

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
CHARITON, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

LUCAS COUNTY HEALTH CENTER AND AFFILIATE

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**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>		
David M. Miller (Mike)	Chairperson	January 1, 2007
Raymond Meyer	Vice Chairperson	January 1, 2011
Sheila Laing	Treasurer	January 1, 2007
Roger Struve	Secretary	January 1, 2009
Mike Cruzen	Member	January 1, 2011
Corliss Klaassen	Member	January 1, 2007
Rick Runyon	Member	January 1, 2009

Lucas County Health Center Foundation

<u>Board of Directors</u>		
Dan Minkoff	President	
Raymond Meyer	Chairperson	
Fred Housman	Vice Chairperson	
Dan Kent	Secretary	
Mike Cruzen	Treasurer	

Lucas County Health Center

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



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Lucas County Health Center and Affiliate
Chariton, Iowa

We have audited the accompanying combined balance sheets of **Lucas County Health Center and Affiliate** as of June 30, 2005 and 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 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. We did not audit the information and express no opinion on it.

Eide Bailly LLP

Dubuque, Iowa
August 10, 2005

Lucas County Health Center Management's Discussion and Analysis June 30, 2005

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 \$6,391,431 at June 30, 2005, up 13.02% over the prior year.
- LCHC recorded revenues in excess of expenses of \$718,280 for the fiscal year ending on June 30, 2005.
- 32 days cash on hand from short-term sources were reported at June 30, 2005.
- 51 days charges in gross accounts receivable were reported at June 30, 2005.
- LCHC had 1,912 acute patient days in fiscal year 2005, a decrease of 1.7% from 2004.
- LCHC had 565 swing-bed patient days in fiscal year 2005, a decrease of 4.2% from 2004.
- LCHC had 19,327 outpatient admissions in fiscal year 2005, an increase of 5.4% from 2004.

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, 2005 indicates total assets of \$10,449,291, total liabilities of \$4,057,860, and net assets of \$6,391,431. Total current assets were \$3,678,300, and total current liabilities were \$2,184,956, for a current ratio of 1.68.

As reported in the Statement of Cash Flows, cash and cash equivalents increased from \$885,253 at July 1, 2004 to \$979,691 at June 30, 2005. The net increase in cash and cash equivalents of \$94,438 came from cash provided from operating activities of \$629,982 offset by cash used for financing activities of \$505,987 and investing activities of \$29,557.

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.

Capital Assets and Debt Administration

LCHC's capital assets as of June 30, 2005, amounted to \$6,271,053 (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 \$2,073,620 with current maturities of \$200,716. Long-term debt is more fully detailed and explained in the Notes to Financial Statements section of the 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, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,036,760	\$ 992,675
Assets limited as to use	206,314	32,916
Receivables		
Patient, net of estimated uncollectibles of \$778,000 in 2005 and \$751,000 in 2004	1,528,501	1,506,052
Succeeding year property tax receivable	624,540	688,848
Other	104,412	109,222
Supplies	166,665	154,277
Prepaid expenses	<u>66,342</u>	<u>64,904</u>
Total current assets	<u>3,733,534</u>	<u>3,548,894</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 3		
Investments		
By board for property and equipment	186,954	300,798
Bond trust fund	<u>520,629</u>	<u>340,141</u>
	707,583	640,939
Less amount required to meet current obligations	<u>(206,314)</u>	<u>(32,916)</u>
Total assets limited as to use or restricted, excluding current portion	<u>501,269</u>	<u>608,023</u>
PROPERTY AND EQUIPMENT - Note 4		
Land and land improvements	377,947	361,088
Building and improvements	7,314,027	7,180,720
Equipment	<u>8,366,178</u>	<u>7,482,742</u>
	16,058,152	15,024,550
Less accumulated depreciation	<u>(8,700,046)</u>	<u>(8,094,035)</u>
Net property and equipment	<u>7,358,106</u>	<u>6,930,515</u>
OTHER ASSETS	<u>13,650</u>	<u>2,080</u>
Total assets	<u>\$ 11,606,559</u>	<u>\$ 11,089,512</u>

