

Lakes Regional Healthcare
Spirit Lake, Iowa

Basic Financial Statements
June 30, 2010 and 2009

Together with Independent Auditor's Report

Lakes Regional Healthcare

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Lakes Regional Healthcare

Officials
June 30, 2010

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



Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Lakes Regional Healthcare (Hospital) as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2010 and 2009, and the results of its operations, changes in fund balances and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2010 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and page 23 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, included in Exhibits 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 16, 2010.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2010 and 2009

This discussion and analysis of Lakes Regional Healthcare's (LRH) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2010, 2009 and 2008. This discussion and analysis should be read in conjunction with financial statements, which start on page 8.

Financial Highlights

- LRH net assets decreased in 2010 by \$518,190 or 1.5%. In 2009, net assets increased by \$1,543,210 or 4.7%. In 2008, net assets increased \$1,625,861 or 5.2%
- LRH reported an operating loss in 2010 of \$1,338,049 compared to an operating income of \$510,892 in 2009. In 2008, the income from operations was \$404,946
- LRH non-operating revenues decreased by \$200,611 in 2010 compared to 2009. From 2008 to 2009 non-operating revenues decreased by \$188,597

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

Net Assets

LRH net assets are the difference between assets and liabilities reported in the Balance Sheet on page 8. LRH net assets decreased this past year by \$518,190 or 1.5%, as shown in Table 1. This compares to an increase in 2009 of \$1,543,210 and an increase of \$1,625,861 in 2008.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2010 and 2009

Table 1 Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 Change</u>
Assets:				
Current assets	\$ 23,524,541	23,549,778	21,451,336	-0.1%
Capital assets, net	14,193,206	14,962,652	15,912,116	-5.1%
Other non-current assets	3,222,271	3,190,490	3,097,539	1.0%
Total assets	<u>40,940,018</u>	<u>41,702,920</u>	<u>40,460,991</u>	<u>-1.8%</u>
Liabilities:				
Long-term debt outstanding	3,905,000	4,175,000	4,435,000	-6.5%
Other current and noncurrent liabilities	3,015,400	2,990,112	3,031,392	0.8%
Total liabilities	<u>6,920,400</u>	<u>7,165,112</u>	<u>7,466,392</u>	<u>-3.4%</u>
Net assets:				
Invested in capital assets, net of related debt	10,018,206	10,527,652	11,232,116	-4.8%
Restricted for debt service	250,704	287,045	294,758	-12.7%
Restricted expendable net assets	190,535	195,260	178,124	-2.4%
Restricted nonexpendable net assets	25,000	25,000	25,000	0.0%
Unrestricted	23,535,173	23,502,851	21,264,609	0.1%
Total net assets	<u>\$ 34,019,618</u>	<u>34,537,808</u>	<u>32,994,607</u>	<u>-1.5%</u>

In 2010, LRH net assets decreased by \$518,190 or 1.5%, as shown in Table 2. This decrease is due to a decrease in total operating revenue of \$1,710,691 or 6.8% in 2010, while operating expenses increased \$138,250 or 0.6%. Non-operating revenue decreased \$212,459 or 20.6% due to a decline in interest rates on cash and investments.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 Change</u>
Operating Revenue:				
Net patient service revenue	\$ 24,355,795	26,084,579	24,755,494	-6.6%
Provision for bad debt	(1,423,356)	(1,389,320)	(1,179,949)	2.4%
Other operating revenues	591,645	555,228	533,388	6.6%
Net assets released for operations	<u>26,302</u>	<u>10,590</u>	<u>6,965</u>	<u>148.4%</u>
Total operating revenue	<u>23,550,386</u>	<u>25,261,077</u>	<u>24,115,898</u>	<u>-6.8%</u>
Operating Expenses:				
Salaries and benefits	13,095,524	12,882,102	12,295,509	1.7%
Purchased services and other	9,430,973	9,404,954	8,999,192	0.3%
Depreciation and amortization	2,146,102	2,235,728	2,160,422	-4.0%
Interest	<u>215,836</u>	<u>227,401</u>	<u>255,829</u>	<u>-5.1%</u>
Total operating expenses	<u>24,888,435</u>	<u>24,750,185</u>	<u>23,710,952</u>	<u>0.6%</u>
Operating income (loss)	<u>(1,338,049)</u>	<u>510,892</u>	<u>404,946</u>	<u>-361.9%</u>
Non-operating Revenues and Expenses				
Property taxes	350,000	350,000	350,000	0.0%
Investment income	474,496	687,013	860,294	-30.9%
Non-capital grants and contributions	525	1,440	1,643	-63.5%
Other non-operating revenue and expenses, net	<u>(5,162)</u>	<u>(6,135)</u>	<u>8,978</u>	<u>-15.9%</u>
Total non-operating revenue, net	<u>819,859</u>	<u>1,032,318</u>	<u>1,220,915</u>	<u>-20.6%</u>
Increase (decrease) in net assets	<u>(518,190)</u>	<u>1,543,210</u>	<u>1,625,861</u>	<u>-133.6%</u>
Net assets beginning of year	<u>34,537,808</u>	<u>32,994,598</u>	<u>31,368,737</u>	<u>4.7%</u>
Net assets end of year	<u>\$ 34,019,618</u>	<u>34,537,808</u>	<u>32,994,598</u>	<u>-1.5%</u>

Operating Income (Loss)

The first component of the change in LRH net assets is its operating income (loss), the difference between net patient service revenues and the expenses incurred to perform those services. LRH incurred an operating loss this year largely due to decreased patient volumes offset by LRH's ability to effectively manage expenses.

