

**Henry County Soldiers' and  
Sailors' Memorial Hospital d/b/a  
Henry County Health Center  
Mt. Pleasant, Iowa**

**Financial Statements  
June 30, 2011 and 2010**

**Together with Independent Auditor's Report**

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Table of Contents**

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	<u>Page</u>
Officials -- June 30, 2011 .....	1
Independent Auditor's Report .....	2
Management's Discussion and Analysis .....	3 – 7
Basic Financial Statements:	
Balance Sheets	
June 30, 2011 and 2010 .....	8
Statements of Revenue, Expenses and Changes in Net Assets	
For the Years Ended June 30, 2011 and 2010 .....	9
Statements of Cash Flows	
For the Years Ended June 30, 2011 and 2010 .....	10 – 11
Notes to Financial Statements	
June 30, 2011 and 2010 .....	12 – 24
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Accrual Basis) .....	25
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue	
For the Years Ended June 30, 2011 and 2010 .....	26
Exhibit 2 - Other Operating Revenue	
For the Years Ended June 30, 2011 and 2010 .....	27
Exhibit 3 - Departmental Expenses	
For the Years Ended June 30, 2011 and 2010 .....	28
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts	
For the Years Ended June 30, 2011 and 2010 .....	29
Exhibit 5 - Inventory/Prepaid Expenses	
For the Years Ended June 30, 2011 and 2010 .....	30
Exhibit 6 - Financial and Statistical Highlights	
For the Years Ended June 30, 2011 and 2010 .....	31
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 .....	32 – 33
Schedule of Findings and Questioned Costs .....	34 – 35
Summary Schedule of Prior Year Audit Findings .....	36
Audit Staff .....	37

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Officials  
June 30, 2011**

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<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
County Board of Supervisors:		
Gary See	Member	December 2012
Mark Lindeen	Chairperson	December 2014
Kent White	Vice-Chairperson	December 2012
Hospital Board of Trustees:		
Jan Towne	Trustee	December 2016
Robert Meyer	Vice-Chairperson	December 2012
Kent Severson	Chairperson	December 2016
Richard Garrels	Trustee	December 2014
Carmen Heaton	Trustee	December 2014
Megan Wenstrand	Trustee	December 2012
Rick Campbell	Secretary / Treasurer	December 2016
Hospital Officials:		
Robb Gardner	President / Chief Executive Officer	
David Muhs	Chief Financial Officer	
Ann Corrigan, RN	VP of Patient Care Services	

## Independent Auditor's Report

To the Board of Trustees  
Henry County Soldiers' and Sailors' Memorial Hospital  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa:

We have audited the accompanying basic financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. 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 audit in accordance with U.S. generally accepted auditing standards 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 financial statements referred to above present fairly, in all material respects, the financial position of the Health Center as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011 on our consideration of the Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and Budgetary Comparison Information on pages 3 through 7 and page 25 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Health Center's basic financial statements. Other supplementary information included in Exhibits 1 through 6, 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 audit 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.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
September 14, 2011

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Management's Discussion and Analysis  
June 30, 2011 and 2010**

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This discussion and analysis of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis should be read in conjunction with financial statements, which begin on page 8.

**Financial Highlights**

- The Health Center's net assets increased in 2011 by \$1,256,526 or 4%. In 2010, net assets increased by \$1,013,971 or 3%.
- The Health Center reported an operating income in 2011 of \$28,371 compared to an operating loss of \$583,711 in 2010.
- The Health Center's non-operating revenues decreased by \$105,178 in 2011 compared to 2010.

**Using This Annual Report**

The Health Center's financial statements consist of three statements—a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Health Center, including resources held by the Health Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

**The Balance Sheet and Statement of Revenue, Expenses, and Changes in Net Assets**

Analysis of the Health Center's finances begins on page 8. The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Health Center's resources and activities in a way that helps answer the question of whether the Health Center, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Health Center's net assets and changes in them. Over time, increases or decreases in net assets are an indicator of whether its financial health is improving or deteriorating. To access the overall health of the Health Center, non-financial factors, such as changes in the patient base of the Health Center and measures of the quality of service it provides to the community, as well as local economic factors, need to be considered.

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

**Net Assets**

The Health Center's net assets are the difference between assets and liabilities reported in the Balance Sheet on page 8. The Health Center's net assets increased this past year by \$1,256,526 or 4%, as shown in **Table 1**.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Management's Discussion and Analysis  
June 30, 2011 and 2010

*Table 1: Assets, Liabilities, and Net Assets*

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Total current assets	\$ 7,730,638	6,887,879	8,161,235	842,759	12%
Capital assets, net	15,863,173	16,109,473	15,721,584	(246,300)	-2%
Assets limited as to use	15,654,962	14,726,383	20,420,490	928,579	6%
Investments	3,139,794	2,951,665	2,761,706	188,129	6%
Other non-current assets	1,352,188	1,122,095	1,472,241	230,093	21%
Total assets	<u>\$ 43,740,755</u>	<u>41,797,495</u>	<u>48,537,256</u>	<u>1,943,260</u>	5%
<b>Liabilities:</b>					
Long-term debt	\$ 3,960,000	4,565,000	11,760,000	(605,000)	-13%
Estimated third-party payor settlements	1,200,000	534,071	630,000	665,929	125%
Other current and non-current liabilities	3,435,715	2,809,910	3,272,713	625,805	22%
Total liabilities	8,595,715	7,908,981	15,662,713	686,734	9%
<b>Net Assets:</b>					
Net assets	35,145,040	33,888,514	32,874,543	1,256,526	4%
Total liabilities and net assets	<u>\$ 43,740,755</u>	<u>41,797,495</u>	<u>48,537,256</u>	<u>1,943,260</u>	5%