See notes to combined financial statements.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 200,716	\$ 197,529
Accounts payable		
Trade	483,330	491,645
Estimated third-party payor settlements	300,000	277,000
Accrued expenses		
Salaries and wages	65,394	234,711
Paid time off	249,321	231,854
Payroll taxes and other payroll withholdings	155,830	99,024
Interest	63,348	22,853
Deferred revenue for succeeding year property tax receivable	624,540	688,848
Other	<u>116,548</u>	<u>103,836</u>
Total current liabilities	2,259,027	2,347,300
LONG-TERM DEBT, less current maturities - Note 6	<u>1,872,904</u>	<u>1,941,110</u>
Total liabilities	<u>4,131,931</u>	<u>4,288,410</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,284,486	4,791,876
Unrestricted	2,128,276	1,989,372
Restricted		
For volunteer service program	27,129	-
For capital acquisitions and specific operating activities	<u>34,737</u>	<u>19,854</u>
Total net assets	<u>7,474,628</u>	<u>6,801,102</u>
Total liabilities and net assets	<u>\$ 11,606,559</u>	<u>\$ 11,089,512</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$398,402 in 2005 and \$299,707 in 2004) - Note 2	\$ 10,955,602	\$ 9,920,876
Other operating revenues	<u>839,700</u>	<u>863,278</u>
TOTAL OPERATING REVENUES	<u>11,795,302</u>	<u>10,784,154</u>
OPERATING EXPENSES		
Salaries and wages	4,918,519	4,712,770
Employee benefits	1,148,364	1,088,273
Supplies and other expenses	5,110,232	4,275,720
Depreciation	<u>841,696</u>	<u>727,463</u>
TOTAL OPERATING EXPENSES	<u>12,018,811</u>	<u>10,804,226</u>
LOSS FROM OPERATIONS	<u>(223,509)</u>	<u>(20,072)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	665,109	678,641
Noncapital grants and contributions	246,415	79,114
Gain (loss) on disposal of capital assets	33,090	(23,293)
Interest expense	(100,643)	(109,587)
Investment income - Note 3	<u>34,881</u>	<u>17,886</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>878,852</u>	<u>642,761</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>655,343</u>	<u>622,689</u>
Capital grants and contributions	<u>18,183</u>	<u>38,400</u>
INCREASE IN NET ASSETS	673,526	661,089
NET ASSETS BEGINNING OF YEAR	<u>6,801,102</u>	<u>6,140,013</u>
NET ASSETS END OF YEAR	<u>\$ 7,474,628</u>	<u>\$ 6,801,102</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 10,956,153	\$ 10,270,274
Other receipts	844,510	846,362
Payments of salaries and wages	(5,000,851)	(4,639,853)
Payments of employee benefits	(1,148,364)	(1,088,273)
Payments of supplies and other expenses	<u>(5,132,373)</u>	<u>(4,360,949)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>519,075</u>	<u>1,027,561</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	665,109	680,666
Noncapital grants and contributions	<u>246,415</u>	<u>79,114</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>911,524</u>	<u>759,780</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(1,236,197)	(936,127)
Capital grants and contributions revenue received	18,183	38,400
Principal paid on debt	(65,019)	(188,706)
Interest paid on debt	<u>(60,148)</u>	<u>(109,859)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,343,181)</u>	<u>(1,196,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in assets limited as to use or restricted	(66,644)	(143,625)
(Increase) decrease in other assets	(11,570)	30,102
Investment income received	<u>34,881</u>	<u>17,886</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(43,333)</u>	<u>(95,637)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,085	495,412
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>992,675</u>	<u>497,263</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,036,760</u>	<u>\$ 992,675</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (223,509)	\$ (20,072)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation	841,696	727,463
Provision for bad debts	398,402	299,707
Changes in assets and liabilities		
Receivables	(416,041)	(274,225)
Supplies	(12,388)	(31,420)
Prepaid expenses	(1,438)	34,131
Accounts payable	(8,315)	(53,804)
Accrued expenses	(82,332)	38,781
Estimated third-party payor settlements	<u>23,000</u>	<u>307,000</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 519,075</u>	 <u>\$ 1,027,561</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

The balance sheet displays the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

When both restricted and unrestricted resources are available for use, generally it is the Health Center's policy to use restricted resources first.

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' *Audit and Accounting Guide for Health Care Organizations* 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased, 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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. 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 are 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 funds 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.

Property and Equipment

Property and equipment acquisitions in excess of \$2,000 are capitalized and recorded at cost. Property 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, 2005, plus an additional amount for related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 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 and a provision for uncollectible accounts. 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.

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.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$51,050 and \$41,231 for advertising costs for the years ended June 30, 2005 and 2004, respectively.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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:

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, plus one percent 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, 2002. 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, 2002.

