

**LUCAS COUNTY HEALTH CENTER
AND AFFILIATE
CHARITON, IOWA**

FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

LUCAS COUNTY HEALTH CENTER AND AFFILIATE

Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES, BOARD OF DIRECTORS, AND HEALTH CENTER OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-5
COMBINED BASIC FINANCIAL STATEMENTS	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Combined Financial Statements	10-22
SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Supplementary Information	23
Combining Balance Sheet	24
Combining Statement of Revenues, Expenses, and Changes in Net Assets Schedules	25
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis) – Health Center	26
Net Patient Service Revenue – Health Center	27
Other Operating Revenues – Health Center	28
Operating Expenses – Health Center	29-32
Patient Receivables and Allowance for Doubtful Accounts – Health Center	33
Supplies/Prepaid Expenses – Health Center	34
Statistical Information	35
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING	36-37
SCHEDULE OF FINDINGS	38

**LUCAS COUNTY HEALTH CENTER AND AFFILIATE
BOARD OF TRUSTEES, BOARD OF DIRECTORS, AND HEALTH CENTER OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lucas County Health Center		
<u>Board of Trustees</u>		
Corliss Klaassen	Chairperson	January 1, 2007
David M. Miller (Mike)	Vice Chairperson	January 1, 2007
Raymond Meyer	Treasurer	January 1, 2005
Sheila Laing	Secretary	January 1, 2007
Fred Housman	Member	January 1, 2005
Roger Struve	Member	January 1, 2009
Rick Runyon	Member	January 1, 2009

Lucas County Health Center Foundation

<u>Board of Directors</u>		
Dan Minkoff	President	
David M. Miller (Mike)	Chairperson	
Raymond Meyer	Vice Chairperson	
Cathy Reece	Secretary	
Sheila Laing	Treasurer	
Dan Kent	Member	
Jennifer Snook-Hall	Member	
Larry Hirschy	Member	
Teressa Lynch	Member	
Vicki Chia	Member	
Mike Cruzen	Member	

Lucas County Health Center

<u>Health Center Officials</u>		
Dan Minkoff	Chief Executive Officer	
Margaret Coons	Controller	



Consultants • Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the accompanying combined balance sheets of **Lucas County Health Center and Affiliate** as of June 30, 2004 and 2003, and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the management of **Lucas County Health Center and Affiliate**. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of **Lucas County Health Center and Affiliate** as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, effective July 1, 2003, **Lucas County Health Center and Affiliate**, adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. As a result, the Health Center changed its accounting policy related to financial statement presentation to comply with the provisions of GASB Statements No. 34 and No. 37. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2004, on our consideration of **Lucas County Health Center and Affiliate's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on page 26 are not required parts of the basic combined financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Erin Bailey LLP

Dubuque, Iowa
July 28, 2004

Lucas County Health Center Management's Discussion and Analysis June 30, 2004

As management of the Lucas County Health Center (LCHC), a political subdivision of Lucas County, Iowa, this narrative overview and analysis of financial activity is presented for the readers' consideration along with the audited financial statements provided herein.

Financial Highlights

- LCHC's net assets were \$5,654,968 at June 30, 2004, up 13.7% over the prior year.
- LCHC recorded revenues and gains in excess of expenses and losses of \$679,865 for the fiscal year ending on June 30, 2004.
- 42 days cash on hand from short-term sources were reported at June 30, 2004.
- 56 days charges in gross accounts receivable were reported at June 30, 2004.
- LCHC had 1,946 acute patient days in fiscal year 2004, an increase of 5.1% from 2003.
- LCHC had 590 swing-bed patient days in fiscal year 2004, a decrease of 24.3% from 2003.
- LCHC had 18,333 outpatient admissions in fiscal year 2004, an increase of 17.9% from 2003.

Overview of the Financial Statements

The audited financial statements from Eide Bailly, LLP include the Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, Statements of Cash Flows, Notes to Financial Statements, and Supplementary Information.

The Balance Sheet at June 30, 2004 indicates total assets of \$9,877,342, total liabilities of \$4,222,374, and net assets of \$5,654,968. Total current assets were \$3,455,916, and total current liabilities were \$2,281,264, for a current ratio of 1.52.

The Statement of Revenues, Expenses, and Changes in Net Assets indicate total operating revenues of \$10,679,074, and total operating expenses of \$10,610,958 for an operating gain of \$68,116. A net nonoperating gain of \$596,749 bring the total revenues and gains in excess of expenses and losses to \$664,865 for fiscal year 2004. Net assets increased from \$4,975,103 to \$5,654,968.

As reported in the Statement of Cash Flows, cash and cash equivalents increased from \$399,482 at July 1, 2003 to \$885,253 at June 30, 2004. The net increase in cash and cash equivalents of \$485,771 came from cash provided from operating activities of \$1,080,785 offset by cash used for financing activities of \$498,950 and investing activities of \$96,064.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. The reader is encouraged to examine these notes for a better understanding of the accompanying financial statements.

The supplementary information and schedules provide the reader with much more detail than is disclosed in the Statements of Revenues, Expenses, and Changes in Net Assets. The revenues are detailed by department and by patient status, and also compared with the previous year. The expenses are detailed by department and by natural expense classification, and also compared to the previous year.

Significant Budget Variations

The most significant budget variance was total revenues of \$11,400,410 compared to a budget of \$11,244,245. The variance was generally due to volume increases for health center outpatient services. A positive variance was also noted in total expenses of \$33,551, mostly due to lower staffing requirements than expected and related benefit costs.