**Operating Results and Changes in Net Assets**

In 2011, the Health Center's net assets increased by \$1,256,526 or 4%, as shown in **Table 2**. This increase is made up of several different components.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Management's Discussion and Analysis  
June 30, 2011 and 2010

*Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets*

**Table 2: Condensed Statement of Revenue, Expenses, and Changes in Net Assets**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Dollar Change</b>	<b>Percent Change</b>
<b>Operating revenue:</b>					
Net patient service revenue	\$ 30,708,621	27,998,522	28,050,980	2,710,099	9%
Provision for bad debt	(1,497,821)	(1,060,972)	(1,195,199)	(436,849)	29%
Other operating revenue	1,690,124	1,726,433	1,278,018	(36,309)	-2%
Total operating revenue	<u>30,900,924</u>	<u>28,663,983</u>	<u>28,133,799</u>	<u>2,236,941</u>	7%
<b>Operating Expenses:</b>					
Salaries and employee benefits	16,020,489	15,124,744	13,835,490	895,745	6%
Purchased services and other	12,649,401	11,398,988	11,163,933	1,250,413	10%
Depreciation and amortization	1,974,646	2,052,311	1,960,968	(77,665)	-4%
Interest	228,017	671,651	757,820	(443,634)	-195%
Total operating expenses	<u>30,872,553</u>	<u>29,247,694</u>	<u>27,718,211</u>	<u>1,624,859</u>	5%
<b>Operating income (loss)</b>	<u>28,371</u>	<u>(583,711)</u>	<u>415,588</u>	<u>612,082</u>	
<b>Non-Operating Revenue and Expenses</b>					
Property taxes	552,692	540,000	491,532	12,692	2%
Investment income	612,573	823,524	952,787	(210,951)	-34%
Other non-operating revenue	279,313	186,232	71,534	93,081	33%
Total non-operating revenue, net	<u>1,444,578</u>	<u>1,549,756</u>	<u>1,515,853</u>	<u>(105,178)</u>	-7%
<b>Excess of revenue over expenses</b>	1,472,949	966,045	1,931,441	506,904	34%
<b>Capital grants and contributions</b>	--	100,000	--	(100,000)	-100%
<b>Change in unrealized gains and losses</b>	<u>(216,423)</u>	<u>(52,074)</u>	<u>413,204</u>	<u>(164,349)</u>	76%
Increase in net assets	1,256,526	1,013,971	2,344,645	242,555	19%
Net assets – beginning of year	<u>33,888,514</u>	<u>32,874,543</u>	<u>30,529,898</u>	<u>1,013,971</u>	3%
Net assets – end of year	<u>\$ 35,145,040</u>	<u>33,888,514</u>	<u>32,874,543</u>	<u>1,256,526</u>	4%

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Management's Discussion and Analysis  
June 30, 2011 and 2010**

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**Operating Income**

The first component of the overall change in the Health Center's net assets is its operating income —generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships.
- Salary adjustments to stay competitive.
- Employee health insurance.
- Professional/Physician contracts for ancillary departments.

A component of the Health Center's costs is expenses for salaries and benefits. In 2011 salaries and benefit costs totaled \$16,020,489. In 2010 salaries and benefit costs totaled \$15,124,744. Part of the reason for the increase of 6% is that the Health Center entered into an employment arrangement with one physician during 2011 and merit raise of 2%.

The Health Center at times provides care for patients who have little or no health insurance or other means of repayment. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Health Center.

**Non-operating Revenues and Expenses**

Non-operating revenues consist primarily of property taxes levied for the Health Center, interest revenue, and investment earnings. The county tax levy per \$1,000 of valuation for 2011 and 2010 was .81231. The county tax levy amounted to \$552,692 in 2011 and \$540,000 in 2010.

**Cash Flows**

Changes in cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier. Cash flows provided by operating activities increase in 2011 due to reduction in long term debt, a decrease in capital purchases and higher volumes.

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of 2011, the Health Center had \$15,863,173 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Health Center purchased new equipment costing \$1,461,000. Approximately \$2,890,000 was spent to acquire new equipment in 2010.

**Debt**

At fiscal year-end, the Health Center had \$3,960,000 in capital loan notes outstanding. No new debt was issued in 2011 or 2010. During 2010, \$6,295,000 of debt was retired nine years early, saving interest expense of \$2,800,000 over those nine years. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole. There have been no changes in the Health Center's debt ratings in the past two years.

**Other Economic Factors**

The 2011 fiscal year provided the Health Center substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2011 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Management's Discussion and Analysis  
June 30, 2011 and 2010**

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**Contacting Health Center Financial Management**

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Health Center finances. Questions about this report or requests for additional information should be directed to:

Henry County Health Center  
Attn: David J. Muhs, CFO  
407 South White Street  
Mount Pleasant IA 52641  
319-385-6716

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Balance Sheets  
June 30, 2011 and 2010**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents	\$ 2,018,899	1,928,895
Assets limited as to use or restricted	646,691	624,212
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,100,000 and \$1,030,000 in 2011 and 2010, respectively	3,392,631	2,818,611
Other receivables	143,341	72,961
Current portion of notes receivable	5,526	1,571
Inventories	591,262	605,496
Prepaid expenses	370,641	292,241
Succeeding year property tax receivable	561,647	543,892
Total current assets	7,730,638	6,887,879
Assets limited as to use or restricted	15,654,962	14,726,383
Investments	3,139,794	2,951,665
Capital assets, net	15,863,173	16,109,473
Other assets	1,322,348	1,057,908
Deferred financing costs	29,840	64,187
Total assets	\$ 43,740,755	41,797,495
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 630,000	605,000
Accounts payable	837,008	691,203
Accrued salaries and vacation	1,767,950	1,470,515
Other accrued expenses	269,110	104,300
Estimated third-party payor settlements	1,200,000	534,071
Deferred revenue for succeeding year property tax receivable	561,647	543,892
Total current liabilities	5,265,715	3,948,981
Long-term liabilities:		
Long-term debt, net of current portion	3,330,000	3,960,000
Total liabilities	8,595,715	7,908,981
Net assets:		
Invested in capital assets, net of related debt	11,903,173	11,544,473
Restricted	500,000	1,130,000
Unrestricted	22,741,867	21,214,041
Total net assets	35,145,040	33,888,514
Total liabilities and net assets	\$ 43,740,755	41,797,495

