

Lakes Regional Healthcare
Spirit Lake, Iowa

Basic Financial Statements
June 30, 2009 and 2008

Together with Independent Auditor's Report

Lakes Regional Healthcare

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Lakes Regional Healthcare

Officials
June 30, 2009

<u>Board of Trustees</u>	<u>Address</u>	<u>Term Expires</u>
Mark Fisher, Chairman	Milford, Iowa	December 2010
Denny Perry, Vice-Chairman	Spirit Lake, Iowa	December 2010
Doug Dingel, Secretary/Treasurer	Terril, Iowa	December 2014
Kris Walker	Arnolds Park, Iowa	December 2012
Dan Sedlacek	Spirit Lake, Iowa	December 2014
Deb Goetzinger	Spirit Lake, Iowa	December 2014
Ivan Brown	Spirit Lake, Iowa	December 2012
<u>Chief Executive Officer</u>		
Jason Harrington	Spirit Lake, Iowa	Indefinite



Independent Auditor's Report

To the Board of Trustees
Lakes Regional Healthcare
Spirit Lake, Iowa

We have audited the accompanying basic financial statements of Lakes Regional Healthcare (Hospital) as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 the Hospital as of June 30, 2009 and 2008, and the results of its operations, changes in fund balances and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2009 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the 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.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and page 22 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, included in Exhibits 1 through 6, 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.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 21, 2009.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2009 and 2008

This discussion and analysis of Lakes Regional Healthcare's (LRH) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2009, 2008 and 2007. This discussion and analysis should be read in conjunction with financial statements, which start on page 8.

Financial Highlights

- LRH net assets increased in 2009 by \$1,543,210 or 4.7%. In 2008, net assets increased by \$1,625,861 or 5.2%. In 2007, net assets increased \$1,471,795 or 4.9%.
- LRH reported an operating income in 2009 of \$510,892 compared to an operating income of \$404,946 in 2008. In 2007, the income from operations was \$73,709.
- LRH non-operating revenues decreased by \$188,597 in 2009 compared to 2008. From 2007 to 2008 non-operating revenues decreased by \$177,171.

Using This Annual Report

LRH financial statements consist of three statements—a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of LRH, including resources held by LRH but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Analysis of LRH finances starts on page 8. The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about LRH resources and activities in a way that helps answer whether LRH, as a whole, is better or worse off from this year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report LRH net assets and changes in them. Increases or decreases in net assets are an indicator of whether its financial health is improving or deteriorating. To assess the health of LRH, non-financial factors, such as changes in the patient base of LRH and measures of the quality of service it provides to the community, and local economic factors need to be considered.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

Net Assets

LRH net assets are the difference between assets and liabilities reported in the Balance Sheet on page 8. LRH net assets increased this past year by \$1,543,210 or 4.7%, as shown in Table 1. This compares to an increase in 2008 of \$1,625,861 and an increase of \$1,471,795 in 2007.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2009 and 2008

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 Change</u>
Assets:				
Current assets	\$ 23,549,778	21,451,335	19,422,362	9.8%
Capital assets, net	14,962,652	15,912,116	16,846,783	-6.0%
Other non-current assets	3,190,490	3,097,539	2,952,349	3.0%
Total assets	<u>41,702,920</u>	<u>40,460,990</u>	<u>39,221,494</u>	<u>3.1%</u>
Liabilities:				
Long-term debt outstanding	4,175,000	4,435,000	4,680,000	-5.9%
Other current and noncurrent liabilities	2,990,112	3,031,392	3,172,757	-1.4%
Total liabilities	<u>7,165,112</u>	<u>7,466,392</u>	<u>7,852,757</u>	<u>-4.0%</u>
Net assets:				
Invested in capital assets, net of related debt	10,527,652	11,232,116	11,551,783	-6.3%
Restricted for debt service	287,045	294,758	134,979	-2.6%
Restricted expendable net assets	195,260	178,124	179,121	9.6%
Restricted nonexpendable net assets	25,000	25,000	25,000	0.0%
Unrestricted	23,502,851	21,264,600	19,477,854	10.5%
Total net assets	<u>\$ 34,537,808</u>	<u>32,994,598</u>	<u>31,368,737</u>	<u>4.7%</u>

In 2009, LRH net assets increased by \$1,543,210 or 4.7%, as shown in Table 2. This increase is due to an increase in total operating revenue of \$1,145,179 or 4.7% in 2009, while operating expenses increased \$1,039,233 or 4.4%. Non-operating revenue decreased \$188,597 or 15.4% due to a decline in interest rates on cash and investments.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2009 and 2008

Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 Change</u>
Operating Revenue:				
Net patient service revenue	\$ 26,084,579	24,755,494	22,955,690	5.4%
Provision for bad debt	(1,389,320)	(1,179,949)	(765,667)	17.7%
Other operating revenues	555,228	533,388	487,776	4.1%
Net assets released for operations	<u>10,590</u>	<u>6,965</u>	<u>1,648</u>	<u>52.0%</u>
Total operating revenue	<u>25,261,077</u>	<u>24,115,898</u>	<u>22,679,447</u>	<u>4.7%</u>
Operating Expenses:				
Salaries and benefits	12,882,102	12,295,509	11,384,938	4.8%
Purchased services and other	9,404,954	8,999,192	8,731,035	4.5%
Depreciation and amortization	2,235,728	2,160,422	2,225,468	3.5%
Interest	<u>227,401</u>	<u>255,829</u>	<u>264,297</u>	<u>-11.1%</u>
Total operating expenses	<u>24,750,185</u>	<u>23,710,952</u>	<u>22,605,738</u>	<u>4.4%</u>
Operating income	<u>510,892</u>	<u>404,946</u>	<u>73,709</u>	<u>26.2%</u>
Non-operating Revenues and Expenses				
Property taxes	350,000	350,000	484,106	0.0%
Investment income	687,013	860,294	782,538	-20.1%
Non-capital grants and contributions	1,440	1,643	178,780	-12.4%
Other non-operating revenues and expenses, net	<u>(6,135)</u>	<u>8,978</u>	<u>(47,338)</u>	<u>-168.3%</u>
Total non-operating revenue, net	<u>1,032,318</u>	<u>1,220,915</u>	<u>1,398,086</u>	<u>-15.4%</u>
Increase in net assets	<u>1,543,210</u>	<u>1,625,861</u>	<u>1,471,795</u>	<u>-5.1%</u>
Net assets beginning of year	<u>32,994,598</u>	<u>31,368,737</u>	<u>29,896,942</u>	<u>5.2%</u>
Net assets end of year	<u>\$ 34,537,808</u>	<u>32,994,598</u>	<u>31,368,737</u>	<u>4.7%</u>

Operating Income

The first component of the change in LRH net assets is its operating income, the difference between net patient service revenues and the expenses incurred to perform those services. Operating income increased this year due to increased volumes for many services and the ability to manage costs.

The primary components affecting operating income are:

- Net patient revenue increased \$1,329,085 or 5.4% in 2009, compared to an increase of \$1,799,804 or 7.8% in 2008. In 2007, net patient revenue increased \$1,781,351 or 8.4%. Increased revenue in 2009 was the result of higher patient volumes, along with price changes.
- Salary and benefit costs for employees increased \$586,593 or 4.8% in 2009 compared to an increase of \$910,571 or 8.0% in 2008 and \$825,475 or 7.8% in 2007.
- Medical supply and drug costs increased in 2009 by \$464,322 or 8.4%, compared to an increase of \$7,675 or 1% in 2008 and an increase of \$630,883 or 16.8% in 2007.
- Acute care patient days were 4,800 in 2009, compared to 4,699 in 2008 and 4,420 in 2007.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2009 and 2008

The ability to collect the revenue charged to patients affects net patient revenue. The provision for bad debt in 2009 was \$1,389,320, a 17.7% increase from 2008. This increase reflects a change in the estimation of the bad debt reserve due to economic influences, as well as a growing trend of high-deductible health plans.

The rate of healthcare inflation has a direct impact on the cost of services provided by LRH. A component of LRH costs are expenses for medical supplies and prescription drugs. In 2009, medical supplies and prescription drugs cost \$6,008,437, which was an 8.4% increase from 2008. In 2008 medical supplies and prescription drugs cost \$5,544,115. In 2007 medical supplies and prescription drugs cost \$5,536,440. An increase in oncology prescription drug costs had an impact on supplies expense this year.

LRH at times provides care for patients who have little or no health insurance or other means of repayment. The level of services provided to these patients was \$100,008 in 2009 compared to \$216,207 in 2007 and \$171,978 in 2007. Because there is no expectation of repayment, charity care is not reported as patient service revenues of LRH.

Nonoperating Revenues and Expenses

Non-operating revenues consist of taxes levied by LRH for the ambulance service, and investment earnings. The county tax levy was \$0.19189 per \$1,000 of valuation for 2009, \$0.20633 in 2008 and \$0.33459 in 2007. The county tax levy amounted to \$350,000 in 2009, \$350,000 in 2008 and \$484,106 in 2007. Investment income for 2009 was \$687,013, a 20.1% reduction over the \$860,294 of investment income in 2008. Investment income for 2007 was \$782,538.

Cash Flows

Changes in cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by investing activities decreased in 2009 as more money was invested. Non-cash expenses for depreciation and amortization exceeded cash related expenditures for capital by \$440,751 during the year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009 LRH had \$14,962,652 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. At June 30, 2008, LRH had \$15,912,116 invested in capital assets, net of accumulated depreciation. In 2009, LRH purchased new equipment costing \$1,321,594. Capital spending in 2008 was \$1,180,467 and \$950,709 in 2007.

Debt

At year-end, LRH had \$4,435,000 in capital loan notes outstanding. No new debt was issued in 2009, 2008 or 2007.

Other Economic Factors

Inflation continued in 2009 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals, and the result of union contracts that represent employees of various departments.

The 2009 fiscal year provided LRH with challenges due to continued federal program reimbursement requirements and the beginning discussions of healthcare reform. A recessionary economy influenced the growth in the hospital's bad debts reserve as well as a smaller growth in patient volumes than was projected. These factors are expected to continue to impact LRH throughout 2010.

