

**Lucas County Health Center and
Lucas County Health Center Foundation
Chariton, Iowa**

COMBINED FINANCIAL REPORT

June 30, 2008

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**Lucas County Health Center and
Lucas County Health Center Foundation
OFFICIALS
June 30, 2008**

LUCAS COUNTY HEALTH CENTER

BOARD OF TRUSTEES

Expiration of term

Officers

Raymond Meyer, Chairperson
Roger Struve, Vice Chairperson
Corliss Klaassen, Secretary
Rick Runyon, Treasurer

December 31, 2010
December 31, 2008
December 31, 2012
December 31, 2008

Members

Betty Hansen
Natalie McGee
David Miller

December 31, 2012
December 31, 2010
December 31, 2012

CHIEF EXECUTIVE OFFICER

Veronica Fuhs

CHIEF FINANCIAL OFFICER

Dan Minkoff

LUCAS COUNTY HEALTH CENTER FOUNDATION

BOARD OF DIRECTORS

Directors

Veronica Fuhs, President
Fred Housman, Chairperson
David Miller, Vice Chairperson
Dan Kent, Secretary
Dan Minkoff, Treasurer

Members

Raymond Meyer
Roger Struve

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the accompanying combined balance sheet of Lucas County Health Center and Lucas County Health Center Foundation as of June 30, 2008, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the year then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lucas County Health Center and Lucas County Health Center Foundation as of June 30, 2007, were audited by other auditors whose report dated September 18, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of Lucas County Health Center and Lucas County Health Center Foundation as of June 30, 2008, and the results of its operations and its cash flows for the year 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 a report dated October 20, 2008 on our consideration of 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 page 5 is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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. However, we did not audit the information and express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 20, 2008

**Lucas County Health Center
MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Lucas County Health Center, 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

- Total fund equity was \$7,425,165 at June 30, 2008, up 10% from the prior year.
- Revenue in excess of expenses before restricted contributions was \$595,395 for the fiscal year ended June 30, 2008.
- 55 days cash on hand from short-term sources were reported at June 30, 2008.
- 62 days gross revenues in gross patient accounts receivable were reported at June 30, 2008.
- There were 1,924 acute patient days in fiscal year 2008, an increase of 22% from 2007.
- There were 707 swing-bed patient days in fiscal year 2008, an increase of 32% from 2007.
- There were 19,981 outpatient visits in fiscal year 2008, an increase of 5% from 2007.

Overview of the Financial Statements

The financial statements include the balance sheets, statements of revenues, expenses and changes in fund equity, statements of cash flows, notes to financial statements and supplementary information.

The balance sheet at June 30, 2008 indicates total assets of \$12,013,489, total liabilities of \$4,588,324, and fund equity of \$7,425,165. Total current assets were \$4,859,124, and total current liabilities were \$2,587,138 for a current ratio of 1.9.

The Health Center's cash increased from \$760,363 at June 30, 2007 to \$2,515,029 at June 30, 2008. The net increase in cash came generally from the net cash provided by operating activities.

There are notes to the financial statements included in the financial report. All of the notes are consistent with and similar to financial 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 more detail than is disclosed in the statements of revenues, expenses and changes in fund equity. The revenues are detailed by department and segregated by inpatient and outpatient, and also compared with the previous year. The expenses are detailed by department and segregated by salaries, supplies and other expenses, and also compared to the previous year.

Capital Assets and Debt Administration

The Health Center's capital assets as of June 30, 2008 amounted to \$6,051,123, net of accumulated depreciation. This investment in capital assets includes land, buildings and equipment. At year-end, the Health Center had total long-term debt outstanding of \$1,442,042 with current maturities of \$110,607. Capital assets and long-term debt are 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 Lucas County Health Center, Controller, 1200 N. 7th Street, Chariton, IA 50049.

**Lucas County Health Center and
Lucas County Health Center Foundation
COMBINED BALANCE SHEETS**

ASSETS	June 30	
	2008	2007
CURRENT ASSETS		
Cash	\$ 2,045,961	\$ 253,127
Assets whose use is limited-required for current liabilities	86,024	212,639
Patient receivables, less allowances for contractual adjustments and bad debts	2,322,199	1,882,247
Other receivables	91,320	88,977
Inventories	188,487	189,467
Prepaid expenses	175,580	155,295
Estimated third-party payor settlements	—	280,000
Total current assets	<u>4,909,571</u>	<u>3,061,752</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	245,428	257,819
Restricted for payment of long-term debt and interest		
Cash	284,335	308,986
Certificate of deposit	—	100,000
Total assets whose use is limited	<u>529,763</u>	<u>666,805</u>
Less assets whose use is limited and that are required for current liabilities	86,024	212,639
Noncurrent assets whose use is limited	<u>443,739</u>	<u>454,166</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	17,959,247	17,361,330
Total property and equipment	<u>10,915,191</u>	<u>10,280,042</u>
	<u>7,044,056</u>	<u>7,081,288</u>
OTHER ASSET		
Succeeding year property tax receivable	669,751	632,499
Totals	<u>\$13,067,117</u>	<u>\$11,229,705</u>

See Notes to Combined Financial Statements.

