

ELLSWORTH MUNICIPAL HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2012 AND 2011

**ELLSWORTH MUNICIPAL HOSPITAL
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**ELLSWORTH MUNICIPAL HOSPITAL
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Steve Howard	Chairperson	December 31, 2012
Diana Ruhl	Vice Chairperson	December 31, 2012
Amanda Wood	Secretary	December 31, 2014
Francis Fritz	Treasurer	December 31, 2014
Mike Stensland	Member	December 31, 2012
HOSPITAL OFFICIALS		
Cherelle Montanye	Chief Executive Officer	
Michael White	Chief Financial Officer	



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheet of Ellsworth Municipal Hospital, an enterprise fund of the City of Iowa Falls, Iowa, and the related statement of financial position of its discretely presented component unit, Ellsworth Municipal Hospital Foundation as of June 30, 2012, 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 year 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 audit. The financial statements of Ellsworth Municipal Hospital as of June 30, 2011, were audited by other auditors whose report dated November 3, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 and its discretely presented component unit as of June 30, 2012, and the results of its operations and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18 to the financial statements, an error resulting in the understatement of previously reported total assets and net assets for the Ellsworth Municipal Hospital Foundation was discovered during the current year. Accordingly, an adjustment as been made to the net assets of the foundation as of June 30, 2011, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2012 on our consideration of Ellsworth Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 34 through 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 and the Budgetary Comparison Information on page 33 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 statement 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.



CliftonLarsonAllen LLP

Austin, Minnesota
November 1, 2012

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

The Management Discussion and Analysis offers the readers of Ellsworth Municipal Hospital's (the Hospital) financial statements an overview and analysis of the Hospital's financial activities for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the financial statements and notes, which begin on page 9.

USING THIS ANNUAL REPORT

The June 30, 2012 and 2011 financial reports include the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased in each of the last two years with a \$1,071,598 or 6.9% increase in 2012 and a \$303,954 or 2.0% increase in 2011.
- The Hospital's net assets increased in each of the last two years with a \$1,195,843 or 9.7% increase in 2012 and a \$829,530 or 7.2% increase in 2011.
- The Hospital reported positive operating income of \$372,921 in 2012 and an operating loss of \$65,495 in 2011. Operating income in 2012 increased by \$438,416 over the loss reported in 2011. Operating income in 2011 decreased by \$181,845 compared to 2010.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Ellsworth Municipal Hospital's financial statements report information on the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Hospital and assesses the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past two years 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. Ellsworth Municipal Hospital does not receive any funding from the City of Iowa Falls. Revenues and expenses are reported on an accrual basis, which means that revenues and expenses are recorded in the periods in which they are incurred.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL

The information from the balance sheets, statements of revenues, expenses and changes in net assets, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the Hospital's financial health is improving. Other non-financial factors can also have an effect on the Hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as changes in the economic environment of Hardin County and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	2012	2011	2010
Assets:			
Current Assets	\$ 7,097,934	\$ 5,949,820	\$ 5,817,323
Non-Current Assets	2,197,940	2,811,293	2,734,217
Property, Plant, and Equipment, Net	6,333,571	6,127,605	6,124,902
Other Assets	1,124,225	693,354	601,676
Total Assets	<u>\$ 16,753,670</u>	<u>\$ 15,582,072</u>	<u>\$ 15,278,118</u>
Liabilities:			
Current Liabilities	\$ 2,560,180	\$ 2,109,085	\$ 2,433,489
Long-Term Debt	672,897	1,148,237	1,349,409
Total Liabilities	3,233,077	3,257,322	3,782,898
Net Assets:			
Invested in Capital Assets Net of Related Debt Restricted	5,186,094	4,495,155	4,406,174
Expendable for Capital Improvements	935,679	935,679	935,679
By Bond Indentures	308,452	308,452	308,452
Unrestricted	7,090,368	6,585,464	5,844,915
Total Net Assets	<u>13,520,593</u>	<u>12,324,750</u>	<u>11,495,220</u>
Total Liabilities and Net Assets	<u>\$ 16,753,670</u>	<u>\$ 15,582,072</u>	<u>\$ 15,278,118</u>

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

A significant change in the Hospital's assets in 2012 are the other assets; an increase of \$430,871 or 62.1%; current assets; an increase of \$1,048,114 or 17.6%, and capital assets, net; an increase of \$205,966 or 3.4%. A significant change in the Hospital's assets in 2011 were other assets which increased \$91,678 or 15.2%.

In 2012, the Hospital's net assets increased by \$1,195,843 or 9.7%, as shown in Table 2. This increase is made up of changes in net assets invested in capital assets net of related debt and unrestricted net assets.

Table 2: Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue			
Net Patient Service Revenue	\$ 19,180,339	\$ 18,652,917	\$ 18,744,164
Other Revenues	781,396	659,642	739,896
Total Operating Revenues	<u>19,961,735</u>	<u>19,312,559</u>	<u>19,484,060</u>
Operating Expenses			
Salaries and Wages	9,101,329	8,360,435	8,980,251
Employee Benefits	2,397,786	2,214,849	2,330,524
Supplies and Miscellaneous	7,128,896	7,772,369	7,081,518
Depreciation and Amortization	889,059	953,321	890,907
Interest Expense	71,744	77,080	84,510
Total Operating Expenses	<u>19,588,814</u>	<u>19,378,054</u>	<u>19,367,710</u>
Operating Income (Loss)	372,921	(65,495)	116,350
Non-Operating Revenue (Expenses)	<u>361,891</u>	<u>364,908</u>	<u>180,278</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	734,812	299,413	296,628
Capital Grants and Contributions	<u>461,031</u>	<u>530,117</u>	<u>286,133</u>
Increase in Net Assets	1,195,843	829,530	582,761
Net Assets, Beginning of Year	<u>12,324,750</u>	<u>11,495,220</u>	<u>10,912,459</u>
Net Assets, End of Year	<u>\$ 13,520,593</u>	<u>\$ 12,324,750</u>	<u>\$ 11,495,220</u>

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**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

Net patient service revenue made up 96% in 2012, 97% in 2011 and 96% in 2010 of Ellsworth Municipal Hospital's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2012	2011	2010
Total Patient Service Revenues	\$ 35,541,810	\$ 32,869,806	\$ 32,525,449
Contractual Adjustments and Provisions for Bad Debt	16,361,471	14,216,889	13,781,285
Net Patient Service Revenue	<u>\$ 19,180,339</u>	<u>\$ 18,652,917</u>	<u>\$ 18,744,164</u>
Contractual Adjustments as a Percent of Revenues	<u>46.03%</u>	<u>43.25%</u>	<u>42.37%</u>

Total operating expenses increased \$210,760, or 1.09%, in 2012 and increased \$10,344, or .05%, in 2011. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 36-37 of the audited financial statements for this information.

Operating Income (loss) was \$372,921, or 1.9% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2012 compared to (\$65,495) or (3)%, in 2011.

