



Financial Statements
June 30, 2010 and 2009

Kossuth Regional Health Center

KOSSUTH REGIONAL HEALTH CENTER

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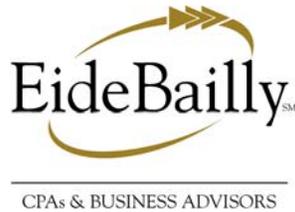
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**KOSSUTH REGIONAL HEALTH CENTER
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS**

<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



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 (Health Center) as of June 30, 2010 and 2009, and its discretely presented component unit, Kossuth Regional Health Center Foundation, as of December 31, 2009 and 2008, 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, 2010 and 2009, and the financial statements of its discretely presented component unit as of December 31, 2009 and 2008, and the respective 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 Accounting 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2010, on our consideration of the 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 Information on pages 30 and 31 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 cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed address and date.

Dubuque, Iowa
September 14, 2010

KOSSUTH REGIONAL HEALTH CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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, staffing at Kossuth Regional Health Center grew slightly with an increase of 5 full time equivalent employees from the previous year. This growth was seen in some key areas of growth including the resumption of a fully staffed Surgery service including the addition of Dr. Harry Condoleon D.O., general surgeon. We also increased the staffing in the Radiology department when we hired a full time Ultrasound Technician.

Medical staff highlights included the addition of Rachel Venteicher, M.D. to the Clinic staff. Dr. Venteicher started in August 2009.

Operating Highlights

Digital Radiology

A significant investment was made to upgrade and enhance the Radiology department by installing several pieces of equipment that allowed the department to operate in a totally digital format. This transition will enhance the ability for our local physicians to view images more quickly, as well as enabling us to transmit images to referring physicians outside Algona.

Building Expansion Project

Work continues on a three story addition on the southeast side of our building, which will house ten additional patient rooms, expanded Pre and Post-Op Surgery space, a new Physical Therapy department, along with new Kitchen and Cafeteria. The new construction phase of the project is expected to be completed in the Fall of 2010.

The renovation phase of the project will include the relocation of the Receiving, Storeroom and Materials Management functions into the old Kitchen and Cafeteria, renovation of all of the existing patient rooms and expanded Information Systems functions.

Process Excellence

KRHC embarked upon a process of instituting a Process Excellence mindset throughout the organization. Built upon the basic components of the LEAN philosophy of improving performance, this system institutes a multi-faceted array of tools and techniques that enhance workplace efficiency, processes and problem solving. KRHC has hired an individual that devotes a good portion of their time to supporting improvement efforts at both the departmental and organizational level. In addition, KRHC has joined with the Mercy Network of hospitals to share in the hiring of an expert that is shared across the system.

Security and Surveillance

There was an enhancement and expansion of the security and surveillance systems in and around the hospital property during the past year. As a result of recommendations made by the Department of Homeland Security, KRHC installed a security system that controlled access to the various entrances into the facility. A video surveillance system was also installed to monitor the spaces both inside and outside the facilities.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Capital Campaign

The Hospital Foundation conducted a successful capital campaign that solicited contributions that allowed the construction of the current building project. Those contributions were pledged over a period of year.

Financial Highlights

- The Hospital's assets exceeded its liabilities by \$16,408,040 at June 30, 2010.
- The Hospital recorded income from operations of \$626,206 for the fiscal year ending on June 30, 2010. A significant increase in profitability was seen from the previous year due to higher surgery volumes with the arrival of Dr. Harry Condoleon in June 2009.
- Total days cash on hand was reported at 123.8 at June 30, 2010 compared to 92.8 at June 30, 2009. The source of much of the cash increase is from the improved profitability as well as loan funds for the construction project. Cash reserves will be important as we near the completion of the current construction project. Cash reserves will also be impacted by changes in reimbursement from Medicare and Medicaid as a result of the construction project.
- 48 days in net patient accounts receivable was reported at June 30, 2010. This compares to 52 days at June 30, 2009.
- The Hospital had 3,631 patient discharge days in 2010, an increase of 10.1% from 2009.
- The Hospital had 27,599 outpatient registrations in 2010.
- The Clinic had 41,846 visits at its Algona and Bancroft locations in 2010, a decrease of 0.6% from 2009. The arrival of Dr. Harry Condoleon in June 2009 along with the arrival of Dr. Rachael Venteicher in August 2009 had a positive impact on the clinic visits, but several of our senior providers showed declining numbers from the previous year.

