,337
Expenses/Disbursements	<u>19,378,054</u>	<u>18,841,769</u>	<u>(536,285)</u>
Net	829,530	<u>\$ 111,478</u>	<u>\$ 718,052</u>
Balance, Beginning of Year	<u>11,495,220</u>		
Balance, End of Year	<u>\$ 12,324,750</u>		

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2011.

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



Other Supplementary Information  
June 30, 2011 and 2010

## Ellsworth Municipal Hospital



## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables, allowance for doubtful accounts and collection statistics, supplies and prepaid expenses, bond investment transactions and statistical information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenues, operating expenses, supplies and prepaid expenses, and bond investment transactions are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, and collection statistics and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Eide Bailly LLP*

Dubuque, Iowa  
November 3, 2011

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	Total	
	2011	2010
Patient Care Services		
Adults and pediatrics	\$ 2,280,469	\$ 2,197,366
Swing-bed	902,344	826,585
INN care	446	1,561
Psychiatric care	112	1,389,854
Nursery	106,176	102,108
Subtotal	<u>3,289,547</u>	<u>4,517,474</u>
Other Professional Services		
Operating room	2,139,128	2,036,733
Recovery room	84,446	73,592
Labor and delivery rooms	110,983	147,892
Anesthesiology	739,922	711,333
Radiology	5,885,965	5,595,283
Laboratory	5,805,571	5,671,574
Intravenous therapy	-	676
Respiratory therapy	888,524	707,932
Physical therapy	1,112,011	1,042,379
Occupational therapy	374,011	451,422
Speech therapy	172,185	168,489
Electrocardiology	386,796	320,711
Cardiac rehabilitation	188,120	233,880
Medical and surgical supplies	1,114,043	1,040,060
Pharmacy	3,234,017	2,987,718
Emergency services	3,100,178	2,224,310
Surgical clinic	798,010	693,832
Psychiatrist	187,802	438,626
Clinic	3,214,421	3,001,497
Partial hospital psychiatric	-	120,984
Psychiatric counseling	466,096	377,495
Chemical dependency	-	53,960
Diabetic education	35,166	33,189
Subtotal	<u>30,037,395</u>	<u>28,133,567</u>
Total	<u>33,326,942</u>	<u>32,651,041</u>
Charity care	<u>(457,136)</u>	<u>(125,592)</u>
Total patient service revenue	<u>32,869,806</u>	<u>32,525,449</u>
Contractual Adjustments		
Medicare	(7,896,106)	(7,887,271)
Medicaid	(1,549,464)	(1,350,419)
Blue Cross	(2,160,268)	(1,827,878)
Other	(1,402,345)	(1,601,477)
Total contractual adjustments	<u>(13,008,183)</u>	<u>(12,667,045)</u>
Net Patient Service Revenue	19,861,623	19,858,404
Provision for Bad Debts	<u>(1,208,706)</u>	<u>(1,114,240)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 18,652,917</u>	<u>\$ 18,744,164</u>

Ellsworth Municipal Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2011 and 2010

Inpatient		Outpatient	
2011	2010	2011	2010
\$ 2,094,220	\$ 1,999,100	\$ 186,249	\$ 198,266
902,344	826,585	-	-
446	1,561	-	-
-	1,389,966	112	(112)
106,176	102,108	-	-
<u>3,103,186</u>	<u>4,319,320</u>	<u>186,361</u>	<u>198,154</u>
342,993	271,472	1,796,135	1,765,261
27,743	18,612	56,703	54,980
109,536	145,962	1,447	1,930
172,909	129,533	567,013	581,800
658,902	647,949	5,227,063	4,947,334
1,308,135	1,404,680	4,497,436	4,266,894
-	468	-	208
494,290	363,362	394,234	344,570
402,361	393,091	709,650	649,288
263,914	372,307	110,097	79,115
54,665	85,315	117,520	83,174
56,680	55,620	330,116	265,091
776	256	187,344	233,624
211,112	235,407	902,931	804,653
1,352,597	1,398,888	1,881,420	1,588,830
129,984	149,413	2,970,194	2,074,897
-	-	798,010	693,832
-	-	187,802	438,626
-	-	3,214,421	3,001,497
-	-	-	120,984
1,028	-	465,068	377,495
-	-	-	53,960
-	-	35,166	33,189
<u>5,587,625</u>	<u>5,672,335</u>	<u>24,449,770</u>	<u>22,461,232</u>
<u>\$ 8,690,811</u>	<u>\$ 9,991,655</u>	<u>\$ 24,636,131</u>	<u>\$ 22,659,386</u>

