

**Keokuk County Health Center
Sigourney, Iowa**

FINANCIAL REPORT

June 30, 2013

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**Keokuk County Health Center
OFFICIALS
June 30, 2013**

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, 2018
December 31, 2018

ADMINISTRATOR/CFO

Matt Ives

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Keokuk County Health Center
Sigourney, Iowa

We have audited the accompanying financial statements of Keokuk County Health Center, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013, on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 20, 2013

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, 2013 and 2012. 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 net position. 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 \$1,083,555 to \$16,522,686
- Total noncurrent assets whose use is limited increased by \$933,748 to \$5,534,787
- Total property and equipment decreased by \$542,501 to \$6,547,695
- Total net position increased by \$2,652,675 to \$7,212,180
- Total long-term debt, including current maturities, decreased by \$2,210,000 to \$6,750,000
- Net patient service revenue increased by \$1,898,661, or 23%, to \$10,175,768
- Operating expenses increased by \$133,356, or 2%, to \$8,391,366

Financial Analysis of the Health Center

The balance sheets and the statements of revenues, expenses, and changes in net position report the net position of the Health Center and the changes in them. The Health Center's net position, 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 net position 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		
	2013	2012	2011
Current assets	\$ 3,280,204	\$ 2,590,896	\$ 2,501,802
Assets whose use is limited	5,534,787	4,601,039	3,168,358
Property and equipment	6,547,695	7,090,196	7,678,189
Other assets	<u>1,160,000</u>	<u>1,157,000</u>	<u>1,113,600</u>
 Total assets	 <u>\$16,522,686</u>	 <u>\$15,439,131</u>	 <u>\$14,461,949</u>
Current liabilities	\$ 1,620,506	\$ 1,009,626	\$ 677,884
Long-term debt, less current maturities	6,530,000	8,750,000	8,960,000
Other noncurrent liabilities	<u>1,160,000</u>	<u>1,120,000</u>	<u>1,040,000</u>
 Total liabilities	 <u>\$ 9,310,506</u>	 <u>\$10,879,626</u>	 <u>\$10,677,884</u>
Net investment in capital assets	\$ 493,393	\$ (1,137,739)	\$ (713,146)
Restricted	48,570	57,735	57,669
Unrestricted	<u>6,670,217</u>	<u>5,639,509</u>	<u>4,439,542</u>
 Total net position	 <u>\$ 7,212,180</u>	 <u>\$ 4,559,505</u>	 <u>\$ 3,784,065</u>

As depicted in Table 1, total assets increased in fiscal year 2013 to \$16,522,686. 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 net position is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year ended June 30		
	2013	2012	2011
Net patient service revenue	\$10,175,768	\$8,277,107	\$7,037,425
Other revenue	<u>207,841</u>	<u>212,699</u>	<u>151,542</u>
Total revenue	<u>10,383,609</u>	<u>8,489,806</u>	<u>7,188,967</u>
Salaries	4,265,970	3,997,185	3,303,594
Supplies and expenses	3,303,336	3,464,978	3,236,192
Provision for depreciation	<u>822,060</u>	<u>795,847</u>	<u>778,095</u>
Total operating expenses	<u>8,391,366</u>	<u>8,258,010</u>	<u>7,317,881</u>
Operating income (loss)	<u>1,992,243</u>	<u>231,796</u>	<u>(128,914)</u>
County taxes	1,140,134	1,040,835	975,325
Investment income	28,759	30,279	33,353
Unrestricted contributions	1,359	250	1,143
Interest and amortization expense	<u>(509,820)</u>	<u>(527,720)</u>	<u>(535,850)</u>
Total nonoperating gains (losses)	<u>660,432</u>	<u>543,644</u>	<u>473,971</u>
Change in net position	2,652,675	775,440	345,057
Total net position, beginning	<u>4,559,505</u>	<u>3,784,065</u>	<u>3,439,008</u>
Total net position, ending	<u>\$ 7,212,180</u>	<u>\$4,559,505</u>	<u>\$3,784,065</u>

Operating and Financial Performance

The following summarizes the Health Center's statements of revenues, expenses and changes in net position between June 30, 2013 and 2012.

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

Volume: Acute discharges for fiscal year 2013 were 72 compared to 49 in fiscal year 2012. Average length of stay increased slightly in 2013 as patient days increased to 183 from 123 in 2012. Swing bed, skilled care discharges for fiscal year 2013 were 48 compared to 45 in fiscal year 2012. Average length of stay increased as patient days increased to 1,142 from 666 in 2012. Volume on the outpatient side increased in 2013. In 2013, gross outpatient charges increased to \$7,222,777 compared to \$6,602,342 in 2012.