Overview of the Financial Statements

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

The Balance Sheet at June 30, 2010, shows total assets of \$28,819,119, total liabilities of \$12,411,079 and net assets of \$16,408,040. Total current assets were \$10,962,056, and total current liabilities were \$3,745,319 for a current ratio of 2.9 to 1.

The Statements of Revenues, Expenses, and Changes in Net Assets reports total operating revenues of \$26,742,785, and total operating expenses of \$25,990,371. Amounts owed for the affiliation agreements were \$126,208 for an operating profit of \$626,206. Net non-operating revenue is \$530,508. Therefore, there was an increase in Net Assets from \$14,829,698 to \$16,408,040.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

As reported in the Statement of Cash Flows, cash and cash equivalents increased from \$3,409,891 at June 30, 2009 to \$5,400,174 at June 30, 2010. The net increase in cash and cash equivalents of \$1,990,283 came from operating activities of \$2,185,761, noncapital financing activities of \$467,072, capital and related financing activities of \$(216,210), and investing activities of \$(446,340).

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.

Capital Assets

The capital assets of Kossuth Regional Health Center, as of June 30, 2010, amounted to \$15,533,035 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and equipment.

At year-end June 30, 2010, Kossuth Regional Health Center had \$8,962,549 debt outstanding from Notes to finance the current construction project, as well as a USDA loan for the Electronic Health Records 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 – HEALTH CENTER
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,400,174	\$ 3,409,891
Investments - Note 4	977,114	693,568
Assets limited as to use or restricted - Note 4	50,028	180,505
Receivables		
Patient, net of estimated uncollectibles		
of \$2,452,000 in 2010 and \$1,623,000 in 2009	3,106,527	2,918,316
Estimated third-party payor settlements	-	190,000
Succeeding year property tax	352,303	312,773
Other	26,965	204,831
Supplies	629,394	601,918
Prepaid expense	419,551	552,845
Total current assets	<u>10,962,056</u>	<u>9,064,647</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for hospice expenditures	172,867	197,121
Internally designated for capital improvements	1,155,367	1,127,131
Internally designated for health benefits	550,775	7,368
Restricted under debt agreement for capital improvements	-	191,581
Restricted under debt agreement	260,974	260,948
Total assets limited as to use or restricted	<u>2,139,983</u>	<u>1,784,149</u>
CAPITAL ASSETS, net - Note 6	<u>15,533,035</u>	<u>8,398,598</u>
OTHER ASSETS		
Deferred financing costs	<u>184,045</u>	<u>184,045</u>
Total assets	<u>\$ 28,819,119</u>	<u>\$ 19,431,439</u>

See Notes to Financial Statements

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 296,789	\$ 10,000
Accounts payable		
Trade	275,303	601,385
Construction	821,251	180,505
Affiliated organization - Note 10	325,819	196,765
Estimated health claims payable - Note 11	350,631	309,000
Estimated third-party payor settlements	440,000	-
Accrued expenses		
Salaries and wages	292,819	247,779
Paid leave	570,607	525,967
Payroll taxes and employee benefits	14,521	12,294
Other	5,276	5,273
Deferred revenue for succeeding year property tax receivable	<u>352,303</u>	<u>312,773</u>
 Total current liabilities	 3,745,319	 2,401,741
 LONG-TERM DEBT, less current maturities - Note 7	 <u>8,665,760</u>	 <u>2,200,000</u>
 Total liabilities	 <u>12,411,079</u>	 <u>4,601,741</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,570,486	6,188,598
Restricted		
Expendable under debt agreement	260,974	452,529
Unrestricted	<u>9,576,580</u>	<u>8,188,571</u>
 Total net assets	 <u>16,408,040</u>	 <u>14,829,698</u>
 Total liabilities and net assets	 <u>\$ 28,819,119</u>	 <u>\$ 19,431,439</u>

KOSSUTH REGIONAL HEALTH CENTER
BALANCE SHEETS – FOUNDATION
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 118,655	\$ 117,038
Unconditional promises to give - Note 5	<u>309,523</u>	<u>189,020</u>
Total current assets	<u>428,178</u>	<u>306,058</u>
NONCURRENT ASSETS		
Cash and investments - Note 4	1,653,007	1,254,233
Unconditional promises to give - Note 5	<u>429,203</u>	<u>319,556</u>
Total noncurrent assets	<u>2,082,210</u>	<u>1,573,789</u>
Total assets	<u>\$ 2,510,388</u>	<u>\$ 1,879,847</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants payable	\$ 13,089	\$ 19,984
NET ASSETS, unrestricted	<u>2,497,299</u>	<u>1,859,863</u>
Total liabilities and net assets	<u>\$ 2,510,388</u>	<u>\$ 1,879,847</u>

