

**KOSSUTH REGIONAL HEALTH CENTER**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2004 AND 2003**

**KOSSUTH REGIONAL HEALTH CENTER  
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**KOSSUTH REGIONAL HEALTH CENTER  
BOARD OF TRUSTEES  
JUNE 30, 2004**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jack Munch	Chairperson	2008
Conley Nelson	Secretary	2006
Tom Geelan	Treasurer	2008
Eileen Bormann	Member	2006
John Cowin	Member	2004
HEALTH CENTER OFFICIALS		
Scott Curtis	Administrator	

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Kossuth Regional Health Center  
Algona, Iowa

We have audited the accompanying financial statements of Kossuth Regional Health Center and its discretely presented component unit as of June 30, 2004 and 2003, which collectively comprise the Health Center's basic financial statements as listed in the table of contents. 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Kossuth Regional Health Center and its discretely presented component unit as of June 30, 2004 and 2003 and the changes in its financial position and cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Kossuth Regional Health Center adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38 – *Certain Financial Statement Note Disclosures* as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 on our consideration of Kossuth Regional Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 3 through page 9 and the budgetary comparison information on page 29 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kossuth Regional Health Centers basic financial statements. The other supplementary information from pages 30 to 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 37 has been summarized from the Health Center's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.

A handwritten signature in cursive script that reads "Larson, Allen, Weishaar & Co., LLP".

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
August 13, 2004

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

This section of the Kossuth Regional Health Center (the Health Center) annual audited report represents management's discussion and analysis of KRHC's financial performance during the fiscal year ended June 30, 2004 and 2003 and will focus on the financial performance as a whole. Please read it in conjunction with the audited financial report.

**Using This Annual Report**

The June 30, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenue, Expenses and Changes in Net Assets
- Statements of Cash Flow
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

**Operational Highlights**

- Critical Access Hospital designation was received effective October 1, 2003. This designation has enabled KRHC to receive higher payments from Medicare for the services provided to our Medicare patients.
- A Dexascan unit became operational during the month of June 2003. This new service was made possible through various fundraising efforts conducted by the KRHC Auxiliary.
- A new surgical procedure began being offered at KRHC in 2004. Dr. Prasad Narkarni began performing the Stretta procedure, which is an alternative to medication for the treatment of gastric reflux conditions. It has become a significant source of new patient revenue for KRHC.
- The Mercy Network was awarded a grant to fund the implementation of a tele-radiology system throughout the network in October 2003.
- A new radiology unit was approved and installed during the month of January 2004. This unit replaced an older unit which was installed at KRHC in 1986 and has served us well past its normal useful life. The new unit offers greater efficiency and economy.
- We received word in May 2004 that Lilian Storm donated a gift of \$15,000 to Kossuth Regional Health Center through her estate. The funds will be received in the fall of 2004 and will be turned over to the KRHC Foundation to be invested and managed for our future use.

**Staff Highlights**

- Dr. Ryan Thoreson, DO joined the active Medical Staff as a family practice physician in August 2004. He replaces Dr. William Parker.
- Six summer college student interns were hired in cooperation with the Kossuth County Economic Development Corporation to help with various projects, as well as research and development programs.
- Linda McClintok, FNP, left our Bancroft Clinic in June 2004.
- Jennifer VonBank, PA-C joined our Bancroft Clinic effective July 2004.
- KRHC worked collaboratively with Iowa Lakes Community College to establish a non-traditional nursing program. This program will graduate approximately 20 A.A. degree nurses in the spring of 2005.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Highlights**

- The Health Center's total assets increased by \$67,903 or 0.6% in 2004 decreased by \$254,727 or 2.1% in 2003.
- The Health Center's net assets increased in each of the last two years with a \$455,266 or 4.7% increase in 2004 and a \$164,816 or 1.7% increase in 2003.
- The Health Center reported positive operating income of \$13,138 in 2004 and a loss of \$764,007 in 2003. This represents a increase of \$777,145 in 2004.

**The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets**

These financial statements report information about the Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Health Center's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Health Center creditors (liabilities). Revenue and expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Health Center's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the Health Center that determines the Health Center's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Required supplementary information further explains and supports the financial statements with a comparison of the Hospital's budget.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenue and Other Revenue
- Schedule of Operating Expenses
- Schedules of Aged Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Comparative Statistics

There was one change to the Health Center's accounting policies for the year ended June 31, 2004. The minimum cost for determining capital expenditures increased from \$500 to \$5,000 as a result of the implementation of Critical Access Hospital designation. This change resulted in higher operating expenses in 2004.

**Financial Analysis of the Health Center**

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Health Center and the changes in them. Increases or decreases in net assets are one indicator of whether or not the Health Center's financial health is improving. Other non-financial factors can also have an effect on the Health Center's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as changes in the economic environment of Kossuth county and the surrounding area.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Analysis of the Health Center (Continued)**

**Table 1: Assets, Liabilities and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 3,625,102	\$ 3,600,232	\$ 3,565,551
Non-current Cash and Investments	2,425,708	2,210,782	2,049,159
Capital Assets, Net	5,841,435	6,013,328	6,464,359
Succeeding Year Property Tax Receivable	298,000	298,000	298,000
Total Assets	<u>\$ 12,190,245</u>	<u>\$ 12,122,342</u>	<u>\$ 12,377,069</u>
Liabilities:			
Total Current Liabilities	\$ 1,128,757	\$ 1,412,910	\$ 1,734,132
Long-Term Debt (Less Current Maturities)	673,682	776,892	875,213
Deferred Revenue from Succeeding Year Property Tax Receivable	298,000	298,000	298,000
Total Liabilities	<u>2,100,439</u>	<u>2,487,802</u>	<u>2,907,345</u>
Total Net Assets	<u>10,089,806</u>	<u>9,634,540</u>	<u>9,469,724</u>
Total Liabilities and Net Assets	<u>\$ 12,190,245</u>	<u>\$ 12,122,342</u>	<u>\$ 12,377,069</u>

Asset categories changing significantly during 2004 and 2003 included Non-current Cash and Investments which increased by \$214,926 in 2004 as a result of an increase in funded depreciation as there were no significant capital improvement projects in that year which would have reduced the accounts. Capital Assets were reduced by \$171,893 in 2004 which is also a result of not having a significant capital project to offset allowances for depreciation.