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Revenue, Expenses and Changes in Net Assets  
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 30,708,621	27,998,522
Provision for bad debt	1,497,821	1,060,972
Net patient service revenue	29,210,800	26,937,550
Other operating revenue	1,690,124	1,726,433
Total operating revenue	<u>30,900,924</u>	<u>28,663,983</u>
OPERATING EXPENSES:		
Salaries	12,517,842	11,779,100
Employee benefits	3,502,647	3,345,644
Professional fees	2,381,389	2,042,318
Supplies	5,775,326	5,063,658
Other expenses	4,492,686	4,293,012
Depreciation and amortization	1,974,646	2,052,311
Interest	228,017	671,651
Total operating expenses	<u>30,872,553</u>	<u>29,247,694</u>
OPERATING INCOME (LOSS)	<u>28,371</u>	<u>(583,711)</u>
NONOPERATING REVENUES, NET:		
County tax revenues	552,692	540,000
Investment income, net	612,573	823,524
Noncapital grants and contributions	26,293	9,148
Gain from equity investments	316,600	217,460
Gain (loss) from disposal of capital assets	2,210	(24,189)
Rental activity, net	(65,790)	(16,187)
Nonoperating revenues, net	<u>1,444,578</u>	<u>1,549,756</u>
EXCESS OF REVENUE OVER EXPENSES	1,472,949	966,045
CAPITAL GRANTS AND CONTRIBUTIONS	--	100,000
CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	<u>(216,423)</u>	<u>(52,074)</u>
INCREASE IN NET ASSETS	1,256,526	1,013,971
NET ASSETS, beginning of year	<u>33,888,514</u>	<u>32,874,543</u>
NET ASSETS, end of year	<u>\$ 35,145,040</u>	<u>33,888,514</u>

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Cash Flows  
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third party payors	\$ 29,302,709	27,017,312
Cash paid for employee salaries and benefits	(15,723,054)	(15,191,759)
Cash paid to suppliers and contractors	(12,583,408)	(11,301,343)
Other receipts and payments, net	1,690,124	1,726,433
Net cash provided by operating activities	<u>2,686,371</u>	<u>2,250,643</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
County tax receipts	552,692	540,000
Noncapital grants and contributions	26,293	9,148
Net cash provided by noncapital financing activities	<u>578,985</u>	<u>549,148</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Payments on long-term debt	(605,000)	(7,195,000)
Interest payments	(230,538)	(631,550)
Purchase of property and equipment, net	(1,967,647)	(2,485,610)
Net cash used in capital and related financing activities	<u>(2,803,185)</u>	<u>(10,312,160)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	523,492	1,331,188
Deposits to investments	(1,134,026)	(640,711)
Proceeds from sale of investments	939,724	821,993
Deposits to assets limited as to use or restricted	(3,147,157)	(3,711,689)
Proceeds from sale of assets limited as to use or restricted	2,074,930	8,809,920
Proceeds from equity investments	160,802	110,283
Proceeds from rental activities, net	210,068	284,501
Net cash provided by (used in) investing activities	<u>(372,167)</u>	<u>7,005,485</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	90,004	(506,884)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,928,895</u>	<u>2,435,779</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 2,018,899</u>	<u>1,928,895</u>

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 28,371	(583,711)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -		
Depreciation and amortization	1,974,646	2,052,311
Interest expense included in operating expenses	228,017	671,651
Forgiveness of notes and physician receivables	20,525	44,589
(Increase) decrease in current assets -		
Receivables -		
Patients	(574,020)	175,691
Other	(70,380)	84,450
Current portion of notes receivable	(3,955)	45,355
Inventories	14,234	1,062
Prepaid expenses	(78,400)	187,131
Increase (decrease) in current liabilities -		
Accounts payable	145,805	(178,878)
Accrued salaries and vacation	297,435	(67,015)
Other accrued expenses	38,164	(86,064)
Estimated third-party payor settlements	665,929	(95,929)
Net cash provided by operating activities	\$ <u>2,686,371</u>	<u>2,250,643</u>

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

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**(1) Description of Reporting Entity and Summary of Significant Accounting Policies**

The following is a description of the reporting entity and a summary of significant accounting policies of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center). These policies are in accordance with generally accepted accounting principles. The Health Center is a Critical Access Hospital, operating with 25 acute-care beds and 49 long-term care beds. The Health Center also has related health care ancillary and outpatient services.

*A. Reporting Entity*

Generally accepted accounting principles require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The Health Center was organized in 1919 under Chapter 347 of the Iowa Code. The Health Center is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. It has the right to sue and to be sued and has the right to buy, sell, lease or mortgage property in its own name. Based upon these criteria, the Health Center is considered a primary government and there are no agencies or entities which should be presented with the Health Center.

*B. Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

*C. Basis of Presentation*

The Balance Sheets display the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – This component of net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Health Center's policy to use restricted resources first.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

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*D. Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Health Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

*E. Use of Estimates*

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

*F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under note agreements.

*G. Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

*H. Inventories*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

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*I. 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.