Lakes Regional Healthcare

Management's Discussion and Analysis
June 30, 2009 and 2008

Contacting LRH Financial Management

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of LRH finances. Questions about this report or requests for more information should be directed to:

Jason Harrington
Chief Executive Officer
Lakes Regional Healthcare
Highway 71 South
Spirit Lake, Iowa 51360
712-336-8795

Lakes Regional Healthcare

Balance Sheets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,619,721	9,568,808
Certificates of deposit	8,426,623	6,380,651
Assets limited as to use - required for current liabilities	287,045	294,758
Receivables -		
Patients, net of allowance for doubtful accounts of \$1,340,972 in 2009 and \$1,233,220 in 2008	3,792,735	3,794,612
Succeeding year property tax	350,000	350,000
Other	96,234	32,909
Inventories	697,524	781,802
Prepaid expenses	279,896	247,795
	<u>23,549,778</u>	<u>21,451,335</u>
Assets limited as to use.		
By Board for -		
Capital improvements	473,938	460,536
Endowments	2,564,836	2,478,135
By Donor	135,457	141,359
	<u>3,174,231</u>	<u>3,080,030</u>
Capital assets, net of accumulated depreciation	<u>14,962,652</u>	<u>15,912,116</u>
Other assets, net	<u>16,259</u>	<u>17,509</u>
Total assets	<u>\$ 41,702,920</u>	<u>40,460,990</u>

See notes to financial statements

Lakes Regional Healthcare

Balance Sheets (Continued) June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 260,000	245,000
Accounts payable -		
Trade	537,437	601,831
Construction	30,507	58,000
Salaries, wages and accrued vacation payable	1,332,697	1,250,885
Payroll taxes withheld and accrued	170,909	110,235
Accrued interest payable	17,789	18,771
Other accrued liabilities	176,481	139,849
Deferred revenue - Mandelbaum Endowment	6,657	7,221
Estimated third-party payor settlements	107,635	249,600
Deferred revenue for succeeding year property tax receivable	350,000	350,000
	<u>2,990,112</u>	<u>3,031,392</u>
Total current liabilities	2,990,112	3,031,392
Long-term debt, net of current portion	<u>4,175,000</u>	<u>4,435,000</u>
Total liabilities	<u>7,165,112</u>	<u>7,466,392</u>
Net assets:		
Invested in capital assets, net of related debt	10,527,652	11,232,116
Restricted -		
For debt service	287,045	294,758
Expendable for capital acquisitions & operating activities	195,260	178,124
Nonexpendable	25,000	25,000
Unrestricted	<u>23,502,851</u>	<u>21,264,600</u>
Total net assets	<u>34,537,808</u>	<u>32,994,598</u>
Total liabilities and net assets	<u>\$ 41,702,920</u>	<u>40,460,990</u>

See notes to financial statements

Lakes Regional Healthcare

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 26,084,579	24,755,494
Provision for bad debt	<u>(1,389,320)</u>	<u>(1,179,949)</u>
Net patient service revenue	24,695,259	23,575,545
Other revenue	555,228	533,388
Net assets released for operations	<u>10,590</u>	<u>6,965</u>
Total revenue	<u>25,261,077</u>	<u>24,115,898</u>
OPERATING EXPENSES:		
Salaries	10,093,574	9,609,496
Employee benefits	2,788,528	2,686,013
Purchased services and professional fees	2,613,832	2,650,153
Utilities	576,508	593,691
Supplies and other expenses	6,008,437	5,544,115
Depreciation and amortization	2,235,728	2,160,422
Insurance	206,177	211,233
Interest	<u>227,401</u>	<u>255,829</u>
Total expenses	<u>24,750,185</u>	<u>23,710,952</u>
OPERATING INCOME	<u>510,892</u>	<u>404,946</u>
NONOPERATING REVENUE, NET:		
Investment income	687,013	860,294
County tax revenue	350,000	350,000
Unrestricted gifts, grants and bequests	1,440	1,643
Loss on disposal of property and equipment	<u>(9,087)</u>	<u>(1,538)</u>
Nonoperating revenue, net	<u>1,029,366</u>	<u>1,210,399</u>
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	1,540,258	1,615,345
GRANTS AND CONTRIBUTIONS, NET	<u>2,952</u>	<u>10,516</u>
INCREASE IN NET ASSETS	1,543,210	1,625,861
NET ASSETS, beginning of year	<u>32,994,598</u>	<u>31,368,737</u>
NET ASSETS, end of year	<u>\$ 34,537,808</u>	<u>32,994,598</u>

See notes to financial statements

Lakes Regional Healthcare

Statements of Cash Flows For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third party payors	\$ 24,555,171	23,226,103
Cash paid to employees for salaries and benefits	(12,739,616)	(12,180,279)
Cash paid to suppliers and contractors	(9,380,539)	(8,815,196)
Other receipts and payments, net	<u>511,952</u>	<u>532,212</u>
Net cash provided by operating activities	<u>2,946,968</u>	<u>2,762,840</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County taxes received	350,000	350,000
Unrestricted gifts, grants and bequests	<u>1,440</u>	<u>1,643</u>
Net cash provided by noncapital financing activities	<u>351,440</u>	<u>351,643</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(1,321,594)	(1,180,467)
Payments on long-term debt	(245,000)	(615,000)
Interest paid on long-term debt	<u>(228,383)</u>	<u>(258,296)</u>
Net cash used in capital and related financing activities	<u>(1,794,977)</u>	<u>(2,053,763)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(92,995)	(298,542)
Withdrawals from (deposits to) certificates of deposit, net	(2,045,972)	5,125,825
Interest on investments	<u>686,449</u>	<u>860,188</u>
Net cash provided by (used in) investing activities	<u>(1,452,518)</u>	<u>5,687,471</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	50,913	6,748,191
CASH AND CASH EQUIVALENTS - Beginning of year	<u>9,568,808</u>	<u>2,820,617</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 9,619,721</u>	<u>9,568,808</u>