Ellsworth Municipal Hospital  
Schedules of Other Operating Revenues  
Years Ended June 30, 2011 and 2010

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	2011	2010
Other Operating Revenues		
Rent	\$ 125,160	\$ 125,160
Guest meals	63,825	67,833
Foundation services	63,076	69,126
Health program	58,110	51,276
Lab fees	50,598	72,939
Grants	37,477	45,023
Purchase discounts and rebates	36,358	45,120
Management fees	34,600	34,500
Clinic fees	31,369	34,372
Contributions for operations	28,877	105,080
Therapy services	24,271	18,476
Housekeeping services	20,748	24,768
Healthy hearts	13,730	15,152
Miscellaneous pharmacy sales	13,262	6,472
Vending machines	7,733	3,049
Medical records transcripts	2,887	3,292
Laundry	437	284
Other	47,124	17,974
	\$ 659,642	\$ 739,896
Total Other Operating Revenues		

Ellsworth Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Nursing Administration		
Salaries and wages	\$ 130,286	\$ 114,956
Supplies and other expenses	139,127	130,472
	<u>269,413</u>	<u>245,428</u>
Adults and Pediatrics		
Salaries and wages	1,590,166	1,443,595
Supplies and other expenses	151,135	202,173
	<u>1,741,301</u>	<u>1,645,768</u>
Psychiatric Care		
Salaries and wages	-	605,381
Supplies and other expenses	846	38,461
	<u>846</u>	<u>643,842</u>
Nursery		
Salaries and wages	54,799	52,032
Supplies and other expenses	3,674	11,876
	<u>58,473</u>	<u>63,908</u>
Operating and Recovery Rooms		
Salaries and wages	371,455	423,523
Supplies and other expenses	640,996	193,343
	<u>1,012,451</u>	<u>616,866</u>
Labor and Delivery Rooms		
Salaries and wages	49,592	56,391
Supplies and other expenses	2,780	7,826
	<u>52,372</u>	<u>64,217</u>
Anesthesiology		
Supplies and other expenses	5,905	17,245
Nonphysician Anesthetists		
Salaries and wages	314,095	313,602
Supplies and other expenses	320	14,966
	<u>314,415</u>	<u>328,568</u>
Radiology		
Salaries and wages	392,800	371,493
Supplies and other expenses	766,761	818,935
	<u>1,159,561</u>	<u>1,190,428</u>

Ellsworth Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Laboratory		
Salaries and wages	\$ 372,256	\$ 352,868
Supplies and other expenses	515,575	522,748
	<u>887,831</u>	<u>875,616</u>
Respiratory Therapy		
Salaries and wages	16,336	16,036
Supplies and other expenses	48,338	48,598
	<u>64,674</u>	<u>64,634</u>
Physical Therapy		
Salaries and wages	292,328	306,055
Supplies and other expenses	69,295	18,628
	<u>361,623</u>	<u>324,683</u>
Occupational Therapy		
Salaries and wages	114,546	107,756
Supplies and other expenses	3,123	6,445
	<u>117,669</u>	<u>114,201</u>
Speech Therapy		
Salaries and wages	73,744	73,507
Supplies and other expenses	4,823	5,305
	<u>78,567</u>	<u>78,812</u>
Electrocardiology		
Salaries and wages	3,972	4,979
Supplies and other expenses	26,600	27,604
	<u>30,572</u>	<u>32,583</u>
Cardiac Rehabilitation		
Salaries and wages	88,793	82,527
Supplies and other expenses	4,781	8,142
	<u>93,574</u>	<u>90,669</u>
Medical and Surgical Supplies		
Supplies and other expenses	365,064	334,165
Pharmacy		
Salaries and wages	189,281	190,992
Supplies and other expenses	596,226	604,903
	<u>785,507</u>	<u>795,895</u>