*J. Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include the following:

By Board of Trustees - Periodically, the Health Center's Board of Trustees has set aside assets for future capital improvements and debt retirement. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

Under Hospital Revenue Capital Loan Notes Agreements – These funds are reserve funds held as security for the Series 2002 and 2000 Notes. These funds are used for the payment of principal and interest on the Series 2002 and 2000 Notes when insufficient funds are available in the sinking fund. During 2010, the 2000 notes were paid off and all associated 2000 note reserve funds were utilized.

*K. Fair Value of Financial Instruments*

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

*L. Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses unless the investments are trading securities. Periodically the Health Center reviews its investments to determine whether any unrealized losses are other than temporary. During 2011 and 2010, there were no investment declines that were determined to be other than temporary.

The investments in joint ventures and cooperative arrangements with other health care entities are accounted for by the equity method of accounting, under which the net income or loss of the affiliates is recognized as income or expense and distributions are treated as reductions to the investment account. As of June 30, 2011, the Health Center has a 20% interest in Southeastern Renal Dialysis, L.C. and is a member of Health Enterprises.

*M. Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

---

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Health Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

*N. Deferred Financing Costs*

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt under the effective interest method. Amortization expense of \$34,347 and \$179,467 for 2011 and 2010, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

*O. Compensated Absences*

Paid Time Off (PTO) vests bi-weekly and may be carried forward by an employee in an amount not to exceed 576 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2011 and 2010 was \$906,086 and \$778,806, respectively.

Short-term disability does not vest and, therefore, no liability has been accrued. The payment for short-term disability is based on 70% of the regular earnings of the employee and is available for up to eight weeks.

*P. Self-Insured Employee Health Benefits*

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

*Q. Income Taxes*

Under the Code of Iowa, Chapter 347, the Health Center is an instrumentality of the County of Henry, Iowa. As such, the Health Center is exempt from paying income taxes.

*R. Excess of Revenue Over Expenses*

The statements of revenue, expenses and changes in net assets include excess of revenue over expense as a performance indicator. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

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S. *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. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. 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.

T. *Grants and Contributions*

From time to time, the Health Center receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

U. *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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

V. *County Tax Revenue*

Taxes are included in nonoperating gains when received and distributed by the Country Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

W. *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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

X. *Subsequent Events*

The Health Center considered events occurring through September 14, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Notes to Financial Statements  
June 30, 2011 and 2010

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(2) **Cash, Investments and Assets Limited as to Use or Restricted**

The Health Center's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or 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.

The Health Center manages the following risks in accordance with their formal investment policy:

*Credit Risk:* The Health Center has invested in U.S. treasuries, government agencies securities, and corporate bonds. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

*Interest Rate Risk:* The Health Center has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days. When investing assets of the Health Center for a period longer than 397 days, the Health Center shall request competitive investment proposals for comparable credit and term investments from a minimum of two investment providers.

The weighted average duration of securities invested in U.S. treasuries, government agencies, corporate bonds, and certificate of deposits was 18 months as of June 30, 2011.

*Custodial credit risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Health Center's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Health Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Health Center's agent in the Health Center's name.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

The composition of investments and assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Investments:		
Operating reserves:		
Money market funds	\$ 30,889	20,125
U.S. treasury and government agency securities	2,465,270	2,913,368
Corporate bonds	622,805	--
Accrued interest	20,830	18,172
Total Investments	<u>\$ 3,139,794</u>	<u>2,951,665</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Money market funds	\$ 68,782	60,087
U.S. treasury and government agency securities	10,357,474	11,811,721
Corporate bonds	2,376,668	--
Accrued interest	102,270	88,852
	<u>12,905,194</u>	<u>11,960,660</u>
Bond retirement and sinking fund accounts:		
Money market funds	96,459	89,935
Certificates of deposit	2,800,000	2,800,000
	<u>2,896,459</u>	<u>2,889,935</u>
By bond agreements:		
Reserve account:		
Certificates of deposit	500,000	500,000
	<u>500,000</u>	<u>500,000</u>
Total assets limited as to use or restricted	16,301,653	15,350,595
Less amounts required to meet current obligations	<u>646,691</u>	<u>624,212</u>
Long-term portion	<u>\$ 15,654,962</u>	<u>14,726,383</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 540,345	783,867
Realized gains, net	72,228	39,657
	<u>612,573</u>	<u>823,524</u>
Change in unrealized loss, net	<u>(216,423)</u>	<u>(52,074)</u>
Total investment return	<u>\$ 396,150</u>	<u>771,450</u>

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**(3) 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.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audit thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center.

The Health Center has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Health Center under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Health Center's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 7,065,874	6,523,918
Outpatient	39,798,026	36,271,626
Long-term care	2,319,980	2,376,946
Clinic	<u>431,344</u>	<u>444,446</u>
Total gross patient service revenue	<u>49,615,224</u>	<u>45,616,936</u>
Deductions from patient service revenue:		
Medicare	10,383,229	10,250,415
Medicaid	2,380,057	2,089,487
Other payors	5,960,286	5,158,332
Charity care	<u>183,031</u>	<u>120,180</u>
Total deductions from patient service revenue	<u>18,906,603</u>	<u>17,618,414</u>
Net patient service revenue before provision for bad debt	<u>\$ 30,708,621</u>	<u>27,998,522</u>

The Health Center reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

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Revenue from the Medicare and Medicaid programs accounts for approximately 37% and 11%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2011 compared to 34% for Medicare and 12% for Medicaid in 2010. The Health Center grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2011 and 2010 net patient service revenue increased approximately \$545,000 and \$425,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

**(4) Composition of Patient Receivables**

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient receivables	\$ 5,937,631	5,263,611
Less estimated third-party contractual adjustments	(1,445,000)	(1,415,000)
Less allowance for doubtful accounts	<u>(1,100,000)</u>	<u>(1,030,000)</u>
	<u>\$ 3,392,631</u>	<u>2,818,611</u>

