

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

COMBINED FINANCIAL REPORT

June 30, 2010

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**Clarke County Public Hospital
and Clarke County Hospital Foundation
OFFICIALS
June 30, 2010**

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
Jan Short
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 Schlitcher, 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, 2010 and 2009, 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, 2010 and 2009, 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 27, 2010 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

West Des Moines, Iowa
August 27, 2010

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, 2010 and 2009. Please read it in conjunction with the Hospital'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 report, the basic financial statements of the Hospital, 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 \$28,445 to \$20,398,874
- Total noncurrent assets whose use is limited decreased by \$197,587 to \$2,122,567
- Total property and equipment increased by \$164,316 to \$14,596,538
- Total fund equity increased by \$619,882 to \$10,751,418
- Total long-term debt decreased by \$225,502 to \$6,050,085
- Net patient service revenue increased by \$793,193, or 6%, to \$15,098,747
- Expenses increased by \$1,171,779, or 8%, to \$15,924,402

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>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 2,591,026	\$ 2,620,567	\$ 2,568,722
Noncurrent assets whose use is limited	2,122,567	2,320,154	5,263,782
Property and equipment	14,596,538	14,432,222	11,458,781
Other assets	<u>1,088,743</u>	<u>997,486</u>	<u>1,076,229</u>
Total assets	<u>\$20,398,874</u>	<u>\$20,370,429</u>	<u>\$20,367,514</u>
Current liabilities	\$ 3,159,913	\$ 3,534,798	\$ 3,717,182
Long-term debt, less current maturities	5,417,543	5,744,095	6,110,178
Other noncurrent liabilities	<u>1,070,000</u>	<u>960,000</u>	<u>1,020,000</u>
Total liabilities	<u>\$ 9,647,456</u>	<u>\$10,238,893</u>	<u>\$10,847,360</u>
Invested in capital assets, net of related debt	\$ 8,546,453	\$ 8,156,635	\$ 4,854,011
Restricted	697,970	698,148	698,412
Unrestricted	<u>1,506,995</u>	<u>1,276,753</u>	<u>3,967,731</u>
Total fund equity	<u>\$10,751,418</u>	<u>\$10,131,536</u>	<u>\$ 9,520,154</u>

As depicted in Table 1, total assets increased slightly in fiscal year 2010 to \$20,398,874.

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		
	2010	2009	2008
Net patient service revenue	\$15,098,747	\$14,305,554	\$13,563,550
Other revenue	275,477	261,562	285,981
Total revenue	<u>15,374,224</u>	<u>14,567,116</u>	<u>13,849,531</u>
Salaries	5,536,026	5,391,596	4,717,558
Supplies and expenses	8,602,617	7,793,391	7,444,086
Provision for depreciation	1,785,759	1,567,636	1,780,688
Total expenses	<u>15,924,402</u>	<u>14,752,623</u>	<u>13,942,332</u>
Operating (loss)	<u>(550,178)</u>	<u>(185,507)</u>	<u>(92,801)</u>
County taxes	955,131	1,020,923	1,072,844
Investment income	63,454	146,571	202,998
Unrestricted contributions	-	-	21,352
Transfer from related Foundation	60,000	-	-
Interest expense	<u>(405,529)</u>	<u>(421,571)</u>	<u>(440,974)</u>
Total nonoperating gains (losses)	<u>673,056</u>	<u>745,923</u>	<u>856,220</u>
Excess of revenues over expenses before restricted contributions	122,878	560,416	763,419
Restricted contributions	<u>497,004</u>	<u>50,966</u>	<u>134,857</u>
Change in fund equity	619,882	611,382	898,276
Total fund equity, beginning	<u>10,131,536</u>	<u>9,520,154</u>	<u>8,621,878</u>
Total fund equity, ending	<u>\$10,751,418</u>	<u>\$10,131,536</u>	<u>\$ 9,520,154</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2010 and 2009.

