

**Lucas County Health Center
Chariton, Iowa**

FINANCIAL REPORT

June 30, 2011

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Lucas County Health Center
OFFICIALS
June 30, 2011

BOARD OF TRUSTEES

Expiration of term

Officers

Corliss Klaassen, Chairperson
Betty Hansen, Vice Chairperson
Natalie McGee, Secretary
Randy Westman, Treasurer

December 31, 2012
December 31, 2012
December 31, 2016
December 31, 2014

Members

Sue Frazier
Raymond Meyer
[Vacancy]

December 31, 2012
December 31, 2016

CHIEF EXECUTIVE OFFICER

Veronica Fuhs

CHIEF FINANCIAL OFFICER

Larry Brown

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, 2011 and 2010, 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, 2011 and 2010, 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 November 18, 2011 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

DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 18, 2011

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, 2011 and 2010. 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 \$427,229, or 3%, to \$12,598,169
- Noncurrent assets whose use is limited increased by \$112,921 to \$325,863
- Total property and equipment decreased by \$489,145 to \$7,303,134
- Total fund equity decreased by \$728,359 to \$8,178,198
- Net patient service revenue increased by \$46,419 to \$13,326,584
- Total expenses increased by \$745,511, or 5%, to \$15,589,798

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		
	2011	2010	2009
Current assets	\$ 4,123,210	\$ 4,336,165	\$ 4,752,342
Noncurrent assets whose use is limited	325,863	212,942	656,977
Property and equipment	7,303,134	7,792,279	7,328,654
Other asset	<u>845,962</u>	<u>684,012</u>	<u>685,619</u>
Total assets	<u>\$12,598,169</u>	<u>\$13,025,398</u>	<u>\$13,423,592</u>
Current liabilities	\$ 2,149,710	\$ 1,740,461	\$ 2,254,793
Long-term debt, less current maturities	1,424,299	1,694,368	1,475,500
Other noncurrent liabilities	<u>845,962</u>	<u>684,012</u>	<u>685,619</u>
Total liabilities	<u>\$ 4,419,971</u>	<u>\$ 4,118,841</u>	<u>\$ 4,415,912</u>
Invested in capital assets, net of related debt	\$ 5,502,541	\$ 5,763,430	\$ 5,648,537
Restricted	194,993	348,939	356,808
Unrestricted	<u>2,480,664</u>	<u>2,794,188</u>	<u>3,002,335</u>
Total fund equity	<u>\$ 8,178,198</u>	<u>\$ 8,906,557</u>	<u>\$ 9,007,680</u>

As depicted in Table 1, total assets decreased in fiscal year 2011 to \$12,598,169. The change in total assets was primarily due to a decrease in total property and equipment as a result of depreciation in excess of additions to property and equipment.

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		
	2011	2010	2009
Net patient service revenue	\$13,326,584	\$13,280,165	\$14,389,504
Other revenue	749,860	688,307	688,811
Total revenue	<u>14,076,444</u>	<u>13,968,472</u>	<u>15,078,315</u>
Salaries	6,571,056	6,149,329	5,922,441
Supplies and expenses	7,866,603	7,510,153	8,152,180
Provision for depreciation	1,152,139	1,184,805	1,137,621
Total expenses	<u>15,589,798</u>	<u>14,844,287</u>	<u>15,212,242</u>
Operating (loss)	<u>(1,513,354)</u>	<u>(875,815)</u>	<u>(133,927)</u>
County taxes	684,090	684,206	672,398
Investment income	28,620	31,572	34,003
Unrestricted contributions	172,468	72,861	87,000
Loss on disposal of assets	(8,588)	-	(686)
Interest expense	(91,595)	(96,656)	(80,511)
Transfer from related foundation	-	-	965,120
Total nonoperating gains (losses)	<u>784,995</u>	<u>691,983</u>	<u>1,677,324</u>
Excess (deficiency) of revenues over expenses before restricted contributions	(728,359)	(183,832)	1,543,397
Restricted contributions	<u>-</u>	<u>82,709</u>	<u>39,118</u>
Change in fund equity	(728,359)	(101,123)	1,582,515
Total fund equity, beginning	<u>8,906,557</u>	<u>9,007,680</u>	<u>7,425,165</u>
Total fund equity, ending	<u>\$ 8,178,198</u>	<u>\$ 8,906,557</u>	<u>\$ 9,007,680</u>

Operating and Financial Performance

The following summarizes the Health Center's statements of revenues, expenses and changes in fund equity between June 30, 2011 and 2010.