The Health Center is located in Mt. Pleasant, Iowa. The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	23%	24%
Medicaid	6	6
Blue Cross	18	16
Other third-party payors	15	16
Private pay	<u>38</u>	<u>38</u>
	<u>100%</u>	<u>100%</u>

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**(5) Capital Assets**

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 911,061	--	--	911,061
Construction in progress	107,807	506,581	(206,686)	407,702
Total capital assets, not being depreciated	<u>1,018,868</u>	<u>506,581</u>	<u>(206,686)</u>	<u>1,318,763</u>
Capital assets, being depreciated:				
Land improvements	1,590,990	--	(8,166)	1,582,824
Buildings	25,220,529	290,779	(207,169)	25,304,139
Fixed equipment	7,415,599	--	(163,403)	7,252,196
Major moveable equipment	10,311,461	1,170,287	(930,452)	10,551,296
Total capital assets, being depreciated	<u>44,538,579</u>	<u>1,461,066</u>	<u>(1,309,190)</u>	<u>44,690,455</u>
Less accumulated depreciation:				
Land improvements	(1,358,560)	(29,816)	9,515	(1,378,861)
Buildings	(14,581,367)	(939,185)	249,276	(15,271,276)
Fixed equipment	(6,206,773)	(213,834)	163,403	(6,257,204)
Major moveable equipment	(7,301,274)	(1,033,322)	1,095,892	(7,238,704)
Total accumulated depreciation	<u>(29,447,974)</u>	<u>(2,216,157)</u>	<u>1,518,086</u>	<u>(30,146,045)</u>
Total capital assets, being depreciated, net	<u>15,090,605</u>	<u>(755,091)</u>	<u>208,896</u>	<u>14,544,410</u>
Total capital assets, net	<u>\$ 16,109,473</u>	<u>(248,510)</u>	<u>2,210</u>	<u>15,863,173</u>

  

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 911,061	--	--	911,061
Construction in progress	376,557	264,293	(533,043)	107,807
Total capital assets, not being depreciated	<u>1,287,618</u>	<u>264,293</u>	<u>(533,043)</u>	<u>1,018,868</u>
Capital assets, being depreciated:				
Land improvements	1,491,795	102,201	(3,006)	1,590,990
Buildings	24,183,659	1,054,227	(17,357)	25,220,529
Fixed equipment	7,379,902	63,275	(27,578)	7,415,599
Major moveable equipment	10,249,586	1,670,884	(1,609,009)	10,311,461
Total capital assets, being depreciated	<u>43,304,942</u>	<u>2,890,587</u>	<u>(1,656,950)</u>	<u>44,538,579</u>
Less accumulated depreciation:				
Land improvements	(1,319,330)	(42,235)	3,005	(1,358,560)
Buildings	(13,612,752)	(985,971)	17,356	(14,581,367)
Fixed equipment	(6,001,974)	(232,377)	27,578	(6,206,773)
Major moveable equipment	(7,936,920)	(912,949)	1,548,595	(7,301,274)
Total accumulated depreciation	<u>(28,870,976)</u>	<u>(2,173,532)</u>	<u>1,596,534</u>	<u>(29,447,974)</u>
Total capital assets, being depreciated, net	<u>14,433,966</u>	<u>717,055</u>	<u>(60,416)</u>	<u>15,090,605</u>
Total capital assets, net	<u>\$ 15,721,584</u>	<u>981,348</u>	<u>(593,459)</u>	<u>16,109,473</u>

The Henry County Health Center intends to construct approximately 54,000 square feet and renovate 22,000 square feet for the Health Center facilities. The project will consist of multiple phases and cover multiple years. Expected fiscal year 2012 phases include creating a central plant for cooling towers, high-efficiency modular boilers, and gas-fired water heaters as well as adding a new surgery facility. The estimated total cost of the entire project is \$15 million. Construction is expected to begin in Fall 2011.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

**(6) Other Assets**

Other assets held by the Health Center as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Investments in joint ventures and cooperative arrangements with other health care entities	\$ 1,072,472	955,383
Notes receivable	30,928	61,858
Physician receivables	<u>224,474</u>	<u>42,238</u>
	1,327,874	1,059,479
Less current portion of notes receivable	<u>5,526</u>	<u>1,571</u>
	<u>\$ 1,322,348</u>	<u>1,057,908</u>

Physician receivables are related to physician income guarantee agreements and sign-on bonuses to recruit physicians to the community of Mount Pleasant, Iowa. An offsetting physician income guarantee liability of \$212,500 and \$41,667 representing the maximum potential payments under the agreements are included in other accrued expenses for 2011 and 2010, respectively. All monies advanced under these agreements will be forgiven up to a five year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

**(7) Long-Term Debt**

Long-term debt activity of the Health Center as of June 30, 2011 and 2010 consisted of the following:

	<u>June 30, 2010</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Series 2002 (B) (C)	\$ 4,565,000	--	(605,000)	3,960,000	630,000
	<u>6,610,000</u>	<u>--</u>	<u>(6,610,000)</u>	<u>--</u>	<u>--</u>
Series 2000 (A) (C)	5,150,000	--	(585,000)	4,565,000	605,000
Series 2002 (B) (C)	<u>11,760,000</u>	<u>--</u>	<u>(7,195,000)</u>	<u>4,565,000</u>	<u>605,000</u>

- (A) The Health Center issued \$9,000,000 of Hospital Revenue Capital Loan Notes in 2000. The proceeds of these bonds were used to pay a portion of the cost to construct and equip an addition to the Health Center facility.
- (B) The Health Center issued \$6,055,000 of Hospital Revenue Capital Loan Refunding Notes, Series 2002. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 1993 and for paying bond issuance costs incurred. The Series 2002 notes bear interest at rates ranging from 4.875% to 5.25%. Annual principal payments are due in amounts ranging from \$630,000 to \$750,000 through June 2017.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

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- (C) The Series 2000 and 2002 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Health Center. The terms of the trust indenture require the Health Center to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Health Center to maintain a sinking fund account and to maintain a specified debt service coverage ratio.

