

KOSSUTH REGIONAL HEALTH CENTER

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2005 AND 2004

**KOSSUTH REGIONAL HEALTH CENTER
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

BOARD OF TRUSTEES	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	10
BALANCE SHEETS- FOUNDATION	12
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	13
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – FOUNDATION	14
STATEMENTS OF CASH FLOWS	15
STATEMENTS OF CASH FLOWS - FOUNDATION	17
NOTES TO FINANCIAL STATEMENTS	18
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)	29
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF NET PATIENT SERVICE REVENUES	30
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUES	32
SCHEDULES OF OPERATING EXPENSES	33
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	35
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	36
SCHEDULE OF COMPARATIVE STATISTICS	37
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> STANDARDS	38
SCHEDULE OF FINDINGS	40

**KOSSUTH REGIONAL HEALTH CENTER
BOARD OF TRUSTEES
JUNE 30, 2005**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jack Munch	Chairperson	2008
Conley Nelson	Secretary	2006
Thomas Geelan	Treasurer	2008
Eileen Bormann	Member	2006
John Cowin	Member	2010
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, 2005 and 2004, 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.

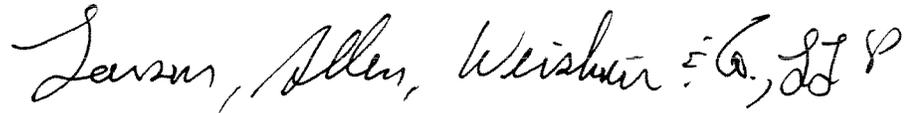
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005 and 2004 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005 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 audits.

The management's discussion and analysis on pages 3 through 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.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 11, 2005

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

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 years ended June 30, 2005 and 2004 and will focus on the financial performance as a whole. Please read it in conjunction with the audited financial report.

Operational Highlights

- A new Retail Pharmacy was opened in October 2004. It is staffed by one full time pharmacist and two pharmacy technicians. Growth has been steady and performance has exceeded expectations.
- In the Spring of 2005, the KRHC Rejuvenation Clinic was opened. This is an aesthetic medicine service being provided by Dr. Alan Hjelle and Dr. Manasi Nadkarni. Common procedures offered include: wrinkle reduction, photo rejuvenation/resurfacing, vein therapy, rosacea, vascular lesions and acne treatment.
- KRHC worked collaboratively with Iowa Lakes Community College to establish and maintain a non-traditional nursing program at the Algona Center. KRHC serves as a weekend clinical rotation site for the student nurses in the program.
- KRHC received a number of grants this past year. In the Fall of 2004, we received a grant from the IDPH to assist with the purchase of three PCA pumps. In February of 2005, a FLEX grant from IDPH was received to purchase manikins for use with pediatric and newborn training programs. In July of 2004, KRHC received grant funding to purchase a teleradiology system, which allows us to transmit CT scans to a Radiologist for review when our regular Radiologist is not present.
- In March of 2005, the Board of Trustees approved a Master Facility Plan developed to outline improvements, renovations and new construction for the next five years period. This Master Facility Plan calls for as much as \$9 million to be spent on a three phase facility plan. The next step of this process will be to determine the feasibility of achieving the plan as it currently exists.
- Rapidly growing health care expenditures and utilization resulted in a change in the health insurance benefit structure for staff. An incentive was built into the plan coverage to encourage use of KRHC services when possible. Early indications suggest that this has been an effective change as the vast majority of hospital, physician and pharmacy expenses have been incurred at our facility.
- Significant time and effort has been spent on the development of a new clinic building in Bancroft. As of July 31, 2005, a decision has been made to develop a facility in cooperation with the City of Bancroft that would house the clinic as well as the city's ambulance. A fund raising campaign for the project has begun as well as the process for determining an architect for the site.
- The new Occupational Health/Wellness Program was strengthened in anticipation of a new Wellness contract developed with the Algona Community Schools. In addition, services have been provided to a number of other businesses including a focus on improving wellness efforts for the KRHC staff.
- A renovation was completed of the clinic's front desk area. A number of issues were resolved through this renovation including improved privacy, improved work flow for registration of patients, better organization of space for the office/nursing personnel and an overall improvement in waiting room appearance.
- During the Spring of 2005, discussion have been held with the Louscher Dental Clinic about the possibility of allowing them access to land on the KRHC campus to build a new dental clinic building. As of June 30, the terms of a long term lease were being negotiated.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Staff Highlights

- Jennifer Vonbank, PA joined the medical staff as the provider for the Bancroft Clinic effective July of 2004.
- Six interns were hired over the Summer of 2005 to assist with various projects in Administration, Public Relations, Maintenance and the Clinic.
- Ron Koppen, RPH, was hired to staff the new Retail Pharmacy as of July 2004.
- Arrangements have been made for the addition of Dr. Michael Lampe, D.O. to the medical staff at the Algona Clinic in August of 2005.

Financial Highlights

- The Health Center's total assets increased by \$2,002,661 or 16.43% in 2005 while they increased by \$67,903 or 0.6% in 2004.
- The Health Center's net assets increased in each of the last two years with a \$1,044,529 or 10.4% increase in 2005 and a \$455,266 or 4.7% increase in 2004.
- The Health Center reported positive operating income of \$892,367 in 2005 and a gain of \$13,138 in 2004. This represents an increase of \$879,229 in 2005.

