

**Keokuk County Health Center  
Sigourney, Iowa**

**FINANCIAL REPORT**

**June 30, 2006**

## CONTENTS

	<u>Page</u>
<b>OFFICIALS</b>	3
<b>INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS</b>	4
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5-10
<b>FINANCIAL STATEMENTS</b>	
Balance sheets	11-12
Statements of revenues, expenses, and changes in fund equity	13
Statements of cash flows	14-15
Notes to financial statements	16-23
<b>INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION</b>	24
<b>SUPPLEMENTARY INFORMATION</b>	
Analysis of patient receivables	25
Analysis of allowance for uncollectibles	25
Patient service revenue	26
Provisions for contractual and other adjustments	27
Other revenue	27
Expenses	28
Comparative statistics	29
<b>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</b>	30-31
<b>SCHEDULE OF FINDINGS</b>	32-33

**Keokuk County Health Center  
OFFICIALS  
June 30, 2006**

**BOARD OF TRUSTEES**

**Officers**

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

**Expiration of term**

December 31, 2006  
December 31, 2010  
December 31, 2010

**Members**

Elayne Campbell  
Loretta Hudson  
Cheryl Monroe

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

**CHIEF EXECUTIVE OFFICER**

Pat Peters

**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, 2006 and 2005, 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 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 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2006 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 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.

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 Governmental 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.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 7, 2006

**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, 2006 and 2005. 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, the independent auditor's reports, 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 \$10,512,102 to \$14,228,544
- Total noncurrent assets whose use is limited increased to \$6,288,702
- Total property and equipment increased by \$2,772,638 to \$4,222,556
- Total fund equity increased by \$290,758 to \$2,371,439
- Total long-term debt increased to \$10,000,000
- Net patient service revenue increased by \$169,927, or 5% primarily due to an increase in certain ancillary services
- Expenses increased by \$228,392, or 6%, to \$4,074,373

**Financial Analysis of the Health Center**

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Health Center and the changes in them. The Health Center's fund equity, the difference between assets and liabilities, is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's fund equity 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**

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Current assets	\$ 2,760,686	\$1,596,524	\$1,307,825
Assets whose use is limited	6,288,702	-	-
Property and equipment	4,222,556	1,449,918	1,344,983
Other assets	<u>956,600</u>	<u>670,000</u>	<u>680,000</u>
<b>Total assets</b>	<b><u>\$14,228,544</u></b>	<b><u>\$3,716,442</u></b>	<b><u>\$3,332,808</u></b>
Current liabilities	\$ 1,282,105	\$ 965,761	\$ 830,237
Long-term debt, less current maturities	9,875,000	-	44,294
Other noncurrent liabilities	<u>700,000</u>	<u>670,000</u>	<u>680,000</u>
<b>Total liabilities</b>	<b><u>\$11,857,105</u></b>	<b><u>\$1,635,761</u></b>	<b><u>\$1,554,531</u></b>
Invested in capital assets, net of related debt	\$ 776,188	\$1,449,918	\$1,268,980
Restricted	750,042	-	-
Unrestricted	<u>845,209</u>	<u>630,763</u>	<u>509,297</u>
<b>Total fund equity</b>	<b><u>\$ 2,371,439</u></b>	<b><u>\$2,080,681</u></b>	<b><u>\$1,778,277</u></b>

As depicted in Table 1, total assets increased significantly in fiscal year 2006 to \$14,228,544. The change in total assets results primarily from proceeds from long-term debt during the early stages of the Health Center's significant construction project. During fiscal year 2006, the Health Center began a construction project consisting of a replacement health center adjoining the existing facility. Construction costs are being funded by issuance of long-term debt.