See notes to financial statements

Lakes Regional Healthcare

Statements of Cash Flows (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 510,892	404,946
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	2,235,728	2,160,422
Interest expense	227,401	255,829
(Increase) decrease in current assets -		
Receivables -		
Patients	1,877	(278,428)
Other	(63,325)	(10,983)
Inventories	84,278	96,573
Prepaid expenses	(32,101)	(53,990)
Increase (decrease) in current liabilities -		
Accounts payable	(64,394)	130,503
Due to restricted funds	9,459	2,838
Salaries, wages and accrued vacation payable	81,812	107,129
Payroll taxes withheld and accrued	60,674	8,101
Other accrued liabilities	36,632	10,914
Estimated third-party payor settlements	<u>(141,965)</u>	<u>(71,014)</u>
Net cash provided by operating activities	\$ <u>2,946,968</u>	<u>2,762,840</u>

See notes to financial statements

(1) **Description of Reporting Entity and Summary of Significant Accounting Policies**

The following describes the reporting entity and is a summary of significant accounting policies of Lakes Regional Healthcare (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa and governed by a seven member Board of Trustees elected for terms of six years.

A. *Reporting Entity*

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

D. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenue 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 accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital 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 Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by donor and bond indenture agreements.

G. Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. Assets Limited as to Use

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and endowments. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

Under Public Hospital Revenue Capital Loan Notes Agreements - These funds are used for the payment of principal and interest on the notes and to provide funds for the construction of additions to and remodeling of the existing Hospital facilities.

By Donor - These funds are restricted for specified purposes as directed by the grantor or donor.

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

I. Restricted Assets

Restricted assets consist primarily of funds designated by the donor or grantor for specified purposes.

J. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees 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 Trustees 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.

K. Capital Assets

Capital asset acquisitions in excess of \$1,500 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

L. Bond Financing Costs

Bond financing costs related to the issuance of the Public Hospital Revenue Capital Loan Notes are included with other assets in the balance sheet and are being amortized over the life of the related notes on a straight-line basis. Amortization expense of \$1,250 and \$1,251 for 2009 and 2008, respectively, is included in the accompanying statements of revenues, expenses and changes in net assets.

M. Compensated Absences

Sick leave does not vest and is accounted for as an expenditure or an expense when it is paid. Vacation leave vests and may be carried forward by an employee in an amount not to exceed 480 hours. Vacation expense is accrued as an expense and a liability as it is earned. Vacation leave expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued vacation leave payable at June 30, 2009 and 2008 was \$695,273 and \$666,411, respectively.

N. 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

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable.

O. Statement of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

P. 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.

Q. Grants and Contributions

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

R. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2009 and 2008 were entirely 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 Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentality's; 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; and certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement 3 at June 30, 2009 and 2008.

(3) Net Patient Service Revenue

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

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on ambulatory payment classifications or fee schedule amounts. Home health services are paid at prospectively determined rates per episode of care. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The Hospital'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 Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

Medicaid. Inpatient acute services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services related to Medicaid beneficiaries are paid based on ambulatory patient groups or fee schedule amounts.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements primarily includes discounts from established charges.

(4) Assets Limited as to Use

By Board

Cash deposits and certificates of deposit designated by the Board for future capital improvements, endowments and employee health insurance claims as of June 30, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Capital Improvements -		
Cash	\$ 3,329	2,361
Certificates of deposit	470,000	446,000
Interest receivable	609	12,175
	<u>\$ 473,938</u>	<u>460,536</u>
Endowments -		
Cash	\$ 4,271	5,343
Certificates of deposit	2,550,566	2,457,000
Interest receivable	9,999	15,792
	<u>\$ 2,564,836</u>	<u>2,478,135</u>

Hospital Revenue Capital Loan Notes Agreements

In connection with the issuance of Lakes Regional Healthcare Revenue Capital Loan Notes, Series 2002, the Hospital is required to maintain the following funds:

Bond Fund -- Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment (Series 2002).

The amounts as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Bond Fund, cash	\$ <u>287,045</u>	<u>294,758</u>

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Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

By Donor

The Mandelbaum Endowment Fund consists of a bequest of \$25,000 received in June 1988. The principal amount of \$25,000 is to remain intact with the interest earned to be used for nurse training.

The Hospital Auxiliary conducts various projects to raise funds which are used to satisfy needs of the Hospital as determined by its executive Board and the Hospital Board of Trustees.