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 2011 were 446 compared to 423 in fiscal year 2010. Average length of stay was 3.18 for fiscal year 2011 compared to 3.09 in fiscal year 2010 as medical, surgical and obstetrical patient days increased to 1,419 from 1,307 in 2010. Swing bed discharges for fiscal year 2011 were 77 compared to 67 in fiscal year 2010. Average length of stay decreased as swing bed patient days increased to 582 from 521 in 2010. Volume on the outpatient side indicated positive growth in 2011. In 2011, gross outpatient charges increased to \$18,293,384 compared to \$16,694,928 in 2010. Medical and surgical, emergency service, laboratory, and radiology reflected the most significant increases in 2011.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2011. Overall, gross patient service revenue increased to \$22,768,705 from \$20,164,464 in 2010.

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 \$9,442,121 in 2011 compared to \$6,884,299 in 2010, representing 41% and 34% 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>2011</u>	<u>2010</u>	<u>2009</u>
Medicare	46%	44%	45%
Medicaid	15	14	14
Commercial insurance	35	38	38
Patients	<u>4</u>	<u>4</u>	<u>3</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$749,860 in 2011 compared to \$688,307 in 2010 primarily due to increases in day care and rental income.

Expenses

Approximately 42% of Health Center's expenses are for salaries. Total salaries increased by 7% to \$6,571,056 in 2011 from \$6,149,329 in 2010. The Health Center departments experiencing the most significant increase in 2011 were emergency service and Lucas Family Medical Center.

Approximately 51% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 5% to \$7,866,603 in 2011 from \$7,510,153 in 2010. The Health Center departments experiencing the most significant increase in 2011 were medical, surgical and obstetrics and Lucas Family Medical Center.

Approximately 7% of Health Center's expenses relate to provision for depreciation. The provision for depreciation decreased to \$1,152,139 in 2011 from \$1,184,805 in 2010.

Nonoperating Gains

Nonoperating gains increased to \$784,995 from \$691,983 in 2010 due primarily to an increase in unrestricted contributions.

Property and Equipment

At the end of 2011, the Health Center had \$7,303,134 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 2011, \$671,582 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>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 83,861	\$ 83,861	\$ 83,861
Land improvements	786,692	779,192	638,742
Building and improvements	8,402,479	8,421,310	7,712,187
Major movable equipment	<u>11,762,825</u>	<u>11,304,265</u>	<u>10,550,999</u>
Subtotal	21,035,857	20,588,628	18,985,789
Less accumulated depreciation	<u>(13,732,723)</u>	<u>(12,796,349)</u>	<u>(11,657,135)</u>
Property and equipment	<u>\$ 7,303,134</u>	<u>\$ 7,792,279</u>	<u>\$ 7,328,654</u>

Performance Compared to County Hospital Budget

The Health Center prepares its annual County Hospital budget on the budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the Notes to Financial Statements. A comparison of the Health Center's fiscal year 2011 actual budget basis financial information to its amended County Hospital budget is presented in Table 5.

Table 5
Actual vs Budget

	<u>Actual budget basis</u>	<u>Amended County Hospital budget</u>	<u>Variance</u>
Amount to be raised by taxation	\$ 684,090	\$ 659,179	\$ 24,911
Other revenues/receipts	<u>14,293,684</u>	<u>14,637,619</u>	<u>(343,935)</u>
	14,977,774	15,296,798	(319,024)
Expenses/expenditures	<u>15,453,832</u>	<u>15,893,604</u>	<u>(439,772)</u>
Net	<u>\$ (476,058)</u>	<u>\$ (596,806)</u>	<u>\$ 120,748</u>

Actual other revenues/receipts results were lower than amended County Hospital budget due to lower than expected patient volumes during the current year. Expenses/expenditures were lower than amended County Hospital budget primarily due to lower patient volumes.

