

**Keokuk County Health Center
Sigourney, Iowa**

FINANCIAL REPORT

June 30, 2010

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**Keokuk County Health Center
OFFICIALS
June 30, 2010**

BOARD OF TRUSTEES

Officers

Tony Latcham, Chair
Cheryl Monroe, Secretary
Frank Mertz, Treasurer

Expiration of term

December 31, 2012
December 31, 2014
December 31, 2010

Members

Elayne Campbell
Brian Horras
Loretta Hudson
Jan Parcell

December 31, 2014
December 31, 2010
December 31, 2012
December 31, 2012

CHIEF EXECUTIVE OFFICER

Ray Brownsworth

CHIEF FINANCIAL OFFICER

Larry Brown

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

We have audited the accompanying balance sheets of Keokuk County Health Center, as of June 30, 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 Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keokuk County Health Center as of June 30, 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 September 10, 2010 on our consideration of Keokuk County Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by 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
September 10, 2010

Keokuk County Health Center MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Keokuk County Health Center, we offer readers of the financial statements this narrative overview and analysis of the Health Center's financial performance during the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the Health Center's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Health Center, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Health Center report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Health Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Health Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Health Center operations over the past year and can be used to determine whether the Health Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets decreased by \$355,814 to \$14,360,804
- Total noncurrent assets whose use is limited decreased by \$207,750 to \$2,262,988
- Total property and equipment decreased by \$631,005 to \$8,347,034
- Total fund equity increased by \$336,531 to \$3,439,008
- Total long-term debt decreased by \$632,022 to \$9,355,000
- Net patient service revenue increased by \$716,743, or 13%, primarily due to continuing increased reimbursement under Critical Access Hospital status
- Expenses increased by \$737,593, or 12%, to \$6,687,891

Financial Analysis of the Health Center

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

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

Table 1
Condensed Balance Sheets

	June 30		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 2,600,582	\$ 2,081,041	\$ 1,912,753
Assets whose use is limited	2,262,988	2,470,738	1,900,765
Property and equipment	8,347,034	8,978,039	9,173,299
Other assets	<u>1,150,200</u>	<u>1,186,800</u>	<u>1,143,400</u>
 Total assets	 <u>\$14,360,804</u>	 <u>\$14,716,618</u>	 <u>\$14,130,217</u>
Current liabilities	\$ 721,796	\$ 880,055	\$ 593,242
Long-term debt, less current maturities	9,160,000	9,694,086	9,733,200
Other noncurrent liabilities	<u>1,040,000</u>	<u>1,040,000</u>	<u>960,000</u>
 Total liabilities	 <u>\$10,921,796</u>	 <u>\$11,614,141</u>	 <u>\$11,286,442</u>
Invested in capital assets, net of related debt	\$ (202,068)	\$ (166,485)	\$ 88,997
Restricted	57,252	57,805	57,576
Unrestricted	<u>3,583,824</u>	<u>3,211,157</u>	<u>2,697,202</u>
 Total fund equity	 <u>\$ 3,439,008</u>	 <u>\$ 3,102,477</u>	 <u>\$ 2,843,775</u>

As depicted in Table 1, total assets decreased in fiscal year 2010 to \$14,360,804.

A summary of the Health Center'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	\$6,289,057	\$5,572,314	\$5,270,628
Other revenue	<u>166,982</u>	<u>192,792</u>	<u>179,918</u>
Total revenue	<u>6,456,039</u>	<u>5,765,106</u>	<u>5,450,546</u>
Salaries	2,940,321	2,661,048	2,455,289
Supplies and expenses	2,988,998	2,604,220	2,487,353
Provision for depreciation	<u>758,572</u>	<u>685,030</u>	<u>674,608</u>
Total expenses	<u>6,687,891</u>	<u>5,950,298</u>	<u>5,617,250</u>
Operating (loss)	<u>(231,852)</u>	<u>(185,192)</u>	<u>(166,704)</u>
County taxes	1,050,443	963,664	761,859
Investment income	81,635	47,960	37,710
Unrestricted contributions	150	1,515	940
Interest and amortization expense	<u>(563,845)</u>	<u>(569,245)</u>	<u>(567,211)</u>
Total nonoperating gains (losses)	<u>568,383</u>	<u>443,894</u>	<u>233,298</u>
Change in fund equity	336,531	258,702	66,594
Total fund equity, beginning	<u>3,102,477</u>	<u>2,843,775</u>	<u>2,777,181</u>
Total fund equity, ending	<u>\$3,439,008</u>	<u>\$3,102,477</u>	<u>\$2,843,775</u>