The primary components affecting operating income (loss) are:

- Net patient revenue decreased \$1,728,784 or 6.6% in 2010, compared to an increase of \$1,329,085 or 5.4% in 2009 and \$1,799,804 or 7.8% in 2008. Factors contributing to the decline in revenues consisted of lower patient volumes and decreasing reimbursements as a percentage of gross revenues along with a mid-year 5% Medicaid reimbursement cut.
- Salary and benefit costs for employees increased \$213,422 or 1.7% in 2010, compared to an increase of \$586,593 or 4.8% in 2009 and \$910,571 or 8.0% in 2008
- Medical supply and drug costs decreased \$212,136 or 3.5% in 2010, compared to an increase of \$464,322 or 8.4% in 2009 and \$7,675 or 0.1% in 2008
- Acute care patient days were 3,358 in 2010, compared to 4,800 in 2009 and 4,699 in 2008.

Lakes Regional Healthcare

Management's Discussion and Analysis June 30, 2010 and 2009

The ability to collect the revenue charged to patients affects net patient revenue. The provision for bad debt in 2010 was \$1,423,356, a 2.4% increase from 2009. This increase reflects a change in the estimation of the bad debt reserve due to economic influences, as well as a growing trend of high-deductible health plans.

The rate of healthcare inflation has a direct impact on the cost of services provided by LRH. A component of LRH costs are expenses for medical supplies and prescription drugs. In 2010, medical supplies and prescription drugs cost \$5,796,301, which was a 3.5% decrease from 2009. This was a combination of the inflation impact on prices offset by the lower patient volumes. In 2009, medical supplies and prescription drugs cost \$6,008,437. In 2008 medical supplies and prescription drugs cost \$5,544,115.

LRH at times provides care for patients who have little or no health insurance or other means of repayment. The level of services provided to these patients was \$331,967 in 2010 compared to \$100,008 in 2009 and \$216,207 in 2008. Because there is no expectation of repayment, charity care is not reported as patient service revenues of LRH.

Non-operating Revenue and Expenses

Non-operating revenue consist of taxes levied by LRH for the ambulance service, and investment earnings. The county tax levy was \$0.19187 per \$1,000 of valuation for 2010, \$0.19189 in 2009 and \$0.20633 in 2008. The county tax levy amounted to \$350,000 in 2010, 2009, and 2008 respectively. Investment income for 2010 was \$474,496, a 30.9% reduction over the \$687,013 of investment income in 2009. Investment income for 2008 was \$860,294.

Cash Flows

Changes in cash flows are consistent with changes in operating income (loss) and non-operating revenues and expenses, discussed earlier. Cash flows provided by investing activities was \$228,958 in 2010. Non-cash expenses for depreciation and amortization exceeded cash related expenditures for capital by \$787,298 during the year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010 LRH had \$14,193,206 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. At June 30, 2009, LRH had \$14,962,652 invested in capital assets, net of accumulated depreciation. In 2010, LRH purchased new equipment costing \$1,358,804. Capital spending in 2009 was \$1,321,594 and \$1,180,467 in 2008.

Debt

At year-end, LRH had \$4,175,000 in capital loan notes outstanding. No new debt was issued in 2010, 2009 or 2008.

Other Economic Factors

Inflation continued in 2010 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals, and the result of union contracts that represent employees of various departments.

The 2010 fiscal year provided LRH with challenges due to continued federal program reimbursement requirements and the initial impact of healthcare reform. A recessionary economy influenced the decline in patient volumes as patients transitioned to higher deductible health plans. These factors are expected to continue to impact LRH throughout 2011.