Current liabilities declined by \$284,153 in 2004 and were, in part, the result of changes made in the accounts payable process that now pays invoices at more regular intervals during each month. The Health Center also reduced the amount of long-term debt by \$98,321 in 2004.

The current ratio (current assets divided by current liabilities) for 2004 was 3.21 and 2003 was 2.55. It is a measure of liquidity, providing an indication of the Health Center's ability to pay current liabilities: a high ratio number is preferred.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Analysis of the Health Center (Continued)**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**Table 2: Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues	\$ 13,662,690	\$ 11,782,126	\$ 12,361,395
Operating Expenses	13,649,552	12,546,133	11,808,324
Operating Income or (Loss)	13,138	(764,007)	553,071
Due (To) From Affiliated Organizations	(6,568)	382,004	(276,535)
Adjusted Operating Income (Loss)	6,570	(382,003)	276,536
Non-Operating Income and Expenses	448,696	546,819	581,048
Increases in Net Assets	455,266	164,816	857,584
Net Assets, Beginning of Year	9,634,540	9,469,724	8,612,140
Net Assets, End of Year	<u>\$ 10,089,806</u>	<u>\$ 9,634,540</u>	<u>\$ 9,469,724</u>

Net patient service revenue made up 95.4% in 2004 and 95.7% in 2003 of the Health Center's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient revenue due to agreements with third party payers.

Total operating expenses increased \$1,103,419 or 8.8% in 2004 and increased \$737,809 or 6.2% in 2003. The operating expenses are broken down by department on the Schedule of Operating Expenses on pages 32 – 33 of the audited financial statements. In 2004 there was a significant increase in salaries and wages and in employee benefit expenses. Salaries and wages are higher due to an increase in staffing as well as from annual wage market adjustments made in February. Much of the increased employee benefit costs is a result of the higher salaries and wages, but also from higher employee health insurance costs.

Supplies and Miscellaneous costs also increased significantly in 2004. Higher patient volumes in some areas contributed to the increased costs. The primary cause of this is the increase in the cost of drug supplies. Pharmacy supply costs increased \$88,740 or 30.9% in 2004. Another notable cause of higher costs is the Stretta procedures being performed in Surgery. Supply costs for each of these procedures are significant.

Table 3 below shows the contractual adjustments that were recognized.

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 18,798,888	\$ 16,321,735	\$ 15,832,190
Contractual Adjustments and Provisions for Bad Debt	5,765,692	5,051,070	4,033,896
Net Patient Service Revenue	<u>\$ 13,033,196</u>	<u>\$ 11,270,665</u>	<u>\$ 11,798,294</u>
Contractual Adjustments as a Percent of Total Patient Revenue	<u>30.67%</u>	<u>30.95%</u>	<u>25.48%</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Analysis of the Health Center (Continued)**

Contractual adjustments for Medicare patients accounts for the largest portion of the total amount at 61.6% in 2004 and 67.2% in 2003 of the total adjustments. Bad debt allowances contributed 6.8% in 2004 and 6.6% in 2003.

Table 4 summarizes other operating and non-operating revenues received by the Health Center. Other operating and non-operating revenue increased by \$19,910 in 2004 and decreased by \$85,869 in 2003.

**Table 4: Other Operating and Non-Operating Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Community & Public Health Grants	\$ 315,369	\$ 246,708	\$ 266,665
Dietary Services	120,015	125,277	131,377
Investment Income	46,883	66,451	69,348
Tax Apportionments	297,234	297,929	298,059
Rent Income	99,501	84,840	94,793
Unrestricted Contributions	65,038	170,089	202,842
Gain or (Loss) on disposal of Equipment	30,374	(6,223)	(14,675)
Miscellaneous and Others	103,776	73,209	95,740
Total Other Revenues	<u>\$ 1,078,190</u>	<u>\$ 1,058,280</u>	<u>\$ 1,144,149</u>

It should be noted that tax apportionments have remained virtually unchanged during the three years of information shown on the table above. KRHC has made efforts to not increase the property tax burden on county property owners for the support of the Health Center during recent years.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Statistical Data**

Table 5 shows the Health Center's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes. Total patient days and admissions have declined in each of the last two years. Patient days decreased by 272 in 2004 and 257 in 2003, while admissions declined by 38 in 2004 and 104 in 2003. During the same periods surgical procedures have changed very little with 1,108 total procedures during 2004. During the same period the Health Center experienced an increase in total outpatient, emergency room and clinic visits.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	1,641	1,822	2,012
Swing Bed	1,307	1,386	1,405
Newborn	173	193	210
Total	<u>3,121</u>	<u>3,401</u>	<u>3,627</u>
<b>Admissions</b>			
Acute	535	557	633
Swing Bed	143	152	178
Newborn	80	87	89
Total	<u>758</u>	<u>796</u>	<u>900</u>
<b>Average Length of Stay, Acute</b>	<u>3.07</u>	<u>3.27</u>	<u>3.18</u>
<b>Beds – Acute and Swing Bed</b>	<u>25</u>	<u>29</u>	<u>29</u>
<b>Occupancy Percentage</b>	<u>32.0%</u>	<u>30.0%</u>	<u>32.3%</u>
<b>Surgical Procedures</b>			
Inpatients	119	128	147
Outpatients	989	978	965
Total	<u>1,108</u>	<u>1,106</u>	<u>1,112</u>
<b>Outpatients</b>			
Total Outpatient Visits	24,689	23,076	22,619
Emergency Room Visits	2,577	2,418	2,633
Clinic Visits	38,438	36,591	39,174
Community Health Visits	10,124	10,209	10,104

**Cash Flows**

Kossuth Regional Health Center cash flows are consistent with the changes in operating income and financial performance. Total cash and cash equivalents increased in 2004 by \$125,897 to 104.6 days cash on hand. In 2003 there was a decrease of \$376,363.

