

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

FINANCIAL REPORT

June 30, 2011

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**Orange City Municipal Hospital
d/b/a Orange City Area Health System
OFFICIALS
June 30, 2011**

Board of Trustees

Expiration of term

Tim Zeutenhorst, Chairman	January, 2012
Randy Jacobsma, Vice Chairman	January, 2012
Brenda Richardson, Secretary	January, 2014
Jerry Henrich	January, 2012
Gary Vande Vegte	January, 2014
Shirley Van Wechel	January, 2012
Russ Adams	January, 2014

Administrator

Martin W. Guthmiller

Chief Financial Officer

Dina A. Baas

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Orange City Municipal Hospital, d/b/a Orange City Area Health System, a component unit of the City of Orange City, Iowa, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. We have audited the statements of financial position of Orange City Area Health Foundation, a component unit of Orange City Municipal Hospital, as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Municipal Hospital as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statements of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011, on our consideration of Orange City Municipal Hospital's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 12, 2011

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

As management of Orange City Area Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2011, 2010 and 2009. Please read it in conjunction with the Health System's financial statements, which follow this section.

Financial Highlights

- Total assets decreased by \$407,004 from FY 2010 or .76% to \$52,989,723.
- Total assets whose use is limited increased by \$1,428,798 from FY 2010 or 15.9%.
- Total fund equity increased by \$879,920 from FY 2010, primarily due to an increase in net patient service revenue.
- Total long-term debt decreased by \$681,578 from FY 2010.
- Net patient service revenue increased by \$1,282,725 from FY 2010, primarily due to an increase in outpatient services.
- Expenses increased by \$303,455 from FY 2010, which is due to a net increase in other professional services and nursing services.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Orange City Area Health System's Fund Equity

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

A summary of Orange City Area Health System's balance sheets at June 30, 2011, 2010 and 2009 are presented in Table 1.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$13,018	\$12,429	\$12,298
Assets whose use is limited, net of current	9,436	7,982	6,406
Capital assets, net	30,258	32,457	34,679
Other assets	<u>278</u>	<u>529</u>	<u>256</u>
 Total assets	 <u>\$52,990</u>	 <u>\$53,397</u>	 <u>\$53,639</u>
Liabilities:			
Long-term debt outstanding	\$23,966	\$24,678	\$25,359
Other current and noncurrent liabilities	<u>4,527</u>	<u>5,101</u>	<u>4,468</u>
 Total liabilities	 <u>\$28,493</u>	 <u>\$29,779</u>	 <u>\$29,827</u>
Fund equity:			
Investment in capital assets, net of related debt	\$ 5,570	\$ 7,087	\$ 8,653
Restricted	2,904	2,931	2,957
Unrestricted	<u>16,023</u>	<u>13,600</u>	<u>12,202</u>
 Total fund equity	 <u>\$24,497</u>	 <u>\$23,618</u>	 <u>\$23,812</u>

Increase in current assets is due to an increase in cash and cash equivalents. The decrease in net capital assets is due to depreciation expense exceeding capital additions during 2011. Table 4, and note 5 of the financial statements, document the net capital activity and ending balances of capital assets for 2011.

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

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2011, 2010 and 2009. In 2011, fund equity increased by \$879,920 over the prior year. As you can see, this increase was attributable to operating income exceeding operating expenses and nonoperating losses.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Net patient service revenue	\$33,976	\$32,694	\$32,166
Other operating revenue	<u>1,957</u>	<u>1,947</u>	<u>1,905</u>
Total operating revenue	<u>35,933</u>	<u>34,641</u>	<u>34,071</u>
Operating Expenses:			
Salaries and benefits	19,239	18,848	19,011
Provision for depreciation and amortization	2,814	2,954	3,049
Other operating expenses	<u>11,957</u>	<u>11,905</u>	<u>11,601</u>
Total operating expenses	<u>34,010</u>	<u>33,707</u>	<u>33,661</u>
Operating income	1,923	934	410
Nonoperating gains (losses):			
Investment income	217	173	163
Interest expense	(1,312)	(1,337)	(1,357)
Other nonoperating gains (losses), net	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Total nonoperating gains (losses)	<u>(1,097)</u>	<u>(1,164)</u>	<u>(1,196)</u>
Excess (deficit) of revenues over expenses before contributions	826	(230)	(786)
Contributions	<u>53</u>	<u>36</u>	<u>406</u>
Change in fund equity	879	(194)	(380)
Total fund equity, beginning	<u>23,618</u>	<u>23,812</u>	<u>24,192</u>
Total fund equity, ending	<u>\$24,497</u>	<u>\$23,618</u>	<u>\$23,812</u>

Operating and Financial Performance

The following summarizes Orange City Area Health System's statement of revenue, expenses and changes in fund equity between June 30, 2011, 2010 and 2009.

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

Volume: Hospital discharges for fiscal year 2011 were 923 compared to 957 in fiscal year 2010. Average length of stay decreased slightly. Patient days decreased from 3,867 to 3,635 in 2011. Volume on the inpatient side decreased during 2011. In 2011, gross inpatient charges decreased from \$7,177,437 to \$6,362,464 in 2011. Gross out patient charges increased from \$32,952,267 to \$35,038,098 in 2011.

Price Increase: As is customary, the Hospital did review its charge structure and incorporated certain price increases in 2011. Daily room rates increased by 4.0%, while outpatient charges were adjusted by up to 3%, resulting in a 3% aggregate price increase.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$12,227,361 in 2011 compared to \$12,024,680 in 2010. This represents 27% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payor for the years ended June 30, 2011, 2010 and 2009.

Table 3: Payor Mix

	Year ended June 30,		
	2011	2010	2009
Medicare	40.5%	42.5%	43.8%
Wellmark	27.0%	26.9%	25.1%
Medicaid	5.8%	5.9%	7.0%
Commercial Insurance	24.7%	22.7%	22.1%
Self Pay	2.0%	2.0%	2.0%
Total	100.0%	100.0%	100.0%

Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, decreased from 21,727 resident days in 2010 to 20,501 resident days in 2011. In addition, the Hospital leases office space located in the downtown campus to various organizations.

Expenses

Fifty-five percent of Orange City Area Health System's expenses are attributed to salaries and benefits. Total salaries and benefits increased by approximately \$391,000, from \$18.85 million to \$19.24 million.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, Orange City Area Health System had approximately \$30.2 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment.

The following table summarizes Orange City Area Health System's capital assets as of June 30, 2011, 2010 and 2009.