**Lucas County Health Center and
Lucas County Health Center Foundation
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	Year ended June 30	
	2008	2007
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2008 \$521,086; 2007 \$400,079	\$13,579,949	\$11,749,444
OTHER REVENUE	<u>801,036</u>	<u>915,574</u>
Total revenue	<u>14,380,985</u>	<u>12,665,018</u>
EXPENSES		
Nursing service	3,102,211	2,693,610
Other professional service	5,115,592	4,773,732
General service	1,369,517	1,145,543
Fiscal and administrative service and unassigned expenses	3,773,004	3,369,625
Provision for depreciation	<u>1,133,962</u>	<u>1,102,348</u>
Total expenses	<u>14,494,286</u>	<u>13,084,858</u>
Operating (loss)	(113,301)	(419,840)
NONOPERATING GAINS (LOSSES)		
County taxes	634,110	632,618
Investment income	35,978	44,896
Unrestricted contributions	92,887	84,972
Loss on disposal of assets	(13,209)	(14,213)
Interest expense	<u>(69,805)</u>	<u>(80,522)</u>
Total nonoperating gains (losses)	<u>679,961</u>	<u>667,751</u>
Excess of revenues over expenses before restricted contributions	566,660	247,911
RESTRICTED CONTRIBUTIONS	<u>108,426</u>	<u>27,525</u>
Change in fund equity	675,086	275,436
TOTAL FUND EQUITY		
Beginning	<u>7,740,548</u>	<u>7,465,112</u>
Ending	<u>\$ 8,415,634</u>	<u>\$ 7,740,548</u>

See Notes to Combined Financial Statements.

**Lucas County Health Center and
Lucas County Health Center Foundation
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$14,044,997	\$10,903,006
Cash paid to suppliers for goods and services	(7,030,795)	(6,770,516)
Cash paid to employees for services	(5,623,145)	(5,325,488)
Other operating revenue received	<u>801,036</u>	<u>915,574</u>
Net cash provided by operating activities	<u>2,192,093</u>	<u>(277,424)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	634,110	632,618
Unrestricted contributions received	<u>92,887</u>	<u>84,972</u>
Net cash provided by noncapital financing activities	<u>726,997</u>	<u>717,590</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,139,939)	(578,423)
Proceeds from sales of assets	30,000	20,448
Interest paid on long-term debt	(77,282)	(87,893)
Proceeds from issuance of debt	-	65,000
Principal payments on long-term debt	(220,481)	(275,404)
Contributions received, restricted for purchase of equipment	<u>108,426</u>	<u>27,525</u>
Net cash provided by capital and related financing activities	<u>(1,299,276)</u>	<u>(828,747)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	100,000	76,407
Interest received	<u>35,978</u>	<u>44,896</u>
Net cash provided by investing activities	<u>135,978</u>	<u>121,303</u>
NET INCREASE (DECREASE) IN CASH	1,755,792	(267,278)
CASH		
Beginning	<u>819,932</u>	<u>1,087,210</u>
Ending	<u>\$ 2,575,724</u>	<u>\$ 819,932</u>

See Notes to Combined Financial Statements.

**Lucas County Health Center and
Lucas County Health Center Foundation
STATEMENTS OF CASH FLOWS (continued)**

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (113,301)	\$ (419,840)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,133,962	1,102,348
Changes in assets and liabilities		
(Increase) in patient receivables	(439,952)	(95,438)
(Increase) in other receivables	(2,343)	(13,747)
(Increase) decrease in inventories	980	(9,539)
(Increase) in prepaid expenses	(20,285)	(75,919)
(Increase) decrease in net estimated third-party payor settlements	905,000	(751,000)
Increase in accounts payable	621,637	8,485
Increase in accrued employee compensation	66,528	9,364
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>39,867</u>	<u>(32,138)</u>
Net cash provided by (used in) operating activities	<u>\$2,192,093</u>	<u>\$ (277,424)</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$2,045,961	\$ 253,127
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	245,428	257,819
Restricted for payment of long-term debt and interest, cash	<u>284,335</u>	<u>308,986</u>
Total per statement of cash flows	<u>\$2,575,724</u>	<u>\$ 819,932</u>

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Health Center is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Lucas County, Iowa. The Health Center is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, the Health Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health Center. These criteria also include organizations that are fiscally dependent on the Health Center. For the fiscal years ended June 30, 2008 and 2007, the Health Center has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Lucas County Health Center Foundation.

