

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

COMBINED FINANCIAL REPORT

June 30, 2009

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**Lucas County Health Center and
Lucas County Health Center Foundation
OFFICIALS
June 30, 2009**

LUCAS COUNTY HEALTH CENTER

BOARD OF TRUSTEES

Expiration of term

Officers

Roger Struve, Chairperson	December 31, 2014
Corliss Klaassen, Vice Chairperson	December 31, 2012
Betty Hansen, Secretary	December 31, 2012
Natalie McGee, Treasurer	December 31, 2010

Members

Raymond Meyer	December 31, 2010
David M. Miller	December 31, 2012
Randy Westman	December 31, 2014

CHIEF EXECUTIVE OFFICER

Veronica Fuhs

CHIEF FINANCIAL OFFICER

Denise Hook

LUCAS COUNTY HEALTH CENTER FOUNDATION

BOARD OF DIRECTORS

Directors

Veronica Fuhs, President
Roger Struve, Chairperson
Corliss Klaassen, Vice Chairperson
Raymond Meyer, Secretary
Denise Hook, Treasurer

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the accompanying combined balance sheets of Lucas County Health Center and Lucas County Health Center Foundation as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years 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 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 audits 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 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 respective financial position of Lucas County Health Center and Lucas County Health Center Foundation as of June 30, 2009 and 2008, and the results of its operations 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 a report dated September 15, 2009 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 audits.

Management's discussion and analysis on pages 5-9 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
September 15, 2009

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

As management of Lucas County Health Center, we offer readers of the financial statements this narrative overview and analysis of the Health Center's financial performance during the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the Health Center's combined financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic combined financial statements of the Health Center, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Health Center report information of the Health Center using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Health Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Health Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Health Center operations over the past year and can be used to determine whether the Health Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets increased by \$1,410,103, or 12%, to \$13,423,592
- Noncurrent assets whose use is limited increased by \$223,486 to \$656,977
- Total property and equipment increased by \$1,277,531 to \$7,328,654
- Total fund equity increased by \$1,582,515 to \$9,007,680
- Net patient service revenue increased by \$809,555, or 6%, to \$14,389,504
- Expenses increased by \$808,730, or 6%, to \$15,212,242

Financial Analysis of the Health Center

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the fund equity of the Health Center and the changes in them. The Health Center's fund equity, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's fund equity are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Health Center's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30		
	2009	2008	2007
Current assets	\$ 4,752,342	\$ 4,859,124	\$ 3,018,167
Noncurrent assets whose use is limited	656,977	433,491	438,182
Property and equipment	7,328,654	6,051,123	6,057,142
Other asset	<u>685,619</u>	<u>669,751</u>	<u>632,499</u>
Total assets	<u>\$13,423,592</u>	<u>\$12,013,489</u>	<u>\$10,145,990</u>
Current liabilities	\$ 2,254,793	\$ 2,587,138	\$ 1,350,014
Long-term debt, less current maturities	1,475,500	1,331,435	1,442,133
Other noncurrent liabilities	<u>685,619</u>	<u>669,751</u>	<u>632,499</u>
Total liabilities	<u>\$ 4,415,912</u>	<u>\$ 4,588,324</u>	<u>\$ 3,424,646</u>
Invested in capital assets, net of related debt	\$ 5,648,537	\$ 4,609,081	\$ 4,394,619
Restricted	356,808	352,212	71,156
Unrestricted	<u>3,002,335</u>	<u>2,463,872</u>	<u>2,255,569</u>
Total fund equity	<u>\$ 9,007,680</u>	<u>\$ 7,425,165</u>	<u>\$ 6,721,344</u>

As depicted in Table 1, total assets increased in fiscal year 2009 to \$13,423,592. The change in total assets results primarily from an increase in property and equipment resulting from a transfer from related foundation.

A summary of the Health Center's historical statements of revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	2009	2008	2007
Net patient service revenue	\$14,389,504	\$13,579,949	\$11,749,444
Other revenue	<u>688,811</u>	<u>752,138</u>	<u>767,358</u>
Total revenue	<u>15,078,315</u>	<u>14,332,087</u>	<u>12,516,802</u>
Salaries	5,922,441	5,689,673	5,334,852
Supplies and expenses	8,152,180	7,611,089	6,491,272
Provision for depreciation	<u>1,137,621</u>	<u>1,102,750</u>	<u>1,071,136</u>
Total expenses	<u>15,212,242</u>	<u>14,403,512</u>	<u>12,897,260</u>
Operating (loss)	<u>(133,927)</u>	<u>(71,425)</u>	<u>(380,458)</u>
County taxes	672,398	634,110	632,618
Investment income	34,003	34,587	43,161
Unrestricted contributions	87,000	81,137	104,794
Loss on disposal of assets	(686)	(13,209)	(14,213)
Interest expense	(80,511)	(69,805)	(80,522)
Transfer from related foundation	<u>965,120</u>	<u>—</u>	<u>—</u>
Total nonoperating gains (losses)	<u>1,677,324</u>	<u>666,820</u>	<u>685,838</u>
Excess of revenues over expenses before restricted contributions	1,543,397	595,395	305,380
Restricted contributions	<u>39,118</u>	<u>108,426</u>	<u>27,525</u>
Change in fund equity	1,582,515	703,821	332,905
Total fund equity, beginning	<u>7,425,165</u>	<u>6,721,344</u>	<u>6,388,439</u>
Total fund equity, ending	<u>\$ 9,007,680</u>	<u>\$ 7,425,165</u>	<u>\$ 6,721,344</u>