Operating and Financial Performance

The following summarizes the Health Center's statements 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: Acute discharges for fiscal year 2010 were 62 compared to 82 in fiscal year 2009. Average length of stay decreased in 2010 as patient days decreased to 159 from 236 in 2009. Swing bed, skilled care discharges for fiscal year 2010 were 39 compared to 47 in fiscal year 2009. Average length of stay increased as patient days decreased to 754 from 782 in 2009. Volume on the outpatient side increased in 2010. In 2010, gross outpatient charges increased to \$4,065,826 compared to \$3,754,257 in 2009.

Price Increase: As is customary, the Health Center annually reviews its charge structure and incorporated certain price increases. Overall, gross patient service revenue increased slightly to \$4,960,843 from \$4,905,784 in 2009. The Health Center departments experiencing the most significant increases in 2010 were ambulance and clinic.

Payor Mix: The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts increased to \$1,328,214 in 2010 compared to \$666,530 in 2009. This represents an additional 27% and 14% reimbursement over standard gross patient charges for the years ended June 30, 2010 and 2009, respectively.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	48%	52%	52%
Medicaid	10	10	9
Commercial insurance	26	22	20
Patients	<u>16</u>	<u>16</u>	<u>19</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$166,982 in 2010 compared to \$192,792 in 2009, primarily due to a decrease in miscellaneous income.

Expenses

Approximately 45% of Health Center's expenses are for salaries. Total salaries increased by 10% to \$2,940,321 in 2010 from \$2,661,048 in 2009. The Health Center departments experiencing the most significant increase in 2010 were ambulance, laboratory, physical therapy and administration and business office.

Approximately 45% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 15% to \$2,988,998 in 2010 from \$2,604,220 in 2009. The most significant increases in 2010 related to adult and pediatric, emergency service, radiology, FICA and group health and life insurance.

Approximately 10% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$758,752 in 2010 from \$685,030 in 2009.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$568,383 from \$443,894 in 2009, primarily due to increased county taxes and investment income.

Property and Equipment

At the end of 2010, the Health Center had \$8,347,034 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, \$127,567 was spent to acquire new equipment.

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

**Table 4
Property and Equipment**

	June 30		
	2010	2009	2008
Land	\$ 6,500	\$ 6,500	\$ 6,500
Land improvements	706,125	724,691	724,691
Building	2,736,117	2,743,339	2,751,619
Fixed equipment	5,619,098	5,678,580	5,676,647
Major movable equipment	<u>2,022,983</u>	<u>2,050,993</u>	<u>1,772,594</u>
Subtotal	11,090,823	11,204,103	10,932,051
Less accumulated depreciation	<u>2,743,789</u>	<u>2,226,064</u>	<u>1,758,752</u>
Property and equipment	<u>\$ 8,347,034</u>	<u>\$ 8,978,039</u>	<u>\$ 9,173,299</u>

Debt Administration

At year end, the Health Center had \$9,355,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2005. This decreased by \$632,022 in fiscal year 2010. More detailed information about the Health Center's long-term debt is presented in the notes to financial statements. Note that the Bonds and the notes payable represent approximately 85% of the Health Center's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Health Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the notes to financial statements. A comparison of the Health Center's fiscal year 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	\$1,116,001	\$1,073,808	\$ 42,193
Other revenues/receipts	<u>6,537,824</u>	<u>5,854,704</u>	<u>683,120</u>
	7,653,825	6,928,512	725,313
Expenses/expenditures	<u>7,318,311</u>	<u>7,400,000</u>	<u>(81,689)</u>
Net	<u>\$ 335,514</u>	<u>\$ (471,488)</u>	<u>\$ 807,002</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to increased net patient service revenue. Expenses/expenditures were slightly less than County Hospital budget, as amended, for prepayment of notes payable and increases in expenses relating to capital equipment purchases and due to volume increases.

