

**Clarke County Public Hospital
and Clarke County Hospital Foundation
Osceola, Iowa**

COMBINED FINANCIAL REPORT

June 30, 2009

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**Clarke County Public Hospital
and Clarke County Hospital Foundation
OFFICIALS
June 30, 2009**

Clarke County Public Hospital

BOARD OF TRUSTEES

Officers

Donald Waltz, Chair
James Schipper, Vice Chair and Treasurer
Sally Riekema, Secretary

Members

Neville Clayton
Beverly Edwards
Dennis Wilken
Teresa Woods

Expiration of term

December 31, 2010
December 31, 2014
December 31, 2010

December 31, 2014
December 31, 2012
December 31, 2014
December 31, 2012

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF FINANCIAL OFFICER

Michael Thilges

Clarke County Hospital Foundation

BOARD OF DIRECTORS

Ron Schlitché, President
Elisabeth Reynoldson, Vice President
Dr. Jim Kimball, Secretary
Brian Evans, Treasurer
Dave Walkup

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the accompanying combined balance sheets of Clarke County Public Hospital and Clarke County Hospital Foundation as of June 30, 2009 and 2008, 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 Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of Clarke County Public Hospital and Clarke County Hospital Foundation as of June 30, 2009 and 2008, 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 24, 2009 on our consideration of Clarke County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 24, 2009

Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarke County Public Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the combined financial statements, notes to combined financial statements, and supplementary information, which follow this section.

Overview of the Financial Statements

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

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Hospital operations over the past year and can be used to determine whether the Hospital 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 \$2,915 to \$20,370,429
- Total noncurrent assets whose use is limited decreased by \$2,943,628 to \$2,320,154
- Total property and equipment increased by \$2,973,441 to \$14,432,222
- Total fund equity increased by \$611,382 to \$10,131,536
- Total long-term debt decreased by \$329,183 to \$6,275,587
- Net patient service revenue increased by \$742,004, or 5%, to \$14,305,554
- Expenses increased by \$810,291, or 6%, to \$14,752,623

Financial Analysis of the Hospital

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Hospital and the changes in them. The Hospital'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 Hospital's fund equity is 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 Hospital's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,620,567	\$ 2,568,722	\$ 2,270,380
Noncurrent assets whose use is limited	2,320,154	5,263,782	3,301,926
Property and equipment	14,432,222	11,458,781	12,535,116
Other assets	<u>997,486</u>	<u>1,076,229</u>	<u>1,154,972</u>
Total assets	<u>\$20,370,429</u>	<u>\$20,367,514</u>	<u>\$19,262,394</u>
Current liabilities	\$ 3,534,798	\$ 3,717,182	\$ 2,955,744
Long-term debt, less current maturities	5,744,095	6,110,178	6,604,772
Other noncurrent liabilities	<u>960,000</u>	<u>1,020,000</u>	<u>1,080,000</u>
Total liabilities	<u>\$10,238,893</u>	<u>\$10,847,360</u>	<u>\$10,640,516</u>
Invested in capital assets, net of related debt	\$ 8,156,635	\$ 4,854,011	\$ 5,446,549
Restricted	698,148	698,412	700,060
Unrestricted	<u>1,276,753</u>	<u>3,967,731</u>	<u>2,475,269</u>
Total fund equity	<u>\$10,131,536</u>	<u>\$ 9,520,154</u>	<u>\$ 8,621,878</u>

As depicted in Table 1, total assets increased slightly in fiscal year 2009 to \$20,370,429.

