

**FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

**LUCAS COUNTY HEALTH CENTER
AND AFFILIATE**

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
Mike Cruzen	Treasurer	January 1, 2011
Roger Struve	Secretary	January 1, 2009
Corliss Klaassen	Member	January 1, 2007
Rick Runyon	Member	January 1, 2009
Betty Hansen	Member	January 1, 2007

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	
David M. Miller (Mike)	Director	

Lucas County Health Center

<u>Health Center Officials</u>		
Dan Minkoff	Chief Executive Officer	
Veronica Fuhs	Assistant Administrator	
JoBeth Lawless	DON/Nursing Services Director	
Lana Kuball	Administrative Services Director	
Karen Wilker	Marketing Director	
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, 2006 and 2005, 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 combined 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, 2006 and 2005, 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 2, 2006, on our consideration of the Health Center's 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 pages 23 and 24 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 required supplementary information. We did not audit the information and express no opinion on it.

Eide Bailly LLP

Dubuque, Iowa
August 2, 2006

**Lucas County Health Center
Management's Discussion and Analysis
June 30, 2006**

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 \$6,388,439 at June 30, 2006, down \$2,992 from the prior year.
- LCHC recorded expenses in excess of revenues of \$41,267 for the fiscal year ending June 30, 2006.
- 18 days cash on hand from short-term sources were reported at June 30, 2006.
- 55 days charges in gross accounts receivable were reported at June 30, 2006.
- LCHC had 1,839 acute patient days in fiscal year 2006, a decrease of 3.8% from 2005.
- LCHC had 601 swing-bed patient days in fiscal year 2006, an increase of 6.4% from 2005.
- LCHC had 19,630 outpatient admissions in fiscal year 2006, an increase of 1.6% from 2005.

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, 2006, indicates total assets of \$10,521,290, total liabilities of \$4,132,851, and net assets of \$6,388,439. Total current assets were \$3,537,766, and total current liabilities were \$2,470,358, for a current ratio of 1.43.

As reported in the Statement of Cash Flows, cash and cash equivalents decreased from \$979,691 at July 1, 2005, to \$591,791 at June 30, 2006. The net decrease in cash and cash equivalents of \$387,900 came generally from the net cash used for capital and related financing activities.

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 are also compared with the previous year. The expenses are detailed by department and by natural expense classification and are also compared to the previous year.

Capital Assets and Debt Administration

LCHC's capital assets as of June 30, 2006, amounted to \$6,584,516 (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 \$1,872,927 with current maturities of \$210,434. 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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 660,650	\$ 1,036,760
Assets limited as to use	212,644	206,314
Receivables		
Patient, net of estimated uncollectibles of \$877,000 in 2006 and \$778,000 in 2005	1,786,809	1,528,501
Succeeding year property tax	636,095	624,540
Other	57,703	104,412
Supplies	179,928	166,665
Prepaid expense	<u>79,376</u>	<u>66,342</u>
 Total current assets	 <u>3,613,205</u>	 <u>3,733,534</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board for property and equipment	72,261	186,954
Bond trust fund	<u>530,706</u>	<u>520,629</u>
	602,967	707,583
Less amount required to meet current obligations	<u>(212,644)</u>	<u>(206,314)</u>
 Total assets limited as to use or restricted, excluding current portion	 <u>390,323</u>	 <u>501,269</u>
PROPERTY AND EQUIPMENT, net - Note 5	<u>7,639,874</u>	<u>7,358,106</u>
OTHER ASSETS	<u>17,527</u>	<u>13,650</u>
 Total assets	 <u>\$ 11,660,929</u>	 <u>\$ 11,606,559</u>

See notes to combined financial statements.