Operating and Financial Performance

The following summarizes the Health Center's statements of revenues, expenses and changes in fund equity between June 30, 2009 and 2008.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Medical, surgical and obstetrical discharges for fiscal year 2009 were 620 compared to 658 in fiscal year 2008. Average length of stay was 2.97 for fiscal year 2009 compared to 2.92 in fiscal year 2008 as patient days decreased to 1,843 from 1,924 in 2008. Volume on the outpatient side indicated positive growth in 2009. In 2009, gross outpatient charges increased to \$18,214,580 compared to \$16,446,313 in 2008. Laboratory, radiology and pharmacy, ancillary services reflected the most significant growth in 2009.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2009. Overall, gross patient service revenue increased to \$22,691,028 from \$21,089,181 in 2008.

Payor Mix: 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. Contractual adjustments and bad debts were \$8,301,524 in 2009 compared to \$7,509,232 in 2008, representing 37% and 36% of gross patient charges, respectively.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	45%	45%	46%
Medicaid	14	12	14
Commercial insurance	38	38	37
Patients	<u>3</u>	<u>5</u>	<u>3</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$688,811 in 2009 compared to \$752,138 in 2008 primarily due to a decrease in day care.

Expenses

Approximately 39% of Health Center's expenses are for salaries. Total salaries increased by 4% to \$5,922,441 in 2009 from \$5,689,673 in 2008. The Health Center departments experiencing the most significant increase in 2009 were emergency service and behavioral health service.

Approximately 54% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$8,152,180 in 2009 from \$7,611,089 in 2008. The Health Center departments experiencing the most significant increase in 2009 were radiology and administrative services.

Approximately 7% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,137,621 in 2009 from \$1,102,750 in 2008.

Nonoperating Gains

Nonoperating gains increased to \$1,677,324 from \$666,820 in 2008 due primarily to transfer from related foundation.

Property and Equipment

At the end of 2009, the Health Center had \$7,328,659 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2009, \$1,435,911 was spent to acquire new equipment.

A summary of the Health Center's property and equipment is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 83,861	\$ 20,783	\$ 20,783
Land improvements	638,742	538,707	358,102
Building and improvements	7,712,187	6,654,522	6,370,629
Major movable equipment	<u>10,550,999</u>	<u>9,519,982</u>	<u>9,386,563</u>
Subtotal	18,985,789	16,733,994	16,136,077
Less accumulated depreciation	<u>(11,657,135)</u>	<u>(10,682,871)</u>	<u>(10,078,935)</u>
Property and equipment	<u>\$ 7,328,654</u>	<u>\$ 6,051,123</u>	<u>\$ 6,057,142</u>

Performance Compared to County Hospital Budget

The Health Center prepares its annual County Hospital budget on the cash basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital cash and GAAP bases are presented in the Notes to Financial Statements. A comparison of the Health Center's fiscal year 2009 actual cash basis financial information to its annual County Hospital budget, as amended, is presented in Table 5.

Table 5
Actual vs Budget

	<u>Actual cash basis</u>	<u>Annual County Hospital budget</u>	<u>Variance</u>
Amount to be raised by taxation	\$ 672,398	\$ 642,769	\$ 29,629
Other revenues/receipts	<u>15,537,189</u>	<u>15,204,664</u>	<u>332,525</u>
	16,209,587	15,847,433	362,154
Expenses/expenditures	<u>15,652,407</u>	<u>16,348,459</u>	<u>(696,052)</u>
Net	<u>\$ 557,180</u>	<u>\$ (501,026)</u>	<u>\$1,058,206</u>

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2010 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Health Center's Management

This financial report is designed to provide users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about this report or need additional information, contact Lucas County Health Center at (641) 774-3000 or write care of: Chief Financial Officer, Lucas County Health Center, 1200 N. Seventh Street, Chariton, Iowa 50049.