**Capital Assets**

At June 30, 2004 the Health Center had \$5,841,435 invested in capital assets net of accumulated depreciation. In 2004, the Health Center expended \$376,363 to purchase new equipment and for building improvements.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Long Term Debt**

Table 6 shows a summary of the Health Center's long term debt outstanding.

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Promissory Note Payable	\$ 60,000	\$ 70,000	\$ 80,000
Hospital Revenue Note	716,892	805,213	888,901
Total Long Term Debt	<u>\$ 776,892</u>	<u>\$ 875,213</u>	<u>\$ 968,901</u>

The most significant amount on Table 6 is the Hospital Revenue Note. On March 1, 2000 the Health Center entered into an agreement with Iowa State Bank and other financial institutions within Kossuth county, for the issuance of a \$1,000,000 Hospital Revenue Note in order to renovate the Surgical Department. This note is payable over 10 years at an annual interest rate of 5.4%. This table shows the changes in the remaining amounts owed on that Note.

The Promissory Note is a 10 year 0% note from Humboldt County Rural Electric Cooperative which was also used for the Surgical Renovation project.

**Economic Factors**

Kossuth Regional Health Center continued to improve its financial position during the current year. However, the current condition of the economy continues to be a concern for KRHC officials. Some of the realities that may potentially become challenges for KRHC are as follows:

**Health Care Policy:** The most recent legislative changes including the Medicare Medication Assistance Act have been favorable to rural hospitals as support for critical access hospitals has been both protected and improved. At the same time, funding for Medicaid services has been jeopardized at both the federal and state levels. This is concerning as utilization of health care services by Medicaid eligible enrollees has continued to increase both at the state and local levels.

**Health Care Insurance:** One significant factor facing the employed workforce is the continued significant increase in health insurance premiums. As premiums continue to increase, employers will be increasingly incented to identify low cost alternatives. This may result in more employers choosing to no longer provide coverage to their staff or shift greater responsibility for non catastrophic care to the employee. Regardless of the reaction, there will certainly be an impact on the health care provider.

**Workforce Shortage:** There continues to be a concern regarding the ability to maintain a qualified workforce. This is particularly the case in a number of employee classifications including nursing. KRHC will continue to be proactive in supporting the non-traditional nursing program available at the local community college as well assuring that compensation and the work environment are competitive.

**Contacting the Health Center**

The financial report is designed to provide our citizens, customers, and creditors with a general overview of KRHC's finances and to demonstrate our accountability for the money it receives. If you have any questions about this report or need additional information, please contact Kossuth Regional Health Center Administration at Kossuth Regional Health Center, 1515 South Phillips Street, Algona, Iowa, 50511.

**KOSSUTH REGIONAL HEALTH CENTER  
BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,239,723	\$ 1,076,859
Patient Receivables, Less Allowance for Uncollectible Accounts (2004 \$287,426; 2003 \$214,973)	1,934,101	1,697,984
Other Receivables	43,871	37,792
Due from Affiliated Organization	-	382,004
Inventories	212,516	208,912
Prepaid Expenses	164,176	196,681
Third-Party Payor Settlement Receivable	30,715	-
<b>Total Current Assets</b>	<u>3,625,102</u>	<u>3,600,232</u>
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Expenditures	2,017,060	1,821,314
Internally Designated for Hospice Expenditures	149,163	136,749
Internally Designated for Health Benefits	27,054	27,054
Internally Designated Under Debt Agreement	212,431	205,665
Restricted by Contributors and Grantors	20,000	20,000
	<u>2,425,708</u>	<u>2,210,782</u>
<b>SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	298,000	298,000
<b>CAPITAL ASSETS, NET</b>	<u>5,841,435</u>	<u>6,013,328</u>
 Total Assets	 <u><u>\$ 12,190,245</u></u>	 <u><u>\$ 12,122,342</u></u>

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 103,210	\$ 98,321
Accounts Payable	322,168	323,853
Due to Affiliated Organization	120,810	125,651
Accrued Expenses	582,569	639,445
Third-Party Payor Settlement Payable	-	225,640
Total Current Liabilities	<u>1,128,757</u>	<u>1,412,910</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR</b>		
PROPERTY TAX RECEIVABLE	298,000	298,000
<b>LONG-TERM DEBT, Less Current Maturities</b>		
	<u>673,682</u>	<u>776,892</u>
Total Liabilities	2,100,439	2,487,802
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	5,064,543	5,138,115
Restricted		
By Contributors and Grantors	20,000	20,000
Unrestricted	5,005,263	4,476,425
Total Net Assets	<u>10,089,806</u>	<u>9,634,540</u>
Total Liabilities and Net Assets	<u>\$ 12,190,245</u>	<u>\$ 12,122,342</u>

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**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 55,126	\$ 64,107
Investments	<u>1,242,017</u>	<u>1,051,219</u>
Total Assets	<u><u>\$ 1,297,143</u></u>	<u><u>\$ 1,115,326</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Grants Payable	\$ 130,489	\$ 267,449
<b>NET ASSETS</b>		
Unrestricted	<u>1,166,654</u>	<u>847,877</u>
Total Net Assets	<u><u>1,166,654</u></u>	<u><u>847,877</u></u>
Total Liabilities and Net Assets	<u><u>\$ 1,297,143</u></u>	<u><u>\$ 1,115,326</u></u>

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (net of provision for bad debts of of \$392,208 in 2004 and \$330,844 in 2003)	\$ 13,033,196	\$ 11,270,665
Other Revenue	629,494	511,461
Total Revenues	13,662,690	11,782,126
<b>EXPENSES</b>		
Salaries and Wages	4,939,607	4,645,689
Employee Benefits	1,743,600	1,375,930
Professional Fees	2,410,420	2,516,516
Utilities	172,290	157,792
Management, Legal, and Accounting Fees	291,897	245,839
Insurance	154,360	147,502
Supplies and Miscellaneous	3,070,808	2,588,987
Depreciation	823,055	822,305
Interest	43,515	45,573
Total Expenses	13,649,552	12,546,133
<b>OPERATING INCOME (LOSS)</b>	13,138	(764,007)
<b>DUE (TO) FROM AFFILIATED ORGANIZATION</b>	(6,568)	382,004
<b>ADJUSTED OPERATING INCOME (LOSS)</b>	6,570	(382,003)
<b>NON-OPERATING INCOME (LOSS)</b>		
Investment Income	46,883	66,451
Tax Apportionments	297,234	297,929
Property Tax Replacement	-	8,615
Dialysis Unit Rental Income	9,167	9,958
Unrestricted Contributions	28,053	162,109
Gain (Loss) on Sale of Property and Equipment	30,374	(6,223)
Net Non-Operating Income	411,711	538,839
<b>EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>		
	418,281	156,836
Capital Contributions and Grants	36,985	7,980
Increase in Net Assets	455,266	164,816
Net Assets Beginning of Year	9,634,540	9,469,724
Net Assets End of Year	\$ 10,089,806	\$ 9,634,540