## 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**

	Year ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net patient service revenue	\$3,583,986	\$3,414,059	\$3,164,901
Other revenue	<u>108,292</u>	<u>68,519</u>	<u>67,352</u>
Total revenue	<u>3,692,278</u>	<u>3,482,578</u>	<u>3,232,253</u>
Salaries	1,917,020	1,837,313	1,910,167
Other expenses	1,972,426	1,849,946	1,797,396
Provision for depreciation	<u>184,927</u>	<u>158,722</u>	<u>164,120</u>
Total expenses	<u>4,074,373</u>	<u>3,845,981</u>	<u>3,871,683</u>
Operating (loss)	<u>(382,095)</u>	<u>(363,403)</u>	<u>(639,430)</u>
County taxes	662,892	677,335	559,758
Investment income	2,241	1,137	1,421
Unrestricted contributions	7,720	1,733	998
Interest expense	<u>—</u>	<u>(14,398)</u>	<u>(19,268)</u>
Total nonoperating gains	<u>672,853</u>	<u>665,807</u>	<u>542,909</u>
Change in fund equity	290,758	302,404	(96,521)
Total fund equity, beginning	<u>2,080,681</u>	<u>1,778,277</u>	<u>1,874,798</u>
Total fund equity, ending	<u>\$2,371,439</u>	<u>\$2,080,681</u>	<u>\$1,778,277</u>

## Operating and Financial Performance

The following summarizes the Health Center's statements of revenues, expenses and changes in fund equity between June 30, 2006 and 2005.

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

**Volume:** Acute discharges for fiscal year 2006 were 53 compared to 44 in fiscal year 2005. Average length of stay decreased as patient days decreased to 137 from 143 in 2005. Swing bed, skilled care discharges for fiscal year 2006 were 37 compared to 50 in fiscal year 2005. Average length of stay decreased as patient days decreased to 454 from 687 in 2005. Volume on the outpatient side increased in 2006. In 2006, gross outpatient charges increased to \$2,806,433 compared to \$2,478,310 in 2005.

**Price Increase:** As is customary, the Health Center annually reviews its charge structure and incorporate certain price increases. Overall, gross patient service revenue increased to \$3,495,198 from \$3,351,796 in 2005.

**Payor Mix:** 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. As a result of this continuing designation, contractual adjustments and bad debts remained relatively steady at \$(88,788) in 2006 compared to \$(62,263) in 2005. This represents an additional 3% 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>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	53%	59%	56%
Medicaid	7	7	8
Wellmark	14	12	10
Commercial insurance	8	8	8
Self pay	<u>18</u>	<u>14</u>	<u>18</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue increased to \$108,292 in 2006 compared to \$68,519 in 2005, primarily due to increased miscellaneous income.

**Expenses**

Approximately 45% of Health Center's expenses are for salaries. Total salaries increased by 4% to \$1,917,020 in 2006 from \$1,837,313 in 2005. The Health Center departments experiencing the most significant increase in 2006 were adult and pediatric and ambulance.

Approximately 50% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$1,972,426 in 2006 from \$1,849,946 in 2005. The most significant increase in 2006 related to group health and life insurance.

Approximately 5% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$184,927 in 2006 from \$158,722 in 2005.

**Nonoperating Gains**

Nonoperating gains increased slightly to \$672,853 from \$665,807 in 2005.

**Property and Equipment**

At the end of 2006, the Health Center had \$4,222,556 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 2006, \$2,957,565 was spent to acquire new equipment and toward the Health Center's construction project, consisting of a replacement health center adjoining the existing facility.

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

**Table 4  
Property and Equipment**

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Land	\$ 6,500	\$ 6,500	\$ 6,500
Land improvements	40,535	42,504	42,504
Building	1,173,789	1,463,913	1,661,889
Fixed equipment	316,326	323,585	488,926
Major movable equipment	484,817	540,891	561,259
Construction in progress	<u>3,301,881</u>	<u>344,316</u>	<u>86,659</u>
Subtotal	5,323,848	2,721,709	2,847,737
Less accumulated depreciation	<u>1,101,292</u>	<u>(1,271,791)</u>	<u>(1,502,754)</u>
Property and equipment	<u>\$4,222,556</u>	<u>\$1,449,918</u>	<u>\$1,344,983</u>

**Debt Administration**

Long-term debt increased by \$10,000,000 in fiscal year 2006 as the Health Center issued Hospital Revenue Bonds, Series 2005. More detailed information about the Health Center's long-term debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 85% 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 bases are presented in the Notes to Financial Statements. A comparison of the Health Center's fiscal year 2006 actual budget basis financial information to its annual County Hospital budget, as amended, is presented in Table 5.

