

**Lucas County Health Center
Chariton, Iowa**

FINANCIAL REPORT

June 30, 2013

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Lucas County Health Center
OFFICIALS
June 30, 2013

BOARD OF TRUSTEES

Expiration of term

Officers

Betty Hansen, Chairperson
Natalie McGee, Vice Chairperson
Randy Westman, Secretary
Sue Frazier, Treasurer

December 31, 2018
December 31, 2016
December 31, 2014
December 31, 2018

Members

Raymond Meyer
Mike Miller
Denise Storm

December 31, 2016
December 31, 2018
December 31, 2014

CHIEF EXECUTIVE OFFICER

Veronica Fuhs

CHIEF FINANCIAL OFFICER

Larry Brown

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the accompanying financial statements of Lucas 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 entity'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 entity'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 Lucas 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 6-10, 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 October 22, 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
October 22, 2013

Lucas County Health Center MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Lucas 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 of the Health Center 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 decreased by \$1,107,844, or 10%, to \$10,450,985
- Noncurrent assets whose use is limited increased by \$131,911 to \$277,313
- Total property and equipment decreased by \$796,102 to \$5,727,442
- Total net position decreased by \$1,075,761 to \$6,165,833
- Net patient service revenue increased by \$290,767, or 2%, to \$15,014,944
- Total operating expenses increased by \$389,923, or 2%, to \$18,021,027

Financial Analysis of the Health Center

The balance sheet and the statement 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, are 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	\$ 3,261,230	\$ 3,839,883	\$ 4,123,210
Noncurrent assets whose use is limited	277,313	145,402	325,863
Property and equipment	5,727,442	6,523,544	7,303,134
Other asset	<u>1,185,000</u>	<u>1,050,000</u>	<u>845,962</u>
Total assets	<u>\$10,450,985</u>	<u>\$11,558,829</u>	<u>\$12,598,169</u>
Current liabilities	\$ 2,058,398	\$ 2,148,959	\$ 2,149,710
Long-term debt, less current maturities	1,041,754	1,118,276	1,424,299
Other noncurrent liabilities	<u>1,185,000</u>	<u>1,050,000</u>	<u>845,962</u>
Total liabilities	<u>\$ 4,285,152</u>	<u>\$ 4,317,235</u>	<u>\$ 4,419,971</u>
Net investment in capital assets	\$ 4,429,854	\$ 5,105,008	\$ 5,502,541
Restricted	102,085	100,464	194,993
Unrestricted	<u>1,633,894</u>	<u>2,036,122</u>	<u>2,480,664</u>
Total net position	<u>\$ 6,165,833</u>	<u>\$ 7,241,594</u>	<u>\$ 8,178,198</u>

As depicted in Table 1, total assets decreased in fiscal year 2013 to \$10,450,985. The change in total assets was primarily due to a decrease in total property and equipment as a result of provision for depreciation in excess of additions to property and equipment.

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	\$15,014,944	\$14,724,177	\$13,326,584
Other revenue	708,509	964,489	749,860
Total revenue	<u>15,723,453</u>	<u>15,688,666</u>	<u>14,076,444</u>
Salaries	8,627,979	8,347,983	6,571,056
Supplies and expenses	8,373,451	8,204,383	7,866,603
Provision for depreciation	1,019,597	1,078,738	1,152,139
Total operating expenses	<u>18,021,027</u>	<u>17,631,104</u>	<u>15,589,798</u>
Operating (loss)	<u>(2,297,574)</u>	<u>(1,942,438)</u>	<u>(1,513,354)</u>
County taxes	1,056,660	847,752	684,090
Investment income	18,281	37,303	28,620
Unrestricted contributions	222,582	190,071	172,468
Gain (loss) on disposal of assets	(11,593)	764	(8,588)
Interest expense	<u>(64,117)</u>	<u>(70,056)</u>	<u>(91,595)</u>
Total nonoperating gains (losses)	<u>1,221,813</u>	<u>1,005,834</u>	<u>784,995</u>
Change in net position	(1,075,761)	(936,604)	(728,359)
Total net position, beginning	<u>7,241,594</u>	<u>8,178,198</u>	<u>8,906,557</u>
Total net position, ending	<u>\$ 6,165,833</u>	<u>\$ 7,241,594</u>	<u>\$ 8,178,198</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 344 compared to 359 in fiscal year 2012. Average length of stay was 3.44 for fiscal year 2013 compared to 3.04 in fiscal year 2012 as acute patient days increased to 1,185 from 1,090 in 2012. Swing bed discharges for fiscal year 2013 were 63 compared to 61 in fiscal year 2012. Swing bed average length of stay increased and patient days increased to 622 from 439 in 2012. Volume on the outpatient side indicated positive growth in 2013. In 2013, gross outpatient charges increased to \$21,062,352 compared to \$20,738,218 in 2012. Medical and surgical, laboratory and LCHC Medical Clinic reflected the most significant increases in 2013.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2013. Overall, gross patient service revenue increased to \$25,482,748 from \$24,477,580 in 2012.