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 2010 were 251 compared to 323 in fiscal year 2009. Average length of stay remained the same as patient days decreased to 813 from 1,045 in 2009. Volume on the outpatient side indicated positive growth in 2010. In 2010, gross outpatient charges increased to \$12,559,430 compared to \$11,879,531 in 2009.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2010. Overall, gross patient service revenue increased to \$15,274,408 from \$14,572,321 in 2009. Extended care, emergency service and pharmacy reflected the most significant growth in 2010.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts decreased to \$175,661 in 2010 compared to \$266,767 in 2009, representing 1% and 2% 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>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	44%	46%	46%
Medicaid	10	8	8
Commercial insurance	36	38	39
Patients	<u>10</u>	<u>8</u>	<u>7</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$275,477 in 2010 compared to \$261,562 in 2009, primarily due to an increase in rental income.

Expenses

Approximately 35% of Hospital's expenses are for salaries. Total salaries increased by 3% to \$5,536,026 in 2010 from \$5,391,596 in 2009. The Hospital departments experiencing the most significant increase were diagnostic imaging, business office and information services.

Approximately 54% of Hospital's expenses are for supplies and expenses, including employee benefits. Total supplies and expenses increased by 10% to \$8,602,617 in 2010 from \$7,793,391 in 2009. The Hospital departments experiencing the most significant increase were operating and recovery rooms, emergency service and administration.

Approximately 11% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,785,759 in 2010 from \$1,567,636 in 2009 as a result of the completion of a renovation project in 2009.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$673,056 from \$745,923 in 2009, primarily due to a decrease in investment income and county taxes.

Property and Equipment

At the end of 2010, the Hospital had \$14,596,538 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 2010, \$1,950,075 was spent to acquire property and equipment, including approximately \$1 million related to the completion of a construction project to renovate a portion of the Hospital.

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

**Table 4
Property and Equipment**

	June 30		
	2010	2009	2008
Land	\$ 9,550	\$ 9,550	\$ 9,550
Land improvements	275,945	275,945	252,972
Building	16,564,085	15,658,097	11,332,590
Fixed equipment	3,202,471	3,193,271	3,173,541
Major movable equipment	7,266,472	6,244,879	6,279,659
Medical office building	1,105,415	1,105,415	1,105,415
Construction in progress	—	57,743	237,098
Subtotal	<u>28,423,938</u>	<u>26,544,900</u>	<u>22,390,825</u>
Less accumulated depreciation	<u>(13,827,400)</u>	<u>(12,112,678)</u>	<u>(10,932,044)</u>
Property and equipment	<u>\$14,596,538</u>	<u>\$14,432,222</u>	<u>\$11,458,781</u>

Debt Administration

At year end, the Hospital had \$5,255,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2001. This has decreased by \$290,000 in fiscal year 2010, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2010. 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 \$795,085 in current and long-term notes payable. This has increased by \$64,498 in fiscal year 2010. This increase is the result of the issuance of debt to purchase equipment, offset by the required principal payments on the outstanding notes for the fiscal year 2010. More detailed information about the Hospital's notes payable is presented in the Notes to Financial Statements. Note that total notes payable represent approximately 8% 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 basis are presented in the Notes to Financial Statements. A comparison of the Hospital's fiscal year 2010 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	\$ 1,090,258	\$ 1,091,291	\$ (1,033)
Other revenues/receipts	<u>16,034,395</u>	<u>14,664,693</u>	<u>1,369,702</u>
	17,124,653	15,755,984	1,368,669
Expenses/expenditures	<u>16,481,640</u>	<u>17,961,700</u>	<u>(1,480,060)</u>
Net	<u>\$ 643,013</u>	<u>\$ (2,205,716)</u>	<u>\$2,848,729</u>

