

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

COMBINED FINANCIAL REPORT

June 30, 2012

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**Clarke County Public Hospital
and Clarke County Hospital Foundation
OFFICIALS
June 30, 2012**

Clarke County Public Hospital

BOARD OF TRUSTEES

Officers

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

Members

Neville Clayton
Beverly Edwards
Kevin Klemesrud
Jan Short

Expiration of term

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

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

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF FINANCIAL OFFICER

Michael Thilges

Clarke County Hospital Foundation

BOARD OF DIRECTORS

Ron Schlitcher, President
Elisabeth Reynoldson, Vice President
Dr. Jim Kimball, Secretary
Brian Evans, Treasurer
Dave Walkup

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the accompanying combined balance sheets of Clarke County Public Hospital and Clarke County Hospital Foundation as of June 30, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Clarke County Public Hospital and Clarke County Hospital Foundation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2012 on our consideration of Clarke County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 15, 2012

Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarke County Public Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$1,089,735 to \$22,859,144
- Total noncurrent assets whose use is limited increased by \$1,034,216 to \$5,424,065
- Total property and equipment decreased by \$161,514 to \$13,527,349
- Total fund equity increased by \$1,393,607 to \$13,838,074
- Total long-term debt decreased by \$972,107 to \$4,449,834
- Net patient service revenue increased by \$87,595, or 1%, to \$16,490,797
- Expenses increased by \$491,335, or 3%, to \$17,432,517

Financial Analysis of the Hospital

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

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

Table 1
Condensed Balance Sheets

	June 30		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 2,874,157	\$ 2,579,535	\$ 2,591,026
Noncurrent assets whose use is limited	5,424,065	4,389,849	2,122,567
Property and equipment	13,527,349	13,688,863	14,596,538
Other assets	<u>1,033,573</u>	<u>1,111,162</u>	<u>1,088,743</u>
Total assets	<u>\$22,859,144</u>	<u>\$21,769,409</u>	<u>\$20,398,874</u>
Current liabilities	\$ 4,301,577	\$ 3,865,107	\$ 3,159,913
Long-term debt, less current maturities	3,759,493	4,449,835	5,417,543
Other noncurrent liabilities	<u>960,000</u>	<u>1,010,000</u>	<u>1,070,000</u>
Total liabilities	<u>\$ 9,021,070</u>	<u>\$ 9,324,942</u>	<u>\$ 9,647,456</u>
Invested in capital assets, net of related debt	\$ 9,077,515	\$ 8,266,319	\$ 8,546,453
Restricted	554,687	566,822	697,970
Unrestricted	<u>4,205,872</u>	<u>3,611,326</u>	<u>1,506,995</u>
Total fund equity	<u>\$13,838,074</u>	<u>\$12,444,467</u>	<u>\$10,751,418</u>

As depicted in Table 1, total assets increased in fiscal year 2012 to \$22,859,144. The change in total assets results primarily from an increase in assets whose use is limited as a result of net cash provided by operating activities.

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

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

	Year ended June 30		
	2012	2011	2010
Net patient service revenue	\$16,490,797	\$16,403,200	\$15,098,747
Other revenue	927,409	439,816	275,477
Total revenue	<u>17,418,206</u>	<u>16,843,016</u>	<u>15,374,224</u>
Salaries	5,949,464	5,863,713	5,536,026
Supplies and expenses	9,369,049	9,107,276	8,602,617
Provision for depreciation	2,114,004	1,970,193	1,785,759
Total expenses	<u>17,432,517</u>	<u>16,941,182</u>	<u>15,924,402</u>
Operating (loss)	<u>(14,311)</u>	<u>(98,166)</u>	<u>(550,178)</u>
County taxes	1,013,973	1,066,168	955,131
Investment income	47,843	69,585	63,454
Transfer from related Foundation	138,081	-	60,000
Interest and amortization expense	<u>(192,225)</u>	<u>(411,499)</u>	<u>(405,529)</u>
Total nonoperating gains (losses)	<u>1,007,672</u>	<u>724,254</u>	<u>673,056</u>
Excess of revenues over expenses before restricted contributions	993,361	626,088	122,878
Restricted contributions	<u>400,246</u>	<u>1,066,961</u>	<u>497,004</u>
Change in fund equity	1,393,607	1,693,049	619,882
Total fund equity, beginning	<u>12,444,467</u>	<u>10,751,418</u>	<u>10,131,536</u>
Total fund equity, ending	<u>\$13,838,074</u>	<u>\$12,444,467</u>	<u>\$10,751,418</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2012 and 2011.