Economic and Other Factors and Next Year's Budget

The Health Center'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
- Growth in demand for services
- Technology advancements

Contacting Health Center's Management

This financial report is designed to provide users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about this report or need additional information, contact Keokuk County Health Center at (641) 622-2720 or write care of: Chief Financial Officer, Keokuk County Health Center, 23019 Highway 149, Sigourney, Iowa 52591.

**Keokuk County Health Center
BALANCE SHEETS**

ASSETS	June 30	
	2010	2009
CURRENT ASSETS		
Cash	\$ 266,877	\$ 129,965
Assets whose use is limited, required for current liabilities	237,550	227,400
Patient receivables, less allowances for contractual adjustments and bad debts	1,602,835	1,540,542
Other receivables	29,437	25,538
Estimated third-party payor settlements	320,000	-
Inventories	92,053	110,491
Prepaid expenses	<u>51,830</u>	<u>47,105</u>
Total current assets	<u>2,600,582</u>	<u>2,081,041</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	198,204	934,280
Certificates of deposit	1,549,384	1,010,355
Restricted for payment of long-term debt and interest		
Certificates of deposit	<u>752,950</u>	<u>753,503</u>
Total assets whose use is limited	2,500,538	2,698,138
Less assets whose use is limited and that are required for current liabilities	<u>237,550</u>	<u>227,400</u>
Non current assets whose use is limited	<u>2,262,988</u>	<u>2,470,738</u>
PROPERTY AND EQUIPMENT	11,090,823	11,204,103
Less accumulated depreciation	<u>2,743,789</u>	<u>2,226,064</u>
Total property and equipment	<u>8,347,034</u>	<u>8,978,039</u>
OTHER ASSETS		
Unamortized financing costs	110,200	146,800
Succeeding year property tax receivable	<u>1,040,000</u>	<u>1,040,000</u>
Total other assets	<u>1,150,200</u>	<u>1,186,800</u>
 Totals	 <u>\$14,360,804</u>	 <u>\$14,716,618</u>

Keokuk County Health Center
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 \$333,160; 2009 \$430,613	\$6,289,057	\$5,572,314
OTHER REVENUE	<u>166,982</u>	<u>192,792</u>
Total revenue	<u>6,456,039</u>	<u>5,765,106</u>
EXPENSES		
Nursing service	2,210,332	1,994,193
Other professional service	1,411,023	1,195,908
General service	533,270	549,852
Fiscal and administrative service and unassigned expenses	1,774,694	1,525,315
Provision for depreciation	<u>758,572</u>	<u>685,030</u>
Total expenses	<u>6,687,891</u>	<u>5,950,298</u>
Operating (loss)	<u>(231,852)</u>	<u>(185,192)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,050,443	963,664
Investment income	81,635	47,960
Unrestricted contributions	150	1,515
Interest and amortization expense	<u>(563,845)</u>	<u>(569,245)</u>
Total nonoperating gains (losses)	<u>568,383</u>	<u>443,894</u>
Change in fund equity	336,531	258,702
TOTAL FUND EQUITY		
Beginning	<u>3,102,477</u>	<u>2,843,775</u>
Ending	<u>\$3,439,008</u>	<u>\$3,102,477</u>

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

	Year ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$5,906,764	\$5,415,259
Cash paid to suppliers for goods and services	(2,885,838)	(2,485,023)
Cash paid to employees for services	(3,094,140)	(2,602,832)
Other operating revenue received	<u>166,982</u>	<u>192,792</u>
Net cash provided by operating activities	<u>93,768</u>	<u>520,196</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	1,050,443	963,664
Contributions received	<u>150</u>	<u>1,515</u>
Net cash provided by noncapital financing activities	<u>1,050,593</u>	<u>965,179</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	280,000
Acquisition of property and equipment	(127,567)	(489,770)
Principal payments on long-term debt	(632,022)	(256,378)
Interest paid on long-term debt	<u>(527,095)</u>	<u>(533,145)</u>
Net cash (used in) capital and related financing activities	<u>(1,286,684)</u>	<u>(999,293)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	81,635	47,960
Proceeds from maturities of certificates of deposit	1,569,257	-
Purchase of certificates of deposit	<u>(2,107,733)</u>	<u>(1,040,315)</u>
Net cash (used in) investing activities	<u>(456,841)</u>	<u>(992,355)</u>
NET (DECREASE) IN CASH	(599,164)	(506,273)
CASH		
Beginning	<u>1,064,245</u>	<u>1,570,518</u>
Ending	<u>\$ 465,081</u>	<u>\$1,064,245</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2010	2009
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (231,852)	\$ (185,192)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation	758,572	685,030
Changes in assets and liabilities		
(Increase) in patient receivables	(62,293)	(497,055)
(Increase) in other receivables	(3,899)	(10,995)
(Increase) decrease in estimated third-party payor settlements	(320,000)	340,000
(Increase) decrease in inventories	18,438	(6,947)
(Increase) in prepaid expenses	(4,725)	(29,222)
Increase (decrease) in accounts payable	(116,829)	149,037
Increase in accrued employee compensation	54,483	58,216
Increase in payroll taxes and amounts withheld from employees	<u>1,873</u>	<u>17,324</u>
Net cash provided by operating activities	<u>\$ 93,768</u>	<u>\$ 520,196</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 266,877	\$ 129,965
Assets whose use is limited, designated by board for plant replacement and expansion, cash	<u>198,204</u>	<u>934,280</u>
Total per statement of cash flows	<u>\$ 465,081</u>	<u>\$1,064,245</u>