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2012 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	
	2011	2010
CURRENT ASSETS		
Cash	\$ 1,248,388	\$ 1,073,915
Assets whose use is limited-required for current liabilities	85,986	85,695
Patient receivables, less allowances for contractual adjustments and bad debts	2,176,505	1,939,537
Other receivables	58,123	94,186
Estimated third-party payor settlements	-	700,000
Inventories	214,804	155,697
Prepaid expenses	339,404	287,135
Total current assets	<u>4,123,210</u>	<u>4,336,165</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	130,870	18,379
Restricted for payment of long-term debt and interest		
Cash	<u>280,979</u>	<u>280,258</u>
Total assets whose use is limited	411,849	298,637
Less assets whose use is limited and that are required for current liabilities	<u>85,986</u>	<u>85,695</u>
Noncurrent assets whose use is limited	<u>325,863</u>	<u>212,942</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	21,035,857	20,588,628
Total property and equipment	<u>13,732,723</u>	<u>12,796,349</u>
	<u>7,303,134</u>	<u>7,792,279</u>
OTHER ASSET		
Succeeding year property tax receivable	<u>845,962</u>	<u>684,012</u>
Totals	<u>\$12,598,169</u>	<u>\$13,025,398</u>

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

	Year ended June 30	
	2011	2010
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2011 \$716,867; 2010 \$639,310	\$13,326,584	\$13,280,165
OTHER REVENUE	<u>749,860</u>	<u>688,307</u>
Total revenue	<u>14,076,444</u>	<u>13,968,472</u>
EXPENSES		
Nursing service	3,816,876	3,687,609
Other professional service	4,417,148	4,186,087
General service	1,425,947	1,341,051
Fiscal and administrative service and unassigned expenses	4,777,688	4,444,735
Provision for depreciation	<u>1,152,139</u>	<u>1,184,805</u>
Total expenses	<u>15,589,798</u>	<u>14,844,287</u>
Operating (loss)	<u>(1,513,354)</u>	<u>(875,815)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	684,090	684,206
Investment income	28,620	31,572
Unrestricted contributions	172,468	72,861
Loss on disposal of equipment	(8,588)	-
Interest expense	<u>(91,595)</u>	<u>(96,656)</u>
Total nonoperating gains (losses)	<u>784,995</u>	<u>691,983</u>
(Deficiency) of revenues over expenses before restricted contributions	<u>(728,359)</u>	<u>(183,832)</u>
RESTRICTED CONTRIBUTIONS		
Change in fund equity	<u>-</u>	<u>82,709</u>
	<u>(728,359)</u>	<u>(101,123)</u>
TOTAL FUND EQUITY		
Beginning	<u>8,906,557</u>	<u>9,007,680</u>
Ending	<u>\$ 8,178,198</u>	<u>\$ 8,906,557</u>

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

	Year ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$13,969,616	\$12,273,382
Cash paid to suppliers for goods and services	(7,888,781)	(7,800,706)
Cash paid to employees for services	(6,438,636)	(6,128,422)
Other operating revenue received	<u>749,860</u>	<u>688,307</u>
Net cash provided by (used in) operating activities	<u>392,059</u>	<u>(967,439)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	684,090	684,206
Unrestricted contributions received	<u>172,468</u>	<u>72,861</u>
Net cash provided by noncapital financing activities	<u>856,558</u>	<u>757,067</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(671,582)	(1,648,430)
Interest paid on long-term debt	(89,714)	(98,775)
Proceeds from issuance of long-term debt	116,335	638,638
Principal payments on long-term debt	(344,591)	(289,906)
Contributions received, restricted for purchase of equipment	<u>—</u>	<u>82,709</u>
Net cash (used in) capital and related financing activities	<u>(989,552)</u>	<u>(1,315,764)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>28,620</u>	<u>31,572</u>
Net cash provided by investing activities	<u>28,620</u>	<u>31,572</u>
NET INCREASE (DECREASE) IN CASH	287,685	(1,494,564)
CASH		
Beginning	<u>1,372,552</u>	<u>2,867,116</u>
Ending	<u>\$ 1,660,237</u>	<u>\$ 1,372,552</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$(1,513,354)	\$ (875,815)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation	1,152,139	1,184,805
Changes in assets and liabilities		
Patient receivables	(236,968)	97,217
Other receivables	36,063	(26,733)
Estimated third-party payor settlements, net	880,000	(1,104,000)
Inventories	(59,107)	33,070
Prepaid expenses	(52,269)	(37,906)
Accounts payable	6,853	(223,937)
Accrued employee compensation	132,420	20,907
Payroll taxes and amounts withheld from employees	<u>46,282</u>	<u>(35,047)</u>
Net cash provided by (used in) operating activities	<u>\$ 392,059</u>	<u>\$ (967,439)</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$1,248,388	\$1,073,915
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	130,870	18,379
Restricted for payment of long-term debt and interest, cash	<u>280,979</u>	<u>280,258</u>
Total per statement of cash flows	<u>\$1,660,237</u>	<u>\$1,372,552</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