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

ASSETS	June 30	
	2009	2008
CURRENT ASSETS		
Cash	\$ 2,125,906	\$ 2,045,961
Assets whose use is limited-required for current liabilities	85,300	86,024
Patient receivables, less allowances for contractual adjustments and bad debts	2,036,754	2,322,199
Other receivables	67,453	91,320
Inventories	188,767	188,487
Prepaid expenses	<u>249,229</u>	<u>175,580</u>
Total current assets	<u>4,753,409</u>	<u>4,909,571</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	463,821	245,428
Restricted for payment of long-term debt and interest		
Cash	<u>278,456</u>	<u>284,335</u>
Total assets whose use is limited	742,277	529,763
Less assets whose use is limited and that are required for current liabilities	<u>85,300</u>	<u>86,024</u>
Noncurrent assets whose use is limited	<u>656,977</u>	<u>443,739</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	18,985,789	17,959,247
Total property and equipment	<u>11,657,135</u>	<u>10,915,191</u>
	<u>7,328,654</u>	<u>7,044,056</u>
OTHER ASSET		
Succeeding year property tax receivable	<u>685,619</u>	<u>669,751</u>
Totals	<u>\$13,424,659</u>	<u>\$13,067,117</u>

		June 30	
		2009	2008
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$	204,617	\$ 110,607
Accounts payable		924,778	1,245,815
Accrued employee compensation		508,804	444,088
Payroll taxes and amounts withheld from employees		173,119	183,143
Accrued interest		39,475	41,644
Estimated third-party payor settlements		404,000	625,000
		<u>2,254,793</u>	<u>2,650,297</u>
LONG-TERM DEBT , less current maturities		<u>1,475,500</u>	<u>1,331,435</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR			
PROPERTY TAX RECEIVABLE			
		685,619	669,751
Total liabilities		<u>4,415,912</u>	<u>4,651,483</u>
FUND EQUITY			
Invested in capital assets, net of related debt		5,648,537	5,602,014
Restricted		356,808	352,212
Unrestricted		<u>3,003,402</u>	<u>2,461,408</u>
Total fund equity		9,008,747	8,415,634
Totals		<u>\$13,424,659</u>	<u>\$13,067,117</u>

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

	Year ended June 30	
	2009	2008
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2009 \$593,416; 2008 \$521,086	\$14,389,504	\$13,579,949
OTHER REVENUE	<u>710,662</u>	<u>801,036</u>
Total revenue	<u>15,100,166</u>	<u>14,380,985</u>
EXPENSES		
Nursing service	3,287,972	3,102,211
Other professional service	5,328,379	5,115,592
General service	1,378,260	1,369,517
Fiscal and administrative service and unassigned expenses	4,113,948	3,773,004
Provision for depreciation	<u>1,150,626</u>	<u>1,133,962</u>
Total expenses	<u>15,259,185</u>	<u>14,494,286</u>
Operating (loss)	(159,019)	(113,301)
NONOPERATING GAINS (LOSSES)		
County taxes	672,398	634,110
Investment income	34,263	35,978
Unrestricted contributions	87,550	92,887
Loss on disposal of assets	(686)	(13,209)
Interest expense	<u>(80,511)</u>	<u>(69,805)</u>
Total nonoperating gains (losses)	<u>713,014</u>	<u>679,961</u>
Excess of revenues over expenses before restricted contributions	553,995	566,660
RESTRICTED CONTRIBUTIONS	<u>39,118</u>	<u>108,426</u>
Change in fund equity	593,113	675,086
TOTAL FUND EQUITY		
Beginning	<u>8,415,634</u>	<u>7,740,548</u>
Ending	<u>\$ 9,008,747</u>	<u>\$ 8,415,634</u>

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

	Year ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$14,453,949	\$14,044,997
Cash paid to suppliers for goods and services	(8,567,241)	(7,030,795)
Cash paid to employees for services	(5,857,725)	(5,623,145)
Other operating revenue received	<u>710,662</u>	<u>801,036</u>
Net cash provided by operating activities	<u>739,645</u>	<u>2,192,093</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	672,398	634,110
Unrestricted contributions received	<u>87,550</u>	<u>92,887</u>
Net cash provided by noncapital financing activities	<u>759,948</u>	<u>726,997</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,435,910)	(1,139,939)
Proceeds from sales of assets	-	30,000
Interest paid on long-term debt	(82,680)	(77,282)
Proceeds from issuance of debt	419,068	-
Principal payments on long-term debt	(180,993)	(220,481)
Contributions received, restricted for purchase of equipment	<u>39,118</u>	<u>108,426</u>
Net cash (used in) capital and related financing activities	<u>(1,241,397)</u>	<u>(1,299,276)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investments	-	100,000
Interest received	<u>34,263</u>	<u>35,978</u>
Net cash provided by investing activities	<u>34,263</u>	<u>135,978</u>
NET INCREASE IN CASH	292,459	1,755,792
CASH		
Beginning	<u>2,575,724</u>	<u>819,932</u>
Ending	<u>\$ 2,868,183</u>	<u>\$ 2,575,724</u>

See Notes to Combined Financial Statements.