See Notes to Financial Statements

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – HEALTH CENTER
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$1,003,594 in 2010 and \$780,887 in 2009) - Notes 2 and 3	\$ 23,517,845	\$ 20,645,925
Other operating revenues	<u>3,224,940</u>	<u>3,474,204</u>
TOTAL OPERATING REVENUES	<u>26,742,785</u>	<u>24,120,129</u>
OPERATING EXPENSES		
Salaries and wages	8,631,087	7,680,034
Employee benefits	2,720,041	3,139,680
Supplies and other expenses	13,741,674	12,336,252
Depreciation	897,569	824,535
Interest and amortization	-	7,430
TOTAL OPERATING EXPENSES	<u>25,990,371</u>	<u>23,987,931</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	752,414	132,198
AFFILIATION AGREEMENT EXPENSE	<u>(126,208)</u>	<u>-</u>
OPERATING INCOME	<u>626,206</u>	<u>132,198</u>
NONOPERATING REVENUES		
County tax revenue	322,527	298,248
Investment income	62,563	107,329
Noncapital contributions and grants	128,101	67,917
Gain on sale of capital assets	873	834
Dialysis unit rental income	16,444	11,025
TOTAL NONOPERATING REVENUES	<u>530,508</u>	<u>485,353</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	1,156,714	617,551
Capital contributions and grants	<u>421,628</u>	<u>217,285</u>
INCREASE IN NET ASSETS	1,578,342	834,836
NET ASSETS, BEGINNING OF YEAR	<u>14,829,698</u>	<u>13,994,862</u>
NET ASSETS, END OF YEAR	<u>\$ 16,408,040</u>	<u>\$ 14,829,698</u>

See Notes to Financial Statements

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - FOUNDATION
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Contributions	\$ 712,628	\$ 707,304
Investment income (loss)	<u>402,478</u>	<u>(579,211)</u>
 TOTAL OPERATING REVENUES	 <u>1,115,106</u>	 <u>128,093</u>
 EXPENSES		
Fundraising	45,989	86,160
Contributions to Kossuth Regional Health Center - Note 10	407,532	108,735
Supplies and other expenses	<u>24,149</u>	<u>11,009</u>
 TOTAL EXPENSES	 <u>477,670</u>	 <u>205,904</u>
 INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	 637,436	 (77,811)
 NET ASSETS, BEGINNING OF YEAR	 <u>1,859,863</u>	 <u>1,937,674</u>
 NET ASSETS, END OF YEAR	 <u>\$ 2,497,299</u>	 <u>\$ 1,859,863</u>

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS – HEALTH CENTER
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 23,959,634	\$ 21,901,275
Payments of salaries and wages	(8,499,776)	(7,498,364)
Payments of supplies and other expenses	(16,676,903)	(15,618,769)
Other receipts and payments, net	<u>3,402,806</u>	<u>3,316,879</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,185,761</u>	<u>2,101,021</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital contributions and grants received	128,101	67,917
County tax revenue received	322,527	298,248
Dialysis unit rental income	<u>16,444</u>	<u>11,025</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>467,072</u>	<u>377,190</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(7,391,260)	(2,314,862)
Proceeds from sale of capital assets	873	834
Principal payments on long-term debt	(10,000)	(1,571,934)
Proceeds from issuance of long-term debt	6,762,549	3,450,000
Interest payments on long-term debt, excluding amounts capitalized	-	(7,430)
Payment of debt issuance costs	-	(184,045)
Capital contributions and grants	<u>421,628</u>	<u>217,285</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(216,210)</u>	<u>(410,152)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	62,563	107,329
(Increase) decrease in investments	(283,546)	384,471
Increase in assets limited as to use or restricted	<u>(225,357)</u>	<u>(78,321)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(446,340)</u>	<u>413,479</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,990,283	2,481,538
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,409,891</u>	<u>928,353</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,400,174</u>	<u>\$ 3,409,891</u>

(continued)

