

**FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

**KOSSUTH REGIONAL
HEALTH CENTER**

KOSSUTH REGIONAL HEALTH CENTER

Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS	1
INDEPENDENT AUDITOR’S REPORT	2-3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4-6
BASIC FINANCIAL STATEMENTS	
Balance Sheets	7
Balance Sheets – Foundation	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Revenues, Expenses, and Changes in Net Assets – Foundation	10
Statements of Cash Flows	11-12
Statements of Cash Flows – Foundation	13
Notes to Financial Statements	14-29
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	30
Notes to Required Supplementary Information – Budgetary reporting	31
OTHER SUPPLEMENTARY INFORMATION	
Independent Auditor’s Report on Supplementary Information Schedules	32
Net Patient Service Revenue	33
Adjustments to Patient Service Revenue and Other Operating Revenues	34
Operating Expenses	35-38
Patient Receivables and Allowance for Doubtful Accounts	39
Supplies and Prepaid Expense	40
Insurance	41-42
Statistical Information (Unaudited)	43
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 STANDARDS</i>	44-45

KOSSUTH REGIONAL HEALTH CENTER

Table of Contents

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	46-47
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	48
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	50-53

**KOSSUTH REGIONAL HEALTH CENTER
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jack Munch	Chairperson	December 31, 2014
Thomas Geelan	Treasurer	December 31, 2014
Conley Nelson	Secretary	December 31, 2012
Eileen Bormann	Member	December 31, 2012
John Cowin	Member	December 31, 2010

Health Center Officials

Scott Curtis	Administrator
Daniel Myers	Controller



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the accompanying balance sheets of Kossuth Regional Health Center as of June 30, 2009 and 2008, and its discretely presented component unit as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 as of June 30, 2009 and 2008, and its discretely presented component unit as of December 31, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Health Center's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Governmental Auditing Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2009, 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.

Management's Discussion and Analysis on pages 4 through 6 and the Budgetary Comparison Schedules on pages 29 and 30 are not required parts of the basic financial statements but are supplementary information required by the Governmental 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. We did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 21, 2009

KOSSUTH REGIONAL HEALTH CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

As management of the Kossuth Regional Health Center, we offer readers a narrative overview and analysis of the financial activity of the facility. We encourage readers to consider the information presented along with the subsequent audited financial statements.

Staff Highlights

Overall, the staff at Kossuth Regional Health Center grew slightly with an increase of 5 full time equivalent employees from the previous year. This growth was a result of additional support staff necessary to support the implementation of the electronic health record as well as to support the transition to the "POD" concept in the physician clinics.

Medical staff highlights included the retirement of Marc Peterson, PA-c effective October of 2008 and the addition of Harry Condoleon, DO joined KRHC as our General Surgeon in June of 2008.

A Locum Tenens Physician Assistant, Frank Parks, PA-c also provided support to the physician clinic during the month of June 2008.

Operating Highlights

Electronic Health Records at KRHC

In the summer of 2008, KRHC "went live" with a new electronic health records system. The transition came after many months of training, education and preparation and brought a variety of benefits to our patients.

Sleep Lab Added

Sleep evaluation and overnight sleep services were brought to KRHC in May of 2008, through a partnership with Mercy Medical Center – North Iowa.

Clinic Expansion and Renovation

The clinic expansion and renovation allowed for the clinic to introduce the "POD concept." This concept places two physicians in a suite of exam rooms, along with nurses and a POD coordinator. This improves communication amongst providers, and improved coordination of care for patients. The Specialty Clinic was also relocated to an area next to the family practice clinic, providing improved physician communication and greater patient privacy.

New Space for Rejuvenation Clinic

The Rejuvenation Clinic of KRHC, which offers a wide range of aesthetic medicine services such as Botox, spider vein treatment, Lipo Dissolve, hair removal and much more, moved to a new space in the lower level of the KRHC Clinic. The Rejuvenation Clinic expanded into the new lower level of the clinic and is staffed by Dr. Alan Hjelle, Jamie Elbert and Chaunez Traun.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Capital Campaign

The Hospital's \$1.5 million capital campaign kicked off in the spring of 2008. Funds will be put toward construction costs of the Hospital's three-story addition. The campaign is still underway with \$1.37 million raised to date.

Financial Highlights

- The Hospital's assets exceeded its liabilities by \$14,829,698 at June 30, 2009.
- The Hospital recorded income from operations of \$132,198 for the fiscal year ending on June 30, 2009. A significant decline in profitability was seen from the previous year due to lower surgery volumes after the departure of Dr. Prasad Nadkarni on January 1, 2008. After a long recruiting period, Dr. Harry Condoleon began his Surgeon practice during the later days in June 2009.
- Total days cash on hand was reported at 92.77 at June 30, 2009 compared to 63.60 at June 30, 2008. The source of much of the cash increase is due to the decline in Accounts Receivable from Patient balances. Cash reserves will be important as we proceed with the current construction project.
- 52 days in net patient accounts receivable was reported at June 30, 2009. This compares to 63 days at June 30, 2008. The decrease in the days in accounts receivable was seen after the conversion of the Clinic patient accounts software system. This conversion had resulted in much higher accounts receivable as of June 30, 2008.
- The Hospital had 3,297 patient discharge days in 2009, a decrease of 5.3% from 2008.
- The Hospital had 26,813 outpatient registrations in 2009.
- The Hospital had 42,093 visits at its Clinics in Algona and Bancroft in 2009, a decrease of 1.7% from 2008. The departure of Dr. Manasi Nadkarni in January 2008 along with the retirement of Marc Peterson, PA-c, in August 2008 had a negative impact when compared with the previous year.

Overview of the Financial Statements

The audited financial statements from Eide Bailly LLP include the Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, Statements of Cash Flows, Notes to Financial Statements, and Supplementary Schedules.

The Balance Sheets at June 30, 2009, show total assets of \$19,431,439, total liabilities of \$4,601,741 and net assets of \$14,829,698. Total current assets were \$9,064,647, and total current liabilities were \$2,401,741 for a current ratio of 3.7.

KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

The Statements of Revenues, Expenses, and Changes in Net Assets reports total operating revenues of \$24,120,129, and total operating expenses of \$23,987,931 for an operating profit of \$132,198. Net non-operating revenue is \$485,353. There was no adjustment for affiliated agreement expenses for 2009, as there has been in prior years. Therefore, there was an \$834,836 increase in Net Assets from \$13,994,862 to \$14,829,698.

As reported in the Statements of Cash Flows, cash and cash equivalents increased from \$928,353 at June 30, 2008 to \$3,409,891 at June 30, 2009. The net increase in cash and cash equivalents of \$2,481,538 came from operating activities of \$2,101,021, noncapital financing activities of \$377,190, capital and related financing activities of -\$410,152, and investing activities of \$413,479.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. The reader is encouraged to examine them at his or her leisure.