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

	Year ended June 30	
	2009	2008
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (159,019)	\$ (113,301)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,150,626	1,133,962
Changes in assets and liabilities		
(Increase) decrease in patient receivables	285,445	(439,952)
(Increase) decrease in other receivables	23,867	(2,343)
(Increase) decrease in inventories	(280)	980
(Increase) in prepaid expenses	(73,649)	(20,285)
Increase (decrease) in accounts payable	(321,037)	621,637
Increase in accrued employee compensation	64,716	66,528
Increase (decrease) in payroll taxes and amounts withheld from employees	(10,024)	39,867
(Increase) decrease in estimated third-party payor settlements	<u>(221,000)</u>	<u>905,000</u>
Net cash provided by operating activities	<u>\$ 739,645</u>	<u>\$2,192,093</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$2,125,906	\$2,045,961
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	463,821	245,428
Restricted for payment of long-term debt and interest, cash	<u>278,456</u>	<u>284,335</u>
Total per statement of cash flows	<u>\$2,868,183</u>	<u>\$2,575,724</u>

See Notes to Combined Financial Statements.

**Lucas County Health Center and
Lucas County Health Center Foundation
NOTES TO COMBINED 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, 2009 and 2008, 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 COMBINED 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 to forty 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 COMBINED 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

The Health Center's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by 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.

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 COMBINED 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>2009</u>	<u>2008</u>
Medicare	\$ 754,618	\$ 929,478
Medicaid	353,208	452,098
Commercial insurance	1,251,253	1,247,842
Patients	<u>915,675</u>	<u>929,781</u>
Total patient receivables	3,274,754	3,559,199
Less allowances for contractual adjustments and bad debts	(1,238,000)	(1,237,000)
Net patient receivables	<u>\$2,036,754</u>	<u>\$2,322,199</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, 2009:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 86,024	\$ 198,311	\$ 284,335
Transfer from (to) current assets, cash	100,040	(7,200)	92,840
Interest earned	508	2,045	2,553
Principal and interest payments	<u>(101,272)</u>	<u>—</u>	<u>(101,272)</u>
BALANCE , end of year	<u>\$ 85,300</u>	<u>\$ 193,156</u>	<u>\$ 278,456</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 83,861	\$ —	\$ 83,861	\$ —
Land improvements	638,742	298,200	538,707	272,219
Building and improvements	7,712,187	3,802,602	7,793,091	3,730,041
Major movable equipment	<u>10,550,999</u>	<u>7,556,333</u>	<u>9,543,588</u>	<u>6,912,931</u>
Totals	<u>\$18,985,789</u>	<u>\$11,657,135</u>	<u>\$17,959,247</u>	<u>\$10,915,191</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 83,861	\$ -	\$ -	\$ 83,861
Land improvements	538,707	100,035	-	638,742
Building and improvements	7,793,091	149,327	230,231	7,712,187
Major movable equipment	<u>9,543,588</u>	<u>1,195,060</u>	<u>187,649</u>	<u>10,550,999</u>
Totals	17,959,247	1,444,422	417,880	18,985,789
Less accumulated depreciation	(10,915,191)	(1,150,626)	(408,682)	(11,657,135)
Net property and equipment	<u>\$ 7,044,056</u>	<u>\$ 293,796</u>	<u>\$ 9,198</u>	<u>\$ 7,328,654</u>

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	(10,280,042)	(1,133,962)	(498,813)	(10,915,191)
Net property and equipment	<u>\$ 7,081,288</u>	<u>\$ 34,185</u>	<u>\$ 71,417</u>	<u>\$ 7,044,056</u>

NOTE 6 LINE OF CREDIT

As of June 30, 2009, the Health Center had available a \$250,000 unsecured line of credit. No borrowings on the line of credit have occurred during the years ended June 30, 2009 and 2008. The interest rate at June 30, 2009 was 5.25%.

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Hospital Revenue Note, Series 1991A	\$ 200,080	\$ 264,411
Hospital Revenue Note, Series 1991B	368,647	400,519
USDA Rural Economic and Community Development Mortgage Note, Series 1994A	763,073	777,112
Notes payable, equipment	<u>348,317</u>	<u>-</u>
Total	1,680,117	1,442,042
Less current maturities	<u>204,617</u>	<u>110,607</u>
Long-term debt, net of current maturities	<u>\$1,475,500</u>	<u>\$1,331,435</u>

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

NOTE 7 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, 2009, the remaining balance on the Note was \$200,080.

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, 2009.

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, 2009, the remaining balance on the Note was \$368,647.

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, 2009.

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, 2009 the remaining principal and interest on the Series 1991A and 1991B Notes was \$681,302. 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, 2009 and 2008:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Change in fund equity, Health Center	\$1,582,515	\$ 703,821
Provision for depreciation, Health Center	1,137,621	1,102,750
Interest expense on the Notes	<u>29,750</u>	<u>34,244</u>
Pledged net revenues	<u>\$2,749,886</u>	<u>\$1,840,815</u>
Principal and interest requirements		
Hospital Revenue Note, Series 1991A	\$ 74,874	\$ 75,691
Hospital Revenue Note, Series 1991B	<u>51,898</u>	<u>51,899</u>
Total	<u>\$ 126,772</u>	<u>\$ 127,590</u>

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

NOTE 7 LONG-TERM DEBT (continued)

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

The Health Center has a 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. 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, 2009, the remaining balance on the Note was \$763,073.