Capital Assets and Debt Administration

LCHC's capital assets as of June 30, 2004, amounted to \$5,811,323 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

At year-end, LCHC had total long-term debt outstanding of \$2,138,639 with current maturities of \$197,529. Long-term debt is more fully detailed and explained in a note in the Notes to Financial Statements section of this report.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the attention of the Controller, 1200 N. 7th Street, Chariton, IA 50049.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED BALANCE SHEETS
JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 992,675	\$ 497,263
Assets limited as to use	32,916	32,916
Receivables		
Patient, net of estimated uncollectibles of \$751,000 in 2004 and \$659,000 in 2003	1,506,052	1,548,450
Succeeding year property tax receivable	688,848	688,848
Estimated third-party payor settlements	-	30,000
Other	109,222	94,331
Supplies	154,277	122,857
Prepaid expenses	<u>64,904</u>	<u>99,035</u>
 Total current assets	 <u>3,548,894</u>	 <u>3,113,700</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 3		
Investments		
By board for property and equipment	300,798	163,586
Bond trust fund	<u>340,141</u>	<u>333,728</u>
	640,939	497,314
Less amount required to meet current obligation	<u>(32,916)</u>	<u>(32,916)</u>
 Total assets limited as to use or restricted, excluding current portion	 <u>608,023</u>	 <u>464,398</u>
PROPERTY AND EQUIPMENT - Note 4		
Land and land improvements	361,088	356,888
Building and improvements	7,180,720	7,053,770
Equipment	7,482,742	7,313,947
Construction-in-progress	<u>-</u>	<u>3,013</u>
	15,024,550	14,727,618
Less accumulated depreciation	<u>(8,094,035)</u>	<u>(7,982,474)</u>
 Net property and equipment	 <u>6,930,515</u>	 <u>6,745,144</u>
OTHER ASSETS		
	<u>2,080</u>	<u>32,182</u>
 Total assets	 <u>\$ 11,089,512</u>	 <u>\$ 10,355,424</u>

See notes to combined financial statements.

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 197,529	\$ 188,158
Accounts payable		
Trade	525,781	579,585
Estimated third-party payor settlements	277,000	-
Accrued expenses		
Salaries and wages	234,711	203,792
Paid time off	231,854	214,879
Payroll taxes and other payroll withholdings	64,888	66,306
Interest	22,853	23,125
Deferred revenue for succeeding year property tax receivable	688,848	688,848
Other	<u>103,836</u>	<u>111,531</u>
Total current liabilities	2,347,300	2,076,224
LONG-TERM DEBT, less current maturities - Note 6	<u>1,941,110</u>	<u>2,139,187</u>
Total liabilities	<u>4,288,410</u>	<u>4,215,411</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,791,876	4,606,505
Unrestricted	1,989,372	1,513,228
Restricted		
For physician education	50	-
For capital acquisitions and specific operating activities	<u>19,804</u>	<u>20,280</u>
Total net assets	<u>6,801,102</u>	<u>6,140,013</u>
Total liabilities and net assets	<u>\$ 11,089,512</u>	<u>\$ 10,355,424</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$299,707 in 2004 and \$240,634 in 2003) - Note 2	\$ 9,920,876	\$ 9,467,299
Other operating revenues	<u>863,278</u>	<u>835,717</u>
TOTAL OPERATING REVENUES	<u>10,784,154</u>	<u>10,303,016</u>
OPERATING EXPENSES		
Salaries and wages	4,712,770	4,565,631
Employee benefits	1,088,273	1,009,365
Supplies and other expenses	4,275,720	4,430,264
Depreciation	<u>727,463</u>	<u>682,861</u>
TOTAL OPERATING EXPENSES	<u>10,804,226</u>	<u>10,688,121</u>
LOSS FROM OPERATIONS	<u>(20,072)</u>	<u>(385,105)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	678,641	703,877
Loss on disposal of capital assets	(23,293)	(11,517)
Interest expense	(109,587)	(119,075)
Noncapital grants and contributions	79,114	350
Investment income - Note 3	<u>17,886</u>	<u>11,139</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>642,761</u>	<u>584,774</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	622,689	199,669
Capital grants and contributions	<u>38,400</u>	<u>16,078</u>
INCREASE IN NET ASSETS	661,089	215,747
NET ASSETS BEGINNING OF YEAR	<u>6,140,013</u>	<u>5,924,266</u>
NET ASSETS END OF YEAR	<u>\$ 6,801,102</u>	<u>\$ 6,140,013</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 10,270,274	\$ 9,243,698
Other receipts	846,362	802,255
Payments of salaries and wages	(4,673,989)	(4,552,701)
Payments of employee benefits	(1,088,273)	(1,009,365)
Payments of supplies and other expenses	<u>(4,326,813)</u>	<u>(4,487,944)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>1,027,561</u>	<u>(4,057)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	680,666	701,384
Noncapital grants and contributions	<u>79,114</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>759,780</u>	<u>701,384</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(936,127)	(318,260)
Proceeds from sale of assets	-	5,000
Capital grants and contributions revenue received	38,400	16,078
Principal paid on debt	(188,706)	(178,959)
Interest paid on debt	<u>(109,859)</u>	<u>(119,356)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,196,292)</u>	<u>(595,497)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in assets limited as to use or restricted	(143,625)	(10,615)
(Increase) decrease in other assets	30,102	(30,045)
Investment income received	<u>17,886</u>	<u>11,139</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(95,637)</u>	<u>(29,521)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	495,412	72,309
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>497,263</u>	<u>424,954</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 992,675</u>	<u>\$ 497,263</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Loss from operations	\$ (20,072)	\$ (385,105)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities		
Depreciation	727,463	682,861
Provision for bad debts	299,707	240,634
Changes in assets and liabilities		
Receivables	(274,225)	(370,597)
Supplies	(31,420)	19,445
Prepaid expenses	34,131	(44,349)
Accounts payable	(53,804)	(38,271)
Accrued expenses	38,781	18,425
Estimated amounts due to/from third-party payors	<u>307,000</u>	<u>(127,100)</u>
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	<u>\$ 1,027,561</u>	<u>\$ (4,057)</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lucas County Health Center (Health Center) is a 25-bed public hospital located in Chariton, Iowa. It is organized under Chapter 347 of the Iowa Code and governed by a seven member Board of Trustees elected for alternating terms of six years. Lucas County Health Center and Lucas County Health Center Foundation are collectively referred to here as Lucas County Health Center and Affiliate (Organization). Both the Health Center and the Foundation are organized as Iowa nonprofit corporations and have been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Organization primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Chariton, Iowa, and the surrounding area.