Other Payors: 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Total patient service revenue	\$ 16,196,827	\$ 14,516,816
Contractual adjustments		
Medicare	(3,179,752)	(2,855,806)
Medicaid	(872,240)	(787,728)
Blue Cross	(426,613)	(275,469)
Other	<u>(364,218)</u>	<u>(377,230)</u>
Total contractual adjustments	<u>(4,842,823)</u>	<u>(4,296,233)</u>
Net patient service revenue	11,354,004	10,220,583
Provision for bad debts	<u>(398,402)</u>	<u>(299,707)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 10,955,602</u>	<u>\$ 9,920,876</u>

NOTE 3 – CASH AND DEPOSITS

Health Center Deposits

The Health Center's deposits in banks at June 30, 2005 and 2004, 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, 2005 and 2004, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2005</u>	<u>2004</u>
Certificates of deposit	\$ 183,507	\$ 104,968
Checking and savings accounts	<u>1,488,786</u>	<u>1,421,224</u>
Total	<u>\$ 1,672,293</u>	<u>\$ 1,526,192</u>

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Included in the following balance sheet captions:

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 979,691	\$ 885,253
Assets limited as to use or restricted	<u>692,602</u>	<u>640,939</u>
	<u>\$ 1,672,293</u>	<u>\$ 1,526,192</u>

Substantially all of the above cash and deposits have a maturity date of less than one year.

Interest rate risk: Interest rate risk is the exposure to fair value losses resulting from rising interest rates. As a means of limiting its exposure to interest rate risk, the Health Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) 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. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Health Center are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

Foundation Deposits

	<u>2005</u>	<u>2004</u>
Money market and savings accounts	\$ 57,069	\$ 107,422
Certificates of deposit	<u>14,981</u>	<u>-</u>
	<u>\$ 72,050</u>	<u>\$ 107,422</u>

Substantially all of the above cash and deposits have a maturity date of less than one year.

Investment Income

	<u>2005</u>	<u>2004</u>
Interest and dividend income		
Health Center	\$ 33,676	\$ 17,459
Foundation	<u>1,205</u>	<u>427</u>
	<u>\$ 34,881</u>	<u>\$ 17,886</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 4 – PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2005 and 2004, follows:

	June 30, 2004				June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 37,197	\$ -	\$ 16,414	\$ -	\$ 20,783
Land improvements	323,891	34,394	1,121	-	357,164
Buildings and improvements	7,180,720	133,307	-	-	7,314,027
Equipment	7,482,742	1,134,393	250,957	-	8,366,178
	<u>15,024,550</u>	<u>1,302,094</u>	<u>268,492</u>	<u>-</u>	<u>16,058,152</u>
Accumulated depreciation					
Land improvements	255,630	1,937	1,121	-	256,446
Buildings and improvements	2,743,260	258,277	-	-	3,001,537
Equipment	5,095,145	581,482	234,564	-	5,442,063
	<u>8,094,035</u>	<u>841,696</u>	<u>235,685</u>	<u>-</u>	<u>8,700,046</u>
Total property and equipment, net	<u>\$ 6,930,515</u>	<u>\$ 460,398</u>	<u>\$ 32,807</u>	<u>\$ -</u>	<u>\$ 7,358,106</u>
	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
Buildings 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	3,013	-	-	(3,013)	-
	<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
Buildings and improvements	2,496,195	247,065	-	-	2,743,260
Equipment	5,231,017	480,030	615,902	-	5,095,145
	<u>7,982,474</u>	<u>727,463</u>	<u>615,902</u>	<u>-</u>	<u>8,094,035</u>
Total property and equipment, net	<u>\$ 6,745,144</u>	<u>\$ 208,665</u>	<u>\$ 23,294</u>	<u>\$ -</u>	<u>\$ 6,930,515</u>

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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, 2005 and 2004, was \$169,248 and \$161,117, respectively.

NOTE 6 – LONG-TERM DEBT

A schedule of changes in the Health Center's long-term debt for 2005 and 2004 follows:

	June 30 2004			June 30 2005	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</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.	\$ 330,000	\$ -	\$ -	\$ 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.	492,540	-	52,918	439,622	55,560
Hospital Revenue Note, Series 1991B, payable in annual installments of \$51,898 to 2017, including interest fixed at 5.0% per annum.	487,257	-	-	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.	<u>828,842</u>	<u>-</u>	<u>12,101</u>	<u>816,741</u>	<u>12,621</u>
	<u>\$ 2,138,639</u>	<u>\$ -</u>	<u>\$ 65,019</u>	2,073,620	<u>\$ 200,716</u>
Less current maturities				<u>(200,716)</u>	
Long-term debt, less current maturities				<u>\$ 1,872,904</u>	