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

Other Operating Revenue increased by \$121,754, or 18.5%, in 2012 and increased 80,254 or 10.9%. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2012	2011	2010
Rent	\$ 128,915	\$ 125,160	\$ 125,160
Cafeteria	62,003	63,825	67,833
Foundation services	59,239	63,076	69,126
Health program	77,845	58,110	51,276
Lab fees	25,992	50,598	72,939
Grants	34,758	37,477	45,023
Purchase discounts and rebates	50,655	36,358	45,120
Management fees	35,852	34,600	34,500
Clinic fees	36,495	31,369	34,372
Contributions for operations	21,768	28,877	105,080
Therapy services	14,397	24,271	18,476
Housekeeping services	18,573	20,748	24,768
Healthy hearts	14,524	13,730	15,152
Miscellaneous pharmacy sales	7,360	13,262	6,472
Vending machines	3,962	7,733	3,049
Medical records transcripts	2,703	2,887	3,292
Laundry	432	437	284
Other	185,923	47,124	17,974
Total Other Revenues	<u>\$ 781,396</u>	<u>\$ 659,642</u>	<u>\$ 739,896</u>

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

HOSPITAL STATISTICAL DATA

Table 5 reflects Ellsworth Municipal Hospital's statistical data. Acute Patient Days decreased in 2011, by 172 days, or (6.89%), in 2012, compared to the decrease of 193 days, or (7.18%), in 2011 and an increase of 127 days, or 4.96%, in 2010. Swing Bed Days have also had increases in both 2012 and 2011. Swing Bed Days increased by 37 days, or 27% in 2012, increased by 57 days, or 4.35%, in 2011 and increased by 217 days, or 19.84% in 2010.

Table 5: Statistical Data

Table 5: Statistical Data

	2012	2011	2010
Patient days:			
Acute -			
Adult, Pediatric, and OB	2,324	2,496	2,705
Swing Bed	1,405	1,368	1,311
Newborn	159	167	166
Psychiatric	-	-	1,522
Totals	<u>3,888</u>	<u>4,031</u>	<u>5,704</u>
Admissions:			
Acute (Adult, Pediatric, OB and Intensive Care)	737	880	925
Swing Bed	177	167	162
Newborn	77	79	88
Psychiatric	-	-	401
Totals	<u>991</u>	<u>1,126</u>	<u>1,576</u>
Discharges (Including Deaths):			
Acute (Adults, Pediatric, OB and Intensive Care)	739	881	912
Swing Bed	181	168	160
Newborn	79	77	88
Psychiatric	-	-	407
Totals	<u>999</u>	<u>1,126</u>	<u>1,567</u>
Average length of stay:			
Acute	3	3	3
Swing Bed	8	8	8
Beds:			
Acute and Other	25	25	25
Occupancy percentage:			
Acute, Based on 25 Beds in			
2012, 2011 and 2010, Respectively	25.5 %	27.4 %	29.6 %

Ellsworth Municipal Hospital's Cash Flows

Ellsworth Municipal Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

Capital Assets

At June 30, 2012, Ellsworth Municipal Hospital had \$6,333,571 invested in capital assets, net of accumulated depreciation. In 2012, the Hospital expended \$1,093,036 to purchase property and equipment. In 2011 and 2010, the Hospital purchased property and equipment costing \$1,093,036 and \$954,035, respectively.

Long-Term Debt

Table 6 shows a summary of Ellsworth Municipal Hospital's long-term debt outstanding.

As of June 30, 2012, the Hospital had \$2,464,916 in revenue notes and capital lease obligations outstanding. No new debt was issued during 2012 and 2011. The Hospital debt issuances – revenue bonds – cannot be issued without approval from the City of Iowa Falls.

Table 6: Long-Term Debt

	2012	2011	2010
1998 Revenue Bonds	\$ 741,784	\$ 991,614	\$ 1,220,525
Notes Payable	151,217	220,573	175,026
USDA Loans	140,489	231,787	323,177
Capital Lease	113,987	188,476	-
Total Long-Term Debt	\$ 1,147,477	\$ 1,632,450	\$ 1,718,728

ECONOMIC FACTORS

Ellsworth Municipal Hospital continues to improve its operational and financial performance. During the Fiscal year 2012 we are highlighting the following items:

During FY12 management sought and received authorization from the City of Iowa Falls to issue Revenue and Government Obligation (G.O.) bonds for the purpose of constructing a new hospital facility. Total cost of the project is estimated to be \$30,000,000. The city authorized \$2,000,000 in G.O. bonds and \$3,000,000 in Revenue bonds. Management also sought support from the Hardin County Board of Supervisors for the issuance of \$20,000,000 in G.O. bonds on behalf of the hospital facility project. After a public vote with over 60% approving the issuance, the issuance of these bonds was authorized. Closing on the bonds is expected in October 2012. The remaining \$5,000,000 needed for the project was raised through philanthropy.

Contacting the Hospital's Management

This financial report is designed to present the public with a general overview of the Hospital's finances and operating activities. If you have questions or need additional information, please contact Administration at Ellsworth Municipal Hospital at 110 Rocksylvania Ave., Iowa Falls, Iowa 50126.

**ELLSWORTH MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,871,903	\$ 2,560,016
Current Portion of Noncurrent Cash and Investments	687,388	-
Patient Receivables, Less Allowance for Uncollectible Accounts (2012 - \$837,827 and 2011 - \$667,880)	2,745,726	2,641,775
Accounts Receivable - Other	143,030	85,133
Estimated Third-Party Payor Settlements Receivable	-	189,000
Inventories	403,480	371,961
Prepaid Expenses	246,407	101,935
Total Current Assets	7,097,934	5,949,820
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	904,302	1,565,647
Internally Designated for Health Benefits	21,074	1,515
Restricted by Contributors for Capital Improvements	964,112	935,679
Restricted by Bond Indenture	308,452	308,452
Noncurrent Cash and Investments	2,197,940	2,811,293
CAPITAL ASSETS, NET	6,333,571	6,127,605
OTHER ASSETS		
Investments in Affiliated Organizations	1,118,424	685,564
Unamortized Bond Issue Costs	5,801	7,790
Total Other Assets	1,124,225	693,354
Total Assets	\$ 16,753,670	\$ 15,582,072

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 474,580	\$ 484,213
Accounts Payable	422,495	436,744
Accrued Payroll and Related Withholdings	1,108,385	1,188,128
Third-Party Payor Settlement Payable	554,720	-
Total Current Liabilities	<u>2,560,180</u>	<u>2,109,085</u>
 LONG-TERM DEBT, Less Current Maturities		
Long Term Debt	637,495	1,036,298
Obligations Under Capital Lease	35,402	111,939
Total Long-Term Debt	<u>672,897</u>	<u>1,148,237</u>
 Total Liabilities	 3,233,077	 3,257,322
 NET ASSETS		
Invested in Capital Assets Net of Related Debt	5,186,094	4,495,155
Restricted:		
Expendable for Capital Improvements	935,679	935,679
By Bond Indentures	308,452	308,452
Unrestricted	7,090,368	6,585,464
Total Net Assets	<u>13,520,593</u>	<u>12,324,750</u>
 Total Liabilities and Net Assets	 <u>\$ 16,753,670</u>	 <u>\$ 15,582,072</u>