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 210,434	\$ 200,716
Accounts payable		
Trade	525,716	504,330
Estimated third-party payor settlements	471,000	300,000
Accrued expenses		
Salaries and wages	87,525	65,394
Paid time off	280,671	249,321
Payroll taxes and other payroll withholdings	175,414	155,830
Interest	56,492	63,348
Other	89,977	95,548
Deferred revenue for succeeding year property tax receivable	<u>636,095</u>	<u>624,540</u>
Total current liabilities	2,533,324	2,259,027
LONG-TERM DEBT, less current maturities - Note 7	<u>1,662,493</u>	<u>1,872,904</u>
Total liabilities	<u>4,195,817</u>	<u>4,131,931</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,766,947	5,284,486
Unrestricted	1,628,630	2,128,276
Restricted		
For volunteer service program	28,086	27,129
For capital acquisitions and specific operating activities	<u>41,449</u>	<u>34,737</u>
Total net assets	<u>7,465,112</u>	<u>7,474,628</u>
Total liabilities and net assets	<u>\$ 11,660,929</u>	<u>\$ 11,606,559</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$342,756 in 2006 and \$398,402 in 2005) - Notes 2 and 3	\$ 11,208,415	\$ 10,955,550
Other operating revenues	<u>931,127</u>	<u>839,752</u>
TOTAL OPERATING REVENUES	<u>12,139,542</u>	<u>11,795,302</u>
OPERATING EXPENSES		
Salaries and wages	5,376,011	4,918,519
Employee benefits	1,258,452	1,148,364
Supplies and other expenses	5,157,380	5,110,232
Depreciation	<u>992,323</u>	<u>841,696</u>
TOTAL OPERATING EXPENSES	<u>12,784,166</u>	<u>12,018,811</u>
OPERATING LOSS	<u>(644,624)</u>	<u>(223,509)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	623,289	665,109
Noncapital grants and contributions	68,984	246,415
Gain (loss) on disposal of capital assets	(30,888)	33,090
Interest expense	(91,983)	(100,643)
Investment income - Note 4	<u>27,431</u>	<u>34,881</u>
NET NONOPERATING REVENUES	<u>596,833</u>	<u>878,852</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>(47,791)</u>	655,343
Capital grants and contributions	<u>38,275</u>	<u>18,183</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(9,516)</u>	673,526
NET ASSETS BEGINNING OF YEAR	<u>7,474,628</u>	<u>6,801,102</u>
NET ASSETS END OF YEAR	<u>\$ 7,465,112</u>	<u>\$ 7,474,628</u>

See notes to combined financial statements.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 11,121,107	\$ 10,956,101
Other receipts	977,836	844,562
Payments of salaries and wages	(5,308,517)	(5,021,851)
Payments of employee benefits	(1,258,452)	(1,148,364)
Payments of supplies and other expenses	<u>(5,162,291)</u>	<u>(5,111,373)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>369,683</u>	<u>519,075</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	623,289	665,109
Noncapital grants and contributions received	<u>68,984</u>	<u>246,415</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>692,273</u>	<u>911,524</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(1,325,427)	(1,236,197)
Proceeds from sale of assets	20,448	-
Capital grants and contributions revenue received	38,275	18,183
Proceeds from debt	65,000	-
Principal paid on debt	(265,693)	(65,019)
Interest paid on debt	<u>(98,839)</u>	<u>(60,148)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,566,236)</u>	<u>(1,343,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use or restricted	104,616	(66,644)
Increase in other assets	(3,877)	(11,570)
Investment income received	<u>27,431</u>	<u>34,881</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>128,170</u>	<u>(43,333)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(376,110)	44,085
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,036,760</u>	<u>992,675</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 660,650</u>	<u>\$ 1,036,760</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (644,624)	\$ (223,509)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	992,323	841,696
Provision for bad debts	342,756	398,402
Changes in assets and liabilities		
Receivables	(554,355)	(416,041)
Supplies	(13,263)	(12,388)
Prepaid expenses	(13,034)	(1,438)
Accounts payable	21,386	(8,315)
Accrued expenses	67,494	(82,332)
Estimated third-party payor settlements	171,000	23,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 369,683</u>	<u>\$ 519,075</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

(continued in next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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). The accompanying financial statements have been prepared on the accrual basis of accounting. 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. Management also reviews accounts to determine if classification as charity care is appropriate.

(continued in next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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, 2006, 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, 2006 AND 2005

Deferred Revenue

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

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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$51,101 and \$51,050 for advertising costs for the years ended June 30, 2006 and 2005, 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 – CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, were \$30,003 and \$14,759, respectively.

NOTE 3 – 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, 2004. 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 settled 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 16,603,331</u>	<u>\$ 16,182,016</u>
Contractual adjustments		
Medicare	(2,918,842)	(3,179,752)
Medicaid	(1,241,743)	(872,240)
Blue Cross	(445,752)	(426,613)
Other	<u>(445,823)</u>	<u>(349,459)</u>
Total contractual adjustments	<u>(5,052,160)</u>	<u>(4,828,064)</u>
Net patient service revenue	11,551,171	11,353,952
Provision for bad debts	<u>(342,756)</u>	<u>(398,402)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,208,415</u>	<u>\$ 10,955,550</u>

NOTE 4 – CASH AND DEPOSITS

Health Center Deposits

The Health Center's deposits in banks at June 30, 2006 and 2005, 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

