

**Keokuk County Health Center
Sigourney, Iowa**

FINANCIAL REPORT

June 30, 2012

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**Keokuk County Health Center
OFFICIALS
June 30, 2012**

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

INTERIM CHIEF EXECUTIVE OFFICER

Matt Ives

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, 2012 and 2011, 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, 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 August 17, 2012 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 17, 2012

**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, 2012 and 2011. 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 \$977,182 to \$15,439,131
- Total noncurrent assets whose use is limited increased by \$1,432,681 to \$4,601,039
- Total property and equipment decreased by \$587,993 to \$7,090,196
- Total fund equity increased by \$775,400 to \$4,559,505
- Total long-term debt decreased by \$200,000 to \$8,960,000
- Net patient service revenue increased by \$1,239,682, or 18%
- Expenses increased by \$940,129, or 13%, to \$8,258,010

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>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 2,590,896	\$ 2,501,802	\$ 2,600,582
Assets whose use is limited	4,601,039	3,168,358	2,262,988
Property and equipment	7,090,196	7,678,189	8,347,034
Other assets	<u>1,157,000</u>	<u>1,113,600</u>	<u>1,150,200</u>
 Total assets	 <u>\$15,439,131</u>	 <u>\$14,461,949</u>	 <u>\$14,360,804</u>
Current liabilities	\$ 1,009,626	\$ 677,884	\$ 721,796
Long-term debt, less current maturities	8,750,000	8,960,000	9,160,000
Other noncurrent liabilities	<u>1,120,000</u>	<u>1,040,000</u>	<u>1,040,000</u>
 Total liabilities	 <u>\$10,879,626</u>	 <u>\$10,677,884</u>	 <u>\$10,921,796</u>
Invested in capital assets, net of related debt	\$ (1,137,739)	\$ (713,146)	\$ (202,068)
Restricted	57,735	57,669	57,252
Unrestricted	<u>5,639,509</u>	<u>4,439,542</u>	<u>3,583,824</u>
 Total fund equity	 <u>\$ 4,559,505</u>	 <u>\$ 3,784,065</u>	 <u>\$ 3,439,008</u>

As depicted in Table 1, total assets increased in fiscal year 2012 to \$15,439,131. The change in total assets is primarily due to an increase in assets whose use is limited resulting from net cash provided by operating activities.

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		
	2012	2011	2010
Net patient service revenue	\$8,277,107	\$7,037,425	\$6,289,057
Other revenue	<u>212,699</u>	<u>151,542</u>	<u>166,982</u>
Total revenue	<u>8,489,806</u>	<u>7,188,967</u>	<u>6,456,039</u>
Salaries	3,997,185	3,303,594	2,940,321
Supplies and expenses	3,464,978	3,236,192	2,988,998
Provision for depreciation	<u>795,847</u>	<u>778,095</u>	<u>758,572</u>
Total expenses	<u>8,258,010</u>	<u>7,317,881</u>	<u>6,687,891</u>
Operating income (loss)	<u>231,796</u>	<u>(128,914)</u>	<u>(231,852)</u>
County taxes	1,040,835	975,325	1,050,443
Investment income	30,279	33,353	81,635
Unrestricted contributions	250	1,143	150
Interest and amortization expense	<u>(527,720)</u>	<u>(535,850)</u>	<u>(563,845)</u>
Total nonoperating gains (losses)	<u>543,644</u>	<u>473,971</u>	<u>568,383</u>
Change in fund equity	775,440	345,057	336,531
Total fund equity, beginning	<u>3,784,065</u>	<u>3,439,008</u>	<u>3,102,477</u>
Total fund equity, ending	<u>\$4,559,505</u>	<u>\$3,784,065</u>	<u>\$3,439,008</u>

Operating and Financial Performance

The following summarizes the Health Center's statements 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 49 compared to 48 in fiscal year 2011. Average length of stay decreased in 2012 as patient days decreased to 123 from 138 in 2011. Swing bed, skilled care discharges for fiscal year 2012 were 45 compared to 52 in fiscal year 2011. Average length of stay increased as patient days decreased to 666 from 765 in 2011. Volume on the outpatient side increased in 2012. In 2012, gross outpatient charges increased to \$6,602,342 compared to \$4,126,233 in 2011.

