

**Keokuk County Health Center
Sigourney, Iowa**

FINANCIAL REPORT

June 30, 2011

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**Keokuk County Health Center
OFFICIALS
June 30, 2011**

BOARD OF TRUSTEES

Officers

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

Expiration of term

December 31, 2016
December 31, 2014
December 31, 2016

Members

Jim Eschenbrenner
Brian Horras
Loretta Hudson
Jan Parcell

December 31, 2014
December 31, 2016
December 31, 2012
December 31, 2012

CHIEF EXECUTIVE OFFICER

Ray Brownsworth

CHIEF FINANCIAL OFFICER

Matt Ives

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

We have audited the accompanying balance sheets of Keokuk County Health Center, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keokuk County Health Center as of June 30, 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 August 19, 2011 on our consideration of Keokuk County Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 19, 2011

**Keokuk County Health Center
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Keokuk County Health Center, we offer readers of the financial statements this narrative overview and analysis of the Health Center's financial performance during the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Health Center's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$101,145 to \$14,461,949
- Total noncurrent assets whose use is limited increased by \$905,370 to \$3,168,358
- Total property and equipment decreased by \$668,845 to \$7,678,189
- Total fund equity increased by \$345,057 to \$3,784,065
- Total long-term debt decreased by \$195,000 to \$9,160,000
- Net patient service revenue increased by \$748,368, or 12%
- Expenses increased by \$629,990, or 9%, to \$7,317,881

Financial Analysis of the Health Center

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

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

Table 1
Condensed Balance Sheets

	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 2,501,802	\$ 2,600,582	\$ 2,081,041
Assets whose use is limited	3,168,358	2,262,988	2,470,738
Property and equipment	7,678,189	8,347,034	8,978,039
Other assets	<u>1,113,600</u>	<u>1,150,200</u>	<u>1,186,800</u>
 Total assets	 <u>\$14,461,949</u>	 <u>\$14,360,804</u>	 <u>\$14,716,618</u>
Current liabilities	\$ 677,884	\$ 721,796	\$ 880,055
Long-term debt, less current maturities	8,960,000	9,160,000	9,694,086
Other noncurrent liabilities	<u>1,040,000</u>	<u>1,040,000</u>	<u>1,040,000</u>
 Total liabilities	 <u>\$10,677,884</u>	 <u>\$10,921,796</u>	 <u>\$11,614,141</u>
Invested in capital assets, net of related debt	\$ (713,146)	\$ (202,068)	\$ (166,485)
Restricted	57,669	57,252	57,805
Unrestricted	<u>4,439,542</u>	<u>3,583,824</u>	<u>3,211,157</u>
 Total fund equity	 <u>\$ 3,784,065</u>	 <u>\$ 3,439,008</u>	 <u>\$ 3,102,477</u>

As depicted in Table 1, total assets increased slightly in fiscal year 2011 to \$14,461,949.

A summary of the Health Center's historical statements of revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	2011	2010	2009
Net patient service revenue	\$7,037,425	\$6,289,057	\$5,572,314
Other revenue	<u>151,542</u>	<u>166,982</u>	<u>192,792</u>
Total revenue	<u>7,188,967</u>	<u>6,456,039</u>	<u>5,765,106</u>
Salaries	3,303,594	2,940,321	2,661,048
Supplies and expenses	3,236,192	2,988,998	2,604,220
Provision for depreciation	<u>778,095</u>	<u>758,572</u>	<u>685,030</u>
Total expenses	<u>7,317,881</u>	<u>6,687,891</u>	<u>5,950,298</u>
Operating (loss)	<u>(128,914)</u>	<u>(231,852)</u>	<u>(185,192)</u>
County taxes	975,325	1,050,443	963,664
Investment income	33,353	81,635	47,960
Unrestricted contributions	1,143	150	1,515
Interest and amortization expense	<u>(535,850)</u>	<u>(563,845)</u>	<u>(569,245)</u>
Total nonoperating gains (losses)	<u>473,971</u>	<u>568,383</u>	<u>443,894</u>
Change in fund equity	345,057	336,531	258,702
Total fund equity, beginning	<u>3,439,008</u>	<u>3,102,477</u>	<u>2,843,775</u>
Total fund equity, ending	<u>\$3,784,065</u>	<u>\$3,439,008</u>	<u>\$3,102,477</u>