At June 30, 2006 and 2005, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Certificates of deposit	\$ 176,407	\$ 183,507
Checking and savings accounts	<u>1,002,929</u>	<u>1,488,786</u>
Total	<u>\$ 1,179,336</u>	<u>\$ 1,672,293</u>

Included in the following balance sheet captions:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 591,791	\$ 979,691
Assets limited as to use or restricted	<u>587,545</u>	<u>692,602</u>
	<u>\$ 1,179,336</u>	<u>\$ 1,672,293</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>2006</u>	<u>2005</u>
Money market and savings accounts	\$ 68,859	\$ 57,069
Certificates of deposit	<u>15,422</u>	<u>14,981</u>
	<u>\$ 84,281</u>	<u>\$ 72,050</u>

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

Investment Income

	<u>2006</u>	<u>2005</u>
Interest and dividend income		
Health Center	\$ 26,188	\$ 33,676
Foundation	<u>1,243</u>	<u>1,205</u>
	<u>\$ 27,431</u>	<u>\$ 34,881</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2006 and 2005, follows:

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 20,783	\$ -	\$ -	\$ -	\$ 20,783
Land improvements	357,164	67,191	-	-	424,355
Buildings and improvements	7,314,027	154,493	22,333	-	7,446,187
Equipment	8,366,178	1,044,321	405,961	-	9,004,538
Construction-in-progress	-	59,422	-	-	59,422
	<u>16,058,152</u>	<u>1,325,427</u>	<u>428,294</u>	<u>-</u>	<u>16,955,285</u>
Accumulated depreciation					
Land improvements	256,446	5,500	-	-	261,946
Buildings and improvements	3,001,537	269,651	13,624	-	3,257,564
Equipment	5,442,063	717,172	363,334	-	5,795,901
	<u>8,700,046</u>	<u>992,323</u>	<u>376,958</u>	<u>-</u>	<u>9,315,411</u>
Total property and equipment, net	<u>\$ 7,358,106</u>	<u>\$ 333,104</u>	<u>\$ 51,336</u>	<u>\$ -</u>	<u>\$ 7,639,874</u>
	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
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>

Construction-in-progress at June 30, 2006, consists mainly of a DDC Air Handling Unit. The project is expected to be completed in October of 2006, with an estimated cost of approximately \$95,000, and it will be financed through Health Center operations.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 6 – LEASES

The Health Center leases certain equipment under operating leases. Total rental expense for all operating leases for the years ended June 30, 2006 and 2005, was \$165,204 and \$169,248, respectively.

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Health Center's long-term debt for 2006 and 2005 follows:

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2006 Balance</u>	<u>Amounts Due Within 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.	\$ 330,000	\$ -	\$ 105,000	\$ 225,000	\$ 110,000
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.	439,622	-	55,560	384,062	58,334
Hospital Revenue Note, Series 1991B, payable in annual installments of \$51,898 to 2017, including interest fixed at 5.0% per annum.	487,257	-	27,500	459,757	28,912
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.	816,741	-	12,633	804,108	13,188
	<u>\$ 2,073,620</u>	<u>\$ -</u>	<u>\$ 200,693</u>	<u>1,872,927</u>	<u>\$ 210,434</u>
Less current maturities				<u>(210,434)</u>	
Long-term debt, less current maturities				<u>\$ 1,662,493</u>	

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 210,434	\$ 87,286	\$ 297,720
2008	220,386	76,808	297,194
2009	110,582	65,834	176,416
2010	116,035	61,029	177,064
2011	121,743	55,321	177,064
2012-2016	355,499	214,025	569,524
2017-2021	208,237	142,430	350,667
2022-2026	139,622	107,248	246,870
2027-2031	173,995	72,875	246,870
2032-2036	216,394	30,476	246,870
	<u>\$ 1,872,927</u>	<u>\$ 913,332</u>	<u>\$ 2,786,259</u>

	<u>June 30</u>			<u>June 30</u>	<u>Amounts</u>
	<u>2004</u>	<u>Additions</u>	<u>Payments</u>	<u>2005</u>	<u>Due Within</u>
	<u>Balance</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.	\$ 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

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

	June 30 2004 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2005 <u>Balance</u>	Amounts Due Within One Year <u> </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.	\$ 828,842	\$ -	\$ 12,101	\$ 816,741	\$ 12,621
	<u>\$ 2,138,639</u>	<u>\$ -</u>	<u>\$ 65,019</u>	2,073,620 <u>(200,716)</u>	<u>\$ 200,716</u>
Less current maturities					
Long-term debt, less current maturities				<u>\$ 1,872,904</u>	

Line of Credit

Lucas County Health Center established an unsecured line of credit in the amount of \$250,000 with Midwest Heritage Bank on January 10, 2006, to assist in Health Center operations. The interest rate on the agreement is the prime rate as stated in the Wall Street Journal less 1%. The maturity date of the agreement is January 10, 2007. There was no outstanding balance on the line of credit as of June 30, 2006.