**Table 5  
Actual vs County Hospital Budget**

	<b>Actual budget basis</b>	<b>Annual County Hospital budget</b>	<b>Variance</b>
Amount to be raised by taxation	\$ 728,740	\$ 698,140	\$ 30,600
Other revenues/receipts	<u>13,702,239</u>	<u>3,823,925</u>	<u>9,878,314</u>
	14,430,979	4,522,065	9,908,914
Expenses/expenditures	<u>7,097,786</u>	<u>7,503,061</u>	<u>(405,275)</u>
Net	<u>\$ 7,333,193</u>	<u>\$(2,980,996)</u>	<u>\$10,314,189</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to greater proceeds from long-term debt. Expenses/expenditures were less than County Hospital budget, as amended, primarily due to less construction costs relating to the Health Center's construction project.

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

The Health Center's board and management considered many factors when setting the fiscal year 2007 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion
- 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**

<b>ASSETS</b>	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 327,220	\$ 556,508
Assets whose use is limited, required for current liabilities	1,014,972	-
Patient receivables, less allowances for contractual adjustments and uncollectible accounts	1,055,995	796,094
Other receivables	12,905	14,318
Estimated third-party payor settlements	220,000	110,000
Inventories	81,767	83,410
Prepaid expenses	47,827	36,194
Total current assets	<u>2,760,686</u>	<u>1,596,524</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	1,538,840	-
Certificate of deposit	4,900,000	-
Interest receivable	114,792	-
	<u>6,553,632</u>	<u>-</u>
Restricted for payment of long-term debt and interest		
Cash	750,042	-
Total assets whose use is limited	<u>7,303,674</u>	<u>-</u>
Less assets whose use is limited and that are required for current liabilities	1,014,972	-
Non current assets whose use is limited	<u>6,288,702</u>	<u>-</u>
<b>PROPERTY AND EQUIPMENT</b>		
	5,323,848	2,721,709
Less accumulated depreciation	1,101,292	1,271,791
Total property and equipment	<u>4,222,556</u>	<u>1,449,918</u>
<b>OTHER ASSETS</b>		
Unamortized financing costs	256,600	-
Succeeding year property tax receivable	700,000	670,000
Total other assets	<u>956,600</u>	<u>670,000</u>
 Totals	 <u>\$14,228,544</u>	 <u>\$3,716,442</u>

See Notes to Financial Statements.

	<b>June 30</b>	
	<u>2006</u>	<u>2005</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 125,000	\$ —
Accounts payable		
Trade	113,098	229,920
Construction	846,072	—
Accrued employee compensation	138,948	113,662
Payroll taxes and amounts withheld from employees	15,087	12,179
Accrued interest	43,900	—
Estimated third-party payor settlements	—	610,000
Total current liabilities	<u>1,282,105</u>	<u>965,761</u>
<b>LONG-TERM DEBT</b> , less current maturities	<u>9,875,000</u>	<u>—</u>
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	<u>700,000</u>	<u>670,000</u>
<b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	776,188	1,449,918
Restricted	750,042	—
Unrestricted	845,209	630,763
Total fund equity	<u>2,371,439</u>	<u>2,080,681</u>
Totals	<u>\$14,228,544</u>	<u>\$3,716,442</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2006 \$196,377; 2005 \$184,165	\$3,583,986	\$3,414,059
<b>OTHER REVENUE</b>	<u>108,292</u>	<u>68,519</u>
Total revenue	<u>3,692,278</u>	<u>3,482,578</u>
<b>EXPENSES</b>		
Nursing service	1,671,232	1,526,578
Other professional service	847,482	867,686
General service	384,290	393,512
Fiscal and administrative service and unassigned expenses	986,442	899,483
Provision for depreciation	<u>184,927</u>	<u>158,722</u>
Total expenses	<u>4,074,373</u>	<u>3,845,981</u>
Operating (loss)	<u>(382,095)</u>	<u>(363,403)</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
County taxes	662,892	677,335
Investment income	2,241	1,137
Unrestricted contributions	7,720	1,733
Interest expense	<u>—</u>	<u>(14,398)</u>
Total nonoperating gains (losses)	<u>672,853</u>	<u>665,807</u>
Change in fund equity	290,758	302,404
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>2,080,681</u>	<u>1,778,277</u>
Ending	<u>\$2,371,439</u>	<u>\$2,080,681</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$ 2,604,085	\$3,916,425
Cash paid to suppliers for goods and services	(2,094,917)	(1,861,596)
Cash paid to employees for services	(1,891,734)	(1,827,597)
Other operating revenue received	<u>108,292</u>	<u>68,519</u>
Net cash provided by (used in) operating activities	<u>(1,274,274)</u>	<u>295,751</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County taxes	662,892	677,335
Contributions received	<u>7,720</u>	<u>1,733</u>
Net cash provided by noncapital financing activities	<u>670,612</u>	<u>679,068</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	10,000,000	-
Acquisition of property and equipment	(2,295,816)	(263,657)
Principal payments on note payable	-	(200,000)
Principal payments on long-term debt	-	(136,003)
Interest paid on long-term debt	<u>(225,493)</u>	<u>(14,398)</u>
Net cash provided by (used in) capital and related financing activities	<u>7,478,691</u>	<u>(614,058)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	84,565	1,137
Purchase of certificate of deposit	<u>(4,900,000)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(4,815,435)</u>	<u>1,137</u>
<b>NET INCREASE IN CASH</b>	2,059,594	361,898
<b>CASH</b>		
Beginning	<u>556,508</u>	<u>194,610</u>
Ending	<u>\$ 2,616,102</u>	<u>\$ 556,508</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating (loss)	\$ (382,095)	\$ (363,403)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation	184,927	158,722
Changes in assets and liabilities		
(Increase) in patient receivables	(259,901)	(147,634)
(Increase) decrease in other receivables	1,413	(4,161)
(Increase) decrease in net estimated third-party payor settlements	(720,000)	650,000
(Increase) decrease in inventories	1,643	(1,542)
(Increase) in prepaid expenses	(11,633)	(13,464)
Increase (decrease) in accounts payable, trade	(116,822)	14,495
Increase in accrued employee compensation	25,286	9,716
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>2,908</u>	<u>(6,978)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,274,274)</u>	<u>\$ 295,751</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 327,220	\$ 556,508
Assets whose use is limited		
Restricted for payment of long-term debt and interest, cash	<u>2,288,882</u>	<u>—</u>
Total per statement of cash flows	<u>\$2,616,102</u>	<u>\$ 556,508</u>