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 were \$10,467,804 in 2013 compared to \$9,753,403 in 2012, representing 41% and 40% of gross patient charges, 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	46%	44%	46%
Medicaid	14	16	15
Commercial insurance	36	36	35
Patients	<u>4</u>	<u>4</u>	<u>4</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$708,509 in 2013 compared to \$964,489 in 2012 primarily due to a decrease in electronic health records meaningful use incentive revenue.

Expenses

Approximately 48% of Health Center's expenses are for salaries. Total salaries increased by 3% to \$8,627,979 in 2013 from \$8,347,983 in 2012. The Health Center departments experiencing the most significant increase in 2013 were emergency service and LCHC Medical Clinic.

Approximately 46% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 2% to \$8,373,451 in 2013 from \$8,204,383 in 2012. The Health Center departments experiencing the most significant increase in 2013 were laboratory, pharmacy and group health, life and other benefits.

Approximately 6% of Health Center's expenses relate to provision for depreciation. The provision for depreciation decreased to \$1,019,597 in 2013 from \$1,078,738 in 2012.

Nonoperating Gains

Nonoperating gains increased to \$1,221,813 in 2013 from \$1,005,834 in 2012 due primarily to an increase in county taxes.

Property and Equipment

At the end of 2013, the Health Center had \$5,727,442 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, \$260,939 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	\$ 83,861	\$ 83,861	\$ 83,861
Land improvements	786,692	786,692	786,692
Building and improvements	8,402,479	8,402,479	8,402,479
Major movable equipment	<u>11,077,641</u>	<u>11,086,994</u>	<u>11,762,825</u>
Subtotal	20,350,673	20,360,026	21,035,857
Less accumulated depreciation	<u>(14,623,231)</u>	<u>(13,836,482)</u>	<u>(13,732,723)</u>
Property and equipment	<u>\$ 5,727,442</u>	<u>\$ 6,523,544</u>	<u>\$ 7,303,134</u>

Debt Administration

At year end, the Health Center had \$1,297,588 in current and long-term debt. This has decreased by \$120,948, which was the required amount of principal payments of \$326,791, net of new debt issued in the amount of \$205,843 during fiscal year 2013. More detailed information about the Health Center's outstanding debt is presented in the Notes to Financial Statements. Note that the total long-term debt represents approximately 30% 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 the 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 County Hospital budget is presented in Table 5.

Table 5
Actual vs Budget

	Actual budget basis	County Hospital budget	Variance
Amount to be raised by taxation	\$ 1,056,660	\$ 1,020,031	\$ 36,629
Other revenues/receipts	<u>16,094,449</u>	<u>17,245,818</u>	<u>(1,151,369)</u>
	17,151,109	18,265,849	(1,114,740)
Expenses/expenditures	<u>17,589,160</u>	<u>19,177,523</u>	<u>(1,588,363)</u>
Net	<u>\$ (438,051)</u>	<u>\$ (911,674)</u>	<u>\$ 473,623</u>

Actual other revenues/receipts results were lower than County Hospital budget due to lower net patient service revenue than expected. Expenses/expenditures were lower than County Hospital budget due to less equipment purchases.

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
- Facility expansion and 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 Lucas County Health Center at (641) 774-3000 or write care of: Chief Financial Officer, Lucas County Health Center, 1200 N. Seventh Street, Chariton, Iowa 50049.