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, 2006, is as follows:

	Principal Balance at June 30 2005 <u> </u>	<u>Additions</u>	<u>Payments</u>	Principal Balance at June 30 2006 <u> </u>
Revenue Bonds	\$ 330,000	\$ -	\$ 105,000	<u>\$ 225,000</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Revenue bond activity for the year ended June 30, 2005, is as follows:

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

Aggregate annual maturities of the revenue bonds at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Revenue Bonds Principal Due</u>	<u>Revenue Bonds Interest Due</u>
2007	\$ 110,000	\$ 11,250
2008	<u>115,000</u>	<u>5,750</u>
	<u>\$ 225,000</u>	<u>\$ 17,000</u>

Other Note Requirements

As required under the Series 1994A loan agreement, a sinking fund and a debt service reserve fund have been established. Periodic deposits in the bond sinking fund are required to provide for scheduled interest and principal payments. The debt service reserve fund is fully funded at a \$49,374 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 required monthly payments to a debt service reserve fund to levels of \$90,000 and \$51,960, respectively. These amounts are also fully funded as of June 30, 2006. The funds are to be maintained at these levels but can be utilized to pay scheduled interest and principal payments, if needed.

NOTE 8 – 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, 2006, 2005, and 2004. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$305,440, \$280,341, and \$267,800, respectively, equal to the required contributions for each year.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 9 – 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, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Medicare and Medicaid	39%	42%
Patients and other third-party payors	<u>61</u>	<u>58</u>
	<u>100%</u>	<u>100%</u>

NOTE 10 – CONTINGENCIES

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.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

NOTE 11 – 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.

NOTE 12 – HUMESTON CLINIC

Lucas County Health Center opened a clinic in Humeston, Iowa, beginning July 1, 2006.

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, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 623,289	\$ -	\$ 623,289	\$ 624,540	\$ (1,251)
Estimated other revenues/ receipts	<u>12,078,760</u>	<u>(95,967)</u>	<u>11,982,793</u>	<u>12,513,133</u>	<u>(530,340)</u>
	12,702,049	(95,967)	12,606,082	13,137,673	(531,591)
Expenses/disbursements	<u>12,705,041</u>	<u>393,998</u>	<u>13,099,039</u>	<u>13,310,064</u>	<u>211,025</u>
Net	(2,992)	(489,965)	(492,957)	(172,391)	<u>\$ (320,566)</u>
Balance beginning of year	<u>6,391,431</u>	<u>(4,719,138)</u>	<u>1,672,293</u>	<u>1,235,402</u>	
Balance end of year	<u>\$ 6,388,439</u>	<u>\$ (5,209,103)</u>	<u>\$ 1,179,336</u>	<u>\$ 1,063,011</u>	

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Health Center preparing a budget on the cash basis of accounting.

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. The budget was amended during the year ended June 30, 2006.



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, except for the schedule of statistical information on page 36 marked "Unaudited," 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 2, 2006

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING BALANCE SHEET
JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006				2005
	Health Center	Foundation	Eliminations	Total	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 591,791	\$ 68,859	\$ -	\$ 660,650	\$ 1,036,760
Assets limited as to use	212,644	-	-	212,644	206,314
Receivables					
Patient, net of estimated uncollectibles of \$877,000 in 2006 and \$778,000 in 2005	1,786,809	-	-	1,786,809	1,528,501
Succeeding year property tax	636,095	-	-	636,095	624,540
Other	57,703	4,726	(4,726)	57,703	104,412
Supplies	179,928	-	-	179,928	166,665
Prepaid expense	79,376	-	-	79,376	66,342
Total current assets	3,544,346	73,585	(4,726)	3,613,205	3,733,534
ASSETS LIMITED AS TO USE OR RESTRICTED					
Investments					
By board for property and equipment	56,839	15,422	-	72,261	186,954
Bond trust fund	530,706	-	-	530,706	520,629
	587,545	15,422	-	602,967	707,583
Less amount required to meet current obligations	(212,644)	-	-	(212,644)	(206,314)
Total assets limited as to use or restricted, excluding current portion	374,901	15,422	-	390,323	501,269
PROPERTY AND EQUIPMENT, net	6,584,516	1,055,358	-	7,639,874	7,358,106
OTHER ASSETS	17,527	-	-	17,527	13,650
Total assets	\$ 10,521,290	\$ 1,144,365	\$ (4,726)	\$ 11,660,929	\$ 11,606,559

