

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

COMBINED FINANCIAL REPORT

June 30, 2011

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**Clarke County Public Hospital
and Clarke County Hospital Foundation
OFFICIALS
June 30, 2011**

Clarke County Public Hospital

BOARD OF TRUSTEES

Officers

Donald Waltz, Chair
Teresa Woods, Vice Chair and Treasurer
Sally Riekema, Secretary

Members

Neville Clayton
Beverly Edwards
Kevin Klemesrud
Jan Short

Expiration of term

December 31, 2016
December 31, 2012
December 31, 2016

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

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF FINANCIAL OFFICER

Michael Thilges

Clarke County Hospital Foundation

BOARD OF DIRECTORS

Ron Schlitche, 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, 2011 and 2010, and the related combined 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 combined financial position of Clarke County Public Hospital and Clarke County Hospital Foundation as of June 30, 2011 and 2010, 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 13, 2011 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 6-11 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clarke County Public Hospital's and Clarke County Hospital Foundation's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 13, 2011

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, 2011 and 2010. 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 \$1,370,535 to \$21,769,409
- Total noncurrent assets whose use is limited increased by \$2,267,282 to \$4,389,849
- Total property and equipment decreased by \$907,675 to \$13,688,863
- Total fund equity increased by \$1,693,049 to \$12,444,467
- Total long-term debt decreased by \$627,541 to \$5,422,544
- Net patient service revenue increased by \$1,304,453, or 9%, to \$16,403,200
- Expenses increased by \$1,016,780, or 6%, to \$16,941,182

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

	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 2,579,535	\$ 2,591,026	\$ 2,620,567
Noncurrent assets whose use is limited	4,389,849	2,122,567	2,320,154
Property and equipment	13,688,863	14,596,538	14,432,222
Other assets	<u>1,111,162</u>	<u>1,088,743</u>	<u>997,486</u>
 Total assets	 <u>\$21,769,409</u>	 <u>\$20,398,874</u>	 <u>\$20,370,429</u>
Current liabilities	\$ 3,865,107	\$ 3,159,913	\$ 3,534,798
Long-term debt, less current maturities	4,449,835	5,417,543	5,744,095
Other noncurrent liabilities	<u>1,010,000</u>	<u>1,070,000</u>	<u>960,000</u>
 Total liabilities	 <u>\$ 9,324,942</u>	 <u>\$ 9,647,456</u>	 <u>\$10,238,893</u>
Invested in capital assets, net of related debt	\$ 8,266,319	\$ 8,546,453	\$ 8,156,635
Restricted	566,822	697,970	698,148
Unrestricted	<u>3,611,326</u>	<u>1,506,995</u>	<u>1,276,753</u>
 Total fund equity	 <u>\$12,444,467</u>	 <u>\$10,751,418</u>	 <u>\$10,131,536</u>

As depicted in Table 1, total assets increased in fiscal year 2011 to \$21,769,409. The change in total assets results primarily from an increase in assets whose use is limited as a result of net cash provided by operating activities.

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		
	2011	2010	2009
Net patient service revenue	\$16,403,200	\$15,098,747	\$14,305,554
Other revenue	439,816	275,477	261,562
Total revenue	<u>16,843,016</u>	<u>15,374,224</u>	<u>14,567,116</u>
Salaries	5,863,713	5,536,026	5,391,596
Supplies and expenses	9,107,276	8,602,617	7,793,391
Provision for depreciation	1,970,193	1,785,759	1,567,636
Total expenses	<u>16,941,182</u>	<u>15,924,402</u>	<u>14,752,623</u>
Operating (loss)	<u>(98,166)</u>	<u>(550,178)</u>	<u>(185,507)</u>
County taxes	1,066,168	955,131	1,020,923
Investment income	69,585	63,454	146,571
Transfer from related Foundation	-	60,000	-
Interest and amortization expense	<u>(411,499)</u>	<u>(405,529)</u>	<u>(421,571)</u>
Total nonoperating gains (losses)	<u>724,254</u>	<u>673,056</u>	<u>745,923</u>
Excess of revenues over expenses before restricted contributions	626,088	122,878	560,416
Restricted contributions	<u>1,066,961</u>	<u>497,004</u>	<u>50,966</u>
Change in fund equity	1,693,049	619,882	611,382
Total fund equity, beginning	<u>10,751,418</u>	<u>10,131,536</u>	<u>9,520,154</u>
Total fund equity, ending	<u>\$12,444,467</u>	<u>\$10,751,418</u>	<u>\$10,131,536</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2011 and 2010.