**Lucas County Health Center
BALANCE SHEETS**

ASSETS	June 30	
	2013	2012
CURRENT ASSETS		
Cash	\$ 366,632	\$ 501,188
Assets whose use is limited-required for current liabilities	86,506	86,213
Patient receivables, less allowances for contractual adjustments and bad debts	2,060,771	2,164,325
Other receivables	66,240	149,118
Estimated third-party payor settlements	151,000	380,000
Inventories	219,895	220,494
Prepaid expenses	<u>310,186</u>	<u>338,545</u>
Total current assets	<u>3,261,230</u>	<u>3,839,883</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	175,228	44,938
Restricted for payment of long-term debt and interest		
Cash	<u>188,591</u>	<u>186,677</u>
Total assets whose use is limited	363,819	231,615
Less assets whose use is limited and that are required for current liabilities	<u>86,506</u>	<u>86,213</u>
Noncurrent assets whose use is limited	<u>277,313</u>	<u>145,402</u>
PROPERTY AND EQUIPMENT	20,350,673	20,360,026
Less accumulated depreciation	<u>14,623,231</u>	<u>13,836,482</u>
Total property and equipment	<u>5,727,442</u>	<u>6,523,544</u>
OTHER ASSET		
Succeeding year property tax receivable	<u>1,185,000</u>	<u>1,050,000</u>
Totals	<u>\$10,450,985</u>	<u>\$11,558,829</u>

See Notes to Financial Statements.

Lucas 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 \$726,604; 2012 \$741,183	\$15,014,944	\$14,724,177
OTHER REVENUE	<u>708,509</u>	<u>964,489</u>
Total revenue	<u>15,723,453</u>	<u>15,688,666</u>
OPERATING EXPENSES		
Nursing service	4,110,191	3,930,471
Other professional service	6,346,969	6,011,295
General service	1,307,277	1,375,858
Fiscal and administrative service and unassigned expenses	5,236,993	5,234,742
Provision for depreciation	<u>1,019,597</u>	<u>1,078,738</u>
Total operating expenses	<u>18,021,027</u>	<u>17,631,104</u>
Operating (loss)	<u>(2,297,574)</u>	<u>(1,942,438)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,056,660	847,752
Investment income	18,281	37,303
Unrestricted contributions	222,582	190,071
Gain (loss) on disposal of equipment	(11,593)	764
Interest expense	<u>(64,117)</u>	<u>(70,056)</u>
Total nonoperating gains (losses)	<u>1,221,813</u>	<u>1,005,834</u>
Change in net position	<u>(1,075,761)</u>	<u>(936,604)</u>
TOTAL NET POSITION		
Beginning	<u>7,241,594</u>	<u>8,178,198</u>
Ending	<u>\$ 6,165,833</u>	<u>\$ 7,241,594</u>

**Lucas 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	\$15,486,498	\$14,176,357
Cash paid to suppliers for goods and services	(8,454,532)	(8,171,326)
Cash paid to employees for services	(8,617,672)	(8,215,382)
Other operating revenue received	<u>708,509</u>	<u>964,489</u>
Net cash (used in) operating activities	<u>(877,197)</u>	<u>(1,245,862)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	1,056,660	847,752
Unrestricted contributions received	<u>222,582</u>	<u>190,071</u>
Net cash provided by noncapital financing activities	<u>1,279,242</u>	<u>1,037,823</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(260,939)	(303,382)
Proceeds from sale of equipment	25,851	4,998
Interest paid on long-term debt	(66,642)	(76,257)
Proceeds from issuance of long-term debt	205,843	-
Principal payments on long-term debt	<u>(326,791)</u>	<u>(382,057)</u>
Net cash (used in) capital and related financing activities	<u>(422,678)</u>	<u>(756,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>18,281</u>	<u>37,303</u>
Net cash provided by investing activities	<u>18,281</u>	<u>37,303</u>
NET (DECREASE) IN CASH	(2,352)	(927,434)
CASH		
Beginning	<u>732,803</u>	<u>1,660,237</u>
Ending	<u>\$ 730,451</u>	<u>\$ 732,803</u>

See Notes to Financial Statements.