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

Volume: Acute discharges for fiscal year 2012 were 234 compared to 280 in fiscal year 2011. Average length of stay remained at 3.3 as patient days decreased to 782 from 920 in 2011. Volume on the outpatient side indicated positive growth in 2012. In 2012, gross outpatient charges increased to \$13,234,495 compared to \$12,756,056 in 2011.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2012. Overall, gross patient service revenue increased to \$15,833,600 from \$15,662,391 in 2011. Speech therapy and occupational therapy reflected the most significant growth in 2012.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were a net addition of \$657,197 in 2012 compared to a net addition \$740,809 in 2011, representing 4% and 5% of gross patient charges, respectively.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	46%	50%	44%
Medicaid	11	10	10
Commercial insurance	33	32	36
Patients	<u>10</u>	<u>8</u>	<u>10</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$927,409 in 2012 compared to \$439,816 in 2011, primarily due to electronic health records meaningful use incentive revenue.

Expenses

Approximately 34% of Hospital's expenses are for salaries. Total salaries increased by 1% to \$5,949,464 in 2012 from \$5,863,713 in 2011. The Hospital departments experiencing the most significant increase were pharmacy, clinic physician services, and information technology.

Approximately 54% of Hospital's expenses are for supplies and expenses, including employee benefits. Total supplies and expenses increased by 2% to \$9,369,049 in 2012 from \$9,107,276 in 2011. The Hospital departments experiencing the most significant increase were nursing administration, cardiopulmonary, and marketing.

Approximately 12% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$2,114,004 in 2012 from \$1,970,193 in 2011 as a result of equipment purchases in 2012.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$1,007,672 from \$724,254 in 2011. The increase results primarily from a decrease in interest expense.

Property and Equipment

At the end of 2012, the Hospital had \$13,527,349 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 2012, \$1,952,490 was spent to acquire property and equipment.

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

**Table 4
Property and Equipment**

	June 30		
	2012	2011	2010
Land	\$ 84,550	\$ 9,550	\$ 9,550
Land improvements	275,945	275,945	275,945
Building	16,581,046	16,564,085	16,564,085
Fixed equipment	3,208,771	3,197,874	3,202,471
Major movable equipment	8,825,508	7,631,904	7,266,472
Medical office building	<u>1,105,415</u>	<u>1,105,415</u>	<u>1,105,415</u>
Subtotal	30,081,235	28,784,773	28,423,938
Less accumulated depreciation	<u>(16,553,886)</u>	<u>(15,095,910)</u>	<u>(13,827,400)</u>
Property and equipment	<u>\$13,527,349</u>	<u>\$13,688,863</u>	<u>\$14,596,538</u>

Debt Administration

At year end, the Hospital had \$4,240,000 in current and long-term debt related to Hospital Revenue Refunding Bonds, Series 2011. This has decreased by \$710,000, which was the required amount of principal payments on the outstanding Bonds for fiscal year 2012. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 47% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$209,834 in current and long-term notes payable. This has decreased by \$262,710 in fiscal year 2012, which was the required amount of principal payments on the outstanding notes for fiscal year 2012. More detailed information about the Hospital's notes payable is presented in the Notes to Financial Statements. Note that total notes payable represent approximately 2% of the Hospital's total liabilities at year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP basis are presented in the Notes to Financial Statements. A comparison of the Hospital's fiscal year 2012 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 984,685	\$ 985,328	\$ (643)
Other revenues/receipts	<u>18,033,664</u>	<u>20,435,022</u>	<u>(2,401,358)</u>
	19,018,349	21,420,350	(2,402,001)
Expenses/expenditures	<u>18,408,347</u>	<u>21,241,000</u>	<u>(2,832,653)</u>
Net	<u>\$ 610,002</u>	<u>\$ 179,350</u>	<u>\$ 430,652</u>