Table 4: Capital Assets (in Thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 942	\$ 942	\$ 942
Land improvements	2,332	2,332	2,332
Buildings	17,653	17,653	17,653
Fixed equipment	23,375	23,375	23,343
Major moveable equipment	12,433	12,751	12,221
Construction in progress	<u>346</u>	<u>—</u>	<u>—</u>
Total	57,081	57,053	56,491
Less accumulated depreciation and amortization	<u>(26,823)</u>	<u>(24,596)</u>	<u>(21,812)</u>
Net capital assets	<u>\$30,258</u>	<u>\$32,457</u>	<u>\$ 34,679</u>

Long -Term Debt

At June 30, 2011, Orange City Area Health System had \$24 million in long-term debt related primarily to hospital revenue capital loan notes. More detailed information is presented in Note 7 to the Financial Statements.

Performance Compared to Budget

The following table compares fiscal year 2011 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	Budget	Actual	Dollar Variance	Percent Variance
Gross patient service revenue	\$48,108	\$46,399	\$ (1,709)	(3.55)%
Contractual adjustments	(12,578)	(11,725)	853	6.78%
Provision for bad debts	(872)	(502)	370	42.43%
Charity care	<u>(257)</u>	<u>(196)</u>	<u>61</u>	<u>23.74%</u>
Net patient service revenue	34,401	33,976	(425)	(1.24)%
Other operating revenue	<u>1,730</u>	<u>1,957</u>	<u>227</u>	<u>13.12%</u>
Total operating revenue	36,131	35,933	(198)	(0.55)%
Operating expenses	<u>35,020</u>	<u>34,010</u>	<u>(1,010)</u>	<u>(2.88)%</u>
Operating income	1,111	1,923	812	73.09%
Income from investments	155	217	62	40.00%
Other nonoperating, including contributions	<u>(1,221)</u>	<u>(1,260)</u>	<u>(39)</u>	<u>3.19%</u>
Excess of revenues over expenses	\$ <u>45</u>	\$ <u>880</u>	\$ <u>835</u>	<u>1855.56%</u>

Economic and Other Factors and Next Year's Budget

Orange City Area Health System's Board and management considered many factors when setting the fiscal year 2012 budget. Economic forces and environmental factors, such as the following were considered:

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

Contacting Orange City Area Health System's Finance Department

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

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

	June 30	
ASSETS	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,228,213	\$ 6,797,795
Assets whose use is limited, required for current liabilities	972,959	998,311
Patient receivables, less allowance for contractual adjustments and uncollectible accounts		
2011 \$1,875,000; 2010 \$1,736,000	4,204,388	3,886,408
Estimated third-party payor settlements	15,000	61,000
Inventories	510,443	499,271
Prepaid expenses	86,965	186,609
Total current assets	<u>13,017,968</u>	<u>12,429,394</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	37,174	233,593
Certificates of deposit	6,456,346	4,663,356
U.S. Government agency securities	10,107	286,908
Accrued interest receivable	29,521	20,553
	<u>6,533,148</u>	<u>5,204,410</u>
Designated by board for deferred compensation		
Mutual funds	971,293	844,308
	<u>971,293</u>	<u>844,308</u>
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	2,898,459	2,923,811
	<u>2,898,459</u>	<u>2,923,811</u>
Restricted by donors for specific purpose		
Cash	5,751	7,324
Total assets whose use is limited	<u>10,408,651</u>	<u>8,979,853</u>
Less assets whose use is limited and that are required for current liabilities	972,959	998,311
Noncurrent assets whose use is limited	<u>9,435,692</u>	<u>7,981,542</u>
CAPITAL ASSETS		
Less accumulated depreciation	57,081,405	57,053,120
Total capital assets	<u>26,823,570</u>	<u>24,596,556</u>
	<u>30,257,835</u>	<u>32,456,564</u>
OTHER ASSETS		
Unamortized financing costs	66,300	69,383
Other	211,928	459,844
Total other assets	<u>278,228</u>	<u>529,227</u>
Totals	<u>\$52,989,723</u>	<u>\$53,396,727</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND EQUITY		2011	2010
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 722,000	\$ 692,000
Accounts payable		1,013,993	1,004,961
Accrued payroll and vacation pay		1,201,392	1,670,190
Payroll taxes		28,380	99,725
Accrued interest payable		431,293	439,833
Estimated third-party payor settlements		65,000	270,000
Deposits		53,000	49,000
		<u>3,515,058</u>	<u>4,225,709</u>
LONG-TERM DEBT			
Hospital revenue capital loan notes		24,615,927	25,225,505
Rural economic development loan		<u>72,000</u>	<u>144,000</u>
		24,687,927	25,369,505
Less current maturities		<u>722,000</u>	<u>692,000</u>
Total long-term debt		<u>23,965,927</u>	<u>24,677,505</u>
OTHER LIABILITIES			
Deferred compensation liability		971,293	844,308
Other post-employment benefits		<u>40,000</u>	<u>31,680</u>
Total other liabilities		<u>1,011,293</u>	<u>875,988</u>
Total liabilities		28,492,278	29,779,202
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		5,569,908	7,087,059
Restricted		2,904,210	2,931,135
Unrestricted		<u>16,023,327</u>	<u>13,599,331</u>
Total fund equity		<u>24,497,445</u>	<u>23,617,525</u>
Totals		<u>\$52,989,723</u>	<u>\$53,396,727</u>