The amounts segregated as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Mandelbaum Endowment fund		
Certificate of deposit	\$ 25,605	25,000
Hospital auxiliary assets, primarily cash and temporary cash investments	<u>109,852</u>	<u>116,359</u>
	<u>\$ 135,457</u>	<u>141,359</u>

(5) Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 were as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 722,552	-	-	722,552
Capital assets, being depreciated:				
Land improvements	590,109	14,189	-	604,298
Hospital buildings	14,456,127	146,681	(71,667)	14,531,141
Medical Office building	3,794,034	6,992	-	3,801,026
Fixed equipment	3,606,971	124,166	(64,268)	3,666,869
Major moveable equipment	11,746,952	1,003,243	(595,605)	12,154,590
Total capital assets, being depreciated	<u>34,194,193</u>	<u>1,295,271</u>	<u>(731,540)</u>	<u>34,757,924</u>
Less accumulated depreciation:				
Land improvements	285,036	26,909	-	311,945
Hospital buildings	6,151,203	555,460	(71,604)	6,635,059
Medical Office building	1,820,469	139,428	-	1,959,897
Fixed equipment	2,983,827	100,784	(64,042)	3,020,569
Major moveable equipment	7,764,094	1,411,897	(585,637)	8,590,354
Total accumulated depreciation	<u>19,004,629</u>	<u>2,234,478</u>	<u>(721,283)</u>	<u>20,517,824</u>
Total capital assets, being depreciated, net	<u>15,189,564</u>	<u>(939,207)</u>	<u>(10,257)</u>	<u>14,240,100</u>
Total capital assets, net	<u>\$ 15,912,116</u>	<u>(939,207)</u>	<u>(10,257)</u>	<u>14,962,652</u>

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 722,552	--	--	722,552
Capital assets, being depreciated:				
Land improvements	577,128	12,981	--	590,109
Hospital buildings	14,423,408	32,719	--	14,456,127
Medical Office building	3,794,034	--	--	3,794,034
Fixed equipment	3,187,214	419,757	--	3,606,971
Major moveable equipment	11,017,171	760,583	(30,802)	11,746,952
Total capital assets, being depreciated	<u>32,998,955</u>	<u>1,226,040</u>	<u>(30,802)</u>	<u>34,194,193</u>
Less accumulated depreciation:				
Land improvements	257,559	27,477	--	285,036
Hospital buildings	5,596,026	555,177	--	6,151,203
Medical Office building	1,681,324	139,145	--	1,820,469
Fixed equipment	2,923,815	60,012	--	2,983,827
Major moveable equipment	6,416,000	1,377,358	(29,264)	7,764,094
Total accumulated depreciation	<u>16,874,724</u>	<u>2,159,169</u>	<u>(29,264)</u>	<u>19,004,629</u>
Total capital assets, being depreciated, net	<u>16,124,231</u>	<u>(933,129)</u>	<u>(1,538)</u>	<u>15,189,564</u>
Total capital assets, net	<u>\$ 16,846,783</u>	<u>(933,129)</u>	<u>(1,538)</u>	<u>15,912,116</u>

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2009 and 2008 consisted of the following:

	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
Capital loan notes (A)	\$ <u>4,680,000</u>	<u>--</u>	<u>245,000</u>	<u>4,435,000</u>	<u>260,000</u>
	June 30, 2007	Borrowings	Payments	June 30, 2008	Due Within One Year
Capital loan notes (A)	\$ <u>5,295,000</u>	<u>--</u>	<u>615,000</u>	<u>4,680,000</u>	<u>245,000</u>

- (A) On May 6, 2002, \$8,000,000 of Hospital Revenue Capital Loan Notes were issued by Lakes Regional Healthcare pursuant to the provisions of Chapter 331 and 347 of the Code of Iowa, as amended, and in conformity with a resolution of the Lakes Regional Healthcare Board of Trustees, and, as such, the Hospital has pledged future revenues, net of specified operating expenses, to repay the bonds. The proceeds of the Notes was used to retire the outstanding principal amount of Public Hospital Revenue Capital Loan Notes, Series 1993(B), and provides funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the notes is 4.88% and will reset on June 1 of the years 2012 and 2017 at the rate equal to the five-year United States Treasury Note Index plus .25%.

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

Annual debt service requirements related to the Notes assuming a 4.88% interest rate are as follows:

Year	Interest Rates	Principal	Interest	Total
2010	4.88	260,000	218,640	478,640
2011	4.88	270,000	205,823	475,823
2012	4.88	280,000	192,512	472,512
2013	4.88	295,000	178,708	473,708
2014	4.88	310,000	164,165	474,165
2015 – 2019	4.88	1,760,000	579,015	2,339,015
2020 – 2022	4.88	1,260,000	126,205	1,386,205
		\$ 4,435,000	1,665,068	6,100,068

Under the terms of the Notes Agreements, the Hospital is required to maintain certain funds which are included in the assets whose use is limited in the financial statements.

The Hospital recognized interest expense of \$227,401 and \$255,829 during the years ended June 30, 2009 and 2008, respectively.

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$2,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future should professional liability insurance not be obtained, should coverage be limited and/or not available.

(8) Employee Retirement and Defined Benefit Pension Plan

The Hospital 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, PO Box 9117, Des Moines, Iowa 50360-9117.

Plan members are required to contribute 4.10% of their annual salary and the Hospital is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$615,405, \$555,855 and \$491,935, respectively, equal to the required contributions for each year.