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LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 200,716	\$ 97,848	\$ 298,564
2007	210,435	87,879	298,314
2008	220,386	77,428	297,814
2009	110,582	66,482	177,064
2010	116,035	61,029	177,064
2011-2015	412,809	232,506	645,315
2016-2020	248,211	154,353	402,564
2021-2025	133,610	113,260	246,870
2026-2030	166,502	80,368	246,870
2031-2035	207,492	39,378	246,870
2036-2040	46,842	2,137	48,979
	<u>\$ 2,073,620</u>	<u>\$ 1,012,668</u>	<u>\$ 3,086,288</u>

	<u>June 30</u>			<u>June 30</u>	<u>Amounts</u>
	<u>2003</u>			<u>2004</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</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.	\$ 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

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	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>
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>	<u>\$ 197,529</u>
Less current maturities					
Long-term debt, less current maturities				<u>\$ 1,941,110</u>	

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, 2005, is as follows:

	Principal Balance at June 30 2004 <u> </u>	<u>Additions</u>	<u>Payments</u>	Principal Balance at June 30 2005 <u> </u>
Revenue Bonds	\$ 330,000	\$ -	\$ -	\$ 330,000

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

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

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Aggregate annual maturities of the revenue bonds at June 30, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Revenue Bonds Principal Due</u>	<u>Revenue Bonds Interest Due</u>
2006	\$ 105,000	\$ 16,500
2007	110,000	11,250
2008	<u>115,000</u>	<u>5,750</u>
	<u>\$ 330,000</u>	<u>\$ 33,500</u>

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, 2005. 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, 2005, 2004, and 2003. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$280,341, \$267,800, and \$257,667, respectively, equal to the required contributions for each year.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Medicare and Medicaid	42%	48%
Patients and other third-party payors	<u>58</u>	<u>52</u>
	<u>100%</u>	<u>100%</u>

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.



CPAs & BUSINESS ADVISORS

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

The Board of Trustees
Lucas County Health Center and Affiliate
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
August 10, 2005

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING BALANCE SHEET
JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR 2004)

	2005			2004	
	Health Center	Foundation	Eliminations	Total	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 979,691	\$ 57,069	\$ -	\$ 1,036,760	\$ 992,675
Assets limited as to use	206,314	-	-	206,314	32,916
Receivables					
Patient, net of estimated uncollectibles					
of \$778,000 in 2005 and \$751,000 in 2004	1,528,501	-	-	1,528,501	1,506,052
Succeeding year property tax receivable	624,540	-	-	624,540	688,848
Other	107,585	3,041	(6,214)	104,412	109,222
Supplies	166,665	-	-	166,665	154,277
Prepaid expenses	65,004	1,338	-	66,342	64,904
	<u>3,678,300</u>	<u>61,448</u>	<u>(6,214)</u>	<u>3,733,534</u>	<u>3,548,894</u>
ASSETS LIMITED AS TO USE OR RESTRICTED					
Investments					
By board for property and equipment	171,973	14,981	-	186,954	300,798
Bond trust fund	<u>520,629</u>	<u>-</u>	<u>-</u>	<u>520,629</u>	<u>340,141</u>
	692,602	14,981	-	707,583	640,939
Less amount required to meet current obligations	<u>(206,314)</u>	<u>-</u>	<u>-</u>	<u>(206,314)</u>	<u>(32,916)</u>
	<u>486,288</u>	<u>14,981</u>	<u>-</u>	<u>501,269</u>	<u>608,023</u>
PROPERTY AND EQUIPMENT					
Land and land improvements	314,869	63,078	-	377,947	361,088
Building and improvements	6,175,458	1,138,569	-	7,314,027	7,180,720
Equipment	<u>8,340,814</u>	<u>25,364</u>	<u>-</u>	<u>8,366,178</u>	<u>7,482,742</u>
	14,831,141	1,227,011	-	16,058,152	15,024,550
Less accumulated depreciation	<u>(8,560,088)</u>	<u>(139,958)</u>	<u>-</u>	<u>(8,700,046)</u>	<u>(8,094,035)</u>
	<u>6,271,053</u>	<u>1,087,053</u>	<u>-</u>	<u>7,358,106</u>	<u>6,930,515</u>
OTHER ASSETS					
	<u>13,650</u>	<u>-</u>	<u>-</u>	<u>13,650</u>	<u>2,080</u>
Total assets	<u>\$ 10,449,291</u>	<u>\$ 1,163,482</u>	<u>\$ (6,214)</u>	<u>\$ 11,606,559</u>	<u>\$ 11,089,512</u>