Ellsworth Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Central Supply		
Salaries and wages	\$ 813	\$ 17,645
Supplies and other expenses	16,036	16,075
	<u>16,849</u>	<u>33,720</u>
Emergency Services		
Salaries and wages	660,142	658,616
Supplies and other expenses	528,794	351,145
	<u>1,188,936</u>	<u>1,009,761</u>
Surgical Clinic		
Salaries and wages	487,290	426,875
Supplies and other expenses	97,113	72,077
	<u>584,403</u>	<u>498,952</u>
Clinic		
Salaries and wages	924,194	1,101,608
Supplies and other expenses	1,336,781	1,431,724
	<u>2,260,975</u>	<u>2,533,332</u>
Outreach Clinic		
Salaries and wages	23,980	19,719
Supplies and other expenses	4,660	8,102
	<u>28,640</u>	<u>27,821</u>
Enterostomal Therapy		
Supplies and other expenses	8,505	8,231
	<u>8,505</u>	<u>8,231</u>
Partial Hospital Psychiatric		
Salaries and wages	-	29,764
Supplies and other expenses	603	1,079
	<u>603</u>	<u>30,843</u>
Psychiatric Counseling		
Salaries and wages	183,202	154,319
Supplies and other expenses	2,227	2,446
	<u>185,429</u>	<u>156,765</u>
Chemical Dependency		
Salaries and wages	-	54,504
Supplies and other expenses	-	1,481
	<u>-</u>	<u>55,985</u>
Diabetic Education		
Salaries and wages	41,359	37,160
Supplies and other expenses	8,057	6,921
	<u>49,416</u>	<u>44,081</u>

Ellsworth Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Social Services		
Salaries and wages	\$ 10,179	\$ 13,798
Supplies and other expenses	-	121
	<u>10,179</u>	<u>13,919</u>
Medical Records		
Salaries and wages	268,690	270,403
Supplies and other expenses	22,448	21,585
	<u>291,138</u>	<u>291,988</u>
Dietary		
Salaries and wages	221,784	222,022
Supplies and other expenses	122,081	130,813
	<u>343,865</u>	<u>352,835</u>
Operation of Plant		
Salaries and wages	178,523	175,728
Supplies and other expenses	452,910	469,206
	<u>631,433</u>	<u>644,934</u>
Housekeeping		
Salaries and wages	143,497	152,671
Supplies and other expenses	24,138	26,174
	<u>167,635</u>	<u>178,845</u>
Laundry and Linen		
Salaries and wages	24,725	24,991
Supplies and other expenses	8,834	9,670
	<u>33,559</u>	<u>34,661</u>
Marketing and Community Health Promotions		
Salaries and wages	271,441	245,736
Supplies and other expenses	144,489	119,187
	<u>415,930</u>	<u>364,923</u>
Administrative Services		
Salaries and wages	866,167	858,999
Supplies and other expenses	1,649,324	1,393,646
	<u>2,515,491</u>	<u>2,252,645</u>
Unassigned Expenses		
Depreciation and amortization	953,321	890,907
Interest	77,080	84,510
Employee benefits	2,214,849	2,330,524
	<u>3,245,250</u>	<u>3,305,941</u>
Total Operating Expenses	<u>\$ 19,378,054</u>	<u>\$ 19,367,710</u>

**Ellsworth Municipal Hospital**

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)  
June 30, 2011 and 2010

**Analysis of Aging**

Days Since Discharge	June 30, 2011		June 30, 2010	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 2,395,415	50.88%	\$ 2,342,425	50.40%
31 to 60 days	634,903	13.49%	627,214	13.50%
61 to 90 days	336,511	7.15%	261,049	5.62%
91 days and over	1,340,592	28.48%	1,416,464	30.48%
	4,707,421	100.00%	4,647,152	100.00%
Less:				
Allowance for doubtful accounts	667,880		653,000	
Allowance for contractual adjustments	1,397,766		1,447,000	
Net	\$ 2,641,775		\$ 2,547,152	

