

**Lucas County Health Center
Chariton, Iowa**

FINANCIAL REPORT

June 30, 2010

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Lucas County Health Center
OFFICIALS
June 30, 2010

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lucas County Health Center
Chariton, Iowa

We have audited the accompanying balance sheets of Lucas County Health Center as of June 30, 2010 and 2009, 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 financial statements referred to above present fairly, in all material respects, the financial position of Lucas County Health Center as of June 30, 2010 and 2009, 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 3, 2010 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 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 3, 2010

**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, 2010 and 2009. Please read it in conjunction with the Health Center's 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 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 decreased by \$398,194, or 3%, to \$13,025,398
- Noncurrent assets whose use is limited decreased by \$444,035 to \$212,942
- Total property and equipment increased by \$463,625 to \$7,792,279
- Total fund equity decreased by \$101,123 to \$8,906,557
- Net patient service revenue decreased by \$1,109,339, or 8%, to \$13,280,165
- Expenses decreased by \$367,955, or 2%, to \$14,844,287

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		
	2010	2009	2008
Current assets	\$ 4,336,165	\$ 4,752,342	\$ 4,859,124
Noncurrent assets whose use is limited	212,942	656,977	433,491
Property and equipment	7,792,279	7,328,654	6,051,123
Other asset	<u>684,012</u>	<u>685,619</u>	<u>669,751</u>
Total assets	<u>\$13,025,398</u>	<u>\$13,423,592</u>	<u>\$12,013,489</u>
Current liabilities	\$ 1,740,461	\$ 2,254,793	\$ 2,587,138
Long-term debt, less current maturities	1,694,368	1,475,500	1,331,435
Other noncurrent liabilities	<u>684,012</u>	<u>685,619</u>	<u>669,751</u>
Total liabilities	<u>\$ 4,118,841</u>	<u>\$ 4,415,912</u>	<u>\$ 4,588,324</u>
Invested in capital assets, net of related debt	\$ 5,763,430	\$ 5,648,537	\$ 4,609,081
Restricted	348,939	356,808	352,212
Unrestricted	<u>2,794,188</u>	<u>3,002,335</u>	<u>2,463,872</u>
Total fund equity	<u>\$ 8,906,557</u>	<u>\$ 9,007,680</u>	<u>\$ 7,425,165</u>

As depicted in Table 1, total assets decreased in fiscal year 2010 to \$13,025,398. The change in total assets was primarily due to a decrease in cash resulting from a decrease in cash provided by operations.

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		
	2010	2009	2008
Net patient service revenue	\$13,280,165	\$14,389,504	\$13,579,949
Other revenue	688,307	688,811	752,138
Total revenue	<u>13,968,472</u>	<u>15,078,315</u>	<u>14,332,087</u>
Salaries	6,149,329	5,922,441	5,689,673
Supplies and expenses	7,510,153	8,152,180	7,611,089
Provision for depreciation	1,184,805	1,137,621	1,102,750
Total expenses	<u>14,844,287</u>	<u>15,212,242</u>	<u>14,403,512</u>
Operating (loss)	<u>(875,815)</u>	<u>(133,927)</u>	<u>(71,425)</u>
County taxes	684,206	672,398	634,110
Investment income	31,572	34,003	34,587
Unrestricted contributions	72,861	87,000	81,137
Loss on disposal of assets	-	(686)	(13,209)
Interest expense	(96,656)	(80,511)	(69,805)
Transfer from related foundation	-	965,120	-
Total nonoperating gains (losses)	<u>691,983</u>	<u>1,677,324</u>	<u>666,820</u>
Excess (deficiency) of revenues over expenses before restricted contributions	183,832	1,543,397	595,395
Restricted contributions	<u>82,709</u>	<u>39,118</u>	<u>108,426</u>
Change in fund equity	(101,123)	1,582,515	703,821
Total fund equity, beginning	<u>9,007,680</u>	<u>7,425,165</u>	<u>6,721,344</u>
Total fund equity, ending	<u>\$ 8,906,557</u>	<u>\$ 9,007,680</u>	<u>\$ 7,425,165</u>

Operating and Financial Performance

The following summarizes the Health Center's statements of revenues, expenses and changes in fund equity between June 30, 2010 and 2009.