**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 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.

**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.

**Cost of Borrowing**

Unamortized financing costs are amortized over the life of the issue, using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**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.

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Credit Policy**

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

**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.

**NOTE 2 CASH**

The Health Center's deposits in banks at June 30, 2006 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.

As to interest rate risk, the Health Center's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Health Center.

**NOTE 3 PATIENT RECEIVABLES**

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Patients	\$ 241,509	\$ 210,131
Insurance carriers	230,196	190,641
Medicare	369,637	295,711
Medicaid	<u>194,653</u>	<u>109,611</u>
Total patient receivables	1,035,995	806,094
Plus (less) allowances for contractual adjustments and uncollectible accounts	<u>20,000</u>	<u>(10,000)</u>
Net patient receivables	<u>\$1,055,995</u>	<u>\$ 796,094</u>

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

**NOTE 4 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2006:

	<u>Project Fund</u>	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ -	\$ -	\$ -	\$ -
Proceeds from issuance of long-term debt	9,304,302	-	695,698	10,000,000
Transfer from current assets, cash	-	297,408	-	297,408
Payments for construction costs	(2,750,670)	-	-	(2,750,670)
Principal and interest payments	<u>-</u>	<u>(243,064)</u>	<u>-</u>	<u>(243,064)</u>
<b>BALANCE</b> , end of year	<u>\$6,553,632</u>	<u>\$ 54,344</u>	<u>\$ 695,698</u>	<u>\$ 7,303,674</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

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

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 6,500	\$ -	\$ 6,500	\$ -
Land improvements	40,535	22,010	42,504	20,487
Building	1,173,789	474,718	1,463,913	693,624
Fixed equipment	316,326	207,773	323,585	174,431
Major movable equipment	484,817	396,791	540,891	383,249
Construction in progress	<u>3,301,881</u>	<u>-</u>	<u>344,316</u>	<u>-</u>
Totals	<u>\$5,323,848</u>	<u>\$1,101,292</u>	<u>\$2,721,709</u>	<u>\$1,271,791</u>

Construction in progress at June 30, 2006 consists primarily of progress billings for construction costs related to the Health Center's construction project. The project includes construction of a replacement health center adjoining the existing facility. The estimated total cost of the project is approximately \$10 million and is being funded by issuance of long-term debt. As of June 30, 2006, the Health Center has \$846,072 accrued as accounts payable-construction.