The Supplementary Schedules give the reader much more detail than is disclosed in the Statements of Revenues, Expenses, and Changes in Net Assets. The revenues are detailed by department and by patient status, and also compared with the previous year. The expenses are detailed by department and by natural expense classification, and also compared to the previous year.

Land, Buildings, and Equipment

Land, buildings, and equipment of Kossuth Regional Health Center, as of June 30, 2009, amounted to \$8,398,598 (net of accumulated depreciation).

At year-end, Kossuth Regional Health Center had \$10,000 debt outstanding remaining from the Surgery Expansion project, which took place in 2001. A note to finance a Three Story Wing onto the southeast part of the building is currently underway. As of June 30, 2009, we had borrowed construction funds for \$2,200,000 on the project.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Controller at the following address:

Kossuth Regional Health Center
Attn: Controller
1515 South Phillips Street
Algona, IA 50511

KOSSUTH REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,409,891	\$ 928,353
Investments - Note 4	693,568	1,078,039
Assets limited as to use or restricted - Note 4	180,505	115,627
Receivables		
Patient, net of estimated uncollectibles of \$1,623,000 in 2009 and \$1,548,000 in 2008	2,918,316	3,363,666
Estimated third-party payor settlements	190,000	1,000,000
Succeeding year property tax receivable	312,773	298,000
Other	204,831	47,506
Supplies	601,918	518,722
Prepaid expense	552,845	521,314
Total current assets	<u>9,064,647</u>	<u>7,871,227</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for hospice expenditures	197,121	222,793
Internally designated for capital improvements	1,127,131	1,279,492
Internally designated for health benefits	7,368	135,783
Restricted under debt agreement for capital improvements	191,581	-
Restricted under debt agreement	260,948	132,638
Total assets limited as to use or restricted	<u>1,784,149</u>	<u>1,770,706</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 6	<u>8,398,598</u>	<u>6,795,928</u>
OTHER ASSETS		
Deferred financing costs - Note 7	<u>184,045</u>	<u>-</u>
Total assets	<u>\$ 19,431,439</u>	<u>\$ 16,437,861</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 8	\$ 10,000	\$ 125,627
Accounts payable		
Trade	601,385	521,138
Construction	180,505	68,162
Affiliated organization	196,765	304,666
Estimated health claims payable - Note 12	309,000	232,000
Accrued expenses		
Salaries and wages	247,779	195,839
Paid leave	525,967	473,237
Payroll taxes and employee benefits	12,294	10,434
Other	5,273	7,589
Deferred revenue for succeeding year property tax receivable	<u>312,773</u>	<u>298,000</u>
 Total current liabilities	 2,401,741	 2,236,692
 LONG-TERM DEBT, less current maturities - Note 8	 <u>2,200,000</u>	 <u>206,307</u>
 Total liabilities	 <u>4,601,741</u>	 <u>2,442,999</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,188,598	6,463,994
Restricted under debt agreement	452,529	132,638
Unrestricted	<u>8,188,571</u>	<u>7,398,230</u>
 Total net assets	 <u>14,829,698</u>	 <u>13,994,862</u>
 Total liabilities and net assets	 <u>\$ 19,431,439</u>	 <u>\$ 16,437,861</u>

KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 117,038	\$ 130,132
Unconditional Promises to Give - Note 5	<u>508,576</u>	<u>-</u>
Total current assets	625,614	130,132
NONCURRENT CASH AND INVESTMENTS - Note 4	<u>1,254,233</u>	<u>1,814,378</u>
Total assets	<u>\$ 1,879,847</u>	<u>\$ 1,944,510</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants payable	\$ 19,984	\$ 6,836
NET ASSETS, unrestricted	<u>1,859,863</u>	<u>1,937,674</u>
Total liabilities and net assets	<u>\$ 1,879,847</u>	<u>\$ 1,944,510</u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$780,887 in 2009 and \$848,661 in 2008) - Notes 2 and 3	\$ 20,645,925	\$ 19,454,151
Other operating revenues	<u>3,474,204</u>	<u>3,229,853</u>
TOTAL OPERATING REVENUES	<u>24,120,129</u>	<u>22,684,004</u>
OPERATING EXPENSES		
Salaries and wages	7,680,034	7,155,755
Employee benefits	3,139,680	2,717,875
Supplies and other expenses	12,336,252	11,782,008
Depreciation	824,535	770,907
Interest and amortization	7,430	20,076
TOTAL OPERATING EXPENSES	<u>23,987,931</u>	<u>22,446,621</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	132,198	237,383
AFFILIATION AGREEMENT EXPENSE	<u>-</u>	<u>(118,692)</u>
OPERATING INCOME	<u>132,198</u>	<u>118,691</u>
NONOPERATING REVENUES		
County tax revenue	298,248	295,753
Investment income	107,329	211,392
Noncapital contributions and grants	67,917	38,564
Gain on sale of property and equipment	834	-
Dialysis unit rental income	11,025	10,106
NET NONOPERATING REVENUES	<u>485,353</u>	<u>555,815</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	617,551	674,506
Capital contributions and grants	<u>217,285</u>	<u>78,890</u>
INCREASE IN NET ASSETS	834,836	753,396
NET ASSETS, BEGINNING OF YEAR	<u>13,994,862</u>	<u>13,241,466</u>
NET ASSETS, END OF YEAR	<u>\$ 14,829,698</u>	<u>\$ 13,994,862</u>

See notes to financial statements.

KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Contributions	\$ 707,304	\$ 117,061
Investment income (loss)	<u>(579,211)</u>	<u>120,561</u>
 TOTAL OPERATING REVENUES	 <u>128,093</u>	 <u>237,622</u>
 EXPENSES		
Fundraising	86,160	24,638
Contributions to Kossuth Regional Health Center	108,735	21,866
Supplies and other expenses	<u>11,009</u>	<u>13,490</u>
 TOTAL EXPENSES	 <u>205,904</u>	 <u>59,994</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 (77,811)	 177,628
 NET ASSETS, BEGINNING OF YEAR	 <u>1,937,674</u>	 <u>1,760,046</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,859,863</u>	 <u>\$ 1,937,674</u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 21,901,275	\$ 17,934,528
Payments of salaries and wages	(7,498,364)	(7,027,522)
Payments of supplies and other expenses	(15,618,769)	(14,985,316)
Other receipts and payments, net	<u>3,316,879</u>	<u>3,294,446</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>2,101,021</u>	<u>(783,864)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital contributions and grants received	67,917	38,564
County tax revenue received	298,248	295,753
Dialysis unit rental income	<u>11,025</u>	<u>10,106</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>377,190</u>	<u>344,423</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(2,427,205)	(2,002,122)
Increase in construction payables	112,343	68,162
Proceeds from sale of property and equipment	834	-
Principal payments on long-term debt	(1,571,934)	(119,562)
Proceeds from issuance of long-term debt	3,450,000	-
Interest payments on long-term debt, excluding amounts capitalized	(7,430)	(20,076)
Payment of debt issuance costs	(184,045)	-
Capital contributions and grants	<u>217,285</u>	<u>78,890</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(410,152)</u>	<u>(1,994,708)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	107,329	211,392
Increase in investments	384,471	812,898
Decrease (increase) in assets limited as to use or restricted	<u>(78,321)</u>	<u>830,757</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>413,479</u>	<u>1,855,047</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,481,538	(579,102)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>928,353</u>	<u>1,507,455</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,409,891</u>	<u>\$ 928,353</u>