See Notes to Financial Statements.

Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

For financial reporting purposes, Keokuk County Health Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health Center. These criteria also include organizations that are fiscally dependent on the Health Center. The Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Inventories

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

Property and Equipment

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

Unamortized Financing Costs

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Receivable

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

Deferred Revenue For Succeeding Year Property Tax Receivable

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

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 Health Center 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 Health Center 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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses, and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Credit Policy

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

Accounting Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 2 CASH

The Health Center's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

NOTE 3 PATIENT RECEIVABLES

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

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Medicare	\$ 826,374	\$ 797,084
Medicaid	159,673	222,053
Commercial insurance	347,099	330,207
Patients	<u>429,689</u>	<u>331,198</u>
Total patient receivables	1,762,835	1,680,542
Less allowances for contractual adjustments and bad debts	<u>(160,000)</u>	<u>(140,000)</u>
Net patient receivables	<u>\$1,602,835</u>	<u>\$1,540,542</u>

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

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2010:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$ 57,805	\$ 695,698	\$ 753,503
Transfer from current assets, cash	693,100	-	693,100
Principal and interest payments	<u>(693,653)</u>	<u>-</u>	<u>(693,653)</u>
BALANCE , end of year	<u>\$ 57,252</u>	<u>\$ 695,698</u>	<u>\$ 752,950</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	\$ 6,500	\$ -	\$ 6,500	\$ -
Land improvements	706,125	161,931	724,691	131,144
Building	2,736,117	602,956	2,743,339	536,829
Fixed equipment	5,619,098	1,121,315	5,678,580	884,971
Major movable equipment	<u>2,022,983</u>	<u>857,587</u>	<u>2,050,993</u>	<u>673,120</u>
Totals	<u>\$11,090,823</u>	<u>\$2,743,789</u>	<u>\$11,204,103</u>	<u>\$2,226,064</u>

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>Ending balance</u>
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	724,691	-	18,566	706,125
Building	2,743,339	-	7,222	2,736,117
Fixed equipment	5,678,580	39,059	98,541	5,619,098
Major movable equipment	<u>2,050,993</u>	<u>88,508</u>	<u>116,518</u>	<u>2,022,983</u>
Totals	11,204,103	127,567	240,847	11,090,823
Less accumulated depreciation	<u>(2,226,064)</u>	<u>(758,572)</u>	<u>(240,847)</u>	<u>(2,743,789)</u>
Net property and equipment	<u>\$ 8,978,039</u>	<u>\$ (631,005)</u>	<u>\$ -</u>	<u>\$ 8,347,034</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 6,500	\$ —	\$ —	\$ 6,500
Land improvements	724,691	—	—	724,691
Building	2,751,619	—	8,280	2,743,339
Fixed equipment	5,676,647	86,236	84,303	5,678,580
Major movable equipment	<u>1,772,594</u>	<u>403,534</u>	<u>125,135</u>	<u>2,050,993</u>
Totals	10,932,051	489,770	217,718	11,204,103
Less accumulated depreciation	<u>(1,758,752)</u>	<u>(685,030)</u>	<u>(217,718)</u>	<u>(2,226,064)</u>
Net property and equipment	<u>\$ 9,173,299</u>	<u>\$ (195,260)</u>	<u>\$ —</u>	<u>\$ 8,978,039</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 2005	\$9,355,000	\$9,540,000
Notes payable, equipment	—	<u>447,022</u>
Total	<u>9,355,000</u>	<u>9,987,022</u>
Less current maturities	<u>195,000</u>	<u>292,936</u>
Long-term debt, net of current maturities	<u>\$9,160,000</u>	<u>\$9,694,086</u>