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011**

	2012	RESTATED 2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,198,396	\$ 59,825
Pledges Receivable - Current Portion	53,633	129,939
Interest Receivable	22,289	13,771
Total Current Assets	2,274,318	203,535
NONCURRENT ASSETS		
Investments	621,499	640,805
Beneficial Interest in Net Assets of Community Foundation	14,981	10,926
Pledges Receivable - Less Current Portion, Net	2,624,969	87,061
Land	322,137	-
Total Noncurrent Assets	3,583,586	738,792
Total Assets	\$ 5,857,904	\$ 942,327
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Ellsworth Municipal Hospital	\$ 126,821	\$ 31,348
NET ASSETS		
Unrestricted	187,220	224,780
Temporarily restricted	5,528,882	675,273
Permanently restricted	14,981	10,926
Net Assets	5,731,083	910,979
Total Liabilities and Net Assets	\$ 5,857,904	\$ 942,327

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$1,327,163 in 2012 and \$1,208,706 in 2011)	\$ 19,180,339	\$ 18,652,917
Other Revenues	781,396	659,642
Total Operating Revenues	<u>19,961,735</u>	<u>19,312,559</u>
OPERATING EXPENSES		
Salaries and Wages	9,101,329	8,360,435
Employee Benefits	2,397,786	2,214,849
Supplies and Miscellaneous	7,128,896	7,772,369
Depreciation and Amortization	889,059	953,321
Interest Expense	71,744	77,080
Total Operating Expenses	<u>19,588,814</u>	<u>19,378,054</u>
OPERATING INCOME (LOSS)	372,921	(65,495)
NONOPERATING REVENUES (EXPENSES)		
Investment Income	73,791	105,914
Net Gain on Affiliated Organizations	288,100	258,989
Gain on Disposal of Capital Assets	-	5
Non-Operating Revenues (Expenses), Net	<u>361,891</u>	<u>364,908</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CONTRIBUTIONS	734,812	299,413
Capital Contributions	<u>461,031</u>	<u>530,117</u>
Increase in Net Assets	1,195,843	829,530
Net Assets - Beginning of the Year	<u>12,324,750</u>	<u>11,495,220</u>
Net Assets - End of the Year	<u>\$ 13,520,593</u>	<u>\$ 12,324,750</u>

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES				
Contributions	\$ 9	\$ 5,317,898	\$ -	\$ 5,317,907
Investment Income	24,978	-	-	24,978
Net Asset Released From Restrictions	464,289	(464,289)	-	-
Total Revenues	<u>489,276</u>	<u>4,853,609</u>	<u>-</u>	<u>5,342,885</u>
EXPENSES				
Donations to Ellsworth Municipal Hospital	464,289	-	-	464,289
Donations to Others	2,419	-	-	2,419
Contract Labor	59,240	-	-	59,240
Other Expense	888	-	-	888
Total Expenses	<u>526,836</u>	<u>-</u>	<u>-</u>	<u>526,836</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(37,560)	4,853,609	-	4,816,049
Change in Beneficial Interest in Net Assets of the Community Foundation	<u>-</u>	<u>-</u>	<u>4,055</u>	<u>4,055</u>
INCREASE (DECREASE) IN NET ASSETS	(37,560)	4,853,609	4,055	4,820,104
Net Assets Beginning of Year (as previously stated)	224,780	460,273	-	685,053
Prior period adjustment	<u>-</u>	<u>215,000</u>	<u>10,926</u>	<u>225,926</u>
Net Assets Beginning of Year (adjusted)	<u>224,780</u>	<u>675,273</u>	<u>10,926</u>	<u>910,979</u>
Net Assets End of Year	<u>\$ 187,220</u>	<u>\$ 5,528,882</u>	<u>\$ 14,981</u>	<u>\$ 5,731,083</u>
	RESTATED - 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	\$ 47,519	\$ 362,875	\$ -	\$ 410,394
Investment Income	25,813	-	-	25,813
Net Asset Released From Restrictions	527,331	(527,331)	-	-
Total Revenues	<u>600,663</u>	<u>(164,456)</u>	<u>-</u>	<u>436,207</u>
EXPENSES				
Donations to Ellsworth Municipal Hospital	555,875	-	-	555,875
Contract Labor	63,076	-	-	63,076
Other Expense	41	-	-	41
Total Expenses	<u>618,992</u>	<u>-</u>	<u>-</u>	<u>618,992</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(18,329)	(164,456)	-	(182,785)
Change in Beneficial Interest in Net Assets of the Community Foundation	<u>-</u>	<u>-</u>	<u>10,926</u>	<u>10,926</u>
DECREASE IN NET ASSETS	(18,329)	(164,456)	10,926	(171,859)
Net Assets Beginning of Year	<u>243,109</u>	<u>839,729</u>	<u>-</u>	<u>1,082,838</u>
Net Assets End of Year	<u>\$ 224,780</u>	<u>\$ 675,273</u>	<u>\$ 10,926</u>	<u>\$ 910,979</u>

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 19,820,108	\$ 18,000,294
Cash Paid to Employees	(11,578,858)	(8,391,067)
Cash Paid to Suppliers	(7,319,136)	(10,071,657)
Other Receipts and Payments, Net	723,499	660,044
Net Cash Provided by Operating Activities	1,645,613	197,614
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(1,093,036)	(954,035)
Proceeds from Sale of Property and Equipment	-	5
Proceeds from issuance of Long-Term debt	-	344,117
Principal Payments on Long-Term Debt	(484,973)	(430,395)
Interest Payments on Long-Term Debt	(71,744)	(77,080)
Capital Grants and Contributions	461,031	530,117
Net Cash Used by Capital and Related Financing Activities	(1,188,722)	(587,271)
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	610,957	(59,316)
Increase in the current portion of Noncurrent Cash and Investments	(687,388)	-
(Increase) Decrease in Investments in Affiliated Organizations	(144,760)	165,322
Interest Income	76,187	88,154
Net Cash Provided (Used) by Investing Activities	(145,004)	194,160
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	311,887	(195,497)
 Cash and Cash Equivalents - Beginning of Year	2,560,016	2,755,513
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,871,903	\$ 2,560,016

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 372,921	\$ (65,495)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	889,059	953,321
Interest Expense Considered Capital and Related Financing Activity	71,744	77,080
(Increase) Decrease in:		
Patient Receivables	(103,951)	(94,623)
Accounts Receivable - Other	(57,897)	402
Inventories	(31,519)	3,393
Prepaid Expenses	(144,472)	(48,166)
Increase (Decrease) in:		
Accounts Payable	(14,249)	(42,306)
Accrued Interest Payable	-	-
Accrued Expenses	(79,743)	(27,992)
Third-Party Payor Settlement Payable	743,720	(558,000)
Net Cash Provided by Operating Activities	\$ 1,645,613	\$ 197,614
 NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets included in Accounts Payable	\$ 101,307	\$ -