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 2010 were 423 compared to 620 in fiscal year 2009. Average length of stay was 3.09 for fiscal year 2010 compared to 2.97 in fiscal year 2009 as medical, surgical and obstetrical patient days decreased to 1,307 from 1,843 in 2009. Swing bed discharges for fiscal year 2010 were 46 compared to 69 in fiscal year 2009. Average length of stay increased as swing bed patient days increased to 521 from 466 in 2009. Volume on the outpatient side indicated negative growth in 2010. In 2010, gross outpatient charges decreased to \$16,694,928 compared to \$18,214,580 in 2009. Medical and surgical, radiology and pediatric therapy services reflected the most significant declines in 2010.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2010. Overall, gross patient service revenue decreased to \$20,164,464 from \$22,691,028 in 2009.

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 \$6,884,299 in 2010 compared to \$8,301,524 in 2009, representing 34% and 37% 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>2010</u>	<u>2009</u>	<u>2008</u>
Medicare	44%	45%	45%
Medicaid	14	14	12
Commercial insurance	38	38	38
Patients	<u>4</u>	<u>3</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased slightly to \$688,307 in 2010 compared to \$688,811 in 2009.

Expenses

Approximately 41% of Health Center's expenses are for salaries. Total salaries increased by 4% to \$6,149,329 in 2010 from \$5,922,441 in 2009. The Health Center departments experiencing the most significant increase in 2010 were medical, surgical and obstetrics and emergency service.

Approximately 51% of Health Center's expenses are for supplies and expenses. Total supplies and expenses decreased by 8% to \$7,510,153 in 2010 from \$8,152,180 in 2009. The Health Center departments experiencing the most significant decrease in 2010 were medical, surgical and obstetrics and pediatric therapy services.

Approximately 8% of Health Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,184,805 in 2010 from \$1,137,621 in 2009.

Nonoperating Gains

Nonoperating gains decreased to \$691,983 from \$1,677,324 in 2009 due primarily to a transfer from related foundation received in 2009.

Property and Equipment

At the end of 2010, the Health Center had \$7,792,279 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 2010, \$1,648,430 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		
	2010	2009	2008
Land	\$ 83,861	\$ 83,861	\$ 20,783
Land improvements	779,192	638,742	538,707
Building and improvements	8,421,310	7,712,187	6,654,522
Major movable equipment	<u>11,304,265</u>	<u>10,550,999</u>	<u>9,519,982</u>
Subtotal	20,588,628	18,985,789	16,733,994
Less accumulated depreciation	<u>(12,796,349)</u>	<u>(11,657,135)</u>	<u>(10,682,871)</u>
Property and equipment	<u>\$ 7,792,279</u>	<u>\$ 7,328,654</u>	<u>\$ 6,051,123</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 2010 actual cash basis financial information to its annual County Hospital budget is presented in Table 5.

Table 5
Actual vs Budget

	Actual cash basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 684,206	\$ 658,607	\$ 25,599
Other revenues/receipts	<u>14,614,887</u>	<u>17,844,584</u>	<u>(3,229,697)</u>
	15,299,093	18,503,191	(3,204,098)
Expenses/expenditures	<u>15,515,109</u>	<u>19,121,796</u>	<u>(3,606,687)</u>
Net	<u>\$ (216,016)</u>	<u>\$ (618,605)</u>	<u>\$ 402,589</u>

Actual other revenues/receipts results were lower than County Hospital budget due to lower than expected patient volumes and less proceeds from new debt during the current year. Expenses/expenditures were lower than County Hospital budget primarily due to lower patient volumes and less equipment costs.

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2011 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
BALANCE SHEETS**

ASSETS	June 30	
	2010	2009
CURRENT ASSETS		
Cash	\$ 1,073,915	\$ 2,124,839
Assets whose use is limited-required for current liabilities	85,695	85,300
Patient receivables, less allowances for contractual adjustments and bad debts	1,939,537	2,036,754
Other receivables	94,186	67,453
Estimated third-party payor settlements	700,000	-
Inventories	155,697	188,767
Prepaid expenses	<u>287,135</u>	<u>249,229</u>
Total current assets	<u>4,336,165</u>	<u>4,752,342</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	18,379	463,821
Restricted for payment of long-term debt and interest		
Cash	<u>280,258</u>	<u>278,456</u>
Total assets whose use is limited	298,637	742,277
Less assets whose use is limited and that are required for current liabilities	<u>85,695</u>	<u>85,300</u>
Noncurrent assets whose use is limited	<u>212,942</u>	<u>656,977</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	20,588,628	18,985,789
Total property and equipment	<u>12,796,349</u>	<u>11,657,135</u>
	<u>7,792,279</u>	<u>7,328,654</u>
OTHER ASSET		
Succeeding year property tax receivable	<u>684,012</u>	<u>685,619</u>
Totals	<u>\$13,025,398</u>	<u>\$13,423,592</u>