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 Health Center's budget.

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

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Patient Service Revenues 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
- Schedule of Comparative Statistics

There was one change to the Health Center's accounting policies for the year ended June 30, 2004. The minimum cost for determining capital expenditures remains at \$5,000 as a result of the implementation of Critical Access Hospital designation. This change resulted in higher operating expenses in 2005 when compared to previous years.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 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 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.

Table 1: Assets, Liabilities and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current Assets	\$ 5,653,423	\$ 3,625,102	\$ 3,600,232
Non-current Cash and Investments	2,813,186	2,425,708	2,210,782
Capital Assets, Net	5,428,297	5,841,435	6,013,328
Succeeding Year Property Tax Receivable	298,000	298,000	298,000
Total Assets	<u>\$ 14,192,906</u>	<u>\$ 12,190,245</u>	<u>\$ 12,122,342</u>
Liabilities:			
Total Current Liabilities	\$ 2,195,259	\$ 1,128,757	\$ 1,412,910
Long-Term Debt (Less Current Maturities)	565,312	673,682	776,892
Deferred Revenue from Succeeding Year Property Tax Receivable	298,000	298,000	298,000
Total Liabilities	<u>3,058,571</u>	<u>2,100,439</u>	<u>2,487,802</u>
Net Assets			
Invested in Capital Assets Net of Related Debt Restricted	4,704,615	5,064,543	5,138,115
By Contributors and Grantors Under Debt Agreement	-	20,000	20,000
Unrestricted	219,945	212,431	205,665
Total Net Assets	<u>11,134,335</u>	<u>10,089,806</u>	<u>9,634,540</u>
Total Liabilities and Net Assets	<u>\$ 14,192,906</u>	<u>\$ 12,190,245</u>	<u>\$ 12,122,342</u>

Asset categories changing significantly during 2005 and 2004 included Non-current Cash and Investments which increased by \$387,478 in 2005 and \$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 \$413,138 in 2005 and \$171,893 in 2004 which is also a result of not having a significant capital project to offset allowances for depreciation.

Current liabilities increased by \$1,066,502 in 2005 and decreased 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 (including the current portion) by \$53,210 in 2005 and \$98,321 in 2004.

The current ratio (current assets divided by current liabilities) for 2005 was 2.58 and 2004 was 3.21. 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, 2005 AND 2004**

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>2005</u>	<u>2004</u>	<u>2003</u>
Net Patient Service Revenue	\$ 14,710,462	\$ 13,033,196	\$ 11,270,665
Other Operating Revenue	1,339,864	629,494	511,461
	<u>16,050,326</u>	<u>13,662,690</u>	<u>11,782,126</u>
Operating Expenses			
Salaries and Wages	5,469,547	4,939,607	4,645,689
Employee Benefits	1,750,650	1,743,600	1,375,930
Professional Fees	2,687,234	2,410,420	2,516,516
Utilities	196,467	172,290	157,792
Management, Legal, and Accounting Fees	334,318	291,897	245,839
Insurance	179,663	154,360	147,502
Supplies and Miscellaneous	3,688,872	3,070,808	2,588,987
Depreciation	814,780	823,055	822,305
Interest	36,428	43,515	45,573
Total Operating Expenses	<u>15,157,959</u>	<u>13,649,552</u>	<u>12,546,133</u>
Operating Income or (Loss)	892,367	13,138	(764,007)
Due (To) From Affiliated Organizations	(446,184)	(6,568)	382,004
Adjusted Operating Income (Loss)	<u>446,183</u>	<u>6,570</u>	<u>(382,003)</u>
Non-Operating Income and Expenses	<u>539,443</u>	<u>411,711</u>	<u>538,839</u>
Excess of Revenues Over Expenses	985,626	418,281	156,836
Capital Grants and Contributions	58,903	36,985	7,980
Increases in Net Assets	<u>1,044,529</u>	<u>455,266</u>	<u>164,816</u>
Net Assets, Beginning of Year	<u>10,089,806</u>	<u>9,634,540</u>	<u>9,469,724</u>
Net Assets, End of Year	<u>\$ 11,134,335</u>	<u>\$ 10,089,806</u>	<u>\$ 9,634,540</u>

Net patient service revenue made up 91.7% in 2005 and 95.4% in 2004 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 revenues increased by \$2,387,636 or 17.5% in 2005 and increased by \$1,880,564 or 16.0% in 2004.

Total operating expenses increased \$1,508,407 or 11.1% in 2005 and increased \$1,103,419 or 8.8% in 2004. The operating expenses are broken down by department on the Schedule of Operating Expenses on pages 33 – 34 of the audited financial statements. In 2005 there was a significant increase in salaries and wages and in employee benefit expenses. All of these additional costs are due primarily to the new services that were initiated during 2005. These included the Retail Pharmacy and the Occupational/Business Health Services. We also continued the annual wage market adjustments that are done in February each year. Much of the increased employee benefit costs are a result of the additional salaries and wages, but also from higher employee health insurance costs.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Financial Analysis of the Health Center (Continued)

Supplies and Miscellaneous costs also increased significantly in 2005. The new Retail Pharmacy produced a large portion of the additional supply costs during 2005. Higher patient volumes in some areas also contributed to the increased costs. Total supplies and miscellaneous expenses increased by \$618,064 or 20.1% in 2005 while those costs increased by \$481,821 and 18.6% in 2004.