(9) Rental Income

The Hospital is the lessor of certain office space leased under various noncancelable operating leases through 2014. Rental income is recorded monthly as earned in other operating revenue. The future minimum rentals under these leases are as follows:

2010	\$ 196,797
2011	188,272
2012	95,373
2013	86,928
2014	65,196

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

(10) Contingencies

The Hospital is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

(11) Concentrations of Credit Risk

The Hospital is located in Spirit Lake, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	31.3%	30.1%
Medicaid	5.2	4.8
Blue Cross	16.9	16.5
Other third-party payors	32.7	33.3
Private pay	13.9	15.3
	<u>100.0%</u>	<u>100.0%</u>

The Hospital 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.

Lakes Regional Healthcare

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (Cash Basis) June 30, 2009 and 2008

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 resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital 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.

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted.

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 350,000	-	350,000	345,564	4,436
Estimated other revenues / receipts	<u>25,943,395</u>	<u>(169,797)</u>	<u>25,773,598</u>	<u>27,408,353</u>	<u>(1,634,755)</u>
	26,293,395	(169,797)	26,123,598	27,753,917	(1,630,319)
Expenses / Disbursements	<u>24,750,185</u>	<u>(827,809)</u>	<u>23,922,376</u>	<u>26,116,642</u>	<u>2,194,266</u>
Net	1,543,210	658,012	2,201,222	\$ <u>1,637,275</u>	<u>563,947</u>
Balance beginning of year	<u>32,994,598</u>	<u>(13,716,794)</u>	<u>19,277,804</u>		
Balance end of year	\$ <u>34,537,808</u>	<u>(13,058,782)</u>	<u>21,479,026</u>		

Patient Service Revenue
For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES								
Medical, surgical and obstetrics	\$ 3,179,719	717,476	--	3,897,195	2,823,371	655,878	--	3,479,249
Swing bed	--	--	442,606	442,606	--	--	483,855	483,855
Observation	36,382	166,395	--	202,777	29,453	141,035	--	170,488
Coronary care	185,103	--	--	185,103	147,375	--	--	147,375
Nursery	204,645	--	--	204,645	175,428	--	--	175,428
	<u>3,605,849</u>	<u>883,871</u>	<u>442,606</u>	<u>4,932,326</u>	<u>3,175,627</u>	<u>796,913</u>	<u>483,855</u>	<u>4,456,395</u>
OTHER PROFESSIONAL SERVICES								
Operating and recovery rooms	1,684,731	5,098,490	16,333	6,799,554	1,800,044	4,823,793	16,031	6,639,868
Pharmacy	1,575,672	3,970,976	309,011	5,855,659	1,468,998	3,256,916	292,491	5,018,405
Central services and supply	1,892,410	1,371,907	9,593	3,273,910	2,051,039	1,422,309	12,930	3,486,278
Emergency and outpatient service	891,534	3,715,474	1,051	4,608,059	813,356	3,627,304	514	4,441,174
Laboratory	975,060	2,976,727	77,787	4,029,574	913,660	2,622,448	81,806	3,617,914
CT scanner	397,004	2,150,705	10,637	2,558,346	412,605	1,962,303	6,062	2,380,970
MRI	93,534	1,451,483	2,020	1,547,037	86,132	1,509,186	3,988	1,599,306
Respiratory therapy	1,041,233	97,785	274,552	1,413,570	982,349	126,551	227,146	1,336,046
Physical therapy	134,930	564,873	74,753	774,556	166,187	747,992	98,682	1,012,861
Radiology	210,390	793,004	11,028	1,014,422	230,512	790,120	11,270	1,031,902
Anesthesiology	278,866	583,679	615	863,160	321,005	616,224	1,476	938,705
Ambulance	214,147	814,394	4,026	1,032,567	139,544	696,219	9,123	844,886
Ultrasound	86,811	594,059	6,573	687,443	106,710	579,631	7,161	693,502
Intravenous therapy	345,190	342,058	18,360	705,608	318,893	360,825	21,390	701,108
Home Health	--	823,801	--	823,801	--	769,424	--	769,424
Oncology	4,648	628,660	112	633,420	6,228	478,414	9	484,651
Electrocardiology	97,494	209,100	7,102	313,696	88,063	185,262	5,437	278,762
Blood	195,062	217,131	11,183	423,376	199,161	126,516	15,729	341,406
Nuclear medicine	15,270	173,413	1,418	190,101	24,271	262,177	2,135	288,583
Public Health	--	231,728	--	231,728	--	194,773	--	194,773
Hospice	263,521	--	--	263,521	491,398	--	--	491,398
Delivery and labor room	176,455	58,595	--	235,050	150,891	38,458	--	189,349
Occupational therapy	10,601	145,469	17,415	173,485	9,815	134,513	21,980	166,308
Cardiac Rehab	--	154,923	--	154,923	339	148,256	--	148,595
Mammogram	185	207,060	--	207,245	766	189,401	--	190,167
Enterostomal therapy	16,795	82,975	9,730	109,500	15,995	80,955	9,815	106,765
Stress testing	4,292	58,974	--	63,266	6,443	72,281	--	78,724
Speech therapy	7,395	38,470	4,180	50,045	4,793	31,100	5,825	41,718
Outpatient Clinic	3,579	200,737	--	204,316	2,487	257,290	192	259,969
Electroencephalography	328	56,458	--	56,786	1,968	50,849	--	52,817
	<u>10,617,137</u>	<u>27,813,108</u>	<u>867,479</u>	<u>39,297,724</u>	<u>10,813,652</u>	<u>26,161,490</u>	<u>851,192</u>	<u>37,826,334</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>14,222,986</u>	<u>28,696,979</u>	<u>1,310,085</u>	<u>44,230,050</u>	<u>13,989,279</u>	<u>26,958,403</u>	<u>1,335,047</u>	<u>42,282,729</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(17,812,307)				(17,085,404)
Charity care services and other discounts, based on charges forgone				(333,164)				(441,831)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				\$ <u>26,084,579</u>				<u>24,755,494</u>
PROVISION FOR BAD DEBT				<u>(1,389,320)</u>				<u>(1,179,949)</u>
NET PATIENT SERVICE REVENUE				\$ <u>24,695,259</u>				<u>23,575,545</u>