A summary of changes in property and equipment for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	42,504	-	1,969	40,535
Building	1,463,913	-	290,124	1,173,789
Fixed equipment	323,585	-	7,259	316,326
Major movable equipment	540,891	-	56,074	484,817
Construction in progress	344,316	2,957,565	-	3,301,881
Totals	2,721,709	2,957,565	355,426	5,323,848
Less accumulated depreciation	(1,271,791)	(184,927)	(355,426)	(1,101,292)
Net property and equipment	<u>\$1,449,918</u>	<u>\$2,772,638</u>	<u>\$ -</u>	<u>\$4,222,556</u>

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

**NOTE 5 PROPERTY AND EQUIPMENT (continued)**

A summary of changes in property and equipment for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 6,500	\$ —	\$ —	\$ 6,500
Land improvements	42,504	—	—	42,504
Building	1,661,889	—	197,976	1,463,913
Fixed equipment	488,926	—	165,341	323,585
Major movable equipment	561,259	6,000	26,368	540,891
Construction in progress	86,659	257,657	—	344,316
Totals	2,847,737	263,657	389,685	2,721,709
Less accumulated depreciation	(1,502,754)	(158,722)	(389,685)	(1,271,791)
Net property and equipment	<u>\$1,344,983</u>	<u>\$ 104,935</u>	<u>\$ —</u>	<u>\$1,449,918</u>

A summary of interest costs on borrowed funds capitalized, net of interest earned, follows:

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Construction period--interest and amortization expenses	\$ 287,793	\$ —
Less interest earned on proceeds	(197,116)	—
Amount capitalized	<u>\$ 90,677</u>	<u>\$ —</u>

**NOTE 6 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Hospital Revenue Bonds, Series 2005	\$10,000,000	\$ —
Less current maturities	125,000	—
Long-term debt, net of current maturities	<u>\$ 9,875,000</u>	<u>\$ —</u>

**Hospital Revenue Bonds, Series 2005**

The Health Center has issued Hospital Revenue Bonds, Series 2005 in the original amount of \$10,000,000. The Bonds are payable solely from future revenues of the Health Center and are due serially each June 1 through 2020, at interest rates ranging from 3.85% to 5.5%. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$695,698.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2006.

The Bonds contain a number of covenants regarding the operation of the Health Center, and the Health Center is in substantial compliance with those covenants.

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

**NOTE 6 LONG-TERM DEBT (continued)**

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 125,000	\$ 527,128	\$ 652,128
2008	160,000	522,315	682,315
2009	175,000	515,915	690,915
2010	185,000	508,653	693,653
2011	195,000	500,698	695,698
2012-2016	1,100,000	2,360,314	3,460,314
2017-2020	<u>8,060,000</u>	<u>1,486,720</u>	<u>9,546,720</u>
Total	10,000,000	6,421,743	16,421,743
Less current maturities	<u>125,000</u>	<u>527,128</u>	<u>652,128</u>
Total long-term debt	<u>\$ 9,875,000</u>	<u>\$5,894,615</u>	<u>\$15,769,615</u>

A summary of changes in long-term debt for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds, Series 2005	\$ <u>—</u>	\$ <u>10,000,000</u>	\$ <u>—</u>	\$ <u>10,000,000</u>	\$ <u>125,000</u>

A summary of changes in long-term debt for the year ended June 30, 2005 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	\$ 60,000	\$ —	\$ 60,000	\$ —	\$ —
Note payable, equipment	72,312	—	72,312	—	—
Note payable, other	<u>3,691</u>	<u>—</u>	<u>3,691</u>	<u>—</u>	<u>—</u>
Totals	<u>\$ 136,003</u>	<u>\$ —</u>	<u>\$ 136,003</u>	<u>\$ —</u>	<u>\$ —</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, 2004.

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

**NOTE 7 NET PATIENT SERVICE REVENUE (continued)**

**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 \$3,465. The rental income amount included in other revenue was \$41,580 and \$30,876 for the years ended June 30, 2006 and 2005, respectively.