Lakes Regional Healthcare

**Management's Discussion and Analysis
June 30, 2010 and 2009**

Contacting LRH Financial Management

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

Steve Alger
Chief Financial Officer
Lakes Regional Healthcare
Highway 71 South
Spirit Lake, Iowa 51360
712-336-8796

Lakes Regional Healthcare

Balance Sheets June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,543,535	9,619,721
Certificates of deposit	8,663,925	8,426,623
Assets limited as to use - required for current liabilities	250,704	287,045
Receivables -		
Patients, net of allowance for doubtful accounts of \$1,415,619 in 2010 and \$1,340,972 in 2009	3,560,923	3,792,735
Succeeding year property tax	350,000	350,000
Other	298,326	96,234
Inventories	678,078	697,524
Prepaid expenses	175,050	279,896
Estimated third-party payor settlements	4,000	--
Total current assets	<u>23,524,541</u>	<u>23,549,778</u>
Assets limited as to use:		
By Board for -		
Capital improvements	477,529	473,938
Endowments	2,605,559	2,564,836
By Donor	124,175	135,457
	<u>3,207,263</u>	<u>3,174,231</u>
Capital assets, net of accumulated depreciation	<u>14,193,206</u>	<u>14,962,652</u>
Other assets, net	<u>15,008</u>	<u>16,259</u>
Total assets	<u>\$ 40,940,018</u>	<u>41,702,920</u>

See notes to financial statements

Lakes Regional Healthcare

Balance Sheets (Continued) June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 270,000	260,000
Accounts payable -		
Trade	558,794	537,437
Construction	43,374	30,507
Salaries, wages and accrued vacation payable	1,415,739	1,332,697
Payroll taxes withheld and accrued	124,262	170,909
Accrued interest payable	16,746	17,789
Other accrued liabilities	236,485	183,138
Estimated third-party payor settlements	--	107,635
Deferred revenue for succeeding year property tax receivable	<u>350,000</u>	<u>350,000</u>
Total current liabilities	3,015,400	2,990,112
Long-term debt, net of current portion	<u>3,905,000</u>	<u>4,175,000</u>
Total liabilities	<u>6,920,400</u>	<u>7,165,112</u>
Net assets:		
Invested in capital assets, net of related debt	10,018,206	10,527,652
Restricted -		
For debt service	250,704	287,045
Expendable for capital acquisitions & operating activities	190,535	195,260
Nonexpendable	25,000	25,000
Unrestricted	<u>23,535,173</u>	<u>23,502,851</u>
Total net assets	<u>34,019,618</u>	<u>34,537,808</u>
Total liabilities and net assets	<u>\$ 40,940,018</u>	<u>41,702,920</u>

See notes to financial statements

Lakes Regional Healthcare

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 24,355,795	26,084,579
Provision for bad debt	<u>(1,423,356)</u>	<u>(1,389,320)</u>
Net patient service revenue	22,932,439	24,695,259
Other revenue	591,645	555,228
Net assets released for operations	<u>26,302</u>	<u>10,590</u>
Total revenue	<u>23,550,386</u>	<u>25,261,077</u>
OPERATING EXPENSES:		
Salaries	10,185,614	10,093,574
Employee benefits	2,909,910	2,788,528
Purchased services and professional fees	2,866,223	2,613,832
Utilities	542,787	576,508
Supplies and other expenses	5,796,301	6,008,437
Depreciation and amortization	2,146,102	2,235,728
Insurance	225,662	206,177
Interest	<u>215,836</u>	<u>227,401</u>
Total expenses	<u>24,888,435</u>	<u>24,750,185</u>
OPERATING INCOME (LOSS)	<u>(1,338,049)</u>	<u>510,892</u>
NONOPERATING REVENUE, NET		
Investment income	474,496	687,013
County tax revenue	350,000	350,000
Unrestricted gifts, grants and bequests	525	1,440
Gain (loss) on disposal of property and equipment	<u>3,734</u>	<u>(9,087)</u>
Nonoperating revenue, net	<u>828,755</u>	<u>1,029,366</u>
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	(509,294)	1,540,258
GRANTS, CONTRIBUTIONS AND AUXILIARY ACTIVITY, NET	<u>(8,896)</u>	<u>2,952</u>
INCREASE (DECREASE) IN NET ASSETS	(518,190)	1,543,210
NET ASSETS, beginning of year	<u>34,537,808</u>	<u>32,994,598</u>
NET ASSETS, end of year	<u>\$ 34,019,618</u>	<u>34,537,808</u>

See notes to financial statements

Lakes Regional Healthcare

Statements of Cash Flows For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 23,052,616	24,552,627
Cash paid to employees for salaries and benefits	(13,059,129)	(12,739,616)
Cash paid to suppliers and contractors	(9,231,102)	(9,380,539)
Other receipts and payments, net	<u>417,637</u>	<u>514,496</u>
Net cash provided by operating activities	<u>1,180,022</u>	<u>2,946,968</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County taxes received	350,000	350,000
Unrestricted gifts, grants and bequests	<u>525</u>	<u>1,440</u>
Net cash provided by noncapital financing activities	<u>350,525</u>	<u>351,440</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(1,358,804)	(1,321,594)
Payments on long-term debt	(260,000)	(245,000)
Interest paid on long-term debt	<u>(216,879)</u>	<u>(228,383)</u>
Net cash used in capital and related financing activities	<u>(1,835,683)</u>	<u>(1,794,977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(7,369)	(92,995)
Deposits to certificates of deposit, net	(237,302)	(2,045,972)
Interest on investments	<u>473,621</u>	<u>686,449</u>
Net cash provided by (used in) investing activities	<u>228,950</u>	<u>(1,452,518)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,186)	50,913
CASH AND CASH EQUIVALENTS - Beginning of year	<u>9,619,721</u>	<u>9,568,808</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 9,543,535</u>	<u>9,619,721</u>