A summary of the Hospital's historical statements of 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		
	2009	2008	2007
Net patient service revenue	\$14,305,554	\$13,563,550	\$12,435,860
Other revenue	<u>261,562</u>	<u>285,981</u>	<u>215,455</u>
Total revenue	<u>14,567,116</u>	<u>13,849,531</u>	<u>12,651,315</u>
Salaries	5,391,596	4,717,558	4,668,730
Supplies and expenses	7,793,391	7,444,086	6,472,954
Provision for depreciation	<u>1,567,636</u>	<u>1,780,688</u>	<u>1,706,691</u>
Total expenses	<u>14,752,623</u>	<u>13,942,332</u>	<u>12,848,375</u>
Operating (loss)	<u>(185,507)</u>	<u>(92,801)</u>	<u>(197,060)</u>
County taxes	1,020,923	1,072,844	1,120,259
Investment income	146,571	202,998	235,080
Unrestricted contributions	-	21,352	301,310
Interest expense	<u>(421,571)</u>	<u>(440,974)</u>	<u>(428,790)</u>
Total nonoperating gains (losses)	<u>745,923</u>	<u>856,220</u>	<u>1,227,859</u>
Excess of revenues over expenses before contributions	560,416	763,419	1,030,799
Restricted contributions	<u>50,966</u>	<u>134,857</u>	<u>73,505</u>
Change in fund equity	611,382	898,276	1,104,304
Total fund equity, beginning	<u>9,520,154</u>	<u>8,621,878</u>	<u>7,517,574</u>
Total fund equity, ending	<u>\$10,131,536</u>	<u>\$ 9,520,154</u>	<u>\$ 8,621,878</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2009 and 2008.

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

Volume: Adult and pediatric discharges for fiscal year 2009 were 323 compared to 390 in fiscal year 2008. Average length of stay decreased as patient days decreased to 1,045 from 1,341 in 2008. Volume on the outpatient side indicated positive growth in 2009. In 2009, gross outpatient charges increased to \$11,879,531 compared to \$10,854,003 in 2008.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2009. Overall, gross patient service revenue increased to \$14,572,321 from \$14,143,134 in 2008. Operating and recovery rooms and diagnostic imaging reflected the most significant growth in 2009.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts decreased to \$266,767 in 2009 compared to \$579,584 in 2008, representing 2% and 4% of gross patient charges, respectively.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	46%	46%	48%
Medicaid	8	8	6
Commercial insurance	38	39	37
Patients	<u>8</u>	<u>7</u>	<u>9</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$261,562 in 2009 compared to \$285,981 in 2008, primarily due to a decrease in miscellaneous income.

Expenses

Approximately 37% of Hospital's expenses are for salaries. Total salaries increased by 14% to \$5,391,596 in 2009 from \$4,717,558 in 2008. The Hospital departments experiencing the most significant increase were medical and surgical and diagnostic imaging.

Approximately 53% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 5% to \$7,793,391 in 2009 from \$7,444,086 in 2008. The Hospital departments experiencing the most significant increase were emergency service, diagnostic imaging and pharmacy.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation decreased to \$1,567,636 in 2009 from \$1,780,688 in 2008.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$745,923 from \$856,220 in 2008, primarily due to a decrease in investment income and unrestricted contributions.

Property and Equipment

At the end of 2009, the Hospital had \$14,432,222 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 2009, \$4,541,077 was spent to acquire property and equipment, including approximately \$4.3 million related to the completion of a construction project to renovate a portion of the Hospital. Also included is \$57,743 of initial costs relating to a second renovation project with an estimated total cost of approximately \$1 million.

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

**Table 4
Property and Equipment**

	June 30		
	2009	2008	2007
Land	\$ 9,550	\$ 9,550	\$ 9,550
Land improvements	275,945	252,972	207,072
Building	15,658,097	11,332,590	11,332,590
Fixed equipment	3,193,271	3,173,541	3,167,391
Major movable equipment	6,244,879	6,279,659	5,916,462
Medical office building	1,105,415	1,105,415	1,105,415
Construction in progress	57,743	237,098	—
Subtotal	<u>26,544,900</u>	<u>22,390,825</u>	<u>21,738,480</u>
Less accumulated depreciation	<u>(12,112,678)</u>	<u>(10,932,044)</u>	<u>(9,203,364)</u>
Property and equipment	<u>\$14,432,222</u>	<u>\$11,458,781</u>	<u>\$12,535,116</u>

Debt Administration

At year end, the Hospital had \$5,545,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2001. This has decreased by \$275,000 in fiscal year 2009, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2009. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 54% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$730,587 in current and long-term notes payable. This has decreased by \$54,183 in fiscal year 2009. This decrease is the result the required principal payments on the outstanding notes for fiscal year 2009, offset by the issuance of debt to purchase equipment. More detailed information about the Hospital's notes payable is presented in the Notes to Financial Statements. Note that total notes payable represent approximately 7% of the Hospital's total liabilities at year end.