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

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2013 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Clarke County Public Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED BALANCE SHEETS**

ASSETS	June 30	
	2012	2011
CURRENT ASSETS		
Cash	\$ 1,108,097	\$ 919,455
Assets whose use is limited-required for current liabilities	59,687	71,822
Patient receivables, less allowances for contractual adjustments and bad debts	1,356,430	1,316,793
Other receivables	195,299	170,828
Inventories	114,422	109,761
Prepaid expenses	<u>95,415</u>	<u>77,036</u>
Total current assets	<u>2,929,350</u>	<u>2,665,695</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	2,396,536	2,882,963
Certificates of deposit	2,008,097	500,000
Interest receivable	7,191	2,706
Designated by board for special purpose		
Cash	9,194	9,180
Certificate of deposit	<u>508,047</u>	<u>500,000</u>
	4,929,065	3,894,849
Restricted for payment of long-term debt and interest		
Cash	59,687	71,822
Certificate of deposit	<u>495,000</u>	<u>495,000</u>
Total assets whose use is limited	5,483,752	4,461,671
Less assets whose use is limited and that are required for current liabilities	<u>59,687</u>	<u>71,822</u>
Noncurrent assets whose use is limited	<u>5,424,065</u>	<u>4,389,849</u>
PROPERTY AND EQUIPMENT	30,081,235	28,784,773
Less accumulated depreciation	<u>16,553,886</u>	<u>15,095,910</u>
Total property and equipment	<u>13,527,349</u>	<u>13,688,863</u>
OTHER ASSETS		
Unamortized financing costs	73,573	101,162
Succeeding year property tax receivable	<u>960,000</u>	<u>1,010,000</u>
Total other assets	<u>1,033,573</u>	<u>1,111,162</u>
 Totals	 <u>\$22,914,337</u>	 <u>\$21,855,569</u>

	June 30	
LIABILITIES AND FUND EQUITY	2012	2011
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 690,341	\$ 972,709
Accounts payable	639,844	528,682
Accrued interest	11,641	12,617
Accrued employee compensation	610,259	783,103
Payroll taxes and amounts withheld from employees	209,492	137,996
Estimated third-party payor settlements	<u>2,140,000</u>	<u>1,430,000</u>
Total current liabilities	<u>4,301,577</u>	<u>3,865,107</u>
LONG-TERM DEBT , less current maturities	<u>3,759,493</u>	<u>4,449,835</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	<u>960,000</u>	<u>1,010,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	9,077,515	8,266,319
Restricted	573,476	604,367
Unrestricted	<u>4,242,276</u>	<u>3,659,941</u>
Total fund equity	<u>13,893,267</u>	<u>12,530,627</u>
	<hr/>	<hr/>
Totals	<u>\$22,914,337</u>	<u>\$21,855,569</u>

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

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2012 \$1,009,968; 2011 \$785,550	\$16,490,797	\$16,403,200
OTHER REVENUE	<u>927,409</u>	<u>439,816</u>
Total revenue	<u>17,418,206</u>	<u>16,843,016</u>
EXPENSES		
Nursing service	5,340,791	5,449,761
Other professional service	4,022,674	3,877,653
General service	1,386,777	1,394,447
Fiscal and administrative service and unassigned expenses	4,572,599	4,249,128
Provision for depreciation	<u>2,114,004</u>	<u>1,970,193</u>
Total expenses	<u>17,436,845</u>	<u>16,941,182</u>
Operating (loss)	<u>(18,639)</u>	<u>(98,166)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,013,973	1,066,168
Investment income	47,843	69,585
Unrestricted contributions	69,365	36,752
Interest and amortization expense	<u>(192,225)</u>	<u>(411,499)</u>
Total nonoperating gains (losses)	<u>938,956</u>	<u>761,006</u>
Excess of revenues over expenses before restricted contributions	920,317	662,840
RESTRICTED CONTRIBUTIONS	<u>442,323</u>	<u>1,103,251</u>
Change in fund equity	1,362,640	1,766,091
TOTAL FUND EQUITY		
Beginning	<u>12,530,627</u>	<u>10,764,536</u>
Ending	<u>\$13,893,267</u>	<u>\$12,530,627</u>