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

	Year ended June 30	
	2011	2010
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2011 \$501,761; 2010 \$794,442	\$33,976,375	\$32,693,650
OTHER REVENUE	<u>1,956,925</u>	<u>1,946,985</u>
Total revenue	<u>35,933,300</u>	<u>34,640,635</u>
EXPENSES		
Nursing service	8,845,212	8,617,160
Other professional service	14,374,385	14,053,744
General service	1,801,395	1,731,702
Fiscal and administrative service and unassigned expenses	6,175,031	6,349,662
Provision for depreciation	<u>2,813,892</u>	<u>2,954,192</u>
Total expenses	<u>34,009,915</u>	<u>33,706,460</u>
Operating income	<u>1,923,385</u>	<u>934,175</u>
NONOPERATING GAINS (LOSSES)		
Investment income	216,988	172,901
Interest and amortization expense	(1,311,655)	(1,337,057)
Nonoperating income from auxiliary activity, net	(1,573)	(696)
Unrestricted contributions	<u>—</u>	<u>495</u>
Total nonoperating gains (losses)	<u>(1,096,240)</u>	<u>(1,164,357)</u>
Excess (deficit) of revenues over expenses before contributions	827,145	(230,182)
CONTRIBUTIONS		
Change in fund equity	<u>52,775</u>	<u>35,998</u>
	879,920	(194,184)
TOTAL FUND EQUITY		
Beginning	<u>23,617,525</u>	<u>23,811,709</u>
Ending	<u>\$24,497,445</u>	<u>\$23,617,525</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$33,499,395	\$33,389,466
Cash paid to suppliers for goods and services	(12,079,883)	(11,960,834)
Cash paid to employees for services	(19,620,761)	(18,619,875)
Other operating revenue received	<u>2,170,825</u>	<u>1,727,358</u>
Net cash provided by operating activities	<u>3,969,576</u>	<u>4,536,115</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating income from auxiliary activities, net	(1,573)	(696)
Unrestricted contributions received	<u>—</u>	<u>495</u>
Net cash (used in) noncapital financing activities	<u>(1,573)</u>	<u>(201)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(506,846)	(732,075)
Principal paid on long-term debt	(692,000)	(667,000)
Restricted contributions	52,775	35,998
Interest paid on long-term debt	<u>(1,306,689)</u>	<u>(1,331,660)</u>
Net cash (used in) capital and related financing activities	<u>(2,452,760)</u>	<u>(2,694,737)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(5,671,128)	(3,629,442)
Proceeds from maturities of certificates of deposit	3,878,138	2,350,293
Purchase of U.S. Government Securities	(27,293)	(216,523)
Proceeds from maturity of U.S. Government Securities	304,094	2,226
Interest received	<u>208,020</u>	<u>172,586</u>
Net cash (used in) investing activities	<u>(1,308,169)</u>	<u>(1,320,860)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	207,074	520,317
CASH AND CASH EQUIVALENTS		
Beginning	<u>9,962,523</u>	<u>9,442,206</u>
Ending	<u>\$10,169,597</u>	<u>\$ 9,962,523</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,923,385	\$ 934,175
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	2,813,892	2,954,192
Education assistance advances	(12,998)	(6,245)
Education assistance advances forgiven	10,181	10,026
Physician advances, net of refunds	(20,000)	(90,000)
Physician advances forgiven	60,833	25,000
Changes in assets and liabilities		
(Increase) decrease in patient receivables	(317,980)	334,703
Increase (decrease) in estimated third-party payor settlements	(159,000)	361,500
(Increase) decrease in other receivables, net of nonoperating activities	209,900	(215,127)
(Increase) decrease in inventories	(11,172)	60,062
(Increase) decrease in prepaid expenses	99,644	(97,260)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(99,285)	186,996
Increase in other post-employment benefits	8,320	15,680
Increase (decrease) in accrued payroll and vacation pay	(468,799)	58,895
Increase (decrease) in payroll taxes	(71,345)	8,018
Increase (decrease) in deposits	<u>4,000</u>	<u>(4,500)</u>
Net cash provided by operating activities	<u>\$ 3,969,576</u>	<u>\$4,536,115</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS		
Per balance sheets		
Current assets, cash and cash equivalents	\$ 7,228,213	\$6,797,795
Assets whose use is limited		
Designated by board for plant replacement and expansion	37,174	233,593
Restricted for payment of revenue notes and interest	2,898,459	2,923,811
Restricted by donors for specific purpose	<u>5,751</u>	<u>7,324</u>
Total per statements of cash flows	<u>\$10,169,597</u>	<u>\$9,962,523</u>

See Notes to Financial Statements.

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

	June 30	
ASSETS	2011	2010
Cash	\$ 208,061	\$ 19,530
Certificates of deposit	20,622	20,327
Capital campaign contributions receivable, net of discount		
2011 \$12,106; 2010 \$-0-	127,894	8,475
Property and equipment	232,391	553,787
Other	—	633
Total assets	\$ 588,968	\$ 602,752
LIABILITIES AND NET ASSETS		
LIABILITIES		
Payable to Orange City Area Health System	\$ —	\$ 226,500
NET ASSETS		
Unrestricted	365,534	358,240
Temporarily restricted	223,434	18,012
Total net assets	588,968	376,252
Total liabilities and net assets	\$ 588,968	\$ 602,752

See Notes to Financial Statements.

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

	<u>Year ended June 30, 2011</u>			<u>Year ended June 30, 2010</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
SUPPORT AND REVENUE						
Contributions	\$ -	\$ 305,015	\$ 305,015	\$ -	\$ 91,370	\$ 91,370
Interest income	411	7	418	600	37	637
Other	9,829	-	9,829	49	-	49
Net assets released from restrictions	<u>99,600</u>	<u>(99,600)</u>	<u>-</u>	<u>124,708</u>	<u>(124,708)</u>	<u>-</u>
Total support and revenue	<u>109,840</u>	<u>205,422</u>	<u>315,262</u>	<u>125,357</u>	<u>(33,301)</u>	<u>92,056</u>
EXPENSES						
Contributions and scholarship	<u>59,889</u>	<u>-</u>	<u>59,889</u>	<u>37,365</u>	<u>-</u>	<u>37,365</u>
Supporting services						
Management and general						
Professional fees	2,924	-	2,924	-	-	-
Property taxes	1,669	-	1,669	495	-	495
Uncollectible campaign contributions	<u>8,475</u>	<u>-</u>	<u>8,475</u>	<u>4,342</u>	<u>-</u>	<u>4,342</u>
Total management and general	<u>13,068</u>	<u>-</u>	<u>13,068</u>	<u>4,837</u>	<u>-</u>	<u>4,837</u>
Fundraising event	8,192	-	8,192	7,663	-	7,663
Loss on sale of land	<u>21,397</u>	<u>-</u>	<u>21,397</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>102,546</u>	<u>-</u>	<u>102,546</u>	<u>49,865</u>	<u>-</u>	<u>49,865</u>
CHANGE IN NET ASSETS	<u>7,294</u>	<u>205,422</u>	<u>212,716</u>	<u>75,492</u>	<u>(33,301)</u>	<u>42,191</u>
NET ASSETS , beginning of year	<u>358,240</u>	<u>18,012</u>	<u>376,252</u>	<u>282,748</u>	<u>51,313</u>	<u>334,061</u>
NET ASSETS , end of year	<u>\$ 365,534</u>	<u>\$ 223,434</u>	<u>\$ 588,968</u>	<u>\$ 358,240</u>	<u>\$ 18,012</u>	<u>\$ 376,252</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 212,716	\$ 42,191
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on sale of land	21,397	-
(Increase) decrease in capital campaign contributions receivable	(119,419)	32,838
Decrease in other assets	633	2,451
Net cash provided by operating activities	115,327	77,480
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(296)	(500)
Purchase of land	-	(356,450)
Sale of land	300,000	-
Net cash provided by (used in) investing activities	299,704	(356,950)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments to) Orange City Area Health System	(226,500)	226,500
NET INCREASE (DECREASE) IN CASH	188,531	(52,970)
CASH		
Beginning	19,530	72,500
Ending	\$ 208,061	\$ 19,530

See Notes to Financial Statements.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

For financial reporting purposes, Orange City Municipal Hospital, d/b/a Orange City Area Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2011 and 2010, Orange City Municipal Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation. The Foundation's financial statements are separately presented on pages 17-19.

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

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

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had \$223,434 of temporarily restricted net assets at June 30, 2011. These net assets are to be used for the benefit of the Hospital or scholarships for eligible Hospital employees.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2011.

