

**FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

**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>
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Lucas County Health Center

Board of Trustees

Raymond Meyer	Chairperson	January 1, 2011
Roger Struve	Vice Chairperson	January 1, 2009
Rick Runyon	Treasurer	January 1, 2009
Corliss Klaassen	Secretary	January 1, 2013
Betty Hansen	Member	January 1, 2013
Fred Housman	Member	January 1, 2011
David M. Miller (Mike)	Member	January 1, 2013

Lucas County Health Center Foundation

Board of Directors

Dan Minkoff	President
Fred Housman	Chairperson
David M. Miller (Mike)	Vice Chairperson
Dan Kent	Secretary
Raymond Meyer	Treasurer

Lucas County Health Center

Health Center Officials

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, 2007 and 2006, 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, 2007 and 2006, 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 September 18, 2007, on our consideration of the internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters of the Health Center and Affiliate. 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 24 and 25 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
September 18, 2007

**Lucas County Health Center
Management's Discussion and Analysis
June 30, 2007**

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 statement provided herein.

Financial Highlights

- LCHC's net assets were \$6,721,344 at June 30, 2007, up 5.21% from the prior year.
- LCHC recorded revenue in excess of (less than) expenses before transfers and capital grants and contributions of \$285,558 for the fiscal year ending on June 30, 2007.
- 6 days cash on hand from short-term sources were reported at June 30, 2007.
- 59 days charges in gross accounts receivable were reported at June 30, 2007.
- LCHC had 1,723 acute patient days in fiscal year 2007, a decrease of 6.7% from 2006.
- LCHC had 536 swing-bed patient days in fiscal year 2007, a decrease of 10.9% from 2006.
- LCHC had 19,018 outpatient admissions in fiscal year 2007, a decrease of 3.1% from 2006.

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, 2007 indicates total assets of \$10,145,990, total liabilities of \$3,424,646, and net assets of \$6,721,344. Total current assets were \$3,630,344, and total current liabilities were \$1,982,513, for a current ratio of 1.83.

As reported in the Statement of Cash Flows, cash and cash equivalents decreased from \$591,791 at July 1, 2006 to \$209,542 at June 30, 2007. The net decrease in cash and cash equivalents of \$382,249 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 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, 2007, amounted to \$6,057,142 (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 \$1,662,523 with current maturities of \$220,390. 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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 253,127	\$ 660,650
Assets limited as to use	212,639	212,644
Receivables		
Patient, net of estimated uncollectibles of \$1,016,000 in 2007 and \$877,000 in 2006	1,882,247	1,786,809
Succeeding year property tax	632,499	636,095
Estimated third-party payor settlements	280,000	-
Other	68,655	57,703
Supplies	189,467	179,928
Prepaid expense	<u>155,295</u>	<u>79,376</u>
 Total current assets	 <u>3,673,929</u>	 <u>3,613,205</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board for property and equipment	257,819	72,261
Bond trust fund	<u>408,986</u>	<u>530,706</u>
	666,805	602,967
Less amount required to meet current obligations	<u>(212,639)</u>	<u>(212,644)</u>
 Total assets limited as to use or restricted, excluding current portion	 <u>454,166</u>	 <u>390,323</u>
PROPERTY AND EQUIPMENT, net - Note 5	<u>7,081,288</u>	<u>7,639,874</u>
OTHER ASSETS	<u>20,322</u>	<u>17,527</u>
 Total assets	 <u>\$ 11,229,705</u>	 <u>\$ 11,660,929</u>

See notes to combined financial statements.

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 220,390	\$ 210,434
Accounts payable		
Trade	535,479	525,716
Estimated third-party payor settlements	-	471,000
Accrued expenses		
Salaries and wages	99,405	87,525
Paid time off	278,155	280,671
Payroll taxes and other payroll withholdings	143,276	175,414
Interest	49,121	56,492
Other	88,699	89,977
Deferred revenue for succeeding year property tax receivable	<u>632,499</u>	<u>636,095</u>
Total current liabilities	2,047,024	2,533,324
LONG-TERM DEBT, less current maturities - Note 7	<u>1,442,133</u>	<u>1,662,493</u>
Total liabilities	<u>3,489,157</u>	<u>4,195,817</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,418,765	5,766,947
Restricted		
For volunteer service program	25,702	28,086
For capital acquisitions and specific operating activities	45,454	41,449
Unrestricted	<u>2,250,627</u>	<u>1,628,630</u>
Total net assets	<u>7,740,548</u>	<u>7,465,112</u>
Total liabilities and net assets	<u>\$ 11,229,705</u>	<u>\$ 11,660,929</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$400,079 in 2007 and \$342,756 in 2006) - Notes 2 and 3	\$ 11,749,444	\$ 11,208,415
Other operating revenues	<u>915,574</u>	<u>931,877</u>
TOTAL OPERATING REVENUES	<u>12,665,018</u>	<u>12,140,292</u>
OPERATING EXPENSES		
Salaries and wages	5,334,852	5,376,011
Employee benefits	1,308,632	1,258,452
Supplies and other expenses	3,260,097	3,353,753
Medical professional fees	2,078,929	1,804,377
Depreciation	<u>1,102,348</u>	<u>992,323</u>
TOTAL OPERATING EXPENSES	<u>13,084,858</u>	<u>12,784,916</u>
OPERATING LOSS	<u>(419,840)</u>	<u>(644,624)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	632,618	623,289
Noncapital grants and contributions	84,972	68,984
Loss on disposal of capital assets	(14,213)	(30,888)
Interest expense	(80,522)	(91,983)
Investment income - Note 4	<u>44,896</u>	<u>27,431</u>
NET NONOPERATING REVENUES	<u>667,751</u>	<u>596,833</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	247,911	(47,791)
Capital grants and contributions	<u>27,525</u>	<u>38,275</u>
INCREASE (DECREASE) IN NET ASSETS	275,436	(9,516)
NET ASSETS BEGINNING OF YEAR	<u>7,465,112</u>	<u>7,474,628</u>
NET ASSETS END OF YEAR	<u>\$ 7,740,548</u>	<u>\$ 7,465,112</u>