A summary of the Health Center's future principal and interest payments as of June 30, 2011 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 630,000	200,288	830,288
2013	660,000	167,213	827,213
2014	690,000	132,563	822,563
2015	730,000	98,063	828,063
2016	750,000	61,563	811,563
2017	500,000	25,000	525,000
	<u>\$ 3,960,000</u>	<u>684,690</u>	<u>4,644,690</u>

**(8) Professional Liability Insurance**

The Health Center carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Health Center carries an umbrella policy which also provides \$5,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Health Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

**(9) 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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the Health Center is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$845,259, \$779,405, and \$682,831, respectively, equal to the required contributions for each year.

**(10) Contingencies**

The Health Center is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Health Center's future financial position or results from operations.

**(11) Self-Funded Health Insurance**

The Health Center has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Health Center's contributions are deposited into a separate benefit trust account. Under the self-insured plan, the Health Center pays claims from this fund, up to

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2011 and 2010**

certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Health Center incurred health insurance expenses of \$1,172,610 and \$1,135,515 as of June 30, 2011 and 2010, respectively.

**(12) Commitments and Contingencies**

Operating Leases

The Health Center leases certain equipment under an operating lease expiring in January 2013. Total rental expense in 2011 and 2010 for this equipment was \$195,302.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011, that have initial lease terms in excess of one year:

<u>Year</u>	<u>Principal</u>
2012	\$ 195,302
2013	113,926

**(13) Deferred Compensation Plan**

The Health Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Health Center employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan complies with IRC Section 457(g), which requires the plan to hold its assets in trust. Under these requirements, the Health Center does not own the amounts deferred by employees and, therefore, the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled \$2,719,796 and \$2,122,714 as of June 30, 2011 and 2010, respectively.

**(14) Management Services**

The Health Center has various contractual agreements with Great Rivers Health Systems, Inc. (GRHS) under which GRHS provides management consultation, therapy, emergency, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. The amount paid to GRHS for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Emergency room contract services	\$ 735,413	--
Physical and speech therapy contract services	505,940	460,806
Administration	243,150	105,950
Laundry	51,961	49,734
Critical access hospital	20,000	20,000
Telephone	7,462	7,337
Advisory board	--	11,000
Wound clinic services	--	2,593
	<u>\$ 1,563,929</u>	<u>657,420</u>

**(15) Risks and Uncertainties**

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Budgetary Comparison Schedule of Revenue, Expenses  
and Changes in Net Assets – Budget and Actual (Accrual Basis)  
June 30, 2011**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Health Center's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 552,692	561,647	(8,955)
Estimated other revenues / receipts	31,576,387	38,180,060	(6,603,673)
Expenses / Disbursements	<u>30,872,553</u>	<u>37,409,244</u>	<u>6,536,691</u>
Net	1,256,526	1,332,463	<u>(75,937)</u>
Balance beginning of year	<u>33,888,514</u>	<u>18,783,517</u>	
Balance end of year	<u>\$ 35,145,040</u>	<u>20,115,980</u>	

*See accompanying independent auditor's report*

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Exhibit 1

Patient Service Revenue  
For the Years Ended June 30, 2011 and 2010

	2011					2010				
	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total
<b>DAILY PATIENT SERVICES:</b>										
Long term care	\$ --	--	--	2,319,980	2,319,980	--	--	--	2,376,946	2,376,946
Medical and surgical	1,238,984	--	--	--	1,238,984	1,159,874	--	--	--	1,159,874
Swing bed	352,800	--	--	--	352,800	347,772	--	--	--	347,772
Observation	290,550	--	--	--	290,550	276,415	--	--	--	276,415
Nursery	174,385	--	--	--	174,385	156,223	--	--	--	156,223
Dialysis	82,213	--	--	--	82,213	63,242	--	--	--	63,242
	<u>2,138,932</u>	<u>--</u>	<u>--</u>	<u>2,319,980</u>	<u>4,458,912</u>	<u>2,003,526</u>	<u>--</u>	<u>--</u>	<u>2,376,946</u>	<u>4,380,472</u>
<b>OTHER NURSING SERVICES:</b>										
Operating and recovery room	897,926	7,979,517	--	--	8,877,443	705,008	7,311,531	--	--	8,016,539
Emergency services	61,957	4,049,353	--	--	4,111,310	42,779	3,366,289	--	--	3,409,068
Delivery and labor room	291,102	114,811	--	--	405,913	236,890	72,214	--	--	309,104
Aide	--	34,807	--	--	34,807	--	35,856	--	--	35,856
	<u>1,250,985</u>	<u>12,178,488</u>	<u>--</u>	<u>--</u>	<u>13,429,473</u>	<u>984,677</u>	<u>10,785,890</u>	<u>--</u>	<u>--</u>	<u>11,770,567</u>
<b>OTHER PROFESSIONAL SERVICES:</b>										
Pharmacy	1,238,108	7,378,665	--	--	8,616,773	1,270,632	6,518,765	--	--	7,789,397
Laboratory	498,929	4,017,037	--	--	4,515,966	445,630	3,696,366	--	--	4,141,996
CT scans	153,549	3,275,963	--	--	3,429,512	127,079	3,070,324	--	--	3,197,403
Physical, occupational and respiratory therapy	1,023,409	1,863,511	--	--	2,886,920	904,682	1,533,925	--	--	2,438,607
Anesthesiology	255,415	2,268,471	--	--	2,523,886	237,739	2,188,424	--	--	2,426,163
Radiology	43,800	1,743,212	--	--	1,787,012	44,115	1,633,413	--	--	1,677,528
MRI	41,779	1,123,919	--	--	1,165,698	32,879	1,237,302	--	--	1,270,181
Ambulance	30,821	1,566,172	--	--	1,596,993	16,261	1,434,702	--	--	1,450,963
EKG	18,031	1,096,438	--	--	1,114,469	16,206	1,068,935	--	--	1,085,141
Chemotherapy	83,430	1,536,868	--	--	1,620,298	86,900	1,350,716	--	--	1,437,616
Nuclear medicine	56,794	598,590	--	--	655,384	42,598	618,768	--	--	661,366
Ultrasound	50,322	823,534	--	--	873,856	37,440	734,449	--	--	771,889
Central supply	181,570	327,158	--	--	508,728	273,554	399,647	--	--	673,201
Clinic	--	--	431,344	--	431,344	--	--	444,446	--	444,446
	<u>3,675,957</u>	<u>27,619,538</u>	<u>431,344</u>	<u>--</u>	<u>31,726,839</u>	<u>3,535,715</u>	<u>25,485,736</u>	<u>444,446</u>	<u>--</u>	<u>29,465,897</u>
Gross patient service revenue	\$ <u>7,065,874</u>	<u>39,798,026</u>	<u>431,344</u>	<u>2,319,980</u>	<u>49,615,224</u>	<u>6,523,918</u>	<u>36,271,626</u>	<u>444,446</u>	<u>2,376,946</u>	<u>45,616,936</u>
<b>LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE</b>										
Contractual allowances and other deductions, primarily Medicare and Medicaid					(18,723,572)					(17,498,234)
Charity care services					(183,031)					(120,180)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>					<u>30,708,621</u>					<u>27,998,522</u>
Provision for bad debt					(1,497,821)					(1,060,972)
<b>NET PATIENT SERVICE REVENUE</b>					<u>\$ 29,210,800</u>					<u>\$ 26,937,550</u>