Accounting Estimates and Assumptions

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

Investments and Investment Income

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

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

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

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

Capital Assets

Capital asset acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded as additions at fair value at the date of receipt.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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

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

Inventories

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

Contributions Receivable

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

Contributions

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted fund equity

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

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

Statements of Revenues, Expenses, and Changes in Fund Equity

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

Net Patient Service Revenue

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

Credit Policy

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

Charity Care

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

Costs of Borrowing

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

Income Taxes

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

Subsequent Events

The Foundation has evaluated subsequent events through October 12, 2011, which was the date the financial statements were available to be issued.

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2011, which include bank balances, negotiable and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district; and common stocks.

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

As of June 30, 2011, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

	<u>Maturities</u>	
Investments		
Edward D. Jones & Co., money market funds	Daily	\$ 363,039
Negotiable certificates of deposit	11/28/11 - 05/14/12	80,000
U.S. Government agency securities	11/15/11 - 11/01/31	10,107
Mutual funds	Daily	971,293
Iowa Public Agency Investment Trust	Daily	<u>2,321,956</u>
Totals		<u>\$3,746,395</u>

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

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

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

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

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

	<u>Year ended June 30, 2011</u>			<u>Year ended June 30, 2010</u>		
	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
BALANCE , beginning	\$1,925,500	\$ 998,311	\$2,923,811	\$1,925,500	\$1,023,784	\$2,949,284
Transfers from current assets cash and cash equivalents	—	1,900,574	1,900,574	—	1,899,718	1,899,718
Interest income	—	763	763	—	1,469	1,469
Payment of notes and interest	<u>—</u>	<u>(1,926,689)</u>	<u>(1,926,689)</u>	<u>—</u>	<u>(1,926,660)</u>	<u>(1,926,660)</u>
BALANCE , ending	<u>\$1,925,500</u>	<u>\$ 972,959</u>	<u>\$2,898,459</u>	<u>\$1,925,500</u>	<u>\$ 998,311</u>	<u>\$2,923,811</u>

NOTE 4 PATIENT RECEIVABLES

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

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Receivable from patients	\$1,491,250	\$1,447,009
Receivable from insurance carriers	2,359,351	2,285,991
Receivable from Medicare	1,673,820	1,490,446
Receivable from Medicaid	<u>554,967</u>	<u>398,962</u>
Total patient receivables	6,079,388	5,622,408
Less allowances for contractual and other adjustments	<u>(1,875,000)</u>	<u>(1,736,000)</u>
Totals	<u>\$4,204,388</u>	<u>\$3,886,408</u>

NOTE 5 CAPITAL ASSETS

A summary of changes in the Hospital's capital assets for the year ended June 30, 2011 and 2010 follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2011</u>
Land	\$ 942,036	\$ —	\$ —	\$ —	\$ 942,036
Land improvements	2,332,209	—	—	—	2,332,209
Buildings	17,652,859	—	—	—	17,652,859
Fixed equipment	23,375,182	—	—	—	23,375,182
Major movable equipment	12,750,834	268,856	(586,878)	—	12,432,812
Construction in progress	<u>—</u>	<u>346,307</u>	<u>—</u>	<u>—</u>	<u>346,307</u>
Totals	57,053,120	615,163	(586,878)	—	57,081,405
Less accumulated depreciation and amortization	<u>(24,596,556)</u>	<u>(2,813,892)</u>	<u>586,878</u>	<u>—</u>	<u>(26,823,570)</u>
Net capital assets	<u>\$32,456,564</u>	<u>\$(2,198,729)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$30,257,835</u>

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

NOTE 5 CAPITAL ASSETS (continued)

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

Construction in progress at June 30, 2011 consisted primarily of costs incurred for the design and initial construction costs associated with the building of an 85,000 square foot, 83 bed replacement nursing home facility. The total cost of this replacement nursing home facility is estimated at approximately \$19,000,000 and is expected to be completed by the fall of 2013. This project is going to be funded primarily through a combination of bank financing, private capital campaign contributions, and reserves of the Hospital. As of June 30, 2011, an outstanding obligation of approximately \$1,040,000 remains on related signed construction contracts.

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2011 and 2010 follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2011</u>
Land	\$ <u>553,787</u>	\$ -	\$ <u>321,396</u>	\$ -	\$ <u>232,391</u>

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2010</u>
Land	\$ <u>197,337</u>	\$ <u>356,450</u>	\$ -	\$ -	\$ <u>553,787</u>

NOTE 6 CONTRIBUTIONS RECEIVABLE

At June 30, 2011 the Foundation's contributions receivable consisted of contributions pledged for the nursing home facility.

A summary of the activity in contributions receivable for the year ended June 30, 2011 is as follows:

Beginning contributions receivable	\$ 8,475
Contributions made during the year	205,500
Payments received	(65,500)
Increase in discount of future payments receivable	(12,106)
Accounts written-off	<u>(8,475)</u>
Ending contributions receivable	<u>\$ 127,894</u>

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

NOTE 6 CONTRIBUTIONS RECEIVABLE (continued)

Contributions receivable at June 30, 2011, are expected to be received during the years ending June 30, as follows: 2012 \$30,000; 2013 \$30,000; 2014 \$30,000; 2015 \$30,000; 2016 \$20,000.

NOTE 7 LONG-TERM DEBT

The City Council of Orange City adopted a resolution authorizing obtaining a \$360,000 subordinate Hospital Revenue Capital Loan Notes, Series 2006. The note is secured by a related security agreement and real estate mortgage, and is to be repaid in quarterly installments of \$18,000. The note is noninterest bearing and the outstanding balance at June 30, 2011 is \$72,000.

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,800,000 of Hospital Revenue Capital Loan Notes Series 2007 dated December 13, 2007, to refinance existing indebtedness. The notes mature serially through September 1, 2021, with interest payable on March 1 and September 1 at annual rates varying from 3.60% - 4.65%. Notes maturing after September 1, 2016 may be called for redemption, by the issuer and paid before maturity on said date or any date thereafter. The balance outstanding at June 30, 2011 is \$5,945,000.

The City Council of Orange City adopted a resolution authorizing the issuance of \$19,255,000 of Hospital Revenue Capital Loan Notes Series 2008 dated January 8, 2008, to refinance existing indebtedness. The notes mature serially through September 1, 2032, with interest payable on March 1 and September 1 at annual rates varying from 5.50% to 5.60%. Notes maturing after September 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole from time to time in part, in any order at maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to the date of call. The balance outstanding at June 30, 2011 is \$18,895,000.