Reporting Entity

For financial reporting purposes, Lucas County Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. 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.

The Lucas County Health Center Foundation (Foundation) is included in the Health Center's financial statements as a component unit. The Foundation is a legally separate not-for-profit corporation that is, in substance, a part of the Health Center's operations. It is organized primarily to benefit the Health Center.

Data of the Foundation is combined with data of the Health Center for financial reporting purposes using the blended method. Transactions between the Health Center and the Foundation are eliminated in combination.

Basis of Presentation

Effective July 1, 2003, the Health Center implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on these financial statements.

GASB Statements No. 34 and No. 37 relate to changes in financial statement presentation. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet; a statement of revenues, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt, unrestricted, and restricted. These classifications are defined as follows:

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Organization’s policy to use restricted resources first.

The adoption of Statement No. 34 resulted in the previously reported unrestricted fund balance amounts being classified to conform to the above net asset classifications. Additionally, the Health Center restated the 2003 combined statement of cash flows to conform to the direct method of reporting cash receipts and disbursements.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

Basis of Accounting

The Organization reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants’ *Audits of Providers of Health Care Services* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Health Center applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

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

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use or restricted.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors, with invoices over 30 days old have interest assessed at an annual rate of 10%.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors and Health Center Board of Trustees. Current year delinquent property tax receivable represents unpaid taxes for the current year. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors and Health Center Board of Trustees 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 and Health Center Board of Trustees 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.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and debt retirement, over which the Board retains control and may, at its discretion, subsequently use for other purposes; and assets held by trustees under an indenture agreement. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Organization for its stated purposes.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Property and Equipment

Land, buildings, and equipment acquisitions in excess of \$2,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Health Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Land improvements	5-15 years
Buildings and improvements	3-40 years
Equipment	3-20 years

Compensated Absences

Health Center employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004, plus an additional amount for related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Organization's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Assets

Net assets of the Organization are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted*.

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. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Charity Care

To fulfill its mission of community service, 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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$26,952 and \$27,839 for advertising costs for the years ended June 30, 2004 and 2003, respectively.

Reclassifications

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the combined financial statements and the notes thereto.

NOTE 2 – 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:

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Medicare:

The Health Center is licensed as a Critical Access Hospital (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2001. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program 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 Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2001.

The Health Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health Center under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Total patient service revenue	\$ 14,516,816	\$ 13,054,185
Contractual adjustments		
Medicare	(2,855,806)	(2,130,866)
Medicaid	(787,728)	(686,093)
Blue Cross	(275,469)	(144,859)
Other	<u>(377,230)</u>	<u>(384,434)</u>
Total contractual adjustments	<u>(4,296,233)</u>	<u>(3,346,252)</u>
Net patient service revenue	10,220,583	9,707,933
Provision for bad debts	<u>(299,707)</u>	<u>(240,634)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,920,876</u>	<u>\$ 9,467,299</u>

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 3 – CASH AND DEPOSITS

Health Center Deposits

The Health Center's deposits in banks at June 30, 2004 and 2003, were entirely covered by federal depository insurance or 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.

Investments reported are not subject to risk categorization. Certificates of deposit and checking and savings accounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2004 and 2003, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2004</u>	<u>2003</u>
Certificates of deposit	\$ 104,968	\$ 101,583
Checking and savings accounts	<u>1,421,224</u>	<u>795,213</u>
Total	<u>\$ 1,526,192</u>	<u>\$ 896,796</u>

Included in the following balance sheet captions:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 885,253	\$ 399,482
Assets limited as to use or restricted	<u>640,939</u>	<u>497,314</u>
	<u>\$ 1,526,192</u>	<u>\$ 896,796</u>

The deposits of the Foundation are not included above, as they are not required to be reported by GASB 3.

Foundation Deposits

	<u>2004</u>	<u>2003</u>
Money market and savings accounts	<u>\$ 107,422</u>	<u>\$ 97,781</u>

Investment Income

	<u>2004</u>	<u>2003</u>
Interest and dividend income		
Health Center	\$ 17,459	\$ 10,119
Foundation	<u>427</u>	<u>1,020</u>
	<u>\$ 17,886</u>	<u>\$ 11,139</u>

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings, and equipment at June 30, 2004 and 2003, follows:

	June 30, 2003				June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 37,197	\$ -	\$ -	\$ -	\$ 37,197
Land improvements	319,691	4,200	-	-	323,891
Building and improvements	7,053,770	123,937	-	3,013	7,180,720
Equipment	7,313,947	807,991	639,196	-	7,482,742
Construction-in-progress	<u>3,013</u>	<u>-</u>	<u>-</u>	<u>(3,013)</u>	<u>-</u>
	<u>\$ 14,727,618</u>	<u>\$ 936,128</u>	<u>\$ 639,196</u>	<u>\$ -</u>	<u>\$ 15,024,550</u>
Accumulated depreciation					
Land improvements	\$ 255,262	\$ 368	\$ -	\$ -	\$ 255,630
Building and improvements	2,496,195	247,065	-	-	2,743,260
Equipment	<u>5,231,017</u>	<u>480,030</u>	<u>615,902</u>	<u>-</u>	<u>5,095,145</u>
	<u>\$ 7,982,474</u>	<u>\$ 727,463</u>	<u>\$ 615,902</u>	<u>\$ -</u>	<u>\$ 8,094,035</u>
	June 30, 2002				June 30, 2003
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 37,197	\$ -	\$ -	\$ -	\$ 37,197
Land improvements	320,691	-	1,000	-	319,691
Building and improvements	6,503,700	53,879	5,312	501,503	7,053,770
Equipment	7,153,154	257,917	172,680	75,556	7,313,947
Construction-in-progress	<u>573,605</u>	<u>6,467</u>	<u>-</u>	<u>(577,059)</u>	<u>3,013</u>
	<u>\$ 14,588,347</u>	<u>\$ 318,263</u>	<u>\$ 178,992</u>	<u>\$ -</u>	<u>\$ 14,727,618</u>
Accumulated depreciation					
Land improvements	\$ 255,196	\$ 327	\$ 261	\$ -	\$ 255,262
Building and improvements	2,272,113	227,224	3,142	-	2,496,195
Equipment	<u>4,934,776</u>	<u>455,310</u>	<u>159,069</u>	<u>-</u>	<u>5,231,017</u>
	<u>\$ 7,462,085</u>	<u>\$ 682,861</u>	<u>\$ 162,472</u>	<u>\$ -</u>	<u>\$ 7,982,474</u>

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LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 5 – LEASES

The Health Center leases certain equipment under operating leases. Total rental expense for all operating leases for the years ended June 30, 2004 and 2003, was \$161,116 and \$140,452, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of:

	June 30 2003 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2004 <u>Balance</u>	Amounts Due Within <u>One Year</u>
County Public Hospital Revenue Bonds, payable in annual installments on July 1 of each year to 2007, annual principal payments ranging from \$95,000 to \$115,000 with interest fixed at 5.0% per annum.	\$ 430,000	\$ -	\$ 100,000	\$ 330,000	\$ 105,000
Hospital Revenue Note, Series 1991A, payable in monthly installments of \$6,316 including interest at 4.88% through May 2007 and will be adjusted to a rate tied to the then current U.S. Treasury bill rate. Note is due 2012.	542,941	-	50,401	492,540	52,918
Hospital Revenue Note, Series 1991B, payable in annual installments of \$51,898 to 2017, including interest fixed at 5.0% per annum.	513,481	-	26,224	487,257	27,535
United States Department of Agriculture, Rural Economic and Community Development Mortgage Note, Series 1994A, payable in annual installments of \$49,374, including interest fixed at 4.5% through November 2035.	840,923	-	12,081	828,842	12,076
	<u>\$2,327,345</u>	<u>\$ -</u>	<u>\$ 188,706</u>	2,138,639	<u>\$ 197,529</u>
Less current maturities				<u>(197,529)</u>	
Long-term debt, less current maturities				<u>\$1,941,110</u>	

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LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2005	\$ 197,529	\$ 101,035	\$ 298,564	
2006	207,092	91,222	298,314	
2007	216,878	80,936	297,814	
2008	106,903	70,161	177,064	
2009	112,175	64,889	177,064	
Thereafter	<u>1,298,062</u>	<u>631,102</u>	<u>1,929,164</u>	
	<u>\$ 2,138,639</u>	<u>\$ 1,039,345</u>	<u>\$ 3,177,984</u>	

	<u>June 30</u>		<u>June 30</u>	<u>Amounts</u>
	<u>2002</u>		<u>2003</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>One Year</u>
County Public Hospital Revenue Bonds, payable in annual installments on July 1 of each year to 2007, annual principal payments ranging from \$95,000 to \$115,000 with interest fixed at 5.0% per annum.	\$ 525,000	\$ -	\$ 95,000	\$ 430,000
Hospital Revenue Note, Series 1991A, payable in monthly installments of \$6,316 including interest at 4.88% through May 2007 and will be adjusted to a rate tied to the then current U.S. Treasury bill rate. Note is due 2012.	590,946	-	48,005	542,941
Hospital Revenue Note, Series 1991B, payable in annual installments of \$51,898 to 2017, including interest fixed at 5.0% per annum.	538,477	-	24,996	513,481
United States Department of Agriculture, Rural Economic and Community Development Mortgage Note, Series 1994A, payable in annual installments of \$49,374, including interest fixed at 4.5% through November 2035.	<u>851,881</u>	<u>-</u>	<u>10,958</u>	<u>840,923</u>
	<u>\$ 2,506,304</u>	<u>\$ -</u>	<u>\$ 178,959</u>	<u>2,327,345</u>
Less current maturities			<u>(188,158)</u>	<u>\$ 188,158</u>
Long-term debt, less current maturities			<u>\$ 2,139,187</u>	

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LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

County Public Hospital Revenue Bonds

Under the terms of a County resolution entered into with the bondholders, Lucas County Health Center maintains the following bond trust funds:

Sinking Fund – Established for the monthly deposit, by Lucas County Health Center, of 1/12 of the next annual principal and interest payment. The assets of this fund are reflected as bond trust fund investments in the accompanying combined balance sheets.

Reserve Fund – Established for the deposit of \$120,000 to provide for any deficiencies in the Sinking Fund or for the cost of emergency repairs and maintenance. The assets of this fund are reflected as bond trust fund investments in the accompanying combined balance sheets.