See notes to financial statements

Lakes Regional Healthcare

Statements of Cash Flows (Continued) For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,338,049)	510,892
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -		
Depreciation and amortization	2,146,102	2,235,728
Interest expense	215,836	227,401
(Increase) decrease in current assets -		
Receivables -		
Patients	231,812	(667)
Other	(202,092)	(60,781)
Inventories	19,446	84,278
Prepaid expenses	104,846	(32,101)
Estimated third-party payor settlements	(4,000)	--
Increase (decrease) in current liabilities -		
Accounts payable	21,357	(64,394)
Due to restricted funds	1,782	9,459
Salaries, wages and accrued vacation payable	83,042	81,812
Payroll taxes withheld and accrued	(46,647)	60,674
Other accrued liabilities	54,222	36,632
Estimated third-party payor settlements	(107,635)	(141,965)
Net cash provided by operating activities	\$ <u>1,180,022</u>	<u>2,946,968</u>

See notes to financial statements

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

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

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

A Reporting Entity

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

B. Industry Environment

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

C Basis of Presentation

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

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

Restricted net assets consist of nonexpendable and expendable net assets. Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. Expendable net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

D Measurement Focus and Basis of Accounting

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

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

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

E Use of Estimates

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

F Cash and Cash Equivalents

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

G Patient Receivables

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

Payments of patient receivables are allocated to the specific claim identified on the remittance advice. If unspecified, payments of patient receivables are allocated to unpaid accounts.

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

H Inventory

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

I Assets Limited as to Use

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

Lakes Regional Healthcare

Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009

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

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

J. Restricted Assets

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

K. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

L. Capital Assets

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

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

Table with 2 columns: Asset Category and Useful Life. Categories include Land improvements (10 to 50 years), Buildings and building improvements (10 to 50 years), and Equipment, computers, and furniture (3 to 25 years).

M. Bond Financing Costs

Bond financing costs related to the issuance of the Public Hospital Revenue Capital Loan Notes are included with other assets in the balance sheet and are being amortized over the life of the related notes on a straight-line basis. Amortization expense of \$1,251 and \$1,250 for 2010 and 2009, respectively, is included in the accompanying statements of revenues, expenses and changes in net assets.

N. Compensated Absences

Sick leave does not vest and is accounted for as an expenditure or an expense when it is paid. Vacation leave vests and may be carried forward by an employee in an amount not to exceed 480 hours. Vacation expense is accrued as an expense and a liability as it is earned. Vacation leave expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued vacation leave payable at June 30, 2010 and 2009 was \$742,298 and \$695,273, respectively.

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

O 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 the succeeding year property tax receivable.

P Statement of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Property tax levied to finance the current year is included in nonoperating revenues and peripheral or incidental transactions are reported as nonoperating revenues and expenses.

Q Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

R Grants and Contributions

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

S Charity Care

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

T Subsequent Events

The Hospital considered events occurring through September 16, 2010 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2010 and 2009 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.

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

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

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement 3 at June 30, 2010 and 2009.

(3) Net Patient Service Revenue

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

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

The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

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

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

(4) Assets Limited as to Use

By Board

Cash deposits and certificates of deposit designated by the Board for future capital improvements and endowments as of June 30, 2010 and 2009, are summarized as follows:

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Capital Improvements -		
Cash	\$ 1,031	3,329
Certificates of deposit	476,303	470,000
Interest receivable	195	609
	<u>\$ 477,529</u>	<u>473,938</u>
Endowments -		
Cash	\$ 5,803	4,271
Certificates of deposit	2,595,754	2,550,566
Interest receivable	4,002	9,999
	<u>\$ 2,605,559</u>	<u>2,564,836</u>

Hospital Revenue Capital Loan Notes Agreements

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

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

The amounts as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Bond Fund, cash	\$ <u>250,704</u>	<u>287,045</u>

By Donor

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

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

The amounts segregated as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Mandelbaum Endowment fund		
Certificate of deposit	\$ 25,000	25,605
Hospital auxiliary assets, primarily cash and temporary cash investments	<u>99,175</u>	<u>109,852</u>
	<u>\$ 124,175</u>	<u>135,457</u>

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

(5) Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 were as follows:

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated				
Land	\$ 722,552	--	--	722,552
Construction in progress	--	22,923	--	22,923
Total capital assets, not being depreciated	<u>722,552</u>	<u>22,923</u>	<u>--</u>	<u>745,475</u>
Capital assets, being depreciated				
Land improvements	604,298	17,875	--	622,173
Hospital buildings	14,531,141	21,650	--	14,552,791
Medical Office building	3,801,026	--	--	3,801,026
Fixed equipment	3,666,869	82,576	(9,500)	3,739,945
Major moveable equipment	12,154,590	1,230,148	(160,452)	13,224,286
Total capital assets, being depreciated	<u>34,757,924</u>	<u>1,352,249</u>	<u>(169,952)</u>	<u>35,940,221</u>
Less accumulated depreciation				
Land improvements	311,945	27,265	--	339,210
Hospital buildings	6,635,059	563,265	--	7,198,324
Medical Office building	1,959,897	136,187	--	2,096,084
Fixed equipment	3,020,569	109,333	--	3,129,902
Major moveable equipment	8,590,354	1,308,801	(170,185)	9,728,970
Total accumulated depreciation	<u>20,517,824</u>	<u>2,144,851</u>	<u>(170,185)</u>	<u>22,492,490</u>
Total capital assets, being depreciated, net	<u>14,240,100</u>	<u>(792,602)</u>	<u>233</u>	<u>13,447,731</u>
Total capital assets, net	<u>\$ 14,962,652</u>	<u>(769,679)</u>	<u>233</u>	<u>14,193,206</u>
	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated				
Land	\$ 722,552	--	--	722,552
Capital assets, being depreciated				
Land improvements	590,109	14,189	--	604,298
Hospital buildings	14,456,127	146,681	(71,667)	14,531,141
Medical Office building	3,794,034	6,992	--	3,801,026
Fixed equipment	3,606,971	124,166	(64,268)	3,666,869
Major moveable equipment	11,746,952	1,003,243	(595,605)	12,154,590
Total capital assets, being depreciated	<u>34,194,193</u>	<u>1,295,271</u>	<u>(731,540)</u>	<u>34,757,924</u>
Less accumulated depreciation:				
Land improvements	285,036	26,909	--	311,945
Hospital buildings	6,151,203	555,460	(71,604)	6,635,059
Medical Office building	1,820,469	139,428	--	1,959,897
Fixed equipment	2,983,827	100,784	(64,042)	3,020,569
Major moveable equipment	7,764,094	1,411,897	(585,637)	8,590,354
Total accumulated depreciation	<u>19,004,629</u>	<u>2,234,478</u>	<u>(721,283)</u>	<u>20,517,824</u>
Total capital assets, being depreciated, net	<u>15,189,564</u>	<u>(939,207)</u>	<u>(10,257)</u>	<u>14,240,100</u>
Total capital assets, net	<u>\$ 15,912,116</u>	<u>(939,207)</u>	<u>(10,257)</u>	<u>14,962,652</u>

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2010 and 2009 consisted of the following

	<u>June 30, 2009</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Capital loan notes (A)	\$ 4,435,000	--	260,000	4,175,000	270,000

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

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

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.88	\$ 270,000	205,823	475,823
2012	4.88	280,000	192,512	472,512
2013	4.88	295,000	178,708	473,708
2014	4.88	310,000	164,165	474,165
2015	4.88	320,000	148,882	468,882
2016 – 2020	4.88	1,840,000	492,249	2,332,249
2021 – 2022	4.88	860,000	64,088	924,088
		<u>\$ 4,175,000</u>	<u>1,446,427</u>	<u>5,621,427</u>

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

The Hospital recognized interest expense of \$215,836 and \$227,401 during the years ended June 30, 2010 and 2009, respectively.

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

(7) Professional Liability Insurance

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

(8) Employee Retirement and Defined Benefit Pension Plan

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50360-9117.

Plan members are required to contribute 4.30% of their annual salary and the Hospital is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$658,685, \$615,405 and \$555,855, respectively, equal to the required contributions for each year.

(9) Rental Income

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

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

(10) Contingencies

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

(11) Concentrations of Credit Risk

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

	<u>2010</u>	<u>2009</u>
Medicare	31.5%	31.3%
Medicaid	4.6	5.2
Blue Cross	16.6	16.9
Other third-party payors	31.4	32.7
Private pay	15.9	13.9
	<u>100.0%</u>	<u>100.0%</u>

Lakes Regional Healthcare

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

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

Lakes Regional Healthcare

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net-Assets – Budget and Actual (Cash Basis) June 30, 2010 and 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 prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting

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

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.

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

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 350,000	-	350,000	345,324	4,676
Estimated other revenues / receipts	<u>24,020,245</u>	<u>(75,857)</u>	<u>23,944,388</u>	<u>27,014,763</u>	<u>(3,070,375)</u>
	24,370,245	(75,857)	24,294,388	27,360,087	(3,065,699)
Expenses / Disbursements	<u>24,888,435</u>	<u>(762,521)</u>	<u>24,125,914</u>	<u>25,119,738</u>	<u>993,824</u>
Net	(518,190)	686,664	168,474	\$ <u>2,240,349</u>	<u>(2,071,875)</u>
Balance beginning of year	<u>34,537,808</u>	<u>(13,058,782)</u>	<u>21,479,026</u>		
Balance end of year	\$ <u>34,019,618</u>	<u>(12,372,118)</u>	<u>21,647,500</u>		