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

Volume: Acute discharges for fiscal year 2011 were 280 compared to 251 in fiscal year 2010. Average length of stay increased from 3.2 to 3.3 as patient days increased to 920 from 813 in 2010. Volume on the outpatient side indicated positive growth in 2011. In 2011, gross outpatient charges increased to \$12,756,056 compared to \$12,559,430 in 2010.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2011. Overall, gross patient service revenue increased to \$15,662,391 from \$15,274,408 in 2010. Medical and surgical, respiratory therapy and pharmacy reflected the most significant growth in 2011.

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 were a net addition of \$740,809 in 2011 compared to a net deduction \$175,661 in 2010, representing 5% and 1% 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>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	50%	44%	46%
Medicaid	10	10	8
Commercial insurance	32	36	38
Patients	<u>8</u>	<u>10</u>	<u>8</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$439,816 in 2011 compared to \$275,477 in 2010, primarily due to electronic health records meaningful use incentive revenue.

Expenses

Approximately 35% of Hospital's expenses are for salaries. Total salaries increased by 6% to \$5,863,713 in 2011 from \$5,536,026 in 2010. The Hospital departments experiencing the most significant increase were medical and surgical, and registration.

Approximately 54% of Hospital's expenses are for supplies and expenses, including employee benefits. Total supplies and expenses increased by 6% to \$9,107,276 in 2011 from \$8,602,617 in 2010. The Hospital departments experiencing the most significant increase were medical and surgical, pharmacy and information services.

Approximately 11% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,970,193 in 2011 from \$1,785,759 in 2010 as a result of equipment purchases in 2011 and the completion of a renovation project in 2010.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$724,254 from \$673,056 in 2010.

Property and Equipment

At the end of 2011, the Hospital had \$13,688,863 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 2011, \$1,062,518 was spent to acquire property and equipment.

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

**Table 4
Property and Equipment**

	June 30		
	2011	2010	2009
Land	\$ 9,550	\$ 9,550	\$ 9,550
Land improvements	275,945	275,945	275,945
Building	16,564,085	16,564,085	15,658,097
Fixed equipment	3,197,874	3,202,471	3,193,271
Major movable equipment	7,631,904	7,266,472	6,244,879
Medical office building	1,105,415	1,105,415	1,105,415
Construction in progress	—	—	57,743
Subtotal	<u>28,784,773</u>	<u>28,423,938</u>	<u>26,544,900</u>
Less accumulated depreciation	<u>(15,095,910)</u>	<u>(13,827,400)</u>	<u>(12,112,678)</u>
Property and equipment	<u>\$13,688,863</u>	<u>\$14,596,538</u>	<u>\$14,432,222</u>

Debt Administration

At year end, the Hospital had \$4,950,000 in current and long-term debt related to Hospital Revenue Refunding Bonds, Series 2011. More detailed information about the Hospital's outstanding debt is presented in the Notes to combined financial statements. Note that the Bonds represent approximately 53% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$472,544 in current and long-term notes payable. This has decreased by \$322,541 in fiscal year 2011, which was the required amount of principal payments on the outstanding notes for fiscal year 2011. More detailed information about the Hospital's notes payable is presented in the Notes to combined financial statements. Note that total notes payable represent approximately 5% 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 combined financial statements. A comparison of the Hospital's fiscal year 2011 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	\$ 1,037,261	\$ 1,036,725	\$ 536
Other revenues/receipts	<u>18,008,469</u>	<u>18,538,907</u>	<u>(530,438)</u>
	19,045,730	19,575,632	(529,902)
Expenses/expenditures	<u>16,661,048</u>	<u>19,661,900</u>	<u>(3,000,852)</u>
Net	<u>\$ 2,384,682</u>	<u>\$ (86,268)</u>	<u>\$ 2,470,950</u>