**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, 2006 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, 2006, 2005 and 2004 were \$110,229, \$105,370 and \$109,746, 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 are that capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

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

**NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)**

The following is a comparison of reported amounts to the amended 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>Amended</u> <u>County</u> <u>Hospital</u> <u>Budget</u>
Amount to be raised by taxation	\$ 662,892	\$ 65,848	\$ 728,740	\$ 698,140
Other revenues/receipts	<u>3,702,239</u>	<u>10,000,000</u>	<u>13,702,239</u>	<u>3,823,925</u>
	4,365,131	10,065,848	14,430,979	4,522,065
Expenses/expenditures	<u>4,074,373</u>	<u>3,023,413</u>	<u>7,097,786</u>	<u>7,503,061</u>
Net	290,758	7,042,435	7,333,193	(2,980,996)
Balance, beginning	<u>2,080,681</u>	—	<u>2,080,681</u>	<u>2,050,137</u>
Balance, ending	<u>\$2,371,439</u>	<u>\$ 7,042,435</u>	<u>\$ 9,413,874</u>	<u>\$ (930,859)</u>

**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 2006 and 2005 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 7, 2006

**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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 – 30 days (includes patients in Health Center at end of year)	\$ 197,769	\$ 137,469	19.09%	17.05%
31 – 60 days	227,230	193,900	21.93	24.05
61 – 90 days	135,015	119,714	13.03	14.85
91 – 120 days	61,022	106,756	5.90	13.25
Over 120 days	<u>414,959</u>	<u>248,255</u>	<u>40.05</u>	<u>30.80</u>
Totals	<u>1,035,995</u>	<u>806,094</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(190,000)	(110,000)		
Medicaid	40,000	20,000		
Other	20,000	20,000		
Uncollectibles	<u>110,000</u>	<u>80,000</u>		
Total allowances	<u>(20,000)</u>	<u>10,000</u>		
Totals	<u>\$1,055,995</u>	<u>\$ 796,094</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 9,819</u>	<u>\$ 9,354</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>108</u>	<u>85</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>BALANCE</b> , beginning	\$ 80,000	\$ 60,000		
<b>ADD</b>				
Provision for bad debts	196,377	184,165	5.48%	5.39%
Recoveries of accounts previously written off	<u>18,169</u>	<u>18,650</u>	.51	.55
	294,546	262,815		
<b>DEDUCT</b>				
Accounts written off	<u>184,546</u>	<u>182,815</u>	5.15	5.35
<b>BALANCE</b> , ending	<u>\$ 110,000</u>	<u>\$ 80,000</u>		

**Keokuk County Health Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2006, with comparative totals for 2005

	<b>2006</b>			<b>2005</b>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Adult and pediatric	\$ 103,372	\$ —	\$ 103,372	\$ 82,005
Skilled care	190,716	—	190,716	317,629
Intermediate care	<u>222,880</u>	<u>—</u>	<u>222,880</u>	<u>156,664</u>
	<u>516,968</u>	<u>—</u>	<u>516,968</u>	<u>556,298</u>
<b>OTHER NURSING SERVICES</b>				
Observation room	—	25,304	25,304	53,907
Emergency service	3,373	533,909	537,282	347,028
Special procedures	—	36,821	36,821	11,626
Central supply	35,055	39,742	74,797	53,299
Ambulance	158	740,464	740,622	743,391
Hospice	—	9,196	9,196	21,230
	<u>38,586</u>	<u>1,385,436</u>	<u>1,424,022</u>	<u>1,230,481</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	35,854	667,848	703,702	613,967
Radiology	8,756	239,335	248,091	257,410
Electrocardiology	3,595	25,855	29,450	34,747
Pharmacy	32,079	176,992	209,071	181,336
Occupational therapy	17,401	22,262	39,663	79,965
Speech therapy	5,176	3,002	8,178	20,868
Physical therapy	27,115	229,578	256,693	364,228
Cardiac rehabilitation	202	44,453	44,655	12,496
Clinic	<u>5,160</u>	<u>11,672</u>	<u>16,832</u>	<u>—</u>
	<u>135,338</u>	<u>1,420,997</u>	<u>1,556,335</u>	<u>1,565,017</u>
Totals	<u>\$ 690,892</u>	<u>\$2,806,433</u>	3,497,325	3,351,796
Charity care charges foregone, based on established rates			<u>(2,127)</u>	<u>—</u>
Total gross patient service revenue			3,495,198	3,351,796
Provisions for contractual adjustments and bad debts			<u>88,788</u>	<u>62,263</u>
Total net patient service revenue			<u>\$3,583,986</u>	<u>\$3,414,059</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare	\$ (532,878)	\$ (440,453)
Medicaid	38,311	(821)
Other adjustments	209,402	194,846
Provision for bad debts	<u>196,377</u>	<u>184,165</u>
 Totals	 <u>\$ (88,788)</u>	 <u>\$ (62,263)</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Rental income		
Medical clinic	\$ 41,580	\$ 30,876
Other	4,350	4,740
Miscellaneous	<u>62,362</u>	<u>32,903</u>
 Totals	 <u>\$ 108,292</u>	 <u>\$ 68,519</u>