Hospital Revenue Bonds, Series 2005

The Health Center has issued Hospital Revenue Bonds, Series 2005 in the original amount of \$10,000,000. The Bonds are payable solely from future revenues of the Health Center and are due serially each June 1 through 2020, at remaining interest rates ranging from 4.45% to 5.5%. At June 30, 2010, the remaining balance on these Bonds is \$9,355,000.

The Hospital Revenue Bonds, Series 2005 require certain funds be maintained as follows:

A Reserve Fund in an amount to the maximum annual amount of principal and interest due on all parity obligations in any succeeding fiscal year, \$695,698.

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. Deposits are to be made from the general funds of the Health Center. Future funding requirements of the Sinking Fund for the next five years total 2011 \$695,698; 2012 \$692,020; 2013 \$692,820; 2014 \$692,845; 2015 \$692,065.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2010.

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

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

NOTE 6 LONG-TERM DEBT (continued)

As to the above Bonds, Series 2005, the Health Center 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 Health Center. The net revenues are pledged through June, 2020. As of June 30, 2010 the remaining principal and interest on the Series 2005 Bonds was \$13,702,733. 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	\$ 336,531	\$ 258,702
Provision for depreciation	758,572	685,030
Interest expense on the Bonds	508,800	515,415
 Pledged net revenues	 \$1,603,903	 \$1,459,147
 Principal and interest requirements Hospital Revenue Bonds, Series 2005	 \$ 693,653	 \$ 690,915

Maturities required on long-term debt are as follows:

Year ending June 30	Principal	Interest	Total
2011	\$ 195,000	\$ 500,698	\$ 695,698
2012	200,000	492,020	692,020
2013	210,000	482,820	692,820
2014	220,000	472,845	692,845
2015	230,000	462,065	692,065
2016-2020	8,300,000	1,937,285	10,237,285
Total	9,355,000	4,347,733	13,702,733
Less current maturities	195,000	500,698	695,698
 Total long-term debt	 \$9,160,000	 \$3,847,035	 \$13,007,035

A summary of changes in long-term debt for the year ended June 30, 2010 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bonds, Series 2005	\$9,540,000	\$ -	\$ 185,000	\$9,355,000	\$ 195,000
Notes payable, equipment	447,022	-	447,022	-	-
Totals	\$9,987,022	\$ -	\$ 632,022	\$9,355,000	\$ 195,000

A summary of changes in long-term debt for the year ended June 30, 2009 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bonds, Series 2005	\$9,715,000	\$ -	\$ 175,000	\$9,540,000	\$ 185,000
Notes payable, equipment	248,400	280,000	81,378	447,022	107,936
Totals	\$9,963,400	\$ 280,000	\$ 256,378	\$9,987,022	\$ 292,936

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

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

Other

The Health Center has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

NOTE 8 CHARITY CARE

The Health Center 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.

	<u>2010</u>	<u>2009</u>
Charges foregone, based on established rates	\$ <u>6,088</u>	\$ <u>27,625</u>
Equivalent percentage of charity care patients to all patients served	<u>.1%</u>	<u>.6%</u>

NOTE 9 MALPRACTICE CLAIMS

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

Presently, no claims alleging malpractice have been asserted against the Health Center. However, incidents occurring through June 30, 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.