Other Operating Revenue
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Rental income	\$ 299,932	295,786
Meals sold	130,567	110,564
Lifeline	67,611	59,588
Meals on Wheels	24,316	19,315
Other	25,252	42,939
Dietary instruction	7,037	4,080
Medical records transcriptions	<u>513</u>	<u>1,116</u>
	<u>\$ 555,228</u>	<u>533,388</u>

Departmental Expenses
For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES								
Medical and surgical	\$ 2,379,287	1,206	164,920	2,545,413	2,363,332	21,163	168,470	2,552,965
Administration	486,356	246	6,756	493,358	448,048	69	27,142	475,259
Obstetrics	160,686	--	33,085	193,771	148,914	2,300	21,381	172,595
Coronary care	113,266	--	4,900	118,166	105,183	--	2,919	108,102
Nursery	68,569	--	13,947	82,516	65,965	--	12,412	78,377
	<u>3,208,164</u>	<u>1,452</u>	<u>223,608</u>	<u>3,433,224</u>	<u>3,131,442</u>	<u>23,532</u>	<u>232,324</u>	<u>3,387,298</u>
OTHER PROFESSIONAL SERVICES								
Central services and supply	58,099	--	1,266,564	1,324,663	50,718	158	1,286,959	1,337,835
Pharmacy	232,071	--	2,035,897	2,267,968	214,795	--	1,622,914	1,837,709
Emergency room	402,834	1,079,525	49,006	1,531,365	402,302	938,326	37,589	1,378,217
Operating and recovery room	512,588	--	305,902	818,490	548,788	3,952	354,626	907,366
Laboratory	445,654	138,794	277,015	861,463	422,808	135,699	268,266	826,773
Ambulance	459,599	--	77,385	536,984	451,920	1,255	86,223	539,398
Physical therapy	--	329,294	12,602	341,896	--	411,493	13,939	425,432
Home Health	538,289	29,376	64,345	632,010	481,219	32,265	57,695	571,179
Radiology	284,898	7,641	66,433	358,972	271,219	8,828	66,073	346,120
Medical records	294,088	13,778	49,118	356,984	280,017	16,778	54,529	351,324
Respiratory therapy	134,269	--	51,573	185,842	122,199	26,587	50,675	199,461
Public health	193,511	2,658	22,900	219,069	187,524	1,159	26,551	215,234
Same day surgery	176,080	--	24,801	200,881	155,181	37	21,811	177,029
Hospice	120,780	59,510	32,568	212,858	105,971	171,063	55,724	332,758
CT scanner	93,790	1,003	166,710	261,503	75,679	--	160,218	235,897
Oncology	107,257	8,348	21,139	136,744	101,862	2,934	12,279	117,075
Blood bank	--	170,694	18,892	189,586	--	127,734	18,080	145,814
Electrocardiology	77,300	71,413	3,399	152,112	75,487	59,371	3,120	137,978
Nuclear medicine	--	82,361	--	82,361	--	107,280	--	107,280
Quality assurance	57,726	--	2,131	59,857	57,908	55	983	58,946
Ultrasound	63,688	10,280	12,125	86,093	72,857	9,436	15,772	98,065
Anesthesiology	--	5,877	68,108	73,985	--	7,475	60,597	68,072
MRI	61,053	--	40,213	101,266	31,760	--	40,758	72,518
Delivery and labor room	53,847	--	7,971	61,818	51,802	--	7,182	58,984
Social services	25,276	--	426	25,702	24,329	--	324	24,653
Speech therapy	--	32,753	--	32,753	--	31,228	--	31,228
Enterostomal therapy	--	32,855	1,375	34,230	--	28,651	1,184	29,835
Outpatient Clinic	76,324	--	22,673	98,997	63,488	852	20,123	84,463
Stress testing	4,269	--	--	4,269	3,786	--	--	3,786
Electroencephalography	--	31,850	--	31,850	191	3,065	--	3,256
Library	--	--	148	148	--	--	139	139
	<u>4,473,290</u>	<u>2,108,010</u>	<u>4,701,419</u>	<u>11,282,719</u>	<u>4,253,810</u>	<u>2,125,681</u>	<u>4,344,333</u>	<u>10,723,824</u>
GENERAL SERVICES								
Plant operation and maintenance	226,322	149,203	700,775	1,076,300	216,983	159,280	683,340	1,059,603
Dietary	342,550	1,190	286,397	630,137	331,682	592	265,664	597,938
Housekeeping	186,706	7,306	53,534	247,546	172,157	10,684	53,517	236,358
Laundry and linen	17,653	55,318	10,746	83,717	17,247	49,292	11,728	78,267
	<u>773,231</u>	<u>213,017</u>	<u>1,051,452</u>	<u>2,037,700</u>	<u>738,069</u>	<u>219,848</u>	<u>1,014,249</u>	<u>1,972,166</u>
ADMINISTRATIVE SERVICES	<u>1,638,889</u>	<u>291,353</u>	<u>608,466</u>	<u>2,538,708</u>	<u>1,486,175</u>	<u>281,092</u>	<u>546,900</u>	<u>2,314,167</u>
NONDEPARTMENTAL								
Employee Benefits	--	--	2,788,528	2,788,528	--	--	2,686,013	2,686,013
Depreciation and amortization	--	--	2,235,728	2,235,728	--	--	2,160,422	2,160,422
Interest	--	--	227,401	227,401	--	--	255,829	255,829
Insurance	--	--	206,177	206,177	--	--	211,233	211,233
	<u>--</u>	<u>--</u>	<u>5,457,834</u>	<u>5,457,834</u>	<u>--</u>	<u>--</u>	<u>5,313,497</u>	<u>5,313,497</u>
TOTAL EXPENSES	<u>\$ 10,093,574</u>	<u>2,613,832</u>	<u>12,042,779</u>	<u>24,750,185</u>	<u>9,609,496</u>	<u>2,650,153</u>	<u>11,451,303</u>	<u>23,710,952</u>