Performance Compared to County Hospital Budget

The Hospital 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 Hospital's fiscal year 2009 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	\$ 1,147,377	\$ 1,145,454	\$ 1,923
Other revenues/receipts	<u>14,815,639</u>	<u>13,859,766</u>	<u>955,873</u>
	15,963,016	15,005,220	957,796
Expenses/expenditures	<u>18,218,967</u>	<u>17,795,600</u>	<u>423,367</u>
Net	<u>\$ (2,255,951)</u>	<u>\$ (2,790,380)</u>	<u>\$ 534,429</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to increased net patient service revenue. Actual budget basis expenses/expenditures were higher than County Hospital budget primarily due to increased nursing and other professional services costs.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2010 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 and growth in demand for services
- Technology advancements

Contacting Clarke County Public Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED BALANCE SHEETS**

ASSETS	June 30	
	2009	2008
CURRENT ASSETS		
Cash	\$ 298,626	\$ 688,546
Assets whose use is limited-required for current liabilities	636,629	305,343
Patient receivables, less allowances for contractual adjustments and bad debts	1,324,624	1,270,417
Other receivables	210,073	109,581
Inventories	144,024	181,259
Prepaid expenses	14,017	13,576
Total current assets	2,627,993	2,568,722
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	886,079	1,217,713
Certificates of deposit	868,326	3,105,630
Interest receivable	9,689	49,332
Designated by board for special purpose		
Cash	494,541	498,038
	2,258,635	4,870,713
Restricted for payment of long-term debt and interest		
Cash	54,273	54,537
Certificate of deposit	643,875	643,875
Total assets whose use is limited	2,956,783	5,569,125
Less assets whose use is limited and that are required for current liabilities	636,629	305,343
Noncurrent assets whose use is limited	2,320,154	5,263,782
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	26,544,900	22,390,825
Total property and equipment	12,112,678	10,932,044
	14,432,222	11,458,781
OTHER ASSETS		
Unamortized financing costs	37,486	56,229
Succeeding year property tax receivable	960,000	1,020,000
Total other assets	997,486	1,076,229
Totals	\$20,377,855	\$20,367,514

See Notes to Combined Financial Statements.

	June 30	
	2009	2008
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 531,492	\$ 494,592
Accounts payable		
Trade	647,879	592,187
Construction	317,501	-
Accrued interest	29,128	30,343
Accrued employee compensation	678,089	577,575
Payroll taxes and amounts withheld from employees	130,709	62,485
Estimated third-party payor settlements	<u>1,200,000</u>	<u>1,960,000</u>
Total current liabilities	<u>3,534,798</u>	<u>3,717,182</u>
LONG-TERM DEBT , less current maturities	<u>5,744,095</u>	<u>6,110,178</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>960,000</u>	<u>1,020,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	8,156,635	4,854,011
Restricted	698,148	698,412
Unrestricted	<u>1,284,179</u>	<u>3,967,731</u>
Total fund equity	<u>10,138,962</u>	<u>9,520,154</u>
Totals	<u>\$20,377,855</u>	<u>\$20,367,514</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	Year ended June 30	
	2009	2008
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2009 \$649,446; 2008 \$536,286	\$14,305,554	\$13,563,550
OTHER REVENUE	<u>261,562</u>	<u>285,981</u>
Total revenue	<u>14,567,116</u>	<u>13,849,531</u>
EXPENSES		
Nursing service	4,542,857	4,285,600
Other professional service	3,617,720	3,190,692
General service	1,403,201	1,339,239
Fiscal and administrative service and unassigned expenses	3,621,209	3,346,113
Provision for depreciation	<u>1,567,636</u>	<u>1,780,688</u>
Total expenses	<u>14,752,623</u>	<u>13,942,332</u>
Operating (loss)	<u>(185,507)</u>	<u>(92,801)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,020,923	1,072,844
Investment income	146,571	202,998
Unrestricted contributions	7,426	21,352
Interest expense	<u>(421,571)</u>	<u>(440,974)</u>
Total nonoperating gains (losses)	<u>753,349</u>	<u>856,220</u>
Excess of revenues over expenses before restricted contributions	567,842	763,419
RESTRICTED CONTRIBUTIONS	<u>50,966</u>	<u>134,857</u>
Change in fund equity	618,808	898,276
TOTAL FUND EQUITY		
Beginning	<u>9,520,154</u>	<u>8,621,878</u>
Ending	<u>\$10,138,962</u>	<u>\$ 9,520,154</u>