The Health Center has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

When the Health Center has both restricted and unrestricted resources available to finance a particular program or project, it is the Health Center's policy to use restricted resources before unrestricted resources.

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2011 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.

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>2011</u>	<u>2010</u>
Medicare	\$ 858,604	\$ 818,542
Medicaid	543,116	414,649
Commercial insurance	1,158,669	978,572
Patients	<u>1,063,116</u>	<u>982,774</u>
Total patient receivables	3,623,505	3,194,537
Less allowances for contractual adjustments and bad debts	<u>(1,447,000)</u>	<u>(1,255,000)</u>
Net patient receivables	<u>\$2,176,505</u>	<u>\$1,939,537</u>

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

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, 2011:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 85,695	\$ 194,563	\$ 280,258
Transfer from current assets, cash	101,279	-	101,279
Interest earned	284	430	714
Principal and interest payments	<u>(101,272)</u>	<u>-</u>	<u>(101,272)</u>
BALANCE , end of year	<u>\$ 85,986</u>	<u>\$ 194,993</u>	<u>\$ 280,979</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 83,861	\$ -	\$ 83,861	\$ -
Land improvements	786,692	371,239	779,192	332,807
Building and improvements	8,402,479	4,447,482	8,421,310	4,126,112
Major movable equipment	<u>11,762,825</u>	<u>8,914,002</u>	<u>11,304,265</u>	<u>8,337,430</u>
Totals	<u>\$21,035,857</u>	<u>\$13,732,723</u>	<u>\$20,588,628</u>	<u>\$12,796,349</u>

A summary of changes in property and equipment for the year ended June 30, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 83,861	\$ -	\$ -	\$ 83,861
Land improvements	779,192	7,500	-	786,692
Building and improvements	8,421,310	-	18,831	8,402,479
Major movable equipment	<u>11,304,265</u>	<u>664,082</u>	<u>205,522</u>	<u>11,762,825</u>
Totals	<u>20,588,628</u>	<u>671,582</u>	<u>224,353</u>	<u>21,035,857</u>
Less accumulated depreciation	<u>(12,796,349)</u>	<u>(1,152,139)</u>	<u>(215,765)</u>	<u>(13,732,723)</u>
Net property and equipment	<u>\$ 7,792,279</u>	<u>\$ (480,557)</u>	<u>\$ 8,588</u>	<u>\$ 7,303,134</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>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Hospital Revenue Note, Series 1991A	\$ 61,729	\$ 132,571
Hospital Revenue Note, Series 1991B	300,043	335,182
USDA Rural Economic and Community Development Mortgage Note, Series 1994A	731,855	748,648
Notes payable, equipment	<u>706,966</u>	<u>812,448</u>
Total	1,800,593	2,028,849
Less current maturities	<u>376,294</u>	<u>334,481</u>
Long-term debt, net of current maturities	<u>\$1,424,299</u>	<u>\$1,694,368</u>

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, 2011, the remaining balance on the Note was \$61,729.

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, 2011.

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.

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

NOTE 6 LONG-TERM DEBT (continued)

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, 2011, the remaining balance on the Note was \$300,043.

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, 2011.

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, 2011 the remaining principal and interest on the Series 1991A and 1991B Notes was \$426,379. 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, 2011 and 2010:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Change in fund equity	\$ (728,359)	\$ (101,123)
Provision for depreciation	1,152,139	1,184,805
Interest expense on the Notes	<u>19,865</u>	<u>24,955</u>
Pledged net revenues	<u>\$ 443,645</u>	<u>\$1,108,637</u>
Principal and interest requirements		
Hospital Revenue Note, Series 1991A	\$ 75,690	\$ 75,690
Hospital Revenue Note, Series 1991B	<u>51,898</u>	<u>51,898</u>
Totals	<u>\$ 127,588</u>	<u>\$ 127,588</u>

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

NOTE 6 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, 2011, the remaining balance on the Note was \$731,855.