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>REVENUES</b>		
Donations	\$ 84,284	\$ 290,698
Investment Income (Loss)	266,207	(40,815)
Total Revenues	350,491	249,883
<b>EXPENSES</b>		
Fundraising	25,722	1,698
Contributions to Kossuth Regional Health Center	3,040	26,973
General and Administrative	2,952	14,568
Total Expenses	31,714	43,239
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	318,777	206,644
Net Assets Beginning of Year	847,877	641,233
Net Assets End of Year	\$ 1,166,654	\$ 847,877

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 12,540,724	\$ 11,387,977
Cash Paid to Employees	(6,739,289)	(6,091,469)
Cash Paid to Suppliers	(6,078,638)	(5,803,569)
Interest Paid on Long-Term Debt	(43,912)	(45,573)
Other Receipts and Payments, Net	1,000,089	264,017
Net Cash (Used) Provided by Operating Activities	678,974	(288,617)
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Contributions	65,038	170,089
Dialysis Unit Rental Income	9,167	9,958
Tax Appropriations	297,234	297,929
Property Tax Replacement	-	8,615
Net Cash Provided by Non-Capital Financing Activities	371,439	486,591
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Property and Equipment, Less Donations	(652,624)	(385,209)
Proceeds from Sale of Property and Equipment	31,439	7,712
Payments on Long Term Debt	(98,321)	(93,688)
Net Cash Used by Capital and Related Financing Activities	(719,506)	(471,185)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	46,883	66,451
Increase in Noncurrent Cash and Investments	(214,926)	(161,623)
Net Cash Used by Investing Activities	(168,043)	(95,172)
 <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	162,864	(368,383)
 Cash and Cash Equivalents - Beginning	1,076,859	1,445,242
 <b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 1,239,723	\$ 1,076,859

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Income (Loss) from Operations	\$ 6,570	\$ (382,003)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	823,055	822,305
Decrease (Increase) in -		
Patient Receivables	(236,117)	90,746
Due from Affiliated Organization	382,004	(382,004)
Other Receivables	(6,079)	(26,829)
Inventories	(3,604)	(3,653)
Prepaid Expenses	32,505	(81,324)
Third Party Payor Settlements Receivable	(30,715)	-
Increase (Decrease) in -		
Accounts Payable	(1,685)	(35,127)
Accrued Salaries, Wages, Benefits and Other	(56,479)	(69,850)
Third Party Payor Settlements Payable	(225,640)	26,566
Due to Affiliated Organization	(4,841)	(247,444)
Net Cash (Used) Provided by Operating Activities	\$ 678,974	\$ (288,617)

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Donor and Contributors	\$ 84,284	\$ 290,698
Interest Received	409	726
Cash Paid to Suppliers	(28,674)	(43,239)
Payments to Kossuth Regional Health Center	(140,000)	(140,000)
Net Cash Provided (Used) by Operating Activities	(83,981)	108,185
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	-	(420,000)
Proceeds from Sale of Investments	75,000	184,615
Net Cash Provided (Used) by Investing Activities	75,000	(235,385)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,981)	(127,200)
Cash and Cash Equivalents Beginning of Year	64,107	164,334
Cash and Cash Equivalents End of Year	\$ 55,126	\$ 37,134
<b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 318,777	\$ 206,644
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Unrealized (Gain) Loss on Investments	(236,759)	50,762
Realized (Gain) Loss on Sale of Investments	(1,072)	16,850
Reinvested Capital Gains and Dividends on Investments	(27,968)	(26,071)
Decrease in Grants Payable	(136,959)	(140,000)
Net Cash Provided (Used) by Operating Activities	\$ (83,981)	\$ 108,185

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Health Center is the county hospital of Kossuth County, organized under Chapter 347A, Code of Iowa. The Health Center provides health care services under the name of Kossuth Regional Health Care Center. Services are provided primarily to residents of Kossuth County and others in north central Iowa.

**A. Reporting Entity**

For financial reporting purposes, the Health Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Health Center has also considered all potential component units for which it is financially accountable, and other organization 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. Kossuth County Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Health Center and has a year end of December 31. The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Health Center in support of its operations and programs. The board of the Foundation is a volunteer board consisting of members of the Kossuth County. Although the Health Center does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income thereon, that the Foundation holds and invests are restricted for the Health Center. Because these restricted resources held by the Foundation can only be used for the Health Center, the Foundation is considered a component unit of the Health Center and is discretely presented in the Health Center's financial statements. The Health Center has no other component units which meet the Governmental Accounting Standards Board criteria.

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Health Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Accounting (Continued)**

The Health Center has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2002. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year’s presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentation of net assets, and the inclusion of management’s discussion and analysis.

**C. Use of Estimates**

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

**D. Assets, Liabilities and Fund Balances**

The following accounting policies are followed in preparing the balance sheets:

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, the Health Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Patient Receivables* – Patient receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts and contractual adjustments from third party payors. The Health Center provides an allowance for uncollectible accounts based on the allowance method using management’s judgment. Patients are not required to provide collateral for services rendered. Payment for services is generally required within 30 days. Accounts past due 90 days are individually analyzed for collectibility. Accounts deemed uncollectible are written off on a monthly basis.

*Inventory* - Inventory is valued at cost using the first-in, first-out method.