Actual other revenues/receipts results were lower than County Hospital budget due to lower than expected net patient service revenue received. Actual budget basis expenses/expenditures were lower than County Hospital budget primarily due to less equipment expenditures and less principal payments on debt.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2012 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	
	2011	2010
CURRENT ASSETS		
Cash	\$ 919,455	\$ 568,229
Assets whose use is limited-required for current liabilities	71,822	337,823
Patient receivables, less allowances for contractual adjustments and bad debts	1,316,793	1,313,928
Other receivables	170,828	261,503
Inventories	109,761	112,594
Prepaid expenses	77,036	10,067
Total current assets	<u>2,665,695</u>	<u>2,604,144</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	2,882,963	500,922
Certificates of deposit	500,000	755,637
Interest receivable	2,706	8,150
Designated by board for special purpose		
Cash	9,180	17,711
Certificate of deposit	500,000	480,000
	<u>3,894,849</u>	<u>1,762,420</u>
Restricted for payment of long-term debt and interest		
Cash	71,822	54,095
Certificate of deposit	495,000	643,875
Total assets whose use is limited	<u>4,461,671</u>	<u>2,460,390</u>
Less assets whose use is limited and that are required for current liabilities	71,822	337,823
Noncurrent assets whose use is limited	<u>4,389,849</u>	<u>2,122,567</u>
PROPERTY AND EQUIPMENT	28,784,773	28,423,938
Less accumulated depreciation	15,095,910	13,827,400
Total property and equipment	<u>13,688,863</u>	<u>14,596,538</u>
OTHER ASSETS		
Unamortized financing costs	101,162	18,743
Succeeding year property tax receivable	1,010,000	1,070,000
Total other assets	<u>1,111,162</u>	<u>1,088,743</u>
 Totals	<u>\$21,855,569</u>	<u>\$20,411,992</u>

	June 30	
	2011	2010
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 972,709	\$ 632,542
Accounts payable	528,682	458,400
Accrued interest	12,617	27,823
Accrued employee compensation	783,103	682,074
Payroll taxes and amounts withheld from employees	137,996	119,074
Estimated third-party payor settlements	<u>1,430,000</u>	<u>1,240,000</u>
Total current liabilities	<u>3,865,107</u>	<u>3,159,913</u>
LONG-TERM DEBT , less current maturities	<u>4,449,835</u>	<u>5,417,543</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	<u>1,010,000</u>	<u>1,070,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	8,266,319	8,546,453
Restricted	604,367	697,970
Unrestricted	<u>3,659,941</u>	<u>1,520,113</u>
Total fund equity	<u>12,530,627</u>	<u>10,764,536</u>
	<hr/>	<hr/>
Totals	<u>\$21,855,569</u>	<u>\$20,411,992</u>

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

	Year ended June 30	
	2011	2010
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2011 \$785,550; 2010 \$742,237	\$16,403,200	\$15,098,747
OTHER REVENUE	<u>439,816</u>	<u>275,477</u>
Total revenue	<u>16,843,016</u>	<u>15,374,224</u>
EXPENSES		
Nursing service	5,449,761	5,076,070
Other professional service	3,877,653	3,626,956
General service	1,394,447	1,370,090
Fiscal and administrative service and unassigned expenses	4,249,128	4,065,527
Provision for depreciation	<u>1,970,193</u>	<u>1,785,759</u>
Total expenses	<u>16,941,182</u>	<u>15,924,402</u>
Operating (loss)	<u>(98,166)</u>	<u>(550,178)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,066,168	955,131
Investment income	69,585	63,454
Unrestricted contributions	36,752	44,277
Interest and amortization expense	<u>(411,499)</u>	<u>(405,529)</u>
Total nonoperating gains (losses)	<u>761,006</u>	<u>657,333</u>
Excess of revenues over expenses before restricted contributions	662,840	107,155
RESTRICTED CONTRIBUTIONS	<u>1,103,251</u>	<u>518,419</u>
Change in fund equity	1,766,091	625,574
TOTAL FUND EQUITY		
Beginning	<u>10,764,536</u>	<u>10,138,962</u>
Ending	<u>\$12,530,627</u>	<u>\$10,764,536</u>

See Notes to Combined Financial Statements.