As to the capital loan notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest and do not constitute an indebtedness of the City. The net revenues are pledged through September, 2032. As of June 30, 2011 the remaining principal and interest on the Series 2008 and 2007 was \$42,414,735, net of unamortized discount of \$224,073. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Capital Loan Notes for the years ended June 30, 2011 and 2010:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Change in fund equity	\$ 879,920	\$ (194,184)
Provision for depreciation	2,813,892	2,954,192
Interest and amortization expense	<u>1,311,655</u>	<u>1,337,057</u>
 Pledged net revenues	 <u>\$5,005,467</u>	 <u>\$4,097,065</u>
 Principal and interest requirements		
Capital Loan Notes, Series 2007	\$ 688,961	\$ 689,033
Capital Loan Notes, Series 2008	1,237,728	1,237,627
Subordinate Capital Loan Note, Series 2006	<u>72,000</u>	<u>72,000</u>
 Totals	 <u>\$1,998,689</u>	 <u>\$1,998,660</u>

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

NOTE 7 LONG-TERM DEBT (continued)

The following summarizes the maturities of long-term debt:

	Subordinate revenue capital loan note		Revenue notes payable		Total
	Principal	Interest	Principal	Interest	
Year ending June 30					
2012	\$ 72,000	\$ —	\$ 650,000	\$ 1,280,328	\$ 2,002,328
2013	—	—	675,000	1,252,443	1,927,443
2014	—	—	705,000	1,222,888	1,927,888
2015	—	—	735,000	1,191,573	1,926,573
2016	—	—	770,000	1,158,318	1,928,318
2017 to 2021	—	—	4,430,000	5,211,568	9,641,568
2022 to 2026	—	—	5,705,000	3,930,810	9,635,810
2027 to 2031	—	—	7,520,000	2,119,608	9,639,608
2032 to 2033	—	—	3,650,000	207,200	3,857,200
Total	<u>72,000</u>	<u>—</u>	<u>24,840,000</u>	<u>17,574,736</u>	<u>42,486,736</u>
Less unamortized discount	<u>—</u>	<u>—</u>	<u>(224,073)</u>	<u>—</u>	<u>(224,073)</u>
Totals	<u>\$ 72,000</u>	<u>\$ —</u>	<u>\$24,615,927</u>	<u>\$17,574,736</u>	<u>\$42,262,663</u>

Long-term debt activity for the years ended June 30, 2011 and 2010 follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2011					
Hospital revenue notes	\$25,460,000	\$ —	\$ 620,000	\$24,840,000	\$ 650,000
Subordinate Hospital Revenue Capital Loan Note	<u>144,000</u>	<u>—</u>	<u>72,000</u>	<u>72,000</u>	<u>72,000</u>
Totals	<u>\$25,604,000</u>	<u>\$ —</u>	<u>\$ 692,000</u>	<u>\$24,912,000</u>	<u>\$ 722,000</u>
2010					
Hospital revenue notes	\$26,055,000	\$ —	\$ 595,000	\$25,460,000	\$ 620,000
Subordinate Hospital Revenue Capital Loan Note	<u>216,000</u>	<u>—</u>	<u>72,000</u>	<u>144,000</u>	<u>72,000</u>
Totals	<u>\$26,271,000</u>	<u>\$ —</u>	<u>\$ 667,000</u>	<u>\$25,604,000</u>	<u>\$ 692,000</u>

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

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

NOTE 8 DEFINED BENEFIT PENSION PLAN (continued)

For the year ended June 30, 2011, plan members were required to contribute 4.50% of their annual salary and the Hospital is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$1,064,491, \$985,438 and \$941,174, respectively, equal to the required contributions for each year.

NOTE 9 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$40,000 per person and approximately \$2,179,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2011 and 2010 was \$1,599,167 and \$1,854,132, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of \$971,293 and \$844,308 to reflect the fair value of these program assets as of June 30, 2011 and 2010, respectively, and related liability to participants.

NOTE 10 OTHER POST EMPLOYMENT BENEFITS

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 244 active and one retired members in the plan. Participants must be age 55 or older at retirement.

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

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2011, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 14,426
Interest on net OPEB obligation	912
Adjustment to annual required contribution	<u>(7,018)</u>
Annual OPEB cost	8,320
Contributions made	<u>—</u>
Increase in net OPEB obligation	8,320
Net OPEB obligation, beginning of year	<u>31,680</u>
Net OPEB obligation, end of year	<u>\$ 40,000</u>

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

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (continued)

The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the Hospital contributed \$-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2011	<u>\$ 8,320</u>	<u>0%</u>	<u>\$ 40,000</u>

As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2012, the actuarial accrued liability was approximately \$106,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$106,000. As of June 30, 2011, there were no trust fund assets.

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

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

As of the July 1, 2011 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 7%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

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

Projected weighted average claim costs of the medical plan are approximately \$741 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

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

NOTE 11 MALPRACTICE CLAIMS

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

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

Incidents occurring through June 30, 2011 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 12 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

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

Other

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

NOTE 13 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2011 and 2010.

	2011	2010
Charges foregone, based on established rates	\$ <u>195,933</u>	\$ <u>185,684</u>
Equivalent percentage of charity care patients to all patients served	<u>0.4%</u>	<u>0.4%</u>

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

NOTE 14 HOSPITAL RISK MANAGEMENT

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

NOTE 15 LEASE COMMITMENTS AND SPACE LEASED TO OTHERS

The Hospital leases CT system medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of \$8,417, beginning in February 2011, through the end of the lease.

The Hospital leases MRI medical equipment under a non-cancelable lease. The lease calls for thirty-six monthly payments of \$11,781, beginning in December 2010, through the end of the lease.

The Hospital leases a vehicle under a cancelable lease. The lease calls for thirty-six monthly payments of \$499, beginning in May 2010, with a final payment of \$30,664 at the end of the lease.

Operating expenses incurred on the above equipment leases totaled \$189,445 and \$142,370 for the years ended June 30, 2011 and June 30, 2010, respectively.

The minimum future rentals under the leases as of June 30, 2011, are as follows:

Year ending June 30

2012	\$ 248,361
2013	278,027
2014	159,909
2015	<u>25,251</u>
Total	<u>\$ 711,548</u>

The Hospital, through various agreements, leases office space within the downtown campus to various organizations. The leases, which are for various terms, each call for lease rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2011 and 2010 included \$175,183 and \$156,410, respectively, of aggregate rental income under the lease agreements.

NOTE 16 ORANGE CITY AREA HEALTH FOUNDATION

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured contribution commitments in a capital campaign to benefit the Hospital's construction of a replacement nursing home facility. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made restricted contributions of \$52,275 and \$35,998 to the Hospital for the years ended June 30, 2011 and 2010, respectively. The Foundation's audited statements of financial position as of June 30, 2011 and 2010, and audited statement of activities and cash flows for the years then ended, are included on pages 17 - 19.

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b - a)/c)</u>
July 1, 2009	\$ <u>—</u>	\$ <u>95.5</u>	\$ <u>95.5</u>	<u>0.0%</u>	\$ <u>16,229</u>	<u>0.6%</u>
July 1, 2010	\$ <u>—</u>	\$ <u>95.5</u>	\$ <u>95.5</u>	<u>0.0%</u>	\$ <u>16,003</u>	<u>0.6%</u>
July 1, 2011	\$ <u>—</u>	\$ <u>106.0</u>	\$ <u>106.0</u>	<u>0.0%</u>	\$ <u>16,485</u>	<u>0.6%</u>

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

See accompanying independent auditor's report.