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 4,820,104	\$ (171,859)
Provided by Operating Activities:		
Adjustments to Reconcile Excess of Operating Revenues over Operating Expenses to Net Cash		
Change in Unrealized Gains and Losses on Investments	2,651	(2,001)
Change in Beneficial Interest in Net Assets of Community Foundation	(4,055)	(10,926)
Changes in Assets and Liabilities:		
Accrued Interest Receivable	(8,518)	(2,801)
Pledges Receivable	(2,461,602)	(209,003)
Due to Ellsworth Memorial Hospital	95,473	(9,738)
Net Cash Provided (Used) by Operating Activities	<u>2,444,053</u>	<u>(406,328)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES		
Acquisition of Capital Assets	<u>(322,137)</u>	-
Net Cash Used by Financing Activities	<u>(322,137)</u>	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	41,154	204,603
Purchase of Certificates of Deposit	<u>(24,499)</u>	-
Net Cash Provided by Investing Activities	<u>16,655</u>	<u>204,603</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,138,571	(201,725)
Cash and Cash Equivalents - Beginning of Year	<u>59,825</u>	<u>261,550</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,198,396</u></u>	<u><u>\$ 59,825</u></u>

See accompanying Notes to Financial Statements.

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**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hospital is the municipal hospital of the City of Iowa Falls, organized under Chapter 392, of the Code of Iowa. 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. Ellsworth Municipal Hospital provides healthcare services in accordance with a Management Agreement which is discussed in Note 13.

Tax Exempt Status

Ellsworth Municipal Hospital is an Iowa non-profit 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.

Ellsworth Municipal 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 has no component units which meet the Government Accounting Standards Board criteria.

Ellsworth Municipal Hospital Foundation (the Foundation) is a not-for-profit entity legally separate from Ellsworth Municipal Hospital. The Hospital does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discrete presentation due to the nature and significance of its relationship with the Hospital.

Basis of Accounting

Ellsworth Municipal Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *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 the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposit accounts, and savings accounts.

Accounts Receivable

Ellsworth Municipal Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are individually analyzed for collectability. Amounts for which no payments have been received are written off using management's judgment on a per account basis. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At June 30, 2012 and 2011, the allowance for uncollectible accounts was approximately \$838,000 and \$668,000, respectively.

Inventories

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments includes assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments also includes assets held by the bank for use in an ongoing construction project.

Capital Assets

Capital assets are reported at cost, if purchased, or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures greater than \$5,000 are capitalized and depreciated over the life of the asset. Capital expenditures less than \$5,000 are expensed when incurred.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets of Ellsworth Municipal Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted net assets are the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted net assets.

Net Patient Service Revenue

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. Medicare cost reports through June 30, 2010 have been settled by the intermediary.

Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenue contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Operating Revenues and Expenses

Ellsworth Municipal Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants and contributions received for the purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Charity Care

Ellsworth Municipal Hospital provides care to patients who meet certain criteria under its charity care policy without a charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, an adjustment has been recorded to offset the revenue recorded. Charity care provided during the years ended June 30, 2012 and 2011 was \$321,669 and \$457,136, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized Bond Issue Costs

Bond issue costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$1,989 and \$1,989 for the years ended June 30, 2012 and 2011, respectively.

Electronic Health Record Incentive Payments

As discussed in Note 4, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Hospital recognized the revenue ratably over the reporting period starting at the point when management was reasonably assured the Health Center met all meaningful use objectives and any other specific grant requirements that were applicable, *e.g.*, electronic transmission of quality measures to CMS in the second and subsequent payment years.

Subsequent Events

The Hospital has evaluated subsequent events through November 1, 2012, the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$6,995,368 and \$6,585,464 of unrestricted net assets at June 30, 2012 and 2011, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2012	2011
For Capital Acquisitions	\$ 904,302	\$ 1,565,647
For Health Benefits	21,074	1,515
Total Designated Net Assets	\$ 925,376	\$ 1,567,162

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

Ellsworth Municipal Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2010.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

Ellsworth Municipal Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2010.

Other

Ellsworth Municipal Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

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

A summary of patient service revenues and contractual adjustments is as follows:

	2012	2011
Total Patient Service Revenues	\$ 35,541,810	\$ 32,869,806
Contractual Adjustments:		
Medicare	8,857,160	7,896,106
Medicaid	1,693,149	1,549,464
Provision for Bad Debt	1,327,163	1,208,706
Other	4,483,999	3,562,613
Total Deductions	<u>16,361,471</u>	<u>14,216,889</u>
Net Patient Service Revenues	<u>\$ 19,180,339</u>	<u>\$ 18,652,917</u>

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Hospital continuing to meet the escalating meaningful use criteria. For the first payment year, the Hospital must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Hospital must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)

The Hospital demonstrated meaningful use to the 90-day period ended June 29, 2011 and received their first tentative incentive payment of \$104,000 in May 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net assets. The final amount of this payment will be determined based on information from the Hospitals' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

Ellsworth Municipal Hospital has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost report indicated the Hospital owed the agencies approximately \$555,000 at June 30, 2012. At June 30, 2011, the agencies owed the Hospital approximately \$189,000.

NOTE 6 UNCONDITIONAL PROMISES TO GIVE

Ellsworth Municipal Hospital Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5.0%. Prior years rates were not computed.

The following is a summary of unconditional promises to give as of June 30, 2012 and 2011:

	2012	2011
Less than One Year	\$ 53,633	\$ 129,939
One to Five Years	3,380,128	87,061
	3,433,761	217,000
Less Discount	(457,759)	-
Less Allowance for Uncollectible Promises to Give	(297,400)	-
Unconditional Promises to Give, Net	\$ 2,678,602	\$ 217,000

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 7 FAIR VALUE MEASUREMENTS

The Foundation has determined the fair value of certain assets and liabilities recognized or disclosed at fair value in the financial statements in accordance with the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 provides a framework for measuring fair value under generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the related asset or liability and are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data related to the asset or liability.