	2006			2005	
	Health Center	Foundation	Eliminations	Total	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	\$ 210,434	\$ -	\$ -	\$ 210,434	\$ 200,716
Accounts payable					
Trade	524,989	5,453	(4,726)	525,716	504,330
Estimated third-party payor settlements	471,000	-	-	471,000	300,000
Accrued expenses					
Salaries and wages	87,525	-	-	87,525	65,394
Paid time off	280,671	-	-	280,671	249,321
Payroll taxes and other payroll withholdings	175,414	-	-	175,414	155,830
Interest	56,492	-	-	56,492	63,348
Other	27,738	62,239	-	89,977	95,548
Deferred revenue for succeeding year property tax receivable	636,095	-	-	636,095	624,540
Total current liabilities	2,470,358	67,692	(4,726)	2,533,324	2,259,027
LONG-TERM DEBT, less current maturities	1,662,493	-	-	1,662,493	1,872,904
Total liabilities	4,132,851	67,692	(4,726)	4,195,817	4,131,931
NET ASSETS					
Invested in capital assets, net of related debt	4,711,589	1,055,358	-	5,766,947	5,284,486
Unrestricted	1,627,137	1,493	-	1,628,630	2,128,276
Restricted					
For volunteer service program	28,086	-	-	28,086	27,129
For capital acquisitions and specific operating activities	21,627	19,822	-	41,449	34,737
Total net assets	6,388,439	1,076,673	-	7,465,112	7,474,628
Total liabilities and net assets	\$ 10,521,290	\$ 1,144,365	\$ (4,726)	\$ 11,660,929	\$ 11,606,559

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006			2005
	Health Center	Foundation	Eliminations	Total
OPERATING REVENUES				
Net patient service revenue (net of provision for bad debts of \$342,756 in 2006 and \$398,402 in 2005)	\$ 11,208,415	\$ -	\$ -	\$ 11,208,415
Other operating revenues	766,957	202,277	(38,107)	931,127
TOTAL OPERATING REVENUES	11,975,372	202,277	(38,107)	12,139,542
OPERATING EXPENSES				
Salaries and wages	5,376,011	-	-	5,376,011
Employee benefits	1,258,452	-	-	1,258,452
Supplies and other expenses	5,017,967	180,043	(40,630)	5,157,380
Depreciation	960,628	31,695	-	992,323
TOTAL OPERATING EXPENSES	12,613,058	211,738	(40,630)	12,784,166
OPERATING LOSS	(637,686)	(9,461)	2,523	(644,624)
NONOPERATING REVENUES (EXPENSES)				
County tax revenue	623,289	-	-	623,289
Noncapital grants and contributions	69,813	1,694	(2,523)	68,984
Gain (loss) on disposal of capital assets	(30,888)	-	-	(30,888)
Interest expense	(91,983)	-	-	(91,983)
Investment income	26,188	1,243	-	27,431
NET NONOPERATING REVENUES	596,419	2,937	(2,523)	596,833
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(41,267)	(6,524)	-	(47,791)
Capital grants and contributions	38,275	-	-	38,275
INCREASE (DECREASE) IN NET ASSETS	(2,992)	(6,524)	-	(9,516)
NET ASSETS BEGINNING OF YEAR	6,391,431	1,083,197	-	7,474,628
NET ASSETS END OF YEAR	\$ 6,388,439	\$ 1,076,673	\$ -	\$ 7,465,112