*Capital Assets, Net* – Capital assets are stated on the basis of cost. The provision for depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Health Center’s policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities and Fund Balances (Continued)**

*Property Tax Receivable* – 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 that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

*Investments* - Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of certificates of deposit with maturities greater than three months.

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

*Noncurrent Cash and Investments* - Noncurrent cash and investments include assets which have been internally designated by the Health Center's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Health Center for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

*Net Assets* – Net assets of the Health Center are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Health Center. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Contributions**

From time to time the Health Center receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**F. Restricted Resources**

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

**G. Operating Revenues and Expenses**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services under the Master Affiliation Agreement are reported as operating revenues and expenses. Peripheral or incidental transactions not a part of the Master Affiliation Agreement are reported as non-operating gains and losses.

**H. 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. Medicare and Medicaid cost reports through June 30, 2002 have been audited and settled by the intermediary.

**I. 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. Total charity care provided amounted to \$13,692 and \$11,572 for the years ended June 30, 2004 and 2003, respectively.

**J. County Tax Apportionments**

The Health Center has received from Kossuth County, county tax apportionments of \$297,234 and \$297,929 in 2004 and 2003, respectively. In addition, the Health Center received state-apportioned property taxes of \$-0- and \$8,615 in 2004 and 2003, respectively. These funds have been used to finance expenditures for remodeling and major repairs as well as to finance current working capital requirements.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 2 NET PATIENT SERVICE REVENUES**

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

**Medicare**

The Health Center has received certification as a Critical Access Hospital (CAH) effective October 1, 2003 and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center.

**Medicaid**

The Health Center has received certification as a Critical Access Hospital (CAH) effective October 1, 2003 and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

**Other**

The Health Center has also entered into 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.

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 18,798,888	\$ 16,321,735
Contractual Adjustments		
Medicare	3,548,930	3,392,696
Medicaid	503,104	361,408
Provision for Bad Debt	392,208	330,844
Other Allowances and Adjustments	1,321,450	966,122
Total Contractual Adjustments and Bad Debts	<u>5,765,692</u>	<u>5,051,070</u>
Net Patient Service Revenue	<u>\$ 13,033,196</u>	<u>\$ 11,270,665</u>

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 3 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Health Center at June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,487,755	\$ 1,288,467
Receivable from Medicare	533,246	503,740
Receivable from Medicaid	200,526	120,750
Total Patient Receivables	<u>2,221,527</u>	<u>1,912,957</u>
Less Allowance for Doubtful Accounts	(287,426)	(214,973)
Patient Receivables, Net	<u>\$ 1,934,101</u>	<u>\$ 1,697,984</u>

**NOTE 4 DEPOSITS AND INVESTMENTS**

The Health Center's deposits in banks at June 30, 2004 and 2003 were covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligation 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.

The Health Center's investments are categorized to give an indication of the level of risk assumed by the Health Center at year end. The Health Center's investments are all category 1, which means that the investments are insured or registered or the securities are held by the Health Center or its agent in the Health Center's name.

At June 30, 2004 and 2003, the Health Center had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 3,943,863</u>	<u>\$ 3,270,272</u>
Carrying Amount	<u>\$ 3,665,431</u>	<u>\$ 3,287,641</u>

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

The carrying amount of deposits and investments shown above are included in the Health Center's balance sheets as follows:

	2004	2003
Deposits	\$ 3,665,431	\$ 3,287,641
Included in the following balance sheet captions		
Cash and Cash Equivalents	\$ 1,239,723	\$ 1,076,859
Noncurrent Cash and Investments		
Internally Designated for Capital Expenditures	2,017,060	1,821,314
Internally Designated for Hospice Expenditures	149,163	136,749
Internally Designated for Health Benefits	27,054	27,054
Internally Designated Under Debt Agreement	212,431	205,665
Restricted by Contributors and Grantors	20,000	20,000
	\$ 3,665,431	\$ 3,287,641

**Foundation Investments**

The Foundation's investments consisted of mutual funds at June 30, 2004 and 2003. These investments are carried at fair value. Unrealized holding gains (losses) at June 30, 2004 and 2003 amounted to \$170,286 and \$(66,473), respectively.

Investment income for the Foundation is comprised of the following for the years ended June 30, 2004 and 2003:

	2004	2003
Investment Income (Loss)		
Interest and Dividend Income	\$ 28,376	\$ 26,797
Realized Gains (Losses)	1,072	(16,850)
Changes in Unrealized Gains (Losses)	236,759	(50,762)
Total	\$ 266,207	\$ (40,815)

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 5 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	Balance June 30, 2003	Additions	(Retirements)	Balance June 30, 2004
<b>Capital Assets</b>				
Land and Land Improvements	\$ 493,663	\$ 21,375	\$ (1,000)	\$ 514,038
Building	6,305,793	9,510	(1,615)	6,313,688
Fixed Equipment	2,530,844	158,109	(228,996)	2,459,957
Major Movable Equipment	3,922,262	448,146	(145,224)	4,225,184
Construction in Progress	4,015	15,484	-	19,499
	<u>13,256,577</u>	<u>652,624</u>	<u>(376,835)</u>	<u>13,532,366</u>
<b>Totals</b>	<b>13,256,577</b>	<b>652,624</b>	<b>(376,835)</b>	<b>13,532,366</b>
<b>Accumulated Depreciation</b>				
Land Improvements	245,200	28,992	(1,000)	273,192
Building	2,421,966	253,999	(1,615)	2,674,350
Fixed Equipment	1,785,137	200,341	(228,843)	1,756,635
Major Movable Equipment	2,790,946	339,723	(143,915)	2,986,754
	<u>7,243,249</u>	<u>\$ 823,055</u>	<u>\$ (375,373)</u>	<u>7,690,931</u>
<b>Totals</b>	<b>7,243,249</b>	<b>\$ 823,055</b>	<b>\$ (375,373)</b>	<b>7,690,931</b>
	<u>\$ 6,013,328</u>			<u>\$ 5,841,435</u>
	Balance June 30, 2002	Additions	(Retirements)	Balance June 30, 2003
<b>Capital Assets</b>				
Land and Land Improvements	\$ 488,807	\$ 5,068	\$ (212)	\$ 493,663
Building	6,212,898	111,704	(18,809)	6,305,793
Fixed Equipment	2,528,881	20,722	(18,759)	2,530,844
Major Movable Equipment	3,952,703	277,051	(307,492)	3,922,262
Construction in Progress	33,350	65,849	(95,184)	4,015
	<u>13,216,639</u>	<u>480,394</u>	<u>(440,456)</u>	<u>13,256,577</u>
<b>Totals</b>	<b>13,216,639</b>	<b>480,394</b>	<b>(440,456)</b>	<b>13,256,577</b>
<b>Accumulated Depreciation</b>				
Land Improvements	216,426	28,986	(212)	245,200
Building	2,180,924	258,882	(17,840)	2,421,966
Fixed Equipment	1,612,389	185,786	(13,038)	1,785,137
Major Movable Equipment	2,742,541	348,651	(300,246)	2,790,946
	<u>6,752,280</u>	<u>\$ 822,305</u>	<u>\$ (331,336)</u>	<u>7,243,249</u>
<b>Totals</b>	<b>6,752,280</b>	<b>\$ 822,305</b>	<b>\$ (331,336)</b>	<b>7,243,249</b>
	<u>\$ 6,464,359</u>			<u>\$ 6,013,328</u>