The Foundation is a legally separate nonprofit corporation primarily organized and operated for the benefit and support of the Health Center. The Health Center is the sole member of the corporation. The accounts and transactions of the Foundation are combined with the Health Center for financial reporting purposes using the blended method. Transactions between the Health Center and Foundation are eliminated in combination.

Measurement Focus and Basis of Accounting

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

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

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board, FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Accounting Standards

Pursuant to Governmental Accounting Standards Board, GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Health Center has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board, FASB, issued on or before November 30, 1989.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Health Center is three (3) to 40 years.

Succeeding Year Property Tax Receivable

Succeeding year property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue for Succeeding Year Property Tax Receivable

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors and donors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted

Unrestricted fund equity has no externally imposed restrictions on use.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Charity Care

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenues, Expenses, and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH

At June 30, 2008, the Health Center's deposits in banks exceeded the approved depository resolution by approximately \$450,000. Chapter 12C of the Code of Iowa 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.

As to interest rate risk, the Health Center's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Health Center.

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

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Medicare	\$ 929,478	\$ 674,911
Medicaid	452,098	361,898
Commercial insurance	1,247,842	1,098,177
Patients	<u>929,781</u>	<u>763,406</u>
Total patient receivables	3,559,199	2,898,392
Less allowances for contractual adjustments and bad debts	(1,237,000)	(1,016,145)
Net patient receivables	<u>\$2,322,199</u>	<u>\$1,882,247</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited, restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2008:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 212,639	\$ 196,347	\$ 408,986
Transfer from current assets, cash	94,515	-	94,515
Interest earned	892	1,964	2,856
Principal and interest payments	<u>(222,022)</u>	<u>-</u>	<u>(222,022)</u>
BALANCE , end of year	<u>\$ 86,024</u>	<u>\$ 198,311</u>	<u>\$ 284,335</u>

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 83,861	\$ -	\$ 83,861	\$ -
Land improvements	538,707	272,219	358,102	266,441
Building and improvements	7,793,091	3,730,041	7,509,198	3,533,291
Major movable equipment	<u>9,543,588</u>	<u>6,912,931</u>	<u>9,410,169</u>	<u>6,480,310</u>
Totals	<u>\$17,959,247</u>	<u>\$10,915,191</u>	<u>\$17,361,330</u>	<u>\$10,280,042</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 83,861	\$ —	\$ —	\$ 83,861
Land improvements	358,102	189,654	9,049	538,707
Building and improvements	7,509,198	392,501	108,608	7,793,091
Major movable equipment	<u>9,410,169</u>	<u>585,992</u>	<u>452,573</u>	<u>9,543,588</u>
Totals	17,361,330	1,168,147	570,230	17,959,247
Less accumulated depreciation	<u>(10,280,042)</u>	<u>(1,133,962)</u>	<u>(498,813)</u>	<u>(10,915,191)</u>
Net property and equipment	<u>\$ 7,081,288</u>	<u>\$ 34,185</u>	<u>\$ 71,417</u>	<u>\$ 7,044,056</u>

A summary of changes in property and equipment for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 83,861	\$ —	\$ —	\$ —	\$ 83,861
Land improvements	361,277	—	—	3,175	358,102
Building and improvements	7,446,187	—	65,900	2,889	7,509,198
Major movable equipment	9,004,538	402,742	165,498	162,609	9,410,169
Construction in progress	<u>59,422</u>	<u>171,976</u>	<u>(231,398)</u>	<u>—</u>	<u>—</u>
Totals	16,955,285	574,718	—	168,673	17,361,330
Less accumulated depreciation	<u>(9,315,411)</u>	<u>(1,102,348)</u>	<u>—</u>	<u>(137,717)</u>	<u>(10,280,042)</u>
Net property and equipment	<u>\$ 7,639,874</u>	<u>\$ (527,630)</u>	<u>\$ —</u>	<u>\$ 30,956</u>	<u>\$ 7,081,288</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
County Public Hospital Revenue Bonds, Series 1977	\$ —	\$ 115,000
Hospital Revenue Note, Series 1991A	264,411	325,715
Hospital Revenue Note, Series 1991B	400,519	431,099
USDA Rural Economic and Community Development Mortgage Note, Series 1994A	<u>777,112</u>	<u>790,709</u>
Total	1,442,042	1,662,523
Less current maturities	<u>110,607</u>	<u>220,390</u>
Long-term debt, net of current maturities	<u>\$1,331,435</u>	<u>\$1,442,133</u>

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

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Note, Series 1991A

The Health Center has issued Hospital Revenue Note, Series 1991A in the original amount of \$900,000. The Note is payable solely from future revenues of the Health Center and is due monthly through May, 2012 with an interest rate of 4.83%. At June 30, 2008, the remaining balance on the Note was \$264,411.