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 \$8,629,623 from \$7,612,466 in 2012. The Health Center departments experiencing the most significant increase in 2013 were skilled care, special procedures, ambulance, laboratory and radiology.

Payor Mix: The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts decreased to \$(1,546,145) in 2013 compared to \$(664,641) in 2012. This represents an additional 18% and 9% reimbursement over standard gross patient charges for the years ended June 30, 2013 and 2012, 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>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	41%	42%	45%
Medicaid	15	16	14
Commercial insurance	31	30	29
Patients	<u>13</u>	<u>12</u>	<u>12</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased slightly to \$207,841 in 2013 compared to \$212,699 in 2012.

Expenses

Approximately 50% of Health Center's expenses are for salaries. Total salaries increased by 7% to \$4,265,970 in 2013 from \$3,997,185 in 2012. The Health Center departments experiencing the most significant increase in 2013 were emergency service and clinics.

Approximately 40% of Health Center's expenses are for supplies and expenses. Total supplies and expenses decreased by 5% to \$3,303,336 in 2013 from \$3,464,978 in 2012. The most significant increases in 2013 related to adult and pediatric and IPERS.

Approximately 10% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$822,060 in 2013 from \$795,847 in 2012.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$660,432 from \$543,644 in 2012, primarily due to increased county taxes.

Property and Equipment

At the end of 2013, the Health Center had \$6,547,695 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 2013, \$279,559 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		
	2013	2012	2011
Land	\$ 6,500	\$ 6,500	\$ 6,500
Land improvements	730,145	706,125	706,125
Building	2,736,117	2,736,117	2,736,117
Fixed equipment	5,590,928	5,590,928	5,687,541
Major movable equipment	<u>2,527,183</u>	<u>2,271,644</u>	<u>2,063,790</u>
Subtotal	11,590,873	11,311,314	11,200,073
Less accumulated depreciation	<u>5,043,178</u>	<u>4,221,118</u>	<u>3,521,884</u>
Property and equipment	<u>\$ 6,547,695</u>	<u>\$ 7,090,196</u>	<u>\$ 7,678,189</u>

Debt Administration

At year end, the Health Center had \$6,750,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2005. This decreased by \$2,210,000 in fiscal year 2013. 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 70% 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 2013 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	\$ 1,204,982	\$ 1,154,215	\$ 50,767
Other revenues/receipts	<u>10,413,727</u>	<u>8,622,787</u>	<u>1,790,940</u>
	11,618,709	9,777,002	1,841,707
Expenses/expenditures	<u>10,588,001</u>	<u>11,302,817</u>	<u>(714,816)</u>
Net	<u>\$ 1,030,708</u>	<u>\$ (1,525,815)</u>	<u>\$2,556,523</u>

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

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2014 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: Administrator/CFO, Keokuk County Health Center, 23019 Highway 149, Sigourney, Iowa 52591.

**Keokuk County Health Center
BALANCE SHEETS**

ASSETS	June 30	
	2013	2012
CURRENT ASSETS		
Cash	\$ 996,826	\$ 502,303
Assets whose use is limited, required for current liabilities	250,200	250,200
Patient receivables, less allowances for contractual adjustments and bad debts	1,884,598	1,614,625
Other receivables	34,049	47,134
Inventories	99,990	92,891
Prepaid expenses	<u>14,541</u>	<u>83,743</u>
Total current assets	<u>3,280,204</u>	<u>2,590,896</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion, cash and cash equivalents	5,040,719	4,098,439
Restricted for payment of long-term debt and interest, cash and cash equivalents	<u>744,268</u>	<u>752,800</u>
Total assets whose use is limited	5,784,987	4,851,239
Less assets whose use is limited and that are required for current liabilities	<u>250,200</u>	<u>250,200</u>
Non current assets whose use is limited	<u>5,534,787</u>	<u>4,601,039</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	11,590,873	11,311,314
Total property and equipment	<u>5,043,178</u>	<u>4,221,118</u>
	<u>6,547,695</u>	<u>7,090,196</u>
OTHER ASSETS		
Unamortized financing costs	-	37,000
Succeeding year property tax receivable	<u>1,160,000</u>	<u>1,120,000</u>
Total other assets	<u>1,160,000</u>	<u>1,157,000</u>
 Totals	 <u>\$16,522,686</u>	 <u>\$15,439,131</u>