**Orange City Municipal Hospital
d/b/a Orange City Area Health System
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2011**

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

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2011 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Over (Under) Budget</u>
Total expenses	\$(35,321,570)	\$(37,203,825)	\$(1,882,255)

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

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

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0 - 30 days	\$3,309,030	\$3,488,161	54.43%	62.04%
31 - 60 days	1,009,015	849,221	16.60	15.10
61 - 90 days	453,770	340,913	7.46	6.06
91 - 180 days	643,703	535,258	10.59	9.52
Over 6 months	<u>663,870</u>	<u>408,855</u>	<u>10.92</u>	<u>7.28</u>
Totals	<u>6,079,388</u>	<u>5,622,408</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	700,000	580,000		
Contractual adjustments	<u>1,175,000</u>	<u>1,156,000</u>		
Total allowances	<u>1,875,000</u>	<u>1,736,000</u>		
Totals	<u>\$4,204,388</u>	<u>\$3,886,408</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
BALANCE , beginning	\$ 580,000	\$1,353,000
Provision for bad debts	501,761	794,442
Recoveries of accounts written off previously	351,868	325,319
Accounts written off	<u>(733,629)</u>	<u>(1,892,761)</u>
BALANCE , ending	<u>\$ 700,000</u>	<u>\$ 580,000</u>

See accompanying independent auditor's report.

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

	June 30	
	2011	2010
General stores	\$ 257,371	\$ 255,519
Central supply	52,194	44,265
Operating room	114,371	118,618
Radiology	5,435	5,660
Medical clinics	54,408	45,553
Laboratory	26,664	29,656
 Totals	 \$ 510,443	 \$ 499,271

**Orange City Municipal Hospital
d/b/a Orange City Area Health System
INSURANCE COVERAGE
June 30, 2011**

Cincinnati Insurance Company (policy expiration July 1, 2012)	
Building and contents, builders risk, fire and extended coverage (100% co-insurance, replacement value, and special causes of loss)	\$51,084,495
Downtown Campus (80% Co-insurance, functional replacement, and special clauses)	\$5,408,000 \$5,000 deductible
Blanket earnings and expense	\$23,655,721
Owned automobiles	
Liability	\$1,000,000
Collision and comprehensive	\$1,000 deductible
Uninsured/underinsured motorist	\$1,000,000
Medical payments	\$5,000
Blanket fidelity bond	
Employees	\$150,000 \$2,500 deductible
Accounts receivable records	\$1,000,000 \$5,000 deductible
Equipment floater	\$27,000
Cincinnati Insurance Company (policy expiration July 1, 2012)	
Directors, officers and hospital staff liability	\$1,000,000 \$15,000 deductible
Employment practices liability	\$1,000,000 \$25,000 deductible
PIC Wisconsin Insurance Company (policy expiration July 1, 2012)	
Employee benefit liability	\$1,000,000
Professional liability—hospital	\$1,000,000/3,000,000
Professional liability—physicians	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Excess professional liability	\$2,000,000
Excess liability hospital	\$2,000,000
Farm Bureau Mutual Insurance Company (policy expiration April 1, 2012)	
Workers' compensation	Statutory

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

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

	<u>Total</u>		<u>Inpatient</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetric	\$ 4,225,757	\$ 4,286,584	\$2,176,306	\$2,408,520
Special care	55,335	64,760	55,335	64,760
Long term care	4,359,974	4,119,483	-	-
Nursery	323,169	319,516	323,169	319,516
	<u>8,964,235</u>	<u>8,790,343</u>	<u>2,554,810</u>	<u>2,792,796</u>
OTHER NURSING SERVICES				
Operating and recovery room	4,259,233	4,011,725	670,146	721,057
Central service and supply	1,231,772	1,309,283	554,465	665,148
Emergency service	1,694,119	1,753,069	62,488	65,685
Ambulance	378,486	333,863	30,048	22,926
Home Health	1,184,349	1,176,972	-	-
Hospice	545,333	648,270	-	-
	<u>9,293,292</u>	<u>9,233,182</u>	<u>1,317,147</u>	<u>1,474,816</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	3,860,202	3,819,485	422,704	508,163
Radiology	5,192,307	5,429,298	190,354	261,735
Pharmacy	3,599,803	3,820,202	1,004,258	1,205,749
Anesthesiology	1,550,389	1,657,002	402,322	498,093
Respiratory therapy and oxygen	503,193	437,578	332,566	289,416
Physical therapy	1,574,497	1,415,903	87,934	106,873
Cardio pulmonary	689,549	633,478	46,210	34,620
Pulmonary rehabilitation	3,593	3,178	-	-
Speech therapy	42,755	32,163	3,658	5,176
Audiology	50,057	81,773	-	-
Orange City medical clinic	8,468,308	7,037,674	-	-
Hospers medical clinic	328,950	308,704	-	-
Paullina medical clinic	734,513	563,757	-	-
Specialty clinics	118,254	161,389	501	-
Surgery	1,425,772	1,478,905	-	-
	<u>28,142,142</u>	<u>26,880,489</u>	<u>2,490,507</u>	<u>2,909,825</u>
	46,399,669	44,904,014	<u>\$6,362,464</u>	<u>\$7,177,437</u>
Charity care charges foregone, based on established rates	<u>195,933</u>	<u>185,684</u>		
Total gross patient service revenue	46,203,736	44,718,330		
Provisions for contractual and other adjustments	<u>12,227,361</u>	<u>12,024,680</u>		
Net patient service revenue	<u>\$33,976,375</u>	<u>\$32,693,650</u>		

See accompanying independent auditor's report.

<u>Outpatient</u>		<u>Swing bed</u>		<u>Intermediate care unit</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
\$ 2,047,815	\$ 1,873,546	\$ 1,636	\$ 4,518	\$ -	\$ -
-	-	-	-	-	-
-	-	364,885	319,620	3,995,089	3,799,863
-	-	-	-	-	-
<u>2,047,815</u>	<u>1,873,546</u>	<u>366,521</u>	<u>324,138</u>	<u>3,995,089</u>	<u>3,799,863</u>
3,587,367	3,285,639	1,720	5,029	-	-
672,093	633,580	5,214	10,555	-	-
1,631,631	1,687,384	-	-	-	-
348,438	310,937	-	-	-	-
1,184,349	1,176,972	-	-	-	-
545,333	648,270	-	-	-	-
<u>7,969,211</u>	<u>7,742,782</u>	<u>6,934</u>	<u>15,584</u>	<u>-</u>	<u>-</u>
3,386,987	3,263,421	50,511	47,901	-	-
4,994,531	5,160,806	7,422	6,757	-	-
2,261,522	2,218,620	224,733	320,798	109,290	75,035
1,147,467	1,155,524	600	3,385	-	-
94,948	90,940	75,679	57,222	-	-
1,338,274	1,198,113	148,289	110,917	-	-
637,200	594,855	6,139	4,003	-	-
3,593	3,178	-	-	-	-
31,197	18,280	7,900	8,707	-	-
50,057	81,773	-	-	-	-
8,468,308	7,037,674	-	-	-	-
328,950	308,704	-	-	-	-
734,513	563,757	-	-	-	-
117,753	161,389	-	-	-	-
1,425,772	1,478,905	-	-	-	-
<u>25,021,072</u>	<u>23,335,939</u>	<u>521,273</u>	<u>559,690</u>	<u>109,290</u>	<u>75,035</u>
<u>\$35,038,098</u>	<u>\$32,952,267</u>	<u>\$ 894,728</u>	<u>\$ 899,412</u>	<u>\$4,104,379</u>	<u>\$3,874,898</u>