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS – HEALTH CENTER
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	\$ 626,206	\$ 132,198
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	897,569	824,535
Interest and amortization expense considered capital and related financing activity	-	7,430
Provision for bad debts	1,003,594	780,887
Changes in assets and liabilities		
Patient receivables	(1,191,805)	(335,537)
Estimated third-party payor settlements	630,000	810,000
Other receivables	177,866	(157,325)
Supplies	(27,476)	(83,196)
Prepaid expense	133,294	(31,531)
Accounts payable - trade and affiliated organization	(197,028)	(27,654)
Estimated health claims payable	41,631	77,000
Accrued expenses	91,910	104,214
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,185,761</u>	<u>\$ 2,101,021</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest, including amounts capitalized, was \$242,749 in 2010 and \$32,482 in 2009

KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS - FOUNDATION
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors and contributors	\$ 482,478	\$ 198,728
Interest received	17,822	8,470
Cash paid to suppliers	(70,138)	(97,169)
Payments to Kossuth Regional Health Center	<u>(414,427)</u>	<u>(95,587)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>15,735</u>	<u>14,442</u>
INVESTING ACTIVITIES		
Purchase of investments	<u>(14,118)</u>	<u>(27,536)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,617	(13,094)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>117,038</u>	<u>130,132</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 118,655</u>	<u>\$ 117,038</u>
RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (decrease) in unrestricted net assets	\$ 637,436	\$ (77,811)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in unrealized gains and losses on investments	(369,187)	655,695
Realized gain on sale of investments, reinvested capital gains and dividends on investments	(15,469)	(68,014)
Change in unconditional promises to give	(230,150)	(508,576)
Increase (decrease) in grants payable	<u>(6,895)</u>	<u>13,148</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 15,735</u>	<u>\$ 14,442</u>

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 10. 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 the following categories/components:

- *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*

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

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

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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

KOSSUTH REGIONAL HEALTH CENTER
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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.

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. 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.

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 and assets which are restricted by debt agreements. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Assets limited as to use or restricted that are available for obligations classified as current liabilities are reported as current assets.

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.

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Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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 cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

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

Deferred Financing Costs

Deferred financing costs are amortized on the effective interest method over the period of the debt issue.

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 sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010 and 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.

KOSSUTH REGIONAL HEALTH CENTER
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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 \$53,617 and \$53,471 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

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 September 14, 2010, the date which the financial statements were available to be issued.

KOSSUTH REGIONAL HEALTH CENTER
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Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

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 \$190,133 and \$94,342 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, were \$113,000 and \$60,000, 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.

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, 2009.

KOSSUTH REGIONAL HEALTH CENTER
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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, 2007.

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 payment to the Health Center under these agreements may include prospectively determined rates and 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Health Center may incur a liability for a claims overpayment at a future date. The Health Center is unable to determine if it will be audited and, if so, the extent of liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Health Center's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Health Center and CMS.

Gross revenue from the Medicare and Medicaid programs accounted for approximately 47% and 8%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2010, and 47% and 7%, respectively, of the Health Center's net patient service revenue, for the year ended June 30, 2009. The 2010 net patient service revenue increased approximately \$125,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

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A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 38,434,559</u>	<u>\$ 32,264,579</u>
Contractual adjustments:		
Medicare	(8,108,480)	(5,951,771)
Medicaid	(1,697,198)	(1,179,039)
Other	<u>(4,107,442)</u>	<u>(3,706,957)</u>
Total contractual adjustments	<u>(13,913,120)</u>	<u>(10,837,767)</u>
Net patient service revenue	24,521,439	21,426,812
Provision for bad debts	<u>(1,003,594)</u>	<u>(780,887)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 23,517,845</u>	<u>\$ 20,645,925</u>

NOTE 4 - CASH AND DEPOSITS

The Health Center'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.

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.

At June 30, 2010 and 2009, the Health Center's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	<u>\$ 1,177,599</u>	<u>\$ 761,461</u>
Certificates of deposit	<u>1,989,526</u>	<u>1,896,761</u>
Total deposits	<u>\$ 3,167,125</u>	<u>\$ 2,658,222</u>
Included in the following balance sheet captions:		
Investments	<u>\$ 977,114</u>	<u>\$ 693,568</u>
Assets limited as to use or restricted	<u>2,190,011</u>	<u>1,964,654</u>
	<u>\$ 3,167,125</u>	<u>\$ 2,658,222</u>

KOSSUTH REGIONAL HEALTH CENTER
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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, 2009 and 2008, the Foundation's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	\$ 66,928	\$ 66,541
Cash surrender value of life insurance	50,032	32,480
Certificates of deposit	51,727	50,497
Mutual funds	<u>1,602,975</u>	<u>1,221,753</u>
 Total deposits	 <u>\$ 1,771,662</u>	 <u>\$ 1,371,271</u>
 Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 118,655	\$ 117,038
 Noncurrent cash and investments	 <u>1,653,007</u>	 <u>1,254,233</u>
	<u>\$ 1,771,662</u>	<u>\$ 1,371,271</u>