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$13,491,347	\$14,415,042
Cash paid to suppliers for goods and services	(7,733,173)	(7,653,799)
Cash paid to employees for services	(5,291,082)	(4,701,342)
Other operating revenue received	<u>261,562</u>	<u>285,981</u>
Net cash provided by operating activities	<u>728,654</u>	<u>2,345,882</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,020,923	1,072,844
Unrestricted contributions	<u>7,426</u>	<u>21,352</u>
Net cash provided by noncapital financing activities	<u>1,028,349</u>	<u>1,094,196</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(4,223,576)	(811,217)
Proceeds from issuance of long-term debt	188,128	-
Principal payments on long-term debt	(517,311)	(483,797)
Interest paid on long-term debt	(404,043)	(423,368)
Contributions received, restricted for purchase of equipment	<u>50,966</u>	<u>134,857</u>
Net cash (used in) capital and related financing activities	<u>(4,905,836)</u>	<u>(1,583,525)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	186,214	175,296
Purchase of certificates of deposit	(356,005)	(1,762,497)
Proceeds from maturities of certificates of deposit	<u>2,593,309</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>2,423,518</u>	<u>(1,587,201)</u>
NET INCREASE (DECREASE) IN CASH	(725,315)	269,352
CASH		
Beginning	<u>2,458,834</u>	<u>2,189,482</u>
Ending	<u>\$ 1,733,519</u>	<u>\$ 2,458,834</u>

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2009	2008
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (185,507)	\$ (92,801)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,567,636	1,780,688
Changes in assets and liabilities		
(Increase) in patient receivables	(54,207)	(108,508)
(Increase) in other receivables	(100,492)	(89,692)
Decrease in inventories	37,235	4,331
(Increase) in prepaid expenses	(441)	(6,778)
Increase (decrease) in accounts payable, trade	55,692	(148,522)
Increase in accrued employee compensation	100,514	16,216
Increase in payroll taxes and amounts withheld from employees	68,224	30,948
Increase (decrease) in estimated third-party payor settlements	<u>(760,000)</u>	<u>960,000</u>
Net cash provided by operating activities	<u>\$ 728,654</u>	<u>\$2,345,882</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 298,626	\$ 688,546
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	886,079	1,217,713
Designated by board for special purpose, cash	494,541	498,038
Restricted for payment of long-term debt and interest, cash	<u>54,273</u>	<u>54,537</u>
Totals per statement of cash flows	<u>\$1,733,519</u>	<u>\$2,458,834</u>

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county and public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Clarke County, Iowa. The Hospital is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, Clarke County Public Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2009, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Clarke County Hospital Foundation.

The Foundation, created September 2008, is a legally separate nonprofit corporation primarily organized and operated for the benefit and support of the Hospital. The Hospital is the sole member of the corporation. The accounts and transactions of the Foundation are combined within these financial statements using the blended method as required by accounting principles generally accepted in the United States of America. Transactions between the Hospital and Foundation are eliminated in combination.

Measurement Focus and Basis of Accounting

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

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

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board, FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

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 Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board, FASB, issued on or before November 30, 1989.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposits are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

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 Hospital is three to forty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

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

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 the bonds and notes payable that are attributable to the acquisition, construction, or improvement of those assets.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued)

Restricted

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

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

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 revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Credit Policy

The Hospital 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 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 AND INVESTMENTS

The Hospital's deposits at June 30, 2009 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 Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

As to interest rate risk, the Hospital'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 Hospital.

