

**Keokuk County Health Center
Sigourney, Iowa**

FINANCIAL REPORT

June 30, 2004

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-10
FINANCIAL STATEMENTS	
Balance sheets	11
Statements of revenues, expenses, and changes in fund equity	12
Statements of cash flows	13-14
Notes to financial statements	15-22
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	23
SUPPLEMENTARY INFORMATION	
Analysis of patient receivables	24
Analysis of allowance for uncollectibles	24
Patient service revenue	25
Provisions for contractual and other adjustments	26
Other revenue	26
Expenses	27
Comparative statistics	28
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	29-30
SCHEDULE OF FINDINGS	31-32

**Keokuk County Health Center
OFFICIALS
June 30, 2004**

BOARD OF TRUSTEES

Officers

Tony Latcham, Chair
Brian Horras, Vice Chair
Frank Mertz, Secretary/Treasurer

Expiration of term

December 31, 2006
December 31, 2006
December 31, 2006

Members

Elayne Campbell
Judy Campbell
Loretta Hudson
Cheryl Monroe

December 31, 2004
December 31, 2004
December 31, 2006
December 31, 2008

INTERIM CHIEF EXECUTIVE OFFICER

Matt Ives

CHIEF FINANCIAL OFFICER

Matt Ives

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

We have audited the accompanying balance sheets of Keokuk County Health Center, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center'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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits 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 Keokuk County Health Center as of June 30, 2004 and 2003, 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.

As described in Note 1 to the financial statements, the Health Center adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended June 30, 2004.

The management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2004 on our consideration of Keokuk County Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 10, 2004

**Keokuk County Health Center
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Keokuk County Health Center, we offer readers of the financial statements this narrative overview and analysis of the Health Center's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Health Center's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the Health Center, and supplementary information. 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 the Health Center report information 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 Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Health Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

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 Center operations over the past year and can be used to determine whether the Health Center 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. The 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.

Financial Highlights

- Total assets increased by \$179,227 or 6% to \$3,332,808
- Total property and equipment decreased by \$78,233 to \$1,258,324
- Total fund equity decreased by \$96,521 to \$1,778,277
- Total note payable and long-term debt decreased by \$1,953 to \$336,003
- Net patient service revenue decreased by \$313,108, or 9% primarily due to a decrease in certain ancillary services
- Expenses increased by \$96,111, or 3% to \$3,871,683

Financial Analysis of the Health Center

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

A summary of the Health Center's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30	
	<u>2004</u>	<u>2003</u>
Current assets	\$1,394,484	\$1,277,024
Property and equipment	1,258,324	1,336,557
Other assets	<u>680,000</u>	<u>540,000</u>
Total assets	<u>\$3,332,808</u>	<u>\$3,153,581</u>
Current liabilities	\$ 830,237	\$ 675,092
Long-term debt, less current maturities	44,294	63,691
Other noncurrent liabilities	<u>680,000</u>	<u>540,000</u>
Total liabilities	<u>\$1,554,531</u>	<u>\$1,278,783</u>
Invested in capital assets, net of related debt	\$1,182,321	\$1,318,601
Unrestricted	<u>595,956</u>	<u>556,197</u>
Total fund equity	<u>\$1,778,277</u>	<u>\$1,874,798</u>

As depicted in Table 1, total assets increased in fiscal year 2004 to \$3,332,808. The change in total assets results primarily from increased other asset, succeeding year property tax receivable.

Revenues, Expenses, and Changes in Fund Equity

A summary of the Health Center's historical revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Net patient service revenue	\$3,164,901	\$3,478,009
Other revenue	67,352	53,903
Total revenue	<u>3,232,253</u>	<u>3,531,912</u>
Salaries	1,910,167	1,738,581
Other expenses	1,797,396	1,865,659
Provision for depreciation	164,120	171,332
Total expenses	<u>3,871,683</u>	<u>3,775,572</u>
Operating (loss)	<u>(639,430)</u>	<u>(243,660)</u>
County taxes	559,758	553,669
Investment income	1,421	2,626
Unrestricted contributions	998	14,878
Interest expense	<u>(19,268)</u>	<u>(25,545)</u>
Total nonoperating gains	<u>542,909</u>	<u>545,628</u>
Change in fund equity	(96,521)	301,968
Total fund equity, beginning	<u>1,874,798</u>	<u>1,572,830</u>
Total fund equity, ending	<u>\$1,778,277</u>	<u>\$1,874,798</u>

Operating and Financial Performance

The following summarizes the Health Center's statement of revenues, expenses and changes in fund equity between June 30, 2004 and 2003.