Actual other revenues/receipts results were higher than County Hospital budget due to increased restricted contributions and net patient service revenue received. Actual budget basis expenses/expenditures were lower than County Hospital budget primarily due to decreased equipment expenditures.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2011 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	
	2010	2009
CURRENT ASSETS		
Cash	\$ 568,229	\$ 298,626
Assets whose use is limited-required for current liabilities	337,823	636,629
Patient receivables, less allowances for contractual adjustments and bad debts	1,313,928	1,324,624
Other receivables	261,503	210,073
Inventories	112,594	144,024
Prepaid expenses	10,067	14,017
	<u>2,604,144</u>	<u>2,627,993</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	500,922	886,079
Certificates of deposit	755,637	868,326
Interest receivable	8,150	9,689
Designated by board for special purpose		
Cash	17,711	494,541
Certificate of deposit	480,000	-
	<u>1,762,420</u>	<u>2,258,635</u>
Restricted for payment of long-term debt and interest		
Cash	54,095	54,273
Certificate of deposit	643,875	643,875
Total assets whose use is limited	<u>2,460,390</u>	<u>2,956,783</u>
Less assets whose use is limited and that are required for current liabilities	337,823	636,629
Noncurrent assets whose use is limited	<u>2,122,567</u>	<u>2,320,154</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	28,423,938	26,544,900
Total property and equipment	<u>13,827,400</u>	<u>12,112,678</u>
	<u>14,596,538</u>	<u>14,432,222</u>
OTHER ASSETS		
Unamortized financing costs	18,743	37,486
Succeeding year property tax receivable	1,070,000	960,000
Total other assets	<u>1,088,743</u>	<u>997,486</u>
Totals	<u>\$20,411,992</u>	<u>\$20,377,855</u>

See Notes to Combined Financial Statements.

	LIABILITIES AND FUND EQUITY	
	June 30	
	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 632,542	\$ 531,492
Accounts payable		
Trade	458,400	647,879
Construction	-	317,501
Accrued interest	27,823	29,128
Accrued employee compensation	682,074	678,089
Payroll taxes and amounts withheld from employees	119,074	130,709
Estimated third-party payor settlements	<u>1,240,000</u>	<u>1,200,000</u>
Total current liabilities	<u>3,159,913</u>	<u>3,534,798</u>
LONG-TERM DEBT , less current maturities	<u>5,417,543</u>	<u>5,744,095</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	<u>1,070,000</u>	<u>960,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	8,546,453	8,156,635
Restricted	697,970	698,148
Unrestricted	<u>1,520,113</u>	<u>1,284,179</u>
Total fund equity	<u>10,764,536</u>	<u>10,138,962</u>
	<hr/>	<hr/>
Totals	<u><u>\$20,411,992</u></u>	<u><u>\$20,377,855</u></u>

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

	Year ended June 30	
	2010	2009
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2010 \$742,237; 2009 \$649,446	\$15,098,747	\$14,305,554
OTHER REVENUE	<u>275,477</u>	<u>261,562</u>
Total revenue	<u>15,374,224</u>	<u>14,567,116</u>
EXPENSES		
Nursing service	5,076,070	4,542,857
Other professional service	3,626,956	3,617,720
General service	1,370,090	1,403,201
Fiscal and administrative service and unassigned expenses	4,065,527	3,621,209
Provision for depreciation	<u>1,785,759</u>	<u>1,567,636</u>
Total expenses	<u>15,924,402</u>	<u>14,752,623</u>
Operating (loss)	<u>(550,178)</u>	<u>(185,507)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	955,131	1,020,923
Investment income	63,454	146,571
Unrestricted contributions	44,277	7,426
Interest expense	<u>(405,529)</u>	<u>(421,571)</u>
Total nonoperating gains (losses)	<u>657,333</u>	<u>753,349</u>
Excess of revenues over expenses before restricted contributions	107,155	567,842
RESTRICTED CONTRIBUTIONS	<u>518,419</u>	<u>50,966</u>
Change in fund equity	625,574	618,808
TOTAL FUND EQUITY		
Beginning	<u>10,138,962</u>	<u>9,520,154</u>
Ending	<u>\$10,764,536</u>	<u>\$10,138,962</u>