NOTE 3 PATIENT RECEIVABLES

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

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Medicare	\$ 540,790	\$ 410,452
Medicaid	70,750	91,690
Commercial insurance	906,896	982,530
Patients	<u>646,188</u>	<u>625,745</u>
Total patient receivables	2,164,624	2,110,417
Less allowances for contractual adjustments and bad debts	<u>(840,000)</u>	<u>(840,000)</u>
Net patient receivables	<u>\$1,324,624</u>	<u>\$1,270,417</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for payment of long-term debt and interest are as follows at June 30, 2009:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance, beginning	\$ 54,537	\$ 643,875	\$ 698,412
Transfers from current assets, cash	532,592	-	532,592
Interest earned	3,811	-	3,811
Payments for principal and interest	<u>(536,667)</u>	<u>-</u>	<u>(536,667)</u>
Balance, ending	<u>\$ 54,273</u>	<u>\$ 643,875</u>	<u>\$ 698,148</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ -	\$ 9,550	\$ -
Land improvements	275,945	180,841	252,972	170,430
Building	15,658,097	4,385,066	11,332,590	3,687,910
Fixed equipment	3,193,271	2,364,249	3,173,541	2,231,487
Major movable equipment	6,244,879	4,580,311	6,279,659	4,284,072
Medical office building	1,105,415	602,211	1,105,415	558,145
Construction in progress	<u>57,743</u>	<u>-</u>	<u>237,098</u>	<u>-</u>
Totals	<u>\$26,544,900</u>	<u>\$12,112,678</u>	<u>\$22,390,825</u>	<u>\$10,932,044</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT (continued)

During the year ended June 30, 2009, the Hospital completed construction of a significant renovation project, funded by Hospital reserves, with a cost of approximately \$4.3 million. Construction in progress at June 30, 2009 consists primarily of progress billings for architect fees related to a renovation project. The estimated total cost of the project is approximately \$1 million and is being funded by Hospital reserves.

A summary of changes in property and equipment for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ -	\$ -	\$ -	\$ 9,550
Land improvements	252,972	22,973	-	-	275,945
Building	11,332,590	4,094,634	6,225	237,098	15,658,097
Fixed equipment	3,173,541	24,330	4,600	-	3,193,271
Major movable equipment	6,279,659	341,397	376,177	-	6,244,879
Medical office building	1,105,415	-	-	-	1,105,415
Construction in progress	<u>237,098</u>	<u>57,743</u>	<u>-</u>	<u>(237,098)</u>	<u>57,743</u>
Totals	22,390,825	4,541,077	387,002	-	26,544,900
Less accumulated depreciation	<u>(10,932,044)</u>	<u>(1,567,636)</u>	<u>(387,002)</u>	<u>-</u>	<u>(12,112,678)</u>
Net property and equipment	<u>\$11,458,781</u>	<u>\$2,973,441</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,432,222</u>

A summary of changes in property and equipment for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ -	\$ -	\$ 9,550
Land improvements	207,072	45,900	-	252,972
Building	11,332,590	-	-	11,332,590
Fixed equipment	3,167,391	6,150	-	3,173,541
Major movable equipment	5,916,462	415,205	52,008	6,279,659
Medical office building	1,105,415	-	-	1,105,415
Construction in progress	<u>-</u>	<u>237,098</u>	<u>-</u>	<u>237,098</u>
Totals	21,738,480	704,353	52,008	22,390,825
Less accumulated depreciation	<u>(9,203,364)</u>	<u>(1,780,688)</u>	<u>(52,008)</u>	<u>(10,932,044)</u>
Net property and equipment	<u>\$12,535,116</u>	<u>\$(1,076,335)</u>	<u>\$ -</u>	<u>\$11,458,781</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Hospital Revenue Bonds, Series 2001	\$5,545,000	\$5,820,000
Notes payable, equipment	<u>730,587</u>	<u>784,770</u>
	6,275,587	6,604,770
Less current maturities	<u>531,492</u>	<u>494,592</u>
Long-term debt, net of current maturities	<u>\$5,744,095</u>	<u>\$6,110,178</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Bonds, Series 2001

The Hospital has issued Hospital Revenue Bonds, Series 2001, in the original amount of \$7,235,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2022, at remaining interest rates ranging from 5.4% to 6.5%. At June 30, 2009, the remaining balance on these Bonds is \$5,545,000.

The Hospital Revenue Bonds, Series 2001, require certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for the next five years total 2010 \$639,897; 2011 \$643,704; 2012 \$641,799; 2013 \$641,382; 2014 \$640,132.

A Debt Service Reserve Fund in an amount equal to the maximum annual amount of principal and interest due in any succeeding fiscal year.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Bonds at June 30, 2009.