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2012 and 2011, respectively:

	Quoted Prices in Active Markets (Level 1)	Other Inputs Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2012			
Assets			
Investments in mutual funds	\$ 42,677	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundation	-	-	14,981
Total Assets	<u>\$ 42,677</u>	<u>\$ -</u>	<u>\$ 14,981</u>
	Quoted Prices in Active Markets (Level 1)	Other Inputs Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2011			
Assets			
Investments in mutual funds	\$ 69,239	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundation	-	-	10,926
Total Assets	<u>\$ 69,239</u>	<u>\$ -</u>	<u>\$ 10,926</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Receivable from Patients and Their Insurance Carriers	\$ 1,934,986	\$ 1,841,217
Receivable from Medicare	1,431,892	1,290,814
Receivable from Medicaid	216,675	177,624
Total Patient Receivables	3,583,553	3,309,655
Less: Allowance for Doubtful Accounts	(837,827)	(667,880)
Patient Receivables, Net	\$ 2,745,726	\$ 2,641,775

NOTE 9 DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2012 and 2011 were entirely covered by Federal depository insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Deposits and investments consisted of the following at June 30, 2012 and 2011:

	2012	2011
Checking and Savings Accounts	\$ 2,992,169	\$ 2,660,284
Certificates of Deposit	2,749,698	2,693,265
Interest Receivable	15,364	17,760
	\$ 5,757,231	\$ 5,371,309
Included in the following balance sheet captions		
Cash and Cash Equivalents	\$ 2,871,903	\$ 2,560,016
Current Portion of Assets Limited as to Use	687,388	-
Assets Limited as to Use or Restricted	2,197,940	2,811,293
Total Deposits	\$ 5,757,231	\$ 5,371,309

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 10 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2012 and 2011 are as follows:

	Balance July 1, 2011	Additions	Retirements / Transfers	Balance June 30, 2012
CAPITAL ASSETS				
Land and Land Improvements	\$ 691,757	\$ -	\$ -	\$ 691,757
Building	5,055,527	-	23,531	5,079,058
Fixed Equipment	6,942,077	-	36,760	6,978,837
Major Movable Equipment	4,578,685	320,340	-	4,899,025
Construction in Progress	440,569	772,696	(60,291)	1,152,974
Totals	17,708,615	\$ 1,093,036	\$ -	18,801,651
ACCUMULATED DEPRECIATION				
Land Improvements	453,745	\$ 6,503	\$ -	460,248
Building	2,926,524	151,666	-	3,078,190
Fixed Equipment	4,725,768	284,447	-	5,010,215
Major Movable Equipment	3,474,973	444,454	-	3,919,427
Totals	11,581,010	\$ 887,070	\$ -	12,468,080
CAPITAL ASSETS, NET	\$ 6,127,605			\$ 6,333,571
	Balance July 1, 2010	Additions	Retirements / Transfers	Balance June 30, 2011
CAPITAL ASSETS				
Land and Land Improvements	\$ 691,757	\$ -	\$ -	\$ 691,757
Building	4,938,025	-	117,502	5,055,527
Fixed Equipment	6,875,160	16,148	50,769	6,942,077
Major Movable Equipment	4,223,963	446,654	(91,932)	4,578,685
Construction in Progress	117,607	491,233	(168,271)	440,569
Totals	16,846,512	\$ 954,035	\$ (91,932)	17,708,615
ACCUMULATED DEPRECIATION				
Land Improvements	445,600	\$ 8,145	\$ -	453,745
Building	2,776,617	149,907	-	2,926,524
Fixed Equipment	4,441,949	283,819	-	4,725,768
Major Movable Equipment	3,057,444	509,461	(91,932)	3,474,973
Totals	10,721,610	\$ 951,332	\$ (91,932)	11,581,010
CAPITAL ASSETS, NET	\$ 6,124,902			\$ 6,127,605

Construction in Progress at year-end consists of costs related to the building of a new hospital. The construction of a new facility is estimated to cost \$30 million according to current architectural drawings, and will be financed with \$25 million expected from the issuance of general obligation bonds to be issued in October of 2012, \$3 million from healthcare revenue bonds with the remainder from a capital campaign. The project is expected to be completed during fiscal 2014.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2012 and 2011 is as follows:

	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012	Amounts Due Within One Year
1998 Revenue Bonds	\$ 991,614	\$ -	\$ 249,830	\$ 741,784	\$ 231,405
Notes Payable		-			
Iowa Falls State Bank	116,487	-	25,304	91,183	30,053
Cedar Rapids Bank & Trust	9,633	-	9,633	-	-
Ackley Bank	94,453	-	34,419	60,034	38,251
USDA Loan	231,787	-	91,298	140,489	96,290
Total Notes & Loans	1,443,974	-	410,484	1,033,490	395,999
Capital Lease Obligation	188,476	-	74,489	113,987	78,581
Total Long-Term Debt	<u>\$ 1,632,450</u>	<u>\$ -</u>	<u>\$ 484,973</u>	<u>\$ 1,147,477</u>	<u>\$ 474,580</u>

	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011	Amounts Due Within One Year
1998 Revenue Bonds	\$ 1,220,525	\$ -	\$ 228,911	\$ 991,614	\$ 240,622
Notes Payable					
Iowa Falls State Bank	143,242	-	26,755	116,487	27,172
Cedar Rapids Bank & Trust	31,784	-	22,151	9,633	9,633
Liberty Bank	-	111,917	17,464	94,453	36,335
USDA Loan	323,177	-	91,390	231,787	93,914
Total Notes & Loans	1,718,728	111,917	386,671	1,443,974	407,676
Capital Lease Obligation	-	232,200	43,724	188,476	76,537
Total Long-Term Debt	<u>\$ 1,718,728</u>	<u>\$ 344,117</u>	<u>\$ 430,395</u>	<u>\$ 1,632,450</u>	<u>\$ 484,213</u>

1998 Hospital Revenue Bonds Payable

City of Iowa Falls Hospital Revenue Bonds, payable to Iowa Falls State Bank and Green Belt Bank and Trust issued November 1, 1998, in accordance with Chapter 384, Code of Iowa, with interest of 5%. Interest only payments were paid monthly through May 1, 2000, with interest and principal payments due monthly thereafter through 2015. 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 a minimum of \$284,725, is fully funded. The Hospital is required to meet certain financial covenants related to the revenue bonds payable.

Notes Payable

Hospital Note Payable from the Iowa Falls State Bank was issued April 26, 2010 with monthly payments of principal and interest of \$2,800 through April 2015 with an interest rate of 5.15%.

Hospital Note Payable from the Cedar Rapids Bank and Trust had monthly payments of principal and interest of \$1,956 and was paid in full for the year ending June 30, 2012.

Hospital Note Payable from Liberty Bank was issued November 30, 2010 with monthly payments of principal and interest of \$3,361 through December 2013. During the year ended June 30, 2012, Liberty Bank became Ackley State Bank with no change in the terms of the note payable. An interest rate of 5.05% remains charged on the note.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 LONG-TERM DEBT (CONTINUED)

USDA Loan

A USDA letter of credit was entered into June 27, 2008 and requires monthly payments of principal and interest of \$8,218 through December 2013. An interest rate of 2.49% is charged on the loan.

Obligations Under Capital Lease

The Hospital, through the City of Iowa Falls, leases certain equipment under a capital lease arrangement. The lease has a term of five years with an effective interest rate of 5.18%, and requires monthly payments of \$6,716.

The cost of the equipment under the capital lease obligation is \$234,243. Amortization of the equipment was \$46,848 and \$38,676, and accumulated amortization was \$85,524 and \$38,676 for the years ended June 30, 2012 and 2011, respectively.