The Note requires a Reserve Fund to be maintained in the amount of \$90,000. The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Note at June 30, 2008.

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

Hospital Revenue Note, Series 1991B

The Health Center has issued Hospital Revenue Note, Series 1991B in the original amount of \$700,000. The Note is payable solely from future revenues of the Health Center and is due in equal annual installments of \$51,898 payable each July through 2017, including interest of 5%. At June 30, 2008, the remaining balance on the Note was \$400,519.

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

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

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

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Note at June 30, 2008.

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

As to the above Revenue Notes, Series 1991A and 1991B, the Health Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Notes were issued to finance capital improvements of the Health Center. The net revenues are pledged through July, 2017. As of June 30, 2008 the remaining principal and interest on the Series 1991A and 1991B Notes was \$808,898. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2008 and 2007:

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Change in fund equity, Health Center	\$ 703,821	\$ 332,905
Provision for depreciation, Health Center	1,102,750	1,071,136
Interest expense on the Notes	<u>34,244</u>	<u>39,552</u>
Pledged net revenues	<u>\$1,840,815</u>	<u>\$1,443,593</u>
Principal and interest requirements		
Hospital Revenue Note, Series 1991A	\$ 75,691	\$ 76,347
Hospital Revenue Note, Series 1991B	<u>51,899</u>	<u>50,210</u>
Total	<u>\$ 127,590</u>	<u>\$ 126,557</u>

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

NOTE 6 LONG-TERM DEBT (continued)

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

During November, 1995 the Foundation issued USDA Rural Economic and Community Development Mortgage Note, Series 1994A in the original amount of \$900,000 to finance the construction of a medical office building adjacent to the Health Center. In April, 2001, the Health Center assumed all rights, title and interest in the property and the obligations under the Note. The Note is secured by a mortgage and is due in equal annual installments of \$49,374 payable each November through 2035, including interest of 4.5%. At June 30, 2008, the remaining balance on the Note was \$777,112.

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

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

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

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Note at June 30, 2008.

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

Maturities required on the above Notes are as follows:

<u>Year ending June 30</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 110,607	\$ 65,539	\$ 176,146
2010	115,744	61,219	176,963
2011	121,414	55,549	176,963
2012	115,593	49,600	165,193
2013	55,905	45,367	101,272
2014-2018	322,632	183,469	506,101
2019-2023	122,351	124,519	246,870
2024-2028	152,471	94,399	246,870
2029-2033	190,006	56,864	246,870
2034-2036	<u>135,319</u>	<u>12,345</u>	<u>147,664</u>
Total	1,442,042	748,870	2,190,912
Less current maturities	<u>110,607</u>	<u>65,539</u>	<u>176,146</u>
Total long-term debt	<u>\$1,331,435</u>	<u>\$ 683,331</u>	<u>\$2,014,766</u>

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

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Revenue Bond, Series 1977	\$ 115,000	\$ —	\$ 115,000	\$ —	\$ —
Revenue Note, Series 1991A	325,715	—	61,304	264,411	64,342
Revenue Note, Series 1991B	431,099	—	30,580	400,519	31,864
Mortgage Note, Series 1994A	<u>790,709</u>	<u>—</u>	<u>13,597</u>	<u>777,112</u>	<u>14,401</u>
Totals	<u>\$1,662,523</u>	<u>\$ —</u>	<u>\$ 220,481</u>	<u>\$1,442,042</u>	<u>\$ 110,607</u>

A summary of changes in long-term debt for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Revenue Bond, Series 1977	\$ 225,000	\$ —	\$ 110,000	\$ 115,000	\$ 115,000
Revenue Note, Series 1991A	384,062	—	58,347	325,715	61,247
Revenue Note, Series 1991B	459,757	—	28,658	431,099	30,357
Mortgage Note, Series 1994A	<u>804,108</u>	<u>—</u>	<u>13,399</u>	<u>790,709</u>	<u>13,786</u>
Totals	<u>\$1,872,927</u>	<u>\$ —</u>	<u>\$ 210,404</u>	<u>\$1,662,523</u>	<u>\$ 220,390</u>

NOTE 7 NET PATIENT SERVICE REVENUE

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2006.

Other

The Health Center has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

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

NOTE 8 DEFINED BENEFIT PENSION PLAN

The Health Center contributes to the Iowa Public Employees Retirement System, IPERS, which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

For the year ended June 30, 2008 plan members were required to contribute 3.90% of their annual salary and the Health Center was required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$339,850, \$298,701 and \$305,440, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2008 and 2007.