(continued)

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income	\$ 132,198	\$ 118,691
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation	824,535	770,907
Interest expense considered capital and related financing activity	7,430	20,076
Provision for bad debts	780,887	848,661
Changes in assets and liabilities		
Patient receivables	(335,537)	(1,508,284)
Estimated third-party payor settlements	810,000	(860,000)
Other receivables	(157,325)	64,593
Supplies	(83,196)	5,716
Prepaid expense	(31,531)	(103,852)
Accounts payable - trade and related	(27,654)	(267,009)
Estimated health claims payable	77,000	32,000
Accrued expenses	<u>104,214</u>	<u>94,637</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 2,101,021</u>	<u>\$ (783,864)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest, including amounts capitalized of \$25,052 in 2009 and \$-0- in 2008	<u>\$ 32,482</u>	<u>\$ 20,076</u>

KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors and contributors	\$ 198,728	\$ 117,061
Interest received	8,470	12,706
Cash paid to suppliers	(97,169)	(38,128)
Payments to Kossuth Regional Health Center	<u>(95,587)</u>	<u>(18,695)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>14,442</u>	<u>72,944</u>
INVESTING ACTIVITIES		
Purchase of investments	<u>(27,536)</u>	<u>(33,439)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,094)	39,505
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>130,132</u>	<u>90,627</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 117,038</u>	<u>\$ 130,132</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (77,811)	\$ 177,628
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized loss on investments	655,695	171,177
Realized gain on sale of investments, reinvested capital gains and dividends on investments	(68,014)	(279,032)
Change in pledges receivable	(508,576)	-
Increase in grants payable	<u>13,148</u>	<u>3,171</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 14,442</u>	<u>\$ 72,944</u>

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kossuth Regional Health Center (Health Center) consists of a 25-bed acute care hospital located in Algona, Iowa. The Health Center is organized under Chapter 347A of the Code of Iowa. The Health Center provides health care services under the name of Kossuth Regional Health Center in accordance with a Master Affiliation Agreement discussed further in Note 11. Services are provided to residents of Kossuth and surrounding counties in Iowa. The Health Center is exempt from income taxes as a political subdivision.

The Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes the Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Health Center.

Kossuth Regional Health Center Foundation (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 Health Center does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Health Center.

Basis of Presentation

The balance sheets display the Health Center'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.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

Measurement Focus and 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 Health Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, 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 Procedure.

Use of Estimates

The preparation of financial statements in conformity with 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted and investments.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims 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 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.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

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. 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.

Supplies

Supplies are stated at lower of average cost or market.

Investments

Investments are valued at purchase costs, or fair market value at date of acquisition if donated. Investments consist of certificates of deposit with original deposits greater than three months.

Assets Limited As to Use or Restricted

Assets limited as to use or restricted 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 donors 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 nonoperating revenues to the extent expended within the period.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Land, buildings, and equipment donated for Health Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest expense related to construction projects is capitalized. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	8-20 years
Buildings and fixed equipment	5-56 years
Major movable equipment	3-25 years

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Compensated Absences

Health Center employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of paid leave is recorded as a current liability on the balance sheets. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009.

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.

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 nonexchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

Grants and Contributions

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 or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$53,471 and \$42,677 for advertising costs for the years ended June 30, 2009 and 2008, respectively.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Charity Care

To fulfill its mission of community service, 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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Subsequent Events

The Health Center has evaluated subsequent events through October 21, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 - CHARITY CARE AND COMMUNITY BENEFITS

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$94,342 and \$60,235 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon the Health Center's overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$60,000 and \$41,000, respectively.

In addition, the Health Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

The Health Center also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

NOTE 3 - NET PATIENT SERVICE REVENUE

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

Medicare

The Health Center is licensed as a Critical Access Health Center (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2007.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2006.

Other Payors

The Health Center has also entered into payment agreements with Blue Cross and other commercial insurance carriers and other organizations. The basis for reimbursement under these agreements may include discounts from established charges.

Laws and regulations governing Medicare, Medicaid, and other 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 47% and 7%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2009, and 52% and 7%, respectively, of the Health Center's net patient service revenue, for the year ended June 30, 2008.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 32,264,579</u>	<u>\$ 28,231,182</u>
Contractual adjustments:		
Medicare	(5,951,771)	(4,759,367)
Medicaid	(1,179,039)	(830,790)
Other	<u>(3,706,957)</u>	<u>(2,338,213)</u>
Total contractual adjustments	<u>(10,837,767)</u>	<u>(7,928,370)</u>
Net patient service revenue	21,426,812	20,302,812
Provision for bad debts	<u>(780,887)</u>	<u>(848,661)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 20,645,925</u>	<u>\$ 19,454,151</u>

NOTE 4 - CASH AND DEPOSITS

The Health Center'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 Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

At June 30, 2009 and 2008, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	\$ 761,461	\$ 376,003
Certificates of deposit	<u>1,896,761</u>	<u>2,588,369</u>
Total deposits	<u>\$ 2,658,222</u>	<u>\$ 2,964,372</u>

Included in the following balance sheet captions:

Investments	\$ 693,568	\$ 1,078,039
Assets limited as to use or restricted	<u>1,964,654</u>	<u>1,886,333</u>
	<u>\$ 2,658,222</u>	<u>\$ 2,964,372</u>

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The Health Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health Center. Maturities are consistent with this policy.