The aggregate future principal and interest payment requirements for the next five years for long-term debt are as follows:

Year Ending June 30,	Long Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2013	\$ 395,999	\$ 42,119	\$ 78,581	\$ 2,007
2014	362,120	21,953	35,406	220
2015	275,371	6,008	-	-
Total	<u>\$ 1,033,490</u>	<u>\$ 70,080</u>	<u>\$ 113,987</u>	<u>\$ 2,227</u>

Operating Leases - Equipment

The Hospital, through the City of Iowa Falls, leases certain equipment under operating lease arrangement. Future operating lease obligations relating to equipment through 2017 are below.

Year Ending June 30,	Operating Leases
2013	\$ 210,879
2014	140,134
2015	24,996
2016	24,996
2017	2,083

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 LONG-TERM DEBT (CONTINUED)

Operating Leases - Rental Agreements

The Hospital has entered into a rental agreement effective March 2009 and ending March 2024. The rental agreement is for the clinic building in Ackley, and includes a requirement to pay annual property taxes. The following schedule represents the commitment for future rent payments:

Year Ending June 30,	Amount
2013	\$ 95,388
2014	95,388
2015	95,388
2016	95,388
2017 - 2022	476,940
2022 - 2024	190,776
Total Rent Payments	\$ 1,049,268

Total lease expense for the years ended June 30, 2012 and 2011, for all operating leases; including both equipment and clinic building rental was \$396,377 and \$393,118, respectively.

NOTE 12 PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which as 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.

Plan members are required to contribute 5.38% of their annual salary and the Hospital is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$675,000, \$561,000, and \$579,000, respectively, equal to the required contributions for each year.

NOTE 13 INVESTMENTS IN AFFILIATED ORGANIZATIONS

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

Iowa Falls Clinic

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

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 13 INVESTMENT IN AFFILIATED ORGANIZATIONS (CONTINUED)

Iowa Falls Clinic (Continued)

The Hospital is a 50% owner of this Clinic and shares income or losses from clinic operations. The Hospital's share of income, \$258,429 in 2012 and \$233,702 in 2011, have been included in non-operating revenues. The Hospital received an equity distribution of \$150,000 and \$- in the years ending June 30, 2012 and 2011, respectively.

The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2012 and 2011 was \$2,937,336 and \$1,133,255, respectively. As of June 30, 2012 the Hospital's records reflected a receivable from the Iowa Falls Clinic of \$146,379 for these services. As of June 30, 2012 the Hospital's records reflected a payable to the Iowa Falls Clinic included in Accounts Payable of \$147,635 for these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Assets	<u>\$ 1,950,310</u>	<u>\$ 1,942,054</u>
Current Liabilities	\$ 273,891	\$ 473,163
Unrestricted Net Assets	1,676,419	1,468,891
Total Liabilities and Net Assets	<u>\$ 1,950,310</u>	<u>\$ 1,942,054</u>
Net Revenues	<u>\$ 3,764,775</u>	<u>\$ 3,761,613</u>
Net Gain	<u>\$ 507,528</u>	<u>\$ 466,845</u>

The Hospital has a 30% interest in a joint venture of Greenbelt Home Care and shares any income or loss in this percentage. The Hospital has contributed \$106,890 of capital to this joint venture, loaned \$3,507 and forgave a loan in the amount of \$27,143 for a 10% increase in the partnership interest during the year ending June 30, 2006. The Hospital's share of the joint ventures gains and (losses) \$29,671 in 2012 and \$25,287 in 2011 have been included in non-operating revenues (expenses).

NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 and 2011, represent funds that are restricted by donors for the following purposes:

	<u>2012</u>	<u>2011</u>
Construction of a New Hospital Facility	<u>\$ 14,981</u>	<u>\$ 10,926</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets at June 30, 2012 and 2011, represent contributions received by a third party for the benefit of Ellsworth Municipal Hospital, which are permanently restricted as:

	2012	2011
Beneficial Interest in Net Assets of Community Foundation	\$ 5,731,083	\$ 910,979

The Community Foundation Endowment consists of donor-restricted funds designated for the Foundation. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 15 RELATED ORGANIZATION

Master Affiliation Agreement

The Hospital has a Master Affiliation Agreement with Mercy Medical Center- North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa Region. As a part of this Master Affiliation Agreement, the Hospital entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Hospital. Amounts paid to MMC-NI for the provision of these services amounted to \$2,345,188 and \$2,567,476 for the years ended June 30, 2012 and 2011, respectively.

The Hospital has a contractual arrangement with MMC-NI, under which MMC-NI 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 \$532,791 and \$658,350 for the years ended June 30, 2012 and 2011, respectively.

Due to MMC-NI

As of June 30, 2012 and 2011, the Hospital records reflect a due to MMC-NI of \$155,702 and \$254,129, which is recorded in Accounts Payable, respectively for the various services related to these agreements.

Ellsworth Municipal Hospital Foundation

The Foundation was organized under the provisions of the Internal Revenue Code Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Ellsworth Municipal Hospital. As of June 30, 2012 and 2011 the Foundation had a payable to the Hospital in the amount of \$126,821 and \$31,348, respectively, which is recorded with other receivables on the balance sheet of the Hospital. The Foundation made contributions to the Hospital during the years ended June 30, 2012 and 2011 of \$464,289 and \$555,875, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 16 COMMITMENTS AND CONTINGENCIES

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. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis. 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.

Rent expense of \$139,160 on the rental agreement is included in the clinic's expenses for the year ended June 30, 2012 which includes property taxes paid as indicated by the lease agreement.

NOTE 17 SUBSEQUENT EVENTS

The Hospital has been preparing to build a new hospital facility and the estimate to complete the project is \$30,000,000.

In October of 2012, the Hospital entered into a bonding agreement in the amount of \$25,000,000 to finance the construction of the new building. This bond in conjunction with the funds pledged and raised by the foundation of \$5,000,000 will finance the new construction. See Note 10 for additional details related to the new construction.

NOTE 18 PRIOR PERIOD ADJUSTMENT – FOUNDATION

In prior year, the foundation recorded the value of pledge receivable and temporarily restricted contributions at a reduced value. During the year ending June 30, 2012 it was noted that a pledge in the amount of \$215,000 was received in June of 2011 and should have been included as a pledge receivable and temporarily restricted contribution. Therefore an adjustment to increase the pledge receivables and temporarily restricted contributions was made in the amount of \$215,000 with \$127,939 recorded as the current portion of pledge receivables and \$87,061 classified as noncurrent, based on receipts during the fiscal year ending June 30, 2012.