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

Volume: Acute discharges for fiscal year 2004 were 45 compared to 44 in fiscal year 2003. Average length of stay increased slightly as patient days increased to 164 from 151 in 2003. Swing bed discharges for fiscal year 2004 were 30 compared to 38 in fiscal year 2003. Average length of stay decreased as patient days declined to 366 from 517 in 2003. Volume on the outpatient side slightly declined in 2004. In 2004, gross outpatient charges decreased to \$2,231,522 compared to \$2,381,944 in 2003.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporate certain price increases in 2004. Overall, gross patient service revenue decreased to \$2,999,212 from \$3,181,939 in 2003.

Payor Mix: Effective March, 2001, the Health Center was 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. As a result of this continuing designation, contractual adjustments and bad debts remained relatively steady at \$(165,689) in 2004 compared to \$(296,070) in 2003. This represents an additional 6% reimbursement over standard gross patient charges.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Medicare	56%	49%
Medicaid	8	8
Wellmark	10	10
Commercial insurance	8	9
Self pay	<u>18</u>	<u>24</u>
Totals	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$67,352 in 2004 compared to \$53,903 in 2003, primarily due to increased grant revenue received in fiscal year 2004.

Expenses

Approximately 50% of Health Center's expenses are for salaries. Total salaries increased by 10% to \$1,910,167 in 2004 from \$1,738,581 in 2003. The Health Center departments experiencing the most significant increase in 2004 included emergency service and ambulance.

Approximately 45% of Health Center's expenses are for supplies and expenses. Total supplies and expenses decreased by 4% to \$1,797,396 in 2004 from \$1,865,659 in 2003.

Approximately 5% of Health Center's expenses relate to provision for depreciation. This provision for depreciation decreased to \$164,120 in 2004 from \$171,332 in 2003.

Nonoperating Gains

Nonoperating gains decreased slightly to \$542,909 from \$545,628 in 2003.

Property and Equipment

At the end of 2004, the Health Center had \$1,258,324 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2004, \$85,887 was spent to acquire new equipment.

A summary of the Health Center's property and equipment is presented in Table 4.

**Table 4
Property and Equipment**

	June 30		Change
	2004	2003	
Land	\$ 6,500	\$ 6,500	\$ -
Land improvements	42,504	42,832	(328)
Building	1,661,889	1,666,102	(4,213)
Fixed equipment	488,926	498,609	(9,683)
Major movable equipment	<u>561,259</u>	<u>598,677</u>	<u>(37,418)</u>
Subtotal	2,761,078	2,812,720	(51,642)
Less accumulated depreciation	<u>(1,502,754)</u>	<u>(1,476,163)</u>	<u>(26,591)</u>
Property and equipment	<u>\$1,258,324</u>	<u>\$1,336,557</u>	<u>\$ (78,233)</u>

Debt Administration

At year end, the Health Center had \$336,003 in note payable and current and long-term debt. This has decreased by \$1,953 in fiscal year 2004, which was the required amount of principal payment on the outstanding notes for fiscal year 2004, net of proceeds from issuance of note payable. More detailed information about the Health Center's outstanding debt is presented in the Notes to Financial Statements. The note payable and current and long-term debt represent 22% of the Health Center's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Health Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP basis are presented in the Notes to Financial Statements. A comparison of the Health Center's fiscal year 2004 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 631,113	\$ 604,269	\$ 26,844
Other revenues/receipts	<u>3,301,291</u>	<u>4,782,065</u>	<u>(1,480,774)</u>
	3,932,404	5,386,334	(1,453,930)
Expenses/expenditures	<u>4,030,878</u>	<u>4,214,926</u>	<u>184,048</u>
Net	<u>\$ (98,474)</u>	<u>\$1,171,408</u>	<u>\$(1,269,882)</u>

Actual other revenues/receipts results were lower than County Hospital budget primarily due to significantly less net patient service revenue. Expenses/expenditures were lower than County Hospital budget primarily due to ongoing monitoring of costs considering reduction in net patient service revenue volume.