At December 31, 2008 and 2007, the Foundation's carrying amounts of cash and deposits are as follows:

	<u>2008</u>	<u>2007</u>
Checking and savings accounts	\$ 99,021	\$ 98,152
Certificates of deposit	50,497	54,449
Mutual funds	<u>1,221,753</u>	<u>1,791,909</u>
Total deposits	<u>\$ 1,371,271</u>	<u>\$ 1,944,510</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 117,038	\$ 130,132
Noncurrent cash and investments	<u>1,254,233</u>	<u>1,814,378</u>
	<u>\$ 1,371,271</u>	<u>\$ 1,944,510</u>

NOTE 5 - UNCONDITIONAL PROMISES TO GIVE

The Foundation has received pledges from corporations and individuals in the community. Certain pledges are receivable over a period of time. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 4.0%. The following is a summary of unconditional promises to give at June 30, 2009 and 2008.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Land, buildings, and equipment					
Land and land improvements	\$ 628,709	\$ -	\$ -	\$ -	\$ 628,709
Buildings	6,683,391	70,060	(459)	383,393	7,136,385
Fixed equipment	2,579,375	91,473	(18,084)	186,764	2,839,528
Major movable equipment	4,652,469	217,942	(34,217)	-	4,836,194
Construction in progress	<u>426,020</u>	<u>1,622,647</u>	<u>-</u>	<u>(570,157)</u>	<u>1,478,510</u>
Total	<u>14,969,964</u>	<u>\$ 2,002,122</u>	<u>\$ (52,760)</u>	<u>\$ -</u>	<u>16,919,326</u>
Accumulated depreciation					
Land improvements	355,202	\$ 26,774	\$ -	\$ -	381,976
Buildings	3,382,829	265,754	(459)	-	3,648,124
Fixed equipment	2,162,516	101,390	(18,084)	-	2,245,822
Major movable equipment	<u>3,504,704</u>	<u>376,989</u>	<u>(34,217)</u>	<u>-</u>	<u>3,847,476</u>
Total	<u>9,405,251</u>	<u>\$ 770,907</u>	<u>\$ (52,760)</u>	<u>\$ -</u>	<u>10,123,398</u>
Land, buildings, and equipment, net	<u>\$ 5,564,713</u>				<u>\$ 6,795,928</u>

Construction in progress at June 30, 2009, represents costs incurred for the Health Center's third story construction project. The project consists of construction of new inpatient rooms, kitchen and cafeteria area, as well as increasing the size of the surgical area. In addition, the project includes the renovation of the emergency, laboratory, radiology and materials management areas and significant upgrades to the Health Center's mechanical and electrical systems. The project is expected to be completed in March of 2011 at an estimated total cost of \$11,400,000. It will be financed primarily through future draws on the Series 2009A Hospital Revenue Note and contributions raised through the Foundation's capital campaign.

NOTE 7 - DEFERRED FINANCING COSTS

During the year ended June 30, 2009, the Health Center incurred deferred financing costs on the issuance of its Series 2009A and Series 2009B Hospital Revenue Notes. Amortization of the deferred financing costs will begin during fiscal year 2010. The costs will be amortized on the effective interest method over the period of the debt issue.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 8 - LONG-TERM DEBT

A schedule of changes in long-term debt for 2009 and 2008, is as follows:

	June 30, 2008			June 30, 2009	Amounts Due
	Balance	Additions	Payments	Balance	Within One Year
Hospital revenue note - Series 2009A	\$ -	\$ 950,000	\$ -	\$ 950,000	\$ -
Hospital revenue note - Series 2009B	-	1,250,000	-	1,250,000	-
Promissory note payable	20,000	-	(10,000)	10,000	10,000
Hospital revenue bond anticipation note - Series 2008	-	1,250,000	(1,250,000)	-	-
Hospital revenue note - Series 2000	311,934	-	(311,934)	-	-
Total long-term debt	<u>\$ 331,934</u>	<u>\$ 3,450,000</u>	<u>\$ (1,571,934)</u>	<u>2,210,000</u>	<u>\$ 10,000</u>
Less current maturities				<u>(10,000)</u>	
Long-term debt, less current maturities				<u>\$ 2,200,000</u>	
	June 30, 2007			June 30, 2008	Amounts Due
	Balance	Additions	Payments	Balance	Within One Year
Promissory note payable	\$ 30,000	\$ -	\$ (10,000)	\$ 20,000	\$ 10,000
Hospital revenue note	421,496	-	(109,562)	311,934	115,627
Total long-term debt	<u>\$ 451,496</u>	<u>\$ -</u>	<u>\$ (119,562)</u>	331,934	<u>\$ 125,627</u>
Less current maturities				<u>(125,627)</u>	
Long-term debt, less current maturities				<u>\$ 206,307</u>	

Hospital Revenue Note – Series 2009A

On February 10, 2009, the Health Center entered into an agreement with Iowa State Bank, Algona, Iowa, for the issuance of a \$9,250,000 Hospital Revenue Note. The Health Center is approved to draw a total of \$9,250,000 by August 10, 2010, to fund the Health Center's third story construction project. Interest only is due monthly at a rate of 4.625% until August 10, 2010. Beginning on September 10, 2010, monthly principal and interest payments are due at a rate of 4.625% until February 10, 2014. On the 10th day of February in each of the years 2014, 2019, 2024 and 2029, the interest rate will be equal to 1.5% plus the Federal Home Loan Bank of Des Moines' Five-Year Fixed Rate Advance. The rate shall not increase by more than 150 basis points from the preceding adjusted interest rate nor decrease to a rate lower than 4.125%. Adjusted monthly principal and interest payments are due through February 10, 2034. The note is collateralized by the revenues of the Health Center.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Hospital Revenue Note – Series 2009B

On February 10, 2009, the Health Center entered into an agreement with Iowa State Bank, Algona, Iowa, for the issuance of a \$1,250,000 Hospital Revenue Note. The net proceeds were used to pay off certain existing debt obligations of the Health Center. Interest only is due monthly at a rate of 4.625% until August 10, 2010. Beginning on September 10, 2010, monthly principal and interest payments are due at a rate of 4.625% until February 10, 2014. On the 10th day of February in each of the years 2014, 2019, 2024 and 2029, the interest rate will be equal to 1.5% plus the Federal Home Loan Bank of Des Moines’ Five-Year Fixed Rate Advance. The rate shall not increase by more than 150 basis points from the preceding adjusted interest rate nor decrease to a rate lower than 4.125%. Adjusted monthly principal and interest payments are due through February 10, 2034. The note is collateralized by the revenues of the Health Center.

Hospital Revenue Bond Anticipation Note – Series 2008

On December 24, 2008, the Health Center entered into an agreement with Iowa State Bank, Algona, Iowa, for the issuance of a \$3,000,000 Hospital Revenue Bond Anticipation Note. The Health Center drew \$1,250,000 on the note agreement. The note was paid off by the issuance of the Series 2009B Hospital Revenue Note.

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. The note was collateralized by the revenues of the Health Center. The Hospital Revenue Note matured during fiscal year 2009.

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

<u>Year Ending June 30,</u>	<u>Long-term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 10,000	\$ 101,750
2011	44,046	100,991
2012	55,141	98,554
2013	57,746	95,949
2014	60,474	93,221
2015-2019	348,024	420,451
2020-2024	438,375	330,099
2025-2029	552,184	216,291
2030-2034	<u>644,010</u>	<u>73,233</u>
	<u>\$ 2,210,000</u>	<u>\$ 1,530,539</u>

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 9 - LEASES

The Health Center leases certain equipment and building space under noncancelable long-term lease agreements. Total lease expense for the years ended June 30, 2009 and 2008, for all leases was \$694,325 and \$175,088, respectively.