Table 3 below shows the contractual adjustments that were recognized.

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 21,106,074	\$ 18,798,888	\$ 16,321,735
Contractual Adjustments and Provisions for Bad Debt	6,395,612	5,765,692	5,051,070
Net Patient Service Revenue	<u>\$ 14,710,462</u>	<u>\$ 13,033,196</u>	<u>\$ 11,270,665</u>
Contractual Adjustments as a Percent of Total Patient Revenue	<u>30.30%</u>	<u>30.67%</u>	<u>30.95%</u>

Contractual adjustments for Medicare patients accounts for the largest portion of the total amount at 58.8% in 2005 and 61.6% in 2004 of the total adjustments. Bad debt allowances contributed 6.3% in 2005 and 6.8% in 2004.

Table 4 summarizes other operating and non-operating revenues received by the Health Center. Other operating and non-operating revenue increased by \$838,102 in 2005 and decreased by \$9,095 in 2004. The large increase in revenue for 2005 is attributable to the Retail Pharmacy as the revenue for this service is considered as other operating revenue.

Table 4: Other Operating Revenues

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Meals on Wheels	\$ 29,278	\$ 29,419	\$ 29,694
Prisoner Meals	46,488	54,519	58,606
Cafeteria	38,876	36,077	36,977
Medical Records Fees	2,458	2,811	3,959
Rental Income	95,347	90,334	74,862
Senior Services	55,653	20,618	6,714
Grants	287,131	315,369	246,708
Retail Pharmacy	688,824	-	-
Miscellaneous	95,809	80,347	53,941
Total Other Revenues	<u>\$ 1,339,864</u>	<u>\$ 629,494</u>	<u>\$ 511,461</u>

It should be noted that tax apportionments have remained virtually unchanged during the past three years. 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, 2005 AND 2004**

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 increases were seen in 2005 after they had declined in 2004. Patient days increased by 178 in 2005 which followed a decrease of 280 in 2004, while admissions increased by 114 in 2005 and declined by 38 in 2004. During the same periods surgical procedures also increased in 2005 to 1,210 after a total of 1,108 procedures during 2004. We also saw annual increases in total outpatient, emergency room and clinic visits during those years.

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	2,080	1,641	1,822
Swing Bed	1,005	1,307	1,386
Newborn	214	173	193
Total	<u>3,299</u>	<u>3,121</u>	<u>3,401</u>
Admissions			
Acute	624	535	557
Swing Bed	144	143	152
Newborn	104	80	87
Total	<u>872</u>	<u>758</u>	<u>796</u>
Average Length of Stay, Acute	<u>3.33</u>	<u>3.07</u>	<u>3.27</u>
Beds – Acute and Swing Bed	<u>25</u>	<u>25</u>	<u>29</u>
Occupancy Percentage	<u>36.2%</u>	<u>32.0%</u>	<u>30.0%</u>
Surgical Procedures			
Inpatients	146	119	128
Outpatients	1,064	989	978
Total	<u>1,210</u>	<u>1,108</u>	<u>1,106</u>
Outpatients			
Total Outpatient Visits	24,898	24,689	23,076
Emergency Room Visits	2,630	2,577	2,418
Clinic Visits	40,364	38,438	36,591
Community Health Visits	9,906	10,124	10,209

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 2005 by \$510,554 and by \$162,864 in 2004.

Capital Assets

At June 30, 2005, the Health Center had \$5,428,297 invested in capital assets net of accumulated depreciation. In 2005, the Health Center expended \$401,900 to address capital and facility needs.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2005 AND 2004**

Long Term Debt

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

Table 6: Long Term Debt

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Promissory Note Payable	\$ 50,000	\$ 60,000	\$ 70,000
Pharmacy Note Payable	50,000	-	-
Hospital Revenue Note	<u>623,682</u>	<u>716,892</u>	<u>805,213</u>
Total Long Term Debt	<u>\$ 723,682</u>	<u>\$ 776,892</u>	<u>\$ 875,213</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 decision to change to Critical Access Hospital (CAH) status has proven to be a good economic decision for KRHC, but there are concerns that the rapid increase in CAH facilities nation wide may result in changes in federal regulations that govern Medicare reimbursements for us. At the same time, funding for Medicaid services is being debated and federal officials balance the budget by challenging state governments to address reimbursements for Medicaid programs. 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 searching to identify lower 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 and other technical positions. 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, 2005 AND 2004**

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,750,277	\$ 1,239,723
Investments	1,201,658	-
Patient Receivables, Less Allowance for Uncollectible Accounts of \$363,555 in 2005 and \$287,426 in 2004	2,171,244	1,934,101
Other Receivables	16,437	43,871
Inventories	424,811	212,516
Prepaid Expenses	88,996	164,176
Third-Party Payor Settlement Receivable	-	30,715
Total Current Assets	5,653,423	3,625,102
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Expenditures	2,201,166	2,017,060
Internally Designated for Hospice Expenditures	154,801	144,828
Internally Designated for Health Benefits	237,274	31,389
Restricted Under Debt Agreement	219,945	212,431
Restricted by Contributors and Grantors	-	20,000
	2,813,186	2,425,708
SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	298,000	298,000
CAPITAL ASSETS, NET	5,428,297	5,841,435
 Total Assets	 \$ 14,192,906	 \$ 12,190,245