Lucas County Health Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2010	2009
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2010 \$639,310; 2009 \$593,416	\$13,280,165	\$14,389,504
OTHER REVENUE	<u>688,307</u>	<u>688,811</u>
Total revenue	<u>13,968,472</u>	<u>15,078,315</u>
EXPENSES		
Nursing service	3,687,609	3,287,972
Other professional service	4,186,087	5,027,108
General service	1,341,051	1,378,260
Fiscal and administrative service and unassigned expenses	4,444,735	4,381,281
Provision for depreciation	<u>1,184,805</u>	<u>1,137,621</u>
Total expenses	<u>14,844,287</u>	<u>15,212,242</u>
Operating (loss)	(875,815)	(133,927)
NONOPERATING GAINS (LOSSES)		
County taxes	684,206	672,398
Investment income	31,572	34,003
Unrestricted contributions	72,861	87,000
Loss on disposal of assets	-	(686)
Interest expense	(96,656)	(80,511)
Transfer from related foundation	<u>-</u>	<u>965,120</u>
Total nonoperating gains (losses)	<u>691,983</u>	<u>1,677,324</u>
Excess (deficiency) of revenues over expenses before restricted contributions	(183,832)	1,543,397
RESTRICTED CONTRIBUTIONS	<u>82,709</u>	<u>39,118</u>
Change in fund equity	(101,123)	1,582,515
TOTAL FUND EQUITY		
Beginning	<u>9,007,680</u>	<u>7,425,165</u>
Ending	<u>\$ 8,906,557</u>	<u>\$ 9,007,680</u>

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

	Year ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$12,273,382	\$14,453,949
Cash paid to suppliers for goods and services	(7,800,706)	(8,533,302)
Cash paid to employees for services	(6,128,422)	(5,857,725)
Other operating revenue received	<u>688,307</u>	<u>688,811</u>
Net cash provided by (used in) operating activities	<u>(967,439)</u>	<u>751,733</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	684,206	672,398
Unrestricted contributions received	72,861	87,000
Transfer from related foundation	—	48,351
Net cash provided by noncapital financing activities	<u>757,067</u>	<u>807,749</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,648,430)	(1,435,911)
Interest paid on long-term debt	(98,775)	(82,680)
Proceeds from issuance of long-term debt	638,638	419,068
Principal payments on long-term debt	(289,906)	(180,993)
Contributions received, restricted for purchase of equipment	<u>82,709</u>	<u>39,118</u>
Net cash (used in) capital and related financing activities	<u>(1,315,764)</u>	<u>(1,241,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>31,572</u>	<u>34,003</u>
Net cash provided by investing activities	<u>31,572</u>	<u>34,003</u>
NET INCREASE (DECREASE) IN CASH	(1,494,564)	352,087
CASH		
Beginning	<u>2,867,116</u>	<u>2,515,029</u>
Ending	<u>\$ 1,372,552</u>	<u>\$ 2,867,116</u>

See Notes to Financial Statements.

Lucas County Health Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2010	2009
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (875,815)	\$ (133,927)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation	1,184,805	1,137,621
Changes in assets and liabilities		
Decrease in patient receivables	97,217	285,445
(Increase) decrease in other receivables	(26,733)	23,867
(Increase) in estimated third-party payor settlements	(1,104,000)	(221,000)
(Increase) decrease in inventories	33,070	(280)
(Increase) in prepaid expenses	(37,906)	(73,649)
(Decrease) in accounts payable	(223,937)	(321,036)
Increase in accrued employee compensation	20,907	64,716
(Decrease) in payroll taxes and amounts withheld from employees	<u>(35,047)</u>	<u>(10,024)</u>
Net cash provided by (used in) operating activities	<u>\$ (967,439)</u>	<u>\$ 751,733</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$1,073,915	\$2,124,839
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	18,379	463,821
Restricted for payment of long-term debt and interest, cash	<u>280,258</u>	<u>278,456</u>
Total per statement of cash flows	<u>\$1,372,552</u>	<u>\$2,867,116</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Property and equipment transferred from related foundation	<u>\$ —</u>	<u>\$ 971,416</u>

See Notes to Financial Statements.