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF NET PATIENT SERVICE REVENUE – HEALTH CENTER
YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006			2005
	Inpatient	Outpatient	Total	Total
PATIENT SERVICE REVENUE				
Daily Patient Services				
Medical and surgical	\$ 1,458,105	\$ 63,870	\$ 1,521,975	\$ 1,535,990
Obstetrics	134,460	-	134,460	103,420
Labor and delivery	100,360	32,619	132,979	123,317
Nursery	77,575	-	77,575	68,444
	<u>1,770,500</u>	<u>96,489</u>	<u>1,866,989</u>	<u>1,831,171</u>
Other Nursing Services				
Operating room	254,855	1,487,106	1,741,961	1,759,248
Residential care	249,270	-	249,270	241,910
Emergency room	21,416	1,279,205	1,300,621	1,102,297
	<u>525,541</u>	<u>2,766,311</u>	<u>3,291,852</u>	<u>3,103,455</u>
Other Professional Services				
Central service and supply	30,366	158,098	188,464	214,114
Laboratory	287,877	1,967,607	2,255,484	2,126,214
EKG/EEG	21,486	72,635	94,121	85,265
Radiology	293,843	3,047,708	3,341,551	3,194,832
Pharmacy	535,360	893,927	1,429,287	1,570,489
Anesthesiology	-	481,385	481,385	462,386
CRNA	95,232	-	95,232	100,717
Respiratory therapy	193,721	85,957	279,678	254,313
Physical therapy	83,080	539,896	622,976	584,731
Speech therapy	1,470	10,731	12,201	35,007
Occupational therapy	12,760	6,925	19,685	24,418
Ambulance service	11,007	470,184	481,191	464,612
Pediatric therapy	-	1,260,639	1,260,639	1,231,625
Diabetic education	-	630	630	7,423
Adult day care	-	16,295	16,295	14,943
Behavioral health service	24,025	652,232	676,257	649,329
Cardiac and pulmonary rehab	2,285	126,510	128,795	163,158
Infusion therapy	-	90,622	90,622	78,573
	<u>1,592,512</u>	<u>9,881,981</u>	<u>11,474,493</u>	<u>11,262,149</u>
Charity care			<u>16,633,334</u>	16,196,775
			<u>(30,003)</u>	<u>(14,759)</u>
Total patient service revenue	<u>\$ 3,888,553</u>	<u>\$ 12,744,781</u>	<u>16,603,331</u>	<u>16,182,016</u>
CONTRACTUAL ADJUSTMENTS				
Medicare			(2,918,842)	(3,179,752)
Medicaid			(1,241,743)	(872,240)
Blue Cross			(445,752)	(426,613)
Other			(445,823)	(349,459)
Total contractual adjustments			<u>(5,052,160)</u>	<u>(4,828,064)</u>
NET PATIENT SERVICE REVENUE			<u>11,551,171</u>	11,353,952
PROVISION FOR BAD DEBTS			<u>(342,756)</u>	<u>(398,402)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)			<u>\$ 11,208,415</u>	<u>\$ 10,955,550</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OTHER OPERATING REVENUES – HEALTH CENTER
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Day care	\$ 329,016	\$ 309,548
Medical office building leases	119,672	113,424
Medical records transcripts	86,841	77,035
Cafeteria sales	67,418	68,129
Lifeline	36,845	27,933
Housekeeping revenue	24,000	33,000
Management fees	9,600	9,600
In-kind contribution - rent	4,998	48,065
Other	<u>88,567</u>	<u>96,213</u>
	<u>\$ 766,957</u>	<u>\$ 782,947</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 87,985	\$ 85,942
Supplies and other expenses	<u>5,169</u>	<u>3,167</u>
	<u>93,154</u>	<u>89,109</u>
MEDICAL AND SURGICAL		
Salaries and wages	812,714	767,992
Supplies and other expenses	<u>154,536</u>	<u>120,114</u>
	<u>967,250</u>	<u>888,106</u>
NURSERY		
Salaries and wages	7,028	2,494
Supplies and other expenses	<u>-</u>	<u>174</u>
	<u>7,028</u>	<u>2,668</u>
LABOR AND DELIVERY		
Salaries and wages	113,584	66,599
Supplies and other expenses	<u>39,492</u>	<u>28,691</u>
	<u>153,076</u>	<u>95,290</u>
OPERATING ROOM		
Salaries and wages	219,931	209,722
Supplies and other expenses	<u>116,876</u>	<u>114,334</u>
	<u>336,807</u>	<u>324,056</u>
RESIDENTIAL CARE		
Salaries and wages	58,314	81,885
Supplies and other expenses	<u>4,593</u>	<u>10,029</u>
	<u>62,907</u>	<u>91,914</u>
EMERGENCY ROOM		
Salaries and wages	590,626	452,397
Supplies and other expenses	<u>227,975</u>	<u>200,384</u>
	<u>818,601</u>	<u>652,781</u>
CENTRAL STERILE		
Salaries and wages	16,659	20,618
Supplies and other expenses	<u>14,978</u>	<u>16,503</u>
	<u>31,637</u>	<u>37,121</u>
CENTRAL SERVICE AND SUPPLY		
Salaries and wages	30,915	32,609
Supplies and other expenses	<u>119,175</u>	<u>176,402</u>
	<u>150,090</u>	<u>209,011</u>
LABORATORY		
Salaries and wages	275,538	323,206
Supplies and other expenses	<u>383,665</u>	<u>427,290</u>
	<u>659,203</u>	<u>750,496</u>