See accompanying Notes to Financial Statements.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 158,370	\$ 103,210
Accounts Payable	346,778	322,168
Due to Affiliated Organization	577,708	120,810
Accrued Expenses	720,815	582,569
Third-Party Payor Settlement Payable	391,588	-
Total Current Liabilities	<u>2,195,259</u>	<u>1,128,757</u>
COMMITMENTS AND CONTINGENCIES		
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	298,000	298,000
LONG-TERM DEBT, Less Current Maturities		
	<u>565,312</u>	<u>673,682</u>
Total Liabilities	3,058,571	2,100,439
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,704,615	5,064,543
Restricted		
By Contributors and Grantors	-	20,000
Under Debt Agreement	219,945	212,431
Unrestricted	6,209,775	4,792,832
Total Net Assets	<u>11,134,335</u>	<u>10,089,806</u>
Total Liabilities and Net Assets	<u>\$ 14,192,906</u>	<u>\$ 12,190,245</u>

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**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003**

ASSETS	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 52,754	\$ 55,126
Investments	<u>1,337,093</u>	<u>1,242,017</u>
Total Assets	<u>\$ 1,389,847</u>	<u>\$ 1,297,143</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 4,360	\$ 130,489
NET ASSETS		
Unrestricted	<u>1,385,487</u>	<u>1,166,654</u>
Total Net Assets	<u>1,385,487</u>	<u>1,166,654</u>
Total Liabilities and Net Assets	<u>\$ 1,389,847</u>	<u>\$ 1,297,143</u>

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue, net of provision for bad debts of \$404,780 in 2005 and \$392,208 in 2004	\$ 14,710,462	\$ 13,033,196
Other Revenue	1,339,864	629,494
Total Revenues	16,050,326	13,662,690
EXPENSES		
Salaries and Wages	5,469,547	4,939,607
Employee Benefits	1,750,650	1,743,600
Professional Fees	2,687,234	2,410,420
Utilities	196,467	172,290
Management, Legal, and Accounting Fees	334,318	291,897
Insurance	179,663	154,360
Supplies and Miscellaneous	3,688,872	3,070,808
Depreciation	814,780	823,055
Interest	36,428	43,515
Total Expenses	15,157,959	13,649,552
OPERATING INCOME	892,367	13,138
DUE (TO) FROM AFFILIATED ORGANIZATION	(446,184)	(6,568)
ADJUSTED OPERATING INCOME	446,183	6,570
NON-OPERATING INCOME		
Investment Income	68,243	46,883
Tax Apportionments	299,683	297,234
Dialysis Unit Rental Income	10,833	9,167
Unrestricted Contributions	159,614	28,053
Gain (Loss) on Sale of Property and Equipment	1,070	30,374
Net Non-Operating Income	539,443	411,711
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	985,626	418,281
Capital Contributions and Grants	58,903	36,985
Increase in Net Assets	1,044,529	455,266
Net Assets Beginning of Year	10,089,806	9,634,540
Net Assets End of Year	\$ 11,134,335	\$ 10,089,806

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2005	2004
REVENUES		
Donations	\$ 96,556	\$ 84,284
Investment Income	171,423	266,207
Total Revenues	267,979	350,491
EXPENSES		
Fundraising	31,890	25,722
Contributions to Kossuth Regional Health Center	4,485	3,040
General and Administrative	12,771	2,952
Total Expenses	49,146	31,714
INCREASE IN UNRESTRICTED NET ASSETS	218,833	318,777
Net Assets Beginning of Year	1,166,654	847,877
Net Assets End of Year	\$ 1,385,487	\$ 1,166,654

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 14,895,622	\$ 12,540,724
Cash Paid to Employees	(7,081,951)	(6,739,686)
Cash Paid to Suppliers	(7,171,625)	(6,078,638)
Interest Paid on Long-Term Debt	(36,428)	(43,515)
Other Receipts and Payments, Net	1,350,578	1,000,089
Net Cash Provided by Operating Activities	1,956,196	678,974
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions	218,517	65,038
Dialysis Unit Rental Income	10,833	9,167
Tax Appropriations	299,683	297,234
Net Cash Provided by Non-Capital Financing Activities	529,033	371,439
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment, Less Donations	(401,900)	(652,624)
Proceeds from Sale of Property and Equipment	1,328	31,439
Proceeds from Note Payable	50,000	-
Payments on Long Term Debt	(103,210)	(98,321)
Net Cash Used by Capital and Related Financing Activities	(453,782)	(719,506)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	68,243	46,883
Increase in Investments	(1,201,658)	-
Increase in Noncurrent Cash and Investments	(387,478)	(214,926)
Net Cash Used by Investing Activities	(1,520,893)	(168,043)
 INCREASE IN CASH AND CASH EQUIVALENTS	510,554	162,864
Cash and Cash Equivalents - Beginning	1,239,723	1,076,859
 CASH AND CASH EQUIVALENTS - ENDING	\$ 1,750,277	\$ 1,239,723