	2005				2004
	Health Center	Foundation	Eliminations	Total	Total
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	\$ 200,716	\$ -	\$ -	\$ 200,716	\$ 197,529
Accounts payable					
Trade	477,515	5,815	-	483,330	491,645
Estimated third-party payor settlements	300,000	-	-	300,000	277,000
Accrued expenses					
Salaries and wages	65,394	-	-	65,394	234,711
Paid time off	249,321	-	-	249,321	231,854
Payroll taxes and other payroll withholdings	155,830	-	-	155,830	99,024
Interest	63,348	-	-	63,348	22,853
Deferred revenue for succeeding year property tax receivable	624,540	-	-	624,540	688,848
Due to affiliate	-	6,214	(6,214)	-	-
Other	48,292	68,256	-	116,548	103,836
Total current liabilities	2,184,956	80,285	(6,214)	2,259,027	2,347,300
LONG-TERM DEBT, less current maturities	1,872,904	-	-	1,872,904	1,941,110
Total liabilities	4,057,860	80,285	(6,214)	4,131,931	4,288,410
NET ASSETS					
Invested in capital assets, net of related debt	4,197,433	1,087,053	-	5,284,486	4,791,876
Unrestricted	2,157,291	(29,015)	-	2,128,276	1,989,372
Restricted					
For volunteer service program	27,129	-	-	27,129	-
For capital acquisitions and specific operating activities	9,578	25,159	-	34,737	19,854
Total net assets	6,391,431	1,083,197	-	7,474,628	6,801,102
Total liabilities and net assets	\$ 10,449,291	\$ 1,163,482	\$ (6,214)	\$ 11,606,559	\$ 11,089,512

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR 2004)

	2005			2004	
	Health Center	Foundation	Eliminations	Total	Total
OPERATING REVENUES					
Net patient service revenue (net of provision for bad debts of \$398,402 in 2005 and \$299,707 in 2004)	\$ 10,955,602	\$ -	\$ -	\$ 10,955,602	\$ 9,920,876
Other operating revenues	<u>782,895</u>	<u>217,704</u>	<u>(160,899)</u>	<u>839,700</u>	<u>863,278</u>
TOTAL OPERATING REVENUES	<u>11,738,497</u>	<u>217,704</u>	<u>(160,899)</u>	<u>11,795,302</u>	<u>10,784,154</u>
OPERATING EXPENSES					
Salaries and wages	4,918,519	-	-	4,918,519	4,712,770
Employee benefits	1,148,364	-	-	1,148,364	1,088,273
Supplies and other expenses	4,947,094	324,037	(160,899)	5,110,232	4,275,720
Depreciation	<u>809,557</u>	<u>32,139</u>	<u>-</u>	<u>841,696</u>	<u>727,463</u>
TOTAL OPERATING EXPENSES	<u>11,823,534</u>	<u>356,176</u>	<u>(160,899)</u>	<u>12,018,811</u>	<u>10,804,226</u>
LOSS FROM OPERATIONS	<u>(85,037)</u>	<u>(138,472)</u>	<u>-</u>	<u>(223,509)</u>	<u>(20,072)</u>
NONOPERATING REVENUES (EXPENSES)					
County tax revenue	665,109	-	-	665,109	678,641
Noncapital grants and contributions	172,085	74,330	-	246,415	79,114
Gain (loss) on disposal of capital assets	33,090	-	-	33,090	(23,293)
Interest expense	(100,643)	-	-	(100,643)	(109,587)
Investment income	<u>33,676</u>	<u>1,205</u>	<u>-</u>	<u>34,881</u>	<u>17,886</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>803,317</u>	<u>75,535</u>	<u>-</u>	<u>878,852</u>	<u>642,761</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS					
	718,280	(62,937)	-	655,343	622,689
Capital grants and contributions	<u>18,183</u>	<u>-</u>	<u>-</u>	<u>18,183</u>	<u>38,400</u>
INCREASE (DECREASE) IN NET ASSETS	<u>736,463</u>	<u>(62,937)</u>	<u>-</u>	<u>673,526</u>	<u>661,089</u>
NET ASSETS BEGINNING OF YEAR	<u>5,654,968</u>	<u>1,146,134</u>	<u>-</u>	<u>6,801,102</u>	<u>6,140,013</u>
NET ASSETS END OF YEAR	<u>\$ 6,391,431</u>	<u>\$ 1,083,197</u>	<u>\$ -</u>	<u>\$ 7,474,628</u>	<u>\$ 6,801,102</u>