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

NOTE 10 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2010, regular plan members were required to contribute 4.3% of their annual salary and the Health Center was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$195,531, \$168,977 and \$142,098, respectively, equal to the required contributions for each year.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget following required public notice and hearings for all funds. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Health Center prepares its annual County Hospital budget on a budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not reported as an expenditure on the County Hospital budget basis capital expenditures and debt service proceeds and payments are recorded 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>General</u> <u>funds</u>	<u>Budget</u> <u>basis</u> <u>adjustments</u>	<u>Budget</u> <u>basis</u>	<u>County</u> <u>Hospital</u> <u>Budget</u>
Amount to be raised by taxation	\$1,050,443	\$ 65,558	\$1,116,001	\$1,073,808
Other revenues/receipts	<u>5,973,979</u>	<u>563,845</u>	<u>6,537,824</u>	<u>5,854,704</u>
	7,024,422	629,403	7,653,825	6,928,512
Expenses/expenditures	<u>6,687,891</u>	<u>630,420</u>	<u>7,318,311</u>	<u>7,400,000</u>
Net	336,531	(1,017)	335,514	(471,488)
Balance, beginning	<u>3,102,477</u>	<u>898,783</u>	<u>4,001,260</u>	<u>3,989,913</u>
Balance, ending	<u>\$3,439,008</u>	<u>\$ 897,766</u>	<u>\$4,336,774</u>	<u>\$3,518,425</u>

NOTE 12 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

Our report on our audits of the basic financial statements of Keokuk County Health Center for 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
September 10, 2010

**Keokuk County Health Center
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 – 30 days (includes patients in Health Center at end of year)	\$ 483,382	\$ 746,867	27.42%	44.44%
31 – 60 days	376,931	178,625	21.38	10.63
61 – 90 days	184,606	230,962	10.47	13.74
91 – 120 days	126,599	139,581	7.19	8.31
Over 120 days	<u>591,317</u>	<u>384,507</u>	<u>33.54</u>	<u>22.88</u>
Totals	<u>1,762,835</u>	<u>1,680,542</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(160,000)	(160,000)		
Medicaid	20,000	20,000		
Other	20,000	20,000		
Bad debts	<u>280,000</u>	<u>260,000</u>		
Total allowances	<u>160,000</u>	<u>140,000</u>		
Totals	<u>\$1,602,835</u>	<u>\$1,540,542</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 17,230</u>	<u>\$ 15,267</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>93</u>	<u>101</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	\$ 260,000	\$ 160,000		
ADD				
Provision for bad debts	333,160	430,613	5.30%	7.73%
Recoveries of accounts previously written off	<u>15,736</u>	<u>27,717</u>	.25	.50
	608,896	618,330		
DEDUCT				
Accounts written off	<u>328,896</u>	<u>358,330</u>	5.23	6.43
BALANCE , ending	<u>\$ 280,000</u>	<u>\$ 260,000</u>		

Keokuk County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	2010			2009
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 96,414	\$ -	\$ 96,414	\$ 149,198
Skilled care	356,456	-	356,456	384,648
Intermediate care	<u>170,854</u>	<u>-</u>	<u>170,854</u>	<u>208,032</u>
	<u>623,724</u>	<u>-</u>	<u>623,724</u>	<u>741,878</u>
OTHER NURSING SERVICES				
Observation room	-	64,724	64,724	79,704
Emergency service	2,092	1,003,427	1,005,519	927,411
Special procedures	-	80,240	80,240	80,805
Central supply	34,584	34,001	68,585	142,759
Ambulance	<u>-</u>	<u>755,213</u>	<u>755,213</u>	<u>672,616</u>
	<u>36,676</u>	<u>1,937,605</u>	<u>1,974,281</u>	<u>1,903,295</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	49,295	653,321	702,616	714,107
Radiology	27,462	560,684	588,146	619,076
Electrocardiology	7,306	32,814	40,120	25,306
Pharmacy	85,372	206,674	292,046	272,684
Occupational therapy	20,429	23,121	43,550	37,572
Speech therapy	5,281	7,031	12,312	10,122
Physical therapy	45,560	465,528	511,088	475,142
Cardiac rehabilitation	-	38,882	38,882	37,005
Clinic	<u>-</u>	<u>140,166</u>	<u>140,166</u>	<u>97,222</u>
	<u>240,705</u>	<u>2,128,221</u>	<u>2,368,926</u>	<u>2,288,236</u>
Totals	<u>\$ 901,105</u>	<u>\$4,065,826</u>	4,966,931	4,933,409
Charity care charges foregone, based on established rates			<u>(6,088)</u>	<u>(27,625)</u>
Total gross patient service revenue			4,960,843	4,905,784
Provisions for contractual adjustments and bad debts			<u>1,328,214</u>	<u>666,530</u>
Total net patient service revenue			<u>\$6,289,057</u>	<u>\$5,572,314</u>