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

	Year ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$17,161,160	\$16,590,335
Cash paid to suppliers for goods and services	(9,173,664)	(8,991,533)
Cash paid to employees for services	(6,186,874)	(5,762,684)
Other operating revenue received	<u>927,409</u>	<u>439,816</u>
Net cash provided by operating activities	<u>2,728,031</u>	<u>2,275,934</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,013,973	1,066,168
Unrestricted contributions	<u>69,365</u>	<u>36,752</u>
Net cash provided by noncapital financing activities	<u>1,083,338</u>	<u>1,102,920</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,952,490)	(1,062,518)
Principal payments on long-term debt	(972,710)	(627,541)
Interest paid on long-term debt	(165,612)	(398,765)
Payment of financing costs	-	(110,359)
Contributions received, restricted for purchase of equipment and related costs	<u>442,323</u>	<u>1,103,251</u>
Net cash (used in) capital and related financing activities	<u>(2,648,489)</u>	<u>(1,095,932)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	43,358	75,029
Purchase of certificates of deposit	(1,516,144)	(1,495,000)
Proceeds from maturities of certificates of deposit	<u>-</u>	<u>1,879,512</u>
Net cash provided by (used in) investing activities	<u>(1,472,786)</u>	<u>459,541</u>
NET INCREASE (DECREASE) IN CASH	(309,906)	2,742,463
CASH		
Beginning	<u>3,883,420</u>	<u>1,140,957</u>
Ending	<u>\$ 3,573,514</u>	<u>\$ 3,883,420</u>

See Notes to Combined Financial Statements.

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

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (18,639)	\$ (98,166)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	2,114,004	1,970,193
Changes in assets and liabilities		
Patient receivables	(39,637)	(2,865)
Other receivables	(24,471)	90,675
Inventories	(4,661)	2,833
Prepaid expenses	(18,379)	(66,969)
Accounts payable	111,162	70,282
Accrued employee compensation	(172,844)	101,029
Payroll taxes and amounts withheld from employees	71,496	18,922
Estimated third-party payor settlements	<u>710,000</u>	<u>190,000</u>
Net cash provided by operating activities	<u>\$2,728,031</u>	<u>\$2,275,934</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$1,108,097	\$ 919,455
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	2,396,536	2,882,963
Designated by board for special purpose, cash	9,194	9,180
Restricted for payment of long-term debt and interest, cash	<u>59,687</u>	<u>71,822</u>
Totals per statement of cash flows	<u>\$3,573,514</u>	<u>\$3,883,420</u>

See Notes to Combined Financial Statements.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Clarke County, Iowa. The Hospital is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, Clarke County Public Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Clarke County Hospital Foundation.

The Foundation is a legally separate nonprofit corporation primarily organized and operated for the benefit and support of the Hospital. The Hospital is the sole member of the corporation. The accounts and transactions of the Foundation are combined within these financial statements as required by accounting principles generally accepted in the United States of America. Transactions between the Hospital and Foundation are eliminated in combination.

Measurement Focus and Basis of Accounting

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

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

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Accounting Standards

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

Investments and Investment Income

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposits are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Property and Equipment

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

Unamortized Financing Costs

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

Property Tax Receivable

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

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted

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

Unrestricted

Unrestricted fund equity has no externally imposed restrictions on use.

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Charity Care

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

Net Patient Service Revenue

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

Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2012 were entirely covered by federal depository insurance, collateralized securities, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