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2005 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payers, especially Wellmark Blue Cross
- Cost of supplies
- Privacy legislation, HIPAA
- Facility expansion or renovation
- Technology advancements

Contacting Health Center's Management

This financial report is designed to provide users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about this report or need additional information, contact Keokuk County Health Center at (641) 622-2720 or write care of: Chief Financial Officer, Keokuk County Health Center, 1312 South Stuart St., Sigourney, Iowa 52591.

**Keokuk County Health Center
BALANCE SHEETS**

ASSETS	June 30	
	2004	2003
CURRENT ASSETS		
Cash	\$ 194,610	\$ 343,002
Patient receivables, less allowances for contractual adjustments and uncollectible accounts	648,460	658,343
Other receivables	10,157	9,918
Estimated third-party payor settlements	350,000	100,000
Inventories	81,868	108,237
Prepaid expenses	109,389	57,524
Total current assets	<u>1,394,484</u>	<u>1,277,024</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	2,761,078	2,812,720
Total property and equipment	<u>1,502,754</u>	<u>1,476,163</u>
	<u>1,258,324</u>	<u>1,336,557</u>
OTHER ASSET		
Succeeding year property tax receivable	680,000	540,000
	<u>680,000</u>	<u>540,000</u>
Totals	<u>\$3,332,808</u>	<u>\$3,153,581</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Note payable	\$ 200,000	\$ 200,000
Current maturities of long-term debt	91,709	74,265
Accounts payable	215,425	193,906
Accrued employee compensation	103,946	185,681
Payroll taxes and amounts withheld from employees	19,157	21,240
Estimated third-party payor settlements	200,000	-
Total current liabilities	<u>830,237</u>	<u>675,092</u>
LONG-TERM DEBT , less current maturities	<u>44,294</u>	<u>63,691</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>680,000</u>	<u>540,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	1,182,321	1,318,601
Unrestricted	595,956	556,197
Total fund equity	<u>1,778,277</u>	<u>1,874,798</u>
Totals	<u>\$3,332,808</u>	<u>\$3,153,581</u>

See Notes to Financial Statements.

Keokuk County Health Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2004	2003
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2004 \$174,700; 2003 \$153,000	\$3,164,901	\$3,478,009
OTHER REVENUE	<u>67,352</u>	<u>53,903</u>
Total revenue	<u>3,232,253</u>	<u>3,531,912</u>
EXPENSES		
Nursing service	1,613,935	1,448,545
Other professional service	777,908	796,944
General service	439,054	450,721
Fiscal and administrative service and unassigned expenses	876,666	908,030
Provision for depreciation	<u>164,120</u>	<u>171,332</u>
Total expenses	<u>3,871,683</u>	<u>3,775,572</u>
Operating (loss)	<u>(639,430)</u>	<u>(243,660)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	559,758	553,669
Investment income	1,421	2,626
Unrestricted contributions	998	14,878
Interest expense	<u>(19,268)</u>	<u>(25,545)</u>
Total nonoperating gains (losses)	<u>542,909</u>	<u>545,628</u>
Change in fund equity	(96,521)	301,968
TOTAL FUND EQUITY		
Beginning	<u>1,874,798</u>	<u>1,572,830</u>
Ending	<u>\$1,778,277</u>	<u>\$1,874,798</u>

**Keokuk County Health Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$3,124,784	\$3,365,734
Cash paid to suppliers for goods and services	(1,803,695)	(1,890,682)
Cash paid to employees for services	(1,991,902)	(1,695,513)
Other operating revenue received	<u>67,352</u>	<u>53,903</u>
Net cash (used in) operating activities	<u>(603,461)</u>	<u>(166,558)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	559,758	553,669
Contributions received	<u>998</u>	<u>14,878</u>
Net cash provided by noncapital financing activities	<u>560,756</u>	<u>568,547</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	85,887	-
Acquisition of property and equipment	(85,887)	(87,619)
Principal payments on long-term debt	(87,840)	(73,504)
Interest paid on long-term debt	<u>(19,268)</u>	<u>(25,545)</u>
Net cash (used in) capital and related financing activities	<u>(107,108)</u>	<u>(186,668)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>1,421</u>	<u>2,626</u>
NET INCREASE (DECREASE) IN CASH	(148,392)	217,947
CASH		
Beginning	<u>343,002</u>	<u>125,055</u>
Ending	<u>\$ 194,610</u>	<u>\$ 343,002</u>

See Notes to Financial Statements.