**Keokuk County Health Center**  
**EXPENSES**  
Year ended June 30, 2006, with comparative totals for 2005

	<b>2006</b>			<b>2005</b>
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Total</b>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 115,130	\$ 177	\$ 115,307	\$ 101,914
Adult and pediatric	653,339	80,734	734,073	690,322
Emergency service	106,301	339,884	446,185	402,252
Special procedures	16,508	6,391	22,899	3,460
Central supply	6,944	227	7,171	19,072
Ambulance	<u>275,332</u>	<u>70,265</u>	<u>345,597</u>	<u>309,558</u>
Total nursing service	<u>1,173,554</u>	<u>497,678</u>	<u>1,671,232</u>	<u>1,526,578</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	73,073	182,498	255,571	236,838
Radiology	50,364	41,935	92,299	103,601
Electrocardiology	-	14,505	14,505	8,945
Pharmacy	5,510	164,708	170,218	163,514
Occupational therapy	-	18,565	18,565	40,864
Speech therapy	-	4,536	4,536	11,625
Physical therapy	-	116,720	116,720	192,496
Cardiac rehabilitation	25,210	40,554	65,764	26,525
Clinic	-	18,945	18,945	5,198
Medical records	<u>86,918</u>	<u>3,441</u>	<u>90,359</u>	<u>78,080</u>
Total other professional service	<u>241,075</u>	<u>606,407</u>	<u>847,482</u>	<u>867,686</u>
<b>GENERAL SERVICE</b>				
Dietary	109,679	37,783	147,462	149,497
Plant operation	45,873	112,587	158,460	162,485
Housekeeping	33,870	11,215	45,085	46,548
Laundry	<u>27,637</u>	<u>5,646</u>	<u>33,283</u>	<u>34,982</u>
Total general service	<u>217,059</u>	<u>167,231</u>	<u>384,290</u>	<u>393,512</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES</b>				
Administration and business office	285,332	229,713	515,045	479,449
FICA	-	125,611	125,611	125,990
IPERS	-	110,229	110,229	105,370
Group health and life insurance	-	148,572	148,572	110,156
Insurance	<u>-</u>	<u>86,985</u>	<u>86,985</u>	<u>78,518</u>
Total fiscal and administrative service and unassigned expenses	<u>285,332</u>	<u>701,110</u>	<u>986,442</u>	<u>899,483</u>
<b>PROVISION FOR DEPRECIATION</b>				
	<u>-</u>	<u>184,927</u>	<u>184,927</u>	<u>158,722</u>
Total expenses	<u>\$1,917,020</u>	<u>\$2,157,353</u>	<u>\$4,074,373</u>	<u>\$3,845,981</u>

**Keokuk County Health Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>PATIENT DAYS</b>		
Adult and pediatric	137	143
Swing bed		
Skilled care	454	687
Intermediate care	<u>1,973</u>	<u>1,613</u>
Totals	<u>2,564</u>	<u>2,443</u>
<b>DISCHARGES</b>		
Adult and pediatric	53	44
Swing bed		
Skilled care	37	50
Intermediate care	<u>27</u>	<u>35</u>
Totals	<u>117</u>	<u>129</u>
<b>AVERAGE LENGTH OF STAY</b>		
Adult and pediatric	2.58	3.25
Swing bed		
Skilled care	12.27	13.74
Intermediate care	73.07	46.09

**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, 2006, and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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, 2006 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*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 7, 2006

**Keokuk County Health Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2006**

**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, 2006**

**Part II—Findings Related to Required Statutory Reporting**

**05-II-A 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, as amended, for the year ended June 30, 2006.

**05-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Health Center funds were noted.

**05-II-C TRAVEL EXPENSES**

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

**05-II-D BUSINESS TRANSACTIONS**

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

**05-II-E BOARD MINUTES**

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

**05-II-F 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.