**Other Operating Revenue**  
**For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
Public health grants	\$ 593,730	764,119
Ideal protein	281,235	323,811
Miscellaneous	253,212	146,395
Dietary	182,983	162,208
Professional services to others	168,834	173,731
Management services, physician billings	135,386	86,097
Rental income	60,967	60,967
Reference lab	13,777	9,105
	<u>\$ 1,690,124</u>	<u>1,726,433</u>

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Exhibit 3

Departmental Expenses  
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Salaries and Wages	Professional Fees	Supplies and Other	TOTAL	Salaries and Wages	Professional Fees	Supplies and Other	TOTAL
<b>NURSING SERVICES:</b>								
Operating and recovery room	\$ 1,772,893	180	1,601,932	3,375,005	1,463,323	1,149	1,634,124	3,098,596
Medical and surgical	1,581,972	60,490	624,677	2,267,139	1,265,823	63,980	480,080	1,809,883
Long-term care	1,168,295	27,815	562,256	1,758,366	1,170,255	38,436	539,388	1,748,079
Emergency room	561,568	1,377,023	263,415	2,202,006	565,192	1,118,098	200,616	1,883,906
Nursing administration	311,384	--	96,763	408,147	296,130	--	86,783	382,913
	<u>5,396,112</u>	<u>1,465,508</u>	<u>3,149,043</u>	<u>10,010,663</u>	<u>4,760,723</u>	<u>1,221,663</u>	<u>2,940,991</u>	<u>8,923,377</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	303,687	--	2,434,294	2,737,981	328,974	--	1,862,124	2,191,098
Physical, occupational and speech therapy	239,728	505,940	138,894	884,562	218,549	460,805	126,308	805,662
Laboratory	417,610	147,651	692,833	1,258,094	401,068	133,543	568,597	1,103,208
Ambulance	609,860	1,710	368,060	979,630	597,098	404	360,969	958,471
Anesthesiology	683,408	--	171,348	854,756	650,386	--	167,051	817,437
Community health	402,958	13,676	229,591	646,225	408,691	8,378	245,514	662,583
Radiology	300,837	--	757,399	1,058,236	297,382	--	715,446	1,012,828
Respiratory therapy	267,358	7,660	150,062	425,080	269,504	6,460	159,140	435,104
EKG	191,342	2,270	54,239	247,851	187,350	--	83,999	271,349
Medical and surgical supplies	117,244	120	200,951	318,315	114,639	--	226,870	341,509
CT scans	40,389	--	323,083	363,472	40,771	--	453,495	494,266
Physician offices	109,163	--	31,047	140,210	69,019	--	20,814	89,833
Chemotherapy	176,125	217,033	80,766	473,924	153,764	166,130	109,697	429,591
Nuclear medicine	17,116	--	104,130	121,246	31,651	--	99,308	130,959
Ultrasound	75,109	--	31,779	106,888	67,931	3,972	42,888	114,791
Clinic	156,871	14,321	130,643	301,835	130,826	17,809	110,277	258,912
	<u>4,108,805</u>	<u>910,381</u>	<u>5,899,119</u>	<u>10,918,305</u>	<u>3,967,603</u>	<u>797,501</u>	<u>5,352,497</u>	<u>10,117,601</u>
<b>GENERAL SERVICES:</b>								
Plant	361,125	--	1,310,878	1,672,003	348,071	--	1,088,000	1,436,071
Dietary	377,367	--	518,181	895,548	386,097	--	504,625	890,722
Housekeeping	338,923	--	263,783	602,706	340,841	--	269,451	610,292
Laundry and linen	18,175	--	83,781	101,956	17,114	--	76,490	93,604
	<u>1,095,590</u>	<u>--</u>	<u>2,176,623</u>	<u>3,272,213</u>	<u>1,092,123</u>	<u>--</u>	<u>1,938,566</u>	<u>3,030,689</u>
<b>ADMINISTRATIVE SERVICES:</b>								
Finance	228,448	--	152,482	380,930	228,685	--	183,242	411,927
Patient accounts	230,786	--	225,162	455,948	225,348	--	197,936	423,284
Registration	273,199	--	101,556	374,755	267,589	--	85,204	352,793
Information technology	245,237	--	701,001	946,238	225,956	--	528,965	754,921
Administration	331,566	--	815,456	1,147,022	327,343	--	769,520	1,096,863
Human resources	163,825	--	140,029	303,854	163,470	--	118,688	282,158
Medical records	274,748	--	113,865	388,613	279,149	--	141,608	420,757
Other administrative services	169,526	5,500	296,323	471,349	241,111	23,154	445,097	709,362
	<u>1,917,335</u>	<u>5,500</u>	<u>2,545,874</u>	<u>4,468,709</u>	<u>1,958,651</u>	<u>23,154</u>	<u>2,470,260</u>	<u>4,452,065</u>
<b>NONDEPARTMENTAL:</b>								
Depreciation and amortization	--	--	1,974,646	1,974,646	--	--	2,052,311	2,052,311
Interest	--	--	228,017	228,017	--	--	671,651	671,651
	<u>--</u>	<u>--</u>	<u>2,202,663</u>	<u>2,202,663</u>	<u>--</u>	<u>--</u>	<u>2,723,962</u>	<u>2,723,962</u>
<b>TOTAL EXPENSES</b>	<b>\$ 12,517,842</b>	<b>2,381,389</b>	<b>15,973,322</b>	<b>30,872,553</b>	<b>11,779,100</b>	<b>2,042,318</b>	<b>15,426,276</b>	<b>29,247,694</b>