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

NOTE 3 PATIENT RECEIVABLES

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

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Medicare	\$ 671,214	\$ 693,212
Medicaid	138,803	145,341
Commercial insurance	719,603	698,571
Patients	<u>916,810</u>	<u>789,669</u>
Total patient receivables	2,446,430	2,326,793
Less allowances for contractual adjustments and bad debts	<u>(1,090,000)</u>	<u>(1,010,000)</u>
Net patient receivables	<u>\$1,356,430</u>	<u>\$1,316,793</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for payment of long-term debt and interest are as follows at June 30, 2012:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance, beginning	\$ 71,822	\$ 495,000	\$ 566,822
Transfers from current assets, cash	847,252	-	847,252
Interest earned	2,020	-	2,020
Payments for principal and interest	<u>(861,407)</u>	<u>-</u>	<u>(861,407)</u>
Balance, ending	<u>\$ 59,687</u>	<u>\$ 495,000</u>	<u>\$ 554,687</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 84,550	\$ -	\$ 9,550	\$ -
Land improvements	275,945	207,277	275,945	200,063
Building	16,581,046	7,316,276	16,564,085	6,318,640
Fixed equipment	3,208,771	2,719,052	3,197,874	2,601,899
Major movable equipment	8,825,508	5,618,204	7,631,904	5,311,625
Medical office building	<u>1,105,415</u>	<u>693,077</u>	<u>1,105,415</u>	<u>663,683</u>
Totals	<u>\$30,081,235</u>	<u>\$16,553,886</u>	<u>\$28,784,773</u>	<u>\$15,095,910</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ 75,000	\$ -	\$ 84,550
Land improvements	275,945	-	-	275,945
Building	16,564,085	16,961	-	16,581,046
Fixed equipment	3,197,874	10,897	-	3,208,771
Major movable equipment	7,631,904	1,849,632	656,028	8,825,508
Medical office building	<u>1,105,415</u>	<u>-</u>	<u>-</u>	<u>1,105,415</u>
Totals	28,784,773	1,952,490	656,028	30,081,235
Less accumulated depreciation	<u>(15,095,910)</u>	<u>(2,114,004)</u>	<u>(656,028)</u>	<u>(16,553,886)</u>
Net property and equipment	<u>\$13,688,863</u>	<u>\$ (161,514)</u>	<u>\$ -</u>	<u>\$13,527,349</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	\$ 9,550	\$ -	\$ -	\$ 9,550
Land improvements	275,945	-	-	275,945
Building	16,564,085	-	-	16,564,085
Fixed equipment	3,202,471	-	4,597	3,197,874
Major movable equipment	7,266,472	1,062,518	697,086	7,631,904
Medical office building	<u>1,105,415</u>	<u>-</u>	<u>-</u>	<u>1,105,415</u>
Totals	28,423,938	1,062,518	701,683	28,784,773
Less accumulated depreciation	<u>(13,827,400)</u>	<u>(1,970,193)</u>	<u>(701,683)</u>	<u>(15,095,910)</u>
Net property and equipment	<u>\$14,596,538</u>	<u>\$ (907,675)</u>	<u>\$ -</u>	<u>\$13,688,863</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Hospital Revenue Refunding Bonds, Series 2011	\$4,240,000	\$4,950,000
Notes payable, equipment	<u>209,834</u>	<u>472,544</u>
	4,449,834	5,422,544
Less current maturities	<u>690,341</u>	<u>972,709</u>
Long-term debt, net of current maturities	<u>\$3,759,493</u>	<u>\$4,449,835</u>

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

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Refunding Bonds, Series 2011

The Hospital has issued Hospital Revenue Refunding Bonds, Series 2011, in the original amount of \$4,950,000. The bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2019, at remaining interest rates of 2% to 4.35%. At June 30, 2012, the remaining balance on these bonds was \$4,240,000.

The Hospital Revenue Refunding Bonds, Series 2011, require certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for the next five years total 2013 \$709,159; 2014 \$703,393; 2015 \$703,900; 2016 \$696,958 and 2017 \$692,053.

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

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Refunding Bonds at June 30, 2012.

The bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

The Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The bonds were issued to refund previous debt of the Hospital. The net revenues are pledged through June, 2019. As of June 30, 2012 the remaining principal and interest on the bonds was \$4,929,816. 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, 2012 and 2011:

	Year ended June 30	
	2012	2011
Change in fund equity, Hospital only	\$1,393,607	\$1,693,049
Provision for depreciation	2,114,004	1,970,193
Interest expense, Revenue Bonds	150,431	354,193
 Pledged net revenues	 \$3,658,042	 \$4,017,435
 Principal and interest requirements of the bonds	 \$ 861,408	 \$ 643,875

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,507, including interest at 4.5%, with the final payment due October, 2013. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2012, the remaining balance on this note is \$54,367.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,634, including interest at 3.95%, with the final payment due March, 2014. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2012, the remaining balance on this note is \$73,639.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,417, including interest at 3.95%, with the final payment due July, 2014. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2012, the remaining balance on this note is \$81,828.