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 446,183	\$ 6,570
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	814,780	823,055
Decrease (Increase) in -		
Patient Receivables	(237,143)	(236,117)
Due from Affiliated Organization	-	382,004
Other Receivables	27,434	(6,079)
Inventories	(212,295)	(3,604)
Prepaid Expenses	75,180	32,505
Third Party Payor Settlements Receivable	30,715	(30,715)
Increase (Decrease) in -		
Accounts Payable	24,610	(1,685)
Accrued Salaries, Wages, Benefits and Other	138,246	(56,479)
Third Party Payor Settlements Payable	391,588	(225,640)
Due to Affiliated Organization	456,898	(4,841)
Net Cash Provided by Operating Activities	\$ 1,956,196	\$ 678,974

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Donor and Contributors	\$ 96,556	\$ 84,284
Interest Received	803	409
Cash Paid to Suppliers	(44,784)	(28,674)
Payments to Kossuth Regional Health Center	(130,490)	(140,000)
Net Cash Used by Operating Activities	(77,915)	(83,981)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(100,000)	-
Proceeds from Sale of Investments	175,543	75,000
Net Cash Provided by Investing Activities	75,543	75,000
Net Decrease in Cash and Cash Equivalents	(2,372)	(8,981)
Cash and Cash Equivalents Beginning of Year	55,126	64,107
Cash and Cash Equivalents End of Year	\$ 52,754	\$ 55,126
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in Net Assets	\$ 218,833	\$ 318,777
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Unrealized (Gain) Loss on Investments	(119,865)	(236,759)
Realized (Gain) Loss on Sale of Investments	-	(1,072)
Reinvested Capital Gains and Dividends on Investments	(50,754)	(27,968)
Decrease in Grants Payable	(126,129)	(136,959)
Net Cash Used by Operating Activities	\$ (77,915)	\$ (83,981)

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kossuth Regional Health Center (the Health Center) is a county public hospital 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, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an original maturity of three months or less 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. At June 30, 2005 and 2004, the allowance for uncollectible accounts was \$363,555 and \$287,426, respectively.

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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. It is the Health Center's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than \$5,000 are expensed as incurred. Capital expenses of \$5,000 or greater are capitalized and amortized over the useful life of the asset.

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.

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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Fund Balances (Continued)

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 operating income.

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.

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.

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 restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted 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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Operating Revenues and Expenses

The Health Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

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.

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. Charity care provided during the years ending June 30, 2005 and 2004 was \$54,938 and \$13,692, respectively.

J. County Tax Apportionments

The Health Center has received from Kossuth County, county tax apportionments of \$299,683 and \$297,234 in 2005 and 2004, respectively. These funds have been used to finance expenditures for remodeling and major repairs as well as to finance current working capital requirements.

NOTE 2 DESIGNATED NET ASSETS

Of the \$4,704,615 and \$5,064,543 of unrestricted net assets at June 30, 2005 and 2004, respectively, the Board of Trustees has designated the amounts below. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2005	2004
For Capital Expenditures	\$ 2,201,166	\$ 2,017,060
For Hospice Expenditures	154,801	144,828
For Health Benefits	237,274	31,389
Total Designated Net Assets	\$ 2,593,241	\$ 2,193,277

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 3 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. The Health Center's Medicare cost reports have been audited and settled by the Medicare intermediary through September 30, 2003, the last period before receiving CAH status.

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. The Health Center's Medicaid cost reports have been audited and settled by the Medicaid intermediary through September 30, 2003, the last period before receiving CAH status.

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.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 21,106,074	\$ 18,798,888
Contractual Adjustments		
Medicare	3,762,587	3,548,930
Medicaid	509,562	503,104
Provision for Bad Debt	404,780	392,208
Other Allowances and Adjustments	1,718,683	1,321,450
Total Contractual Adjustments and Bad Debts	<u>6,395,612</u>	<u>5,765,692</u>
Net Patient Service Revenue	<u>\$ 14,710,462</u>	<u>\$ 13,033,196</u>

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2005 and 2004 of the following:

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,691,303	\$ 1,487,755
Receivable from Medicare	652,308	533,246
Receivable from Medicaid	191,188	200,526
Total Patient Receivables	<u>2,534,799</u>	<u>2,221,527</u>
Less Allowance for Doubtful Accounts	(363,555)	(287,426)
Patient Receivables, Net	<u><u>\$ 2,171,244</u></u>	<u><u>\$ 1,934,101</u></u>

NOTE 5 DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2005 and 2004 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.

Deposits shown are included in the Health Center's balance sheets as follows:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 1,750,277	\$ 1,239,723
Investments	1,201,658	-
Noncurrent Cash and Investments		
Internally Designated for Capital Expenditures	2,201,166	2,017,060
Internally Designated for Hospice Expenditures	154,801	144,828
Internally Designated for Health Benefits	237,274	31,389
Internally Designated Under Debt Agreement	219,945	212,431
Restricted by Contributors and Grantors	-	20,000
	<u><u>\$ 5,765,121</u></u>	<u><u>\$ 3,665,431</u></u>

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Foundation Investments

The Foundation's investments consisted of mutual funds at June 30, 2005 and 2004. These investments are carried at fair value. Unrealized holding gains (losses) at June 30, 2005 and 2004 amounted to \$290,151 and \$170,286, respectively.