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

The Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Hospital. The net revenues are pledged through June, 2022. As of June 30, 2009 the remaining principal and interest on the Bonds was \$8,343,263. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Bonds for the years ended June 30, 2009 and 2008:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Change in fund equity	\$ 611,382	\$ 898,276
Provision for depreciation	1,567,636	1,780,688
Interest expense, Hospital Revenue Bonds, Series 2001	<u>362,895</u>	<u>376,620</u>
Pledged net revenues	<u>\$2,541,913</u>	<u>\$3,055,584</u>
Principal and interest requirements of the Bonds	<u>\$ 639,110</u>	<u>\$ 642,758</u>

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,224, including interest at 4%, with the final payment due October, 2009. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2009, the remaining balance on this note is \$4,860.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$18,767, including interest at 5.1%, with the final payment due March, 2012. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2009, the remaining balance on this note is \$560,318.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,507, including interest at 4.5%, with the final payment due October, 2013. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2009, the remaining balance on this note is \$165,409.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

Aggregate maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 290,000	\$ 241,492	\$ 531,492	\$ 380,234	\$ 911,726
2011	310,000	248,764	558,764	352,401	911,165
2012	325,000	185,964	510,964	323,085	834,049
2013	345,000	40,468	385,468	298,133	683,601
2014	365,000	13,899	378,899	275,081	653,980
2015 - 2019	2,215,000	-	2,215,000	1,001,665	3,216,665
2020 - 2022	<u>1,695,000</u>	<u>-</u>	<u>1,695,000</u>	<u>224,900</u>	<u>1,919,900</u>
Total	5,545,000	730,587	6,275,587	2,855,499	9,131,086
Less current maturities	<u>290,000</u>	<u>241,492</u>	<u>531,492</u>	<u>380,234</u>	<u>911,726</u>
Total long-term debt	<u>\$5,255,000</u>	<u>\$ 489,095</u>	<u>\$5,744,095</u>	<u>\$2,475,265</u>	<u>\$8,219,360</u>

A summary of changes in long-term debt for the year ended June 30, 2009 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	\$5,820,000	\$ -	\$ 275,000	\$5,545,000	\$ 290,000
Notes payable, equipment	<u>784,770</u>	<u>188,128</u>	<u>242,311</u>	<u>730,587</u>	<u>241,492</u>
Totals	<u>\$6,604,770</u>	<u>\$ 188,128</u>	<u>\$ 517,311</u>	<u>\$6,275,587</u>	<u>\$ 531,492</u>

A summary of changes in long-term debt for the year ended June 30, 2008 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	\$6,085,000	\$ -	\$ 265,000	\$5,820,000	\$ 275,000
Notes payable, equipment	<u>1,003,567</u>	<u>-</u>	<u>218,797</u>	<u>784,770</u>	<u>219,592</u>
Totals	<u>\$7,088,567</u>	<u>\$ -</u>	<u>\$ 483,797</u>	<u>\$6,604,770</u>	<u>\$ 494,592</u>

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 7 NET PATIENT SERVICE REVENUE (continued)

Other

The Hospital 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 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2009 regular plan members were required to contribute 4.10% of their annual salary and the Hospital is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$349,210, \$285,017 and \$275,862, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2009 and 2008.

	2009	2008
Charges foregone, based on established rates	\$ <u>347,362</u>	\$ <u>257,654</u>
Equivalent percentage of charity care patients to all patients served	<u>2.3%</u>	<u>1.8%</u>

NOTE 10 MALPRACTICE CLAIMS

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

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

Incidents occurring through June 30, 2009 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.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

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 Hospital prepares its annual budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service payments are recorded as expenditures on the County Hospital budget basis.

For the year ended June 30, 2009, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital budget</u>
Amount to be raised by taxation	\$ 1,020,923	\$ 126,454	\$ 1,147,377	\$ 1,145,454
Other revenues/receipts	<u>14,343,082</u>	<u>472,557</u>	<u>14,815,639</u>	<u>13,859,766</u>
	15,364,005	599,011	15,963,016	15,005,220
Expenses/expenditures	<u>14,752,623</u>	<u>3,466,344</u>	<u>18,218,967</u>	<u>17,795,600</u>
Net	611,382	(2,867,333)	(2,255,951)	(2,790,380)
Balance, beginning	<u>9,520,154</u>	<u>(5,326,788)</u>	<u>4,193,366</u>	<u>3,782,774</u>
Balance, ending	<u>\$10,131,536</u>	<u>\$(8,194,121)</u>	<u>\$ 1,937,415</u>	<u>\$ 992,394</u>