(continued)

**LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
EKG/EEG		
Salaries and wages	\$ 5,352	\$ 3,611
Supplies and other expenses	<u>1,237</u>	<u>3,423</u>
	<u>6,589</u>	<u>7,034</u>
RADIOLOGY		
Salaries and wages	236,363	176,865
Supplies and other expenses	<u>564,594</u>	<u>550,127</u>
	<u>800,957</u>	<u>726,992</u>
PHARMACY		
Salaries and wages	123,297	119,060
Supplies and other expenses	<u>413,291</u>	<u>485,753</u>
	<u>536,588</u>	<u>604,813</u>
ANESTHESIOLOGY		
CRNA - professional fees	244,237	233,763
Supplies and other expenses	<u>8,334</u>	<u>12,309</u>
	<u>252,571</u>	<u>246,072</u>
RESPIRATORY THERAPY		
Salaries and wages	101,866	67,898
Supplies and other expenses	<u>33,819</u>	<u>20,222</u>
	<u>135,685</u>	<u>88,120</u>
PHYSICAL THERAPY		
Salaries and wages	194,292	167,660
Supplies and other expenses	<u>21,554</u>	<u>13,143</u>
	<u>215,846</u>	<u>180,803</u>
SPEECH THERAPY		
Professional fees	<u>7,270</u>	<u>15,040</u>
OCCUPATIONAL THERAPY		
Professional fees	<u>6,100</u>	<u>8,340</u>
AMBULANCE SERVICE		
Salaries and wages	117,107	108,547
Supplies and other expenses	<u>35,319</u>	<u>27,921</u>
	<u>152,426</u>	<u>136,468</u>
MOB AND CLINICS		
Salaries and wages	53,854	45,300
Supplies and other expenses	<u>36,081</u>	<u>29,923</u>
	<u>89,935</u>	<u>75,223</u>
PEDIATRIC THERAPY		
Supplies and other expenses	<u>750,321</u>	<u>853,144</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
HUMESTON CLINIC		
Salaries and wages	\$ 32,000	\$ -
Supplies and other expenses	<u>1,749</u>	<u>-</u>
	<u>33,749</u>	<u>-</u>
DIABETIC EDUCATION		
Salaries and wages	8,976	16,828
Supplies and other expenses	<u>1,197</u>	<u>2,208</u>
	<u>10,173</u>	<u>19,036</u>
ADULT DAY CARE		
Salaries and wages	14,909	13,476
Supplies and other expenses	<u>3,184</u>	<u>2,533</u>
	<u>18,093</u>	<u>16,009</u>
DAY CARE		
Salaries and wages	266,874	281,591
Supplies and other expenses	<u>101,804</u>	<u>88,086</u>
	<u>368,678</u>	<u>369,677</u>
BUSINESS OFFICE		
Salaries and wages	219,307	207,829
Supplies and other expenses	<u>70,391</u>	<u>60,646</u>
	<u>289,698</u>	<u>268,475</u>
BEHAVIORAL HEALTH SERVICE		
Salaries and wages	346,958	329,281
Supplies and other expenses	<u>72,248</u>	<u>56,814</u>
	<u>419,206</u>	<u>386,095</u>
CARDIAC AND PULMONARY REHAB		
Salaries and wages	46,238	50,716
Supplies and other expenses	<u>6,890</u>	<u>6,665</u>
	<u>53,128</u>	<u>57,381</u>
SPECIALTY AND SURGICAL CLINIC		
Salaries and wages	3,620	1,460
Supplies and other expenses	<u>34,019</u>	<u>28,165</u>
	<u>37,639</u>	<u>29,625</u>
INFUSION THERAPY		
Salaries and wages	49,680	39,261
Supplies and other expenses	<u>3,962</u>	<u>2,439</u>
	<u>53,642</u>	<u>41,700</u>
DIETARY		
Salaries and wages	183,473	171,768
Supplies and other expenses	<u>116,606</u>	<u>108,266</u>
	<u>300,079</u>	<u>280,034</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATION OF PLANT		
Salaries and wages	\$ 153,246	\$ 146,588
Supplies and other expenses	<u>612,690</u>	<u>560,720</u>
	<u>765,936</u>	<u>707,308</u>
HOUSEKEEPING		
Salaries and wages	176,009	165,695
Supplies and other expenses	<u>29,850</u>	<u>30,065</u>
	<u>205,859</u>	<u>195,760</u>
LAUNDRY AND LINEN		
Salaries and wages	22,788	18,801
Supplies and other expenses	<u>5,499</u>	<u>5,216</u>
	<u>28,287</u>	<u>24,017</u>
MEDICAL RECORDS		
Salaries and wages	166,480	166,925
Supplies and other expenses	<u>77,627</u>	<u>68,251</u>
	<u>244,107</u>	<u>235,176</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	640,028	575,895
Supplies and other expenses	<u>540,820</u>	<u>427,347</u>
	<u>1,180,848</u>	<u>1,003,242</u>
UNASSIGNED EXPENSES		
Employee benefits	1,258,452	1,148,364
Insurance	150,815	149,477
Depreciation	<u>960,628</u>	<u>809,557</u>
	<u>2,369,895</u>	<u>2,107,398</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,613,058</u>	<u>\$ 11,823,534</u>