Minimum future lease payments for the noncancelable leases are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>	<u>Building</u>
2010	\$ 140,103	\$ 597,457
2011	93,378	597,457
2012	-	597,457
2013	-	597,457
2014	-	597,457
2015	-	597,457
2016	-	597,457
2017	-	317,554
2018	-	116,679
	<u>\$ 233,481</u>	<u>\$ 4,616,432</u>

The above schedule reflects minimum future lease payments for the Bancroft building space through October 2016. Effective November 2016 through October 2026, minimum future lease payments will be adjusted to \$2,545 plus the percentage change in the level of the Consumer Price Index between August, 2006 and August, 2016.

NOTE 10 - PENSION AND RETIREMENT BENEFITS

The Health Center contributes to the Iowa Public Employees Retirement Center (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 4.10% of their annual covered salary, and the Health Center is required to contribute 6.35% of their annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Health Center was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$463,553, \$417,676, and \$360,425, respectively, equal to the required contributions for each year.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 11 - RELATED 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 and surrounding counties in north central Iowa. As a part of this Master Affiliation Agreement, the Health Center entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Health Center. Amounts paid to MMC-NI for the provision of these services amounted to \$3,707,417 and \$3,389,068 for the years ended June 30, 2009 and 2008, respectively.

Through June 30, 2008, operating gains and losses from the consolidated operation of the Health Center and MMC-NI services were shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains allocated to MMC-NI amounted to \$118,692 for the year ended June 30, 2008, for the various services and distributions related to these agreements.

The Health Center's Master Affiliation Agreement with MMC-NI was amended effective July 1, 2008. Operating losses or operating gains that are less than \$500,000 are allocated entirely to the Health Center. Operating losses or operating gains equal to or in excess of \$500,000 are shared equally between the Health Center and MMC-NI.

Management Services Agreement

The Health Center has a contractual arrangement with MMC-NI under which MMC-NI provides administrative staff, management consultation, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. Expenses for the administrative and management services for the years ended June 30, 2009 and 2008, were \$756,707 and \$439,340 respectively.

Due to and from Affiliated Organization

As of June 30, 2009 and 2008, the Health Center's records reflect an amount due to MMC-NI of \$196,765 and \$304,666, respectively, for the various services and distributions 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.

Foundation

The Kossuth Regional Health Center 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, 2009 and 2008, of \$116,728 and \$21,866, respectively.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 12 - CONTINGENCIES

Malpractice Insurance

The Health Center has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. 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 a self-funded employee health insurance plan covering substantially all employees. The plan is responsible to pay all administration expenses and benefits up to the reinsurance limits. Liabilities of \$309,000 and \$232,000 have been established to record the incurred but not reported claims outstanding at June 30, 2009 and 2008, respectively.

Healthcare Legislation and Regulation

The healthcare 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 healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Litigation

The Health Center is involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effects to the Health Center's financial position or results of operations.

NOTE 13 - RISK MANAGEMENT

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

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

The Health Center's employees participate in a self-funded health plan (Plan). The amounts payable from the Plan at June 30, 2009 and 2008, total \$309,000 and \$232,000, respectively, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on estimates of the amounts necessary to pay current year claims. The Plan has purchased stop-loss coverage.

NOTE 14 - CONCENTRATION OF CREDIT RISK

The Health Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	35%	32%
Medicaid	6%	6%
Blue Cross	20%	18%
Other third-party payors and patients	39%	44%
	<u>100%</u>	<u>100%</u>

KOSSUTH REGIONAL
HEALTH CENTER

KOSSUTH REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2009

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 298,248	\$ -	\$ 298,248	\$ 298,000	\$ 248
Estimated other revenues/receipts	<u>24,524,519</u>	<u>4,660,368</u>	<u>29,184,887</u>	<u>26,688,951</u>	<u>2,495,936</u>
	24,822,767	4,660,368	29,483,135	26,986,951	2,496,184
Expenses/disbursements	<u>23,987,931</u>	<u>3,135,771</u>	<u>27,123,702</u>	<u>26,736,816</u>	<u>(386,886)</u>
Net	834,836	1,524,597	2,359,433	250,135	<u>\$ 2,109,298</u>
Balance, beginning of year	<u>13,994,862</u>	<u>(10,102,137)</u>	<u>3,892,725</u>	<u>8,359,030</u>	
Balance, end of year	<u>\$14,829,698</u>	<u>\$ (8,577,540)</u>	<u>\$ 6,252,158</u>	<u>\$ 8,609,165</u>	

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Health Center 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 Health Center 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. The budget was not amended during the year ended June 30, 2009.

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

**KOSSUTH REGIONAL
HEALTH CENTER**



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the accompanying balance sheets of Kossuth Regional Health Center as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report on pages 2-3. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information and Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the schedule of statistical information on page 42 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
October 21, 2009

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008**

	TOTAL	
	2009	2008
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,708,361	\$ 1,529,946
Intensive care unit	12,060	33,478
Swing-bed	441,175	340,497
Intermediate care	2,839	1,162
Nursery	132,649	108,603
Subtotal	<u>2,297,084</u>	<u>2,013,686</u>
OTHER PROFESSIONAL SERVICES		
Operating room	1,850,524	1,935,964
Labor and delivery room	82,366	65,400
Anesthesiology	659,168	802,800
Radiology	2,049,774	1,867,308
Laboratory	3,613,114	3,272,383
Respiratory therapy	326,662	241,649
Cardiac rehabilitation	244,442	186,692
Physical therapy	2,157,713	1,499,429
Occupational therapy	439,708	323,181
Speech therapy	12,477	13,761
Electrocardiology	116,893	116,589
Scans	3,458,918	2,859,802
Medical and surgical supplies	687,043	809,735
Pharmacy	2,640,788	1,942,735
Intravenous therapy	235,953	451,388
Clinics	7,875,891	7,185,840
Emergency room	1,500,198	1,040,456
Home health	973,127	998,419
Hospice	1,023,367	610,324
Immunizations	5,496	5,860
Acupuncture	35,722	-
Diabetic education	72,493	48,016
Subtotal	<u>30,061,837</u>	<u>26,277,731</u>
Total	32,358,921	28,291,417
Charity Care	<u>(94,342)</u>	<u>(60,235)</u>
Total patient service revenue	32,264,579	28,231,182
Adjustments to patient service revenue	<u>(11,618,654)</u>	<u>(8,777,031)</u>
NET PATIENT SERVICE REVENUE	<u>\$ 20,645,925</u>	<u>\$ 19,454,151</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 1,604,516	\$ 1,416,555	\$ 103,845	\$ 113,391
12,060	33,478	-	-
441,175	340,497	-	-
2,839	1,162	-	-
132,649	108,603	-	-
2,193,239	1,900,295	103,845	113,391
121,323	182,969	1,729,201	1,752,995
82,076	64,530	290	870
117,507	173,254	541,661	629,546
101,714	100,830	1,948,060	1,766,478
500,021	530,128	3,113,093	2,742,255
290,160	221,780	36,502	19,869
-	551	244,442	186,141
407,744	336,962	1,749,969	1,162,467
263,702	188,792	176,006	134,389
9,312	3,636	3,165	10,125
12,185	17,030	104,708	99,559
267,313	264,448	3,191,605	2,595,354
210,069	228,029	476,974	581,706
1,056,728	703,355	1,584,060	1,239,380
102,615	242,909	133,338	208,479
-	-	7,875,891	7,185,840
269,381	31,853	1,230,817	1,008,603
-	-	973,127	998,419
191,661	145,821	831,706	464,503
-	-	5,496	5,860
35,722	-	-	-
-	-	72,493	48,016
4,039,233	3,436,877	26,022,604	22,840,854
\$ 6,232,472	\$ 5,337,172	\$ 26,126,449	\$ 22,954,245