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 \$7,612,466 from \$5,143,548 in 2011. The Health Center departments experiencing the most significant increase in 2012 were emergency service, laboratory, radiology and clinics.

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 \$(664,641) in 2012 compared to \$(1,893,877) in 2011. This represents an additional 9% and 37% reimbursement over standard gross patient charges for the years ended June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>	<u>2010</u>
Medicare	42%	45%	48%
Medicaid	16	14	10
Commercial insurance	30	29	26
Patients	<u>12</u>	<u>12</u>	<u>16</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$212,699 in 2012 compared to \$151,542 in 2011, primarily due to an increase in rental income, other.

Expenses

Approximately 50% of Health Center's expenses are for salaries. Total salaries increased by 21% to \$3,997,185 in 2012 from \$3,303,594 in 2011. The Health Center departments experiencing the most significant increase in 2012 were emergency service, pharmacy and clinics.

Approximately 40% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$3,464,978 in 2012 from \$3,236,192 in 2011. The most significant increases in 2012 related to clinics, administration and business office, IPERS, and group health and life insurance.

Approximately 10% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$795,847 in 2012 from \$778,095 in 2011.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$543,644 from \$473,971 in 2011, primarily due to increased county taxes.

Property and Equipment

At the end of 2012, the Health Center had \$7,090,196 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, \$207,854 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		
	2012	2011	2010
Land	\$ 6,500	\$ 6,500	\$ 6,500
Land improvements	706,125	706,125	706,125
Building	2,736,117	2,736,117	2,736,117
Fixed equipment	5,590,928	5,687,541	5,619,098
Major movable equipment	<u>2,271,644</u>	<u>2,063,790</u>	<u>2,022,983</u>
Subtotal	11,311,314	11,200,073	11,090,823
Less accumulated depreciation	<u>4,221,118</u>	<u>3,521,884</u>	<u>2,743,789</u>
Property and equipment	<u>\$ 7,090,196</u>	<u>\$ 7,678,189</u>	<u>\$ 8,347,034</u>

Debt Administration

At year end, the Health Center had \$8,960,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2005. This decreased by \$200,000 in fiscal year 2012. 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 80% 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 2012 actual budget basis financial information to its annual County Hospital budget, as amended, is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$1,102,633	\$1,077,019	\$ 25,614
Other revenues/receipts	<u>8,520,335</u>	<u>7,498,700</u>	<u>1,021,635</u>
	9,622,968	8,575,719	1,047,249
Expenses/expenditures	<u>8,422,935</u>	<u>8,311,183</u>	<u>111,752</u>
Net	<u>\$1,200,033</u>	<u>\$ 264,536</u>	<u>\$ 935,497</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 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
- 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	
	2012	2011
CURRENT ASSETS		
Cash	\$ 502,303	\$ 247,247
Assets whose use is limited, required for current liabilities	250,200	241,100
Patient receivables, less allowances for contractual adjustments and bad debts	1,614,625	1,371,953
Other receivables	47,134	29,454
Estimated third-party payor settlements	-	480,000
Inventories	92,891	99,130
Prepaid expenses	83,743	32,918
Total current assets	<u>2,590,896</u>	<u>2,501,802</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,738,944	1,322,855
Certificates of deposit	2,359,495	1,333,869
Restricted for payment of long-term debt and interest		
Certificates of deposit	752,800	752,734
Total assets whose use is limited	<u>4,851,239</u>	<u>3,409,458</u>
Less assets whose use is limited and that are required for current liabilities	250,200	241,100
Non current assets whose use is limited	<u>4,601,039</u>	<u>3,168,358</u>
PROPERTY AND EQUIPMENT	11,311,314	11,200,073
Less accumulated depreciation	4,221,118	3,521,884
Total property and equipment	<u>7,090,196</u>	<u>7,678,189</u>
OTHER ASSETS		
Unamortized financing costs	37,000	73,600
Succeeding year property tax receivable	1,120,000	1,040,000
Total other assets	<u>1,157,000</u>	<u>1,113,600</u>
 Totals	 <u>\$15,439,131</u>	 <u>\$14,461,949</u>