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

NOTE 6 LONG-TERM DEBT (continued)

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

<u>Year ending June 30</u>	<u>Revenue Refunding Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 570,000	\$ 120,341	\$ 690,341	\$ 146,058	\$ 836,399
2014	575,000	86,087	661,087	129,970	791,057
2015	590,000	3,406	593,406	114,504	707,910
2016	600,000	-	600,000	97,382	697,382
2017	615,000	-	615,000	77,282	692,282
2018 - 2019	<u>1,290,000</u>	<u>-</u>	<u>1,290,000</u>	<u>83,020</u>	<u>1,373,020</u>
Total	<u>4,240,000</u>	<u>209,834</u>	<u>4,449,834</u>	<u>648,216</u>	<u>5,098,050</u>
Less current maturities	<u>570,000</u>	<u>120,341</u>	<u>690,341</u>	<u>146,058</u>	<u>836,399</u>
Total long-term debt	<u>\$3,670,000</u>	<u>\$ 89,493</u>	<u>\$3,759,493</u>	<u>\$ 502,158</u>	<u>\$4,261,651</u>

A summary of changes in long-term debt for the year ended June 30, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Refunding Bonds, Series 2011	\$4,950,000	\$ -	\$ 710,000	\$4,240,000	\$ 570,000
Notes payable, equipment	<u>472,544</u>	<u>-</u>	<u>262,710</u>	<u>209,834</u>	<u>120,341</u>
Totals	<u>\$5,422,544</u>	<u>\$ -</u>	<u>\$ 972,710</u>	<u>\$4,449,834</u>	<u>\$ 690,341</u>

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

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

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

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

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

Other

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

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2012 regular plan members were required to contribute 5.38% of their annual salary and the Hospital is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$471,844, \$407,197 and \$357,188, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2012 and 2011.

	2012	2011
Charges foregone, based on established rates	\$ <u>96,878</u>	\$ <u>102,151</u>
Equivalent percentage of charity care patients to all patients served	<u>0.6%</u>	<u>0.7%</u>

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

NOTE 10 MALPRACTICE CLAIMS

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

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2012 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

For the year ended June 30, 2012, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital budget</u>
Amount to be raised by taxation	\$ 1,013,973	\$ (29,288)	\$ 984,685	\$ 985,328
Other revenues/receipts	<u>17,812,151</u>	<u>221,513</u>	<u>18,033,664</u>	<u>20,435,022</u>
	18,826,124	192,225	19,018,349	21,420,350
Expenses/expenditures	<u>17,432,517</u>	<u>975,830</u>	<u>18,408,347</u>	<u>21,241,000</u>
Net	1,393,607	(783,605)	610,002	179,350
Balance, beginning	<u>12,444,467</u>	<u>(8,367,483)</u>	<u>4,076,984</u>	<u>2,678,203</u>
Balance, ending	<u>\$13,838,074</u>	<u>\$(9,151,088)</u>	<u>\$ 4,686,986</u>	<u>\$ 2,857,553</u>

NOTE 12 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation as of and for the periods ended June 30, 2012 and 2011, and our report thereon dated September 15, 2012, which expressed an unqualified opinion on those financial statements, appears on page 4. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 15, 2012