Operating and Financial Performance

The following summarizes the Health Center's statements 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 48 compared to 62 in fiscal year 2010. Average length of stay increased in 2011 as patient days decreased to 138 from 159 in 2010. Swing bed, skilled care discharges for fiscal year 2011 were 52 compared to 39 in fiscal year 2010. Average length of stay decreased as patient days increased to 765 from 754 in 2010. Volume on the outpatient side increased in 2011. In 2011, gross outpatient charges increased to \$4,126,233 compared to \$4,065,826 in 2010.

Price Increase: As is customary, the Health Center annually reviews its charge structure and incorporated certain price increases. Overall, gross patient service revenue increased to \$5,143,548 from \$4,960,843 in 2010. The Health Center department experiencing the most significant increase in 2011 was emergency service.

Payor Mix: The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts decreased to \$(1,893,877) in 2011 compared to \$(1,328,214) in 2010. This represents an additional 37% and 27% reimbursement over standard gross patient charges for the years ended June 30, 2011 and 2010, respectively.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	45%	48%	52%
Medicaid	14	10	10
Commercial insurance	29	26	22
Patients	<u>12</u>	<u>16</u>	<u>16</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$151,542 in 2011 compared to \$166,982 in 2010, primarily due to a decrease in miscellaneous income.

Expenses

Approximately 45% of Health Center's expenses are for salaries. Total salaries increased by 12% to \$3,303,594 in 2011 from \$2,940,321 in 2010. The Health Center departments experiencing the most significant increase in 2011 were adult and pediatric, emergency service and laboratory.

Approximately 45% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 8% to \$3,236,192 in 2011 from \$2,988,998 in 2010. The most significant increases in 2011 related to emergency service, ambulance and administration and business office.

Approximately 10% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$778,095 in 2011 from \$758,572 in 2010.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$473,971 from \$568,383 in 2010, primarily due to decreased county taxes and investment income.

Property and Equipment

At the end of 2011, the Health Center had \$7,678,189 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, \$109,250 was spent to acquire new equipment.

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

**Table 4
Property and Equipment**

	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 6,500	\$ 6,500	\$ 6,500
Land improvements	706,125	706,125	724,691
Building	2,736,117	2,736,117	2,743,339
Fixed equipment	5,687,541	5,619,098	5,678,580
Major movable equipment	<u>2,063,790</u>	<u>2,022,983</u>	<u>2,050,993</u>
Subtotal	11,200,073	11,090,823	11,204,103
Less accumulated depreciation	<u>3,521,884</u>	<u>2,743,789</u>	<u>2,226,064</u>
Property and equipment	<u>\$ 7,678,189</u>	<u>\$ 8,347,034</u>	<u>\$ 8,978,039</u>

Debt Administration

At year end, the Health Center had \$9,160,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2005. This decreased by \$195,000 in fiscal year 2011. More detailed information about the Health Center's long-term debt is presented in the notes to financial statements. Note that the Bonds represent approximately 85% of the Health Center's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Health Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the notes to financial statements. A comparison of the Health Center's fiscal year 2011 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	<u>Actual budget basis</u>	<u>Annual County Hospital budget</u>	<u>Variance</u>
Amount to be raised by taxation	\$1,044,157	\$1,083,564	\$ (39,407)
Other revenues/receipts	<u>7,223,463</u>	<u>6,393,901</u>	<u>829,562</u>
	8,267,620	7,477,465	790,155
Expenses/expenditures	<u>7,412,118</u>	<u>7,163,311</u>	<u>248,807</u>
Net	<u>\$ 855,502</u>	<u>\$ 314,154</u>	<u>\$ 541,348</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to increased net patient service revenue. Expenses/expenditures were higher than County Hospital budget, primarily due to increases in expenses relating to increases in volume.