Patient Service Revenue
For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES								
Medical, surgical and obstetnc	\$ 2,648,830	895,012	--	3,543,842	3,179,719	717,476	--	3,897,195
Swing bed	--	--	286,119	286,119	--	--	442,606	442,606
Observation	110,897	348,247	--	459,144	36,382	166,395	--	202,777
Coronary care	146,196	--	--	146,196	185,103	--	--	185,103
Nursery	193,494	--	--	193,494	204,645	--	--	204,645
	<u>3,099,417</u>	<u>1,243,259</u>	<u>286,119</u>	<u>4,628,795</u>	<u>3,605,849</u>	<u>883,871</u>	<u>442,606</u>	<u>4,932,326</u>
OTHER PROFESSIONAL SERVICES								
Operating and recovery rooms	1,585,346	5,463,877	22,706	7,071,929	1,684,731	5,098,490	16,333	6,799,554
Pharmacy	1,221,188	3,951,259	211,018	5,383,465	1,575,672	3,970,976	309,011	5,855,659
Central services and supply	1,981,648	1,359,557	13,778	3,354,983	1,892,410	1,371,907	9,593	3,273,910
Emergency and outpatient service	529,714	4,335,589	651	4,865,954	891,534	3,715,474	1,051	4,608,059
Laboratory	702,936	3,106,097	57,777	3,866,810	975,060	2,976,727	77,787	4,029,574
CT scanner	192,865	2,192,726	3,158	2,388,749	397,004	2,150,705	10,637	2,558,346
MRI	23,556	1,243,042	--	1,266,598	93,534	1,451,483	2,020	1,547,037
Respiratory therapy	492,765	133,922	118,911	745,598	1,041,233	97,785	274,552	1,413,570
Physical therapy	114,866	552,577	55,115	722,558	134,930	564,873	74,753	774,556
Radiology	151,000	793,609	12,948	957,557	210,390	793,004	11,028	1,014,422
Anesthesiology	272,310	558,072	3,780	834,162	278,866	583,679	615	863,160
Ambulance	125,348	883,994	4,336	1,013,678	214,147	814,394	4,026	1,032,567
Ultrasound	53,605	642,709	3,825	700,139	86,811	594,059	6,573	687,443
Intravenous therapy	258,528	733,770	10,878	1,003,176	345,190	342,058	18,360	705,608
Home Health	--	894,116	--	894,116	--	823,801	--	823,801
Oncology	4,620	498,532	470	503,622	4,648	628,660	112	633,420
Electrocardiology	66,450	243,903	6,123	316,476	97,494	209,100	7,102	313,696
Blood	168,143	139,494	5,932	313,569	195,062	217,131	11,183	423,376
Nuclear medicine	4,949	151,449	--	156,398	15,270	173,413	1,418	190,101
Public Health	--	326,558	--	326,558	--	231,728	--	231,728
Hospice	557,490	--	--	557,490	263,521	--	--	263,521
Delivery and labor room	188,897	45,656	--	234,553	176,455	58,595	--	235,050
Occupational therapy	13,506	105,289	7,296	126,091	10,601	145,469	17,415	173,485
Cardiac Rehab	--	148,502	--	148,502	--	154,923	--	154,923
Mammogram	520	305,037	--	305,557	185	207,060	--	207,245
Enterostomal therapy	16,466	113,131	7,016	136,613	16,795	82,975	9,730	109,500
Stress testing	1,018	63,657	--	64,675	4,292	58,974	--	63,266
Speech therapy	6,547	59,100	4,537	70,184	7,395	38,470	4,180	50,045
Outpatient Clinic	1,868	223,733	--	225,601	3,579	200,929	(192)	204,316
Electroencephalography	--	97,980	--	97,980	328	56,458	--	56,786
	<u>8,736,149</u>	<u>29,366,937</u>	<u>550,255</u>	<u>38,653,341</u>	<u>10,617,137</u>	<u>27,813,300</u>	<u>867,287</u>	<u>39,297,724</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>11,835,566</u>	<u>30,610,196</u>	<u>836,374</u>	<u>43,282,136</u>	<u>14,222,986</u>	<u>28,697,171</u>	<u>1,309,893</u>	<u>44,230,050</u>
LESS								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(18,199,415)				(17,812,307)
Charity care services and other discounts, based on charges forgone				(726,926)				(333,164)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				\$ <u>24,355,795</u>				<u>26,084,579</u>
PROVISION FOR BAD DEBT				(1,423,356)				(1,389,320)
NET PATIENT SERVICE REVENUE				\$ <u>22,932,439</u>				<u>24,695,259</u>

Other Operating Revenue
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Rental income	\$ 298,796	299,932
Meals sold	142,108	130,567
Lifeline	63,380	67,611
Meals on Wheels	18,632	24,316
Other	61,164	25,252
Dietary instruction	6,198	7,037
Medical record fees	<u>1,367</u>	<u>513</u>
	<u>\$ 591,645</u>	<u>555,228</u>