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, 2011.

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, 2011, the remaining balance on this note was \$61,371.

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, 2011, the remaining balance on this note was \$105,138.

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, 2011, the remaining balance on this note was \$432,652.

The Health Center has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$4,151, including interest at 3.55%, with the final payment due November, 2013. The note is collateralized by the assets of the Health Center. At June 30, 2011, the remaining balance on this note was \$107,805.

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

NOTE 6 LONG-TERM DEBT (continued)

Aggregate 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>
2012	\$ 376,294	\$ 75,936	\$ 452,230
2013	300,359	60,337	360,696
2014	221,927	48,185	270,112
2015	97,834	40,113	137,947
2016	64,433	36,839	101,272
2017-2021	208,265	142,117	350,382
2022-2026	139,622	107,248	246,870
2027-2031	173,995	72,875	246,870
2032-2036	<u>217,864</u>	<u>30,041</u>	<u>247,905</u>
Total	1,800,593	613,691	2,414,284
Less current maturities	<u>376,294</u>	<u>75,936</u>	<u>452,230</u>
Total long-term debt	<u>\$1,424,299</u>	<u>\$ 537,755</u>	<u>\$1,962,054</u>

A summary of changes in long-term debt for the year ended June 30, 2011 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	\$ 132,571	\$ —	\$ 70,842	\$ 61,729	\$ 61,729
Revenue Note, Series 1991B	335,182	—	35,139	300,043	36,886
Mortgage Note, Series 1994A	748,648	—	16,793	731,855	14,860
Notes payable, equipment	<u>812,448</u>	<u>116,335</u>	<u>221,817</u>	<u>706,966</u>	<u>262,819</u>
Totals	<u>\$2,028,849</u>	<u>\$ 116,335</u>	<u>\$ 344,591</u>	<u>\$1,800,593</u>	<u>\$ 376,294</u>

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>

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

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2010. The Health Center's Medicaid cost reports have been audited by Iowa Medicaid Enterprise, IME, through the year ended June 30, 2008. 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.

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2011 regular plan members were required to contribute 4.5% of their annual salary and the Health Center was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$461,307, \$414,422 and \$381,402, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2011 and 2010.

	2011	2010
Charges foregone, based on established rates	\$ <u>138,110</u>	\$ <u>149,575</u>
Equivalent percentage of charity care patients to all patients served	_____ .6%	_____ .7%

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

NOTE 10 MALPRACTICE CLAIMS

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

Presently, no claims alleging malpractice have been asserted against the Health Center. However, incidents occurring through June 30, 2011 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

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>Amended County Hospital Budget</u>
Amount to be raised by taxation	\$ 684,090	\$ —	\$ 684,090	\$ 659,179
Other revenues/receipts	<u>14,177,349</u>	<u>116,335</u>	<u>14,293,684</u>	<u>14,637,619</u>
	14,861,439	116,335	14,977,774	15,296,798
Expenses/expenditures	<u>15,589,798</u>	<u>(135,966)</u>	<u>15,453,832</u>	<u>15,893,604</u>
Net	(728,359)	252,301	(476,058)	(596,806)
Balance, beginning	<u>8,906,557</u>	<u>(6,131,136)</u>	<u>2,775,421</u>	<u>1,586,737</u>
Balance, ending	<u>\$ 8,178,198</u>	<u>\$(5,878,835)</u>	<u>\$ 2,299,363</u>	<u>\$ 989,931</u>

NOTE 12 RISK MANAGEMENT

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

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, 2011 and 2010 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
November 18, 2011