See notes to combined financial statements.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 10,903,006	\$ 11,121,107
Other receipts	904,622	978,586
Payments of salaries and wages	(5,358,904)	(5,308,517)
Payments of employee benefits	(1,308,632)	(1,258,452)
Payments of supplies and other expenses	<u>(5,414,721)</u>	<u>(5,163,041)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(274,629)</u>	<u>369,683</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	632,618	623,289
Noncapital grants and contributions received	<u>84,972</u>	<u>68,984</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>717,590</u>	<u>692,273</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(578,423)	(1,325,427)
Proceeds from sale of assets	20,448	20,448
Capital grants and contributions revenue received	27,525	38,275
Proceeds from debt	65,000	65,000
Principal paid on debt	(275,404)	(265,693)
Interest paid on debt	<u>(87,893)</u>	<u>(98,839)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(828,747)</u>	<u>(1,566,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use or restricted	(63,838)	104,616
Increase in other assets	(2,795)	(3,877)
Investment income received	<u>44,896</u>	<u>27,431</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(21,737)</u>	<u>128,170</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(407,523)	(376,110)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>660,650</u>	<u>1,036,760</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 253,127</u>	<u>\$ 660,650</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating loss	\$ (419,840)	\$ (644,624)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation	1,102,348	992,323
Provision for bad debts	400,079	342,756
Changes in assets and liabilities		
Receivables	(506,469)	(554,355)
Supplies	(9,539)	(13,263)
Prepaid expense	(75,919)	(13,034)
Accounts payable	9,763	21,386
Accrued expenses	(24,052)	67,494
Estimated third-party payor settlements	<u>(751,000)</u>	<u>171,000</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (274,629)</u>	<u>\$ 369,683</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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.

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

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 original maturities 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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. Interest expense related to construction projects is capitalized. 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 paid time off for subsequent use or for payment upon termination, death, or retirement. The cost of paid time off 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, 2007, 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, 2007 AND 2006

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, 2007 AND 2006

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$41,707 and \$51,101 for advertising costs for the years ended June 30, 2007 and 2006, respectively.

Reclassifications

Certain items from the 2006 financial statements have been reclassified to conform to the current year presentation.

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, 2007 and 2006, were \$31,265 and \$30,003, respectively. The estimated costs of the charges foregone, based on the 2006 cost to charge ratio of the Medicare cost report for the years ended June 30, 2007 and 2006, were \$20,399 and \$19,576, 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, 2005. 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. In addition, the 2004 cost report has been processed by the Medicaid fiscal intermediary as well.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 41% and 11%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2007, and 42% and 8%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2006.

A summary of patient service revenue, contractual adjustments and charity care, and provision for bad debts for the years ended June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Total patient service revenue	<u>\$ 17,316,419</u>	<u>\$ 16,633,334</u>
Contractual adjustments and charity care		
Medicare	(2,937,287)	(2,918,842)
Medicaid	(1,057,109)	(1,241,743)
Blue Cross	(577,088)	(445,752)
Other	(564,147)	(445,823)
Charity care	<u>(31,265)</u>	<u>(30,003)</u>
Total contractual adjustments and charity care	<u>(5,166,896)</u>	<u>(5,082,163)</u>
Net patient service revenue	<u>12,149,523</u>	11,551,171
Provision for bad debts	<u>(400,079)</u>	<u>(342,756)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,749,444</u>	<u>\$ 11,208,415</u>

NOTE 4 – CASH AND DEPOSITS

Health Center Deposits

The Health Center's deposits in banks at June 30, 2007 and 2006, 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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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, 2007 and 2006, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Certificates of deposit	\$ 100,000	\$ 176,407
Checking and savings accounts	<u>760,363</u>	<u>1,002,929</u>
Total	<u>\$ 860,363</u>	<u>\$ 1,179,336</u>