Departmental Expenses
For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES								
Medical and surgical	\$ 2,209,665	433	142,789	2,352,887	2,379,287	1,206	164,920	2,545,413
Administration	472,586	--	6,333	478,919	486,356	246	6,756	493,358
Obstetrics	154,033	426	27,688	182,147	160,686	--	33,085	193,771
Coronary care	131,315	--	12,190	143,505	113,266	--	4,900	118,166
Nursery	66,457	--	9,541	75,998	68,569	--	13,947	82,516
	<u>3,034,056</u>	<u>859</u>	<u>198,541</u>	<u>3,233,456</u>	<u>3,208,164</u>	<u>1,452</u>	<u>223,608</u>	<u>3,433,224</u>
OTHER PROFESSIONAL SERVICES								
Central services and supply	56,137	--	1,202,118	1,258,255	58,099	--	1,266,564	1,324,663
Pharmacy	270,095	3,638	1,923,483	2,197,216	232,071	--	2,035,897	2,267,968
Emergency room	489,779	1,229,470	46,109	1,765,358	402,834	1,079,525	49,006	1,531,365
Operating and recovery room	528,821	4,140	295,113	828,074	512,568	--	305,902	818,490
Laboratory	460,604	130,240	293,425	884,269	445,654	138,794	277,015	861,463
Ambulance	461,008	1,160	61,107	523,275	459,599	--	77,385	536,984
Physical therapy	--	291,124	9,119	300,243	--	329,294	12,602	341,896
Home Health	585,463	40,048	65,648	691,159	538,289	29,376	64,345	632,010
Radiology	329,890	7,798	59,139	396,827	284,898	7,641	66,433	358,972
Medical records	299,866	16,903	56,300	373,069	294,088	13,778	49,118	356,984
Respiratory therapy	135,411	--	31,998	167,409	134,269	--	51,573	185,842
Public health	225,525	1,190	20,913	247,628	193,511	2,658	22,900	219,069
Same day surgery	183,008	--	22,568	205,576	176,080	--	24,801	200,881
Hospice	138,301	150,977	42,112	331,390	120,780	59,510	32,568	212,858
CT scanner	101,766	904	162,061	264,731	93,790	1,003	166,710	261,503
Oncology	116,809	6,694	17,858	141,361	107,257	8,348	21,139	136,744
Blood bank	--	121,835	17,167	139,002	--	170,694	18,892	189,586
Electrocardiology	90,560	65,399	7,527	163,486	77,300	71,413	3,399	152,112
Nuclear medicine	--	72,432	--	72,432	--	82,361	--	82,361
Quality assurance	62,994	--	5,062	68,056	57,726	--	2,131	59,857
Ultrasound	48,557	7,432	27,485	83,474	63,688	10,280	12,125	86,093
Anesthesiology	--	2,381	58,085	60,466	--	5,877	68,108	73,985
MR1	51,945	--	36,433	88,378	61,053	--	40,213	101,266
Delivery and labor room	52,188	--	8,016	60,204	53,847	--	7,971	61,818
Social services	24,689	--	194	24,883	25,276	--	426	25,702
Speech therapy	--	38,020	1,151	39,171	--	32,753	--	32,753
Enterostomal therapy	--	39,234	1,698	40,932	--	32,855	1,375	34,230
Outpatient Clinic	79,959	--	20,629	100,588	76,324	--	22,673	98,997
Stress testing	4,247	--	--	4,247	4,269	--	--	4,269
Electroencephalography	--	60,555	--	60,555	--	31,850	--	31,850
Library	--	--	456	456	--	--	148	148
	<u>4,797,622</u>	<u>2,291,574</u>	<u>4,492,974</u>	<u>11,582,170</u>	<u>4,473,290</u>	<u>2,108,010</u>	<u>4,701,419</u>	<u>11,282,719</u>
GENERAL SERVICES								
Plant operation and maintenance	305,583	163,873	659,239	1,128,695	226,322	149,203	700,775	1,076,300
Dietary	338,997	1,713	272,156	612,866	342,550	1,190	286,397	630,137
Housekeeping	165,165	425	57,442	223,032	186,706	7,306	53,534	247,546
Laundry and linen	19,420	56,955	10,533	86,908	17,653	55,318	10,746	83,717
	<u>829,165</u>	<u>222,966</u>	<u>999,370</u>	<u>2,051,501</u>	<u>773,231</u>	<u>213,017</u>	<u>1,051,452</u>	<u>2,037,700</u>
ADMINISTRATIVE SERVICES	<u>1,524,771</u>	<u>350,824</u>	<u>648,203</u>	<u>2,523,798</u>	<u>1,638,889</u>	<u>291,353</u>	<u>608,466</u>	<u>2,538,708</u>
NONDEPARTMENTAL								
Employee Benefits	--	--	2,909,910	2,909,910	--	--	2,788,528	2,788,528
Depreciation and amortization	--	--	2,146,102	2,146,102	--	--	2,235,728	2,235,728
Interest	--	--	215,836	215,836	--	--	227,401	227,401
Insurance	--	--	225,662	225,662	--	--	206,177	206,177
	<u>--</u>	<u>--</u>	<u>5,497,510</u>	<u>5,497,510</u>	<u>--</u>	<u>--</u>	<u>5,457,834</u>	<u>5,457,834</u>
TOTAL EXPENSES	<u>\$ 10,185,614</u>	<u>2,866,223</u>	<u>11,836,598</u>	<u>24,888,435</u>	<u>10,093,574</u>	<u>2,613,832</u>	<u>12,042,779</u>	<u>24,750,185</u>