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, 2005

	<u>Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 665,109	\$ -	\$ 665,109	\$ 688,848	\$ (23,739)
Estimated other revenues/receipts	<u>11,995,531</u>	<u>(49,876)</u>	<u>11,945,655</u>	<u>11,875,157</u>	<u>70,498</u>
	12,660,640	(49,876)	12,610,764	12,564,005	46,759
Expenses/disbursements	<u>11,924,177</u>	<u>540,486</u>	<u>12,464,663</u>	<u>12,497,091</u>	<u>32,428</u>
Net	736,463	(590,362)	146,101	66,914	<u>\$ 79,187</u>
Balance beginning of year	<u>5,654,968</u>	<u>(4,128,776)</u>	<u>1,526,192</u>	<u>862,315</u>	
Balance end of year	<u>\$ 6,391,431</u>	<u>\$ (4,719,138)</u>	<u>\$ 1,672,293</u>	<u>\$ 929,229</u>	

This budgetary comparison is presented as Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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, 2005
(WITH COMPARATIVE TOTALS FOR 2004)

	2005			2004
	Inpatient	Outpatient	Total	Total
PATIENT SERVICE REVENUE				
Daily Patient Services				
Medical and surgical	\$ 1,446,030	\$ 89,960	\$ 1,535,990	\$ 1,509,642
Obstetrics	103,420	-	103,420	96,635
Nursery	171,377	20,384	191,761	163,531
	<u>1,720,827</u>	<u>110,344</u>	<u>1,831,171</u>	<u>1,769,808</u>
Other Nursing Services				
Operating room	312,235	1,447,013	1,759,248	1,833,547
Residential care	241,910	-	241,910	340,370
Emergency room	15,791	1,086,506	1,102,297	1,142,509
	<u>569,936</u>	<u>2,533,519</u>	<u>3,103,455</u>	<u>3,316,426</u>
Other Professional Services				
Central service and supply	46,444	167,670	214,114	212,969
Laboratory	278,754	1,847,460	2,126,214	1,633,189
EKG/EEG	19,335	65,930	85,265	78,012
Radiology	299,334	2,895,498	3,194,832	2,422,859
Pharmacy	615,067	955,422	1,570,489	1,391,662
Anesthesiology	100,717	462,386	563,103	602,224
Respiratory therapy	202,840	51,473	254,313	232,349
Physical therapy	75,853	508,878	584,731	635,520
Speech therapy	7,869	27,138	35,007	12,159
Occupational therapy	11,823	12,595	24,418	20,391
Ambulance service	16,305	448,307	464,612	440,186
Pediatric therapy	-	1,231,625	1,231,625	890,603
Diabetic education	-	7,423	7,423	22,855
Adult Day Care	-	14,943	14,943	13,897
Behavioral health service	18,082	631,299	649,381	599,913
Cardiac and pulmonary rehab	1,700	161,458	163,158	146,059
Infusion therapy	-	78,573	78,573	75,735
	<u>1,694,123</u>	<u>9,568,078</u>	<u>11,262,201</u>	<u>9,430,582</u>
Total patient service revenue	<u>\$ 3,984,886</u>	<u>\$ 12,211,941</u>	<u>16,196,827</u>	<u>14,516,816</u>
CONTRACTUAL ADJUSTMENTS				
Medicare			(3,179,752)	(2,855,806)
Medicaid			(872,240)	(787,728)
Blue Cross			(426,613)	(275,469)
Other			(364,218)	(377,230)
Total contractual adjustments			<u>(4,842,823)</u>	<u>(4,296,233)</u>
NET PATIENT SERVICE REVENUE			11,354,004	10,220,583
PROVISION FOR BAD DEBTS			<u>(398,402)</u>	<u>(299,707)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)			<u>\$ 10,955,602</u>	<u>\$ 9,920,876</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OTHER OPERATING REVENUES – HEALTH CENTER
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Day care	\$ 309,548	\$ 357,422
Medical office building leases	113,424	109,548
Cafeteria sales	68,129	68,674
Medical records transcripts	77,035	65,108
In-kind contribution - rent	48,065	49,951
Housekeeping revenue	33,000	33,000
Management fees	9,600	9,600
Lifeline	27,933	3,827
Other	<u>96,161</u>	<u>61,068</u>
	<u>\$ 782,895</u>	<u>\$ 758,198</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
NURSING ADMINISTRATION		
Salaries and wages	\$ 85,942	\$ 73,991
Supplies and other expenses	3,167	3,201
	<u>89,109</u>	<u>77,192</u>
MEDICAL AND SURGICAL		
Salaries and wages	767,992	726,793
Supplies and other expenses	120,114	112,380
	<u>888,106</u>	<u>839,173</u>
NURSERY		
Salaries and wages	69,093	81,232
Supplies and other expenses	28,865	27,845
	<u>97,958</u>	<u>109,077</u>
OPERATING ROOM		
Salaries and wages	209,722	199,515
Supplies and other expenses	114,334	103,496
	<u>324,056</u>	<u>303,011</u>
RESIDENTIAL CARE		
Salaries and wages	81,885	86,475
Supplies and other expenses	10,029	8,855
	<u>91,914</u>	<u>95,330</u>
EMERGENCY ROOM		
Salaries and wages	452,397	452,835