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$16,590,335	\$15,149,443
Cash paid to suppliers for goods and services	(8,991,533)	(8,819,781)
Cash paid to employees for services	(5,762,684)	(5,532,041)
Other operating revenue received	439,816	275,477
Net cash provided by operating activities	<u>2,275,934</u>	<u>1,073,098</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,066,168	955,131
Unrestricted contributions	36,752	44,277
Net cash provided by noncapital financing activities	<u>1,102,920</u>	<u>999,408</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,062,518)	(2,267,576)
Proceeds from issuance of long-term debt	-	346,623
Principal payments on long-term debt	(627,541)	(572,125)
Interest paid on long-term debt	(398,765)	(388,091)
Payment of financing costs	(110,359)	-
Contributions received, restricted for purchase of equipment and related costs	1,103,251	518,419
Net cash (used in) capital and related financing activities	<u>(1,095,932)</u>	<u>(2,362,750)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	75,029	64,993
Purchase of certificates of deposit	(1,495,000)	(1,235,637)
Proceeds from maturities of certificates of deposit	1,879,512	868,326
Net cash provided by (used in) investing activities	<u>459,541</u>	<u>(302,318)</u>
NET INCREASE (DECREASE) IN CASH	2,742,463	(592,562)
CASH		
Beginning	<u>1,140,957</u>	<u>1,733,519</u>
Ending	<u>\$ 3,883,420</u>	<u>\$ 1,140,957</u>

See Notes to Combined Financial Statements.

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (98,166)	\$ (550,178)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,970,193	1,785,759
Changes in assets and liabilities		
Patient receivables	(2,865)	10,696
Other receivables	90,675	(51,430)
Inventories	2,833	31,430
Prepaid expenses	(66,969)	3,950
Accounts payable	70,282	(189,479)
Accrued employee compensation	101,029	3,985
Payroll taxes and amounts withheld from employees	18,922	(11,635)
Estimated third-party payor settlements	<u>190,000</u>	<u>40,000</u>
Net cash provided by operating activities	<u>\$2,275,934</u>	<u>\$1,073,098</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 919,455	\$ 568,229
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	2,882,963	500,922
Designated by board for special purpose, cash	9,180	17,711
Restricted for payment of long-term debt and interest, cash	<u>71,822</u>	<u>54,095</u>
Totals per statement of cash flows	<u>\$3,883,420</u>	<u>\$1,140,957</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 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 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

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

When the Hospital has both restricted and unrestricted resources available to finance a particular program or project, it is the Hospital's policy to use restricted resources before unrestricted resources.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2011 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.

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.