Lucas County Health Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2013	2012
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$(2,297,574)	\$(1,942,438)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation	1,019,597	1,078,738
Changes in assets and liabilities		
Patient receivables	103,554	12,180
Other receivables	82,878	(90,995)
Estimated third-party payor settlements, net	368,000	(560,000)
Inventories	599	(5,690)
Prepaid expenses	28,359	859
Accounts payable	(192,015)	85,455
Accrued employee compensation	10,307	132,601
Payroll taxes and amounts withheld from employees	<u>(902)</u>	<u>43,428</u>
Net cash (used in) operating activities	<u>\$ (877,197)</u>	<u>\$ (1,245,862)</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 366,632	\$ 501,188
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	175,228	44,938
Restricted for payment of long-term debt and interest, cash	<u>188,591</u>	<u>186,677</u>
Total per statement of cash flows	<u>\$ 730,451</u>	<u>\$ 732,803</u>

See Notes to Financial Statements.

Lucas 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 Lucas County, Iowa. The Health Center is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Inventories

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

Property and Equipment

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

Succeeding Year Property Tax Receivable

Succeeding year 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 the 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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and donors, 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.

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

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.

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.

Credit Policy

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Estimates and Assumptions

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

NOTE 2 CASH

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 and common stocks.

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>2013</u>	<u>2012</u>
Medicare	\$ 899,663	\$ 898,004
Medicaid	370,089	616,453
Commercial insurance	1,263,632	1,192,838
Patients	<u>954,387</u>	<u>971,030</u>
Total patient receivables	3,487,771	3,678,325
Less allowances for contractual adjustments and bad debts	<u>(1,427,000)</u>	<u>(1,514,000)</u>
Net patient receivables	<u>\$2,060,771</u>	<u>\$2,164,325</u>

**Lucas 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, 2013:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 85,343	\$ 101,334	\$ 186,677
Transfer from current assets, cash	102,296	-	102,296
Interest earned	139	751	890
Principal and interest payments	<u>(101,272)</u>	<u>-</u>	<u>(101,272)</u>
BALANCE , end of year	<u>\$ 86,506</u>	<u>\$ 102,085</u>	<u>\$ 188,591</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	\$ 83,861	\$ -	\$ 83,861	\$ -
Land improvements	786,692	446,387	786,692	408,813
Building and improvements	8,402,479	5,106,289	8,402,479	4,777,107
Major movable equipment	<u>11,077,641</u>	<u>9,070,555</u>	<u>11,086,994</u>	<u>8,650,562</u>
Totals	<u>\$20,350,673</u>	<u>\$14,623,231</u>	<u>\$20,360,026</u>	<u>\$13,836,482</u>

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	\$ 83,861	\$ -	\$ -	\$ 83,861
Land improvements	786,692	-	-	786,692
Building and improvements	8,402,479	-	-	8,402,479
Major movable equipment	<u>11,086,994</u>	<u>260,939</u>	<u>(270,292)</u>	<u>11,077,641</u>
Totals	<u>20,360,026</u>	<u>260,939</u>	<u>(270,292)</u>	<u>20,350,673</u>
Less accumulated depreciation	<u>(13,836,482)</u>	<u>(1,019,597)</u>	<u>232,848</u>	<u>(14,623,231)</u>
Net property and equipment	<u>\$ 6,523,544</u>	<u>\$ (758,658)</u>	<u>\$ (37,444)</u>	<u>\$ 5,727,442</u>

**Lucas 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, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 83,861	\$ -	\$ -	\$ 83,861
Land improvements	786,692	-	-	786,692
Building and improvements	8,402,479	-	-	8,402,479
Major movable equipment	<u>11,762,825</u>	<u>303,382</u>	<u>(979,213)</u>	<u>11,086,994</u>
Totals	21,035,857	303,382	(979,213)	20,360,026
Less accumulated depreciation	<u>(13,732,723)</u>	<u>(1,078,738)</u>	<u>974,979</u>	<u>(13,836,482)</u>
Net property and equipment	<u>\$ 7,303,134</u>	<u>\$ (775,356)</u>	<u>\$ (4,234)</u>	<u>\$ 6,523,544</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 Note, Series 1991B	\$ 224,406	\$ 263,147
USDA Rural Economic and Community Development Mortgage Note, Series 1994A	698,234	715,414
Notes payable, equipment	<u>374,948</u>	<u>439,975</u>
Total	1,297,588	1,418,536
Less current maturities	<u>255,834</u>	<u>300,260</u>
Long-term debt, net of current maturities	<u>\$1,041,754</u>	<u>\$1,118,276</u>