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

	Year ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$15,149,443	\$13,491,347
Cash paid to suppliers for goods and services	(8,819,781)	(7,733,173)
Cash paid to employees for services	(5,532,041)	(5,291,082)
Other operating revenue received	<u>275,477</u>	<u>261,562</u>
Net cash provided by operating activities	<u>1,073,098</u>	<u>728,654</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	955,131	1,020,923
Unrestricted contributions	<u>44,277</u>	<u>7,426</u>
Net cash provided by noncapital financing activities	<u>999,408</u>	<u>1,028,349</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(2,267,576)	(4,223,576)
Proceeds from issuance of long-term debt	346,623	188,128
Principal payments on long-term debt	(572,125)	(517,311)
Interest paid on long-term debt	(388,091)	(404,043)
Contributions received, restricted for purchase of equipment	<u>518,419</u>	<u>50,966</u>
Net cash (used in) capital and related financing activities	<u>(2,362,750)</u>	<u>(4,905,836)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	64,993	186,214
Purchase of certificates of deposit	(1,235,637)	(356,005)
Proceeds from maturities of certificates of deposit	<u>868,326</u>	<u>2,593,309</u>
Net cash provided by (used in) investing activities	<u>(302,318)</u>	<u>2,423,518</u>
NET (DECREASE) IN CASH	(592,562)	(725,315)
CASH		
Beginning	<u>1,733,519</u>	<u>2,458,834</u>
Ending	<u>\$ 1,140,957</u>	<u>\$ 1,733,519</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	
	2010	2009
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (550,178)	\$ (185,507)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,785,759	1,567,636
Changes in assets and liabilities		
(Increase) decrease in patient receivables	10,696	(54,207)
(Increase) in other receivables	(51,430)	(100,492)
Decrease in inventories	31,430	37,235
(Increase) decrease in prepaid expenses	3,950	(441)
Increase (decrease) in accounts payable, trade	(189,479)	55,692
Increase in accrued employee compensation	3,985	100,514
Increase (decrease) in payroll taxes and amounts withheld from employees	(11,635)	68,224
Increase (decrease) in estimated third-party payor settlements	<u>40,000</u>	<u>(760,000)</u>
Net cash provided by operating activities	<u>\$1,073,098</u>	<u>\$ 728,654</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 568,229	\$ 298,626
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	500,922	886,079
Designated by board for special purpose, cash	17,711	494,541
Restricted for payment of long-term debt and interest, cash	<u>54,095</u>	<u>54,273</u>
Totals per statement of cash flows	<u>\$1,140,957</u>	<u>\$1,733,519</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. The Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Clarke County Hospital Foundation.

The Foundation 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 standards. 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, 2010 were entirely covered by federal depository insurance, collateralized securities, 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>2010</u>	<u>2009</u>
Medicare	\$ 618,426	\$ 540,790
Medicaid	99,860	70,750
Commercial insurance	787,970	906,896
Patients	<u>697,672</u>	<u>646,188</u>
Total patient receivables	2,203,928	2,164,624
Less allowances for contractual adjustments and bad debts	<u>(890,000)</u>	<u>(840,000)</u>
Net patient receivables	<u>\$1,313,928</u>	<u>\$1,324,624</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, 2010:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance, beginning	\$ 54,273	\$ 643,875	\$ 698,148
Transfers from current assets, cash	637,620	-	637,620
Interest earned	1,737	-	1,737
Payments for principal and interest	<u>(639,535)</u>	<u>-</u>	<u>(639,535)</u>
Balance, ending	<u>\$ 54,095</u>	<u>\$ 643,875</u>	<u>\$ 697,970</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ -	\$ 9,550	\$ -
Land improvements	275,945	191,251	275,945	180,841
Building	16,564,085	5,306,580	15,658,097	4,385,066
Fixed equipment	3,202,471	2,490,312	3,193,271	2,364,249
Major movable equipment	7,266,472	5,206,310	6,244,879	4,580,311
Medical office building	1,105,415	632,947	1,105,415	602,211
Construction in progress	<u>-</u>	<u>-</u>	<u>57,743</u>	<u>-</u>
Totals	<u>\$28,423,938</u>	<u>\$13,827,400</u>	<u>\$26,544,900</u>	<u>\$12,112,678</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2010 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	275,945	-	-	-	275,945
Building	15,658,097	898,274	50,029	57,743	16,564,085
Fixed equipment	3,193,271	9,200	-	-	3,202,471
Major movable equipment	6,244,879	1,042,601	21,008	-	7,266,472
Medical office building	1,105,415	-	-	-	1,105,415
Construction in progress	57,743	-	-	(57,743)	-
Totals	<u>26,544,900</u>	<u>1,950,075</u>	<u>71,037</u>	<u>-</u>	<u>28,423,938</u>
Less accumulated depreciation	<u>(12,112,678)</u>	<u>(1,785,759)</u>	<u>(71,037)</u>	<u>-</u>	<u>(13,827,400)</u>
Net property and equipment	<u>\$14,432,222</u>	<u>\$ 164,316</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,596,538</u>