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

NOTE 3 PATIENT RECEIVABLES

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

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Medicare	\$ 693,212	\$ 618,426
Medicaid	145,341	99,860
Commercial insurance	698,571	787,970
Patients	<u>789,669</u>	<u>697,672</u>
Total patient receivables	2,326,793	2,203,928
Less allowances for contractual adjustments and bad debts	<u>(1,010,000)</u>	<u>(890,000)</u>
Net patient receivables	<u>\$1,316,793</u>	<u>\$1,313,928</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, 2011:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance, beginning	\$ 54,095	\$ 643,875	\$ 697,970
Transfers from current assets, cash	685,404	-	685,404
Interest earned	1,301	-	1,301
Payments for principal and interest	<u>(668,978)</u>	<u>(148,875)</u>	<u>(817,853)</u>
Balance, ending	<u>\$ 71,822</u>	<u>\$ 495,000</u>	<u>\$ 566,822</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ -	\$ 9,550	\$ -
Land improvements	275,945	200,063	275,945	191,251
Building	16,564,085	6,318,640	16,564,085	5,306,580
Fixed equipment	3,197,874	2,601,899	3,202,471	2,490,312
Major movable equipment	7,631,904	5,311,625	7,266,472	5,206,310
Medical office building	<u>1,105,415</u>	<u>663,683</u>	<u>1,105,415</u>	<u>632,947</u>
Totals	<u>\$28,784,773</u>	<u>\$15,095,910</u>	<u>\$28,423,938</u>	<u>\$13,827,400</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, 2011 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	16,564,085	—	—	—	16,564,085
Fixed equipment	3,202,471	—	4,597	—	3,197,874
Major movable equipment	7,266,472	1,062,518	697,086	—	7,631,904
Medical office building	1,105,415	—	—	—	1,105,415
Totals	28,423,938	1,062,518	701,683	—	28,784,773
Less accumulated depreciation	(13,827,400)	(1,970,193)	(701,683)	—	(15,095,910)
Net property and equipment	<u>\$14,596,538</u>	<u>\$ (907,675)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$13,688,863</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>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	26,544,900	1,950,075	71,037	—	28,423,938
Less accumulated depreciation	(12,112,678)	(1,785,759)	(71,037)	—	(13,827,400)
Net property and equipment	<u>\$14,432,222</u>	<u>\$ 164,316</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$14,596,538</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Hospital Revenue Bonds, Series 2001	\$ —	\$5,255,000
Hospital Revenue Refunding Bonds, Series 2011	4,950,000	—
Notes payable, equipment	472,544	795,085
	5,422,544	6,050,085
Less current maturities	972,709	632,542
Long-term debt, net of current maturities	<u>\$4,449,835</u>	<u>\$5,417,543</u>

Hospital Revenue Bonds, Series 2001

The Hospital had issued Hospital Revenue Bonds, Series 2001, in the original amount of \$7,235,000. The bonds were refunded during fiscal year ended June 30, 2011 using the proceeds from the Hospital Revenue Refunding Bonds, Series 2011.

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

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Refunding Bonds, Series 2011

The Hospital has issued Hospital Revenue Refunding Bonds, Series 2011, in the original amount of \$4,950,000. The bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2019, at interest rates of 1.65% to 4.35%. At June 30, 2011, the remaining balance on these bonds was \$4,950,000.

The Hospital Revenue Refunding Bonds, Series 2011, 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 2012 \$848,765; 2013 \$709,159; 2014 \$703,393; 2015 \$703,900; 2016 \$696,958.

A Debt Service Reserve Fund in an amount equal to \$495,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Refunding Bonds at June 30, 2011.

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 refund previous debt of the Hospital. The net revenues are pledged through June, 2019. As of June 30, 2011 the remaining principal and interest on the bonds was \$5,778,581. 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, 2011 and 2010:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Change in fund equity	\$1,693,049	\$ 619,882
Provision for depreciation	1,970,193	1,785,759
Interest expense, Series 2001 and 2011 Bonds	<u>354,193</u>	<u>348,230</u>
Pledged net revenues	<u>\$4,017,435</u>	<u>\$2,753,871</u>
Principal and interest requirements of the bonds	<u>\$ 643,875</u>	<u>\$ 639,535</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, 2011, the remaining balance on this note is \$147,282.

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, 2011, the remaining balance on this note is \$93,050.

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, 2011, the remaining balance on this note is \$113,473.

**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, 2011, the remaining balance on this note is \$118,739.

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

<u>Year ending June 30</u>	<u>Revenue Refunding Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 710,000	\$ 262,709	\$ 972,709	\$ 165,541	\$1,138,250
2013	570,000	120,341	690,341	146,058	836,399
2014	575,000	86,088	661,088	129,970	791,058
2015	590,000	3,406	593,406	114,504	707,910
2016	600,000	-	600,000	97,382	697,382
2017 - 2019	<u>1,905,000</u>	<u>-</u>	<u>1,905,000</u>	<u>160,302</u>	<u>2,065,302</u>
Total	4,950,000	472,544	5,422,544	813,757	6,236,301
Less current maturities	<u>710,000</u>	<u>262,709</u>	<u>972,709</u>	<u>165,541</u>	<u>1,138,250</u>
Total long-term debt	<u>\$4,240,000</u>	<u>\$ 209,835</u>	<u>\$4,449,835</u>	<u>\$ 648,216</u>	<u>\$5,098,051</u>