**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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0 - 30 days (includes patients in Health Center at end of year)	\$1,893,707	\$1,593,148	52.26%	49.87%
31 - 60 days	445,318	439,652	12.29	13.76
61 - 90 days	320,091	264,500	8.83	8.28
91 - 120 days	204,312	211,469	5.64	6.62
Over 120 days	<u>760,077</u>	<u>685,768</u>	<u>20.98</u>	<u>21.47</u>
Totals	<u>3,623,505</u>	<u>3,194,537</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	320,000	325,000		
Medicaid	263,000	128,000		
Other	342,000	292,000		
Bad debts	<u>522,000</u>	<u>510,000</u>		
Total allowances	<u>1,447,000</u>	<u>1,255,000</u>		
Totals	<u>\$2,176,505</u>	<u>\$1,939,537</u>		
GROSS PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 62,380</u>	<u>\$ 55,245</u>		
NUMBER OF DAYS GROSS PATIENT SERVICE REVENUE IN GROSS PATIENT RECEIVABLES	<u>58</u>	<u>58</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
BALANCE, beginning	\$ 510,000	\$ 492,000		
ADD				
Provision for bad debts	716,867	639,310	5.38%	4.81%
Recoveries of accounts previously written off	<u>132,755</u>	<u>113,183</u>	1.00	.85
	1,359,622	1,244,493		
DEDUCT				
Accounts written off	<u>837,622</u>	<u>734,493</u>	6.29	5.53
BALANCE, ending	<u>\$ 522,000</u>	<u>\$ 510,000</u>		

Lucas County Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$1,773,425	\$ 121,050	\$ 1,894,475	\$ 1,570,896
Obstetrics	171,030	-	171,030	134,190
Nursery	<u>104,302</u>	-	<u>104,302</u>	<u>75,844</u>
	<u>2,048,757</u>	<u>121,050</u>	<u>2,169,807</u>	<u>1,780,930</u>
OTHER NURSING SERVICES				
Operating room	317,674	2,022,252	2,339,926	2,269,302
Labor and delivery	191,729	46,658	238,387	141,609
Central supply	31,310	444,783	476,093	522,593
Emergency service	23,956	2,152,981	2,176,937	1,841,641
Ambulance	<u>5,436</u>	<u>754,939</u>	<u>760,375</u>	<u>714,958</u>
	<u>570,105</u>	<u>5,421,613</u>	<u>5,991,718</u>	<u>5,490,103</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	324,267	2,572,300	2,896,567	2,572,786
Radiology	396,236	4,723,340	5,119,576	4,381,628
Pharmacy	638,556	1,421,723	2,060,279	2,008,385
Anesthesiology	214,047	689,591	903,638	818,715
Respiratory therapy	238,357	190,167	428,524	338,809
EKG/EEG	15,744	119,656	135,400	113,166
Cardiac and pulmonary rehabilitation	1,338	231,929	233,267	168,066
Physical therapy	99,104	795,378	894,482	709,007
Speech therapy	9,335	2,052	11,387	4,529
Occupational therapy	37,010	103,491	140,501	173,164
Diabetic education	-	200	200	352
Wound treatment	-	270,417	270,417	98,615
Pediatric therapy	-	-	-	504,862
Behavioral health service	20,575	947,940	968,515	888,607
Infusion therapy	-	110,698	110,698	90,515
Lucas Family Medical Clinic	-	260,569	260,569	-
Humeston clinic	-	155,808	155,808	140,454
Specialty clinics	-	<u>155,462</u>	<u>155,462</u>	<u>31,346</u>
	<u>1,994,569</u>	<u>12,750,721</u>	<u>14,745,290</u>	<u>13,043,006</u>
Totals	<u>\$4,613,431</u>	<u>\$18,293,384</u>	22,906,815	20,314,039
Charity care charges foregone, based on established rates			<u>(138,110)</u>	<u>(149,575)</u>
Total gross patient service revenue			22,768,705	20,164,464
Provisions for contractual adjustments and bad debts			<u>(9,442,121)</u>	<u>(6,884,299)</u>
Total net patient service revenue			<u>\$13,326,584</u>	<u>\$13,280,165</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Contractual adjustments		
Medicare	\$4,192,526	\$3,239,314
Medicaid	1,756,341	835,813
Other adjustments	2,776,387	2,169,862
Provision for bad debts	<u>716,867</u>	<u>639,310</u>
 Totals	 <u>\$9,442,121</u>	 <u>\$6,884,299</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Day care	\$ 286,939	\$ 248,486
Rental income	252,926	234,772
Cafeteria	92,461	88,053
Medical records	1,994	3,541
Lifeline	36,104	38,075
Miscellaneous	<u>79,436</u>	<u>75,380</u>
 Totals	 <u>\$ 749,860</u>	 <u>\$ 688,307</u>