Keokuk County Health Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30	
	2013	2012
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2013 \$700,094; 2012 \$609,887	\$10,175,768	\$8,277,107
OTHER REVENUE	<u>207,841</u>	<u>212,699</u>
Total revenue	<u>10,383,609</u>	<u>8,489,806</u>
EXPENSES		
Nursing service	2,933,917	2,734,848
Other professional service	2,024,915	1,903,753
General service	606,416	623,815
Fiscal and administrative service and unassigned expenses	2,004,058	2,199,747
Provision for depreciation	<u>822,060</u>	<u>795,847</u>
Total operating expenses	<u>8,391,366</u>	<u>8,258,010</u>
Operating income	<u>1,992,243</u>	<u>231,796</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,140,134	1,040,835
Investment income	28,759	30,279
Unrestricted contributions	1,359	250
Interest and amortization expense	<u>(509,820)</u>	<u>(527,720)</u>
Total nonoperating gains (losses)	<u>660,432</u>	<u>543,644</u>
Change in net position	2,652,675	775,440
TOTAL NET POSITION		
Beginning	<u>4,559,505</u>	<u>3,784,065</u>
Ending	<u>\$ 7,212,180</u>	<u>\$4,559,505</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$10,405,795	\$8,814,435
Cash paid to suppliers for goods and services	(3,215,511)	(3,485,068)
Cash paid to employees for services	(4,167,727)	(4,016,719)
Other operating revenue received	<u>207,841</u>	<u>212,699</u>
Net cash and cash equivalents provided by operating activities	<u>3,230,398</u>	<u>1,525,347</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	1,140,134	1,040,835
Contributions received	<u>1,359</u>	<u>250</u>
Net cash and cash equivalents provided by noncapital financing activities	<u>1,141,493</u>	<u>1,041,085</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(279,559)	(207,854)
Principal payments on long-term debt	(2,210,000)	(200,000)
Interest paid on long-term debt	<u>(482,820)</u>	<u>(492,020)</u>
Net cash and cash equivalents (used in) capital and related financing activities	<u>(2,972,379)</u>	<u>(899,874)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>28,759</u>	<u>30,279</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,428,271	1,696,837
CASH AND CASH EQUIVALENTS		
Beginning	<u>5,353,542</u>	<u>3,656,705</u>
Ending	<u>\$ 6,781,813</u>	<u>\$5,353,542</u>

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

	Year ended June 30	
	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$1,992,243	\$ 231,796
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities		
Depreciation	822,060	795,847
Changes in assets and liabilities		
(Increase) in patient receivables	(269,973)	(242,672)
(Increase) decrease in other receivables	13,085	(17,680)
Decrease in estimated third-party payor settlements	500,000	780,000
(Increase) decrease in inventories	(7,099)	6,239
(Increase) decrease in prepaid expenses	69,202	(50,825)
Increase (decrease) in accounts payable	33,435	(13,886)
Increase (decrease) in accrued employee compensation	98,243	(19,534)
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(20,798)</u>	<u>56,062</u>
Net cash and cash equivalents provided by operating activities	<u>\$3,230,398</u>	<u>\$1,525,347</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 996,826	\$ 502,303
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash and cash equivalents	5,040,719	4,098,439
Restricted for payment of long-term debt and interest, cash and cash equivalents	<u>744,268</u>	<u>752,800</u>
Total per statement of cash flows	<u>\$6,781,813</u>	<u>\$5,353,542</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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all certificates of deposit.

Inventories

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

Property and Equipment

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Receivable

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

Deferred Revenue For Succeeding Year Property Tax Receivable

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

Net Position

Net position is presented in the following three components:

Net investment in capital assets

Net investment in capital assets 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 net position 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 net position 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 Net Position

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.

Investment Income

The Health Center has nonnegotiable certificates of deposit recorded 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.

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 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.

Reclassifications

Certain amounts have been reclassified in the 2012 financial statements in order to conform with the 2013 presentation, with no effect on the change in net position.

NOTE 2 CASH AND CASH EQUIVALENTS

The Health Center's deposits in banks at June 30, 2013 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.