**Clarke County Public Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
No discharge date (includes patients in Hospital at end of year)	\$ 128,914	\$ 101,856	5.27%	4.38%
0 - 60 days	1,556,457	1,450,397	63.62	62.33
61 - 180 days	513,730	477,630	21.00	20.53
181 - 365 days	214,974	197,138	8.79	8.47
366 and over	<u>32,355</u>	<u>99,772</u>	<u>1.32</u>	<u>4.29</u>
Totals	<u>2,446,430</u>	<u>2,326,793</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	30,000	22,000		
Medicaid	9,000	22,000		
Other	211,000	276,000		
Bad debts	<u>840,000</u>	<u>690,000</u>		
Total allowances	<u>1,090,000</u>	<u>1,010,000</u>		
Totals	<u>\$1,356,430</u>	<u>\$1,316,793</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 45,057</u>	<u>\$ 44,940</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>30</u>	<u>29</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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
BALANCE , beginning	\$ 690,000	\$ 620,000		
ADD				
Provision for bad debts	1,009,968	785,550	6.12%	4.79%
Recoveries of accounts previously written off	<u>101,034</u>	<u>146,680</u>	0.61	0.89
	1,801,002	1,552,230		
DEDUCT				
Accounts written off	<u>961,002</u>	<u>862,230</u>	5.83	5.26
BALANCE , ending	<u>\$ 840,000</u>	<u>\$ 690,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2012, with comparative totals for 2011

	<u>2012</u>			<u>2011</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Acute care	\$ 782,000	\$ -	\$ 782,000	\$ 920,000
Skilled care	186,850	-	186,850	217,190
Extended care	538,180	-	538,180	556,170
	<u>1,507,030</u>	<u>-</u>	<u>1,507,030</u>	<u>1,693,360</u>
OTHER NURSING SERVICE				
Observation room	-	109,179	109,179	93,328
Operating and recovery rooms	16,626	1,149,170	1,165,796	1,411,896
Emergency service	12,683	2,947,466	2,960,149	2,602,943
Central supply	23,270	407,918	431,188	489,095
Ambulance	<u>39,532</u>	<u>721,032</u>	<u>760,564</u>	<u>641,715</u>
	<u>92,111</u>	<u>5,334,765</u>	<u>5,426,876</u>	<u>5,238,977</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	293,661	1,950,284	2,243,945	2,063,034
Cardiopulmonary	9,266	131,720	140,986	124,981
Cardiac rehabilitation	375	164,600	164,975	146,290
Respiratory therapy	249	94,476	94,725	157,939
Diagnostic imaging	149,580	3,293,858	3,443,438	3,226,441
Pharmacy	516,735	1,354,817	1,871,552	2,000,801
Anesthesiology	3,400	140,038	143,438	163,808
Speech therapy	3,268	5,657	8,925	5,961
Physical therapy	107,025	749,460	856,485	922,580
Occupational therapy	<u>13,283</u>	<u>14,820</u>	<u>28,103</u>	<u>20,370</u>
	<u>1,096,842</u>	<u>7,899,730</u>	<u>8,996,572</u>	<u>8,832,205</u>
Totals	<u>\$2,695,983</u>	<u>\$13,234,495</u>	15,930,478	15,764,542
Charity care charges foregone, based on established rates			<u>(96,878)</u>	<u>(102,151)</u>
Total gross patient service revenue			15,833,600	15,662,391
Provisions for contractual adjustments and bad debts			<u>657,197</u>	<u>740,809</u>
Total net patient service revenue			<u>\$16,490,797</u>	<u>\$16,403,200</u>

**Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	Year ended June 30	
	2012	2011
Contractual adjustments		
Medicare and Medicaid	\$(2,682,587)	\$(2,280,066)
Other	1,015,422	753,707
Provision for bad debts	1,009,968	785,550
Totals	\$ <u>(657,197)</u>	\$ <u>(740,809)</u>

OTHER REVENUE

	Year ended June 30	
	2012	2011
Electronic health records meaningful use incentive revenue	\$ 658,106	\$ 205,762
Meals	32,317	31,071
Community fitness center fees	17,648	14,767
Medical office building rental income	104,635	101,527
Miscellaneous	114,703	86,689
Totals	\$ <u>927,409</u>	\$ <u>439,816</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2012, with comparative totals for 2011