Economic and Other Factors and Next Year's Budget

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

Contacting Health Center's Management

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

**Keokuk County Health Center
BALANCE SHEETS**

ASSETS	June 30	
	2011	2010
CURRENT ASSETS		
Cash	\$ 247,247	\$ 266,877
Assets whose use is limited, required for current liabilities	241,100	237,550
Patient receivables, less allowances for contractual adjustments and bad debts	1,371,953	1,602,835
Other receivables	29,454	29,437
Estimated third-party payor settlements	480,000	320,000
Inventories	99,130	92,053
Prepaid expenses	<u>32,918</u>	<u>51,830</u>
Total current assets	<u>2,501,802</u>	<u>2,600,582</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,322,855	198,204
Certificates of deposit	1,333,869	1,549,384
Restricted for payment of long-term debt and interest		
Certificates of deposit	<u>752,734</u>	<u>752,950</u>
Total assets whose use is limited	3,409,458	2,500,538
Less assets whose use is limited and that are required for current liabilities	<u>241,100</u>	<u>237,550</u>
Non current assets whose use is limited	<u>3,168,358</u>	<u>2,262,988</u>
PROPERTY AND EQUIPMENT	11,200,073	11,090,823
Less accumulated depreciation	<u>3,521,884</u>	<u>2,743,789</u>
Total property and equipment	<u>7,678,189</u>	<u>8,347,034</u>
OTHER ASSETS		
Unamortized financing costs	73,600	110,200
Succeeding year property tax receivable	<u>1,040,000</u>	<u>1,040,000</u>
Total other assets	<u>1,113,600</u>	<u>1,150,200</u>
 Totals	 <u>\$14,461,949</u>	 <u>\$14,360,804</u>

	LIABILITIES AND FUND EQUITY	
	June 30	
	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 200,000	\$ 195,000
Accounts payable	97,875	173,047
Accrued employee compensation	328,716	282,647
Payroll taxes and amounts withheld from employees	10,193	28,552
Accrued interest	41,100	42,550
Total current liabilities	<u>677,884</u>	<u>721,796</u>
LONG-TERM DEBT , less current maturities	<u>8,960,000</u>	<u>9,160,000</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	<u>1,040,000</u>	<u>1,040,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	(713,146)	(202,068)
Restricted	57,669	57,252
Unrestricted	<u>4,439,542</u>	<u>3,583,824</u>
Total fund equity	<u>3,784,065</u>	<u>3,439,008</u>
Totals	<u>\$14,461,949</u>	<u>\$14,360,804</u>

Keokuk County Health Center
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 \$435,814; 2010 \$333,160	\$7,037,425	\$6,289,057
OTHER REVENUE	<u>151,542</u>	<u>166,982</u>
Total revenue	<u>7,188,967</u>	<u>6,456,039</u>
EXPENSES		
Nursing service	2,639,875	2,210,332
Other professional service	1,528,860	1,411,023
General service	558,201	533,270
Fiscal and administrative service and unassigned expenses	1,812,850	1,774,694
Provision for depreciation	<u>778,095</u>	<u>758,572</u>
Total expenses	<u>7,317,881</u>	<u>6,687,891</u>
Operating (loss)	<u>(128,914)</u>	<u>(231,852)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	975,325	1,050,443
Investment income	33,353	81,635
Unrestricted contributions	1,143	150
Interest and amortization expense	<u>(535,850)</u>	<u>(563,845)</u>
Total nonoperating gains (losses)	<u>473,971</u>	<u>568,383</u>
Change in fund equity	345,057	336,531
TOTAL FUND EQUITY		
Beginning	<u>3,439,008</u>	<u>3,102,477</u>
Ending	<u>\$3,784,065</u>	<u>\$3,439,008</u>