Lucas County Health Center
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. The Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

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.

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
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 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
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.

Reclassifications

Certain amounts have been reclassified in the 2009 financial statements in order to conform with the 2010 presentation, with no effect on the change in fund equity.

NOTE 2 CASH

The Health Center's deposits in banks at June 30, 2010 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
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>2010</u>	<u>2009</u>
Medicare	\$ 818,542	\$ 754,618
Medicaid	414,649	353,208
Commercial insurance	978,572	1,251,253
Patients	<u>982,774</u>	<u>915,675</u>
Total patient receivables	3,194,537	3,274,754
Less allowances for contractual adjustments and bad debts	<u>(1,255,000)</u>	<u>(1,238,000)</u>
Net patient receivables	<u>\$1,939,537</u>	<u>\$2,036,754</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, 2010:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 85,300	\$ 193,156	\$ 278,456
Transfer from current assets, cash	101,280	-	101,280
Interest earned	387	1,407	1,794
Principal and interest payments	<u>(101,272)</u>	<u>-</u>	<u>(101,272)</u>
BALANCE , end of year	<u>\$ 85,695</u>	<u>\$ 194,563</u>	<u>\$ 280,258</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 83,861	\$ -	\$ 83,861	\$ -
Land improvements	779,192	332,807	638,742	298,200
Building and improvements	8,421,310	4,126,112	7,712,187	3,802,602
Major movable equipment	<u>11,304,265</u>	<u>8,337,430</u>	<u>10,550,999</u>	<u>7,556,333</u>
Totals	<u>\$20,588,628</u>	<u>\$12,796,349</u>	<u>\$18,985,789</u>	<u>\$11,657,135</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2010 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 83,861	\$ —	\$ —	\$ 83,861
Land improvements	638,742	140,450	—	779,192
Building and improvements	7,712,187	709,123	—	8,421,310
Major movable equipment	<u>10,550,999</u>	<u>798,857</u>	<u>45,591</u>	<u>11,304,265</u>
Totals	18,985,789	1,648,430	45,591	20,588,628
Less accumulated depreciation	<u>(11,657,135)</u>	<u>(1,184,805)</u>	<u>(45,591)</u>	<u>(12,796,349)</u>
Net property and equipment	<u>\$ 7,328,654</u>	<u>\$ 463,625</u>	<u>\$ —</u>	<u>\$ 7,792,279</u>

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	\$ 20,783	\$ 63,078	\$ —	\$ 83,861
Land improvements	538,707	100,035	—	638,742
Building and improvements	6,654,522	1,057,665	—	7,712,187
Major movable equipment	<u>9,519,982</u>	<u>1,195,060</u>	<u>164,043</u>	<u>10,550,999</u>
Totals	16,733,994	2,415,838	164,043	18,985,789
Less accumulated depreciation	<u>(10,682,871)</u>	<u>(1,137,621)</u>	<u>(163,357)</u>	<u>(11,657,135)</u>
Net property and equipment	<u>\$ 6,051,123</u>	<u>\$1,278,217</u>	<u>\$ 686</u>	<u>\$ 7,328,654</u>

NOTE 6 LINE OF CREDIT

As of June 30, 2010, 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, 2010 and 2009. The interest rate at June 30, 2010 was 4.25%.

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Hospital Revenue Note, Series 1991A	\$ 132,571	\$ 200,080
Hospital Revenue Note, Series 1991B	335,182	368,647
USDA Rural Economic and Community Development Mortgage Note, Series 1994A	748,648	763,073
Notes payable, equipment	<u>812,448</u>	<u>348,317</u>
Total	2,028,849	1,680,117
Less current maturities	<u>334,481</u>	<u>204,617</u>
Long-term debt, net of current maturities	<u>\$1,694,368</u>	<u>\$1,475,500</u>

**Lucas County Health Center
NOTES TO 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, 2010, the remaining balance on the Note was \$132,571.

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, 2010.

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, 2010, the remaining balance on the Note was \$335,182.

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, 2010.