	2008	2007
Charges foregone, based on established rates	\$ <u>123,558</u>	\$ <u>31,265</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.2%</u>

NOTE 10 MALPRACTICE CLAIMS

The Health Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Presently, no claims alleging malpractice have been asserted against the Health Center. However, incidents occurring through June 30, 2008 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget for all funds following required public notice and hearings. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Health Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital cash and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital cash basis and capital expenditures are recorded on the County Hospital budget basis.

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

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)

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

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>Amended County Hospital Budget</u>
Amount to be raised by taxation	\$ 634,110	\$ -	\$ 634,110	\$ 605,409
Other revenues/receipts	<u>14,473,223</u>	<u>(38,621)</u>	<u>14,434,602</u>	<u>13,578,305</u>
	15,107,333	(38,621)	15,068,712	14,183,714
Expenses/expenditures	<u>14,403,512</u>	<u>247,257</u>	<u>14,650,769</u>	<u>14,666,892</u>
Net	703,821	(285,878)	417,943	(483,178)
Balance, beginning	<u>6,721,344</u>	<u>(4,430,205)</u>	<u>2,291,139</u>	<u>1,059,013</u>
Balance, ending	<u>\$ 7,425,165</u>	<u>\$(4,716,083)</u>	<u>\$ 2,709,082</u>	<u>\$ 575,835</u>

NOTE 12 RISK MANAGEMENT

The Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13 RECLASSIFICATIONS

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation with no effect on the change in fund equity.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Lucas County Health Center
Chariton, Iowa

Our report on our audit of the basic combined financial statements of Lucas County Health Center and Lucas County Health Center Foundation for the year ended June 30, 2008 appears on page 4. The audit was conducted for the purpose of forming an opinion on the basic 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The basic combined financial statements of Lucas County Health Center and Lucas County Health Center Foundation for the year ended June 30, 2007, were audited by other auditors whose report dated September 18, 2007, expressed an unqualified opinion on those financial statements. Their report, as of the same date, on supplementary information stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007, taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 20, 2008

**Lucas County Health Center and
Lucas County Health Center Foundation
COMBINING BALANCE SHEET
June 30, 2008, with comparative totals for 2007**

ASSETS	2008				2007
	Health Center	Foundation	Eliminations	Total	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,995,514	\$ 50,447	\$ -	\$ 2,045,961	\$ 253,127
Assets whose use is limited-required for current liabilities	86,024	-	-	86,024	212,639
Patient receivables, less allowances for contractual adjustments and bed debts	2,322,199	-	-	2,322,199	1,882,247
Other receivables	91,320	6,583	(6,583)	91,320	88,977
Inventories	188,487	-	-	188,487	189,467
Prepaid expenses	175,580	-	-	175,580	155,295
Estimated third-party payor settlements	-	-	-	-	280,000
Total current assets	4,859,124	57,030	(6,583)	4,909,571	3,061,752
ASSETS WHOSE USE IS LIMITED					
Designated by board for plan replacement and expansion					
Cash and cash equivalents	235,180	10,248	-	245,428	257,819
Restricted for payment of long-term debt and interest					
Cash and cash equivalents	284,335	-	-	284,335	308,986
Certificate of deposit	-	-	-	-	100,000
Total assets whose use is limited	519,515	10,248	-	529,763	666,805
Less assets whose use is limited and that are required for current liabilities	86,024	-	-	86,024	212,639
Noncurrent assets whose use is limited	433,491	10,248	-	443,739	454,166
PROPERTY AND EQUIPMENT					
16,733,994	16,733,994	1,225,253	-	17,959,247	17,361,330
Less accumulated depreciation	10,682,871	232,320	-	10,915,191	10,280,042
Total property and equipment	6,051,123	992,933	-	7,044,056	7,081,288
OTHER ASSET					
Succeeding year property tax receivable	669,751	-	-	669,751	632,499
Totals	\$12,013,489	\$1,060,211	\$ (6,583)	\$13,067,117	\$11,229,705