**Keokuk County Health Center
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2004	2003
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (639,430)	\$ (243,660)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation	164,120	171,332
Changes in assets and liabilities		
(Increase) decrease in patient receivables	9,883	(172,275)
(Increase) decrease in other receivables	(239)	11,089
(Increase) decrease in estimated third-party payor settlements	(50,000)	60,000
Decrease in inventories	26,369	4,398
(Increase) in prepaid expenses	(51,865)	(17,894)
Increase (decrease) in accounts payable	21,519	(26,402)
Increase (decrease) in accrued employee compensation	(81,735)	43,068
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(2,083)</u>	<u>3,786</u>
Net cash (used in) operating activities	<u>\$ (603,461)</u>	<u>\$ (166,558)</u>

See Notes to Financial Statements.

Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Health Center is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Keokuk County, Iowa. The Health Center is governed by an elected seven member Board of Trustees.

Reporting Entity

For financial reporting purposes, Keokuk County Health Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Health Center 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 Health Center are such that exclusion would cause the Health Center'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 Health Center 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 Health Center. These criteria also include organizations that are fiscally dependent on the Health Center. The Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

The Health Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Health Center 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 Health Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

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

Effective July 1, 2003, the Health Center adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Health Center.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Health Center is four to forty years.

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Receivable

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

Deferred Revenue For Succeeding Year Property Tax Receivable

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

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 long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted fund equity

Restricted fund equity consists of funds 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.

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.

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.

Credit Policy

The Health Center grants credit to patients, substantially all of whom are residents of the County.

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reclassification

Certain reclassifications have been made in the June 30, 2003 financial statements to conform to the June 30, 2004 presentation. These reclassifications had no impact on the total fund equity or the change in fund equity.

NOTE 2 CASH

The Health Center's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by 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 Health Center 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.

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	Year ended June 30	
	2004	2003
Patients	\$ 207,297	\$ 213,295
Insurance carriers	137,552	116,257
Medicare	261,574	267,218
Medicaid	<u>92,037</u>	<u>71,573</u>
Total patient receivables	698,460	668,343
Less allowances for contractual adjustments and uncollectible accounts	<u>(50,000)</u>	<u>(10,000)</u>
Net patient receivables	<u>\$ 648,460</u>	<u>\$ 658,343</u>

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 6,500	\$ -	\$ 6,500	\$ -
Land improvements	42,504	16,928	42,832	13,634
Building	1,661,889	856,294	1,666,102	819,176
Fixed equipment	488,926	304,769	498,609	279,011
Major movable equipment	<u>561,259</u>	<u>324,763</u>	<u>598,677</u>	<u>364,342</u>
Totals	<u>\$2,761,078</u>	<u>\$1,502,754</u>	<u>\$2,812,720</u>	<u>\$1,476,163</u>

A summary of changes in property and equipment for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	42,832	-	328	42,504
Building	1,666,102	-	4,213	1,661,889
Fixed equipment	498,609	-	9,683	488,926
Major movable equipment	<u>598,677</u>	<u>85,887</u>	<u>123,305</u>	<u>561,259</u>
Totals	2,812,720	85,887	137,529	2,761,078
Less accumulated depreciation	<u>(1,476,163)</u>	<u>(164,120)</u>	<u>(137,529)</u>	<u>(1,502,754)</u>
Net property and equipment	<u>\$1,336,557</u>	<u>\$ (78,233)</u>	<u>\$ -</u>	<u>\$1,258,324</u>

A summary of changes in property and equipment for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	84,624	-	41,792	42,832
Building	1,703,640	-	37,538	1,666,102
Fixed equipment	542,987	30,031	74,409	498,609
Major movable equipment	<u>648,224</u>	<u>49,377</u>	<u>98,924</u>	<u>598,677</u>
Totals	2,985,975	79,408	252,663	2,812,720
Less accumulated depreciation	<u>(1,557,494)</u>	<u>(171,332)</u>	<u>(252,663)</u>	<u>(1,476,163)</u>
Net property and equipment	<u>\$1,428,481</u>	<u>\$ (91,924)</u>	<u>\$ -</u>	<u>\$1,336,557</u>

NOTE 5 NOTE PAYABLE

Note payable consists of the following at June 30, 2004:

Line of credit agreement with a bank providing a maximum credit limit of \$200,000, under which \$200,000 was outstanding at June 30, 2004. The agreement, which expires July, 2004, carries interest at 4%. The agreement is secured by virtually all assets of the Health Center.