Revenue bond activity for the year ended June 30, 2004, is as follows:

	Principal Balance at June 30 2003	Additions	Payments	Principal Balance at June 30 2004
Revenue Bonds	\$ 430,000	\$ -	\$ 100,000	\$ 330,000

Revenue bond activity for the year ended June 30, 2003, is as follows:

	Principal Balance at June 30 2002	Additions	Payments	Principal Balance at June 30 2003
Revenue Bonds	\$ 525,000	\$ -	\$ 95,000	\$ 430,000

Aggregate annual maturities of the revenue bonds at June 30, 2004, are as follows:

<u>Year Ending June 30</u>	Revenue Bonds Principal Due	Revenue Bonds Interest Due
2005	\$ 105,000	\$ 16,500
2006	110,000	11,250
2007	115,000	5,750
	<u>\$ 330,000</u>	<u>\$ 33,500</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

Other Note Requirements

The Series 1994A loan agreement provides for the establishment and maintenance of a sinking fund and a debt service reserve fund. Periodic deposits in the bond sinking fund are required to provide for scheduled interest and principal payments. Monthly payments of \$412 are required to be made to the debt service reserve fund until the amount in the fund equals \$49,374. The fund is to be maintained at this level but can be utilized to pay scheduled interest and principal payments in the event of a deficiency in the sinking fund. These funds are invested in savings accounts.

The 1991A and 1991B loan agreements require monthly payments to the debt service reserve fund until the amounts are \$90,000 and \$51,960, respectively. These amounts are fully funded as of June 30, 2004. The funds are to be maintained at this level, but can be utilized to pay scheduled interest and principal payments, if needed.

NOTE 7 – PENSION AND RETIREMENT BENEFITS

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.

Plan members are required to contribute 3.70% of their annual covered salary and the Health Center is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$267,800, \$257,667, and \$234,263, respectively, equal to the required contributions for each year.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Medicare and Medicaid	48%	39%
Patients and other third-party payors	<u>52</u>	<u>61</u>
	<u>100%</u>	<u>100%</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 9 – MALPRACTICE INSURANCE

The Health Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

NOTE 10 – RISK MANAGEMENT

Lucas County 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 for the past three years.



Consultants • Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Lucas County Health Center
Chariton, Iowa

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
July 28, 2004

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING BALANCE SHEET
JUNE 30, 2004
(WITH COMPARATIVE TOTALS FOR 2003)

	2004			Total	2003
	Health Center	Foundation	Eliminations		Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 885,253	\$ 107,422	\$ -	\$ 992,675	\$ 497,263
Assets limited as to use	32,916	-	-	32,916	32,916
Receivables					
Patient, net of estimated uncollectibles of \$751,000 in 2004 and \$659,000 in 2003	1,506,052	-	-	1,506,052	1,548,450
Succeeding year property tax receivable	688,848	-	-	688,848	688,848
Estimated third-party payor settlements	-	-	-	-	30,000
Other	124,818	4,675	(20,271)	109,222	94,331
Supplies	154,277	-	-	154,277	122,857
Prepaid expenses	63,752	1,152	-	64,904	99,035
Total current assets	3,455,916	113,249	(20,271)	3,548,894	3,113,700
ASSETS LIMITED AS TO USE OR RESTRICTED					
Investments					
By board for property and equipment	300,798	-	-	300,798	163,586
Bond trust fund	340,141	-	-	340,141	333,728
	640,939	-	-	640,939	497,314
Less amount required to meet current obligation	(32,916)	-	-	(32,916)	(32,916)
Total assets limited as to use or restricted, excluding current portion	608,023	-	-	608,023	464,398
PROPERTY AND EQUIPMENT					
Land and land improvements	298,010	63,078	-	361,088	356,888
Building and improvements	6,042,151	1,138,569	-	7,180,720	7,053,770
Equipment	7,457,378	25,364	-	7,482,742	7,313,947
Construction-in-progress	-	-	-	-	3,013
	13,797,539	1,227,011	-	15,024,550	14,727,618
Less accumulated depreciation	(7,986,216)	(107,819)	-	(8,094,035)	(7,982,474)
Net property and equipment	5,811,323	1,119,192	-	6,930,515	6,745,144
OTHER ASSETS	2,080	-	-	2,080	32,182
Total assets	\$ 9,877,342	\$ 1,232,441	\$ (20,271)	\$ 11,089,512	\$ 10,355,424

(continued)

	2004			2003	
	Health Center	Foundation	Eliminations	Total	Total
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	\$ 197,529	\$ -	\$ -	\$ 197,529	\$ 188,158
Accounts payable					
Trade	518,397	7,384	-	525,781	579,585
Estimated third-party payor settlements	277,000	-	-	277,000	-
Accrued expenses					
Salaries and wages	234,711	-	-	234,711	203,792
Paid time off	231,854	-	-	231,854	214,879
Payroll taxes and other payroll withholdings	64,888	-	-	64,888	66,306
Interest	22,853	-	-	22,853	23,125
Deferred revenue for succeeding year property tax receivable	688,848	-	-	688,848	688,848
Due to affiliate	-	20,271	(20,271)	-	-
Other	45,184	58,652	-	103,836	111,531
Total current liabilities	2,281,264	86,307	(20,271)	2,347,300	2,076,224
LONG-TERM DEBT, less current maturities	1,941,110	-	-	1,941,110	2,139,187
Total liabilities	4,222,374	86,307	(20,271)	4,288,410	4,215,411
NET ASSETS					
Invested in capital assets, net of related debt	3,672,684	1,119,192	-	4,791,876	4,606,505
Unrestricted	1,982,234	7,138	-	1,989,372	1,513,228
Restricted					
For physician education	50	-	-	50	-
For capital acquisitions and specific operating activities	-	19,804	-	19,804	20,280
Total net assets	5,654,968	1,146,134	-	6,801,102	6,140,013
Total liabilities and net assets	\$ 9,877,342	\$ 1,232,441	\$ (20,271)	\$ 11,089,512	\$ 10,355,424