LIABILITIES AND FUND EQUITY	2008			2007	
	Health Center	Foundation	Eliminations	Total	Total
CURRENT LIABILITIES					
Current maturities of long-term debt	\$ 110,607	\$ –	\$ –	\$ 110,607	\$ 220,390
Accounts payable	1,179,051	69,742	(6,583)	1,242,210	624,178
Accrued employee compensation	444,088	–	–	444,088	377,560
Payroll taxes and amounts withheld from employees	183,143	–	–	183,143	143,276
Accrued interest	41,644	–	–	41,644	49,121
Estimated third-party payor settlements	625,000	–	–	625,000	–
Total current liabilities	<u>2,583,533</u>	<u>69,742</u>	<u>(6,583)</u>	<u>2,646,692</u>	<u>1,414,525</u>
LONG-TERM DEBT , less current maturities					
	<u>1,331,435</u>	<u>–</u>	<u>–</u>	<u>1,331,435</u>	<u>1,442,133</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE					
	<u>669,751</u>	<u>–</u>	<u>–</u>	<u>669,751</u>	<u>632,499</u>
FUND EQUITY					
Invested in capital assets, net of related debt	4,609,081	992,933	–	5,602,014	5,418,765
Restricted	67,877	–	–	67,877	71,156
Unrestricted	<u>2,751,812</u>	<u>(2,464)</u>	<u>–</u>	<u>2,749,348</u>	<u>2,250,627</u>
Total fund equity	<u>7,428,770</u>	<u>990,469</u>	<u>–</u>	<u>8,419,239</u>	<u>7,740,548</u>
Totals	<u>\$12,013,489</u>	<u>\$1,060,211</u>	<u>\$ (6,583)</u>	<u>\$13,067,117</u>	<u>\$11,229,705</u>

**Lucas County Health Center and
Lucas County Health Center Foundation
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
Year ended June 30, 2008, with comparative totals for 2007**

	2008			2007	
	<u>Health Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>	<u>Total</u>
NET PATIENT SERVICE REVENUE,					
net of provision for bad debts					
2008 \$521,086; 2007 \$400,079	\$13,579,949	\$ -	\$ -	\$13,579,949	\$11,749,444
OTHER REVENUE	<u>752,138</u>	<u>182,946</u>	<u>(134,048)</u>	<u>801,036</u>	<u>915,574</u>
Total revenue	<u>14,332,087</u>	<u>182,946</u>	<u>(134,048)</u>	<u>14,380,985</u>	<u>12,665,018</u>
EXPENSES					
Nursing service	3,100,790	-	-	3,100,790	2,693,610
Other professional service	5,222,019	-	(106,448)	5,115,571	4,773,732
General service	1,369,078	-	-	1,369,078	1,145,543
Fiscal and administrative service and unassigned expenses	3,605,270	193,610	(27,600)	3,771,280	3,369,625
Provision for depreciation	<u>1,102,750</u>	<u>31,212</u>	<u>-</u>	<u>1,133,962</u>	<u>1,102,348</u>
Total expenses	<u>14,399,907</u>	<u>224,822</u>	<u>(134,048)</u>	<u>14,490,681</u>	<u>13,084,858</u>
Operating (loss)	(67,820)	(41,876)	-	(109,696)	(419,840)
NONOPERATING GAINS (LOSSES)					
County taxes	634,110	-	-	634,110	632,618
Investment income	34,587	1,391	-	35,978	44,896
Unrestricted contributions	81,137	11,750	-	92,887	84,972
Loss on disposal of assets	(13,209)	-	-	(13,209)	(14,213)
Interest expense	<u>(69,805)</u>	<u>-</u>	<u>-</u>	<u>(69,805)</u>	<u>(80,522)</u>
Total nonoperating gains (losses)	<u>666,820</u>	<u>13,141</u>	<u>-</u>	<u>679,961</u>	<u>667,751</u>
Excess of revenues over expenses before contributions	599,000	(28,735)	-	570,265	247,911
RESTRICTED CONTRIBUTIONS	<u>108,426</u>	<u>-</u>	<u>-</u>	<u>108,426</u>	<u>27,525</u>
Change in fund equity	707,426	(28,735)	-	678,691	275,436
TOTAL FUND EQUITY					
Beginning	<u>6,721,344</u>	<u>1,019,204</u>	<u>-</u>	<u>7,740,548</u>	<u>7,465,112</u>
Ending	<u>\$ 7,428,770</u>	<u>\$ 990,469</u>	<u>\$ -</u>	<u>\$ 8,419,239</u>	<u>\$ 7,740,548</u>

**Lucas County Health Center
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
0 - 30 days (includes patients in Health Center at end of year)	\$1,984,914	\$1,425,744	55.77%	49.19%
31 - 60 days	460,229	584,273	12.93	20.16
61 - 90 days	222,633	193,256	6.25	6.67
91 - 120 days	161,427	158,244	4.54	5.46
Over 120 days	<u>729,996</u>	<u>536,730</u>	<u>20.51</u>	<u>18.52</u>
Totals	<u>3,559,199</u>	<u>2,898,247</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	329,000	263,000		
Medicaid	115,000	143,000		
Other	273,000	183,000		
Bad debts	<u>520,000</u>	<u>427,000</u>		
Total allowances	<u>1,237,000</u>	<u>1,016,000</u>		
Totals	<u>\$2,322,199</u>	<u>\$1,882,247</u>		
GROSS PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 57,621</u>	<u>\$ 47,357</u>		
NUMBER OF DAYS GROSS PATIENT SERVICE REVENUE IN GROSS PATIENT RECEIVABLES	<u>62</u>	<u>61</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
BALANCE , beginning	\$ 427,000	\$ 380,000		
ADD				
Provision for bad debts	<u>521,086</u>	<u>400,079</u>	3.84%	2.95%
	948,086	780,079		
DEDUCT				
Accounts written off, net of recoveries	<u>428,086</u>	<u>353,079</u>	3.15	2.60
BALANCE , ending	<u>\$ 520,000</u>	<u>\$ 427,000</u>		