Keokuk County Health Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2012	2011
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2012 \$609,887; 2011 \$435,814	\$8,277,107	\$7,037,425
OTHER REVENUE	<u>212,699</u>	<u>151,542</u>
Total revenue	<u>8,489,806</u>	<u>7,188,967</u>
EXPENSES		
Nursing service	2,734,848	2,639,875
Other professional service	1,903,753	1,528,860
General service	623,815	558,201
Fiscal and administrative service and unassigned expenses	2,199,747	1,812,850
Provision for depreciation	<u>795,847</u>	<u>778,095</u>
Total expenses	<u>8,258,010</u>	<u>7,317,881</u>
Operating income (loss)	<u>231,796</u>	<u>(128,914)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,040,835	975,325
Investment income	30,279	33,353
Unrestricted contributions	250	1,143
Interest and amortization expense	<u>(527,720)</u>	<u>(535,850)</u>
Total nonoperating gains (losses)	<u>543,644</u>	<u>473,971</u>
Change in fund equity	775,440	345,057
TOTAL FUND EQUITY		
Beginning	<u>3,784,065</u>	<u>3,439,008</u>
Ending	<u>\$4,559,505</u>	<u>\$3,784,065</u>

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

	Year ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$8,814,435	\$7,108,307
Cash paid to suppliers for goods and services	(3,485,068)	(3,317,905)
Cash paid to employees for services	(4,016,719)	(3,257,525)
Other operating revenue received	<u>212,699</u>	<u>151,542</u>
Net cash provided by operating activities	<u>1,525,347</u>	<u>684,419</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	1,040,835	975,325
Contributions received	<u>250</u>	<u>1,143</u>
Net cash provided by noncapital financing activities	<u>1,041,085</u>	<u>976,468</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(207,854)	(109,250)
Principal payments on long-term debt	(200,000)	(195,000)
Interest paid on long-term debt	<u>(492,020)</u>	<u>(500,700)</u>
Net cash (used in) capital and related financing activities	<u>(899,874)</u>	<u>(804,950)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	30,279	33,353
Proceeds from maturities of certificates of deposit	2,105,934	1,252,325
Purchase of certificates of deposit	<u>(3,131,626)</u>	<u>(1,036,594)</u>
Net cash provided by (used in) investing activities	<u>(995,413)</u>	<u>249,084</u>
NET INCREASE IN CASH	671,145	1,105,021
CASH		
Beginning	<u>1,570,102</u>	<u>465,081</u>
Ending	<u>\$2,241,247</u>	<u>\$1,570,102</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 231,796	\$ (128,914)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	795,847	778,095
Changes in assets and liabilities		
(Increase) decrease in patient receivables	(242,672)	230,882
(Increase) in other receivables	(17,680)	(17)
(Increase) decrease in estimated third-party payor settlements	780,000	(160,000)
(Increase) decrease in inventories	6,239	(7,077)
(Increase) decrease in prepaid expenses	(50,825)	18,912
(Decrease) in accounts payable	(13,886)	(75,172)
Increase (decrease) in accrued employee compensation	(19,534)	46,069
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>56,062</u>	<u>(18,359)</u>
Net cash provided by operating activities	<u>\$1,525,347</u>	<u>\$ 684,419</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 502,303	\$ 247,247
Assets whose use is limited, designated by board for plant replacement and expansion, cash	<u>1,738,944</u>	<u>1,322,855</u>
Total per statement of cash flows	<u>\$2,241,247</u>	<u>\$1,570,102</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.

Investments and Investment Income

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

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

Investment income is reported as nonoperating gains.