	<u>2012</u>			<u>2011</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 113,314	\$ 38,741	\$ 152,055	\$ 121,919
Medical and surgical	1,993,075	505,884	2,498,959	2,650,616
Operating and recovery rooms	296,770	104,607	401,377	418,315
Emergency service	699,905	1,295,934	1,995,839	1,958,318
Central supply	-	161,989	161,989	192,141
Ambulance	81,323	49,249	130,572	108,452
Total nursing service	<u>3,184,387</u>	<u>2,156,404</u>	<u>5,340,791</u>	<u>5,449,761</u>
OTHER PROFESSIONAL SERVICE				
Professional service administration	37,527	62,701	100,228	94,550
Laboratory	337,640	499,285	836,925	685,191
Cardiopulmonary	9,488	10,810	20,298	12,827
Cardiac rehabilitation	60,484	13,342	73,826	94,918
Respiratory therapy	3,762	40,998	44,760	53,479
Diagnostic imaging	291,850	588,508	880,358	810,446
Pharmacy	44,198	747,007	791,205	777,083
Anesthesiology	-	144,542	144,542	164,475
Speech therapy	-	5,160	5,160	5,308
Physical therapy	-	535,128	535,128	585,111
Occupational therapy	-	23,082	23,082	21,152
Specialty clinic	12,209	975	13,184	8,644
Medical office building	-	39,381	39,381	33,978
Health information	186,548	46,088	232,636	255,741
Quality improvement and utilization management	222,164	59,797	281,961	274,750
Total other professional service	<u>1,205,870</u>	<u>2,816,804</u>	<u>4,022,674</u>	<u>3,877,653</u>
GENERAL SERVICE				
Dietary	202,181	155,806	357,987	357,845
Plant operation	201,590	530,812	732,402	725,528
Environmental services	189,103	62,957	252,060	256,575
Laundry and linen	-	44,328	44,328	54,499
Total general service	<u>592,874</u>	<u>793,903</u>	<u>1,386,777</u>	<u>1,394,447</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	99,502	905,054	1,004,556	1,012,244
Human resources	157,489	58,767	216,256	220,204
Marketing	34,555	22,543	57,098	41,732
Business office	419,103	161,187	580,290	572,678
Information services	163,021	490,848	653,869	478,109
Purchasing	92,663	26,654	119,317	133,170
Community fitness center	-	14,075	14,075	11,742
FICA	-	429,077	429,077	419,455
IPERS	-	471,844	471,844	407,197
Group health, life, and disability insurance	-	781,549	781,549	721,212
Insurance	-	240,340	240,340	231,385
Total fiscal and administrative service and unassigned expenses	<u>966,333</u>	<u>3,601,938</u>	<u>4,568,271</u>	<u>4,249,128</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>2,114,004</u>	<u>2,114,004</u>	<u>1,970,193</u>
Total expenses	<u>\$5,949,464</u>	<u>\$11,483,053</u>	<u>\$17,432,517</u>	<u>\$16,941,182</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	2012	2011
STAFFED BEDS	25	25
PATIENT DAYS		
Acute	782	920
Swing bed		
Skilled	505	587
Extended	3,627	3,738
DISCHARGES		
Acute	234	280
Swing bed		
Skilled	64	57
Extended	38	42
AVERAGE LENGTH OF STAY		
Acute	3.3	3.3
Swing bed		
Skilled	7.9	10.3
Extended	95.4	89.0
OCCUPANCY PERCENT	53.7%	57.5%
DAILY CENSUS		
Acute	2.1	2.5
Swing bed		
Skilled	1.4	1.6
Extended	9.9	10.2
AMBULANCE: Number of runs	835	739
CARDIAC REHAB: Number of sessions	791	684
EMERGENCY/OUTPATIENT		
Number of emergency visits	4,467	4,051
Number of outpatient visits	15,934	16,709
Total outpatient visits	20,401	20,760
LABORATORY: Number of tests	36,325	34,861
OPERATING PROCEDURES		
Inpatient	6	19
Outpatient	381	419
PHYSICAL THERAPY: Number of treatments	13,694	15,638
DIAGNOSTIC IMAGING: Procedures	6,757	6,569

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

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation as of and for the year ended June 30, 2012, and have issued our report thereon dated September 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarke County Public Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 15, 2012

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

Part II—Findings Related to Required Statutory Reporting

12-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2012.

12-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

12-II-C TRAVEL EXPENSES

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

12-II-D BUSINESS TRANSACTIONS

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

12-II-E BOARD MINUTES

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

12-II-F DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.