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, 2010 the remaining principal and interest on the Series 1991A and 1991B Notes was \$554,261. 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, 2010 and 2009:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Change in fund equity	\$ (101,123)	\$1,582,515
Provision for depreciation	1,184,805	1,137,621
Interest expense on the Notes	<u>24,955</u>	<u>29,750</u>
Pledged net revenues	<u>\$1,108,637</u>	<u>\$2,749,886</u>
Principal and interest requirements		
Hospital Revenue Note, Series 1991A	\$ 75,690	\$ 74,874
Hospital Revenue Note, Series 1991B	<u>51,898</u>	<u>51,898</u>
Totals	<u>\$ 127,588</u>	<u>\$ 126,772</u>

**Lucas County Health Center
NOTES TO 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, 2010, the remaining balance on the Note was \$748,648.

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, 2010.

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, 2010, the remaining balance on this note is \$107,265.

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, 2010, the remaining balance on this note is \$152,445.

The Health Center has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$11,979, including interest at 4.75%, with the final payment due September, 2014. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2010, the remaining balance on this note is \$552,738.

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>
2011	\$ 334,481	\$ 90,122	\$ 424,603
2012	338,724	73,556	412,280
2013	252,212	58,677	310,889
2014	201,418	48,002	249,420
2015	97,835	40,113	137,948
2016-2020	248,275	154,005	402,280
2021-2025	133,610	113,260	246,870
2026-2030	166,502	80,368	246,870
2031-2035	207,492	39,378	246,870
2036	<u>48,300</u>	<u>2,109</u>	<u>50,409</u>
Total	2,028,849	699,590	2,728,439
Less current maturities	<u>334,481</u>	<u>90,122</u>	<u>424,603</u>
Total long-term debt	<u>\$1,694,368</u>	<u>\$ 609,468</u>	<u>\$2,303,836</u>

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

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2010 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	\$ 200,080	\$ -	\$ 67,509	\$ 132,571	\$ 70,842
Revenue Note, Series 1991B	368,647	-	33,465	335,182	35,139
Mortgage Note, Series 1994A	763,073	-	14,425	748,648	15,219
Notes payable, equipment	<u>348,317</u>	<u>638,638</u>	<u>174,507</u>	<u>812,448</u>	<u>213,281</u>
Totals	<u>\$1,680,117</u>	<u>\$ 638,638</u>	<u>\$ 289,906</u>	<u>\$2,028,849</u>	<u>\$ 334,481</u>

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>

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, 2008. The Health Center's Medicaid cost reports have been audited by Iowa Medicaid Enterprise, IME, through the year ended June 30, 2007. Following a routine medical review in 2009, IME has determined that outpatient services provided to five patients were incorrectly paid by IME. IME has subsequently recovered those payments, however it is possible IME may seek recovery of payments made on behalf of other patients under similar circumstances. As of the date of this report, the Health Center is appealing the ruling by IME and is unable to estimate the range of possible loss, if any, as a result of an unfavorable outcome.

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
NOTES TO 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, 2010 regular plan members were required to contribute 4.3% of their annual salary and the Health Center was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$414,422, \$381,402 and \$339,850, 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, 2010 and 2009.

	2010	2009
Charges foregone, based on established rates	\$ <u>149,575</u>	\$ <u>177,078</u>
Equivalent percentage of charity care patients to all patients served	<u>.7%</u>	<u>.8%</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, 2010 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
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)

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

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 684,206	\$ -	\$ 684,206	\$ 658,607
Other revenues/receipts	<u>14,058,958</u>	<u>555,929</u>	<u>14,614,887</u>	<u>17,844,584</u>
	14,743,164	555,929	15,299,093	18,503,191
Expenses/expenditures	<u>14,844,287</u>	<u>670,822</u>	<u>15,515,109</u>	<u>19,121,796</u>
Net	(101,123)	(114,893)	(216,016)	(618,605)
Balance, beginning	<u>9,007,680</u>	<u>(5,983,018)</u>	<u>3,024,662</u>	<u>1,852,694</u>
Balance, ending	<u>\$ 8,906,557</u>	<u>\$(6,097,911)</u>	<u>\$ 2,808,646</u>	<u>\$ 1,234,089</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 financial statements of Lucas County Health Center for the years ended June 30, 2010 and 2009 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 3, 2010