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

	Year ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$7,108,307	\$5,906,764
Cash paid to suppliers for goods and services	(3,317,905)	(3,094,140)
Cash paid to employees for services	(3,257,525)	(2,885,838)
Other operating revenue received	<u>151,542</u>	<u>166,982</u>
Net cash provided by operating activities	<u>684,419</u>	<u>93,768</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	975,325	1,050,443
Contributions received	<u>1,143</u>	<u>150</u>
Net cash provided by noncapital financing activities	<u>976,468</u>	<u>1,050,593</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(109,250)	(127,567)
Principal payments on long-term debt	(195,000)	(632,022)
Interest paid on long-term debt	<u>(500,700)</u>	<u>(527,095)</u>
Net cash (used in) capital and related financing activities	<u>(804,950)</u>	<u>(1,286,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	33,353	81,635
Proceeds from maturities of certificates of deposit	1,252,325	1,569,257
Purchase of certificates of deposit	<u>(1,036,594)</u>	<u>(2,107,733)</u>
Net cash provided by (used in) investing activities	<u>249,084</u>	<u>(456,841)</u>
NET INCREASE (DECREASE) IN CASH	1,105,021	(599,164)
CASH		
Beginning	<u>465,081</u>	<u>1,064,245</u>
Ending	<u>\$1,570,102</u>	<u>\$ 465,081</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2011	2010
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (128,914)	\$ (231,852)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	778,095	758,572
Changes in assets and liabilities		
(Increase) decrease in patient receivables	230,882	(62,293)
(Increase) in other receivables	(17)	(3,899)
(Increase) in estimated third-party payor settlements	(160,000)	(320,000)
(Increase) decrease in inventories	(7,077)	18,438
(Increase) decrease in prepaid expenses	18,912	(4,725)
(Decrease) in accounts payable	(75,172)	(116,829)
Increase in accrued employee compensation	46,069	54,483
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(18,359)</u>	<u>1,873</u>
Net cash provided by operating activities	<u>\$ 684,419</u>	<u>\$ 93,768</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 247,247	\$ 266,877
Assets whose use is limited, designated by board for plant replacement and expansion, cash	<u>1,322,855</u>	<u>198,204</u>
Total per statement of cash flows	<u>\$1,570,102</u>	<u>\$ 465,081</u>

Keokuk County Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Inventories

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

Property and Equipment

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

Unamortized Financing Costs

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Receivable

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

Deferred Revenue For Succeeding Year Property Tax Receivable

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH

The Health Center's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

NOTE 3 PATIENT RECEIVABLES

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Medicare	\$ 437,621	\$ 826,374
Medicaid	288,457	159,673
Commercial insurance	318,714	347,099
Patients	<u>347,161</u>	<u>429,689</u>
Total patient receivables	1,391,953	1,762,835
Less allowances for contractual adjustments and bad debts	<u>(20,000)</u>	<u>(160,000)</u>
Net patient receivables	<u>\$1,371,953</u>	<u>\$1,602,835</u>

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

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2011:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$ 57,252	\$ 695,698	\$ 752,950
Transfer from current assets, cash	695,484	-	695,484
Fund transfers	633	(633)	-
Principal and interest payments	<u>(695,700)</u>	<u>-</u>	<u>(695,700)</u>
BALANCE , end of year	<u>\$ 57,669</u>	<u>\$ 695,065</u>	<u>\$ 752,734</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	\$ 6,500	\$ -	\$ 6,500	\$ -
Land improvements	706,125	210,510	706,125	161,931
Building	2,736,117	675,306	2,736,117	602,956
Fixed equipment	5,687,541	1,458,662	5,619,098	1,121,315
Major movable equipment	<u>2,063,790</u>	<u>1,177,406</u>	<u>2,022,983</u>	<u>857,587</u>
Totals	<u>\$11,200,073</u>	<u>\$3,521,884</u>	<u>\$11,090,823</u>	<u>\$2,743,789</u>

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>Ending balance</u>
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	706,125	-	-	706,125
Building	2,736,117	-	-	2,736,117
Fixed equipment	5,619,098	68,443	-	5,687,541
Major movable equipment	<u>2,022,983</u>	<u>40,807</u>	<u>-</u>	<u>2,063,790</u>
Totals	11,090,823	109,250	-	11,200,073
Less accumulated depreciation	<u>(2,743,789)</u>	<u>(778,095)</u>	<u>-</u>	<u>(3,521,884)</u>
Net property and equipment	<u>\$ 8,347,034</u>	<u>\$ (668,845)</u>	<u>\$ -</u>	<u>\$ 7,678,189</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2010 follows:

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

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Hospital Revenue Bonds, Series 2005	\$9,160,000	\$9,355,000
Less current maturities	<u>200,000</u>	<u>195,000</u>
Long-term debt, net of current maturities	<u>\$8,960,000</u>	<u>\$9,160,000</u>

Hospital Revenue Bonds, Series 2005

The Health Center has issued Hospital Revenue Bonds, Series 2005 in the original amount of \$10,000,000. The Bonds are payable solely from future revenues of the Health Center and are due serially each June 1 through 2020, at remaining interest rates ranging from 4.6% to 5.5%. At June 30, 2011, the remaining balance on these Bonds is \$9,160,000.