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2009 and 2008**

ANALYSIS OF AGING

Days Since Discharge	2009		2008	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 4,763,677	68.66 %	4,792,595	69.39 %
61 - 90	464,149	6.69	433,897	6.28
91 - 180	729,263	10.51	876,614	12.69
181 - 364	491,205	7.08	406,358	5.88
> 1 year	489,591	7.06	398,011	5.76
	<u>6,937,885</u>	<u>100.00 %</u>	<u>6,907,475</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(1,340,972)		(1,233,220)	
Allowance for contractual adjustments	<u>(1,804,178)</u>		<u>(1,879,643)</u>	
	<u>\$ 3,792,735</u>		<u>\$ 3,794,612</u>	

	2009	2008
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	53.07 days	55.95 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 1,233,220	1,411,663
Provision of uncollectible accounts	1,389,320	1,179,949
Recoveries of accounts previously written off	380,437	335,579
Accounts written off	<u>(1,662,005)</u>	<u>(1,693,971)</u>
Balance, end of year	<u>\$ 1,340,972</u>	<u>1,233,220</u>

Inventory / Prepaid Expenses
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
INVENTORY:		
Surgical services	\$ 364,154	427,799
Pharmacy	115,688	132,260
Central storeroom	132,666	128,137
Laboratory	28,354	34,475
Fuel oil	26,262	26,486
Dietary	8,880	8,948
Radiology	10,722	13,124
Computers	8,265	7,804
Respiratory therapy/stress testing	<u>2,533</u>	<u>2,769</u>
	<u>\$ 697,524</u>	<u>781,802</u>
PREPAID EXPENSES:		
Insurance	\$ 174,961	134,686
Maintenance contracts	102,505	108,518
Other	<u>2,430</u>	<u>4,591</u>
	<u>\$ 279,896</u>	<u>247,795</u>

**Financial and Statistical Highlights
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Patient days:		
Adult and pediatric-		
Medicare	3,367	3,189
Other	<u>1,433</u>	<u>1,510</u>
	4,800	4,699
Swing bed-		
Skilled	1,115	1,186
Newborn	<u>416</u>	<u>398</u>
Total	<u>6,331</u>	<u>6,283</u>
Patient discharges:		
Adult and pediatric-		
Medicare	854	816
Other	<u>546</u>	<u>555</u>
	1,400	1,371
Swing bed-		
Skilled	216	237
Newborn	<u>191</u>	<u>176</u>
Total	<u>1,807</u>	<u>1,784</u>
Average length of stay:		
Adult and pediatric-		
Medicare	3.94 days	3.91 days
Other	2.62 days	2.72 days
Swing bed-		
Skilled	5.16 days	5.00 days
Newborn	2.18 days	2.26 days
Surgical procedures	3,671	3,894
Emergency room visits	6,368	6,476
Number of employees - full-time equivalents	210.49	209.75



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Lakes Regional Healthcare
Spirit Lake, Iowa:

We have audited the financial statements of Lakes Regional Healthcare (Hospital) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon, dated September 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We noted no deficiencies in internal control that we consider to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operations that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about the Hospital'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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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. Prior year statutory comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lakes Regional Healthcare during the course of the audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Sp. in, Johnson, Seatek & Quist, LCP

Omaha, Nebraska,
September 21, 2009.

Lakes Regional Healthcare

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2009

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No significant deficiencies were identified.

Part III: Other Findings Related to Required Statutory Reporting

Certified Budget: Hospital disbursements during the year ended June 30, 2009 did not exceed amounts budgeted

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

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

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

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Lakes Regional Healthcare

Audit Staff For the Year Ended June 30, 2009

This audit was performed by:

- Roger E. Thompson, FHFMA, CPA, Partner
- Brian D. Green, FHFMA, CPA, Partner
- Joseph L. Harnisch, CPA, Manager
- Natalie E. Pape, Staff Auditor
- Shannon M. Zuerlein, Staff Auditor