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, 2009.

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.

Notes Payable, Equipment

The Health Center has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$4,258, including interest at 6%, with the final payment due October, 2012. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2009, the remaining balance on this note is \$150,500.

The Health Center has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$4,399, including interest at 4.185%, with the final payment due July, 2013. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2009, the remaining balance on this note is \$197,817.

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>
2010	\$ 204,617	\$ 75,107	\$ 279,724
2011	214,400	66,445	280,845
2012	213,248	55,661	268,909
2013	120,423	46,939	167,362
2014	62,906	42,673	105,579
2015-2019	286,366	167,820	454,186
2020-2024	127,856	119,014	246,870
2025-2029	159,333	87,537	246,870
2030-2034	198,556	48,314	246,870
2035-2036	<u>92,412</u>	<u>6,253</u>	<u>98,665</u>
Total	1,680,117	715,763	2,395,880
Less current maturities	<u>204,617</u>	<u>75,107</u>	<u>279,724</u>
Total long-term debt	<u>\$1,475,500</u>	<u>\$ 640,656</u>	<u>\$2,116,156</u>

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

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Revenue Note, Series 1991A	\$ 264,411	\$ —	\$ 64,331	\$ 200,080	\$ 67,415
Revenue Note, Series 1991B	400,519	—	31,872	368,647	33,466
Mortgage Note, Series 1994A	777,112	—	14,039	763,073	15,036
Notes payable, equipment	<u>—</u>	<u>419,068</u>	<u>70,751</u>	<u>348,317</u>	<u>88,700</u>
Totals	<u>\$1,442,042</u>	<u>\$ 419,068</u>	<u>\$ 180,993</u>	<u>\$1,680,117</u>	<u>\$ 204,617</u>

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>

NOTE 8 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, 2007.

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 COMBINED FINANCIAL STATEMENTS**

NOTE 9 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, 2009 regular plan members were required to contribute 4.1% of their annual salary and the Health Center was required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$381,402, \$339,850 and \$298,701, respectively, equal to the required contributions for each year.

NOTE 10 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, 2009 and 2008.

	2009	2008
Charges foregone, based on established rates	\$ <u>177,078</u>	\$ <u>123,558</u>
Equivalent percentage of charity care patients to all patients served	<u>.8%</u>	<u>.6%</u>

NOTE 11 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, 2009 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 12 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 COMBINED FINANCIAL STATEMENTS**

NOTE 12 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	\$ 672,398	\$ -	\$ 672,398	\$ 642,769
Other revenues/receipts	<u>16,122,359</u>	<u>(585,170)</u>	<u>15,537,189</u>	<u>15,204,664</u>
	16,794,757	(585,170)	16,209,587	15,847,433
Expenses/expenditures	<u>15,212,242</u>	<u>440,165</u>	<u>15,652,407</u>	<u>16,348,459</u>
Net	1,582,515	(1,025,335)	557,180	(501,026)
Balance, beginning	<u>7,425,165</u>	<u>(4,827,819)</u>	<u>2,597,346</u>	<u>1,763,885</u>
Balance, ending	<u>\$ 9,007,680</u>	<u>\$(5,853,154)</u>	<u>\$ 3,154,526</u>	<u>\$ 1,262,859</u>

NOTE 13 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.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Lucas County Health Center
Chariton, Iowa

Our report on our audits of the basic combined financial statements of Lucas County Health Center and Lucas County Health Center Foundation for the years ended June 30, 2009 and 2008 appears on page 4. The audits were 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 audits 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 15, 2009

**Lucas County Health Center and
Lucas County Health Center Foundation
COMBINING BALANCE SHEET
June 30, 2009, with comparative totals for 2008**