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	237,098	57,743	-	(237,098)	57,743
Totals	<u>22,390,825</u>	<u>4,541,077</u>	<u>387,002</u>	<u>-</u>	<u>26,544,900</u>
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>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Hospital Revenue Bonds, Series 2001	\$5,255,000	\$5,545,000
Notes payable, equipment	<u>795,085</u>	<u>730,587</u>
	6,050,085	6,275,587
Less current maturities	<u>632,542</u>	<u>531,492</u>
Long-term debt, net of current maturities	<u>\$5,417,543</u>	<u>\$5,744,095</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 5.5% to 6.5%. At June 30, 2010, the remaining balance on these Bonds is \$5,255,000.

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 2011 \$643,704; 2012 \$641,799; 2013 \$641,382; 2014 \$640,132; 2015 \$642,190.

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, 2010.

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, 2010 the remaining principal and interest on the Bonds was \$7,703,728. 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, 2010 and 2009:

	Year ended June 30	
	2010	2009
Change in fund equity	\$ 619,882	\$ 611,382
Provision for depreciation	1,785,759	1,567,636
Interest expense, Hospital Revenue Bonds, Series 2001	348,230	362,895
 Pledged net revenues	 <u>\$2,753,871</u>	 <u>\$2,541,913</u>
 Principal and interest requirements of the Bonds	 <u>\$ 639,535</u>	 <u>\$ 639,110</u>

Notes Payable, Equipment

The Hospital has a 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, 2010, the remaining balance on this note is \$359,054.

The Hospital has a second 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, 2010, the remaining balance on this note is \$130,042.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,634, including interest at 3.95%, with the final payment due March, 2014. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2010, the remaining balance on this note is \$151,776.

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

NOTE 6 LONG-TERM DEBT (continued)

Notes Payable, Equipment (continued)

The Hospital has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,417, including interest at 3.95%, with the final payment due July, 2014. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2010, the remaining balance on this note is \$154,213.

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>
2011	\$ 310,000	\$ 322,542	\$ 632,542	\$ 363,242	\$ 995,784
2012	325,000	262,709	587,709	330,958	918,667
2013	345,000	120,341	465,341	302,878	768,219
2014	365,000	86,087	451,087	276,627	727,714
2015	390,000	3,406	393,406	256,189	649,595
2016 - 2020	2,355,000	-	2,355,000	855,662	3,210,662
2021 - 2022	<u>1,165,000</u>	<u>-</u>	<u>1,165,000</u>	<u>114,725</u>	<u>1,279,725</u>
Total	5,255,000	795,085	6,050,085	2,500,281	8,550,366
Less current maturities	<u>310,000</u>	<u>322,542</u>	<u>632,542</u>	<u>363,242</u>	<u>995,784</u>
Total long-term debt	<u>\$4,945,000</u>	<u>\$ 472,543</u>	<u>\$5,417,543</u>	<u>\$2,137,039</u>	<u>\$7,554,582</u>

A summary of changes in long-term debt for the year ended June 30, 2010 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	\$5,545,000	\$ -	\$ 290,000	\$5,255,000	\$ 310,000
Notes payable, equipment	<u>730,587</u>	<u>346,623</u>	<u>282,125</u>	<u>795,085</u>	<u>322,542</u>
Totals	<u>\$6,275,587</u>	<u>\$ 346,623</u>	<u>\$ 572,125</u>	<u>\$6,050,085</u>	<u>\$ 632,542</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>

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

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, 2008.

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, 2010 regular plan members were required to contribute 4.30% of their annual salary and the Hospital is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$357,188, \$349,210 and \$285,017, 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, 2010 and 2009.