Included in the following balance sheet captions:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 209,542	\$ 591,791
Assets limited as to use or restricted	<u>650,821</u>	<u>587,545</u>
	<u>\$ 860,363</u>	<u>\$ 1,179,336</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>2007</u>	<u>2006</u>
Money market and savings accounts	\$ 43,585	\$ 68,859
Certificates of deposit	<u>15,984</u>	<u>15,422</u>
	<u>\$ 59,569</u>	<u>\$ 84,281</u>

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

Investment Income

	<u>2007</u>	<u>2006</u>
Interest and dividend income		
Health Center	\$ 43,161	\$ 26,188
Foundation	<u>1,735</u>	<u>1,243</u>
	<u>\$ 44,896</u>	<u>\$ 27,431</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2007 and 2006, follows:

	June 30, 2006				June 30, 2007
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 20,783	\$ -	\$ -	\$ -	\$ 20,783
Land improvements	424,355	-	3,175	-	421,180
Buildings and improvements	7,446,187	-	2,889	38,918	7,482,216
Equipment	9,004,538	402,742	162,609	129,868	9,374,539
Construction-in-progress	<u>59,422</u>	<u>171,976</u>	<u>-</u>	<u>(168,786)</u>	<u>62,612</u>
	<u>16,955,285</u>	<u>\$ 574,718</u>	<u>\$ 168,673</u>	<u>\$ -</u>	<u>17,361,330</u>
Accumulated depreciation					
Land improvements	261,946	\$ 7,670	\$ 3,175	\$ -	266,441
Buildings and improvements	3,257,564	278,616	2,889	-	3,533,291
Equipment	<u>5,795,901</u>	<u>816,061</u>	<u>131,652</u>	<u>-</u>	<u>6,480,310</u>
	<u>9,315,411</u>	<u>\$ 1,102,347</u>	<u>\$ 137,716</u>	<u>\$ -</u>	<u>10,280,042</u>
Total property and equipment, net	<u>\$ 7,639,874</u>				<u>\$ 7,081,288</u>
	June 30, 2005				June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
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	<u>-</u>	<u>59,422</u>	<u>-</u>	<u>-</u>	<u>59,422</u>
	<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	<u>5,442,063</u>	<u>717,172</u>	<u>363,334</u>	<u>-</u>	<u>5,795,901</u>
	<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>\$ 7,639,874</u>

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Construction-in-progress at June 30, 2007, consists of remodeling projects for Kids Life, Obstetrics, and Health Information. The Kids Life project is expected to be completed during fiscal year 2008, with an estimated cost of approximately \$46,000 and will be financed through Health Center operations and a grant. Obstetrics and Health Information projects are in the early stages of construction, and the estimated costs and completion dates cannot be determined as of June 30, 2007.

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, 2007 and 2006, was \$143,645 and \$165,204, respectively.

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Health Center's long-term debt for 2007 and 2006 follows:

	June 30 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2007 <u>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.	\$ 225,000	\$ -	\$ 110,000	\$ 115,000	\$ 115,000
Hospital Revenue Note, Series 1991A, payable in monthly installments of \$6,308 including interest at 4.83% through May 2007 and will be adjusted to a rate tied to the then current U.S. Treasury bill rate. Note is due 2012.	384,062	-	58,347	325,715	61,247
Hospital Revenue Note, Series 1991B, payable in annual installments of \$51,898 to 2017, including interest fixed at 5.0% per annum.	459,757	-	28,658	431,099	30,357

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	June 30 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2007 <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.	\$ 804,108	\$ -	\$ 13,399	\$ 790,709	\$ 13,786
	<u>\$ 1,872,927</u>	<u>\$ -</u>	<u>\$ 210,404</u>	<u>1,662,523</u> <u>(220,390)</u>	<u>\$ 220,390</u>
Less current maturities					
Long-term debt, less current maturities				<u>\$ 1,442,133</u>	

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 220,390	\$ 77,428	\$ 297,818
2009	110,582	66,482	177,064
2010	116,035	61,029	177,064
2011	121,743	55,321	177,064
2012	115,076	49,343	164,419
2013-2017	307,963	198,397	506,360
2018-2022	166,455	132,567	299,022
2023-2027	145,905	100,965	246,870
2028-2032	181,824	65,046	246,870
2033-2037	<u>176,550</u>	<u>20,736</u>	<u>197,286</u>
	<u>\$ 1,662,523</u>	<u>\$ 827,314</u>	<u>\$ 2,489,837</u>

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2006 <u>Balance</u>	Amounts Due Within <u>One Year</u>
County Public Hospital Revenue Bonds, payable in annual install- ments 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

(continued on next page)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	<u>June 30</u> 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30</u> 2006 <u>Balance</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u>
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.	<u>816,741</u>	<u>-</u>	<u>12,633</u>	<u>804,108</u>	<u>13,188</u>
	<u>\$ 2,073,620</u>	<u>\$ -</u>	<u>\$ 200,693</u>	1,872,927	<u>\$ 210,434</u>
Less current maturities				<u>(210,434)</u>	
Long-term debt, less current maturities				<u>\$ 1,662,493</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 February 22, 2007, 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 February 22, 2008. There was no outstanding balance on the line of credit as of June 30, 2007.