Additionally, an endowment was established in May of 2011 which should have been included as a permanently restricted contribution and investment in the year ending June 30, 2011. An adjustment was made to classify the endowment as a permanently restricted net asset in the amount of \$10,926 for the year ending June 30, 2011.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 18 PRIOR PERIOD ADJUSTMENT – FOUNDATION (CONTINUED)

The effect on the Statement of Financial Position – Foundation of the restatement amount was an increase of \$225,926 and the effect on the Statement of Activities and Changes in Net Assets – Foundation was \$225,926. The restatement effects as described in the preceding paragraphs are as follows:

<u>At and for the Year Ended</u>	<u>As Previously Stated</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
June 30, 2011:			
Temporarily Restricted:			
Contributions	\$ 147,875	\$ 215,000	\$ 362,875
Permanently Restricted:			
Contributions	-	-	-
Change in Beneficial Interest	-	10,926	10,926
<u>Net Asset Increase</u>			
For the Year Ended June 30, 2011	<u>\$ 685,053</u>	<u>\$ 225,926</u>	<u>\$ 910,979</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**ELLSWORTH MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2012**

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2012 (Hospital only, excluding Foundation)

	Total per Hospital Statements	Budget	Amount Under Budget
Expenses	<u>\$ 19,588,814</u>	<u>\$ 19,884,544</u>	<u>\$ 295,730</u>

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 Iowa Falls to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

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OTHER SUPPLEMENTARY INFORMATION

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	Total	
	2012	2011
PATIENT CARE SERVICES		
Medical and Surgical	\$ 2,387,731	\$ 2,280,469
Intensive Care Unit	4,140	446
Swing Bed	969,210	902,344
Psychiatric Care	-	112
Nursery	109,145	106,176
Total	<u>3,470,226</u>	<u>3,289,547</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	2,107,504	2,139,128
Recovery Room	55,392	84,446
Labor and Delivery Room	130,280	110,983
Anesthesiology	735,414	739,922
Radiology	6,196,805	5,885,965
Laboratory	6,554,878	5,805,571
Respiratory Therapy	937,803	888,524
Cardiac Rehabilitation	174,030	188,120
Physical Therapy	1,177,047	1,112,011
Occupational Therapy	410,069	374,011
Speech Therapy	215,775	172,185
Electrocardiology	402,854	386,796
Medical and Surgical Supplies	1,081,498	1,114,043
Pharmacy	3,372,478	3,234,017
Emergency Room	4,030,487	3,100,178
Surgical Clinic	711,890	798,010
Psychiatrist	164,541	187,802
Clinic	3,623,087	3,214,421
Psychiatric Counseling	278,163	466,096
Diabetic Education	33,258	35,166
Total	<u>32,393,253</u>	<u>30,037,395</u>
Charity Care	<u>(321,669)</u>	<u>(457,136)</u>
Total Patient Service Revenues	35,541,810	32,869,806
Adjustments to Patient Services Revenues	<u>(16,361,471)</u>	<u>(14,216,889)</u>
Net Patient Service Revenues	<u>\$ 19,180,339</u>	<u>\$ 18,652,917</u>

Inpatient		Outpatient	
2012	2011	2012	2011
\$ 1,828,070	\$ 2,094,220	\$ 559,661	\$ 186,249
4,140	446	-	-
969,210	902,344	-	-
-	-	-	112
109,145	106,176	-	-
<u>2,910,565</u>	<u>3,103,186</u>	<u>559,661</u>	<u>186,361</u>
231,362	342,993	1,876,142	1,796,135
12,790	27,743	42,602	56,703
129,380	109,536	900	1,447
152,284	172,909	583,130	567,013
583,233	658,902	5,613,572	5,227,063
1,200,067	1,308,135	5,354,811	4,497,436
523,119	494,290	414,684	394,234
184	776	173,846	187,344
349,335	402,361	827,712	709,650
278,867	263,914	131,202	110,097
31,840	54,665	183,935	117,520
44,699	56,680	358,155	330,116
175,229	211,112	906,269	902,931
1,276,705	1,352,597	2,095,773	1,881,420
94,371	129,984	3,936,116	2,970,194
-	-	711,890	798,010
-	-	164,541	187,802
-	-	3,623,087	3,214,421
1,939	1,028	276,224	465,068
-	-	33,258	35,166
<u>5,085,404</u>	<u>5,587,625</u>	<u>27,307,849</u>	<u>24,449,770</u>
<u>\$ 7,995,969</u>	<u>\$ 8,690,811</u>	<u>\$ 27,867,510</u>	<u>\$ 24,636,131</u>

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**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES
AND OTHER REVENUE
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 8,857,160	\$ 7,896,106
Contractual Adjustments - Medicaid	1,693,149	1,549,464
Provision for Bad Debt	1,327,163	1,208,706
Other Allowances and Adjustments	4,483,999	3,562,613
Total Adjustments	\$ 16,361,471	\$ 14,216,889
OTHER REVENUES		
Guest Meals	\$ 62,003	\$ 63,825
Transition Grant/Telemedicine Grant	34,758	37,477
Medical Record Transcripts	2,703	2,887
Vending Machines	3,962	7,733
Purchase Discounts and Rebates	50,655	36,358
Miscellaneous Pharmacy Sales	7,360	13,262
Laundry	432	437
Health Program	77,845	58,110
Physical Therapy Service	14,397	24,271
Clinic Fees	36,495	31,369
Rent Income	128,915	125,160
Lab Fees	25,992	50,598
Management Fees	35,852	34,600
Other	300,027	173,555
Total Other Revenues	\$ 781,396	\$ 659,642

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	Total	
	2012	2011
Employee Benefits	\$ 2,397,786	\$ 2,214,849
Administrative and General	2,333,330	2,515,492
Central Supply	19,062	16,849
Operation of Plant	603,351	631,433
Laundry and Linen	34,904	33,559
Housekeeping	173,362	167,635
Social Services	(12)	10,179
Nursing Administration	255,185	269,413
Dietary	355,015	343,865
Medical Records	294,003	291,138
Psychiatric Care	-	846
Adults and Pediatrics	1,844,802	1,741,301
Nursery	65,085	58,473
Operating and Recovery Room	663,888	1,012,451
Labor and Delivery Room	58,255	52,372
Anesthesiology	12,415	5,905
Nonphysician Anesthetists	345,556	314,415
Radiology	1,216,314	1,159,561
Laboratory	985,934	887,831
Respiratory Therapy	82,290	64,674
Physical Therapy	361,497	361,623
Occupational Therapy	124,939	117,669
Speech Pathology	78,808	78,567
Electrocardiology	24,896	30,572
Medical and Surgical Supplies	295,922	365,064
Pharmacy and Intravenous Therapy	831,873	785,506
Cardiac Rehabilitation	90,873	93,574
Clinics	2,587,142	2,260,975
Marketing and Community Health Promotions	529,784	415,930
Diabetic Education	44,932	49,416
Partial Hospital Psychiatric	-	603
Outreach Clinic	29,893	28,640
Surgical Clinic	528,750	584,403
Psychiatric Counseling	139,937	185,429
Chemical Dependency	56	-
Emergency	1,204,816	1,188,936
Enterostomal Therapy	13,368	8,505
Depreciation Expense	889,059	953,321
Interest Expense	71,744	77,080
Total Expenses	\$ 19,588,814	\$ 19,378,054