Supplies and other expenses	200,384	173,798
	<u>652,781</u>	<u>626,633</u>
CENTRAL STERILE		
Salaries and wages	20,618	29,596
Supplies and other expenses	16,503	18,412
	<u>37,121</u>	<u>48,008</u>
CENTRAL SERVICE AND SUPPLY		
Salaries and wages	32,609	35,600
Supplies and other expenses	176,402	116,944
	<u>209,011</u>	<u>152,544</u>
LABORATORY		
Salaries and wages	323,206	283,011
Supplies and other expenses	427,290	355,875
	<u>750,496</u>	<u>638,886</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
EKG/EEG		
Salaries and wages	\$ 3,611	\$ 3,801
Supplies and other expenses	3,423	1,611
	<u>7,034</u>	<u>5,412</u>
RADIOLOGY		
Salaries and wages	176,865	192,684
Supplies and other expenses	550,127	487,171
	<u>726,992</u>	<u>679,855</u>
PHARMACY		
Salaries and wages	119,060	111,052
Supplies and other expenses	485,753	410,103
	<u>604,813</u>	<u>521,155</u>
ANESTHESIOLOGY		
Supplies and other expenses	246,072	231,027
	<u>246,072</u>	<u>231,027</u>
RESPIRATORY THERAPY		
Salaries and wages	67,898	61,520
Supplies and other expenses	20,222	25,030
	<u>88,120</u>	<u>86,550</u>
PHYSICAL THERAPY		
Salaries and wages	167,660	137,423
Supplies and other expenses	13,143	19,760
	<u>180,803</u>	<u>157,183</u>
SPEECH THERAPY		
Professional fees	15,040	4,664
	<u>15,040</u>	<u>4,664</u>
OCCUPATIONAL THERAPY		
Professional fees	8,340	5,589
	<u>8,340</u>	<u>5,589</u>
AMBULANCE SERVICE		
Salaries and wages	108,547	121,438
Supplies and other expenses	27,921	25,266
	<u>136,468</u>	<u>146,704</u>
MOB AND CLINICS		
Salaries and wages	45,300	40,647
Supplies and other expenses	29,923	28,083
	<u>75,223</u>	<u>68,730</u>
PEDIATRIC THERAPY		
Supplies and other expenses	853,144	570,870
	<u>853,144</u>	<u>570,870</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
DIABETIC EDUCATION		
Salaries and wages	\$ 16,828	\$ 23,797
Supplies and other expenses	<u>2,208</u>	<u>2,834</u>
	<u>19,036</u>	<u>26,631</u>
ADULT DAY CARE		
Salaries and wages	13,476	10,534
Supplies and other expenses	<u>2,533</u>	<u>1,443</u>
	<u>16,009</u>	<u>11,977</u>
DAY CARE		
Salaries and wages	281,591	293,619
Supplies and other expenses	<u>88,086</u>	<u>99,378</u>
	<u>369,677</u>	<u>392,997</u>
BUSINESS OFFICE		
Salaries and wages	207,829	195,436
Supplies and other expenses	<u>60,646</u>	<u>54,511</u>
	<u>268,475</u>	<u>249,947</u>
BEHAVIORAL HEALTH SERVICE		
Salaries and wages	329,281	298,552
Supplies and other expenses	<u>56,814</u>	<u>53,494</u>
	<u>386,095</u>	<u>352,046</u>
CARDIAC AND PULMONARY REHAB		
Salaries and wages	50,716	51,987
Supplies and other expenses	<u>6,665</u>	<u>4,074</u>
	<u>57,381</u>	<u>56,061</u>
SPECIALTY AND SURGICAL CLINIC		
Salaries and wages	1,460	-
Supplies and other expenses	<u>100</u>	<u>-</u>
	<u>1,560</u>	<u>-</u>
INFUSION THERAPY		
Salaries and wages	39,261	30,216
Supplies and other expenses	<u>2,439</u>	<u>2,570</u>
	<u>41,700</u>	<u>32,786</u>
DIETARY		
Salaries and wages	171,768	156,138
Supplies and other expenses	<u>108,266</u>	<u>101,627</u>
	<u>280,034</u>	<u>257,765</u>
OPERATION OF PLANT		
Salaries and wages	146,588	117,920
Supplies and other expenses	<u>560,720</u>	<u>488,996</u>
	<u>707,308</u>	<u>606,916</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
HOUSEKEEPING		
Salaries and wages	\$ 165,695	\$ 151,615
Supplies and other expenses	<u>30,065</u>	<u>25,379</u>
	<u>195,760</u>	<u>176,994</u>
LAUNDRY AND LINEN		
Salaries and wages	18,801	21,757
Supplies and other expenses	<u>5,216</u>	<u>6,125</u>
	<u>24,017</u>	<u>27,882</u>
MEDICAL RECORDS		
Salaries and wages	166,925	157,806
Supplies and other expenses	<u>68,251</u>	<u>71,609</u>
	<u>235,176</u>	<u>229,415</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	575,895	565,780
Supplies and other expenses	<u>455,412</u>	<u>340,272</u>
	<u>1,031,307</u>	<u>906,052</u>
UNASSIGNED EXPENSES		
Employee benefits	1,148,364	1,088,273
Insurance and taxes	149,477	132,047
Depreciation	<u>809,557</u>	<u>695,576</u>
	<u>2,107,398</u>	<u>1,915,896</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 11,823,534</u></u>	<u><u>\$ 10,610,958</u></u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS –
HEALTH CENTER
JUNE 30, 2005 AND 2004