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.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Debt Service 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, 2007, is as follows:

	Principal Balance at June 30 2006	Additions	Payments	Principal Balance at June 30 2007
Revenue Bonds	\$ 225,000	\$ -	\$ 110,000	\$ 115,000

Revenue bond activity for the year ended June 30, 2006, is as follows:

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

Aggregate annual maturities of the revenue bonds at June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Revenue Bonds Principal Due</u>	<u>Revenue Bonds Interest Due</u>
2008	\$ 115,000	\$ 5,750

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, 2007. The funds are to be maintained at these levels but can be utilized to pay scheduled interest and principal payments, if needed.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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, 2007, 2006, and 2005. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$298,701, \$305,440, and \$280,341, respectively, equal to the required contributions for each year.

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, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Medicare and Medicaid	36%	39%
Patients and other third-party payors	64	61
	<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 the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 regulatory 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.

REQUIRED SUPPLEMENTARY INFORMATION

**LUCAS COUNTY HEALTH CENTER
AND AFFILIATE**

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, 2007

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 632,618	\$ -	\$ 632,618	\$ 636,095	\$ (3,477)
Estimated other revenues/receipts	<u>12,678,069</u>	<u>(833,177)</u>	<u>11,844,892</u>	<u>13,372,456</u>	<u>(1,527,564)</u>
	13,310,687	(833,177)	12,477,510	14,008,551	(1,531,041)
Expenses/disbursements	<u>12,977,782</u>	<u>(181,299)</u>	<u>12,796,483</u>	<u>13,404,162</u>	<u>607,679</u>
Net	332,905	(651,878)	(318,973)	604,389	<u>\$ (923,362)</u>
Balance beginning of year	<u>6,388,439</u>	<u>(5,209,103)</u>	<u>1,179,336</u>	<u>1,649,673</u>	
Balance end of year	<u>\$ 6,721,344</u>	<u>\$ (5,860,981)</u>	<u>\$ 860,363</u>	<u>\$ 2,254,062</u>	

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

NOTE 1 – BUDGETARY COMPARISON

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 not amended during the year ended June 30, 2007.

For the year ended June 30, 2007, the Health Center's expenditures did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

**LUCAS COUNTY HEALTH CENTER
AND AFFILIATE**



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 38 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
September 18, 2007

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING BALANCE SHEET
JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007				2006
	<u>Health Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>	<u>Total</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 209,542	\$ 43,585	\$ -	\$ 253,127	\$ 660,650
Assets limited as to use	212,639	-	-	212,639	212,644
Receivables					
Patient, net of estimated uncollectibles of \$1,016,000 in 2007 and \$877,000 in 2006	1,882,247	-	-	1,882,247	1,786,809
Succeeding year property tax	632,499	-	-	632,499	636,095
Estimated third-party payor settlements	280,000	-	-	280,000	-
Other	68,655	3,494	(3,494)	68,655	57,703
Supplies	189,467	-	-	189,467	179,928
Prepaid expense	155,295	-	-	155,295	79,376
Total current assets	3,630,344	47,079	(3,494)	3,673,929	3,613,205
ASSETS LIMITED AS TO USE OR RESTRICTED					
Investments					
By board for property and equipment	241,835	15,984	-	257,819	72,261
Bond trust fund	408,986	-	-	408,986	530,706
	650,821	15,984	-	666,805	602,967
Less amount required to meet current obligations	(212,639)	-	-	(212,639)	(212,644)
Total assets limited as to use or restricted, excluding current portion	438,182	15,984	-	454,166	390,323
PROPERTY AND EQUIPMENT, net	6,057,142	1,024,146	-	7,081,288	7,639,874
OTHER ASSETS	20,322	-	-	20,322	17,527
Total assets	\$ 10,145,990	\$ 1,087,209	\$ (3,494)	\$ 11,229,705	\$ 11,660,929

	2007				2006
	Health Center	Foundation	Eliminations	Total	Total
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	\$ 220,390	\$ -	\$ -	\$ 220,390	\$ 210,434
Accounts payable					
Trade	532,330	6,643	(3,494)	535,479	525,716
Estimated third-party payor settlements	-	-	-	-	471,000
Accrued expenses					
Salaries and wages	99,405	-	-	99,405	87,525
Paid time off	278,155	-	-	278,155	280,671
Payroll taxes and other payroll withholdings	143,276	-	-	143,276	175,414
Interest	49,121	-	-	49,121	56,492
Other	27,337	61,362	-	88,699	89,977
Deferred revenue for succeeding year property tax receivable	632,499	-	-	632,499	636,095
Total current liabilities	1,982,513	68,005	(3,494)	2,047,024	2,533,324
LONG-TERM DEBT, less current maturities	1,442,133	-	-	1,442,133	1,662,493
Total liabilities	3,424,646	68,005	(3,494)	3,489,157	4,195,817
NET ASSETS					
Invested in capital assets, net of related debt	4,394,619	1,024,146	-	5,418,765	5,766,947
Restricted					
For volunteer service program	25,702	-	-	25,702	28,086
For capital acquisitions and specific operating activities	45,454	-	-	45,454	41,449
Unrestricted	2,255,569	(4,942)	-	2,250,627	1,628,630
Total net assets	6,721,344	1,019,204	-	7,740,548	7,465,112
Total liabilities and net assets	\$ 10,145,990	\$ 1,087,209	\$ (3,494)	\$ 11,229,705	\$ 11,660,929