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

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare	\$(1,777,371)	\$(1,298,059)
Medicaid	(172,186)	(45,208)
Other adjustments	288,183	246,124
Provision for bad debts	<u>333,160</u>	<u>430,613</u>
 Totals	 <u>\$(1,328,214)</u>	 <u>\$ (666,530)</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Rental income		
Medical clinic	\$ 41,880	\$ 45,045
Other	3,800	5,093
Miscellaneous	<u>121,302</u>	<u>142,654</u>
 Totals	 <u>\$ 166,982</u>	 <u>\$ 192,792</u>

Keokuk County Health Center
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	\$ 91,075	\$ 144	\$ 91,219	\$ 83,774
Adult and pediatric	930,305	97,880	1,028,185	957,000
Emergency service	193,443	433,783	627,226	561,389
Special procedures	2,727	46,466	49,193	29,248
Central supply	51,527	9,798	61,325	37,872
Ambulance	<u>294,727</u>	<u>58,457</u>	<u>353,184</u>	<u>324,910</u>
Total nursing service	<u>1,563,804</u>	<u>646,528</u>	<u>2,210,332</u>	<u>1,994,193</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	150,482	210,619	361,101	299,690
Radiology	123,523	126,259	249,782	188,152
Electrocardiology	-	3,135	3,135	16,315
Pharmacy	13,860	191,956	205,816	182,759
Occupational therapy	-	26,755	26,755	17,356
Speech therapy	-	11,432	11,432	6,504
Physical therapy	191,201	3,034	194,235	153,379
Cardiac rehabilitation	26,730	31,367	58,097	56,493
Clinic	66,451	101,294	167,745	155,756
Medical records	<u>124,459</u>	<u>8,466</u>	<u>132,925</u>	<u>119,504</u>
Total other professional service	<u>696,706</u>	<u>714,317</u>	<u>1,411,023</u>	<u>1,195,908</u>
GENERAL SERVICE				
Dietary	128,726	43,616	172,342	169,817
Plant operation	35,557	228,939	264,496	276,235
Housekeeping	58,608	12,839	71,447	67,901
Laundry	<u>19,342</u>	<u>5,643</u>	<u>24,985</u>	<u>35,899</u>
Total general service	<u>242,233</u>	<u>291,037</u>	<u>533,270</u>	<u>549,852</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration and business office	437,578	354,818	792,396	719,515
FICA	-	228,335	228,335	193,593
IPERS	-	195,531	195,531	168,977
Group health and life insurance	-	426,743	426,743	352,018
Insurance	<u>-</u>	<u>131,689</u>	<u>131,689</u>	<u>91,212</u>
Total fiscal and administrative service and unassigned expenses	<u>437,578</u>	<u>1,337,116</u>	<u>1,774,694</u>	<u>1,525,315</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>758,572</u>	<u>758,572</u>	<u>685,030</u>
Total expenses	<u>\$2,940,321</u>	<u>\$3,747,570</u>	<u>\$6,687,891</u>	<u>\$5,950,298</u>

**Keokuk County Health Center
STATISTICS**

	Year ended June 30	
	2010	2009
PATIENT DAYS		
Adult and pediatric	159	236
Swing bed		
Skilled care	754	782
Intermediate care	<u>1,435</u>	<u>1,658</u>
Totals	<u>2,348</u>	<u>2,676</u>
DISCHARGES		
Adult and pediatric	62	82
Swing bed		
Skilled care	39	47
Intermediate care	<u>25</u>	<u>14</u>
Totals	<u>126</u>	<u>143</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.56	2.88
Swing bed		
Skilled care	19.33	16.64
Intermediate care	57.40	118.43

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

We have audited the financial statements of Keokuk County Health Center as of and for the year ended June 30, 2010, and have issued our report thereon dated September 10, 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 the Health Center'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 Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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 Health Center'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 Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 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 Health Center'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 Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of Keokuk County and other parties to whom the Health Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 10, 2010

**Keokuk County Health Center
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.

**Keokuk County Health Center
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 Health Center did not exceed its County Hospital budget, as amended, for the year ended June 30, 2010.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

10-II-C TRAVEL EXPENSES

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

10-II-D BUSINESS TRANSACTIONS

No business transactions were found between the Health Center and Health Center 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 Health Center's investment policy.