**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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 - 30 days (includes patients in Health Center at end of year)	\$1,593,148	\$1,826,066	49.87%	55.76%
31 - 60 days	439,652	502,875	13.76	15.36
61 - 90 days	264,500	210,956	8.28	6.44
91 - 120 days	211,469	138,901	6.62	4.24
Over 120 days	<u>685,768</u>	<u>595,956</u>	<u>21.47</u>	<u>18.20</u>
Totals	<u>3,194,537</u>	<u>3,274,754</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	325,000	285,000		
Medicaid	128,000	120,000		
Other	292,000	341,000		
Bad debts	<u>510,000</u>	<u>492,000</u>		
Total allowances	<u>1,255,000</u>	<u>1,238,000</u>		
Totals	<u>\$1,939,537</u>	<u>\$2,036,754</u>		
GROSS PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 55,245</u>	<u>\$ 62,167</u>		
NUMBER OF DAYS GROSS PATIENT SERVICE REVENUE IN GROSS PATIENT RECEIVABLES	<u>58</u>	<u>53</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
BALANCE, beginning	\$ 492,000	\$ 520,000		
ADD				
Provision for bad debts	639,310	593,416	4.81%	4.12%
Recoveries of accounts previously written off	<u>113,183</u>	<u>126,031</u>	.85	.88
	1,244,493	1,239,447		
DEDUCT				
Accounts written off	<u>734,493</u>	<u>747,447</u>	5.53	5.19
BALANCE, ending	<u>\$ 510,000</u>	<u>\$ 492,000</u>		

Lucas County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$1,444,950	\$ 125,946	\$ 1,570,896	\$ 1,972,928
Obstetrics	134,190	-	134,190	202,000
Nursery	75,844	-	75,844	119,133
	<u>1,654,984</u>	<u>125,946</u>	<u>1,780,930</u>	<u>2,294,061</u>
OTHER NURSING SERVICES				
Operating room	262,551	2,006,751	2,269,302	2,271,362
Labor and delivery	106,713	34,896	141,609	169,014
Central supply	34,835	487,758	522,593	377,457
Emergency service	14,615	1,827,026	1,841,641	1,756,874
Ambulance	10,687	704,271	714,958	791,731
	<u>429,401</u>	<u>5,060,702</u>	<u>5,490,103</u>	<u>5,366,438</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	243,368	2,329,418	2,572,786	2,759,801
Radiology	227,847	4,153,781	4,381,628	5,092,230
Pharmacy	579,345	1,429,040	2,008,385	2,280,832
Anesthesiology	131,678	687,037	818,715	663,084
Respiratory therapy	211,498	127,311	338,809	357,396
EKG/EEG	11,020	102,146	113,166	118,023
Cardiac and pulmonary rehabilitation	-	168,066	168,066	181,375
Physical therapy	84,722	624,285	709,007	751,116
Speech therapy	2,098	2,431	4,529	10,680
Occupational therapy	27,473	145,691	173,164	52,928
Diabetic education	-	352	352	584
Wound treatment	-	98,615	98,615	60,438
Pediatric therapy	-	504,862	504,862	1,693,554
Behavioral health service	15,677	872,930	888,607	902,165
Infusion therapy	-	90,515	90,515	99,515
Humeston clinic	-	140,454	140,454	161,751
Specialty clinics	-	31,346	31,346	22,135
	<u>1,534,726</u>	<u>11,508,280</u>	<u>13,043,006</u>	<u>15,207,607</u>
Totals	<u>\$3,619,111</u>	<u>\$16,694,928</u>	20,314,039	22,868,106
Charity care charges foregone, based on established rates			<u>(149,575)</u>	<u>(177,078)</u>
Total gross patient service revenue			20,164,464	22,691,028
Provisions for contractual adjustments and bad debts			<u>(6,884,299)</u>	<u>(8,301,524)</u>
Total net patient service revenue			<u>\$13,280,165</u>	<u>\$14,389,504</u>

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

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare	\$3,239,314	\$3,919,095
Medicaid	835,813	1,510,004
Other adjustments	2,169,862	2,279,009
Provision for bad debts	<u>639,310</u>	<u>593,416</u>
 Totals	 <u>\$6,884,299</u>	 <u>\$8,301,524</u>

OTHER REVENUE

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
Day care	\$ 248,486	\$ 247,515
Rental income	234,772	184,690
Cafeteria	88,053	77,832
Medical records	3,541	50,374
Lifeline	38,075	35,748
Housekeeping	-	7,500
Miscellaneous	<u>75,380</u>	<u>85,152</u>
 Totals	 <u>\$ 688,307</u>	 <u>\$ 688,811</u>