See accompanying independent auditor's report.

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

	Year ended June 30	
	2011	2010
Contractual adjustments and discounts	\$11,725,600	\$11,230,238
Provision for bad debts	501,761	794,442
Totals	\$12,227,361	\$12,024,680

OTHER REVENUE

	Year ended June 30	
	2011	2010
Cafeteria	\$ 196,124	\$ 186,956
Other	495,647	479,557
Lifeline	41,211	38,441
Landsmeer Ridge	1,223,943	1,242,031
Totals	\$1,956,925	\$1,946,985

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
NURSING ADMINISTRATION		
Salaries	\$ 162,978	\$ 110,756
Supplies and expenses	<u>39,058</u>	<u>34,854</u>
	<u>202,036</u>	<u>145,610</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,477,409	1,385,087
Supplies and expenses	<u>372,644</u>	<u>364,275</u>
	<u>1,850,053</u>	<u>1,749,362</u>
SPECIAL CARE		
Salaries	12,195	14,279
Supplies and expenses	<u>32</u>	<u>37</u>
	<u>12,227</u>	<u>14,316</u>
SWING BED		
Salaries	<u>3,399</u>	<u>4,777</u>
INTERMEDIATE CARE		
Hospital		
Salaries	943,156	914,975
Purchased services	113,682	100,136
Supplies and expenses	122,175	142,581
Heritage House		
Salaries	1,279,657	1,282,457
Supplies and expenses	<u>443,598</u>	<u>400,852</u>
	<u>2,902,268</u>	<u>2,841,001</u>
NURSERY		
Salaries	70,117	86,095
Supplies and expenses	<u>7,666</u>	<u>14,560</u>
	<u>77,783</u>	<u>100,655</u>
OPERATING AND RECOVERY ROOMS		
Salaries	663,549	630,358
Supplies and expenses	<u>203,914</u>	<u>332,268</u>
	<u>867,463</u>	<u>962,626</u>
CENTRAL SERVICE AND SUPPLY		
Billable supplies	677,684	631,730
Supplies and expenses	<u>90,996</u>	<u>45,645</u>
	<u>768,680</u>	<u>677,375</u>

See accompanying independent auditor's report.

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
EMERGENCY SERVICE		
Salaries	\$1,036,032	\$1,010,582
Supplies and expenses	<u>30,770</u>	<u>51,492</u>
	<u>1,066,802</u>	<u>1,062,074</u>
AMBULANCE		
Salaries	61,259	63,218
Supplies and expenses	<u>31,819</u>	<u>27,218</u>
	<u>93,078</u>	<u>90,436</u>
HOME HEALTH		
Salaries	521,811	456,328
Purchased services	74,736	64,698
Supplies and expenses	<u>80,330</u>	<u>78,652</u>
	<u>676,877</u>	<u>599,678</u>
HOSPICE		
Salaries	200,771	223,556
Supplies and expenses	<u>123,775</u>	<u>145,694</u>
	<u>324,546</u>	<u>369,250</u>
 Totals	 <u>\$8,845,212</u>	 <u>\$8,617,160</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
LABORATORY		
Salaries	\$ 448,734	\$ 428,936
Professional fees	310,715	227,341
Supplies and expenses	<u>366,975</u>	<u>368,428</u>
	<u>1,126,424</u>	<u>1,024,705</u>
RADIOLOGY		
Salaries	846,903	922,970
Professional fees	46,290	13,850
Purchased services	720,613	701,643
Supplies and expenses	<u>214,625</u>	<u>256,936</u>
	<u>1,828,431</u>	<u>1,895,399</u>
ONCOLOGY		
Salaries	<u>25,170</u>	<u>21,838</u>
PHARMACY		
Salaries	62,632	61,440
Purchased services	1,347,644	1,446,583
Drugs	183	3,588
Supplies and expenses	<u>6,044</u>	<u>1,516</u>
	<u>1,416,503</u>	<u>1,513,127</u>
ANESTHESIOLOGY		
Salaries	210,489	206,560
Professional fees	444,202	493,574
Supplies and expenses	<u>25,450</u>	<u>24,710</u>
	<u>680,141</u>	<u>724,844</u>
RESPIRATORY THERAPY		
Salaries	109,346	106,024
Oxygen	23,153	23,122
Supplies and expenses	<u>90,709</u>	<u>107,631</u>
	<u>223,208</u>	<u>236,777</u>
PHYSICAL THERAPY		
Salaries	55,594	52,010
Purchased services	776,958	700,114
Supplies and expenses	<u>26,323</u>	<u>23,230</u>
	<u>858,875</u>	<u>775,354</u>
CARDIO PULMONARY		
Purchased services	73,705	59,968
Supplies and expenses	<u>4,430</u>	<u>508</u>
	<u>78,135</u>	<u>60,476</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
SPEECH THERAPY		
Purchased services	\$ 24,054	\$ 23,731
AUDIOLOGY		
Salaries	-	18,685
Purchased services	28,000	100
Supplies and expenses	<u>88</u>	<u>24,899</u>
	<u>28,088</u>	<u>43,684</u>
OCCUPATIONAL HEALTH SERVICES		
Salaries	72,757	79,347
Purchased services	452	861
Supplies and expenses	<u>24,336</u>	<u>29,501</u>
	<u>97,545</u>	<u>109,709</u>
ORANGE CITY MEDICAL CLINIC		
Salaries	3,320,787	3,022,468
Purchased services	628,189	712,349
Medical supplies	425,808	402,590
Supplies and expenses	69,841	37,297
Utilities	75,858	75,419
Telephone	1,603	958
Insurance	78,107	89,908
Employee benefits	<u>732,082</u>	<u>636,306</u>
	<u>5,332,275</u>	<u>4,977,295</u>
HOSPERS MEDICAL CLINIC		
Salaries	168,874	167,251
Purchased service	40,546	34,701
Medical supplies	17,107	23,822
Supplies and expenses	18,027	19,286
Utilities	1,388	1,579
Telephone	6,564	3,220
Employee benefits	<u>46,834</u>	<u>45,463</u>
	<u>299,340</u>	<u>295,322</u>
PAULLINA MEDICAL CLINIC		
Salaries	381,678	329,283
Purchased service	77,733	66,625
Medical supplies	24,615	23,425
Supplies and expenses	18,514	23,192
Utilities	7,469	6,414
Telephone	3,374	3,480
Employee benefits	<u>78,469</u>	<u>70,556</u>
	<u>591,852</u>	<u>522,975</u>
SPECIALTY CLINICS		
Salaries	75,566	108,253
Supplies and expenses	<u>5,202</u>	<u>4,890</u>
	<u>80,768</u>	<u>113,143</u>

See accompanying independent auditor's report.