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual adjustments - Medicare	\$ 5,951,771	\$ 4,759,367
Contractual adjustments - Medicaid	1,179,039	830,790
Provision for bad debts	780,887	848,661
Other allowances and adjustments	<u>3,706,957</u>	<u>2,338,213</u>
TOTAL ADJUSTMENTS	<u>\$ 11,618,654</u>	<u>\$ 8,777,031</u>
OTHER OPERATING REVENUES		
Retail pharmacy	\$ 2,737,490	\$ 2,668,913
Grants	576,096	393,539
Cafeteria	64,330	53,929
Rental income	62,916	65,340
Medical records fees	4,422	3,136
Prisoner meals	-	11,465
Meals on Wheels	-	5,102
Miscellaneous	<u>28,950</u>	<u>28,429</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 3,474,204</u>	<u>\$ 3,229,853</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ADULTS AND PEDIATRICS		
Salaries and wages	\$ 1,460,619	\$ 1,331,887
Supplies and other expenses	<u>361,119</u>	<u>401,255</u>
	<u>1,821,738</u>	<u>1,733,142</u>
NURSERY		
Salaries and wages	16,345	11,290
Supplies and other expenses	<u>15,303</u>	<u>3,499</u>
	<u>31,648</u>	<u>14,789</u>
OPERATING ROOM		
Salaries and wages	306,510	319,980
Supplies and other expenses	<u>157,338</u>	<u>232,357</u>
	<u>463,848</u>	<u>552,337</u>
LABOR AND DELIVERY ROOMS		
Salaries and wages	17,751	21,208
Supplies and other expenses	<u>4,918</u>	<u>4,790</u>
	<u>22,669</u>	<u>25,998</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>310,902</u>	<u>373,230</u>
RADIOLOGY		
Salaries and wages	330,492	305,760
Supplies and other expenses	<u>301,238</u>	<u>202,260</u>
	<u>631,730</u>	<u>508,020</u>
LABORATORY		
Salaries and wages	347,320	315,313
Supplies and other expenses	<u>425,357</u>	<u>428,518</u>
	<u>772,677</u>	<u>743,831</u>
BLOOD		
Salaries and wages	19,495	19,267
Supplies and other expenses	<u>69,573</u>	<u>71,609</u>
	<u>89,068</u>	<u>90,876</u>
RESPIRATORY THERAPY		
Salaries and wages	8,850	6,918
Supplies and other expenses	<u>90,906</u>	<u>69,958</u>
	<u>99,756</u>	<u>76,876</u>
CARDIAC REHABILITATION		
Salaries and wages	19,589	16,974
Supplies and other expenses	<u>35,249</u>	<u>34,931</u>
	<u>54,838</u>	<u>51,905</u>

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PHYSICAL THERAPY		
Salaries and wages	\$ 147,749	\$ 124,403
Supplies and other expenses	<u>431,665</u>	<u>409,271</u>
	<u>579,414</u>	<u>533,674</u>
OCCUPATIONAL THERAPY		
Salaries and wages	126,426	123,407
Supplies and other expenses	<u>7,842</u>	<u>10,282</u>
	<u>134,268</u>	<u>133,689</u>
SPEECH THERAPY		
Salaries and wages	3,564	11,256
Supplies and other expenses	<u>12</u>	<u>409</u>
	<u>3,576</u>	<u>11,665</u>
ELECTROCARDIOLOGY		
Salaries and wages	3,189	3,315
Supplies and other expenses	<u>4,872</u>	<u>1,552</u>
	<u>8,061</u>	<u>4,867</u>
SCANS		
Salaries and wages	32,415	341
Supplies and other expenses	<u>603,026</u>	<u>543,839</u>
	<u>635,441</u>	<u>544,180</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>150,813</u>	<u>181,568</u>
PHARMACY AND INTRAVENOUS THERAPY		
Salaries and wages	29,104	19,762
Supplies and other expenses	<u>482,253</u>	<u>598,087</u>
	<u>511,357</u>	<u>617,849</u>
RETAIL PHARMACY		
Salaries and wages	246,756	237,250
Supplies and other expenses	<u>2,128,679</u>	<u>2,204,841</u>
	<u>2,375,435</u>	<u>2,442,091</u>
CLINICS		
Salaries and wages	1,749,231	1,651,864
Supplies and other expenses	<u>3,508,476</u>	<u>3,379,646</u>
	<u>5,257,707</u>	<u>5,031,510</u>
REJUVENATION CLINIC		
Salaries and wages	9,950	197
Supplies and other expenses	<u>46,492</u>	<u>6,138</u>
	<u>56,442</u>	<u>6,335</u>

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
EMERGENCY SERVICES		
Salaries and wages	\$ 212,587	\$ 189,229
Supplies and other expenses	<u>497,507</u>	<u>486,053</u>
	<u>710,094</u>	<u>675,282</u>
HOME HEALTH		
Salaries and wages	773,795	764,114
Supplies and other expenses	<u>232,959</u>	<u>215,414</u>
	<u>1,006,754</u>	<u>979,528</u>
HOSPICE		
Salaries and wages	163,881	138,391
Supplies and other expenses	<u>98,359</u>	<u>71,550</u>
	<u>262,240</u>	<u>209,941</u>
ACUPUNCTURE		
Salaries and wages	24,116	-
Supplies and other expenses	<u>5,405</u>	<u>-</u>
	<u>29,521</u>	<u>-</u>
MEDICAL RECORDS		
Salaries and wages	221,540	216,211
Supplies and other expenses	<u>118,734</u>	<u>54,024</u>
	<u>340,274</u>	<u>270,235</u>
DIETARY		
Salaries and wages	218,938	208,124
Supplies and other expenses	<u>113,071</u>	<u>112,445</u>
	<u>332,009</u>	<u>320,569</u>
OPERATION OF PLANT		
Salaries and wages	177,261	181,012
Supplies and other expenses	<u>360,284</u>	<u>367,755</u>
	<u>537,545</u>	<u>548,767</u>
HOUSEKEEPING		
Salaries and wages	151,610	148,901
Supplies and other expenses	<u>29,753</u>	<u>27,914</u>
	<u>181,363</u>	<u>176,815</u>
LAUNDRY AND LINEN		
Supplies and other expenses	<u>58,234</u>	<u>63,619</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	819,592	752,585
Supplies and other expenses	<u>1,403,141</u>	<u>1,138,725</u>
	<u>2,222,733</u>	<u>1,891,310</u>