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2011 and 2010**

ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0-30	\$ 3,992,834	67.25 %	3,357,371	63.78 %
31-60	644,850	10.86	536,677	10.20
61-90	320,751	5.40	336,313	6.39
91-120	244,514	4.12	243,429	4.62
121 and over	734,682	12.37	789,821	15.01
	<u>5,937,631</u>	100.00 %	<u>5,263,611</u>	100.00 %
Less:				
Allowance for doubtful accounts	(1,100,000)		(1,030,000)	
Allowance for contractual adjustments	<u>(1,445,000)</u>		<u>(1,415,000)</u>	
	<u>\$ 3,392,631</u>		<u>2,818,611</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (1,030,000)		(1,000,000)	
Provision of uncollectible accounts	1,497,821		1,060,972	
Recoveries of accounts previously written off	420,521		320,082	
Accounts written off	<u>(1,988,342)</u>		<u>(1,411,054)</u>	
Balance, end of year	<u>\$ (1,100,000)</u>		<u>(1,030,000)</u>	

**Inventory/Prepaid Expenses**  
**For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
INVENTORY:		
Pharmacy	\$ 303,953	304,296
Central service	66,438	83,621
Surgery	209,092	217,579
Other	11,779	--
	<u>\$ 591,262</u>	<u>605,496</u>
PREPAID EXPENSES:		
Deposits	\$ 101,096	101,692
Service contracts	80,860	87,220
Insurance	137,623	67,693
Other	51,062	35,636
	<u>\$ 370,641</u>	<u>292,241</u>

**Financial and Statistical Highlights  
For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
Patient days:		
Adult and pediatric -		
Medicare	792	865
All other	789	710
Swing-bed -		
Skilled	841	876
Intermediate	1	84
Newborn	280	286
Long-term care	<u>16,100</u>	<u>17,103</u>
Total	<u><u>18,803</u></u>	<u><u>19,924</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	255	275
All other	<u>291</u>	<u>263</u>
Total	<u><u>546</u></u>	<u><u>538</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.10 days	3.15 days
All other	2.71 days	2.70 days
Surgical procedures	2,370	2,273
Emergency room visits	8,777	8,526
Number of employees - full-time equivalents	262.58	254.82

**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**

To the Board of Trustees  
Henry County Soldiers' and Sailors' Memorial Hospital  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa:

We have audited the financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon, dated September 14, 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 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item II-A-11, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

*Compliance and Other Matters*

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

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2011 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.

The Health Center's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Health Center and other parties to who the Health Center 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.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
September 14, 2011.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

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**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements**

**II-A-11**

***Instances of Non-Compliance:***

No matters were reported.

***Significant Deficiencies:***

**Segregation of Duties:** One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Health Center continue to monitor and improve its segregation of duties.

Response: Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties.

**Part III: Other Findings Related to Required Statutory Reporting**

**III-A-11**

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

**III-B-11**

Certified Budget: Health Center disbursements during the year ended June 30, 2011 did not exceed amounts budgeted

**III-C-11**

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**III-D-11**

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

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011**

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**III-E-11**

Business Transactions: No business transactions between the Health Center and Health Center officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Health Center to \$1,500 without publicly invited and opened written competitive bids.

**III-F-11**

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

**III-G-11**

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

**III-H-11**

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Health Center publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2011**

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<b>Finding</b>	<b>Finding title</b>	<b>Status</b>	<b>If not corrected, corrective action plan or other explanation</b>
II-A-10	Segregation of duties in the accounting and data processing areas.	Not corrected.	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties. Similar finding reported at II-A-11.
II-B-10	Estimating contractual adjustments and settlements.	Corrective action taken.	

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Audit Staff  
For the Year Ended June 30, 2011**

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**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Manager

Brandon W. Arp, Staff Auditor

Paul R. Claar, Intern