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	Year ended June 30	
	2004	2003
Note payable, operating	\$ 60,000	\$ 120,000
Note payable, equipment	72,312	-
Note payable, other	3,691	17,956
Total	136,003	137,956
Less current maturities	91,709	74,265
Long-term debt, net of current maturities	\$ 44,294	\$ 63,691

Note Payable, Operating

The Health Center has a note agreement to finance operating needs of the Health Center. The note requires semiannual installments of \$30,000, plus interest at 6%, with the final payment due April, 2005. The note is collateralized by anticipatory warrants.

Note Payable, Equipment

The Health Center has a note agreement to finance the purchase of certain equipment. The note requires semiannual payments of \$15,395, including interest at 4%, with the final payment due January, 2007. The note is collateralized by the equipment purchased by the Health Center.

Note Payable, Other

The Health Center has another note agreement. The note requires monthly payments of \$1,241, including interest at 5%, with the final payment due September, 2004. The note is collateralized by the equipment purchased by the Health Center.

Maturities required on long-term debt are as follows:

Year ending June 30	Note payable, operating	Note payable, equipment	Note payable, other	Total principal	Interest	Total
2005	\$ 60,000	\$ 28,018	\$ 3,691	\$ 91,709	\$ 5,506	\$ 97,215
2006	-	29,218	-	29,218	1,572	30,790
2007	-	15,076	-	15,076	320	15,396
Totals	60,000	72,312	3,691	136,003	7,398	143,401
Less current maturities	60,000	28,018	3,691	91,709	5,506	97,215
Total long-term debt	\$ -	\$ 44,294	\$ -	\$ 44,294	\$ 1,892	\$ 46,186

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable, operating	\$ 120,000	\$ —	\$ 60,000	\$ 60,000	\$ 60,000
Note payable, equipment	—	85,887	13,575	72,312	28,018
Note payable, other	<u>17,956</u>	<u>—</u>	<u>14,265</u>	<u>3,691</u>	<u>3,691</u>
Totals	<u>\$ 137,956</u>	<u>\$ 85,887</u>	<u>\$ 87,840</u>	<u>\$ 136,003</u>	<u>\$ 91,709</u>

A summary of changes in long-term debt for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable, operating	\$ 180,000	\$ —	\$ 60,000	\$ 120,000	\$ 60,000
Note payable, other	<u>31,460</u>	<u>—</u>	<u>13,504</u>	<u>17,956</u>	<u>14,265</u>
Totals	<u>\$ 211,460</u>	<u>\$ —</u>	<u>\$ 73,504</u>	<u>\$ 137,956</u>	<u>\$ 74,265</u>

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Health Center 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. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2002.

Other

The Health Center has 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.

NOTE 8 MEDICAL CLINIC

The Health Center and a medical services corporation have entered into a lease agreement covering the Health Center's medical clinic. The lease, which was renewed for an unspecified period, calls for monthly rent of \$2,573. The rental income amount included in other revenue was \$30,876 for each of the years ended June 30, 2004 and 2003.

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 MALPRACTICE CLAIMS

The Health Center 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.

Presently, no claims alleging malpractice have been asserted against the Health Center. However, incidents occurring through June 30, 2004 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 10 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Health Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$109,746, \$100,253 and \$85,772, respectively, equal to the required contributions for each year.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget following required public notice and hearings for all funds. The annual County Hospital budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Health Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases is that debt service proceeds and payments are recorded on the County Hospital budget basis.