Lucas County Health Center
EXPENSES
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 104,155	\$ 2,215	\$ 106,370	\$ 104,899
Medical, surgical and obstetrics	938,658	72,905	1,011,563	1,098,798
Nursery	23,800	3,067	26,867	30,970
Operating room	246,387	336,344	582,731	582,553
Labor and delivery	151,404	46,640	198,044	139,198
Central supply	63,402	288,925	352,327	227,761
Emergency service	743,634	537,625	1,281,259	958,782
Ambulance	103,210	25,238	128,448	145,011
Total nursing service	<u>2,374,650</u>	<u>1,312,959</u>	<u>3,687,609</u>	<u>3,287,972</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	278,411	377,053	655,464	696,308
Radiology	245,537	608,966	854,503	952,089
Pharmacy	137,458	421,418	558,876	630,084
Anesthesiology	-	411,939	411,939	268,149
Respiratory therapy	97,104	34,517	131,621	144,091
EKG/EEG	5,598	162	5,760	7,365
Cardiac and pulmonary rehabilitation	65,961	5,944	71,905	70,782
Physical therapy	244,744	17,681	262,425	300,924
Speech therapy	61,181	8,823	70,004	7,367
Occupational therapy	-	1,490	1,490	9,775
Wound treatment	68,434	18,519	86,953	88,813
Pediatric therapy	-	294,647	294,647	1,058,477
Behavioral health service	390,467	88,409	478,876	473,237
Infusion therapy	62,994	2,480	65,474	63,127
Humeston clinic	127,621	81,668	209,289	208,620
Specialty clinics	26,686	175	26,861	47,900
Total other professional service	<u>1,812,196</u>	<u>2,373,891</u>	<u>4,186,087</u>	<u>5,027,108</u>
GENERAL SERVICE				
Dietary	155,192	111,523	266,715	284,464
Plant services	159,856	643,801	803,657	830,180
Environmental services	194,954	43,618	238,572	231,757
Laundry	27,032	5,075	32,107	31,859
Total general service	<u>537,034</u>	<u>804,017</u>	<u>1,341,051</u>	<u>1,378,260</u>
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative services	661,161	871,553	1,532,714	1,543,366
Business office	247,349	72,180	319,529	329,893
Medical office building and clinics	77,969	34,831	112,800	112,910
Medical records	168,957	41,734	210,691	254,472
Vreedenburg Center	22,157	182,535	204,692	124,652
Day care	247,856	33,890	281,746	340,597

Lucas County Health Center
EXPENSES (continued)
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
UNASSIGNED EXPENSES				
FICA	\$ —	\$ 437,895	\$ 437,895	\$ 422,933
IPERS	—	414,422	414,422	381,402
Group health, life and other benefits	—	694,814	694,814	642,727
Workers compensation insurance	—	104,022	104,022	102,244
Insurance	<u>—</u>	<u>131,410</u>	<u>131,410</u>	<u>126,085</u>
Total fiscal and administrative service and unassigned expenses	<u>1,425,449</u>	<u>3,019,286</u>	<u>4,444,735</u>	<u>4,381,281</u>
PROVISION FOR DEPRECIATION	<u>—</u>	<u>1,184,805</u>	<u>1,184,805</u>	<u>1,137,621</u>
Total expenses	<u>\$6,149,329</u>	<u>\$8,694,958</u>	<u>\$14,844,287</u>	<u>\$15,212,242</u>

**Lucas County Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	2010	2009
PATIENT DAYS		
Medical, surgical and obstetrical	1,307	1,843
Swing bed	521	466
Nursery	113	170
Totals	1,941	2,479
DISCHARGES		
Medical, surgical and obstetrical	423	620
Swing bed	46	69
Nursery	67	92
Totals	536	781
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	3.09	2.97
Swing bed	11.33	6.75
Nursery	1.69	1.85

**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 financial statements of Lucas County Health Center as of and for the year ended June 30, 2010, and have issued our report thereon dated September 3, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Health Center's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 2010 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 3, 2010

**Lucas County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

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
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

Part II—Findings Related to Required Statutory Reporting

10-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 for the year ended June 30, 2010.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

10-II-C TRAVEL EXPENSES

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

10-II-D BUSINESS TRANSACTIONS

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

10-II-E BOARD MINUTES

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

10-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.