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ELECTRONIC HEALTH RECORDS		
Salaries and wages	\$ 41,359	\$ 36,796
Supplies and other expenses	<u>282,772</u>	<u>86,469</u>
	<u>324,131</u>	<u>123,265</u>
UNASSIGNED EXPENSES		
Depreciation	824,535	770,907
Interest and amortization	7,430	20,076
Employee benefits	<u>3,139,680</u>	<u>2,717,875</u>
	<u>3,971,645</u>	<u>3,508,858</u>
TOTAL OPERATING EXPENSES	<u>\$ 23,987,931</u>	<u>\$ 22,446,621</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2009 AND 2008

ANALYSIS OF AGING

Days Since Discharge	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 2,809,468	61.87%	\$ 2,617,394	53.29%
31 to 60 days	612,000	13.48%	803,834	16.37%
61 to 90 days	242,242	5.33%	407,128	8.29%
91 days and over	877,592	19.32%	1,083,192	22.05%
	4,541,302	100.00%	4,911,548	100.00%
Less: Allowance for doubtful accounts	566,686		612,432	
Allowance for contractual adjustments	1,056,300		935,450	
Net	\$ 2,918,316		\$ 3,363,666	
Net patient service revenue per calendar day, net of provision for bad debts	\$ 56,564		\$ 53,299	
Days of net revenue in net accounts receivable at year end	52		63	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2009		2008	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning balance	\$ 612,432		\$ 459,391	
Add:				
Provision for bad debts	780,887	3.78%	848,661	4.36%
Recoveries previously written off	189,570	0.92%	187,875	0.97%
	970,457		1,036,536	
Less:				
Accounts written off	(1,016,203)	4.92%	(883,495)	4.54%
Ending balance	\$ 566,686		\$ 612,432	

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Retail pharmacy	\$ 274,966	\$ 254,882
Central supply	100,282	77,072
Clinics	73,355	42,942
Pharmacy	41,616	46,782
Other departments	<u>111,699</u>	<u>97,044</u>
Total supplies	<u>\$ 601,918</u>	<u>\$ 518,722</u>
PREPAID EXPENSE		
Insurance	\$ 52,617	\$ 117,789
Other	<u>500,228</u>	<u>403,525</u>
Total prepaid expense	<u>\$ 552,845</u>	<u>\$ 521,314</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INSURANCE IN FORCE AT JUNE 30, 2009
JUNE 30, 2009 AND 2008

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
PIC Wisconsin				2/25/2010
CH16	Professional liability		\$ 22,886	
	Each professional incident	\$ 1,000,000		
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
	General liability		\$ 2,712	
	General liability - each occurrence	\$ 1,000,000		
	Fire damage	\$ 1,000,000		
	Personal & advertising injury	\$ 1,000,000		
	Medical expenses	\$ 10,000		
	General aggregate	\$ 3,000,000		
	Polution liability - sublimit & aggregate	\$ 250,000		
CH10	Umbrella liability		\$ 5,500	
	Each occurrence	\$ 5,000,000		
	Aggregate	\$ 5,000,000		
	Retention	\$ 10,000		
	Combined single limit	\$ 1,000,000		
	Employers liability	\$ 500,000		
	Excess liability		\$ 32,500	
	Each occurrence	\$ 5,000,000		
	General aggregate	\$ 5,000,000		
MP69588	Malpractice - Dr. Condoleon	\$ -	\$ 5,570	
Pro Advantage Services				
CHUBB Group				
6802-3366	Directors & officers liability	\$ 1,000,000	\$ 7,900	3/4/2010
Employers Mutual			\$ 14,236	7/1/2009
1B1-77-73---009	Commercial property			
	Hospital & Algona clinic building	\$14,909,571		
	Business personal property	\$ 2,882,220		
	Extra expense	\$ 275,000		
	Bancroft clinic building	\$ 121,988		
	Business personal property	\$ 43,327		
	Extra expense	\$ 25,000		
1F1-77-73---09	Crime			
	Inside the premises	\$ 7,500		
	Outside the premises	\$ 7,500		
1E1-77-73---09	Automobiles			
	Liability	\$ 1,000,000		
	Auto medical payments	\$ 1,000		
	Uninsured motorists	\$ 500,000		
	Underinsured motorists	\$ 500,000		

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INSURANCE IN FORCE AT JUNE 30, 2009
JUNE 30, 2009 AND 2008

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
Mutual Boiler Re PN312	Equipment breakdown		\$ 9,971	7/1/2009
	Property damage	\$16,020,231		
	All others	\$ 200,000		
Employers Mutual 1C1-77-73---09	Inland marine/builders risk		\$ 820	7/1/2009
	Covered property at jobsite	\$ 305,000		
	Debris removal, fraud & waterbourne	\$ 75,000		
Liberty Mutual				
WC7-Z52-437601-019	Workers compensation	\$ -	\$ 71,769	6/30/2010

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	1,915	2,156
Swing-bed	1,163	1,113
Newborn	219	214
	<u>3,297</u>	<u>3,483</u>
Totals		
ADMISSIONS		
Acute	627	686
Swing-bed	122	134
	<u>749</u>	<u>820</u>
Totals		
DISCHARGES		
Acute	629	688
Swing-bed	123	136
	<u>752</u>	<u>824</u>
Totals		
ACUTE AVERAGE LENGTH OF STAY	<u>3.0</u>	<u>3.1</u>
SWING-BED AVERAGE LENGTH OF STAY	<u>9.5</u>	<u>8.2</u>
ACUTE BEDS	<u>25</u>	<u>25</u>
PERCENTAGE OF OCCUPANCY		
Acute, based on 25 beds	<u>20.99%</u>	<u>23.63%</u>
Swing-bed, based on 25 beds	<u>12.75%</u>	<u>12.20%</u>



CPAs & BUSINESS ADVISORS

**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**

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the accompanying balance sheets of Kossuth Regional Health Center (Health Center) as of June 30, 2009 and 2008, and its discretely presented component unit, Kossuth Regional Health Center Foundation, as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated October 21, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Health Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Health Center's financial statements that is more than inconsequential will not be prevented or detected by the Health Center's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

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 Health Center'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Health Center 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matter that is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Health Center'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 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.

Kossuth Regional Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Health Center's responses, we did not audit Kossuth Regional Health Center's responses, and accordingly, we express no opinion on them.

This report, a public record by law, 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, 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 Kossuth Regional Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eric Dally LLP".