NOTE 5 - UNCONDITIONAL PROMISES TO GIVE

The Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give 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 December 31, 2009 and 2008:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 343,915	\$ 214,708
One to five years	<u>543,821</u>	<u>399,547</u>
	887,736	614,255
Less unamortized discount	(66,929)	(49,170)
Less allowance for uncollectible promises to give	<u>(82,081)</u>	<u>(56,509)</u>
 Unconditional promises to give, net	 <u>\$ 738,726</u>	 <u>\$ 508,576</u>

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - CAPITAL ASSETS

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

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land and land improvements	\$ 628,709	\$ -	\$ (51,364)	\$ -	\$ 577,345
Buildings	8,102,977	-	(988)	-	8,101,989
Fixed equipment	2,875,214	554,726	(508,207)	-	2,921,733
Major movable equipment	5,445,740	507,896	(503,727)	-	5,449,909
Construction in progress	2,293,892	6,969,385	-	-	9,263,277
	<u>19,346,532</u>	<u>\$ 8,032,007</u>	<u>\$ (1,064,286)</u>	<u>\$ -</u>	<u>26,314,253</u>
Accumulated depreciation					
Land improvements	408,302	\$ 22,365	\$ (51,362)	\$ -	379,305
Buildings	3,960,516	331,036	(988)	-	4,290,564
Fixed equipment	2,340,606	110,046	(508,208)	-	1,942,444
Major movable equipment	4,238,510	434,123	(503,728)	-	4,168,905
	<u>10,947,934</u>	<u>\$ 897,570</u>	<u>\$ (1,064,286)</u>	<u>\$ -</u>	<u>10,781,218</u>
Total capital assets, net	<u>\$ 8,398,598</u>				<u>\$ 15,533,035</u>
	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
Land and land improvements	\$ 628,709	\$ -	\$ -	\$ -	\$ 628,709
Buildings	7,136,385	30,370	-	936,222	8,102,977
Fixed equipment	2,839,528	35,686	-	-	2,875,214
Major movable equipment	4,836,194	245,929	-	363,617	5,445,740
Construction in progress	1,478,510	2,115,221	-	(1,299,839)	2,293,892
	<u>16,919,326</u>	<u>\$ 2,427,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>19,346,532</u>
Accumulated depreciation					
Land improvements	381,975	\$ 26,327	\$ -	\$ -	408,302
Buildings	3,648,124	312,392	-	-	3,960,516
Fixed equipment	2,245,822	94,784	-	-	2,340,606
Major movable equipment	3,847,477	391,033	-	-	4,238,510
	<u>10,123,398</u>	<u>\$ 824,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,947,934</u>
Total capital assets, net	<u>\$ 6,795,928</u>				<u>\$ 8,398,598</u>

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KOSSUTH REGIONAL HEALTH CENTER
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Construction in progress at June 30, 2010 and 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 remaining cost of \$3,100,000. 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 - LONG-TERM DEBT

A schedule of changes in long-term debt for 2010 and 2009, is as follows:

	June 30, 2009			June 30, 2010	Amounts Due
	Balance	Additions	Payments	Balance	Within One Year
Hospital revenue note -					
Series 2009A	\$ 950,000	\$ 5,925,017	\$ -	\$ 6,875,017	\$ 137,644
Hospital revenue note -					
Series 2009B	1,250,000	-	-	1,250,000	25,026
Promissory note payable	10,000	-	(10,000)	-	-
USDA loan	-	537,532	-	537,532	102,869
USDA/Corn Belt loan	-	300,000	-	300,000	31,250
Total long-term debt	<u>\$ 2,210,000</u>	<u>\$ 6,762,549</u>	<u>\$ (10,000)</u>	<u>8,962,549</u>	<u>\$ 296,789</u>
Less current maturities				<u>(296,789)</u>	
Long-term debt, less				<u>\$ 8,665,760</u>	
current maturities					
	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				<u>\$ 2,200,000</u>	
current maturities					

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

Year Ending June 30,	Long-term Debt	
	Principal	Interest
2011	\$ 296,789	\$ 310,350
2012	346,284	363,978
2013	358,223	354,357
2014	370,668	344,282
2015	383,640	333,730
2016-2020	1,464,788	1,492,083
2021-2025	1,695,489	1,142,633
2026-2030	2,135,662	702,459
2031-2034	1,911,006	170,283
	<u>\$ 8,962,549</u>	<u>\$ 5,214,155</u>

Hospital Revenue Note – Series 2009A

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.