NOTE 12 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

Our report on our audits of the basic combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation for 2009 and 2008 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 24, 2009

**Clarke County Public Hospital
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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
No discharge date (includes patients in Hospital at end of year)	\$ 120,987	\$ 146,451	5.59%	6.94%
0 - 60 days	1,465,692	1,265,387	67.71	59.96
61 - 180 days	364,395	499,996	16.83	23.70
181 - 365 days	129,588	164,082	5.99	7.77
366 and over	<u>83,962</u>	<u>34,501</u>	<u>3.88</u>	<u>1.63</u>
Totals	<u>2,164,624</u>	<u>2,110,417</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	5,000	5,000		
Medicaid	-	10,000		
Other	255,000	285,000		
Bad debts	<u>580,000</u>	<u>540,000</u>		
Total allowances	<u>840,000</u>	<u>840,000</u>		
Totals	<u>\$1,324,624</u>	<u>\$1,270,417</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 39,193</u>	<u>\$ 37,059</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>34</u>	<u>34</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
BALANCE , beginning	\$ 540,000	\$ 490,000		
ADD				
Provision for bad debts	649,446	536,286	4.54%	3.95%
Recoveries of accounts previously written off	<u>214,789</u>	<u>170,308</u>	1.50	1.26
	1,404,235	1,196,594		
DEDUCT				
Accounts written off	<u>824,235</u>	<u>656,594</u>	5.76	4.84
BALANCE , ending	<u>\$ 580,000</u>	<u>\$ 540,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$ 994,650	\$ —	\$ 994,650	\$ 1,273,950
Skilled care	212,450	—	212,450	264,600
Extended care	404,760	—	404,760	340,750
	<u>1,611,860</u>	<u>—</u>	<u>1,611,860</u>	<u>1,879,300</u>
OTHER NURSING SERVICE				
Observation room	—	110,880	110,880	128,560
Operating and recovery rooms	59,186	1,697,645	1,756,831	1,513,675
Emergency service	8,177	1,399,379	1,407,556	1,629,230
Central supply	41,894	511,662	553,556	472,095
Ambulance	41,475	669,368	710,843	703,037
	<u>150,732</u>	<u>4,388,934</u>	<u>4,539,666</u>	<u>4,446,597</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	304,005	1,753,242	2,057,247	1,962,875
Cardiopulmonary	10,450	123,640	134,090	142,780
Cardiac rehabilitation	555	117,745	118,300	147,113
Respiratory therapy	—	104,105	104,105	82,027
Diagnostic imaging	200,637	3,399,975	3,600,612	2,979,944
Pharmacy	599,365	931,068	1,530,433	1,604,647
Anesthesiology	12,250	237,950	250,200	209,300
Speech therapy	1,580	8,867	10,447	22,052
Physical therapy	141,833	809,590	951,423	897,364
Occupational therapy	6,885	4,415	11,300	26,789
	<u>1,277,560</u>	<u>7,490,597</u>	<u>8,768,157</u>	<u>8,074,891</u>
Totals	<u>\$3,040,152</u>	<u>\$11,879,531</u>	14,919,683	14,400,788
Charity care charges foregone, based on established rates			(347,362)	(257,654)
Total gross patient service revenue			14,572,321	14,143,134
Provisions for contractual adjustments and bad debts			(266,767)	(579,584)
Total net patient service revenue			<u>\$14,305,554</u>	<u>\$13,563,550</u>

Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments		
Medicare and Medicaid	\$(1,155,096)	\$ (688,541)
Other	772,417	731,839
Provision for bad debts	<u>649,446</u>	<u>536,286</u>
 Totals	 <u>\$ 266,767</u>	 <u>\$ 579,584</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Meals	\$ 41,853	\$ 35,616
Community fitness center fees	14,281	12,337
Medical office building rental income	86,379	84,656
Miscellaneous	<u>119,049</u>	<u>153,372</u>
 Totals	 <u>\$ 261,562</u>	 <u>\$ 285,981</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 107,042	\$ 6,680	\$ 113,722	\$ 91,779
Medical and surgical	1,673,383	539,487	2,212,870	2,264,027
Operating and recovery rooms	356,257	76,709	432,966	470,444
Emergency service	697,192	744,447	1,441,639	1,169,445
Central supply	-	211,633	211,633	159,572
Ambulance	79,155	50,872	130,027	130,333
Total nursing service	<u>2,913,029</u>	<u>1,629,828</u>	<u>4,542,857</u>	<u>4,285,600</u>
OTHER PROFESSIONAL SERVICE				
Professional service administration	64,353	123	64,476	-
Laboratory	323,758	336,459	660,217	627,629
Cardiopulmonary	9,673	8,288	17,961	16,497
Cardiac rehabilitation	67,358	12,426	79,784	93,306
Respiratory therapy	5,542	30,323	35,865	30,468
Diagnostic imaging	317,599	428,676	746,275	620,678
Pharmacy	27,071	648,107	675,178	610,302
Anesthesiology	-	214,773	214,773	160,228
Speech therapy	-	7,711	7,711	7,684
Physical therapy	-	587,004	587,004	537,205
Occupational therapy	-	15,329	15,329	12,540
Specialty clinic	8,701	-	8,701	4,492
Medical office building	-	31,076	31,076	28,440
Health information	180,473	48,887	229,360	234,331
Quality improvement and utilization management	195,239	48,771	244,010	206,892
Total other professional service	<u>1,199,767</u>	<u>2,417,953</u>	<u>3,617,720</u>	<u>3,190,692</u>
GENERAL SERVICE				
Dietary	196,890	157,004	353,894	328,707
Plant operation	184,729	486,360	671,089	648,830
Environmental services	217,218	56,427	273,645	265,035
Laundry and linen	-	104,573	104,573	96,667
Total general service	<u>598,837</u>	<u>804,364</u>	<u>1,403,201</u>	<u>1,339,239</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	228,953	797,398	1,026,351	952,643
Business office	304,545	170,482	475,027	504,473
Information services	64,604	331,590	396,194	297,836
Purchasing	81,861	30,559	112,420	142,905
Community fitness center	-	11,848	11,848	10,203
FICA	-	385,825	385,825	361,625
IPERS	-	349,210	349,210	285,017
Group health, life, and disability insurance	-	656,136	656,136	601,751
Insurance	-	208,198	208,198	189,660
Total fiscal and administrative service and unassigned expenses	<u>679,963</u>	<u>2,941,246</u>	<u>3,621,209</u>	<u>3,346,113</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,567,636</u>	<u>1,567,636</u>	<u>1,780,688</u>
Total expenses	<u>\$5,391,596</u>	<u>\$9,361,027</u>	<u>\$14,752,623</u>	<u>\$13,942,332</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Adult and pediatric	1,045	1,341
Swing bed	606	756
Extended care	<u>3,252</u>	<u>2,764</u>
Totals	<u><u>4,903</u></u>	<u><u>4,861</u></u>
DISCHARGES		
Adult and pediatric	323	390
Swing bed	59	74
Extended care	<u>31</u>	<u>32</u>
Totals	<u><u>413</u></u>	<u><u>496</u></u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.24	3.44
Swing bed	10.27	10.22
Extended care	104.90	86.38

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
Clarke County Public Hospital
Osceola, Iowa

We have audited the combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation as of and for the year ended June 30, 2009, and have issued our report thereon dated August 24, 2009. 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 Clarke County Public Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's 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*. However, we noted a certain immaterial instance of noncompliance that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. 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 Clarke County and other parties to whom the Hospital 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 24, 2009

**Clarke County Public Hospital
and Clarke County Hospital Foundation
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

Part I—Findings Related to the Financial Statements

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

**Clarke County Public Hospital
and Clarke County Hospital Foundation
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

Part II—Findings Related to Required Statutory Reporting

09-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital exceeded its County Hospital budget for the year ended June 30, 2009.

Recommendation

Should this occur in the future, we recommend the budget be amended using the statutorily-prescribed procedures.

Response

In the future the Hospital will monitor the budget and, if appropriate, seek amendment.

Conclusion

Response accepted.

09-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

09-II-C TRAVEL EXPENSES

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

09-II-D BUSINESS TRANSACTIONS

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

09-II-E BOARD MINUTES

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

09-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 Hospital's investment policy.