Lucas County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2008, with comparative totals for 2007

	<u>2008</u>			<u>2007</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$1,949,540	\$ 65,484	\$ 2,015,024	\$ 1,487,555
Obstetrics	184,360	-	184,360	145,835
Nursery	113,957	-	113,957	90,198
	<u>2,247,857</u>	<u>65,484</u>	<u>2,313,341</u>	<u>1,723,588</u>
OTHER NURSING SERVICES				
Operating room	302,301	1,888,884	2,191,185	1,748,584
Labor and delivery	133,914	22,589	156,503	145,549
Central supply	35,103	327,464	362,567	200,665
Emergency service	19,346	1,614,175	1,633,521	1,363,083
Ambulance	23,913	677,783	701,696	498,307
	<u>514,577</u>	<u>4,530,895</u>	<u>5,045,472</u>	<u>3,956,188</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	344,191	2,206,634	2,550,825	2,225,956
Radiology	332,239	4,300,771	4,633,010	3,628,244
Pharmacy	704,283	1,052,086	1,756,369	1,424,792
Anesthesiology	96,681	486,272	582,953	533,313
Respiratory therapy	302,366	137,846	440,212	277,157
EKG/EEG	18,404	94,173	112,577	97,346
Cardiac and pulmonary rehabilitation	1,056	186,770	187,826	155,325
Physical therapy	145,245	647,801	793,046	648,935
Speech therapy	11,294	5,575	16,869	12,668
Occupational therapy	24,477	24,455	48,932	26,114
Diabetic education	-	380	380	190
Wound treatment	-	34,663	34,663	-
Pediatric therapy	-	1,625,912	1,625,912	1,619,921
Adult day care	-	3,904	3,904	15,680
Behavioral health service	23,756	758,507	782,263	722,894
Infusion therapy	-	117,120	117,120	91,982
Humeston clinic	-	144,126	144,126	147,226
Specialty clinics	-	22,939	22,939	8,900
	<u>2,003,992</u>	<u>11,849,934</u>	<u>13,853,926</u>	<u>11,636,643</u>
Totals	<u>\$4,766,426</u>	<u>\$16,446,313</u>	21,212,739	17,316,419
Charity care charges foregone, based on established rates			(123,558)	(31,265)
Total gross patient service revenue			21,089,181	17,285,154
Provisions for contractual adjustments and bad debts			(7,509,232)	(5,535,710)
Total net patient service revenue			<u>\$13,579,949</u>	<u>\$11,749,444</u>

**Lucas County Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
Contractual adjustments		
Medicare	\$3,874,615	\$2,937,287
Medicaid	1,283,955	1,057,109
Other adjustments	1,829,576	1,141,235
Provision for bad debts	<u>521,086</u>	<u>400,079</u>
 Totals	 <u>\$7,509,232</u>	 <u>\$5,535,710</u>

OTHER REVENUE

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
Day care	\$ 320,554	\$ 356,400
Rental income	130,884	121,915
Cafeteria	75,281	75,269
Medical records	78,187	73,610
Lifeline	37,386	38,813
Housekeeping	18,000	18,000
Miscellaneous	<u>91,846</u>	<u>83,351</u>
 Totals	 <u>\$ 752,138</u>	 <u>\$ 767,358</u>

Lucas County Health Center
EXPENSES
Year ended June 30, 2008, with comparative totals for 2007