ASSETS	2009			2008	
	<u>Health Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>	<u>Total</u>
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,124,839	\$ 1,067	\$ -	\$ 2,125,906	\$ 2,045,961
Assets whose use is limited-required for current liabilities	85,300	-	-	85,300	86,024
Patient receivables, less allowances for contractual adjustments and bed debts	2,036,754	-	-	2,036,754	2,322,199
Other receivables	67,453	-	-	67,453	91,320
Inventories	188,767	-	-	188,767	188,487
Prepaid expenses	249,229	-	-	249,229	175,580
Total current assets	<u>4,752,342</u>	<u>1,067</u>	<u>-</u>	<u>4,753,409</u>	<u>4,909,571</u>
ASSETS WHOSE USE IS LIMITED					
Designated by board for plan replacement and expansion					
Cash and cash equivalents	463,821	-	-	463,821	245,428
Restricted for payment of long-term debt and interest					
Cash and cash equivalents	<u>278,456</u>	<u>-</u>	<u>-</u>	<u>278,456</u>	<u>284,335</u>
Total assets whose use is limited	742,277	-	-	742,277	529,763
Less assets whose use is limited and that are required for current liabilities	<u>85,300</u>	<u>-</u>	<u>-</u>	<u>85,300</u>	<u>86,024</u>
Noncurrent assets whose use is limited	<u>656,977</u>	<u>-</u>	<u>-</u>	<u>656,977</u>	<u>443,739</u>
PROPERTY AND EQUIPMENT					
Property and equipment	18,985,789	-	-	18,985,789	17,959,247
Less accumulated depreciation	<u>11,657,135</u>	<u>-</u>	<u>-</u>	<u>11,657,135</u>	<u>10,915,191</u>
Total property and equipment	<u>7,328,654</u>	<u>-</u>	<u>-</u>	<u>7,328,654</u>	<u>7,044,056</u>
OTHER ASSET					
Succeeding year property tax receivable	<u>685,619</u>	<u>-</u>	<u>-</u>	<u>685,619</u>	<u>669,751</u>
Totals	<u>\$13,423,592</u>	<u>\$ 1,067</u>	<u>\$ -</u>	<u>\$13,424,659</u>	<u>\$13,067,117</u>

LIABILITIES AND FUND EQUITY	2009			2008	
	Health Center	Foundation	Eliminations	Total	Total
CURRENT LIABILITIES					
Current maturities of long-term debt	\$ 204,617	\$ -	\$ -	\$ 204,617	\$ 110,607
Accounts payable	924,778	-	-	924,778	1,245,815
Accrued employee compensation	508,804	-	-	508,804	444,088
Payroll taxes and amounts withheld from employees	173,119	-	-	173,119	183,143
Accrued interest	39,475	-	-	39,475	41,644
Estimated third-party payor settlements	404,000	-	-	404,000	625,000
Total current liabilities	<u>2,254,793</u>	<u>-</u>	<u>-</u>	<u>2,254,793</u>	<u>2,650,297</u>
LONG-TERM DEBT , less current maturities					
	<u>1,475,500</u>	<u>-</u>	<u>-</u>	<u>1,475,500</u>	<u>1,331,435</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE					
	<u>685,619</u>	<u>-</u>	<u>-</u>	<u>685,619</u>	<u>669,751</u>
FUND EQUITY					
Invested in capital assets, net of related debt	5,648,537	-	-	5,648,537	5,602,014
Restricted	356,808	-	-	356,808	352,212
Unrestricted	<u>3,002,335</u>	<u>1,067</u>	<u>-</u>	<u>3,003,402</u>	<u>2,461,408</u>
Total fund equity	<u>9,007,680</u>	<u>1,067</u>	<u>-</u>	<u>9,008,747</u>	<u>8,415,634</u>
Totals	<u>\$13,423,592</u>	<u>\$ 1,067</u>	<u>\$ -</u>	<u>\$13,424,659</u>	<u>\$13,067,117</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, 2009, with comparative totals for 2008**