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
OTOLARYNGOLOGY		
Supplies and expenses	\$ 13,055	\$ 25,728
SURGERY		
Salaries	627,228	656,340
Purchased services	-	76
Supplies and expenses	61,692	62,340
Utilities	<u>2,659</u>	<u>2,557</u>
	<u>691,579</u>	<u>721,313</u>
LANDSMEER RIDGE		
Salaries	400,517	397,336
Purchased services	7,487	8,716
Medical supplies	1,464	1,781
Supplies and expenses	172,420	179,395
Utilities	83,820	82,760
Telephone	12,011	11,388
Insurance	<u>5,007</u>	<u>4,380</u>
	<u>682,726</u>	<u>685,756</u>
SOCIAL SERVICE		
Salaries	95,273	84,638
Supplies and expenses	<u>187</u>	<u>-</u>
	<u>95,460</u>	<u>84,638</u>
MEDICAL RECORDS		
Salaries	163,472	158,594
Supplies and expenses	<u>37,284</u>	<u>39,336</u>
	<u>200,756</u>	<u>197,930</u>
Totals	<u>\$14,374,385</u>	<u>\$14,053,744</u>

See accompanying independent auditor's report.

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
DIETARY		
Salaries	\$ 256,302	\$ 260,728
Food	361,605	336,803
Supplies and expenses	<u>69,240</u>	<u>61,226</u>
	<u>687,147</u>	<u>658,757</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	161,832	148,004
Utilities	474,196	471,022
Purchased services	84,799	91,488
Supplies and expenses	<u>113,989</u>	<u>86,268</u>
	<u>834,816</u>	<u>796,782</u>
HOUSEKEEPING		
Salaries	195,898	193,530
Supplies and expenses	<u>57,654</u>	<u>54,981</u>
	<u>253,552</u>	<u>248,511</u>
LAUNDRY AND LINEN		
Salaries	23,265	22,168
Supplies and expenses	<u>2,615</u>	<u>5,484</u>
	<u>25,880</u>	<u>27,652</u>
 Totals	 <u>\$1,801,395</u>	 <u>\$1,731,702</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administrative and general		
Salaries	\$ 669,740	\$ 645,575
Management fees	322,869	322,527
Professional services	33,026	38,804
Collection	44,130	51,554
Telephone	59,216	57,934
Supplies and expenses	<u>784,480</u>	<u>772,805</u>
	<u>1,913,461</u>	<u>1,889,199</u>
Human resources		
Salaries	128,509	124,777
Supplies and expenses	<u>111,555</u>	<u>73,610</u>
	<u>240,064</u>	<u>198,387</u>
Regulatory affairs		
Salaries	66,167	64,143
Supplies and expenses	<u>2,286</u>	<u>1,367</u>
	<u>68,453</u>	<u>65,510</u>
Community relations		
Salaries	64,554	58,337
Supplies and expenses	<u>71,795</u>	<u>87,235</u>
	<u>136,349</u>	<u>145,572</u>
Receiving and stores		
Salaries	115,486	112,646
Supplies and expenses	<u>6,004</u>	<u>17,430</u>
	<u>121,490</u>	<u>130,076</u>
Admissions		
Salaries	203,630	209,116
Supplies and expenses	<u>5,653</u>	<u>6,840</u>
	<u>209,283</u>	<u>215,956</u>
 Total fiscal and administrative expenses	 <u>2,689,100</u>	 <u>2,644,700</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,634,001	1,571,739
Group health insurance	1,214,816	1,519,259
Other	149,603	161,359
Insurance	<u>487,511</u>	<u>452,605</u>
Total unassigned expenses	<u>3,485,931</u>	<u>3,704,962</u>
 Totals	 <u>\$6,175,031</u>	 <u>\$6,349,662</u>

See accompanying independent auditor's report.

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

	Year ended June 30	
	<u>2011</u>	<u>2010</u>
PATIENT DAYS		
Adult and pediatric	2,570	2,970
Nursery	431	581
Swing bed		
Skilled nursing care	951	853
Intermediate care	114	44
Intermediate care		
Hospital	11,218	11,568
Heritage House	<u>16,329</u>	<u>16,327</u>
Totals	<u>31,613</u>	<u>32,343</u>
ADMISSIONS		
Adult and pediatric	782	841
Swing bed		
Skilled nursing care	121	92
Intermediate care	11	17
Intermediate care		
Hospital	26	18
Heritage House	<u>16</u>	<u>14</u>
Total admissions	<u>956</u>	<u>982</u>
DISCHARGES		
Adult and pediatric	788	854
Swing bed		
Skilled nursing care	123	88
Intermediate care	12	15
Intermediate care		
Hospital	24	20
Heritage House	<u>17</u>	<u>16</u>
Total discharges	<u>964</u>	<u>993</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.26	3.48
Swing bed		
Skilled nursing care	7.73	9.69
Intermediate care	9.50	2.93
Intermediate care		
Hospital	467.42	578.40
Heritage House	960.53	1,020.44

See accompanying independent auditor's report.

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
BEDS		
Adult, pediatric and swing bed	25	25
Intermediate care		
Hospital	33	33
Heritage House	50	50
OCCUPANCY PERCENT		
Adult, pediatric and swing bed	44.6%	48.7%
Intermediate care		
Hospital	93.1%	96.0%
Heritage House	89.5%	89.5%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$93,086	\$89,572
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR	45.2	43.4

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

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

We have audited the financial statements of Orange City Municipal Hospital d/b/a Orange City Area Health System (Hospital), and its component unit, Orange City Area Health System Foundation (Foundation) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Hospital's and Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's and Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation's internal control over financial reporting.

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's and Foundation's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Hospital and Foundation. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

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



DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 12, 2011

**Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part I—Findings Related to the Financial Statements

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

Part II—Findings Related to Required Statutory Reporting

11-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

11-II-B TRAVEL EXPENSES

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

11-II-C BUSINESS TRANSACTIONS

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

11-II-D BOARD MINUTES

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

11-II-E DEPOSITS AND INVESTMENTS

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