Hospital Revenue Note – Series 2009B

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.

Promissory Note Payable

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 ten annual installments beginning on March 1, 2001.

KOSSUTH REGIONAL HEALTH CENTER
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USDA Loan

The Health Center entered into an agreement with the United States Department of Agriculture for the issuance of a \$537,532 loan. The net proceeds from the loan were used to implement an electronic medical record (EMR) filing system and purchase Cerner EMR software, server/communication equipment, workstations, and digital interface equipment. Payments of principal and interest of 2.18% are payable in 60 monthly installments beginning July 1, 2011.

USDA/Corn Belt Loan

The Health Center entered into an agreement with Corn Belt Power Cooperative for the issuance of a \$300,000 loan. The net proceeds from the loan were used to finance the expansion of the Kossuth Regional Health Center. The loan is a non-interest bearing loan and calls for the repayment of principal in 96 monthly installments beginning on September 1, 2011.

NOTE 8 - 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, 2010 and 2009, for all leases was \$673,593 and \$694,325, respectively.

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

Year Ending June 30,	Equipment	Building
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>\$ 93,378</u>	<u>\$ 4,018,975</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.

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NOTE 9 - 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 4.30% of their annual covered salary, and the Health Center is required to contribute 6.65% of their annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Health Center was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$536,386, \$463,553, and \$417,676, respectively, equal to the required contributions for each year.

NOTE 10 - 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 County 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 \$3,793,492 and \$3,707,417 for the years ended June 30, 2010 and 2009, respectively.

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. Total operating gains allocated to MMC-NI amounted to \$126,208 for the year ended June 30, 2010. No operating gains or losses were allocated to MMC-NI for the year ended June 30, 2009.

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, 2010 and 2009, were \$829,758 and \$756,707 respectively.

Due to Affiliated Organization

As of June 30, 2010 and 2009, the Health Center's records reflect an amount due to MMC-NI of \$325,819 and \$196,765, respectively, for the various services and distributions related to these agreements.

KOSSUTH REGIONAL HEALTH CENTER
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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, 2010 and 2009, of \$407,532 and \$108,735, respectively.

NOTE 11 - 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 \$350,631 and \$309,000 have been established to record the incurred but not reported claims outstanding and reported but not paid claims at June 30, 2010 and 2009, respectively. The amounts are based on estimates of the amounts necessary to pay current year claims. The plan has purchased stop-loss coverage.

Health Care Legislation and Regulation

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, 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 health care providers. Violation 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 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.

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Litigations, Claims, and Other Disputes

The Health Center is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims and disputes in process will not be material to the financial position of the Health Center.

NOTE 12 - 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.

NOTE 13 - 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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	31%	35%
Medicaid	6%	6%
Blue Cross	21%	20%
Other third-party payors and patients	<u>42%</u>	<u>39%</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

Kossuth Regional Health Center

KOSSUTH REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS – BUDGET AND ACTUAL (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 322,527	\$ -	\$ 322,527	\$ 312,773	\$ 9,754
Estimated other revenues/receipts	<u>27,372,394</u>	<u>7,382,204</u>	<u>34,754,598</u>	<u>35,876,321</u>	<u>(1,121,723)</u>
	27,694,921	7,382,204	35,077,125	36,189,094	(1,111,969)
Expenses/disbursements	<u>26,116,579</u>	<u>6,461,360</u>	<u>32,577,939</u>	<u>36,716,739</u>	<u>4,138,800</u>
Net	1,578,342	920,844	2,499,186	(527,645)	<u>\$ 3,026,831</u>
Balance, beginning of year	<u>14,829,698</u>	<u>(8,761,585)</u>	<u>6,068,113</u>	<u>2,602,611</u>	
Balance, end of year	<u>\$16,408,040</u>	<u>\$ (7,840,741)</u>	<u>\$ 8,567,299</u>	<u>\$ 2,074,966</u>	

KOSSUTH REGIONAL HEALTH CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2010

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.

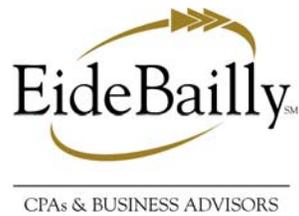
The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies 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, 2010.