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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, 2012 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>2012</u>	<u>2011</u>
Medicare	\$ 565,544	\$ 437,621
Medicaid	313,732	288,457
Commercial insurance	447,208	318,714
Patients	<u>408,141</u>	<u>347,161</u>
Total patient receivables	1,734,625	1,391,953
Less allowances for contractual adjustments and bad debts	<u>(120,000)</u>	<u>(20,000)</u>
Net patient receivables	<u>\$1,614,625</u>	<u>\$1,371,953</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, 2012:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$ 57,669	\$ 695,065	\$ 752,734
Transfer from current assets, cash	692,086	-	692,086
Principal and interest payments	<u>(692,020)</u>	<u>-</u>	<u>(692,020)</u>
BALANCE , end of year	<u>\$ 57,735</u>	<u>\$ 695,065</u>	<u>\$ 752,800</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	\$ 6,500	\$ -	\$ 6,500	\$ -
Land improvements	706,125	259,088	706,125	210,510
Building	2,736,117	747,655	2,736,117	675,306
Fixed equipment	5,590,928	1,705,490	5,687,541	1,458,662
Major movable equipment	<u>2,271,644</u>	<u>1,508,885</u>	<u>2,063,790</u>	<u>1,177,406</u>
Totals	<u>\$11,311,314</u>	<u>\$4,221,118</u>	<u>\$11,200,073</u>	<u>\$3,521,884</u>

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	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	706,125	-	-	706,125
Building	2,736,117	-	-	2,736,117
Fixed equipment	5,687,541	-	96,613	5,590,928
Major movable equipment	<u>2,063,790</u>	<u>207,854</u>	<u>-</u>	<u>2,271,644</u>
Totals	11,200,073	207,854	96,613	11,311,314
Less accumulated depreciation	<u>(3,521,884)</u>	<u>(795,847)</u>	<u>(96,613)</u>	<u>(4,221,118)</u>
Net property and equipment	<u>\$ 7,678,189</u>	<u>\$ (587,993)</u>	<u>\$ -</u>	<u>\$ 7,090,196</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, 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>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>(3,521,884)</u>
Net property and equipment	<u>\$ 8,347,034</u>	<u>\$ (668,845)</u>	<u>\$ -</u>	<u>\$ 7,678,189</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Hospital Revenue Bonds, Series 2005	\$8,960,000	\$9,160,000
Less current maturities	<u>210,000</u>	<u>200,000</u>
Long-term debt, net of current maturities	<u>\$8,750,000</u>	<u>\$8,960,000</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 4.75% to 5.5%. At June 30, 2012, the remaining balance on these Bonds is \$8,960,000.

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 2013 \$692,820; 2014 \$692,845; 2015 \$692,065; 2016 \$690,565; 2017 \$693,325.

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, 2012.

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, 2012 the remaining principal and interest on the Series 2005 Bonds was \$12,315,015. 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:

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Change in fund equity	\$ 775,440	\$ 345,057
Provision for depreciation	795,847	778,095
Interest expense on the Bonds	<u>491,120</u>	<u>499,250</u>
 Pledged net revenues	 <u>\$2,062,407</u>	 <u>\$1,622,402</u>
 Principal and interest requirements Hospital Revenue Bonds, Series 2005	 <u>\$ 692,020</u>	 <u>\$ 695,700</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>
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	255,000	438,325	693,325
2018-2020	<u>7,805,000</u>	<u>1,048,395</u>	<u>8,853,395</u>
Total	8,960,000	3,355,015	12,315,015
Less current maturities	<u>210,000</u>	<u>482,820</u>	<u>692,820</u>
 Total long-term debt	 <u>\$8,750,000</u>	 <u>\$2,872,195</u>	 <u>\$11,622,195</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>Amount due within one year</u>
Hospital Revenue Bonds, Series 2005	<u>\$9,160,000</u>	<u>\$ _____</u>	<u>\$ 200,000</u>	<u>\$8,960,000</u>	<u>\$ 210,000</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>

**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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Charges foregone, based on established rates	\$ <u>32,563</u>	\$ <u>3,803</u>
Equivalent percentage of charity care patients to all patients served	<u>.4%</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, 2012 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, 2012, regular plan members were required to contribute 5.38% of their annual salary and the Health Center was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$322,573, \$229,600 and \$195,531, 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, 2012, the following is a comparison of reported amounts to the County Hospital budget, as amended:

	<u>GAAP basis</u> <u>General</u> <u>funds</u>	<u>Budget</u> <u>basis</u> <u>adjustments</u>	<u>Budget</u> <u>basis</u>	<u>County</u> <u>Hospital</u> <u>Budget</u>
Amount to be raised by taxation	\$1,040,835	\$ 61,798	\$1,102,633	\$1,077,019
Other revenues/receipts	<u>7,992,615</u>	<u>527,720</u>	<u>8,520,335</u>	<u>7,498,700</u>
	9,033,450	589,518	9,622,968	8,575,719
Expenses/expenditures	<u>8,258,010</u>	<u>164,925</u>	<u>8,422,935</u>	<u>8,311,183</u>
Net	775,440	424,593	1,200,033	264,536
Balance, beginning	<u>3,784,065</u>	<u>1,708,211</u>	<u>5,492,276</u>	<u>5,213,321</u>
Balance, ending	<u>\$4,559,505</u>	<u>\$2,132,804</u>	<u>\$6,692,309</u>	<u>\$5,477,857</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

We have audited the financial statements of Keokuk County Health Center as of and for the periods ended June 30, 2012 and 2011, and our report thereon dated August 17, 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
August 17, 2012

**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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
0 – 30 days (includes patients in Health Center at end of year)	\$ 354,618	\$ 298,766	20.44%	21.46%
31 – 60 days	528,923	298,627	30.49	21.45
61 – 90 days	236,541	112,994	13.64	8.12
91 – 120 days	169,721	74,881	9.79	5.38
Over 120 days	<u>444,822</u>	<u>606,685</u>	<u>25.64</u>	<u>43.59</u>
Totals	<u>1,734,625</u>	<u>1,391,953</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(200,000)	(220,000)		
Medicaid	(60,000)	(60,000)		
Other	100,000	60,000		
Bad debts	<u>280,000</u>	<u>240,000</u>		
Total allowances	<u>120,000</u>	<u>20,000</u>		
Totals	<u>\$1,614,625</u>	<u>\$1,371,953</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 22,615</u>	<u>\$ 19,281</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>71</u>	<u>71</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	\$ 240,000	\$ 280,000		
ADD				
Provision for bad debts	609,887	435,814	7.37%	6.19%
Recoveries of accounts previously written off	<u>38,332</u>	<u>32,840</u>	.46	.47
	888,219	748,654		
DEDUCT				
Accounts written off	<u>608,219</u>	<u>508,654</u>	7.35	7.23
BALANCE , ending	<u>\$ 280,000</u>	<u>\$ 240,000</u>		

Keokuk County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2012, with comparative totals for 2011

	2012			2011
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 78,228	\$ -	\$ 78,228	\$ 83,074
Skilled care	340,145	-	340,145	417,186
Intermediate care	<u>221,456</u>	<u>-</u>	<u>221,456</u>	<u>230,809</u>
	<u>639,829</u>	<u>-</u>	<u>639,829</u>	<u>731,069</u>
OTHER NURSING SERVICES				
Observation room	-	131,615	131,615	72,460
Emergency service	5,720	1,921,233	1,926,953	1,106,742
Special procedures	-	1,331	1,331	9,218
Central supply	42,402	35,915	78,317	61,854
Ambulance	<u>-</u>	<u>864,175</u>	<u>864,175</u>	<u>816,628</u>
	<u>48,122</u>	<u>2,954,269</u>	<u>3,002,391</u>	<u>2,066,902</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	108,254	1,485,479	1,593,733	737,280
Radiology	21,537	1,009,738	1,031,275	564,978
Electrocardiology	3,891	63,027	66,918	48,687
Pharmacy	158,635	194,863	353,498	318,013
Occupational therapy	-	-	-	17,390
Speech therapy	4,362	30,854	35,216	6,833
Physical therapy	58,057	503,325	561,382	430,945
Cardiac rehabilitation	-	32,016	32,016	37,261
Clinics	<u>-</u>	<u>328,771</u>	<u>328,771</u>	<u>187,993</u>
	<u>354,736</u>	<u>3,648,073</u>	<u>4,002,809</u>	<u>2,349,380</u>
Totals	<u>\$1,042,687</u>	<u>\$6,602,342</u>	7,645,029	5,147,351
Charity care charges foregone, based on established rates			<u>(32,563)</u>	<u>(3,803)</u>
Total gross patient service revenue			7,612,466	5,143,548
Provisions for contractual adjustments and bad debts			<u>664,641</u>	<u>1,893,877</u>
Total net patient service revenue			<u>\$8,277,107</u>	<u>\$7,037,425</u>