	<u>2008</u>			<u>2007</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 97,327	\$ 2,067	\$ 99,394	\$ 89,072
Medical and surgical	872,808	177,789	1,050,597	939,362
Nursery	12,191	20,210	32,401	13,032
Operating room	266,349	256,815	523,164	370,087
Labor and delivery	120,719	30,633	151,352	133,835
Central supply	24,916	206,373	231,289	191,043
Emergency service	619,753	256,776	876,529	840,168
Ambulance	<u>108,596</u>	<u>28,889</u>	<u>137,485</u>	<u>117,011</u>
Total nursing service	<u>2,122,659</u>	<u>979,552</u>	<u>3,102,211</u>	<u>2,693,610</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	266,602	435,019	701,621	641,505
Radiology	225,336	597,799	823,135	721,509
Pharmacy	130,844	448,018	578,862	552,459
Anesthesiology	-	260,214	260,214	237,437
Respiratory therapy	110,242	44,320	154,562	127,484
EKG/EEG	5,529	876	6,405	7,072
Cardiac and pulmonary rehabilitation	70,505	9,032	79,537	61,007
Physical therapy	248,251	64,547	312,798	214,905
Speech therapy	-	5,100	5,100	5,980
Occupational therapy	-	23,663	23,663	8,245
Diabetic education	-	-	-	7,047
Wound treatment	33,032	47,856	80,888	-
Pediatric therapy	-	1,016,199	1,016,199	1,012,864
Adult day care	5,173	1,194	6,367	15,958
Day care	287,984	144,799	432,783	438,878
Behavioral health service	337,139	76,134	413,273	383,158
Infusion therapy	55,549	6,644	62,193	54,222
Humeston clinic	99,416	107,339	206,755	233,328
Specialty clinics	<u>29,238</u>	<u>28,447</u>	<u>57,685</u>	<u>50,674</u>
Total other professional service	<u>1,904,840</u>	<u>3,317,200</u>	<u>5,222,040</u>	<u>4,773,732</u>
GENERAL SERVICE				
Dietary	150,461	122,880	273,341	243,929
Plant services	159,168	726,030	885,198	688,272
Environmental services	160,800	21,147	181,947	190,486
Laundry	<u>19,616</u>	<u>9,415</u>	<u>29,031</u>	<u>22,856</u>
Total general service	<u>490,045</u>	<u>879,472</u>	<u>1,369,517</u>	<u>1,145,543</u>
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative services	685,977	647,294	1,333,271	1,132,014
Business office	252,272	70,207	322,479	308,668
Medical office building and clinics	51,646	39,129	90,775	88,429
Medical records	182,234	96,512	278,746	240,216

Lucas County Health Center
EXPENSES (continued)
Year ended June 30, 2008, with comparative totals for 2007

	<u>2008</u>			<u>2007</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
UNASSIGNED EXPENSES				
FICA	\$ —	\$ 402,461	\$ 402,461	\$ 376,974
IPERS	—	339,850	339,850	298,701
Group health, life and other benefits	—	613,577	613,577	542,245
Workers compensation Insurance	—	93,304	93,304	90,712
Insurance	<u>—</u>	<u>132,531</u>	<u>132,531</u>	<u>135,280</u>
Total fiscal and administrative service and unassigned expenses	<u>1,172,129</u>	<u>2,434,865</u>	<u>3,606,994</u>	<u>3,213,239</u>
PROVISION FOR DEPRECIATION	<u>—</u>	<u>1,102,750</u>	<u>1,102,750</u>	<u>1,071,136</u>
Total expenses	<u>\$5,689,673</u>	<u>\$8,713,839</u>	<u>\$14,403,512</u>	<u>\$12,897,260</u>

**Lucas County Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Medical, surgical and obstetrical	1,924	1,573
Swing bed	707	536
Nursery	<u>167</u>	<u>150</u>
Totals	<u><u>2,798</u></u>	<u><u>2,259</u></u>
DISCHARGES		
Medical, surgical and obstetrical	658	538
Swing bed	92	88
Nursery	<u>95</u>	<u>86</u>
Totals	<u><u>845</u></u>	<u><u>712</u></u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.92	2.92
Swing bed	7.68	6.09
Nursery	1.76	1.74

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the combined financial statements of Lucas County Health Center and Lucas County Health Center Foundation as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. We conducted our audit 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 Health Center's internal control over financial reporting 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 an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Health Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Health Center's financial statements that is more than inconsequential will not be prevented or detected by the Health Center's internal control.

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

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 20, 2008

**Lucas County Health Center and
Lucas County Health Center Foundation
SCHEDULE OF FINDINGS
Year ended June 30, 2008**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Lucas County Health Center and
Lucas County Health Center Foundation
SCHEDULE OF FINDINGS
Year ended June 30, 2008**

Part II—Findings Related to Required Statutory Reporting

08-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Health Center did not exceed its budget, as amended, for the year ended June 30, 2008.

08-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

08-II-C TRAVEL EXPENSES

No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

08-II-D BUSINESS TRANSACTIONS

No business transactions were found between the Health Center and Health Center officials and/or employees.

08-II-E BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

08-II-F DEPOSITS AND INVESTMENTS

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2008 at one financial institution.

Recommendation

We recommend the Health Center's depository resolution be reviewed with the maximum deposit amounts adjusted as needed.

Response

The depository resolution will be reviewed and updated as necessary.

Conclusion

Response accepted.