**Allowance for Doubtful Accounts  
Years Ended June 30, 2011 and 2010**

	2011	2010
Beginning Balance	\$ 653,000	\$ 765,000
Add:		
Provision for bad debts	1,208,706	1,114,240
Recoveries previously written off	237,427	214,090
	1,446,133	1,328,330
Less:		
Accounts written off	(1,431,253)	(1,440,330)
Ending Balance	\$ 667,880	\$ 653,000

**Collection Statistics**

	2011	2010
Net accounts receivable - patients	\$ 2,641,775	\$ 2,547,152
Number of days charges outstanding	52	50
Uncollectible accounts (1)	\$ 1,665,842	\$ 1,239,832
Percentage of uncollectible accounts to total charges	5.0%	3.8%

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

Ellsworth Municipal Hospital  
Schedules of Supplies and Prepaid Expenses  
June 30, 2011 and 2010

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	2011	2010
Supplies		
Pharmacy	\$ 222,343	\$ 216,004
Operating room and central supply	63,021	74,385
Central stores	46,214	45,029
Laboratory	30,964	30,855
Dietary	9,419	9,081
Total supplies	\$ 371,961	\$ 375,354
 Prepaid Expenses		
Service contracts	\$ 52,220	\$ 25,640
Insurance	21,786	14,313
Dues	13,822	12,410
Other	14,107	1,406
Total prepaid expenses	\$ 101,935	\$ 53,769

Ellsworth Municipal Hospital  
Schedules of Bond Investment Transactions  
June 30, 2011 and 2010

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	Balance July 1, 2010	Interest Earned	Interest Received	Balance June 30, 2011
Debt Service Reserve Fund 1998 Hospital Revenue Bonds	\$ 284,725	\$ 6,537	\$ (6,537)	\$ 284,725
Revenue Bond Sinking Fund 1998 Hospital Revenue Bonds	23,727	537	-	24,264
Total	\$ 308,452	\$ 7,074	\$ (6,537)	\$ 308,989

Ellsworth Municipal Hospital  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2011 and 2010

	2011	2010
Patient Days		
Acute	2,633	2,689
Swing-bed	1,368	1,311
Inn Care	31	16
Newborn	167	166
Psychiatric *	-	1,522
Totals	<u>4,199</u>	<u>5,704</u>
Discharges		
Acute	865	910
Swing-bed	168	160
Inn Care	12	2
Newborn	77	88
Psychiatric *	-	407
Totals	<u>1,122</u>	<u>1,567</u>
Average Length of Stay		
Acute	3.04	2.95
Swing-bed	8.14	8.19
Psychiatric *	-	3.74
Beds		
Acute	25	25
Psychiatric *	-	10
Occupancy Percentage		
Acute and swing-bed	44%	44%
Psychiatric *	0%	56%

\*The Psychiatric unit closed in March 2010.



**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited the accompanying balance sheet of Ellsworth Municipal Hospital and the statements of financial position of its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets (Hospital), activities and changes in net assets (Foundation), and cash flows for the years then ended, and have issued our report thereon dated November 3, 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 Ellsworth Municipal Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ellsworth Municipal Hospital's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Ellsworth Municipal Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Ellsworth Municipal 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 Ellsworth Municipal Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



Dubuque, Iowa  
November 3, 2011

## Part I: Findings Related to the Financial Statements

### Significant Deficiencies:

#### I-A-11 Segregation of Duties

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

**Condition** – Certain employees perform duties that are incompatible.

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

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

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

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

**Conclusion** – Response accepted.

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

**I-B-11 Preparation of Financial Statements**

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

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

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

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

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

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

**Conclusion** – Response accepted.

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

**I-C-11 Monthly Account Reconciliation and Adjusting Journal Entries**

**Criteria:** Reconciliation of general ledger accounts on a monthly basis is essential to prepare reliable financial statements. Furthermore, reconciliations serve as an internal control over financial reporting and the safeguarding of assets.