**LUCAS COUNTY HEALTH CENTER AND AFFILIATE
PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND
COLLECTION STATISTICS – HEALTH CENTER
JUNE 30, 2006 AND 2005**

ANALYSIS OF AGING

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
DAYS SINCE DISCHARGE				
0 to 30 days	\$ 1,383,366	51.93%	\$ 1,045,651	45.34%
1 to 2 months	389,830	14.63	439,709	19.06
2 to 3 months	200,693	7.53	152,649	6.62
3 to 4 months	170,486	6.40	144,375	6.26
Over 4 months	<u>519,434</u>	<u>19.51</u>	<u>524,117</u>	<u>22.72</u>
	2,663,809	<u>100.00%</u>	2,306,501	<u>100.00%</u>
Less: Allowance for doubtful accounts	380,000		357,000	
Allowance for contractual adjustments	<u>497,000</u>		<u>421,000</u>	
Net	<u>\$ 1,786,809</u>		<u>\$ 1,528,501</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
BALANCE, BEGINNING OF YEAR	\$ 357,000	\$ 291,000
Add: Provision for bad debts	342,756	398,402
Less: Write offs, net of recoveries	<u>(319,756)</u>	<u>(332,402)</u>
BALANCE, END OF YEAR	<u>\$ 380,000</u>	<u>\$ 357,000</u>

	<u>2006</u>	<u>2005</u>
COLLECTION STATISTICS		
Net accounts receivable - patients	\$ 1,786,809	\$ 1,528,501
Number of days charges outstanding (1)	55	52
Uncollectible accounts (2)	\$ 395,804	\$ 440,181
Percentage of uncollectible accounts to total charges	2.4%	2.7%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SUPPLIES/PREPAID EXPENSE – HEALTH CENTER
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
SUPPLIES		
Pharmacy	\$ 73,820	\$ 62,609
Medical and surgical	34,966	30,826
Central stores	33,958	25,289
Dietary	10,847	10,055
Plant operations	10,576	10,548
Laboratory	8,023	17,200
Gift shop	4,915	5,183
Laundry	1,642	1,123
Radiology	<u>1,181</u>	<u>3,832</u>
 Total supplies	 <u>\$ 179,928</u>	 <u>\$ 166,665</u>
PREPAID EXPENSE		
Maintenance contracts	\$ 39,369	\$ 32,337
Insurance	15,733	22,387
Other	<u>24,274</u>	<u>10,280</u>
 Total prepaid expense	 <u>\$ 79,376</u>	 <u>\$ 65,004</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Acute		
Adults and pediatrics (includes obstetrics)	1,668	1,773
Newborn	167	127
Special care unit	4	12
Swing-bed – skilled care	601	565
NUMBER OF BEDS	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)	24.9%	25.8%
DISCHARGES		
Acute (excluding newborn)	580	596
Swing-bed – skilled care	100	83
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	2.88	2.99
Swing-bed – skilled care	6.01	6.80
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Semi-private/obstetrics	\$ 780	\$ 725
Special care unit	1,145	1,065
Nursery	530	490
Swing-bed - skilled care	435	405



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, 2006 and 2005, 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 2, 2006. 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 audits, 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-06 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 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.

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*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the combined financial statements of the Health Center and are reported in Part II of the accompanying Schedule of Findings. 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.

We also noted a certain additional matter that we reported to management in a separate letter dated August 2, 2006.

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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
August 2, 2006

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-06 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-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 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-C-06 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-D-06 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-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center’s investment policy were noted.

II-G-06 Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” The Health Center published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.