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007				2006
	Health Center	Foundation	Eliminations	Total	Total
OPERATING REVENUES					
Net patient service revenue (net of provision for bad debts of \$400,079 in 2007 and \$342,756 in 2006)	\$ 11,749,444	\$ -	\$ -	\$ 11,749,444	\$ 11,208,415
Other operating revenues	767,358	175,816	(27,600)	915,574	931,877
TOTAL OPERATING REVENUES	12,516,802	175,816	(27,600)	12,665,018	12,140,292
OPERATING EXPENSES					
Salaries and wages	5,334,852	-	-	5,334,852	5,376,011
Employee benefits	1,308,632	-	-	1,308,632	1,258,452
Supplies and other expenses	3,103,711	183,986	(27,600)	3,260,097	3,353,753
Medical professional fees	2,078,929	-	-	2,078,929	1,804,377
Depreciation	1,071,136	31,212	-	1,102,348	992,323
TOTAL OPERATING EXPENSES	12,897,260	215,198	(27,600)	13,084,858	12,784,916
OPERATING LOSS	(380,458)	(39,382)	-	(419,840)	(644,624)
NONOPERATING REVENUES (EXPENSES)					
County tax revenue	632,618	-	-	632,618	623,289
Noncapital grants and contributions	84,972	-	-	84,972	68,984
Loss on disposal of capital assets	(14,213)	-	-	(14,213)	(30,888)
Interest expense	(80,522)	-	-	(80,522)	(91,983)
Investment income	43,161	1,735	-	44,896	27,431
NET NONOPERATING REVENUES	666,016	1,735	-	667,751	596,833
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE TRANSFERS AND CAPITAL GRANTS AND CONTRIBUTIONS					
	285,558	(37,647)	-	247,911	(47,791)
Transfer (to) from related party	19,822	(19,822)	-	-	-
Capital grants and contributions	27,525	-	-	27,525	38,275
INCREASE (DECREASE) IN NET ASSETS	332,905	(57,469)	-	275,436	(9,516)
NET ASSETS BEGINNING OF YEAR	6,388,439	1,076,673	-	7,465,112	7,474,628
NET ASSETS END OF YEAR	\$ 6,721,344	\$ 1,019,204	\$ -	\$ 7,740,548	\$ 7,465,112

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF NET PATIENT SERVICE REVENUE – HEALTH CENTER
YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Inpatient	Outpatient	Total	Total
PATIENT SERVICE REVENUE				
Daily Patient Services				
Medical and surgical	\$ 1,417,205	\$ 70,350	\$ 1,487,555	\$ 1,521,975
Obstetrics	145,835	-	145,835	134,460
Nursery	90,198	-	90,198	77,575
Labor and delivery	127,755	17,794	145,549	132,979
	<u>1,780,993</u>	<u>88,144</u>	<u>1,869,137</u>	<u>1,866,989</u>
Other Nursing Services				
Operating room	224,500	1,524,084	1,748,584	1,741,446
Residential care	-	-	-	249,270
Emergency room	15,156	1,347,927	1,363,083	1,300,621
	<u>239,656</u>	<u>2,872,011</u>	<u>3,111,667</u>	<u>3,291,337</u>
Other Professional Services				
Central service and supply	21,044	179,621	200,665	188,464
Laboratory	277,768	1,948,188	2,225,956	2,255,484
EKG/EEG	15,723	81,623	97,346	94,121
Radiology	261,509	3,366,735	3,628,244	3,341,551
Pharmacy	537,036	887,756	1,424,792	1,429,287
Anesthesiology	78,867	454,446	533,313	576,617
Respiratory therapy	188,911	88,246	277,157	279,678
Physical therapy	75,002	573,933	648,935	622,976
Speech therapy	548	12,120	12,668	12,201
Occupational therapy	14,141	11,973	26,114	19,685
Ambulance service	14,488	483,819	498,307	481,191
Pediatric therapy	-	1,619,921	1,619,921	1,260,639
Humeston clinic	-	147,226	147,226	-
Clinic	-	8,900	8,900	515
Diabetic education	-	190	190	630
Adult day care	-	15,680	15,680	16,295
Behavioral health service	16,248	706,646	722,894	676,257
Cardiac and pulmonary rehab	960	154,365	155,325	128,795
Infusion therapy	-	91,982	91,982	90,622
	<u>1,502,245</u>	<u>10,833,370</u>	<u>12,335,615</u>	<u>11,475,008</u>
Total patient service revenue	<u>\$ 3,522,894</u>	<u>\$ 13,793,525</u>	<u>17,316,419</u>	<u>16,633,334</u>
CONTRACTUAL ADJUSTMENTS AND CHARITY CARE				
Medicare			(2,937,287)	(2,918,842)
Medicaid			(1,057,109)	(1,241,743)
Blue Cross			(577,088)	(445,752)
Other			(564,147)	(445,823)
Charity care			(31,265)	(30,003)
Total contractual adjustments and charity care			<u>(5,166,896)</u>	<u>(5,082,163)</u>
NET PATIENT SERVICE REVENUE			<u>12,149,523</u>	11,551,171
PROVISION FOR BAD DEBTS			<u>(400,079)</u>	<u>(342,756)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)			<u>\$ 11,749,444</u>	<u>\$ 11,208,415</u>

**LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OTHER OPERATING REVENUES – HEALTH CENTER
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Day care	\$ 356,400	\$ 329,016
Medical office building leases	121,915	119,672
Cafeteria sales	75,269	67,418
Medical records transcripts	73,610	86,841
Lifeline	38,813	36,845
Housekeeping revenue	18,000	24,000
Management fees	9,600	9,600
In-kind contribution - rent	1,780	4,998
Other	<u>71,971</u>	<u>84,810</u>
	<u>\$ 767,358</u>	<u>\$ 763,200</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 84,990	\$ 87,985
Supplies and other expenses	4,082	5,169
	<u>89,072</u>	<u>93,154</u>
MEDICAL AND SURGICAL		
Salaries and wages	807,077	812,714
Medical professional fees	38,745	54,877
Supplies and other expenses	93,540	99,659
	<u>939,362</u>	<u>967,250</u>
NURSERY		
Salaries and wages	4,417	7,028
Supplies and other expenses	8,615	-
	<u>13,032</u>	<u>7,028</u>
LABOR AND DELIVERY		
Salaries and wages	105,520	113,584
Supplies and other expenses	28,315	39,492
	<u>133,835</u>	<u>153,076</u>
OPERATING ROOM		
Salaries and wages	214,421	219,931
Supplies and other expenses	155,666	116,876
	<u>370,087</u>	<u>336,807</u>
RESIDENTIAL CARE		
Salaries and wages	-	58,314
Supplies and other expenses	-	4,593
	<u>-</u>	<u>62,907</u>
EMERGENCY ROOM		
Salaries and wages	626,172	590,626
Medical professional fees	173,434	176,880
Supplies and other expenses	40,562	51,095
	<u>840,168</u>	<u>818,601</u>
CENTRAL STERILE		
Salaries and wages	17,183	16,659
Supplies and other expenses	12,522	14,978
	<u>29,705</u>	<u>31,637</u>
CENTRAL SERVICE AND SUPPLY		
Salaries and wages	27,648	30,915
Supplies and other expenses	133,690	119,175
	<u>161,338</u>	<u>150,090</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
LABORATORY		
Salaries and wages	\$ 250,665	\$ 275,538
Medical professional fees	157,211	148,034
Supplies and other expenses	<u>233,629</u>	<u>235,631</u>
	<u>641,505</u>	<u>659,203</u>
EKG/EEG		
Salaries and wages	6,275	5,352
Supplies and other expenses	<u>797</u>	<u>1,237</u>
	<u>7,072</u>	<u>6,589</u>
RADIOLOGY		
Salaries and wages	234,433	236,363
Medical professional fees	303,000	342,331
Supplies and other expenses	<u>184,076</u>	<u>222,263</u>
	<u>721,509</u>	<u>800,957</u>
PHARMACY		
Salaries and wages	121,612	123,297
Medical professional fees	7,784	7,025
Supplies and other expenses	<u>423,063</u>	<u>406,266</u>
	<u>552,459</u>	<u>536,588</u>
ANESTHESIOLOGY		
CRNA - medical professional fees	229,150	244,237
Supplies and other expenses	<u>8,287</u>	<u>8,334</u>
	<u>237,437</u>	<u>252,571</u>
RESPIRATORY THERAPY		
Salaries and wages	97,138	101,866
Medical professional fees	24,700	25,550
Supplies and other expenses	<u>5,646</u>	<u>8,269</u>
	<u>127,484</u>	<u>135,685</u>
PHYSICAL THERAPY		
Salaries and wages	200,460	194,292
Medical professional fees	237	1,570
Supplies and other expenses	<u>14,208</u>	<u>19,984</u>
	<u>214,905</u>	<u>215,846</u>
SPEECH THERAPY		
Medical professional fees	<u>5,980</u>	<u>7,270</u>
OCCUPATIONAL THERAPY		
Medical professional fees	<u>8,245</u>	<u>6,100</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
AMBULANCE SERVICE		
Salaries and wages	\$ 85,482	\$ 117,107
Medical professional fees	5,455	3,987
Supplies and other expenses	<u>26,074</u>	<u>31,332</u>
	<u>117,011</u>	<u>152,426</u>
MOB AND CLINICS		
Salaries and wages	58,039	53,854
Supplies and other expenses	<u>30,390</u>	<u>36,171</u>
	<u>88,429</u>	<u>90,025</u>
PEDIATRIC THERAPY		
Medical professional fees	<u>1,012,864</u>	<u>750,321</u>
HUMESTON CLINIC		
Salaries and wages	106,970	32,000
Medical professional fees	76,104	-
Supplies and other expenses	<u>50,254</u>	<u>1,749</u>
	<u>233,328</u>	<u>33,749</u>
DIABETIC EDUCATION		
Salaries and wages	6,630	8,976
Supplies and other expenses	<u>417</u>	<u>1,197</u>
	<u>7,047</u>	<u>10,173</u>
ADULT DAY CARE		
Salaries and wages	14,279	14,909
Supplies and other expenses	<u>1,679</u>	<u>3,184</u>
	<u>15,958</u>	<u>18,093</u>
DAY CARE		
Salaries and wages	288,000	266,874
Supplies and other expenses	<u>150,878</u>	<u>101,804</u>
	<u>438,878</u>	<u>368,678</u>
BUSINESS OFFICE		
Salaries and wages	233,761	219,307
Supplies and other expenses	<u>74,907</u>	<u>70,391</u>
	<u>308,668</u>	<u>289,698</u>
BEHAVIORAL HEALTH SERVICE		
Salaries and wages	323,441	346,958
Medical professional fees	36,020	36,195
Supplies and other expenses	<u>23,697</u>	<u>36,053</u>
	<u>383,158</u>	<u>419,206</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CARDIAC AND PULMONARY REHAB		
Salaries and wages	\$ 55,105	\$ 46,238
Supplies and other expenses	<u>5,902</u>	<u>6,890</u>
	<u>61,007</u>	<u>53,128</u>
SPECIALTY AND SURGICAL CLINIC		
Salaries and wages	20,957	3,620
Supplies and other expenses	<u>29,717</u>	<u>33,929</u>
	<u>50,674</u>	<u>37,549</u>
INFUSION THERAPY		
Salaries and wages	51,818	49,680
Supplies and other expenses	<u>2,404</u>	<u>3,962</u>
	<u>54,222</u>	<u>53,642</u>
DIETARY		
Salaries and wages	155,377	183,473
Supplies and other expenses	<u>88,552</u>	<u>116,606</u>
	<u>243,929</u>	<u>300,079</u>
OPERATION OF PLANT		
Salaries and wages	157,525	153,246
Supplies and other expenses	<u>530,747</u>	<u>612,690</u>
	<u>688,272</u>	<u>765,936</u>
HOUSEKEEPING		
Salaries and wages	166,649	176,009
Supplies and other expenses	<u>23,837</u>	<u>29,850</u>
	<u>190,486</u>	<u>205,859</u>
LAUNDRY AND LINEN		
Salaries and wages	17,304	22,788
Supplies and other expenses	<u>5,552</u>	<u>5,499</u>
	<u>22,856</u>	<u>28,287</u>
MEDICAL RECORDS		
Salaries and wages	167,927	166,480
Supplies and other expenses	<u>72,289</u>	<u>77,627</u>
	<u>240,216</u>	<u>244,107</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	627,577	640,028
Supplies and other expenses	<u>504,437</u>	<u>540,820</u>
	<u>1,132,014</u>	<u>1,180,848</u>