Lucas County Health Center
EXPENSES
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 105,933	\$ 3,561	\$ 109,494	\$ 106,370
Medical, surgical and obstetrics	955,234	166,431	1,121,665	1,011,563
Nursery	29,345	2,729	32,074	26,867
Operating room	250,873	291,589	542,462	582,731
Labor and delivery	183,154	21,754	204,908	198,044
Central supply	63,759	210,058	273,817	352,327
Emergency service	817,121	570,445	1,387,566	1,281,259
Ambulance	108,751	36,139	144,890	128,448
Total nursing service	<u>2,514,170</u>	<u>1,302,706</u>	<u>3,816,876</u>	<u>3,687,609</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	261,665	419,542	681,207	655,464
Radiology	266,692	610,652	877,344	854,503
Pharmacy	165,965	488,694	654,659	558,876
Anesthesiology	-	462,697	462,697	411,939
Respiratory therapy	86,126	49,327	135,453	131,621
EKG/EEG	6,583	890	7,473	5,760
Cardiac and pulmonary rehabilitation	63,583	5,127	68,710	71,905
Physical therapy	240,270	19,424	259,694	262,425
Speech therapy	-	8,860	8,860	8,823
Occupational therapy	50,495	3,646	54,141	62,671
Wound treatment	71,596	11,441	83,037	86,953
Pediatric therapy	-	-	-	294,647
Behavioral health service	421,036	68,411	489,447	478,876
Infusion therapy	59,785	6,588	66,373	65,474
Lucas Family Medical Center	164,377	119,089	283,466	-
Humeston clinic	178,006	79,232	257,238	209,289
Specialty clinics	26,947	402	27,349	26,861
Total other professional service	<u>2,063,126</u>	<u>2,354,022</u>	<u>4,417,148</u>	<u>4,186,087</u>
GENERAL SERVICE				
Dietary	161,759	110,315	272,074	266,715
Plant services	173,828	717,848	891,676	803,657
Environmental services	201,207	33,851	235,058	238,572
Laundry	22,962	4,177	27,139	32,107
Total general service	<u>559,756</u>	<u>866,191</u>	<u>1,425,947</u>	<u>1,341,051</u>
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative services	671,108	1,064,408	1,735,516	1,532,714
Business office	217,878	69,656	287,534	319,529
Medical office building and clinics	85,409	38,319	123,728	112,800
Medical records	162,614	42,654	205,268	210,691
Vreedenburg Center	22,755	182,095	204,850	204,692
Day care	274,240	45,308	319,548	281,746

Lucas County Health Center
EXPENSES (continued)
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
UNASSIGNED EXPENSES				
FICA	\$ —	\$ 466,615	\$ 466,615	\$ 437,895
IPERS	—	461,307	461,307	414,422
Group health, life and other benefits	—	699,623	699,623	694,814
Workers compensation insurance	—	101,366	101,366	104,022
Insurance	<u>—</u>	<u>172,333</u>	<u>172,333</u>	<u>131,410</u>
Total fiscal and administrative service and unassigned expenses	<u>1,434,004</u>	<u>3,343,684</u>	<u>4,777,688</u>	<u>4,444,735</u>
PROVISION FOR DEPRECIATION	<u>—</u>	<u>1,152,139</u>	<u>1,152,139</u>	<u>1,184,805</u>
Total expenses	<u>\$6,571,056</u>	<u>\$9,018,742</u>	<u>\$15,589,798</u>	<u>\$14,844,287</u>

**Lucas County Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2011</u>	<u>2010</u>
PATIENT DAYS		
Acute	1,419	1,307
Swing bed	582	521
Nursery	<u>149</u>	<u>113</u>
Totals	<u>2,150</u>	<u>1,941</u>
DISCHARGES		
Acute	446	423
Swing bed	77	67
Nursery	<u>72</u>	<u>46</u>
Totals	<u>595</u>	<u>536</u>
AVERAGE LENGTH OF STAY		
Acute	3.18	3.09
Swing bed	7.56	7.78
Nursery	2.07	2.46

**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, 2011, and have issued our report thereon dated November 18, 2011. 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, 2011 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
November 18, 2011

**Lucas County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

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, 2011**

Part II—Findings Related to Required Statutory Reporting

11-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 amended budget for the year ended June 30, 2011.

11-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

11-II-C TRAVEL EXPENSES

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

11-II-D BUSINESS TRANSACTIONS

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

11-II-E BOARD MINUTES

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

11-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.