Investment income for the Foundation is comprised of the following for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Investment Income (Loss)		
Interest and Dividend Income	\$ 16,985	\$ 28,376
Realized Gains (Losses)	34,573	1,072
Changes in Unrealized Gains (Losses)	<u>119,865</u>	<u>236,759</u>
Total	<u>\$ 171,423</u>	<u>\$ 266,207</u>

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Balance June 30, 2005</u>
Capital Assets				
Land and Land Improvements	\$ 514,038	\$ 12,263	\$ -	\$ 526,301
Building	6,313,688	161,680	(1,290)	6,474,078
Fixed Equipment	2,459,957	56,765	-	2,516,722
Major Movable Equipment	4,225,184	154,929	(70,196)	4,309,917
Construction in Progress	19,499	177,944	(161,681)	35,762
Totals	13,532,366	563,581	(233,167)	13,862,780
Accumulated Depreciation				
Land Improvements	273,192	33,973	-	307,165
Building	2,674,350	257,498	(1,290)	2,930,558
Fixed Equipment	1,756,635	211,668	-	1,968,303
Major Movable Equipment	2,986,754	311,641	(69,938)	3,228,457
Totals	7,690,931	<u>\$ 814,780</u>	<u>\$ (71,228)</u>	8,434,483
	<u>\$ 5,841,435</u>			<u>\$ 5,428,297</u>

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2003	Additions	(Retirements)	Balance June 30, 2004
Capital Assets				
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
Totals	13,256,577	652,624	(376,835)	13,532,366
Accumulated Depreciation				
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
Totals	7,243,249	\$ 823,055	\$ (375,373)	7,690,931
	\$ 6,013,328			\$ 5,841,435

Construction in progress at June 30, 2005 consists of preliminary costs related to a hospital expansion project. The project is in the very early stages, and no cost estimates or financing plans have yet been determined.

NOTE 7 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance June 30, 2004	Additions	Payments	Balance June 30, 2005	Amounts Due Within One Year
Promissory Note Payable	\$ 60,000	\$ -	\$ (10,000)	\$ 50,000	\$ 10,000
Hospital Revenue Note	716,892	-	(93,210)	623,682	98,370
Pharmacy Note Payable	-	50,000	-	50,000	50,000
Total Long Term Debt	\$ 776,892	\$ 50,000	\$ (103,210)	\$ 723,682	\$ 158,370
	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
Total Long Term Debt	\$ 875,213	\$ -	\$ (98,321)	\$ 776,892	\$ 103,210

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 LONG-TERM DEBT (CONTINUED)

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. The note is collateralized by the revenues of the Health Center.

Pharmacy Note Payable

The Health Center obtained financing for a portion of the retail pharmacy constructed during the year ended June 30, 2005. The principal amount and accrued interest at 5.0% are due October 2007. However, the Health Center intends to repay the entire obligation at the first anniversary date of the loan in October 2005, as allowed in the agreement. The note is unsecured.

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

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2006	\$ 158,370	\$ 33,215
2007	113,815	25,822
2008	119,562	20,078
2009	125,627	14,011
2010	132,028	7,610
2011-2015	74,280	1,342
	<u>\$ 723,682</u>	<u>\$ 102,078</u>

NOTE 8 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, 2005, 2004, and 2003 were \$306,200, \$271,700, and \$255,300, respectively, equal to the required contributions for each year.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 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 approximately \$818,400 and \$609,158 for the years ended June 30, 2005 and 2004.

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 allocated between Mercy Medical Center-North Iowa and the Health Center totaled \$446,184 and \$6,568 for the years ended June 30, 2005 and 2004, respectively.

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 approximately \$471,600 and \$447,167 for the years ended June 30, 2005 and 2004, respectively.

Due to and from Affiliated Organization

As of June 30, 2005 and 2004, the Health Center's records reflect a due to MMC-NI of \$577,708 and \$120,810, 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, 2005 and 2004, the following distributions were made to the Health Center:

	2005	2004
Distributed to Hospital for Property Additions	\$ 5,500	\$ 36,985

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 RELATED ORGANIZATION (CONTINUED)

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, 2005 and 2004, of \$134,974 and \$0, respectively.