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

A Reserve Fund in an amount to the maximum annual amount of principal and interest due on all parity obligations in any succeeding fiscal year, \$695,065.

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Deposits are to be made from the general funds of the Health Center. Future funding requirements of the Sinking Fund for the next five years total 2012 \$692,020; 2013 \$692,820; 2014 \$692,845; 2015 \$692,065; 2016 \$690,565.

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

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

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

NOTE 6 LONG-TERM DEBT (continued)

As to the above Bonds, Series 2005, the Health Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Health Center. The net revenues are pledged through June, 2020. As of June 30, 2011 the remaining principal and interest on the Series 2005 Bonds was \$13,007,035. 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	\$ 345,057	\$ 336,531
Provision for depreciation	778,095	758,572
Interest expense on the Bonds	<u>499,250</u>	<u>508,800</u>
 Pledged net revenues	 <u>\$1,622,402</u>	 <u>\$1,603,903</u>
 Principal and interest requirements		
Hospital Revenue Bonds, Series 2005	<u>\$ 695,698</u>	<u>\$ 693,653</u>

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 200,000	\$ 492,020	\$ 692,020
2013	210,000	482,820	692,820
2014	220,000	472,845	692,845
2015	230,000	462,065	692,065
2016	240,000	450,565	690,565
2017-2020	<u>8,060,000</u>	<u>1,486,720</u>	<u>9,546,720</u>
Total	<u>9,160,000</u>	<u>3,847,035</u>	<u>13,007,035</u>
Less current maturities	<u>200,000</u>	<u>492,020</u>	<u>692,020</u>
 Total long-term debt	 <u>\$8,960,000</u>	 <u>\$3,355,015</u>	 <u>\$12,315,015</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>Amount due within one year</u>
Hospital Revenue Bonds, Series 2005	\$ <u>9,355,000</u>	\$ <u>—</u>	\$ <u>195,000</u>	\$ <u>9,160,000</u>	\$ <u>200,000</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>Amount due within one year</u>
Hospital Revenue Bonds, Series 2005	\$9,540,000	\$ —	\$ 185,000	\$9,355,000	\$ 195,000
Notes payable, equipment	<u>447,022</u>	<u>—</u>	<u>447,022</u>	<u>—</u>	<u>—</u>
Totals	<u>\$9,987,022</u>	<u>\$ —</u>	<u>\$ 632,022</u>	<u>\$9,355,000</u>	<u>\$ 195,000</u>

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

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

Other

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

NOTE 8 CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2011 and 2010.

	2011	2010
Charges foregone, based on established rates	\$ <u>3,803</u>	\$ <u>6,088</u>
Equivalent percentage of charity care patients to all patients served	<u>.1%</u>	<u>.1%</u>

NOTE 9 MALPRACTICE CLAIMS

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

The Health Center 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 impact on the financial position or the results of operations of the Health Center.

Incidents occurring through June 30, 2011 may result in the assertion of claims. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them, however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

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

NOTE 10 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2011, regular plan members were required to contribute 4.5% of their annual salary and the Health Center was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$229,600, \$195,531 and \$168,977, respectively, equal to the required contributions for each year.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget following required public notice and hearings for all funds. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Health Center prepares its annual County Hospital budget on a budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not reported as an expenditure on the County Hospital budget basis capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