The following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u> <u>General</u> <u>funds</u>	<u>Budget</u> <u>basis</u> <u>adjustments</u>	<u>Budget</u> <u>basis</u>	<u>County</u> <u>Hospital</u> <u>Budget</u>
Amount to be raised by taxation	\$ 559,758	\$ 71,355	\$ 631,113	\$ 604,269
Other revenues/receipts	<u>3,215,404</u>	<u>85,887</u>	<u>3,301,291</u>	<u>4,782,065</u>
	3,775,162	157,242	3,932,404	5,386,334
Expenses/expenditures	<u>3,871,683</u>	<u>159,195</u>	<u>4,030,878</u>	<u>4,214,926</u>
Net	(96,521)	(1,953)	(98,474)	1,171,408
Balance, beginning	<u>1,874,798</u>	—	<u>1,874,798</u>	<u>4,076,439</u>
Balance, ending	<u>\$1,778,277</u>	<u>\$ (1,953)</u>	<u>\$1,776,324</u>	<u>\$5,247,847</u>

**Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 RISK MANAGEMENT

The Health Center 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 Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

Our report on our audits of the basic financial statements of Keokuk County Health Center for 2004 and 2003 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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
August 10, 2004

**Keokuk County Health Center
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>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
0 – 30 days (includes patients in Health Center at end of year)	\$ 108,599	\$ 152,926	15.55%	22.88%
31 – 60 days	203,776	183,576	29.18	27.47
61 – 90 days	127,397	81,231	18.24	12.15
91 – 120 days	93,198	49,631	13.34	7.43
Over 120 days	<u>165,490</u>	<u>200,979</u>	<u>23.69</u>	<u>30.07</u>
Totals	<u>698,460</u>	<u>668,343</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(40,000)	(70,000)		
Medicaid	20,000	20,000		
Other	10,000	10,000		
Uncollectibles	<u>60,000</u>	<u>50,000</u>		
Total allowances	<u>50,000</u>	<u>10,000</u>		
Totals	<u>\$ 648,460</u>	<u>\$ 658,343</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 8,647</u>	<u>\$ 9,529</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>75</u>	<u>69</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
BALANCE , beginning	\$ 50,000	\$ 40,000		
ADD				
Provision for bad debts	174,700	153,000	5.52%	4.40%
Recoveries of accounts previously written off	<u>21,425</u>	<u>18,785</u>	.68	.54
	246,125	211,785		
DEDUCT				
Accounts written off	<u>186,125</u>	<u>161,785</u>	5.88	4.65
BALANCE , ending	<u>\$ 60,000</u>	<u>\$ 50,000</u>		

Keokuk County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2004, with comparative totals for 2003

	2004			2003
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 91,658	\$ -	\$ 91,658	\$ 65,390
Skilled care	163,703	-	163,703	136,847
Intermediate care	<u>252,145</u>	<u>-</u>	<u>252,145</u>	<u>349,939</u>
	<u>507,506</u>	<u>-</u>	<u>507,506</u>	<u>552,176</u>
OTHER NURSING SERVICES				
Observation room	-	20,205	20,205	5,838
Emergency service	8,405	311,407	319,812	392,849
Special procedures	-	5,560	5,560	21,742
Central supply	46,283	8,303	54,586	20,324
Ambulance	1,276	807,456	808,732	895,163
Hospice	<u>6,648</u>	<u>-</u>	<u>6,648</u>	<u>51,616</u>
	<u>62,612</u>	<u>1,152,931</u>	<u>1,215,543</u>	<u>1,387,532</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	60,113	509,880	569,993	542,500
Radiology	20,987	176,795	197,782	216,913
Electrocardiology	5,447	22,548	27,995	26,196
Pharmacy	62,977	88,469	151,446	100,550
Occupational therapy	20,375	10,656	31,031	45,447
Speech therapy	624	14,810	15,434	22,146
Physical therapy	27,049	223,921	250,970	274,093
Cardiac rehabilitation	<u>-</u>	<u>31,512</u>	<u>31,512</u>	<u>14,386</u>
	<u>197,572</u>	<u>1,078,591</u>	<u>1,276,163</u>	<u>1,242,231</u>
Total gross patient service revenue	<u>\$ 767,690</u>	<u>\$2,231,522</u>	2,999,212	3,181,939
Provisions for contractual adjustments and bad debts			<u>165,689</u>	<u>296,070</u>
Total net patient service revenue			<u>\$3,164,901</u>	<u>\$3,478,009</u>

**Keokuk County Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	Year ended June 30	
	2004	2003
Contractual adjustments		
Medicare	\$ (563,504)	\$ (673,617)
Medicaid	106,504	122,995
Other adjustments	116,611	101,552
Provision for bad debts	174,700	153,000
Totals	\$ (165,689)	\$ (296,070)