NOTE 10 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, 2005**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of RSHC on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 299,683	\$ -	\$ 299,683	\$ 298,000	\$ 1,683
Estimated Other Revenues/Receipts	16,348,989	246,132	16,595,121	15,617,131	977,990
	<u>16,648,672</u>	<u>246,132</u>	<u>16,894,804</u>	<u>15,915,131</u>	<u>979,673</u>
Expenses/Disbursements	15,604,143	(809,029)	14,795,114	15,941,560	1,146,446
Net	1,044,529	1,055,161	2,099,690	(26,429)	2,126,119
Balance Beginning of Year	10,089,806	(6,424,375)	3,665,431	4,711,508	(1,046,077)
Balance End of Year	<u>\$ 11,134,335</u>	<u>\$ (5,369,214)</u>	<u>\$ 5,765,121</u>	<u>\$ 4,685,079</u>	<u>\$ 1,080,042</u>

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OTHER SUPPLEMENTARY INFORMATION

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,133,015	\$ 890,275
Intensive Care Unit	66,834	23,808
Swing Bed	245,857	304,694
Intermediate Care	6,092	6,690
Nursery	91,228	71,247
Total	<u>1,543,026</u>	<u>1,296,714</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	1,719,919	1,482,315
Labor and Delivery Room	55,168	35,890
Anesthesiology	736,097	626,074
Radiology	1,488,851	1,383,802
Laboratory	2,227,109	2,085,391
Respiratory Therapy	131,677	68,030
Cardiac Rehabilitation	117,820	65,680
Physical Therapy	754,903	604,089
Occupational Therapy	190,385	184,880
Speech Therapy	19,405	10,892
Electrocardiology	96,429	82,050
Scans	2,110,221	1,759,508
Medical and Surgical Supplies	702,882	565,265
Pharmacy	1,635,614	1,506,103
Intravenous Therapy	484,580	396,393
Clinics	5,239,403	4,785,044
Emergency Room	732,157	675,750
Home Health	774,525	703,764
Hospice	380,901	468,279
Immunizations	5,704	6,726
Diabetic Education	14,236	19,941
Total	<u>19,617,986</u>	<u>17,515,866</u>
Charity Care	<u>(54,938)</u>	<u>(13,692)</u>
Total Patient Service Revenues	21,106,074	18,798,888
Adjustments to Patient Services Revenues	<u>(6,395,612)</u>	<u>(5,765,692)</u>
Net Patient Service Revenues	<u>\$ 14,710,462</u>	<u>\$ 13,033,196</u>

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 1,062,597	\$ 824,899	\$ 70,418	\$ 65,376
66,834	23,808	-	-
245,857	304,694	-	-
6,092	6,690	-	-
91,228	71,247	-	-
<u>1,472,608</u>	<u>1,231,338</u>	<u>70,418</u>	<u>65,376</u>
270,533	201,374	1,449,386	1,280,941
55,168	35,890	-	-
243,519	184,968	492,578	441,106
106,228	84,690	1,382,623	1,299,112
455,366	384,296	1,771,743	1,701,095
126,707	63,782	4,970	4,248
1,970	565	115,850	65,115
205,873	205,635	549,030	398,454
111,964	126,080	78,421	58,800
2,436	4,552	16,969	6,340
13,095	14,140	83,334	67,910
209,597	162,237	1,900,624	1,597,271
261,390	191,857	441,492	373,408
599,322	488,346	1,036,292	1,017,757
295,564	224,723	189,016	171,670
-	-	5,239,403	4,785,044
31,743	29,946	700,414	645,804
-	-	774,525	703,764
76,926	49,569	303,975	418,710
-	-	5,704	6,726
-	-	14,236	19,941
<u>3,067,401</u>	<u>2,452,650</u>	<u>16,550,585</u>	<u>15,063,216</u>
<u>\$ 4,540,009</u>	<u>\$ 3,683,988</u>	<u>\$ 16,621,003</u>	<u>\$ 15,128,592</u>

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**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

HOSPITAL	<u>2005</u>	<u>2004</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 3,762,587	\$ 3,548,930
Contractual Adjustments - Medicaid	509,562	503,104
Provision for Bad Debts	404,780	392,208
Other Allowances and Adjustments	<u>1,718,683</u>	<u>1,321,450</u>
 Total Adjustments	 <u>\$ 6,395,612</u>	 <u>\$ 5,765,692</u>
OTHER REVENUES		
Meals on Wheels	\$ 29,278	\$ 29,419
Prisoner Meals	46,488	54,519
Cafeteria	38,876	36,077
Medical Records Fees	2,458	2,811
Rental Income	95,347	90,334
Senior Services	55,653	20,618
Grants	287,131	315,369
Retail Pharmacy	688,824	-
Miscellaneous	<u>95,809</u>	<u>80,347</u>
 Total Other Revenue	 <u>\$ 1,339,864</u>	 <u>\$ 629,494</u>

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 503,139	\$ 483,332
Capital Related Costs - Moveable Equipment	311,641	339,723
Employee Benefits	1,750,650	1,743,600
Administrative and General	1,387,388	1,309,286
Operation of Plant	371,652	356,410
Laundry and Linen	58,328	58,312
Housekeeping	135,659	126,805
Dietary	277,656	287,859
Medical Records	212,634	185,376
Adults and Pediatrics	1,080,728	842,867
Nursery	13,831	14,695
Operating and Recovery Room	381,087	352,686
Labor and Delivery Room	17,147	15,304
Anesthesiology	308,252	235,193
Radiology	328,426	341,096
Laboratory	599,209	568,503
Blood	96,790	78,701
Respiratory Therapy	56,603	42,540
Physical Therapy	317,798	273,524
Occupational Therapy	91,927	88,294
Speech Pathology	14,688	11,256
Electrocardiology	6,678	4,723
Scans	409,242	337,225
Medical and Surgical Supplies	140,791	109,987
Pharmacy and Intravenous Therapy	591,961	519,829
Cardiac Rehabilitation	36,494	22,418
Clinics	3,179,161	3,286,115
Emergency	580,252	584,061
Home Health	930,543	796,932
Hospice	171,331	189,385
Retail Pharmacy	752,716	-
Rejuvenation Clinic	7,129	-
Interest Expense	36,428	43,515
TOTAL	<u>\$ 15,157,959</u>	<u>\$ 13,649,552</u>