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

	Year ended June 30	
	2012	2011
Contractual adjustments		
Medicare	\$(1,664,112)	\$(2,547,827)
Medicaid	(341,814)	(140,868)
Other adjustments	731,398	359,004
Provision for bad debts	609,887	435,814
Totals	\$ (664,641)	\$ (1,893,877)

OTHER REVENUE

	Year ended June 30	
	2012	2011
Rental income		
Medical clinic	\$ 43,454	\$ 54,835
Other	57,808	3,650
Miscellaneous	111,437	93,057
Totals	\$ 212,699	\$ 151,542

Keokuk County Health Center
EXPENSES
Year ended June 30, 2012, with comparative totals for 2011

	2012			2011
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	\$ 97,995	\$ 4,110	\$ 102,105	\$ 89,103
Adult and pediatric	1,022,441	67,541	1,089,982	1,193,793
Emergency service	640,601	515,986	1,156,587	826,752
Special procedures	-	4,751	4,751	18,932
Central supply	54,913	282	55,195	76,908
Ambulance	<u>253,641</u>	<u>72,587</u>	<u>326,228</u>	<u>434,387</u>
Total nursing service	<u>2,069,591</u>	<u>665,257</u>	<u>2,734,848</u>	<u>2,639,875</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	213,589	198,196	411,785	378,109
Radiology	144,911	109,685	254,596	262,392
Electrocardiology	-	90	90	33
Pharmacy	93,994	154,914	248,908	227,197
Occupational therapy	-	3,215	3,215	10,969
Speech therapy	-	28,522	28,522	5,265
Physical therapy	221,352	7,415	228,767	233,387
Cardiac rehabilitation	30,566	21,094	51,660	63,003
Clinics	312,557	190,024	502,581	189,581
Medical records	<u>164,412</u>	<u>9,217</u>	<u>173,629</u>	<u>158,924</u>
Total other professional service	<u>1,181,381</u>	<u>722,372</u>	<u>1,903,753</u>	<u>1,528,860</u>
GENERAL SERVICE				
Dietary	151,430	70,172	221,602	191,354
Plant operation	36,736	243,622	280,358	273,877
Housekeeping	58,615	14,574	73,189	62,477
Laundry	<u>37,194</u>	<u>11,472</u>	<u>48,666</u>	<u>30,493</u>
Total general service	<u>283,975</u>	<u>339,840</u>	<u>623,815</u>	<u>558,201</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration and business office	462,238	532,192	994,430	840,012
FICA	-	227,264	227,264	221,787
IPERS	-	322,573	322,573	229,600
Group health and life insurance	-	492,201	492,201	413,823
Insurance	<u>-</u>	<u>163,279</u>	<u>163,279</u>	<u>107,628</u>
Total fiscal and administrative service and unassigned expenses	<u>462,238</u>	<u>1,737,509</u>	<u>2,199,747</u>	<u>1,812,850</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>795,847</u>	<u>795,847</u>	<u>778,095</u>
Total expenses	<u>\$3,997,185</u>	<u>\$4,260,825</u>	<u>\$8,258,010</u>	<u>\$7,317,881</u>

**Keokuk County Health Center
STATISTICS**

	Year ended June 30	
	2012	2011
PATIENT DAYS		
Adult and pediatric	123	138
Swing bed		
Skilled care	666	765
Intermediate care	1,720	1,468
Totals	2,509	2,371
DISCHARGES		
Adult and pediatric	49	48
Swing bed		
Skilled care	45	52
Intermediate care	14	23
Totals	108	123
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.51	2.88
Swing bed		
Skilled care	14.80	14.71
Intermediate care	122.86	63.83

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, 2012, and have issued our report thereon dated August 17, 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 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, 2012 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 17, 2012

**Keokuk County Health Center
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.

**Keokuk County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

Part II—Findings Related to Required Statutory Reporting

12-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, as amended, for the year ended June 30, 2012.

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 additional amendment.

Conclusion

Response accepted.

12-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

12-II-C TRAVEL EXPENSES

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

12-II-D BUSINESS TRANSACTIONS

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