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance June 30, 2003	Additions	Payments	Balance June 30, 2004	Amounts Due Within One Year
Promissory Note Payable	\$ 70,000	\$ -	(10,000)	\$ 60,000	\$ 10,000
Hospital Revenue Note	805,213	-	(88,321)	716,892	93,210
<b>Total Long Term Debt</b>	<b>\$ 875,213</b>	<b>\$ -</b>	<b>\$ (98,321)</b>	<b>\$ 776,892</b>	<b>\$ 103,210</b>

	Balance June 30, 2002	Additions	Payments	Balance June 30, 2003	Amounts Due Within One Year
Promissory Note Payable	\$ 80,000	\$ -	(10,000)	\$ 70,000	\$ 10,000
Hospital Revenue Note	888,901	-	(83,688)	805,213	88,321
<b>Total Long Term Debt</b>	<b>\$ 968,901</b>	<b>\$ -</b>	<b>\$ (93,688)</b>	<b>\$ 875,213</b>	<b>\$ 98,321</b>

**Promissory Note Payable**

On March 1, 2000 the Health Center entered into a promissory note payable agreement with Humboldt County Rural Electric Cooperative. The note provided for the Health Center to receive \$100,000 to be used in the operating suite renovation project. The note is a non-interest bearing note and calls for the repayment of principal in 10 annual installments beginning on March 1, 2001.

**Hospital Revenue Note**

On March 1, 2000 the Health Center entered into an agreement with Iowa State Bank, Algona, Iowa for the issuance of a \$1,000,000 Hospital Revenue Note. The net proceeds from the note were used to fund the Health Center's operating suite renovation project. Beginning on February 1, 2001 and continuing through January 1, 2011 principal and interest is due the first of each month at the 5.4% interest.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30,	Long Term Debt	
	Principal	Interest
2005	\$ 103,210	\$ 36,428
2006	108,370	31,268
2007	113,815	25,822
2008	119,562	20,076
2009	125,627	14,011
2010-2014	206,308	8,952
	<b>\$ 776,892</b>	<b>\$ 136,557</b>

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 7 PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 3.70% of their annual salary and the Health Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$271,661, \$255,332, and \$229,636, respectively, equal to the required contributions for each year.

**NOTE 8 RELATED ORGANIZATION**

Affiliated Organizations -

**Master Affiliation Agreement**

The Health Center has a Master Affiliation Agreement with Mercy Medical Center-North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Kossuth County and the North Central Iowa region. In conjunction with this agreement, the Health Center operates clinics in Algona and Bancroft, IA. As a part of the Master Affiliation Agreement, the Health Center entered into a professional service agreement with Mercy Medical Center-North Iowa, Inc. whereby Mercy Medical Center-North Iowa provides professional medical services for these clinics. Amounts paid to Mercy Medical Center-North Iowa for the provision of these services amounted to \$1,095,536 and \$1,374,400 for the years ended June 30, 2004 and 2003.

Operating gains and losses from the consolidated operation of the Health Center services and Mercy Medical Center-North Iowa services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains (losses) allocated between Mercy Medical Center-North Iowa and the Health Center totaled \$13,138 and \$(764,008) for the years ended June 30, 2004 and 2003, respectively. The Health Center records reflect a due (to) from MMC-NI of \$(6,568) and \$382,004 at June 30, 2004 and 2003, respectively, in accordance with the provisions for the allocation of operating gains and losses discussed above.

**Management and Other Services**

The Health Center has a contractual arrangement with Mercy Medical Center-North Iowa under which Mercy Medical Center-North Iowa provides an administrator, director of nursing, management consultation, laboratory, housekeeping, emergency room, and other services to Kossuth Regional Health Center.

The arrangement does not alter the authority or responsibility of the Board of Trustees of Kossuth Regional Health Center. Expenses for these various services received totaled \$1,056,325 and \$1,019,414 for the years ended June 30, 2004 and 2003, respectively.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 8 RELATED ORGANIZATION (CONTINUED)**

**Due to and from Affiliated Organization**

As of June 30, 2004 and 2003, the Health Center's records reflect a due to MMC-NI of \$120,810 and \$125,651, respectively, for the various services related to these agreements.

Other Related Organizations –

**Auxiliary -**

The Kossuth County Hospital Auxiliary was established to advance and to promote the welfare of Kossuth Regional Health Center through ways and means approved by the Board of Directors of the Health Center auxiliary and endorsed by the Health Center administrator. The Auxiliary's unrestricted resources, are distributed to the Health Center in amounts and in periods determined by the Auxiliary's Board of Directors. During the years ended June 30, 2004 and 2003, the following distributions were made to the Health Center:

	2004	2003
Distributed to Hospital for Property Additions	<u>\$ 36,985</u>	<u>\$ 7,980</u>

**Foundation -**

The Kossuth County Hospital Foundation was established to solicit funds and make contributions to the Kossuth Regional Health Center. The Foundation made contributions to the Health Center during the years ended June 30, 2004 and 2003, of \$-0- and \$140,000, respectively.