(continued)

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF OPERATING EXPENSES – HEALTH CENTER
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
UNASSIGNED EXPENSES		
Employee benefits	\$ 1,308,632	\$ 1,258,452
Insurance	135,280	150,815
Depreciation	<u>1,071,136</u>	<u>960,628</u>
	<u>2,515,048</u>	<u>2,369,895</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,897,260</u>	<u>\$ 12,613,058</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,
AND COLLECTION STATISTICS – HEALTH CENTER
JUNE 30, 2007 AND 2006

ANALYSIS OF AGING

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
DAYS SINCE DISCHARGE				
0 to 30 days	\$ 1,425,744	49.19%	\$ 1,383,366	51.93%
1 to 2 months	584,273	20.16	389,830	14.63
2 to 3 months	193,256	6.67	200,693	7.53
3 to 4 months	158,244	5.46	170,486	6.40
Over 4 months	<u>536,730</u>	<u>18.52</u>	<u>519,434</u>	<u>19.51</u>
	2,898,247	<u>100.00%</u>	2,663,809	<u>100.00%</u>
Less: Allowance for doubtful accounts	427,000		380,000	
Allowance for contractual adjustments	<u>589,000</u>		<u>497,000</u>	
Net	<u>\$ 1,882,247</u>		<u>\$ 1,786,809</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	\$ 380,000	\$ 357,000
Add: Provision for bad debts	400,079	342,756
Less: Write offs, net of recoveries	<u>(353,079)</u>	<u>(319,756)</u>
BALANCE, END OF YEAR	<u>\$ 427,000</u>	<u>\$ 380,000</u>