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



Other Supplementary Information
June 30, 2010 and 2009

Kossuth Regional Health Center



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the schedule of statistical information on page 43 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 14, 2010

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010

	TOTAL	
	2010	2009
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,949,338	\$ 1,708,361
Intensive care unit	10,516	12,060
Swing-bed	565,180	441,175
Intermediate care	2,981	2,839
Nursery	132,057	132,649
Subtotal	<u>2,660,072</u>	<u>2,297,084</u>
OTHER PROFESSIONAL SERVICES		
Operating room	2,537,345	1,850,524
Labor and delivery room	73,202	82,366
Anesthesiology	1,109,292	659,168
Radiology	2,435,601	2,049,774
Laboratory	4,343,581	3,613,114
Respiratory therapy	373,641	326,662
Cardiac rehabilitation	268,236	244,442
Physical therapy	2,225,629	2,157,713
Occupational therapy	449,402	439,708
Speech therapy	11,380	12,477
Electrocardiology	159,227	116,893
Scans	4,172,957	3,458,918
Medical and surgical supplies	1,207,451	687,043
Pharmacy	3,228,102	2,640,788
Intravenous therapy	227,798	235,953
Clinics	9,110,014	7,875,891
Emergency room	2,114,454	1,500,198
Home health	916,987	973,127
Hospice	872,860	1,023,367
Immunizations	7,469	5,496
Acupuncture	36,605	35,722
Utilization review	172	-
Clinic	751	-
Diabetic education	82,464	72,493
Subtotal	<u>35,964,620</u>	<u>30,061,837</u>
Total	38,624,692	32,358,921
Charity care	<u>(190,133)</u>	<u>(94,342)</u>
Total patient service revenue	38,434,559	32,264,579
Adjustments to patient service revenue	<u>(14,916,714)</u>	<u>(11,618,654)</u>
NET PATIENT SERVICE REVENUE	<u>\$ 23,517,845</u>	<u>\$ 20,645,925</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 1,793,524	\$ 1,604,516	\$ 155,814	\$ 103,845
10,516	12,060	-	-
565,180	441,175	-	-
2,981	2,839	-	-
132,057	132,649	-	-
2,504,258	2,193,239	155,814	103,845
310,853	121,323	2,226,492	1,729,201
72,576	82,076	626	290
237,972	117,507	871,320	541,661
147,025	101,714	2,288,576	1,948,060
685,675	500,021	3,657,906	3,113,093
332,191	290,160	41,450	36,502
-	-	268,236	244,442
535,692	407,744	1,689,937	1,749,969
310,652	263,702	138,750	176,006
5,720	9,312	5,660	3,165
13,158	12,185	146,069	104,708
367,323	267,313	3,805,634	3,191,605
362,511	210,069	844,940	476,974
1,156,390	1,056,728	2,071,712	1,584,060
84,053	102,615	143,745	133,338
-	-	9,110,014	7,875,891
283,000	269,381	1,831,454	1,230,817
-	-	916,987	973,127
121,891	191,661	750,969	831,706
-	-	7,469	5,496
36,605	35,722	-	-
172	-	-	-
751	-	-	-
-	-	82,464	72,493
5,064,210	4,039,233	30,900,410	26,022,604
\$ 7,568,468	\$ 6,232,472	\$ 31,056,224	\$ 26,126,449