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

**Health Center 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Malpractice Insurance**

The Health Center has insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

**Self-Funded Employee Health Insurance Plan**

The Health Center has elected to self-insure their employee health insurance program. The Health Center has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**KOSSUTH REGIONAL HEALTH CENTER  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
AND CHANGED IN NET ASSETS  
BUDGET AND ACTUAL (CASH BASIS)  
YEAR ENDED JUNE 30, 2004**

The following is reconciliation between reported amounts and cash disbursements and a comparison to budget for the year ended June 30, 2004:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Balance Variance
Estimated Amount to be Raised by Taxation	\$ 297,234	\$ -	\$ 297,234	\$ 298,000	\$ (766)
Estimated Other Revenues/Receipts	<u>13,814,152</u>	<u>(120,812)</u>	<u>13,693,340</u>	<u>14,438,035</u>	<u>(744,695)</u>
	14,111,386	(120,812)	13,990,574	14,736,035	(745,461)
Expenses/Disbursements	<u>13,656,120</u>	<u>171,590</u>	<u>13,827,710</u>	<u>14,166,645</u>	<u>(338,935)</u>
Net	455,266	(292,402)	162,864	569,390	(406,526)
Balance Beginning of Year	<u>9,634,540</u>	<u>(8,557,681)</u>	<u>1,076,859</u>	<u>4,126,783</u>	<u>(3,049,924)</u>
Balance End of Year	<u>\$ 10,089,806</u>	<u>\$ (8,850,083)</u>	<u>\$ 1,239,723</u>	<u>\$ 4,696,173</u>	<u>\$ (3,456,450)</u>

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

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## OTHER SUPPLEMENTARY INFORMATION

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF NET PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 876,583	\$ 894,229
Intensive Care Unit	23,808	43,056
Swing Bed	304,694	285,768
Intermediate Care	6,690	17,757
Nursery	71,247	74,606
Total	<u>1,283,022</u>	<u>1,315,416</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating and Recovery Room	1,482,315	1,196,640
Labor and Delivery Room	35,890	38,546
Anesthesiology	626,074	575,551
Radiology	1,383,802	1,328,351
Laboratory	2,085,391	1,708,923
Respiratory Therapy	68,030	88,889
Cardiac Rehabilitation	65,680	111,495
Physical Therapy	604,089	480,346
Occupational Therapy	184,880	209,731
Speech Therapy	10,892	14,038
Electrocardiology	82,050	73,342
Scans	1,759,508	1,400,530
Medical and Surgical Supplies	565,265	586,942
Pharmacy	1,506,103	1,163,215
Intravenous Therapy	396,393	399,644
Clinics	4,785,044	4,076,820
Emergency Room	675,750	597,458
Home Health	703,764	609,375
Hospice	468,279	322,291
Immunizations	6,726	5,994
Diabetic Education	19,941	18,198
Total	<u>17,515,866</u>	<u>15,006,319</u>
Adjustments to Patient Services Revenues	<u>(5,765,692)</u>	<u>(5,051,070)</u>
Net Patient Service Revenues	<u><u>\$ 13,033,196</u></u>	<u><u>\$ 11,270,665</u></u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 811,207	\$ 840,031	\$ 65,376	\$ 54,198
23,808	43,056	-	-
304,694	285,768	-	-
6,690	17,757	-	-
71,247	74,606	-	-
<u>1,217,646</u>	<u>1,261,218</u>	<u>65,376</u>	<u>54,198</u>
201,374	187,494	1,280,941	1,009,146
35,890	38,546	-	-
184,968	183,935	441,106	391,616
84,690	113,831	1,299,112	1,214,520
384,296	417,600	1,701,095	1,291,323
63,782	85,404	4,248	3,485
565	1,500	65,115	109,995
205,635	133,490	398,454	346,856
126,080	129,001	58,800	80,730
4,552	988	6,340	13,050
14,140	20,536	67,910	52,806
162,237	153,869	1,597,271	1,246,661
191,857	201,683	373,408	385,259
488,346	451,213	1,017,757	712,002
224,723	244,722	171,670	154,922
-	-	4,785,044	4,076,820
29,946	75,591	645,804	521,867
-	-	703,764	609,375
49,569	60,641	418,710	261,650
-	-	6,726	5,994
-	46	19,941	18,152
<u>2,452,650</u>	<u>2,500,090</u>	<u>15,063,216</u>	<u>12,506,229</u>
<u>\$ 3,670,296</u>	<u>\$ 3,761,308</u>	<u>\$ 15,128,592</u>	<u>\$ 12,560,427</u>

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**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES  
AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

<b>HOSPITAL</b>	2004	2003
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 3,548,930	\$ 3,392,696
Contractual Adjustments - Medicaid	503,104	361,408
Provision for Bad Debts	392,208	330,844
Other Allowances and Adjustments	1,321,450	966,122
 Total Adjustments	 \$ 5,765,692	 \$ 5,051,070
<b>OTHER REVENUES</b>		
Meals on Wheels	\$ 29,419	\$ 29,694
Prisoner Meals	54,519	58,606
Cafeteria	36,077	36,977
Medical Records Fees	2,811	3,959
Rental Income	90,334	74,862
Senior Services	20,618	6,714
Grants	315,369	246,708
Miscellaneous	80,347	53,941
 Total Other Revenue	 \$ 629,494	 \$ 511,461

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Capital Related Costs - Moveable Equipment	-	-
Employee Benefits	-	-
Administrative and General	536,890	499,609
Operation of Plant	109,856	100,681
Laundry and Linen	-	-
Housekeeping	111,044	96,952
Dietary	160,063	150,096
Medical Records	159,732	155,373
Adults and Pediatrics	775,529	700,842
Nursery	13,415	12,646
Operating and Recovery Room	230,577	219,229
Labor and Delivery Room	12,577	12,536
Anesthesiology	-	-
Radiology	217,690	198,369
Laboratory	221,310	212,694
Blood	17,207	8,785
Respiratory Therapy	5,016	6,088
Physical Therapy	87,966	90,705
Occupational Therapy	86,412	92,505
Speech Pathology	-	-
Electrocardiology	4,281	2,533
Scans	12,245	8,100
Medical and Surgical Supplies	-	-
Pharmacy and Intravenous Therapy	-	-
Cardiac Rehabilitation	5,566	7,113
Clinics	1,181,995	1,135,467
Emergency	266,051	256,692
Home Health	622,965	585,178
Hospice	101,220	93,496
Interest Expense	-	-
<b>TOTAL</b>	<b>\$ 4,939,607</b>	<b>\$ 4,645,689</b>