	<u>2007</u>	<u>2006</u>
COLLECTION STATISTICS		
Net accounts receivable - patients	\$ 1,882,247	\$ 1,786,809
Number of days charges outstanding (1)	59	55
Uncollectible accounts (2)	\$ 463,250	\$ 395,804
Percentage of uncollectible accounts to total charges	2.7%	2.4%

(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
SCHEDULES OF SUPPLIES/PREPAID EXPENSE – HEALTH CENTER
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPLIES		
Pharmacy	\$ 79,786	\$ 73,820
Medical and surgical	38,777	34,966
Central stores	37,374	33,958
Dietary	10,872	10,847
Plant operations	7,869	10,576
Laboratory	6,901	8,023
Gift shop	5,514	4,915
Laundry	1,682	1,642
Radiology	<u>692</u>	<u>1,181</u>
 Total supplies	 <u>\$ 189,467</u>	 <u>\$ 179,928</u>
PREPAID EXPENSE		
Insurance	\$ 72,466	\$ 15,733
Maintenance contracts	42,444	39,369
Dues	1,416	-
Other	<u>38,969</u>	<u>24,274</u>
 Total prepaid expense	 <u>\$ 155,295</u>	 <u>\$ 79,376</u>

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Acute		
Adults and pediatrics (includes obstetrics)	1,568	1,668
Newborn	150	167
Special care unit	5	4
Swing-bed – skilled care	536	601
NUMBER OF BEDS	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)	23.1%	24.9%
DISCHARGES		
Acute (excluding newborn)	538	580
Swing-bed – skilled care	79	100
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	2.92	2.88
Swing-bed – skilled care	6.79	6.01
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Semi-private	\$ 820	\$ 780
Special care unit	1,205	1,145
Nursery	560	530
Swing-bed - skilled care	460	435



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**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, 2007 and 2006, 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 September 18, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the internal control over financial reporting of Lucas County Health Center and Affiliate. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting of Lucas County Health Center and Affiliate.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability of Lucas County Health Center and Affiliate to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements of Lucas County Health Center and Affiliate that is more than inconsequential will not be prevented or detected by the internal control of Lucas County Health Center and Affiliate. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the internal control of Lucas County Health Center and Affiliate.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is 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, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the 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.

The responses of findings of Lucas County Health Center and Affiliate identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the responses of the Health Center and Affiliate, we did not audit their responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management in a separate letter dated September 18, 2007.

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 "Erik Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 18, 2007

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 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 – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Health Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07 Preparation of Financial Statements – The Lucas County Health Center and Affiliate does not have an internal control system designed to provide for the preparation of the financial statements in accordance with generally accepted accounting principles. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, management and those charged with governance of the Lucas County Health Center and Affiliate should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

LUCAS COUNTY HEALTH CENTER AND AFFILIATE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 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-07 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-07 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-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07 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-07 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.



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The Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the combined financial statements of Lucas County Health Center and Lucas County Health Center Foundation (Health Center and Affiliate), for the year ended June 30, 2007, and have issued our report thereon dated September 18, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated May 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the combined financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Health Center and Affiliate. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the combined financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants of the Health Center and Affiliate. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Health Center and Affiliate are described in Note 1 to the combined financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the Health Center and Affiliate during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the combined financial statements relate to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors.

Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the combined financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process of the Health Center and Affiliate (that is, cause future combined financial statements to be materially misstated).

There were no significant passed adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the combined financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the combined financial statements of the Health Center and Affiliate or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors for the Health Center and Affiliate. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Comments

We have included additional comments regarding the financial statements and operations of the Health Center and Affiliate.

This information is intended solely for the use of the officials, employees, and constituents of **Lucas County Health Center and Lucas County Health Center Foundation** and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to **Lucas County Health Center and Lucas County Health Center Foundation**.

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

Dubuque, Iowa
September 18, 2007

xc: Mr. Dan Minkoff

LUCAS COUNTY HEALTH CENTER AND AFFILIATE

YEAR ENDED JUNE 30, 2007

OTHER COMMENTS

Capitalization Policy

Currently, the Health Center is using a \$2,000 capitalization policy. Since the Health Center is a critical access hospital and cost reimbursed, we recommend that the Health Center consider increasing their capitalization policy. Medicare regulations allow facilities to expense individual purchases of capital assets up to \$5,000. By expensing items immediately, rather than depreciating the asset over its useful life, the Health Center will see a more immediate benefit in reimbursement, as Medicare will cover its portion of the cost.

Risk Assessment Audit Standards

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have a significant impact on the audit of the Health Center and Affiliate.