	2009			2008	
	<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					
2009 \$593,416; 2008 \$521,086	\$14,389,504	\$ -	\$ -	\$14,389,504	\$13,579,949
OTHER REVENUE	<u>688,811</u>	<u>78,677</u>	<u>(56,826)</u>	<u>710,662</u>	<u>801,036</u>
Total revenue	<u>15,078,315</u>	<u>78,677</u>	<u>(56,826)</u>	<u>15,100,166</u>	<u>14,380,985</u>
EXPENSES					
Nursing service	3,287,972	-	-	3,287,972	3,102,211
Other professional service	5,367,705	-	(39,326)	5,328,379	5,115,592
General service	1,378,260	-	-	1,378,260	1,369,517
Fiscal and administrative service and unassigned expenses	4,040,684	90,764	(17,500)	4,113,948	3,773,004
Provision for depreciation	<u>1,137,621</u>	<u>13,005</u>	<u>-</u>	<u>1,150,626</u>	<u>1,133,962</u>
Total expenses	<u>15,212,242</u>	<u>103,769</u>	<u>(56,826)</u>	<u>15,259,185</u>	<u>14,494,286</u>
Operating (loss)	(133,927)	(25,092)	-	(159,019)	(113,301)
NONOPERATING GAINS (LOSSES)					
County taxes	672,398	-	-	672,398	634,110
Investment income	34,003	260	-	34,263	35,978
Unrestricted contributions	87,000	550	-	87,550	92,887
Loss on disposal of assets	(686)	-	-	(686)	(13,209)
Interest expense	(80,511)	-	-	(80,511)	(69,805)
Transfer from foundation to health center	<u>965,120</u>	<u>(965,120)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating gains (losses)	<u>1,677,324</u>	<u>(964,310)</u>	<u>-</u>	<u>713,014</u>	<u>679,961</u>
Excess of revenues over expenses before contributions	1,543,397	(989,402)	-	553,995	566,660
RESTRICTED CONTRIBUTIONS	<u>39,118</u>	<u>-</u>	<u>-</u>	<u>39,118</u>	<u>108,426</u>
Change in fund equity	1,582,515	(989,402)	-	593,113	675,086
TOTAL FUND EQUITY					
Beginning	<u>7,425,165</u>	<u>990,469</u>	<u>-</u>	<u>8,415,634</u>	<u>7,740,548</u>
Ending	<u>\$ 9,007,680</u>	<u>\$ 1,067</u>	<u>\$ -</u>	<u>\$ 9,008,747</u>	<u>\$ 8,415,634</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
0 - 30 days (includes patients in Health Center at end of year)	\$1,826,066	\$1,984,914	55.76%	55.77%
31 - 60 days	502,875	460,229	15.36	12.93
61 - 90 days	210,956	222,633	6.44	6.25
91 - 120 days	138,901	161,427	4.24	4.54
Over 120 days	<u>595,956</u>	<u>729,996</u>	<u>18.20</u>	<u>20.51</u>
Totals	<u>3,274,754</u>	<u>3,559,199</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	285,000	329,000		
Medicaid	120,000	115,000		
Other	341,000	273,000		
Bad debts	<u>492,000</u>	<u>520,000</u>		
Total allowances	<u>1,238,000</u>	<u>1,237,000</u>		
Totals	<u>\$2,036,754</u>	<u>\$2,322,199</u>		
GROSS PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 62,167</u>	<u>\$ 57,621</u>		
NUMBER OF DAYS GROSS PATIENT SERVICE REVENUE IN GROSS PATIENT RECEIVABLES	<u>53</u>	<u>62</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
BALANCE , beginning	\$ 520,000	\$ 427,000		
ADD				
Provision for bad debts	593,416	521,086	4.12%	3.84%
Recoveries of accounts previously written off	<u>126,031</u>	<u>180,521</u>	.88	1.33
	1,239,447	1,128,607		
DEDUCT				
Accounts written off	<u>747,447</u>	<u>608,607</u>	5.19	4.48
BALANCE , ending	<u>\$ 492,000</u>	<u>\$ 520,000</u>		

Lucas County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$1,858,700	\$ 114,228	\$ 1,972,928	\$ 2,015,024
Obstetrics	202,000	-	202,000	184,360
Nursery	119,133	-	119,133	113,957
	<u>2,179,833</u>	<u>114,228</u>	<u>2,294,061</u>	<u>2,313,341</u>
OTHER NURSING SERVICES				
Operating room	384,904	1,886,458	2,271,362	2,191,185
Labor and delivery	137,353	31,661	169,014	156,503
Central supply	47,722	329,735	377,457	362,567
Emergency service	5,924	1,750,950	1,756,874	1,633,521
Ambulance	24,275	767,456	791,731	701,696
	<u>600,178</u>	<u>4,766,260</u>	<u>5,366,438</u>	<u>5,045,472</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	314,498	2,445,303	2,759,801	2,550,825
Radiology	335,945	4,756,285	5,092,230	4,633,010
Pharmacy	753,445	1,527,387	2,280,832	1,756,369
Anesthesiology	131,526	531,558	663,084	582,953
Respiratory therapy	207,509	149,887	357,396	440,212
EKG/EEG	16,768	101,255	118,023	112,577
Cardiac and pulmonary rehabilitation	1,120	180,255	181,375	187,826
Physical therapy	82,386	668,730	751,116	793,046
Speech therapy	2,055	8,625	10,680	16,869
Occupational therapy	9,558	43,370	52,928	48,932
Diabetic education	-	584	584	380
Wound treatment	-	60,438	60,438	34,663
Pediatric therapy	-	1,693,554	1,693,554	1,625,912
Adult day care	-	-	-	3,904
Behavioral health service	18,705	883,460	902,165	782,263
Infusion therapy	-	99,515	99,515	117,120
Humeston clinic	-	161,751	161,751	144,126
Specialty clinics	-	22,135	22,135	22,939
	<u>1,873,515</u>	<u>13,334,092</u>	<u>15,207,607</u>	<u>13,853,926</u>
Totals	<u>\$4,653,526</u>	<u>\$18,214,580</u>	22,868,106	21,212,739
Charity care charges foregone, based on established rates			<u>(177,078)</u>	<u>(123,558)</u>
Total gross patient service revenue			22,691,028	21,089,181
Provisions for contractual adjustments and bad debts			<u>(8,301,524)</u>	<u>(7,509,232)</u>
Total net patient service revenue			<u>\$14,389,504</u>	<u>\$13,579,949</u>

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

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments		
Medicare	\$3,919,095	\$3,874,615
Medicaid	1,510,004	1,283,955
Other adjustments	2,279,009	1,829,576
Provision for bad debts	<u>593,416</u>	<u>521,086</u>
 Totals	 <u>\$8,301,524</u>	 <u>\$7,509,232</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Day care	\$ 247,515	\$ 320,554
Rental income	184,690	130,884
Cafeteria	77,832	75,281
Medical records	50,374	78,187
Lifeline	35,748	37,386
Housekeeping	7,500	18,000
Miscellaneous	<u>85,152</u>	<u>91,846</u>
 Totals	 <u>\$ 688,811</u>	 <u>\$ 752,138</u>