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

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>2013</u>	<u>2012</u>
Medicare	\$ 685,927	\$ 565,544
Medicaid	265,819	313,732
Commercial insurance	591,795	447,208
Patients	<u>481,057</u>	<u>408,141</u>
Total patient receivables	2,024,598	1,734,625
Less allowances for contractual adjustments and bad debts	<u>(140,000)</u>	<u>(120,000)</u>
Net patient receivables	<u>\$1,884,598</u>	<u>\$1,614,625</u>

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, 2013:

	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Balance, beginning of year	\$ 57,735	\$ 695,065	\$ 752,800
Transfer from current assets, cash	2,683,655	633	2,684,288
Principal and interest payments	<u>(2,692,820)</u>	<u>—</u>	<u>(2,692,820)</u>
Balance, end of year	<u>\$ 48,570</u>	<u>\$ 695,698</u>	<u>\$ 744,268</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2013</u>		<u>June 30, 2012</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 6,500	\$ —	\$ 6,500	\$ —
Land improvements	730,145	307,954	706,125	259,088
Building	2,736,117	852,948	2,736,117	747,655
Fixed equipment	5,590,928	2,039,457	5,590,928	1,705,490
Major movable equipment	<u>2,527,183</u>	<u>1,842,819</u>	<u>2,271,644</u>	<u>1,508,885</u>
Totals	<u>\$11,590,873</u>	<u>\$5,043,178</u>	<u>\$11,311,314</u>	<u>\$4,221,118</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, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 6,500	\$ -	\$ -	\$ 6,500
Land improvements	706,125	24,020	-	730,145
Building	2,736,117	-	-	2,736,117
Fixed equipment	5,590,928	-	-	5,590,928
Major movable equipment	<u>2,271,644</u>	<u>255,539</u>	-	<u>2,527,183</u>
Totals	11,311,314	279,559	-	11,590,873
Less accumulated depreciation	<u>(4,221,118)</u>	<u>(822,060)</u>	-	<u>(5,043,178)</u>
Net property and equipment	<u>\$ 7,090,196</u>	<u>\$ (542,501)</u>	<u>\$ -</u>	<u>\$ 6,547,695</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>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>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Hospital Revenue Bonds, Series 2005	\$6,750,000	\$8,960,000
Less current maturities	<u>220,000</u>	<u>210,000</u>
Long-term debt, net of current maturities	<u>\$6,530,000</u>	<u>\$8,750,000</u>

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

NOTE 6 LONG-TERM DEBT (continued)

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 4.9% to 5.5%. At June 30, 2013, the remaining balance on these Bonds is \$6,750,000.

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

A Reserve Fund in an amount of \$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 2014 \$582,845; 2015 \$582,065; 2016 \$580,565; 2017 \$583,325; 2018 \$585,065.

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, 2013.

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.

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, 2013 the remaining principal and interest on the Series 2005 Bonds was \$8,852,195. 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, 2013 and 2012:

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Change in net position	\$2,652,675	\$ 775,440
Provision for depreciation	822,060	795,847
Interest expense on the Bonds	<u>472,820</u>	<u>491,120</u>
Pledged net revenues	<u>\$3,947,555</u>	<u>\$2,062,407</u>
Principal and interest requirements		
Hospital Revenue Bonds, Series 2005	<u>\$ 692,820</u>	<u>\$ 692,020</u>

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

NOTE 6 LONG-TERM DEBT (continued)

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 220,000	\$ 362,845	\$ 582,845
2015	230,000	352,065	582,065
2016	240,000	340,565	580,565
2017	255,000	328,325	583,325
2018	270,000	315,065	585,065
2019-2020	<u>5,535,000</u>	<u>403,330</u>	<u>5,938,330</u>
Total	6,750,000	2,102,195	8,852,195
Less current maturities	<u>220,000</u>	<u>362,845</u>	<u>582,845</u>
Total long-term debt	<u>\$6,530,000</u>	<u>\$1,739,350</u>	<u>\$8,269,350</u>

A summary of changes in long-term debt for the year ended June 30, 2013 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	\$8,960,000	\$ —	\$2,210,000	\$6,750,000	\$ 220,000

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	\$9,160,000	\$ —	\$ 200,000	\$8,960,000	\$ 210,000

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, 2011.

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

NOTE 7 NET PATIENT SERVICE REVENUE (continued)

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, 2013 and 2012.

	2013	2012
Charges foregone, based on established rates	\$ <u>12,122</u>	\$ <u>32,563</u>
Equivalent percentage of charity care patients to all patients served	<u>.1%</u>	<u>.4%</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, 2013 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.

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, 2013, regular plan members were required to contribute 5.78% of their annual salary and the Health Center was required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$350,973, \$322,573 and \$229,600, respectively, equal to the required contributions for each year.