Hospital Revenue Note, Series 1991B

The Health Center issued Hospital Revenue Note, Series 1991B in the original amount of \$700,000. The Note is payable solely from future revenues of the Health Center and is due in equal annual installments of \$51,898 payable each July through 2017, including interest of 5%. At June 30, 2013, the remaining balance on the Note was \$224,406.

The Hospital Revenue Note, Series 1991B requires certain funds be maintained as follows:

A Reserve Fund in an amount equal to \$51,960.

A Sinking Fund requiring monthly deposits in an amount equal to 1/12 of the next annual principal and interest payment. Deposits are to be made from the general funds of the Health Center.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Note at June 30, 2013.

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

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

NOTE 6 LONG-TERM DEBT (continued)

As to the above Revenue Note, Series 1991B, the Health Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Note was issued to finance capital improvements of the Health Center. The net revenues are pledged through July, 2017. As of June 30, 2013 the remaining principal and interest on the Series 1991B Note was \$259,186. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Series 1991A and 1991B Notes 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	\$(1,075,761)	\$ (936,604)
Provision for depreciation	1,019,597	1,078,738
Interest expense on the Notes	<u>11,190</u>	<u>14,582</u>
 Pledged net revenues	 \$ <u>(44,974)</u>	 \$ <u>156,716</u>
 Principal and interest requirements		
Hospital Revenue Note, Series 1991A, paid in full as of June 30, 2012	\$ -	\$ 63,104
Hospital Revenue Note, Series 1991B	<u>51,898</u>	<u>51,898</u>
 Totals	 \$ <u>51,898</u>	 \$ <u>115,002</u>

USDA Rural Economic and Community Development Mortgage Note, Series 1994A

The Health Center has a USDA Rural Economic and Community Development Mortgage Note, Series 1994A in the original amount of \$900,000 to finance the construction of a medical office building adjacent to the Health Center. The Note is secured by a mortgage and is due in equal annual installments of \$49,374 payable each November through 2035, including interest of 4.5%. At June 30, 2013, the remaining balance on the Note was \$698,234.

The USDA Rural Economic and Community Development Mortgage Note, Series 1994A requires certain funds be maintained as follows:

A Reserve Fund in an amount equal to \$49,374.

A Sinking Fund requiring monthly deposits in an amount equal to 1/12 of the next annual principal and interest payment. Deposits are to be made from the general funds of the Health Center.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Note at June 30, 2013.

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

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

NOTE 6 LONG-TERM DEBT (continued)

Notes Payable, Equipment

The Health Center has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$4,399, including interest at 4.185%, with the final payment due July, 2013. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2013, the remaining balance on this note was \$4,383.

The Health Center has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$11,979, including interest at 4.75%, with the final payment due September, 2014. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2013, the remaining balance on this note was \$174,760.

The Health Center has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$4,151, including interest at 3.55%, with the final payment due November, 2013. The note is collateralized by the assets of the Health Center. At June 30, 2013, the remaining balance on this note was \$16,436.

The Health Center has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,776, including interest at 2.78%, with the final payment due August, 2017. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2013, the remaining balance on this note was \$82,184.

The Health Center has a fifth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$2,058, including interest at 5.99%, with the final payment due January, 2018. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2013, the remaining balance on this note was \$97,185.