ANALYSIS OF AGING

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
DAYS SINCE DISCHARGE				
0 to 30 days	\$ 1,045,651	45.34%	\$ 1,218,033	53.97%
1 to 2 months	439,709	19.06	335,099	14.85
2 to 3 months	152,649	6.62	187,120	8.29
3 to 4 months	144,375	6.26	120,715	5.35
Over 4 months	<u>524,117</u>	<u>22.72</u>	<u>396,085</u>	<u>17.54</u>
	2,306,501	<u>100.00%</u>	2,257,052	<u>100.00%</u>
Less: Allowance for doubtful accounts	357,000		291,000	
Allowance for contractual adjustments	<u>421,000</u>		<u>460,000</u>	
Net	<u>\$ 1,528,501</u>		<u>\$ 1,506,052</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
BALANCE, BEGINNING OF YEAR	\$ 291,000	\$ 260,000
Add: Provision for bad debts	398,402	299,707
Less: Write offs, net of recoveries	<u>(332,402)</u>	<u>(268,707)</u>
BALANCE, END OF YEAR	<u>\$ 357,000</u>	<u>\$ 291,000</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SUPPLIES/PREPAID EXPENSES – HEALTH CENTER
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
SUPPLIES		
Pharmacy	\$ 62,609	\$ 58,269
Medical and surgical	30,826	36,017
Central stores	25,289	24,364
Plant operations	10,548	11,496
Laundry	1,123	-
Gift shop	5,183	-
Dietary	10,055	10,799
Laboratory	17,200	9,882
Radiology	<u>3,832</u>	<u>3,450</u>
 Total supplies	 <u>\$ 166,665</u>	 <u>\$ 154,277</u>
 PREPAID EXPENSES		
Insurance	\$ 22,387	\$ 27,166
Maintenance contracts	32,337	18,784
Dues	-	7,222
Other	<u>10,280</u>	<u>10,580</u>
 Total prepaid expenses	 <u>\$ 65,004</u>	 <u>\$ 63,752</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Acute		
Adults and pediatrics (includes obstetrics)	1,773	1,805
Newborn	127	126
Special care unit	12	15
Swing-bed – skilled care	565	590
NUMBER OF BEDS	25	25
PERCENT OF OCCUPANCY (excluding newborn)	25.8%	26.4%
DISCHARGES		
Acute	675	653
Swing-bed – skilled care	83	89
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	3.00	2.79
Swing-bed – skilled care	6.42	6.63
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Semi-private/obstetrics	\$ 725/820	\$ 690/780
Special care unit	1,065	1,010
Nursery	490/665/870	410/570/790
Swing-bed - skilled care	405	365



CPAs & BUSINESS ADVISORS

**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**

The Board of Trustees
Lucas County Health Center and Affiliate
Chariton, Iowa

We have audited the accompanying combined balance sheets of **Lucas County Health Center and Affiliate** as of June 30, 2005 and 2004, 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 August 10, 2005. 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.

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 an opinion 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-05 in the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We also noted a matter involving the Health Center's operations that we have reported to management in a separate letter dated August 10, 2005. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters 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, 2005, 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.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 10, 2005

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-05 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-05 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution for one bank were exceeded during the year ended June 30, 2005. Subsequently, the Board has approved an increase in the maximum deposit amounts for all depositories.

II-B-05 Certified Budget – Health Center disbursements during the year ended June 30, 2005, did not exceed amounts budgeted.

II-C-05 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-05 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-E-05 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-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-05 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.