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2010 and 2009**

ANALYSIS OF AGING

Days Since Discharge	2010		2009	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 4,871,506	71.2 %	4,763,677	68.7 %
61 - 90	363,699	5.3	464,149	6.7
91 - 180	688,093	10.1	729,263	10.5
181 - 364	464,315	6.8	491,205	7.1
> 1 year	454,722	6.6	489,591	7.1
	<u>6,842,335</u>	<u>100.0 %</u>	<u>6,937,885</u>	<u>100.0 %</u>
Less:				
Allowance for doubtful accounts	(1,415,619)		(1,340,972)	
Allowance for contractual adjustments	<u>(1,865,793)</u>		<u>(1,804,178)</u>	
	<u>\$ 3,560,923</u>		<u>\$ 3,792,735</u>	

	2010	2009
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	53.4 days	53.1 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 1,340,972	1,233,220
Provision of uncollectible accounts	1,423,356	1,389,320
Recoveries of accounts previously written off	276,115	380,437
Accounts written off	<u>(1,624,824)</u>	<u>(1,662,005)</u>
Balance, end of year	<u>\$ 1,415,619</u>	<u>1,340,972</u>

**Inventory / Prepaid Expenses
For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
INVENTORY:		
Surgical services	\$ 321,905	364,154
Pharmacy	130,535	115,688
Central storeroom	139,160	132,666
Laboratory	30,112	28,354
Fuel oil	25,950	26,262
Dietary	11,197	8,880
Radiology	10,425	10,722
Computers	2,757	8,265
Respiratory therapy/stress testing	6,037	2,533
	<u>\$ 678,078</u>	<u>697,524</u>
PREPAID EXPENSES:		
Insurance	\$ 79,468	174,961
Maintenance contracts	92,009	102,505
Other	3,573	2,430
	<u>\$ 175,050</u>	<u>279,896</u>

**Financial and Statistical Highlights
For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Patient days		
Adult and pediatric-		
Medicare	2,247	3,367
Other	<u>1,111</u>	<u>1,433</u>
	3,358	4,800
Swing bed - skilled	707	1,115
Newborn	<u>357</u>	<u>416</u>
Total	<u>4,422</u>	<u>6,331</u>
Patient discharges		
Adult and pediatric-		
Medicare	568	854
Other	<u>393</u>	<u>546</u>
	961	1,400
Swing bed - skilled	148	216
Newborn	<u>165</u>	<u>191</u>
Total	<u>1,274</u>	<u>1,807</u>
Average length of stay:		
Adult and pediatric-		
Medicare	3 96 days	3 94 days
Other	2 82 days	2 62 days
Swing bed - skilled	4 78 days	5 16 days
Newborn	2 16 days	2 18 days
Surgical procedures	3,609	3,671
Emergency room visits	6,395	6,368
Number of employees - full-time equivalents	208 0	210 5



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

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

We have audited the financial statements of Lakes Regional Healthcare (Hospital) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon, dated September 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility of a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Sprim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 16, 2010

Lakes Regional Healthcare

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

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

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No significant deficiencies were identified

Part III: Other Findings Related to Required Statutory Reporting

III-A-10

Certified Budget: Hospital disbursements during the year ended June 30, 2010 did not exceed amounts budgeted.

III-B-10

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

III-C-10

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

III-D-10

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347 15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

III-E-10

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

III-F-10

Deposits and Investments: We noted one instance of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy

Official Depositories: A resolution naming official depositories has been adopted by the Board. However, one instance of non-compliance related to the official depositories was noted. Deposits at one financial institution were exceeded.

Lakes Regional Healthcare

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Recommendation: We recommend that the Board monitor deposits at the resolution-approved financial institutions.

Response: Management is aware of the excess deposits and reduced deposits subsequent to the balance sheet date.

Conclusion: Response accepted.

III-G-10

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

Lakes Regional Healthcare

Audit Staff For the Year Ended June 30, 2010

This audit was performed by.

- Roger E. Thompson, FHFMA, CPA, Partner
- Joseph L. Harnisch, CPA, Manager
- Natalie E. Miller, CPA, Senior
- Shannon M. Castillo, Staff Auditor