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004
(WITH COMPARATIVE TOTALS FOR 2003)

	2004				2003
	Health Center	Foundation	Eliminations	Total	Total
OPERATING REVENUES					
Net patient service revenue (net of provision for bad debts of \$299,707 in 2004 and \$240,634 in 2003)	\$ 9,920,876	\$ -	\$ -	\$ 9,920,876	\$ 9,467,299
Other operating revenues	758,198	212,964	(107,884)	863,278	835,717
TOTAL OPERATING REVENUES	10,679,074	212,964	(107,884)	10,784,154	10,303,016
OPERATING EXPENSES					
Salaries and wages	4,712,770	-	-	4,712,770	4,565,631
Employee benefits	1,088,273	-	-	1,088,273	1,009,365
Supplies and other expenses	4,114,339	269,265	(107,884)	4,275,720	4,430,264
Depreciation	695,576	31,887	-	727,463	682,861
TOTAL OPERATING EXPENSES	10,610,958	301,152	(107,884)	10,804,226	10,688,121
INCOME (LOSS) FROM OPERATIONS	68,116	(88,188)	-	(20,072)	(385,105)
NONOPERATING REVENUES (EXPENSES)					
County tax revenue	678,641	-	-	678,641	703,877
Loss on disposal of capital assets	(23,293)	-	-	(23,293)	(11,517)
Interest expense	(109,587)	-	-	(109,587)	(119,075)
Noncapital grants and contributions	33,529	45,585	-	79,114	350
Investment income	17,459	427	-	17,886	11,139
TOTAL NONOPERATING REVENUES (EXPENSES)	596,749	46,012	-	642,761	584,774
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	664,865	(42,176)	-	622,689	199,669
Capital grants and contributions	15,000	23,400	-	38,400	16,078
INCREASE (DECREASE) IN NET ASSETS	679,865	(18,776)	-	661,089	215,747
NET ASSETS BEGINNING OF YEAR	4,975,103	1,164,910	-	6,140,013	5,924,266
NET ASSETS END OF YEAR	\$ 5,654,968	\$ 1,146,134	\$ -	\$ 6,801,102	\$ 6,140,013

**LUCAS COUNTY HEALTH CENTER AND AFFILIATE
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
 IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS) – HEALTH CENTER
 YEAR ENDED JUNE 30, 2004**

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 678,641	\$ 2,025	\$ 680,666	\$ 688,848	\$ (8,182)
Estimated other revenues/receipts	<u>10,721,769</u>	<u>374,712</u>	<u>11,096,481</u>	<u>10,555,397</u>	<u>541,084</u>
	11,400,410	376,737	11,777,147	11,244,245	532,902
Expenses/disbursements	<u>10,720,545</u>	<u>427,206</u>	<u>11,147,751</u>	<u>11,181,302</u>	<u>33,551</u>
Net	679,865	(50,469)	629,396	62,943	<u>\$ 566,453</u>
Balance beginning of year	<u>4,975,103</u>	<u>(4,078,307)</u>	<u>896,796</u>	<u>799,372</u>	
Balance end of year	<u>\$ 5,654,968</u>	<u>\$ (4,128,776)</u>	<u>\$ 1,526,192</u>	<u>\$ 862,315</u>	

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF NET PATIENT SERVICE REVENUE – HEALTH CENTER
YEAR ENDED JUNE 30, 2004
(WITH COMPARATIVE TOTALS FOR 2003)