Aggregate maturities required on the above Notes are as follows:

<u>Year ending June 30</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 255,834	\$ 54,977	\$ 310,811
2015	135,453	45,862	181,315
2016	106,511	40,769	147,280
2017	111,547	35,732	147,279
2018	88,190	30,735	118,925
2019-2023	122,351	124,519	246,870
2024-2028	152,471	94,399	246,870
2029-2033	190,006	56,864	246,870
2034-2036	<u>135,225</u>	<u>12,345</u>	<u>147,570</u>
Total	1,297,588	496,202	1,793,790
Less current maturities	<u>255,834</u>	<u>54,977</u>	<u>310,811</u>
Total long-term debt	<u>\$1,041,754</u>	<u>\$ 441,225</u>	<u>\$1,482,979</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>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Revenue Note, Series 1991B	\$ 263,147	\$ —	\$ 38,741	\$ 224,406	\$ 40,667
Mortgage Note, Series 1994A	715,414	—	17,180	698,234	17,947
Notes payable, equipment	<u>439,975</u>	<u>205,843</u>	<u>270,870</u>	<u>374,948</u>	<u>197,220</u>
Totals	<u>\$1,418,536</u>	<u>\$ 205,843</u>	<u>\$ 326,791</u>	<u>\$1,297,588</u>	<u>\$ 255,834</u>

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

NOTE 6 LONG-TERM DEBT (continued)

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Revenue Note, Series 1991A	\$ 61,729	\$ -	\$ 61,729	\$ -	\$ -
Revenue Note, Series 1991B	300,043	-	36,896	263,147	38,853
Mortgage Note, Series 1994A	731,855	-	16,441	715,414	17,174
Notes payable, equipment	<u>706,966</u>	<u>-</u>	<u>266,991</u>	<u>439,975</u>	<u>244,233</u>
Totals	<u>\$1,800,593</u>	<u>\$ -</u>	<u>\$ 382,057</u>	<u>\$1,418,536</u>	<u>\$ 300,260</u>

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 the year ended June 30, 2012. The Health Center's Medicaid cost reports have been audited by Iowa Medicaid Enterprise, IME, through the year ended June 30, 2011. Following a routine medical review in 2009, IME has determined that outpatient services provided to five patients were incorrectly paid by IME. IME has subsequently recovered those payments, however it is possible IME may seek recovery of payments made on behalf of other patients under similar circumstances. As of the date of this report, the Health Center is appealing the ruling by IME and is unable to estimate the range of possible loss, if any, as a result of an unfavorable outcome.

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 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 \$718,904, \$680,125 and \$461,307, respectively, equal to the required contributions for each year.

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

NOTE 9 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>128,743</u>	\$ <u>189,414</u>
Equivalent percentage of charity care patients to all patients served	<u>.5%</u>	<u>.8%</u>

NOTE 10 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.

Presently, no claims alleging malpractice have been asserted against the Health Center. However, incidents occurring through June 30, 2013 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget for all funds following required public notice and hearings. 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 basis and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and principal payments are recorded on the County Hospital budget basis.

The following is a comparison of reported amounts to the County Hospital budget:

	GAAP basis	Budget basis adjustments	Budget basis	County Hospital Budget
Amount to be raised by taxation	\$ 1,056,660	\$ —	\$ 1,056,660	\$ 1,020,031
Other revenues/receipts	<u>15,888,606</u>	<u>205,843</u>	<u>16,094,449</u>	<u>17,245,818</u>
	16,945,266	205,843	17,151,109	18,265,849
Expenses/expenditures	<u>18,021,027</u>	<u>(431,867)</u>	<u>17,589,160</u>	<u>19,177,523</u>
Net	(1,075,761)	637,710	(438,051)	(911,674)
Balance, beginning	<u>7,241,594</u>	<u>(5,323,398)</u>	<u>1,918,196</u>	<u>2,137,045</u>
Balance, ending	<u>\$ 6,165,833</u>	<u>\$ (4,685,688)</u>	<u>\$ 1,480,145</u>	<u>\$ 1,225,371</u>

Lucas County Health Center
NOTES TO FINANCIAL STATEMENTS

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.

NOTE 13 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 other post employment benefits have been judged by management to be immaterial to the financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the financial statements of Lucas County Health Center as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 22, 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 subject 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
October 22, 2013