Dubuque, Iowa
October 21, 2009



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

Compliance

We have audited the compliance of Kossuth Regional Health Center with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The major federal programs of Kossuth Regional Health Center are identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the management of Kossuth Regional Health Center. Our responsibility is to express an opinion on Kossuth Regional Health Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kossuth Regional Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kossuth Regional Health Center's compliance with those requirements.

In our opinion, Kossuth Regional Health Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Kossuth Regional Health Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Kossuth Regional Health Center's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kossuth Regional Health Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Kossuth Regional Health Center's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

A control deficiency in Kossuth Regional Health Center's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Kossuth Regional Health Center's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Kossuth Regional Health Center's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by Kossuth Regional Health Center's internal control. We did not consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Kossuth Regional Health Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on Kossuth Regional Health Center's response, we did not audit Kossuth Regional Health Center's response, and accordingly, we express no opinion on it.

This report, a public record by law, 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, 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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 21, 2009

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
United States Department of Agriculture			
Direct Program			
Distance Learning and Telemedicine Loans and Grants	10.855		\$ 671,914
Pass-through program from:			
Mercy Medical Center			
Distance Learning and Telemedicine Loans and Grants	10.855	713-B-17	26,617
Pass-through program from:			
Corn Belt Power Cooperative			
Rural Economic Development Loans and Grants	10.854	468	<u>300,000</u>
Total United States Department of Agriculture			<u>998,531</u>
Department of Health and Human Services			
Direct Program			
Public Health Emergency Preparedness	93.069		13,767
Pass-through program from:			
Hancock County Health Services			
Research on Healthcare Costs, Quality, and Outcomes	93.226	1 UC1 HS016156-01	6,513
Direct Program			
State Rural Hospital Flexibility Program	93.241		7,190
Direct Program			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		14,910
Direct Program			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		4,200
Direct Program			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		19,384
Direct Program			
Small Rural Hospital Improvement Grant Program	93.301		7,190
Pass-through program from:			
Waverly Health Center			
National Bioterrorism Hospital Preparedness Program	93.889	5888BH04-8	<u>7,164</u>
Total Department of Health and Human Services			<u>80,318</u>
			<u>\$ 1,078,849</u>

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kossuth Regional Health Center and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, but were not considered material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements but was not considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 10.855 – Distance Learning and Telemedicine Loans and Grants and CFDA Number 10.854 – Rural Economic Development Loans and Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Kossuth Regional Health Center did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part II: Findings Related to the Financial Statements: (continued)

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Health Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of the Health Center. Due to the limited number of office employees, management will continue to monitor the Health Center’s operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

II-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Kossuth Regional Health Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Health Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Health Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part II: Findings Related to the Financial Statements: (continued)

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Health Center’s procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

SIGNIFICANT DEFICIENCY

**CFDA Number 10.855: Distance Learning and Telemedicine Loans and Grants
Pass-through Agency Number: 713-B-17
United States Department of Agriculture
Passed through Mercy Medical Center**

**CFDA Number 10.854: Rural Economic Development Loans and Grants
Pass-through Agency Number: 468
United States Department of Agriculture
Passed through Cornbelt Power Cooperative**

III-A-09 Segregation of Duties over Federal Expenditures – A lack of segregation of duties over expenditures, including those related to federal programs, exists in the Finance Department of Kossuth Regional Health Center. See audit finding II-A-09.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.

IV-B-09 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-09 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

IV-D-09 Business Transactions – We noted no material business transactions between the Health Center and Health Center officials and/or employees.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

- IV-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-F-09 Deposits and Investments – No instances 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 were noted.
- IV-G-09 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.
- IV-H-09 Tax Levy for Maintenance and Operation of the Health Center – Kossuth Regional Health Center is organized under Chapter 347A of the Code of Iowa as a county hospital payable from revenue. Section 347A.3 of the Code of Iowa defines whereby a county hospital under Chapter 347A may receive property tax revenues as follows: “If in any year, after payment of the accruing interest on and principal due of revenue bonds issued under chapter 331, division IV, part 4, and payable from the operation of the county hospital, there is a balance of such revenues insufficient to pay the expenses of operation, maintenance, and funded depreciation of the hospital, the board of the hospital trustees shall certify that fact as soon as ascertained to the board of supervisors of the county, and the board of supervisors shall make the amount of the deficiency for paying the expenses of operation, maintenance, and funded depreciation of the hospital available from other county funds or shall levy a tax not to exceed one dollar and eight cents per thousand dollars of assessed value in any one year on all the taxable property in the county in an amount sufficient for that purpose...”

Recommendation – It is recommended that the Health Center Board of Trustees and management review its process to request property tax revenues from the county board of supervisors.

Response – While Section 347A.3 sets forth the general requirements for a tax levy by a 347A county hospital, the levy procedures used in practice by county hospitals follows the budget process established by the Iowa Department of Management pursuant to Chapter 24 of the Code of Iowa. In practice, the tax levy amount requested is set by the health center’s board of trustees during the annual budgeting process. The Health Center’s budgeting process follows the guidelines set forth in the Iowa Code Chapter 24. This process, although differing from the process described in Iowa Code Section 347A.3, appears to be in general usage by 347A county hospitals in Iowa and, again, is in compliance with the process outlined by Iowa Code Chapter 24 which has been interpreted to include county hospitals under Chapter 347A.

Conclusion – Response accepted.



CPAs & BUSINESS ADVISORS

To the Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the financial statements of Kossuth Regional Health Center (Health Center) for the year ended June 30, 2009, and have issued our report thereon dated October 21, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2009. Professional standards also require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kossuth Regional Health Center are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Health Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, the liability for self-funded employee health insurance for claims incurred but not reported at year-end, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Self-Funded Health Insurance Liability – Management's estimate of self-funded health insurance liability is based on the timing and amounts of historical payments.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, self-funded health insurance liability, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We discussed all adjustments to the financial statements with the Health Center’s staff during the audit. The following adjustments were made during the fiscal year 2009 audit:

Increase in net assets prior to audit adjustments	\$ 906,179
To adjust self-funded health insurance liability	(52,193)
To adjust for physician moving costs	(22,376)
Other adjustments	<u>3,226</u>
Increase in net assets as reported	<u>\$ 834,836</u>

The net effect of these adjustments was to decrease net assets by \$71,343.

Furthermore, the following balance sheet reclassifications were detected as a result of our audit procedures and have been corrected by management.

To increase construction in progress and to increase construction payables	\$ 180,505
To increase deferred financing costs and to decrease construction in progress	184,045
To decrease prepaid expense and to decrease accounts payable	71,769
To decrease cash and to decrease accounts payable	122,147

In addition, adjustments were made to Kossuth Regional Health Center Foundation’s financial statements to record unconditional promises to give of \$508,576 and to adjust investments to fair market value, which resulted in reducing investment income by \$651,468. The net effect of these adjustments was to decrease net assets by \$142,892.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Health Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Health Center's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

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

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Kossuth Regional Health Center.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
October 21, 2009