	2004			2003
	Inpatient	Outpatient	Total	Total
PATIENT SERVICE REVENUE				
Daily Patient Services				
Medical and surgical	\$ 1,405,395	104,247	\$ 1,509,642	\$ 1,471,030
Obstetrics	234,249	25,917	260,166	273,459
	<u>1,639,644</u>	<u>130,164</u>	<u>1,769,808</u>	<u>1,744,489</u>
Other Nursing Services				
Operating room	242,300	1,591,247	1,833,547	1,418,605
Residential care	340,370	-	340,370	576,900
Emergency room	20,155	1,122,354	1,142,509	972,501
	<u>602,825</u>	<u>2,713,601</u>	<u>3,316,426</u>	<u>2,968,006</u>
Other Professional Services				
Central service and supply	32,026	180,943	212,969	201,120
Laboratory	253,955	1,379,234	1,633,189	1,167,354
EKG/EEG	18,610	59,402	78,012	77,250
Radiology	242,692	2,180,167	2,422,859	1,775,233
Pharmacy	561,247	830,415	1,391,662	1,120,523
Anesthesiology	92,072	510,152	602,224	824,163
Respiratory therapy	170,538	61,811	232,349	209,517
Physical therapy	75,913	559,607	635,520	525,195
Speech therapy	4,428	7,731	12,159	11,133
Occupational therapy	13,949	6,442	20,391	23,182
Ambulance service	18,012	422,174	440,186	454,201
Pediatric therapy	-	890,603	890,603	1,271,925
Diabetic education	-	22,855	22,855	-
Adult Day Care	-	13,897	13,897	11,651
Behavioral health service	14,606	585,307	599,913	491,364
Cardiac and pulmonary rehab	1,620	144,439	146,059	145,704
Infusion therapy	-	75,735	75,735	32,175
	<u>1,499,668</u>	<u>7,930,914</u>	<u>9,430,582</u>	<u>8,341,690</u>
Total patient service revenue	\$ 3,742,137	\$ 10,774,679	14,516,816	13,054,185
CONTRACTUAL ADJUSTMENTS				
Medicare			(2,855,806)	(2,130,866)
Medicaid			(787,728)	(686,093)
Blue Cross			(275,469)	(144,859)
Other			(377,230)	(384,434)
Total contractual adjustments			<u>(4,296,233)</u>	<u>(3,346,252)</u>
NET PATIENT SERVICE REVENUE			10,220,583	9,707,933
PROVISION FOR BAD DEBTS			<u>(299,707)</u>	<u>(240,634)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)			<u>\$ 9,920,876</u>	<u>\$ 9,467,299</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OTHER OPERATING REVENUES – HEALTH CENTER
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Day care	\$ 357,422	\$ 285,652
Medical office building leases	109,548	97,978
Cafeteria sales	68,674	127,916
Medical records transcripts	65,108	50,281
In-kind contribution - rent	49,951	42,762
Housekeeping revenue	33,000	20,000
Management fees	9,600	19,800
Other	<u>64,895</u>	<u>70,116</u>
	<u>\$ 758,198</u>	<u>\$ 714,505</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 73,991	\$ 70,810
Supplies and other expenses	<u>3,201</u>	<u>2,289</u>
	<u>77,192</u>	<u>73,099</u>
MEDICAL AND SURGICAL		
Salaries and wages	726,793	657,235
Supplies and other expenses	<u>112,380</u>	<u>161,377</u>
	<u>839,173</u>	<u>818,612</u>
OBSTETRICS		
Salaries and wages	81,232	109,660
Supplies and other expenses	<u>27,845</u>	<u>30,084</u>
	<u>109,077</u>	<u>139,744</u>
OPERATING ROOM		
Salaries and wages	199,515	174,569
Supplies and other expenses	<u>103,496</u>	<u>104,008</u>
	<u>303,011</u>	<u>278,577</u>
RESIDENTIAL CARE		
Salaries and wages	86,475	146,820
Supplies and other expenses	<u>8,855</u>	<u>12,361</u>
	<u>95,330</u>	<u>159,181</u>
EMERGENCY ROOM		
Salaries and wages	455,483	430,619
Supplies and other expenses	<u>173,798</u>	<u>107,315</u>
	<u>629,281</u>	<u>537,934</u>
CENTRAL STERILE		
Salaries and wages	29,596	23,407
Supplies and other expenses	<u>18,412</u>	<u>15,139</u>
	<u>48,008</u>	<u>38,546</u>
CENTRAL SERVICE AND SUPPLY		
Salaries and wages	35,600	32,691
Supplies and other expenses	<u>116,944</u>	<u>157,905</u>
	<u>152,544</u>	<u>190,596</u>
LABORATORY		
Salaries and wages	283,011	262,289
Supplies and other expenses	<u>355,875</u>	<u>347,756</u>
	<u>638,886</u>	<u>610,045</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
EKG/EEG		
Salaries and wages	\$ 3,801	\$ 6,360
Supplies and other expenses	<u>1,611</u>	<u>1,739</u>
	<u>5,412</u>	<u>8,099</u>
RADIOLOGY		
Salaries and wages	192,684	129,989
Supplies and other expenses	<u>487,171</u>	<u>378,172</u>
	<u>679,855</u>	<u>508,161</u>
PHARMACY		
Salaries and wages	111,052	99,106
Supplies and other expenses	<u>410,103</u>	<u>368,906</u>
	<u>521,155</u>	<u>468,012</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>231,027</u>	<u>215,659</u>
RESPIRATORY THERAPY		
Salaries and wages	61,520	68,324
Supplies and other expenses	<u>25,030</u>	<u>17,331</u>
	<u>86,550</u>	<u>85,655</u>
PHYSICAL THERAPY		
Salaries and wages	137,423	146,916
Supplies and other expenses	<u>19,760</u>	<u>17,008</u>
	<u>157,183</u>	<u>163,924</u>
SPEECH THERAPY		
Professional fees	<u>4,664</u>	<u>8,531</u>
OCCUPATIONAL THERAPY		
Professional fees	<u>5,589</u>	<u>9,870</u>
AMBULANCE SERVICE		
Salaries and wages	121,438	146,102
Supplies and other expenses	<u>25,266</u>	<u>20,852</u>
	<u>146,704</u>	<u>166,954</u>
MOB AND CLINICS		
Salaries and wages	40,647	50,347
Supplies and other expenses	<u>28,083</u>	<u>37,614</u>
	<u>68,730</u>	<u>87,961</u>
PEDIATRIC THERAPY		
Supplies and other expenses	<u>570,870</u>	<u>878,210</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
DIABETIC EDUCATION		
Salaries and wages	\$ 23,797	\$ -
Supplies and other expenses	<u>2,834</u>	<u>-</u>
	<u>26,631</u>	<u>-</u>
ADULT DAY CARE		
Salaries and wages	10,534	7,297
Supplies and other expenses	<u>1,443</u>	<u>584</u>
	<u>11,977</u>	<u>7,881</u>
DAY CARE		
Salaries and wages	293,619	247,000
Supplies and other expenses	<u>99,378</u>	<u>68,008</u>
	<u>392,997</u>	<u>315,008</u>
BEHAVIORAL HEALTH SERVICE		
Salaries and wages	298,552	274,823
Supplies and other expenses	<u>53,494</u>	<u>56,845</u>
	<u>352,046</u>	<u>331,668</u>
CARDIAC AND PULMONARY REHAB		
Salaries and wages	51,987	51,303
Supplies and other expenses	<u>4,074</u>	<u>4,925</u>
	<u>56,061</u>	<u>56,228</u>
SPECIALTY AND SURGICAL CLINIC		
Supplies and other expenses	<u>28,176</u>	<u>28,176</u>
INFUSION THERAPY		
Salaries and wages	30,216	41,494
Supplies and other expenses	<u>2,570</u>	<u>12,415</u>
	<u>32,786</u>	<u>53,909</u>
DIETARY		
Salaries and wages	156,138	191,443
Supplies and other expenses	<u>101,627</u>	<u>235,212</u>
	<u>257,765</u>	<u>426,655</u>
OPERATION OF PLANT		
Salaries and wages	117,920	116,225
Supplies and other expenses	<u>488,996</u>	<u>407,571</u>
	<u>606,916</u>	<u>523,796</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
HOUSEKEEPING		
Salaries and wages	\$ 151,615	\$ 149,133
Supplies and other expenses	<u>25,379</u>	<u>23,496</u>
	<u>176,994</u>	<u>172,629</u>
LAUNDRY AND LINEN		
Salaries and wages	21,757	22,822
Supplies and other expenses	<u>6,125</u>	<u>7,936</u>
	<u>27,882</u>	<u>30,758</u>
MEDICAL RECORDS		
Salaries and wages	157,806	168,530
Supplies and other expenses	<u>71,609</u>	<u>30,625</u>
	<u>229,415</u>	<u>199,155</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	758,568	740,317
Supplies and other expenses	<u>366,607</u>	<u>404,828</u>
	<u>1,125,175</u>	<u>1,145,145</u>
UNASSIGNED EXPENSES		
Employee benefits	1,088,273	1,009,365
Insurance and taxes	132,047	111,526
Depreciation	<u>695,576</u>	<u>651,795</u>
	<u>1,915,896</u>	<u>1,772,686</u>
TOTAL OPERATING EXPENSES	<u>\$ 10,610,958</u>	<u>\$ 10,511,064</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS –
HEALTH CENTER
JUNE 30, 2004 AND 2003