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 503,139	\$ 483,332
-	-	311,641	339,723
-	-	1,750,650	1,743,600
555,840	536,890	831,548	772,396
120,455	109,856	251,197	246,554
-	-	58,328	58,312
115,449	111,044	20,210	15,761
160,873	160,063	116,783	127,796
186,766	159,732	25,868	25,644
960,249	775,529	120,479	67,338
12,180	13,415	1,651	1,280
250,267	230,577	130,820	122,109
12,233	12,577	4,914	2,727
-	-	308,252	235,193
219,136	217,690	109,290	123,406
243,013	221,310	356,196	347,193
17,969	17,207	78,821	61,494
7,639	5,016	48,964	37,524
85,214	87,966	232,584	185,558
88,081	86,412	3,846	1,882
-	-	14,688	11,256
4,283	4,281	2,395	442
14,311	12,245	394,931	324,980
-	-	140,791	109,987
1,151	-	590,810	519,829
6,700	5,566	29,794	16,852
1,267,036	1,181,995	1,912,125	2,104,120
184,728	266,051	395,524	318,010
698,348	622,965	232,195	173,967
104,522	101,220	66,809	88,165
152,984	-	599,732	-
120	-	7,009	-
-	-	36,428	43,515
<u>\$ 5,469,547</u>	<u>\$ 4,939,607</u>	<u>\$ 9,688,412</u>	<u>\$ 8,709,945</u>

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,663,841	52.3%	\$ 1,417,401	50.8%
31-60 Days	650,245	20.4%	604,960	21.7%
61-90 Days	236,752	7.4%	196,551	7.0%
91 Days and Over	629,996	19.9%	569,628	20.5%
Total Accounts Receivable	<u>\$ 3,180,834</u>	<u>100.0%</u>	<u>\$ 2,788,540</u>	<u>100.0%</u>
ALLOWANCES				
Contractual -				
Medicare	\$ (398,123)		\$ (330,131)	
Medicaid	(82,149)		(71,119)	
Other	(165,763)		(165,763)	
Doubtful Accounts	(363,555)		(287,426)	
Net Accounts Receivable	<u>\$ 2,171,244</u>		<u>\$ 1,934,101</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>41,412</u>		<u>36,782</u>	
Days of net Revenue in Net Accounts Receivable at Year End	<u>52</u>		<u>53</u>	

Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 287,426		\$ 214,973	
Add:				
Provision for Doubtful Accounts	404,780	2.68 %	392,208	2.92 %
Recoveries Previously Written Off	140,294	0.93 %	149,432	1.11 %
	<u>545,074</u>		<u>541,640</u>	
Deduct:				
Accounts Written Off	<u>(468,945)</u>	3.10 %	<u>(469,187)</u>	3.49 %
Ending Balance	<u>\$ 363,555</u>		<u>\$ 287,426</u>	

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
INVENTORIES		
Central Stores	\$ 64,733	\$ 63,851
Pharmacy	33,799	26,437
Retail Pharmacy	187,146	-
Other Departments	114,861	98,701
Clinics	<u>24,272</u>	<u>23,527</u>
 Total Inventories	 <u><u>\$ 424,811</u></u>	 <u><u>\$ 212,516</u></u>
 PREPAID EXPENSES		
Insurance	\$ 49,147	\$ 99,216
Other	<u>39,849</u>	<u>64,960</u>
 Total Prepaid Expenses	 <u><u>\$ 88,996</u></u>	 <u><u>\$ 164,176</u></u>

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF COMPARATIVE STATISTICS
JUNE 30, 2005
(UNAUDITED)**

	2005	2004
ACUTE		
Admissions	624	535
Discharges	623	535
Average Length of Stay	3.3	3.1
Patient Days	2,080	1,641
Occupancy Percentage	22.79%	11.24%
Beds	25	40
SWING BED		
Admissions	144	143
Discharges	144	146
Patient Days	1,005	1,307
NURSERY		
Patient Days	214	173

**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
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, 2005 and 2004, which collectively comprise Kossuth Regional Health Center's basic financial statements and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 reportable 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.

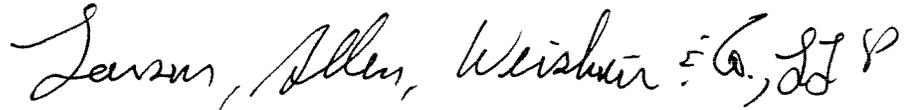
Compliance and Other Matters

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 11, 2005.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2005 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.

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.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 11, 2005

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

05-1 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, 2005.

05-2 Certified Budget

Health Center cash basis expenditures during the year ended June 30, 2005, did not exceed budgeted amounts.

05-3 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.

05-4 Travel Expense

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

05-5 Business Transactions

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

05-6 Board Minutes

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

05-7 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.

05-8 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.