OTHER REVENUE

	Year ended June 30	
	2004	2003
Rental income		
Medical clinic	\$ 30,876	\$ 30,876
Other	4,110	3,820
Miscellaneous	32,366	19,207
Totals	\$ 67,352	\$ 53,903

Keokuk County Health Center
EXPENSES
Year ended June 30, 2004, with comparative totals for 2003

	2004			2003
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	\$ 109,839	\$ 32	\$ 109,871	\$ 99,698
Adult and pediatric	559,499	156,281	715,780	670,554
Emergency service	87,096	243,163	330,259	243,036
Special procedures	363	926	1,289	27,295
Central supply	35,832	1,367	37,199	38,933
Ambulance	<u>309,061</u>	<u>110,476</u>	<u>419,537</u>	<u>396,324</u>
Total nursing service	<u>1,101,690</u>	<u>512,245</u>	<u>1,613,935</u>	<u>1,475,840</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	89,428	122,854	212,282	200,322
Radiology	75,472	35,941	111,413	106,735
Electrocardiology	-	5,865	5,865	6,432
Pharmacy	5,141	133,511	138,652	109,604
Occupational therapy	-	22,291	22,291	34,616
Speech therapy	-	10,233	10,233	16,253
Physical therapy	-	164,738	164,738	198,092
Cardiac rehabilitation	20,705	11,436	32,141	21,131
Medical records	<u>77,569</u>	<u>2,724</u>	<u>80,293</u>	<u>76,464</u>
Total other professional service	<u>268,315</u>	<u>509,593</u>	<u>777,908</u>	<u>769,649</u>
GENERAL SERVICE				
Dietary	119,777	49,766	169,543	177,104
Plant operation	44,036	120,650	164,686	162,943
Housekeeping	52,722	9,725	62,447	73,723
Laundry	<u>39,426</u>	<u>2,952</u>	<u>42,378</u>	<u>36,951</u>
Total general service	<u>255,961</u>	<u>183,093</u>	<u>439,054</u>	<u>450,721</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration and business office	284,201	196,271	480,472	520,095
FICA	-	132,961	132,961	132,274
IPERS	-	109,746	109,746	100,253
Group health and life insurance	-	77,595	77,595	93,307
Unemployment claims	-	5,657	5,657	3,771
Insurance	<u>-</u>	<u>70,235</u>	<u>70,235</u>	<u>58,330</u>
Total fiscal and administrative service and unassigned expenses	<u>284,201</u>	<u>592,465</u>	<u>876,666</u>	<u>908,030</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>164,120</u>	<u>164,120</u>	<u>171,332</u>
Total expenses	<u>\$1,910,167</u>	<u>\$1,961,516</u>	<u>\$3,871,683</u>	<u>\$3,775,572</u>

**Keokuk County Health Center
COMPARATIVE STATISTICS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
PATIENT DAYS		
Adult and pediatric	164	151
Swing bed		
Skilled care	366	517
Intermediate care	<u>2,412</u>	<u>3,575</u>
Totals	<u>2,942</u>	<u>4,243</u>
DISCHARGES		
Adult and pediatric	45	44
Swing bed		
Skilled care	30	38
Intermediate care	<u>31</u>	<u>35</u>
Totals	<u>106</u>	<u>117</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.64	3.43
Swing bed		
Skilled care	12.20	13.61
Intermediate care	77.81	102.14

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
Keokuk County Health Center
Sigourney, Iowa

We have audited the financial statements of Keokuk County Health Center as of and for the year ended June 30, 2004, and have issued our report thereon dated August 10, 2004, which included an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center'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 Health Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. 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. 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 Keokuk County and other parties to whom the Health Center 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
August 10, 2004

**Keokuk County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2004**

Part I—Findings Related to the Financial Statements

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

**Keokuk County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2004**

Part II—Findings Related to Required Statutory Reporting

04-II-A OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-II-B CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Health Center did not exceed its County Hospital budget for the year ended June 30, 2004.

04-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

04-II-D TRAVEL EXPENSES

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

04-II-E BUSINESS TRANSACTIONS

No business transactions were found between the Health Center and Health Center officials and/or employees.

04-II-F BOARD MINUTES

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

04-II-G DEPOSITS AND INVESTMENTS

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