ANALYSIS OF AGING

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
DAYS SINCE DISCHARGE				
0 to 30 days	\$ 1,218,033	53.97%	\$ 1,277,426	57.87%
1 to 2 months	335,099	14.85	307,811	13.94
2 to 3 months	187,120	8.29	152,918	6.93
3 to 4 months	120,715	5.35	110,421	5.00
Over 4 months	<u>396,085</u>	<u>17.54</u>	<u>358,874</u>	<u>16.26</u>
	2,257,052	<u>100.00%</u>	2,207,450	<u>100.00%</u>
Less: Allowance for doubtful accounts	291,000		260,000	
Allowance for contractual adjustments	<u>460,000</u>		<u>399,000</u>	
Net	<u>\$ 1,506,052</u>		<u>\$ 1,548,450</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
BALANCE, BEGINNING OF YEAR	\$ 260,000	\$ 285,684
Add: Provision for bad debts	299,707	240,634
Less: Write offs, net of recoveries	<u>(268,707)</u>	<u>(266,318)</u>
BALANCE, END OF YEAR	<u>\$ 291,000</u>	<u>\$ 260,000</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SUPPLIES/PREPAID EXPENSES – HEALTH CENTER
JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
SUPPLIES		
Pharmacy	\$ 58,269	\$ 48,303
Medical and surgical	36,017	19,340
Central stores	24,364	18,210
Plant operations	11,496	11,799
Dietary	10,799	9,701
Laboratory	9,882	9,567
Radiology	<u>3,450</u>	<u>5,937</u>
Total supplies	<u>\$ 154,277</u>	<u>\$ 122,857</u>
 PREPAID EXPENSES		
Insurance	\$ 27,166	\$ 39,535
Maintenance contracts	18,784	32,288
Dues	7,222	8,258
Other	<u>10,580</u>	<u>17,880</u>
Total prepaid expenses	<u>\$ 63,752</u>	<u>\$ 97,961</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
PATIENT DAYS		
Acute		
Adults and pediatrics (includes obstetrics)	1,805	1,702
Newborn	126	138
Special care unit	15	12
Swing-bed – skilled care	590	779
NUMBER OF BEDS (Reduced to 25 beds effective August 1, 2002)	25	25
PERCENT OF OCCUPANCY (excluding newborn)	26.4%	24.7%
DISCHARGES		
Acute	653	551
Swing-bed – skilled care	89	120
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	2.79	3.11
Swing-bed – skilled care	6.63	6.49
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Semi-private/obstetrics	\$ 690/780	\$ 655/740
Special care unit	1,010	960
Nursery	410/570/790	390/540/750
Swing-bed - skilled care	365	345



Consultants • Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the accompanying combined balance sheets of **Lucas County Health Center and Affiliate** as of June 30, 2004 and 2003, and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated July 28, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the combined financial statements of **Lucas County Health Center and Affiliate** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance 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 non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the combined 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. There were no prior year statutory comments and recommendations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of **Lucas County Health Center and Affiliate** in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the ability of **Lucas County Health Center and Affiliate** to record, process, summarize, and report financial data consistent with the assertions of management in the combined financial statements. A reportable condition is described in Part I as item I-A-04 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Prior year reportable condition item I-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Lucas County Health Center and Affiliate** and other parties to whom the Health Center and Affiliate may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Lucas County Health Center and Affiliate** during the course of our audit. Should you have any questions concerning any of the above matters, we will be pleased to discuss them with you at your convenience.

Eide Bailly LLP

Dubuque, Iowa
July 28, 2004

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-04 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Health Center should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution for one bank was exceeded during the year ended June 30, 2004. Subsequently, the Board has approved an increase in the maximum deposit amounts for all depositories.

II-B-04 Certified Budget – Health Center disbursements during the year ended June 30, 2004, did not exceed amounts budgeted.

II-C-04 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-E-04 Business Transactions – No transactions were noted between Health Center and Health Center officials or employees other than those exempted by law: i.e., bankers on the Board of Trustees.

II-F-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy were noted.