For the year ended June 30, 2011, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u> <u>General</u> <u>funds</u>	<u>Budget</u> <u>basis</u> <u>adjustments</u>	<u>Budget</u> <u>basis</u>	<u>County</u> <u>Hospital</u> <u>Budget</u>
Amount to be raised by taxation	\$ 975,325	\$ 68,832	\$1,044,157	\$1,083,564
Other revenues/receipts	<u>6,687,613</u>	<u>535,850</u>	<u>7,223,463</u>	<u>6,393,901</u>
	7,662,938	604,682	8,267,620	7,477,465
Expenses/expenditures	<u>7,317,881</u>	<u>94,237</u>	<u>7,412,118</u>	<u>7,163,311</u>
Net	345,057	510,445	855,502	314,154
Balance, beginning	<u>3,439,008</u>	<u>897,766</u>	<u>4,336,774</u>	<u>4,201,315</u>
Balance, ending	<u>\$3,784,065</u>	<u>\$1,408,211</u>	<u>\$5,192,276</u>	<u>\$4,515,469</u>

NOTE 12 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

Our report on our audits of the basic financial statements of Keokuk County Health Center for 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
August 19, 2011

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

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0 – 30 days (includes patients in Health Center at end of year)	\$ 298,766	\$ 483,382	21.46%	27.42%
31 – 60 days	298,627	376,931	21.45	21.38
61 – 90 days	112,994	184,606	8.12	10.47
91 – 120 days	74,881	126,599	5.38	7.19
Over 120 days	<u>606,685</u>	<u>591,317</u>	<u>43.59</u>	<u>33.54</u>
Totals	<u>1,391,953</u>	<u>1,762,835</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(220,000)	(160,000)		
Medicaid	(60,000)	20,000		
Other	60,000	20,000		
Bad debts	<u>240,000</u>	<u>280,000</u>		
Total allowances	<u>20,000</u>	<u>160,000</u>		
Totals	<u>\$1,371,953</u>	<u>\$1,602,835</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 19,281</u>	<u>\$ 17,230</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>71</u>	<u>93</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	\$ 280,000	\$ 260,000		
ADD				
Provision for bad debts	435,814	333,160	6.19%	5.30%
Recoveries of accounts previously written off	<u>32,840</u>	<u>15,736</u>	.47	.25
	748,654	608,896		
DEDUCT				
Accounts written off	<u>508,654</u>	<u>328,896</u>	7.23	5.23
BALANCE , ending	<u>\$ 240,000</u>	<u>\$ 280,000</u>		

Keokuk County Health Center
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				
Adult and pediatric	\$ 83,074	\$ -	\$ 83,074	\$ 96,414
Skilled care	417,186	-	417,186	356,456
Intermediate care	<u>230,809</u>	<u>-</u>	<u>230,809</u>	<u>170,854</u>
	<u>731,069</u>	<u>-</u>	<u>731,069</u>	<u>623,724</u>
OTHER NURSING SERVICES				
Observation room	-	72,460	72,460	64,724
Emergency service	2,841	1,103,901	1,106,742	1,005,519
Special procedures	-	9,218	9,218	80,240
Central supply	32,616	29,238	61,854	68,585
Ambulance	<u>-</u>	<u>816,628</u>	<u>816,628</u>	<u>755,213</u>
	<u>35,457</u>	<u>2,031,445</u>	<u>2,066,902</u>	<u>1,974,281</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	57,534	679,746	737,280	702,616
Radiology	15,979	548,999	564,978	588,146
Electrocardiology	2,117	46,570	48,687	40,120
Pharmacy	105,146	212,867	318,013	292,046
Occupational therapy	16,303	1,087	17,390	43,550
Speech therapy	2,626	4,207	6,833	12,312
Physical therapy	54,887	376,058	430,945	511,088
Cardiac rehabilitation	-	37,261	37,261	38,882
Clinic	<u>-</u>	<u>187,993</u>	<u>187,993</u>	<u>140,166</u>
	<u>254,592</u>	<u>2,094,788</u>	<u>2,349,380</u>	<u>2,368,926</u>
Totals	<u>\$1,021,118</u>	<u>\$4,126,233</u>	5,147,351	4,966,931
Charity care charges foregone, based on established rates			<u>(3,803)</u>	<u>(6,088)</u>
Total gross patient service revenue			5,143,548	4,960,843
Provisions for contractual adjustments and bad debts			<u>1,893,877</u>	<u>1,328,214</u>
Total net patient service revenue			<u>\$7,037,425</u>	<u>\$6,289,057</u>