**Lucas 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)	\$1,598,231	\$1,653,315	45.82%	44.95%
31 - 60 days	581,460	489,623	16.67	13.31
61 - 90 days	340,572	290,183	9.76	7.89
91 - 120 days	252,215	221,676	7.23	6.03
Over 120 days	<u>715,293</u>	<u>1,023,528</u>	<u>20.52</u>	<u>27.82</u>
Totals	<u>3,487,771</u>	<u>3,678,325</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	408,000	398,000		
Medicaid	161,000	273,000		
Other	403,000	375,000		
Bad debts	<u>455,000</u>	<u>468,000</u>		
Total allowances	<u>1,427,000</u>	<u>1,514,000</u>		
Totals	<u>\$2,060,771</u>	<u>\$2,164,325</u>		
GROSS PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 69,816</u>	<u>\$ 66,879</u>		
NUMBER OF DAYS GROSS PATIENT SERVICE REVENUE IN GROSS PATIENT RECEIVABLES	<u>50</u>	<u>55</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	\$ 468,000	\$ 522,000		
ADD				
Provision for bad debts	726,604	741,183	4.84%	5.03%
Recoveries of accounts previously written off	<u>178,219</u>	<u>123,978</u>	1.19	0.84
	1,372,823	1,387,161		
DEDUCT				
Accounts written off	<u>917,823</u>	<u>919,161</u>	6.11	6.24
BALANCE , ending	<u>\$ 455,000</u>	<u>\$ 468,000</u>		

Lucas 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				
Medical and surgical	\$ 1,675,340	\$ 228,310	\$ 1,903,650	\$ 1,567,601
Obstetrics	170,800	-	170,800	155,610
Nursery	100,266	-	100,266	84,067
	<u>1,946,406</u>	<u>228,310</u>	<u>2,174,716</u>	<u>1,807,278</u>
OTHER NURSING SERVICES				
Operating room	323,621	1,712,876	2,036,497	2,153,991
Labor and delivery	152,400	49,776	202,176	162,053
Central supply	61,959	391,400	453,359	518,897
Emergency service	17,955	2,462,308	2,480,263	2,534,368
Ambulance	-	852,995	852,995	662,091
	<u>555,935</u>	<u>5,469,355</u>	<u>6,025,290</u>	<u>6,031,400</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	383,520	2,731,054	3,114,574	2,831,584
Radiology	360,313	5,103,264	5,463,577	5,404,426
Pharmacy	664,398	1,250,435	1,914,833	1,947,948
Anesthesiology	188,644	597,692	786,336	847,554
Respiratory therapy	266,805	199,902	466,707	441,236
EKG/EEG	23,408	140,761	164,169	152,619
Cardiac and pulmonary rehabilitation	1,428	195,875	197,303	197,402
Physical therapy	102,580	639,075	741,655	768,271
Speech therapy	7,432	7,488	14,920	23,247
Occupational therapy	29,454	101,711	131,165	68,883
Diabetic education	-	118	118	92
Wound treatment	-	164,812	164,812	297,162
Behavioral health service	18,816	1,155,341	1,174,157	1,035,239
Infusion therapy	-	160,781	160,781	121,035
LCHC Medical Clinic	-	2,724,425	2,724,425	2,407,298
Humeston clinic	-	179,932	179,932	164,106
Specialty clinics	-	12,021	12,021	120,214
	<u>2,046,798</u>	<u>15,364,687</u>	<u>17,411,485</u>	<u>16,828,316</u>
Totals	<u>\$ 4,549,139</u>	<u>\$21,062,352</u>	25,611,491	24,666,994
Charity care charges foregone, based on established rates			<u>(128,743)</u>	<u>(189,414)</u>
Total gross patient service revenue			25,482,748	24,477,580
Provisions for contractual adjustments and bad debts			<u>(10,467,804)</u>	<u>(9,753,403)</u>
Total net patient service revenue			<u>\$15,014,944</u>	<u>\$14,724,177</u>

Lucas County Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
Contractual adjustments		
Medicare	\$ 5,120,636	\$4,402,509
Medicaid	1,318,387	1,525,880
Other adjustments	3,302,177	3,083,831
Provision for bad debts	<u>726,604</u>	<u>741,183</u>
 Totals	 <u>\$10,467,804</u>	 <u>\$9,753,403</u>

OTHER REVENUE

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
Day care	\$ 376,545	\$ 334,629
Electronic health records meaningful use incentive revenue	-	303,492
Rental income	178,159	162,067
Cafeteria	84,832	85,551
Medical records	2,437	2,171
Lifeline	39,287	35,331
Miscellaneous	<u>27,249</u>	<u>41,248</u>
 Totals	 <u>\$ 708,509</u>	 <u>\$ 964,489</u>