More specifically, accurate reconciliation of bank accounts is an important aspect of cash management and internal control over cash and essential to preparing reliable financial statements.

**Condition:** Certain accounts such as cash and other accrued liabilities were not properly reconciled at year end.

Certain bank reconciliations did not reconcile to the general ledger or contained reconciling items that were incorrectly included due to errors made when posting accounts payable check runs to the general ledger and making certain journal entries during the year.

Significant audit adjustments were necessary to fairly present the financial statements in all material respects.

**Cause:** An internal review process that verifies the accuracy of general ledger account balances on a monthly basis was not implemented. There was turnover in accounting staff during the year which caused the reconciliation of certain bank accounts to be completed much later than normal.

Variances were caused by inaccurate postings of general ledger activity during the year and errors with the posting of accounts payable check runs.

**Effect:** Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control in the accounting system.

Significant entries were proposed during the audit to adjust year-end account balances.

**Recommendation:** All general ledger accounts must be reconciled and reviewed monthly. Furthermore, the Chief Financial Officer should review reconciliations prepared by the accounting staff. This will help to ensure that significant entries are made as necessary on a timely basis.

We recommend the Hospital's staff accountant and Chief Financial Officer work collectively on a monthly basis in the preparation and review of bank reconciliations for the cash accounts to prevent any inaccuracies. We also recommend that any unusual reconciling items be thoroughly reviewed to ensure their appropriateness.

**Response:** Management agrees with the finding. The Hospital's staff accountant and Chief Financial Officer will work collectively in the monthly account reconciliation and preparation and review of bank reconciliations to improve the financial reporting process going forward.

**Conclusion:** Response accepted.

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

- II-A-11 Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-B-11 Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-C-11 Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-D-11 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-E-11 Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.
- II-F-11 Certified Budget** – Expenditures during the year ended June 30, 2011 exceeded the amount budgeted.

**Recommendation** – The budget should have been amended and forwarded to the appropriate city officials before expenditures were allowed to exceed the budget.

**Response** – The Hospital will monitor actual expenses on a monthly basis and file a budget amendment when the projected expenses are expected to exceed the approved budgeted expenses.

**Conclusion** – Response accepted.



## Independent Auditor's Report on Debt Agreement Covenants

The Board of Trustees  
Ellsworth Municipal Hospital  
Iowa Falls, Iowa

We have audited the accompanying balance sheet of Ellsworth Municipal Hospital as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Ellsworth Municipal Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth Municipal Hospital as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Dubuque, Iowa  
November 3, 2011



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

We have audited the financial statements of Ellsworth Municipal Hospital for the year ended June 30, 2011 and have issued our report thereon November 3, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2011. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ellsworth Municipal Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

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

The financial statement disclosures are neutral, consistent, and clear.

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

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

	<u>Increase (Decrease) to Net Assets</u>
To adjust estimated third-party payor settlement and contractual allowances	\$ 150,079
To adjust accrued payroll	(44,970)
To adjust IPERS payable	(31,290)
To adjust investment in Iowa Falls Clinic	(27,446)
To properly record transfer of funds between cash accounts for medical benefits	(21,873)
Other adjustments	12,873

The net effect of the adjustments was to increase net assets by \$37,373.

In addition, the following balance sheet reclassifications were detected as a result of our audit procedures and have been corrected by management.

To adjust cash and estimated third-party settlement accounts due to an improper journal entry made during the year	\$ 57,699
To adjust cash and various withholding accounts due to posting a payroll run to the incorrect period at year end	80,655
To record amounts received from Medicare prior to year end as cash and offset accounts receivable	140,170

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 3, 2011.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

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

### **Other Information in Documents Containing Audited Financial Statements**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Other Matters**

Following are additional comments for informational purposes only:

### Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all "Covered Entities," which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD-10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in the financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

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

*Eide Bailly LLP*

Dubuque, Iowa  
November 3, 2011