A summary of changes in long-term debt for the year ended June 30, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds, Series 2001	\$5,255,000	\$ -	\$5,255,000	\$ -	\$ -
Hospital Revenue Refunding Bonds, Series 2011	-	4,950,000	-	4,950,000	710,000
Notes payable, equipment	<u>795,085</u>	<u>-</u>	<u>322,541</u>	<u>472,544</u>	<u>262,709</u>
Totals	<u>\$6,050,085</u>	<u>\$4,950,000</u>	<u>\$5,577,541</u>	<u>\$5,422,544</u>	<u>\$ 972,709</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, Series 2001	\$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>

**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, 2009.

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, 2011 regular plan members were required to contribute 4.50% of their annual salary and the Hospital is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$407,197 \$357,188 and \$349,210, 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, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Charges foregone, based on established rates	\$ <u>102,151</u>	\$ <u>189,678</u>
Equivalent percentage of charity care patients to all patients served	<u>0.7%</u>	<u>1.2%</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, 2011 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 basis 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, 2011, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital budget</u>
Amount to be raised by taxation	\$ 1,066,168	\$ (28,907)	\$ 1,037,261	\$ 1,036,725
Other revenues/receipts	<u>17,568,063</u>	<u>440,406</u>	<u>18,008,469</u>	<u>18,538,907</u>
	18,634,231	411,499	19,045,730	19,575,632
Expenses/expenditures	<u>16,941,182</u>	<u>(280,134)</u>	<u>16,661,048</u>	<u>19,661,900</u>
Net	1,693,049	691,633	2,384,682	(86,268)
Balance, beginning	<u>10,751,418</u>	<u>(9,059,114)</u>	<u>1,692,304</u>	<u>2,240,291</u>
Balance, ending	<u>\$12,444,467</u>	<u>\$ (8,367,481)</u>	<u>\$ 4,076,986</u>	<u>\$ 2,154,023</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 2011 and 2010 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 13, 2011

**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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
No discharge date (includes patients in Hospital at end of year)	\$ 101,856	\$ 151,918	4.38%	6.90%
0 - 60 days	1,450,397	1,386,538	62.33	62.91
61 - 180 days	477,630	437,734	20.53	19.86
181 - 365 days	197,138	140,447	8.47	6.37
366 and over	<u>99,772</u>	<u>87,291</u>	<u>4.29</u>	<u>3.96</u>
Totals	<u>2,326,793</u>	<u>2,203,928</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	22,000	3,000		
Medicaid	22,000	7,000		
Other	276,000	260,000		
Bad debts	<u>690,000</u>	<u>620,000</u>		
Total allowances	<u>1,010,000</u>	<u>890,000</u>		
Totals	<u>\$1,316,793</u>	<u>\$1,313,928</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 44,940</u>	<u>\$ 41,366</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>29</u>	<u>32</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
BALANCE , beginning	\$ 620,000	\$ 580,000		
ADD				
Provision for bad debts	785,550	742,237	4.79%	4.92%
Recoveries of accounts previously written off	<u>146,680</u>	<u>167,737</u>	0.89	1.11
	1,552,230	1,489,974		
DEDUCT				
Accounts written off	<u>862,230</u>	<u>869,974</u>	5.26	5.76
BALANCE , ending	<u>\$ 690,000</u>	<u>\$ 620,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Acute care	\$ 920,000	\$ -	\$ 920,000	\$ 788,610
Skilled care	217,190	-	217,190	193,320
Extended care	556,170	-	556,170	573,380
	<u>1,693,360</u>	<u>-</u>	<u>1,693,360</u>	<u>1,555,310</u>
OTHER NURSING SERVICE				
Observation room	-	93,328	93,328	100,720
Operating and recovery rooms	55,438	1,356,458	1,411,896	1,536,403
Emergency service	23,414	2,579,529	2,602,943	2,551,304
Central supply	36,648	452,447	489,095	493,273
Ambulance	31,518	610,197	641,715	622,797
	<u>147,018</u>	<u>5,091,959</u>	<u>5,238,977</u>	<u>5,304,497</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	316,490	1,746,544	2,063,034	2,050,264
Cardiopulmonary	9,929	115,052	124,981	138,820
Cardiac rehabilitation	-	146,290	146,290	153,503
Respiratory therapy	249	157,690	157,939	127,590
Diagnostic imaging	178,228	3,048,213	3,226,441	3,359,756
Pharmacy	531,293	1,469,508	2,000,801	1,649,259
Anesthesiology	9,575	154,233	163,808	219,200
Speech therapy	1,032	4,929	5,961	7,243
Physical therapy	110,380	812,200	922,580	883,648
Occupational therapy	10,932	9,438	20,370	14,996
	<u>1,168,108</u>	<u>7,664,097</u>	<u>8,832,205</u>	<u>8,604,279</u>
Totals	<u>\$ 3,008,486</u>	<u>\$12,756,056</u>	15,764,542	15,464,086
Charity care charges foregone, based on established rates			(102,151)	(189,678)
Total gross patient service revenue			<u>15,662,391</u>	<u>15,274,408</u>
Provisions for contractual adjustments and bad debts			<u>740,809</u>	<u>(175,661)</u>
Total net patient service revenue			<u>\$16,403,200</u>	<u>\$15,098,747</u>

Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	2011	2010
Contractual adjustments		
Medicare and Medicaid	\$(2,280,066)	\$(1,296,305)
Other	753,707	729,729
Provision for bad debts	<u>785,550</u>	<u>742,237</u>
Totals	<u>\$ (740,809)</u>	<u>\$ 175,661</u>

OTHER REVENUE

	Year ended June 30	
	2011	2010
Electronic health records meaningful use incentive revenue	\$ 205,762	\$ —
Meals	31,071	38,320
Community fitness center fees	14,767	15,362
Medical office building rental income	101,527	105,045
Miscellaneous	<u>86,689</u>	<u>116,750</u>
Totals	<u>\$ 439,816</u>	<u>\$ 275,477</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 115,812	\$ 6,107	\$ 121,919	\$ 112,368
Medical and surgical	1,846,491	804,125	2,650,616	2,127,317
Operating and recovery rooms	324,647	93,668	418,315	598,590
Emergency service	733,485	1,224,833	1,958,318	1,905,053
Central supply	-	192,141	192,141	195,090
Ambulance	74,467	33,985	108,452	137,652
Total nursing service	<u>3,094,902</u>	<u>2,354,859</u>	<u>5,449,761</u>	<u>5,076,070</u>
OTHER PROFESSIONAL SERVICE				
Professional service administration	90,760	3,790	94,550	85,816
Laboratory	332,002	353,189	685,191	686,385
Cardiopulmonary	8,735	4,092	12,827	16,348
Cardiac rehabilitation	64,171	30,747	94,918	79,410
Respiratory therapy	6,563	46,916	53,479	46,053
Diagnostic imaging	330,315	480,131	810,446	749,880
Pharmacy	29,333	747,750	777,083	686,894
Anesthesiology	-	164,475	164,475	186,955
Speech therapy	-	5,308	5,308	9,350
Physical therapy	-	585,111	585,111	543,758
Occupational therapy	-	21,152	21,152	16,842
Specialty clinic	8,644	-	8,644	14,199
Medical office building	-	33,978	33,978	34,150
Health information	185,357	70,384	255,741	215,311
Quality improvement and utilization management	218,192	56,558	274,750	255,605
Total other professional service	<u>1,274,072</u>	<u>2,603,581</u>	<u>3,877,653</u>	<u>3,626,956</u>
GENERAL SERVICE				
Dietary	201,100	156,745	357,845	359,932
Plant operation	208,878	516,650	725,528	666,402
Environmental services	198,399	58,176	256,575	258,136
Laundry and linen	-	54,499	54,499	85,620
Total general service	<u>608,377</u>	<u>786,070</u>	<u>1,394,447</u>	<u>1,370,090</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	103,891	908,353	1,012,244	1,089,775
Human resources	158,987	61,217	220,204	198,175
Marketing	33,137	8,595	41,732	46,893
Business office	391,850	180,828	572,678	498,233
Information services	108,783	369,326	478,109	357,326
Purchasing	89,714	43,456	133,170	120,678
Community fitness center	-	11,742	11,742	12,450
FICA	-	419,455	419,455	393,431
IPERS	-	407,197	407,197	357,188
Group health, life, and disability insurance	-	721,212	721,212	716,965
Insurance	-	231,385	231,385	274,413
Total fiscal and administrative service and unassigned expenses	<u>886,362</u>	<u>3,362,766</u>	<u>4,249,128</u>	<u>4,065,527</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,970,193</u>	<u>1,970,193</u>	<u>1,785,759</u>
Total expenses	<u>\$5,863,713</u>	<u>\$11,077,469</u>	<u>\$16,941,182</u>	<u>\$15,924,402</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	2011	2010
STAFFED BEDS	25	25
PATIENT DAYS		
Acute	920	813
Swing bed		
Skilled	587	537
Extended	3,738	4,139
DISCHARGES		
Acute	280	251
Swing bed		
Skilled	57	57
Extended	42	22
AVERAGE LENGTH OF STAY		
Acute	3.3	3.2
Swing bed		
Skilled	10.3	9.4
Extended	89.0	188.1
OCCUPANCY PERCENT	57.5%	60.2%