Lucas 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	\$ 103,689	\$ 3,776	\$ 107,465	\$ 108,297
Medical, surgical and obstetrics	976,969	136,980	1,113,949	1,049,664
Nursery	24,532	6,544	31,076	27,688
Operating room	251,299	306,360	557,659	577,877
Labor and delivery	188,083	61,326	249,409	189,749
Central supply	64,662	188,912	253,574	275,322
Emergency service	1,108,578	520,658	1,629,236	1,533,423
Ambulance	<u>132,852</u>	<u>34,971</u>	<u>167,823</u>	<u>168,451</u>
Total nursing service	<u>2,850,664</u>	<u>1,259,527</u>	<u>4,110,191</u>	<u>3,930,471</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	280,458	408,833	689,291	641,360
Radiology	268,989	705,398	974,387	939,083
Pharmacy	163,607	506,676	670,283	606,227
Anesthesiology	-	445,417	445,417	454,921
Respiratory therapy	85,652	38,275	123,927	143,154
EKG/EEG	9,803	444	10,247	8,374
Cardiac and pulmonary rehabilitation	64,065	8,783	72,848	71,887
Physical therapy	194,137	38,945	233,082	263,196
Speech therapy	-	9,277	9,277	18,550
Occupational therapy	-	32,791	32,791	17,931
Wound treatment	80,328	10,990	91,318	97,356
Behavioral health service	452,921	67,694	520,615	515,839
Infusion therapy	65,340	3,920	69,260	70,313
LCHC Medical Clinic	1,789,906	340,063	2,129,969	1,896,272
Humeston clinic	208,177	51,976	260,153	245,192
Specialty clinics	13,462	642	14,104	21,621
Diabetic education	-	-	-	19
Total other professional service	<u>3,676,845</u>	<u>2,670,124</u>	<u>6,346,969</u>	<u>6,011,295</u>
GENERAL SERVICE				
Dietary	163,533	118,188	281,721	277,062
Plant services	204,071	549,388	753,459	833,639
Environmental services	204,854	37,477	242,331	236,073
Laundry	<u>20,892</u>	<u>8,874</u>	<u>29,766</u>	<u>29,084</u>
Total general service	<u>593,350</u>	<u>713,927</u>	<u>1,307,277</u>	<u>1,375,858</u>
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative services	666,203	834,892	1,501,095	1,614,964
Business office	244,600	133,249	377,849	382,174
Medical office building and clinics	81,673	35,901	117,574	117,888
Medical records	145,287	57,267	202,554	208,664
Vreedenburg Center	12,716	134,406	147,122	167,182
Day care	356,641	46,291	402,932	388,829

**Lucas County Health Center
EXPENSES (continued)
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>
UNASSIGNED EXPENSES				
FICA	\$ —	\$ 575,832	\$ 575,832	\$ 564,207
IPERS	—	718,904	718,904	680,125
Group health, life and other benefits	—	939,239	939,239	861,154
Workers compensation insurance	—	94,446	94,446	108,976
Insurance	—	159,446	159,446	140,579
Total fiscal and administrative service and unassigned expenses	<u>1,507,120</u>	<u>3,729,873</u>	<u>5,236,993</u>	<u>5,234,742</u>
PROVISION FOR DEPRECIATION	—	1,019,597	1,019,597	1,078,738
Total expenses	<u>\$8,627,979</u>	<u>\$9,393,048</u>	<u>\$18,021,027</u>	<u>\$17,631,104</u>

**Lucas County Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
PATIENT DAYS		
Acute	1,185	1,090
Swing bed	622	439
Nursery	<u>119</u>	<u>106</u>
Totals	<u>1,926</u>	<u>1,635</u>
DISCHARGES		
Acute	344	359
Swing bed	63	61
Nursery	<u>59</u>	<u>55</u>
Totals	<u>466</u>	<u>475</u>
AVERAGE LENGTH OF STAY		
Acute	3.44	3.04
Swing bed	9.87	7.20
Nursery	2.02	1.93

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
Lucas County Health Center
Chariton, 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 Lucas 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 October 22, 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
October 22, 2013

**Lucas 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.

**Lucas 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 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.