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

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, 2013, the following is a comparison of reported amounts to the County Hospital budget, as amended:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 1,140,134	\$ 64,848	\$ 1,204,982	\$ 1,154,215
Other revenues/receipts	<u>9,903,907</u>	<u>509,820</u>	<u>10,413,727</u>	<u>8,622,787</u>
	11,044,041	574,668	11,618,709	9,777,002
Expenses/expenditures	<u>8,391,366</u>	<u>2,196,635</u>	<u>10,588,001</u>	<u>11,302,817</u>
Net	2,652,675	(1,621,967)	1,030,708	(1,525,815)
Balance, beginning	<u>4,559,505</u>	<u>1,080,004</u>	<u>5,639,509</u>	<u>6,291,979</u>
Balance, ending	<u>\$ 7,212,180</u>	<u>\$ (541,963)</u>	<u>\$ 6,670,217</u>	<u>\$ 4,766,164</u>

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS

The Health Center has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions. An actuarial valuation has been performed and the other post employment benefit has been judged by management to be immaterial to the financial statements.

NOTE 13 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 years ended June 30, 2013 and 2012, and have issued our report thereon dated September 20, 2013, which contained an unmodified opinion on those financial statements. Our audits were performed 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 20, 2013

**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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
0 – 30 days (includes patients in Health Center at end of year)	\$ 363,860	\$ 354,618	17.97%	20.44%
31 – 60 days	698,368	528,923	34.49	30.49
61 – 90 days	400,596	236,541	19.79	13.64
91 – 120 days	152,799	169,721	7.55	9.79
Over 120 days	<u>408,975</u>	<u>444,822</u>	<u>20.20</u>	<u>25.64</u>
Totals	<u>2,024,598</u>	<u>1,734,625</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	(220,000)	(200,000)		
Medicaid	(80,000)	(60,000)		
Other	80,000	100,000		
Bad debts	<u>360,000</u>	<u>280,000</u>		
Total allowances	<u>140,000</u>	<u>120,000</u>		
Totals	<u>\$1,884,598</u>	<u>\$1,614,625</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 27,879</u>	<u>\$ 22,615</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>68</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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
BALANCE, beginning	\$ 280,000	\$ 240,000		
ADD				
Provision for bad debts	700,094	609,887	6.88%	7.37%
Recoveries of accounts previously written off	<u>47,563</u>	<u>38,332</u>	.47	.46
	1,027,657	888,219		
DEDUCT				
Accounts written off	<u>667,657</u>	<u>608,219</u>	6.56	7.35
BALANCE, ending	<u>\$ 360,000</u>	<u>\$ 280,000</u>		

Keokuk County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2013, with comparative totals for 2012

	2013			2012
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Adult and pediatric	\$ 116,388	\$ -	\$ 116,388	\$ 78,228
Skilled care	582,420	-	582,420	340,145
Intermediate care	<u>256,374</u>	<u>-</u>	<u>256,374</u>	<u>221,456</u>
	<u>955,182</u>	<u>-</u>	<u>955,182</u>	<u>639,829</u>
OTHER NURSING SERVICES				
Observation room	-	168,747	168,747	131,615
Emergency service	3,640	1,859,827	1,863,467	1,926,953
Special procedures	-	124,544	124,544	1,331
Central supply	49,664	35,184	84,848	78,317
Ambulance	<u>-</u>	<u>973,282</u>	<u>973,282</u>	<u>864,175</u>
	<u>53,304</u>	<u>3,161,584</u>	<u>3,214,888</u>	<u>3,002,391</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	118,489	1,605,939	1,724,428	1,593,733
Radiology	32,224	1,171,466	1,203,690	1,031,275
Electrocardiology	2,115	69,138	71,253	66,918
Pharmacy	158,436	195,431	353,867	353,498
Occupational therapy	29,379	15,997	45,376	-
Speech therapy	5,773	30,303	36,076	35,216
Physical therapy	64,066	533,301	597,367	561,382
Cardiac rehabilitation	-	44,576	44,576	32,016
Clinics	<u>-</u>	<u>395,042</u>	<u>395,042</u>	<u>328,771</u>
	<u>410,482</u>	<u>4,061,193</u>	<u>4,471,675</u>	<u>4,002,809</u>
Totals	<u>\$1,418,968</u>	<u>\$7,222,777</u>	8,641,745	7,645,029
Charity care charges foregone, based on established rates			<u>(12,122)</u>	<u>(32,563)</u>
Total gross patient service revenue			8,629,623	7,612,466
Provisions for contractual adjustments and bad debts			<u>1,546,145</u>	<u>664,641</u>
Total net patient service revenue			<u>\$10,175,768</u>	<u>\$8,277,107</u>