Lucas County Health Center
EXPENSES
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 101,620	\$ 3,279	\$ 104,899	\$ 99,394
Medical, surgical and obstetrics	863,296	235,502	1,098,798	1,050,597
Nursery	24,430	6,540	30,970	32,401
Operating room	255,282	327,271	582,553	523,164
Labor and delivery	123,704	15,494	139,198	151,352
Central supply	25,299	202,462	227,761	231,289
Emergency service	669,119	289,663	958,782	876,529
Ambulance	<u>109,685</u>	<u>35,326</u>	<u>145,011</u>	<u>137,485</u>
Total nursing service	<u>2,172,435</u>	<u>1,115,537</u>	<u>3,287,972</u>	<u>3,102,211</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	284,523	411,785	696,308	701,621
Radiology	249,866	702,223	952,089	823,135
Pharmacy	139,145	490,939	630,084	578,862
Anesthesiology	-	268,149	268,149	260,214
Respiratory therapy	95,449	48,642	144,091	154,562
EKG/EEG	5,985	1,380	7,365	6,405
Cardiac and pulmonary rehabilitation	64,640	6,142	70,782	79,537
Physical therapy	275,656	25,268	300,924	312,798
Speech therapy	-	7,367	7,367	5,100
Occupational therapy	-	9,775	9,775	23,663
Wound treatment	42,505	46,308	88,813	80,888
Pediatric therapy	-	1,058,477	1,058,477	1,016,199
Adult day care	-	-	-	6,367
Day care	269,050	71,547	340,597	432,783
Behavioral health service	386,759	86,478	473,237	413,273
Infusion therapy	57,194	5,933	63,127	62,193
Humeston clinic	105,932	102,688	208,620	206,755
Specialty clinics	<u>23,905</u>	<u>23,995</u>	<u>47,900</u>	<u>57,685</u>
Total other professional service	<u>2,000,609</u>	<u>3,367,096</u>	<u>5,367,705</u>	<u>5,222,040</u>
GENERAL SERVICE				
Dietary	151,588	132,876	284,464	273,341
Plant services	155,025	675,155	830,180	885,198
Environmental services	186,811	44,946	231,757	181,947
Laundry	<u>25,989</u>	<u>5,870</u>	<u>31,859</u>	<u>29,031</u>
Total general service	<u>519,413</u>	<u>858,847</u>	<u>1,378,260</u>	<u>1,369,517</u>
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative services	686,334	857,032	1,543,366	1,333,271
Business office	266,286	63,607	329,893	322,479
Medical office building and clinics	73,396	39,514	112,910	90,775
Medical records	191,481	62,991	254,472	278,746
Vreedenburg Center	12,487	112,165	124,652	-

Lucas County Health Center
EXPENSES (continued)
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
UNASSIGNED EXPENSES				
FICA	\$ —	\$ 422,933	\$ 422,933	\$ 402,461
IPERS	—	381,402	381,402	339,850
Group health, life and other benefits	—	642,727	642,727	613,577
Workers compensation Insurance	—	102,244	102,244	93,304
Insurance	<u>—</u>	<u>126,085</u>	<u>126,085</u>	<u>132,531</u>
Total fiscal and administrative service and unassigned expenses	<u>1,229,984</u>	<u>2,810,700</u>	<u>4,040,684</u>	<u>3,606,994</u>
PROVISION FOR DEPRECIATION	<u>—</u>	<u>1,137,621</u>	<u>1,137,621</u>	<u>1,102,750</u>
Total expenses	<u>\$5,922,441</u>	<u>\$9,289,801</u>	<u>\$15,212,242</u>	<u>\$14,403,512</u>

**Lucas County Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Medical, surgical and obstetrical	1,843	1,924
Swing bed	466	707
Nursery	<u>170</u>	<u>167</u>
Totals	<u>2,479</u>	<u>2,798</u>
DISCHARGES		
Medical, surgical and obstetrical	620	658
Swing bed	69	92
Nursery	<u>92</u>	<u>95</u>
Totals	<u>781</u>	<u>845</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.97	2.92
Swing bed	6.75	7.68
Nursery	1.85	1.76

**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, 2009, and have issued our report thereon dated September 15, 2009. 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, 2009 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
September 15, 2009

**Lucas County Health Center and
Lucas County Health Center Foundation
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

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, 2009**

Part II—Findings Related to Required Statutory Reporting

09-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, 2009.

09-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

09-II-C TRAVEL EXPENSES

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

09-II-D BUSINESS TRANSACTIONS

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

09-II-E BOARD MINUTES

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

09-II-F DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center's investment policy.