OTHER		TOTAL	
2004	2003	2004	2003
\$ 483,332	\$ 473,654	\$ 483,332	\$ 473,654
339,723	348,651	339,723	348,651
1,743,600	1,375,930	1,743,600	1,375,930
772,396	620,065	1,309,286	1,119,674
246,554	211,556	356,410	312,237
58,312	52,560	58,312	52,560
15,761	15,792	126,805	112,744
127,796	119,911	287,859	270,007
25,644	20,874	185,376	176,247
67,338	32,734	842,867	733,576
1,280	1,487	14,695	14,133
122,109	81,272	352,686	300,501
2,727	4,095	15,304	16,631
235,193	234,793	235,193	234,793
123,406	109,695	341,096	308,064
347,193	276,413	568,503	489,107
61,494	68,436	78,701	77,221
37,524	45,297	42,540	51,385
185,558	122,365	273,524	213,070
1,882	1,262	88,294	93,767
11,256	10,218	11,256	10,218
442	394	4,723	2,927
324,980	313,006	337,225	321,106
109,987	113,342	109,987	113,342
519,829	427,076	519,829	427,076
16,852	35,746	22,418	42,859
2,104,120	2,380,828	3,286,115	3,516,295
318,010	140,967	584,061	397,659
173,967	160,157	796,932	745,335
88,165	56,295	189,385	149,791
43,515	45,573	43,515	45,573
<u>\$ 8,709,945</u>	<u>\$ 7,900,444</u>	<u>\$ 13,649,552</u>	<u>\$ 12,546,133</u>

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE  
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,417,401	50.8%	\$ 1,415,472	56.5%
31-60 Days	604,960	21.7%	475,896	19.0%
61-90 Days	196,551	7.0%	221,251	8.8%
91 Days and Over	570,428	20.5%	394,425	15.7%
<b>Total Accounts Receivable</b>	<b>\$ 2,789,340</b>	<b>100.0%</b>	<b>\$ 2,507,044</b>	<b>100.0%</b>
<b>ALLOWANCES</b>				
Contractual -				
Medicare	\$ (330,131)		\$ (386,496)	
Medicaid	(71,119)		(38,952)	
Other	(165,763)		(168,639)	
Doubtful Accounts	(287,426)		(214,973)	
<b>Net Accounts Receivable</b>	<b>\$ 1,934,901</b>		<b>\$ 1,697,984</b>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	\$ 36,782		\$ 31,785	
Days of net Revenue in net Accounts Receivable at Year End	53		53	

**Analysis of Allowance for Doubtful Accounts**

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 214,973		\$ 187,687	
Add:				
Provision for Doubtful Accounts	392,208	(3.78)%	330,844	(3.62)%
Recoveries Previously Written Off	149,432	(1.44)%	127,378	(1.39)%
	541,640		458,222	
Deduct:				
Accounts Written Off	(469,187)	(4.52)%	(430,936)	(4.72)%
<b>Ending Balance</b>	<b>\$ 287,426</b>		<b>\$ 214,973</b>	

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
JUNE 30, 2004 AND 2003**

	2004	2003
<b>INVENTORIES</b>		
Central Stores	\$ 63,851	\$ 73,606
Pharmacy	26,437	31,550
Other Departments	98,701	78,187
Clinics	23,527	25,569
 Total Inventories	 \$ 212,516	 \$ 208,912
 <b>PREPAID EXPENSES</b>		
Insurance	\$ 99,216	\$ 108,843
Other	64,960	87,838
 Total Prepaid Expenses	 \$ 164,176	 \$ 196,681

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF COMPARATIVE STATISTICS  
JUNE 30, 2004  
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
<b>ACUTE</b>		
Admissions	535	557
Discharges	535	555
Average Length of Stay	3.1	3.3
Patient Days	1,641	1,822
Occupancy Percentage	11.24%	12.48%
Beds	40	40
<b>SWING BED</b>		
Admissions	143	152
Discharges	146	154
Patient Days	1,307	1,386
<b>NURSERY</b>		
Patient Days	173	193

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees  
Kossuth Regional Health Center  
Algona, Iowa

We have audited the financial statements of Kossuth Regional Health Center and its discretely presented component unit as of June 30, 2004 and 2003, which collectively comprise Kossuth Regional Health Center's basic financial statements and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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

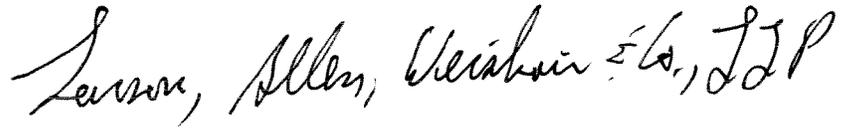
In planning and performing our audit, we considered Kossuth Regional Health Center's internal control over financial reporting in order to determine audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kossuth Regional 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Kossuth Regional Health Center in a separate letter dated August 13, 2004.

This report is intended solely for the information and use of the officials, employees and constituents of Kossuth Regional Health Center and other parties to whom Kossuth Regional Health Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in a cursive, flowing style.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
August 13, 2004

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

04-1 Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget

Health Center cash basis expenditures during the year ended June 30, 2004 did not exceed budgeted amounts.

04-3 Questionable Expenditures

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-4 Travel Expense

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

04-5 Business Transactions

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

04-6 Board Minutes

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

04-7 Deposits and Investments

We noted no instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

04-8 Publication of Bills Allowed and Salaries

The Health Center is organized under Chapter 347A and is not required to follow this section of the Iowa Code.