Salaries		Other	
2012	2011	2012	2011
\$ -	\$ -	\$ 2,397,786	\$ 2,214,849
932,972	866,167	1,400,358	1,649,325
1,565	813	17,497	16,036
158,554	178,523	444,797	452,910
27,589	24,725	7,315	8,834
149,961	143,497	23,401	24,138
(12)	10,179	-	-
119,407	130,286	135,778	139,127
232,092	221,784	122,923	122,081
273,600	268,690	20,403	22,448
-	-	-	846
1,621,918	1,590,166	222,884	151,135
58,507	54,799	6,578	3,674
386,317	371,455	277,571	640,996
49,130	49,592	9,125	2,780
-	-	12,415	5,905
323,761	314,095	21,795	320
375,408	392,800	840,906	766,761
434,307	372,256	551,627	515,575
39,229	16,336	43,061	48,338
342,133	292,328	19,364	69,295
120,177	114,546	4,762	3,123
73,924	73,744	4,884	4,823
5,277	3,972	19,619	26,600
-	-	295,922	365,064
209,086	189,281	622,787	596,225
86,111	88,793	4,762	4,781
1,283,997	924,194	1,303,145	1,336,781
216,171	271,441	313,613	144,489
41,258	41,359	3,674	8,057
-	-	-	603
25,763	23,980	4,130	4,660
476,204	487,290	52,546	97,113
140,764	183,202	(827)	2,227
-	-	56	-
896,159	660,142	308,657	528,794
-	-	13,368	8,505
-	-	889,059	953,321
-	-	71,744	77,080
<u>\$ 9,101,329</u>	<u>\$ 8,360,435</u>	<u>\$ 10,487,485</u>	<u>\$ 11,017,619</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2012 AND 2011**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2012		2011	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 2,650,542	54.79 %	\$ 2,395,415	50.87 %
31-60 Days	560,019	11.58 %	634,903	13.49 %
61-90 Days	258,290	5.34 %	336,511	7.15 %
91 Days and Over	1,367,826	28.29 %	1,340,763	28.49 %
Total Accounts Receivable	<u>4,836,677</u>	<u>100.00 %</u>	<u>4,707,592</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -				
Medicare	677,013		836,342	
Medicaid	111,847		84,715	
Commercial	464,264		476,880	
Doubtful Accounts	837,827		667,880	
Net Accounts Receivable	<u>\$ 2,745,726</u>		<u>\$ 2,641,775</u>	

Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 56,185</u>	<u>\$ 54,415</u>
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Days of Net Patient Service Revenue in Accounts Receivable at Year-End	<u>49</u>	<u>49</u>
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Analysis of Allowance for Doubtful Accounts

	2012		2011	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 667,880		\$ 653,000	
Add:				
Provision for Doubtful Accounts	1,327,163	7.12 %	1,208,706	6.48 %
Recoveries Previously Written Off	251,608	1.35 %	237,427	1.27 %
	<u>2,246,651</u>		<u>2,099,133</u>	
Deduct:				
Accounts Written Off	<u>(1,408,824)</u>	(7.55)%	<u>(1,431,253)</u>	(7.67)%
Ending Balance	<u>\$ 837,827</u>		<u>\$ 667,880</u>	

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF INVENTORIES AND PREPAIDS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
INVENTORIES		
Central Stores	\$ 41,425	\$ 46,214
Pharmacy	242,043	222,343
Dietary	10,072	9,419
Operating Room and Central Sterile Supply	82,785	63,021
Laboratory	<u>27,155</u>	<u>30,964</u>
Total Inventories	<u>\$ 403,480</u>	<u>\$ 371,961</u>
 PREPAID EXPENSES		
Insurance	\$ 173,326	\$ 21,786
Service Contracts	58,179	52,220
Dues	12,934	13,822
Other	<u>1,968</u>	<u>14,107</u>
Total Prepaid Expenses	<u>\$ 246,407</u>	<u>\$ 101,935</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2012**

	Balance July 1, 2011	Additions	(Retirements)	Balance June 30, 2012
Debt Service Reserve Fund 1998 Hospital Revenue Bonds	\$ 284,725	\$ -	\$ -	\$ 284,725
Revenue Bond Sinking Fund 1998 Hospital Revenue Bonds	<u>23,727</u>	<u>-</u>	<u>-</u>	<u>23,727</u>
Totals	<u>\$ 308,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,452</u>



**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
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying financial statements of Ellsworth Municipal Hospital and its discretely presented component unit as of June 30, 2012, and its discretely presented component unit Ellsworth Municipal Hospital Foundation, which collectively comprise Ellsworth Municipal Hospital's basic financial statements and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2012-1, 2012-2 and 2012-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ellsworth Municipal Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Trustees
Ellsworth Municipal Hospital

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Ellsworth Municipal Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Ellsworth Municipal 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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specific parties.



CliftonLarsonAllen LLP

Austin, Minnesota
November 1, 2012

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to Financial Statements:

Significant Deficiencies:

2012-1 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, Ellsworth Municipal 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 the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion: Response accepted.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

2012-2 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 statements 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 the Hospital's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

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

Conclusion: Response accepted

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

2012-3 Restatement 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 Foundation performs daily accounting activities to maintain accurate financial activity. However, during the audit we identified errors on the Statements of Financial Position and the Statement of Activities and Changes in Net Assets – Foundation for the year ending June 30, 2011 of \$225,926 which has resulted in a restatement of prior year financial statement balances.

Cause: We realize that errors can occur during the course of financial reporting, which may be significant at times.

Effect: The effect of this condition is that the 2011 Foundation net assets were understated by \$225,926.

Recommendation: We recommend that management implement a review for operating procedures for the foundation in order to reduce the possibility of an error in future statements of financial position and the statements of activities and changes in net assets – foundation.

Response: This finding and recommendation is the result of a restatement of an error and we will work towards minimizing these events in the future.

Conclusion: Response accepted

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Official Depository Banks

A resolution of official depository banks has not been approved by the governing board.

Recommendation: Pass an annual resolution naming the official depositories of the hospital.

Response: We will pass an annual resolution naming the official depositories of the hospital.

Conclusion: Response is accepted.

II-B-12 Certified Budget

Hospital expenditures during the year ended June 30, 2012 did not exceed budgeted. During the same period actual revenues did not exceed amounts budgeted.

II-C-12 Questionable Expenditures

We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-12 Travel Expense

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

II-E-12 Business Transactions

No business transactions between the Hospital and Hospital officials and/or employees were noted.

II-F-12 Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the Board.

II-G-12 Deposits and Investments

We reviewed the Hospital's investment procedures and noted all investments to be in compliance with the state statutes regarding investments. We noted the hospital does not have a current investment policy in accordance with

Recommendation: Pass an annual resolution naming the official depositories of the hospital.

Response: We will pass an annual resolution naming the official depositories of the hospital.

Conclusion: Response is accepted.



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**INDEPENDENT AUDITORS' REPORT
ON DEBT AGREEMENT COVENANTS**

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ellsworth Municipal Hospital as of June 30, 2012, and have issued our report thereon dated November 1, 2012.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 1, 2012