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

	Year ended June 30	
	2013	2012
Contractual adjustments		
Medicare	\$(1,091,799)	\$(1,664,112)
Medicaid	(1,907,055)	(341,814)
Other adjustments	752,615	731,398
Provision for bad debts	700,094	609,887
 Totals	 \$(1,546,145)	 \$ (664,641)

OTHER REVENUE

	Year ended June 30	
	2013	2012
Rental income		
Medical clinic	\$ 51,640	\$ 43,454
Other	61,064	57,808
Miscellaneous	95,137	111,437
 Totals	 \$ 207,841	 \$ 212,699

Keokuk County Health Center
EXPENSES
Year ended June 30, 2013, with comparative totals for 2012

	<u>2013</u>			<u>2012</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 187,437	\$ 2,230	\$ 189,667	\$ 102,105
Adult and pediatric	1,043,891	145,696	1,189,587	1,089,982
Emergency service	823,677	391,300	1,214,977	1,156,587
Special procedures	5,105	41,772	46,877	4,751
Central supply	41,607	1,404	43,011	55,195
Ambulance	<u>182,810</u>	<u>66,988</u>	<u>249,798</u>	<u>326,228</u>
Total nursing service	<u>2,284,527</u>	<u>649,390</u>	<u>2,933,917</u>	<u>2,734,848</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	224,838	200,916	425,754	411,785
Radiology	149,074	112,132	261,206	254,596
Electrocardiology	-	5,683	5,683	90
Pharmacy	127,567	123,194	250,761	248,908
Occupational therapy	-	16,444	16,444	3,215
Speech therapy	-	17,803	17,803	28,522
Physical therapy	249,719	12,707	262,426	228,767
Cardiac rehabilitation	34,771	5,253	40,024	51,660
Clinics	398,236	169,197	567,433	502,581
Medical records	<u>168,513</u>	<u>8,868</u>	<u>177,381</u>	<u>173,629</u>
Total other professional service	<u>1,352,718</u>	<u>672,197</u>	<u>2,024,915</u>	<u>1,903,753</u>
GENERAL SERVICE				
Dietary	144,056	86,430	230,486	221,602
Plant operation	37,533	215,746	253,279	280,358
Housekeeping	60,162	12,182	72,344	73,189
Laundry	<u>40,690</u>	<u>9,617</u>	<u>50,307</u>	<u>48,666</u>
Total general service	<u>282,441</u>	<u>323,975</u>	<u>606,416</u>	<u>623,815</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration and business office	346,284	407,579	753,863	994,430
FICA	-	216,166	216,166	227,264
IPERS	-	350,973	350,973	322,573
Group health and life insurance	-	513,997	513,997	492,201
Insurance	<u>-</u>	<u>169,059</u>	<u>169,059</u>	<u>163,279</u>
Total fiscal and administrative service and unassigned expenses	<u>346,284</u>	<u>1,657,774</u>	<u>2,004,058</u>	<u>2,199,747</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>822,060</u>	<u>822,060</u>	<u>795,847</u>
Total expenses	<u>\$4,265,970</u>	<u>\$4,125,396</u>	<u>\$8,391,366</u>	<u>\$8,258,010</u>

**Keokuk County Health Center
STATISTICS**

	Year ended June 30	
	2013	2012
PATIENT DAYS		
Adult and pediatric	183	123
Swing bed		
Skilled care	1,142	666
Intermediate care	1,775	1,720
Totals	3,100	2,509
DISCHARGES		
Adult and pediatric	72	49
Swing bed		
Skilled care	48	45
Intermediate care	15	14
Totals	135	108
AVERAGE LENGTH OF STAY		
Adult and pediatric	2.54	2.51
Swing bed		
Skilled care	23.79	14.80
Intermediate care	118.33	122.86

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, in accordance with the 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, the financial statements of Keokuk County Health Center, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting, internal control, to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

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 that a material misstatement of the Health Center's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2013 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 20, 2013

**Keokuk County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2013**

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, 2013**

Part II—Findings Related to Required Statutory Reporting

13-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Health Center did not exceed its budget, as amended, for the year ended June 30, 2013.

13-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

13-II-C TRAVEL EXPENSES

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

13-II-D BUSINESS TRANSACTIONS

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

13-II-E BOARD MINUTES

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

13-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.