	2010	2009
Charges foregone, based on established rates	\$ <u>189,678</u>	\$ <u>347,362</u>
Equivalent percentage of charity care patients to all patients served	<u>1.2%</u>	<u>2.3%</u>

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

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, 2010 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 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, 2010, 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	\$ 955,131	\$ 135,127	\$ 1,090,258	\$ 1,091,291
Other revenues/receipts	<u>15,589,153</u>	<u>445,242</u>	<u>16,034,395</u>	<u>14,664,693</u>
	16,544,284	580,369	17,124,653	15,755,984
Expenses/expenditures	<u>15,924,402</u>	<u>557,238</u>	<u>16,481,640</u>	<u>17,961,700</u>
Net	619,882	23,131	643,013	(2,205,716)
Balance, beginning	<u>10,131,536</u>	<u>(8,588,327)</u>	<u>1,543,209</u>	<u>2,535,248</u>
Balance, ending	<u>\$10,751,418</u>	<u>\$(8,565,196)</u>	<u>\$ 2,186,222</u>	<u>\$ 329,532</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 2010 and 2009 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 27, 2010

**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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
No discharge date (includes patients in Hospital at end of year)	\$ 151,918	\$ 120,987	6.90%	5.59%
0 - 60 days	1,386,538	1,465,692	62.91	67.71
61 - 180 days	437,734	364,395	19.86	16.83
181 - 365 days	140,447	129,588	6.37	5.99
366 and over	<u>87,291</u>	<u>83,962</u>	<u>3.96</u>	<u>3.88</u>
Totals	<u>2,203,928</u>	<u>2,164,624</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	3,000	5,000		
Medicaid	7,000	-		
Other	260,000	255,000		
Bad debts	<u>620,000</u>	<u>580,000</u>		
Total allowances	<u>890,000</u>	<u>840,000</u>		
Totals	<u>\$1,313,928</u>	<u>\$1,324,624</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 41,366</u>	<u>\$ 39,193</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>32</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
BALANCE , beginning	\$ 580,000	\$ 540,000		
ADD				
Provision for bad debts	742,237	649,446	4.92%	4.54%
Recoveries of accounts previously written off	<u>167,737</u>	<u>214,789</u>	1.11	1.50
	1,489,974	1,404,235		
DEDUCT				
Accounts written off	<u>869,974</u>	<u>824,235</u>	5.76	5.76
BALANCE , ending	<u>\$ 620,000</u>	<u>\$ 580,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$ 788,610	\$ -	\$ 788,610	\$ 994,650
Skilled care	193,320	-	193,320	212,450
Extended care	573,380	-	573,380	404,760
	<u>1,555,310</u>	<u>-</u>	<u>1,555,310</u>	<u>1,611,860</u>
OTHER NURSING SERVICE				
Observation room	-	100,720	100,720	110,880
Operating and recovery rooms	57,120	1,479,283	1,536,403	1,756,831
Emergency service	8,099	2,543,205	2,551,304	1,407,556
Central supply	42,441	450,832	493,273	553,556
Ambulance	19,135	603,662	622,797	710,843
	<u>126,795</u>	<u>5,177,702</u>	<u>5,304,497</u>	<u>4,539,666</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	263,540	1,786,724	2,050,264	2,057,247
Cardiopulmonary	7,590	131,230	138,820	134,090
Cardiac rehabilitation	-	153,503	153,503	118,300
Respiratory therapy	-	127,590	127,590	104,105
Diagnostic imaging	175,558	3,184,198	3,359,756	3,600,612
Pharmacy	629,857	1,019,402	1,649,259	1,530,433
Anesthesiology	11,150	208,050	219,200	250,200
Speech therapy	1,536	5,707	7,243	10,447
Physical therapy	124,333	759,315	883,648	951,423
Occupational therapy	8,987	6,009	14,996	11,300
	<u>1,222,551</u>	<u>7,381,728</u>	<u>8,604,279</u>	<u>8,768,157</u>
Totals	<u>\$2,904,656</u>	<u>\$12,559,430</u>	15,464,086	14,919,683
Charity care charges foregone, based on established rates			(189,678)	(347,362)
Total gross patient service revenue			15,274,408	14,572,321
Provisions for contractual adjustments and bad debts			(175,661)	(266,767)
Total net patient service revenue			<u>\$15,098,747</u>	<u>\$14,305,554</u>

Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare and Medicaid	\$(1,296,305)	\$(1,155,096)
Other	729,729	772,417
Provision for bad debts	<u>742,237</u>	<u>649,446</u>
Totals	<u>\$ 175,661</u>	<u>\$ 266,767</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Meals	\$ 38,320	\$ 41,853
Community fitness center fees	15,362	14,281
Medical office building rental income	105,045	86,379
Miscellaneous	<u>116,750</u>	<u>119,049</u>
Totals	<u>\$ 275,477</u>	<u>\$ 261,562</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 111,085	\$ 1,283	\$ 112,368	\$ 113,722
Medical and surgical	1,635,147	492,170	2,127,317	2,212,870
Operating and recovery rooms	369,889	228,701	598,590	432,966
Emergency service	706,379	1,198,674	1,905,053	1,441,639
Central supply	-	195,090	195,090	211,633
Ambulance	69,212	68,440	137,652	130,027
Total nursing service	<u>2,891,712</u>	<u>2,184,358</u>	<u>5,076,070</u>	<u>4,542,857</u>
OTHER PROFESSIONAL SERVICE				
Professional service administration	83,229	2,587	85,816	64,476
Laboratory	327,537	358,848	686,385	660,217
Cardiopulmonary	8,902	7,446	16,348	17,961
Cardiac rehabilitation	64,892	14,518	79,410	79,784
Respiratory therapy	6,415	39,638	46,053	35,865
Diagnostic imaging	347,073	402,807	749,880	746,275
Pharmacy	26,950	659,944	686,894	675,178
Anesthesiology	-	186,955	186,955	214,773
Speech therapy	-	9,350	9,350	7,711
Physical therapy	-	543,758	543,758	587,004
Occupational therapy	-	16,842	16,842	15,329
Specialty clinic	14,199	-	14,199	8,701
Medical office building	-	34,150	34,150	31,076
Health information	174,801	40,510	215,311	229,360
Quality improvement and utilization management	198,984	56,621	255,605	244,010
Total other professional service	<u>1,252,982</u>	<u>2,373,974</u>	<u>3,626,956</u>	<u>3,617,720</u>
GENERAL SERVICE				
Dietary	200,288	159,644	359,932	353,894
Plant operation	204,019	462,383	666,402	671,089
Environmental services	195,996	62,140	258,136	273,645
Laundry and linen	-	85,620	85,620	104,573
Total general service	<u>600,303</u>	<u>769,787</u>	<u>1,370,090</u>	<u>1,403,201</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	113,641	976,134	1,089,775	799,202
Human resources	143,123	55,052	198,175	190,056
Marketing	27,491	19,402	46,893	37,093
Business office	332,549	165,684	498,233	475,027
Information services	87,680	269,646	357,326	396,194
Purchasing	86,545	34,133	120,678	112,420
Community fitness center	-	12,450	12,450	11,848
FICA	-	393,431	393,431	385,825
IPERS	-	357,188	357,188	349,210
Group health, life, and disability insurance	-	716,965	716,965	656,136
Insurance	-	274,413	274,413	208,198
Total fiscal and administrative service and unassigned expenses	<u>791,029</u>	<u>3,274,498</u>	<u>4,065,527</u>	<u>3,621,209</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,785,759</u>	<u>1,785,759</u>	<u>1,567,636</u>
Total expenses	<u>\$5,536,026</u>	<u>\$10,388,376</u>	<u>\$15,924,402</u>	<u>\$14,752,623</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Adult and pediatric	813	1,045
Swing bed	537	606
Extended care	<u>4,139</u>	<u>3,252</u>
Totals	<u>5,489</u>	<u>4,903</u>
DISCHARGES		
Adult and pediatric	251	323
Swing bed	57	59
Extended care	<u>22</u>	<u>31</u>
Totals	<u>330</u>	<u>413</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.24	3.24
Swing bed	9.42	10.27
Extended care	188.14	104.90

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, 2010, and have issued our report thereon dated August 27, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 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 27, 2010

**Clarke County Public Hospital
and Clarke County Hospital Foundation
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

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, 2010**

Part II—Findings Related to Required Statutory Reporting

10-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2010.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

10-II-C TRAVEL EXPENSES

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

10-II-D BUSINESS TRANSACTIONS

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

10-II-E BOARD MINUTES

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

10-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.