DAILY CENSUS		
Acute	2.5	2.2
Swing bed		
Skilled	1.6	1.5
Extended	10.2	11.3
AMBULANCE: Number of runs	739	729
CARDIAC REHAB: Number of sessions	684	858
EMERGENCY/OUTPATIENT		
Number of emergency visits	4,051	4,067
Number of outpatient visits	16,709	16,133
Total outpatient visits	20,760	20,200
LABORATORY: Number of tests	34,861	35,736
OPERATING PROCEDURES		
Inpatient	19	15
Outpatient	419	479
PHYSICAL THERAPY: Number of treatments	15,638	14,835
DIAGNOSTIC IMAGING: Procedures	6,569	7,763

Clarke County Public Hospital
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

<u>Federal Grantor/Program Title</u>	<u>CFDA number</u>	<u>Expenditures of federal awards</u>
U.S. Department of Commerce		
Broadband Technology Opportunities Program (ARRA Funded)	11.557	\$ <u>701,384</u>
U.S. Department of Agriculture		
USDA Rural Development Grant	10.766	100,000
Community Facilities Loans and Grants	10.855	<u>177,772</u>
Total U.S. Department of Agriculture		<u>277,772</u>
U.S. Department of Health and Human Services		
Small Health Care Provider Quality Improvement	93.912	<u>61,541</u>
Total expenditures of federal awards		<u>\$1,040,697</u>

See accompanying independent auditor's report and note to schedule of expenditures of federal awards.

Clarke County Public Hospital
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Clarke County Public Hospital and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See accompanying independent auditor's report.

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, 2011, and have issued our report thereon dated September 13, 2011. 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, 2011 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
September 13, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

Compliance

We have audited Clarke County Public Hospital's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Hospital's major federal program is identified in the summary of independent auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 13, 2011

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

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
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part II—Findings Related to Required Statutory Reporting

11-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, 2011.

11-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

11-II-C TRAVEL EXPENSES

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

11-II-D BUSINESS TRANSACTIONS

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

11-II-E BOARD MINUTES

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

11-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.

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part III—Summary of the Independent Auditor's Results

Financial Statements

- (a) An unqualified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Federal Awards

- (d) No material weaknesses in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
- (g) Major program was as follows:
 - CFDA Number 11.557 — Broadband Technology Opportunities Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Hospital did not qualify as a low-risk auditee.

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part IV—Findings and Questioned Costs for Federal Awards

No findings or questioned costs for federal awards were reported.