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

	Year ended June 30	
	2011	2010
Contractual adjustments		
Medicare	\$(2,547,827)	\$(1,777,371)
Medicaid	(140,868)	(172,186)
Other adjustments	359,004	288,183
Provision for bad debts	435,814	333,160
 Totals	 \$(1,893,877)	 \$(1,328,214)

OTHER REVENUE

	Year ended June 30	
	2011	2010
Rental income		
Medical clinic	\$ 54,835	\$ 41,880
Other	3,650	3,800
Miscellaneous	93,057	121,302
 Totals	 \$ 151,542	 \$ 166,982

Keokuk County Health Center
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	\$ 86,984	\$ 2,119	\$ 89,103	\$ 91,219
Adult and pediatric	1,049,292	144,501	1,193,793	1,028,185
Emergency service	259,704	567,048	826,752	627,226
Special procedures	615	18,317	18,932	49,193
Central supply	51,396	25,512	76,908	61,325
Ambulance	<u>316,174</u>	<u>118,213</u>	<u>434,387</u>	<u>353,184</u>
Total nursing service	<u>1,764,165</u>	<u>875,710</u>	<u>2,639,875</u>	<u>2,210,332</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	209,954	168,155	378,109	361,101
Radiology	146,123	116,269	262,392	249,782
Electrocardiology	-	33	33	3,135
Pharmacy	30,020	197,177	227,197	205,816
Occupational therapy	-	10,969	10,969	26,755
Speech therapy	-	5,265	5,265	11,432
Physical therapy	224,333	9,054	233,387	194,235
Cardiac rehabilitation	32,155	30,848	63,003	58,097
Clinic	77,044	112,537	189,581	167,745
Medical records	<u>142,731</u>	<u>16,193</u>	<u>158,924</u>	<u>132,925</u>
Total other professional service	<u>862,360</u>	<u>666,500</u>	<u>1,528,860</u>	<u>1,411,023</u>
GENERAL SERVICE				
Dietary	140,290	51,064	191,354	172,342
Plant operation	36,015	237,862	273,877	264,496
Housekeeping	53,814	8,663	62,477	71,447
Laundry	<u>25,856</u>	<u>4,637</u>	<u>30,493</u>	<u>24,985</u>
Total general service	<u>255,975</u>	<u>302,226</u>	<u>558,201</u>	<u>533,270</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration and business office	421,094	418,918	840,012	792,396
FICA	-	221,787	221,787	228,335
IPERS	-	229,600	229,600	195,531
Group health and life insurance	-	413,823	413,823	426,743
Insurance	<u>-</u>	<u>107,628</u>	<u>107,628</u>	<u>131,689</u>
Total fiscal and administrative service and unassigned expenses	<u>421,094</u>	<u>1,391,756</u>	<u>1,812,850</u>	<u>1,774,694</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>778,095</u>	<u>778,095</u>	<u>758,572</u>
Total expenses	<u>\$3,303,594</u>	<u>\$4,014,287</u>	<u>\$7,317,881</u>	<u>\$6,687,891</u>

**Keokuk County Health Center
STATISTICS**

Year ended June 30

2011 2010

PATIENT DAYS

Adult and pediatric	138	159
Swing bed		
Skilled care	765	754
Intermediate care	<u>1,468</u>	<u>1,435</u>
 Totals	 <u>2,371</u>	 <u>2,348</u>

DISCHARGES

Adult and pediatric	48	62
Swing bed		
Skilled care	52	39
Intermediate care	<u>23</u>	<u>25</u>
 Totals	 <u>123</u>	 <u>126</u>

AVERAGE LENGTH OF STAY

Adult and pediatric	2.88	2.56
Swing bed		
Skilled care	14.71	19.33
Intermediate care	63.83	57.40

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

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

We have audited the financial statements of Keokuk County Health Center as of and for the year ended June 30, 2011, and have issued our report thereon dated August 19, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Health Center's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

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



DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 19, 2011

**Keokuk County Health Center
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.

**Keokuk County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part II—Findings Related to Required Statutory Reporting

11-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Health Center exceeded its County Hospital budget for the year ended June 30, 2011.

Recommendation

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

Response

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

Conclusion

Response accepted.

11-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

11-II-C TRAVEL EXPENSES

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

11-II-D BUSINESS TRANSACTIONS

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