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUE
AND OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual adjustments - Medicare	\$ 8,108,480	\$ 5,951,771
Contractual adjustments - Medicaid	1,697,198	1,179,039
Provision for bad debts	1,003,594	780,887
Other allowances and adjustments	<u>4,107,442</u>	<u>3,706,957</u>
TOTAL ADJUSTMENTS	<u>\$ 14,916,714</u>	<u>\$ 11,618,654</u>
OTHER OPERATING REVENUES		
Retail pharmacy	\$ 2,663,962	\$ 2,737,490
Grants	426,938	576,096
Cafeteria	66,748	64,330
Rental income	30,437	62,916
Medical records fees	4,175	4,422
Miscellaneous	<u>32,680</u>	<u>28,950</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 3,224,940</u>	<u>\$ 3,474,204</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ADULTS AND PEDIATRICS		
Salaries and wages	\$ 1,579,989	\$ 1,460,619
Supplies and other expenses	<u>701,558</u>	<u>361,119</u>
	<u>2,281,547</u>	<u>1,821,738</u>
NURSERY		
Salaries and wages	12,119	16,345
Supplies and other expenses	<u>3,188</u>	<u>15,303</u>
	<u>15,307</u>	<u>31,648</u>
OPERATING ROOM		
Salaries and wages	469,647	306,510
Supplies and other expenses	<u>228,193</u>	<u>157,338</u>
	<u>697,840</u>	<u>463,848</u>
LABOR AND DELIVERY ROOMS		
Salaries and wages	30,877	17,751
Supplies and other expenses	<u>14,384</u>	<u>4,918</u>
	<u>45,261</u>	<u>22,669</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>380,769</u>	<u>310,902</u>
RADIOLOGY		
Salaries and wages	304,111	330,492
Supplies and other expenses	<u>237,415</u>	<u>301,238</u>
	<u>541,526</u>	<u>631,730</u>
LABORATORY		
Salaries and wages	372,992	347,320
Supplies and other expenses	<u>530,302</u>	<u>425,357</u>
	<u>903,294</u>	<u>772,677</u>
BLOOD		
Salaries and wages	20,092	19,495
Supplies and other expenses	<u>76,714</u>	<u>69,573</u>
	<u>96,806</u>	<u>89,068</u>
RESPIRATORY THERAPY		
Salaries and wages	10,287	8,850
Supplies and other expenses	<u>107,687</u>	<u>90,906</u>
	<u>117,974</u>	<u>99,756</u>
CARDIAC REHABILITATION		
Salaries and wages	17,985	19,589
Supplies and other expenses	<u>44,469</u>	<u>35,249</u>
	<u>62,454</u>	<u>54,838</u>

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PHYSICAL THERAPY		
Salaries and wages	\$ 146,665	\$ 147,749
Supplies and other expenses	<u>490,890</u>	<u>431,665</u>
	<u>637,555</u>	<u>579,414</u>
OCCUPATIONAL THERAPY		
Salaries and wages	130,096	126,426
Supplies and other expenses	<u>9,190</u>	<u>7,842</u>
	<u>139,286</u>	<u>134,268</u>
SPEECH THERAPY		
Salaries and wages	4,907	3,564
Supplies and other expenses	<u>12</u>	<u>12</u>
	<u>4,919</u>	<u>3,576</u>
ELECTROCARDIOLOGY		
Salaries and wages	7,304	3,189
Supplies and other expenses	<u>1,793</u>	<u>4,872</u>
	<u>9,097</u>	<u>8,061</u>
SCANS		
Salaries and wages	111,592	32,415
Supplies and other expenses	<u>642,568</u>	<u>603,026</u>
	<u>754,160</u>	<u>635,441</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>286,875</u>	<u>150,813</u>
PHARMACY AND INTRAVENOUS THERAPY		
Salaries and wages	30,943	29,104
Supplies and other expenses	<u>606,627</u>	<u>482,253</u>
	<u>637,570</u>	<u>511,357</u>
RETAIL PHARMACY		
Salaries and wages	253,931	246,756
Supplies and other expenses	<u>2,156,114</u>	<u>2,128,679</u>
	<u>2,410,045</u>	<u>2,375,435</u>
CLINICS		
Salaries and wages	2,184,823	1,749,231
Supplies and other expenses	<u>3,799,052</u>	<u>3,508,476</u>
	<u>5,983,875</u>	<u>5,257,707</u>
REJUVENATION CLINIC		
Salaries and wages	8,104	9,950
Supplies and other expenses	<u>39,528</u>	<u>46,492</u>
	<u>47,632</u>	<u>56,442</u>

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
EMERGENCY SERVICES		
Salaries and wages	\$ 234,107	\$ 212,587
Supplies and other expenses	<u>569,825</u>	<u>497,507</u>
	<u>803,932</u>	<u>710,094</u>
HOME HEALTH		
Salaries and wages	795,419	773,795
Supplies and other expenses	<u>242,694</u>	<u>232,959</u>
	<u>1,038,113</u>	<u>1,006,754</u>
HOSPICE		
Salaries and wages	161,762	163,881
Supplies and other expenses	<u>167,122</u>	<u>98,359</u>
	<u>328,884</u>	<u>262,240</u>
ACUPUNCTURE		
Salaries and wages	23,044	24,116
Supplies and other expenses	<u>2,358</u>	<u>5,405</u>
	<u>25,402</u>	<u>29,521</u>
MEDICAL RECORDS		
Salaries and wages	235,620	221,540
Supplies and other expenses	<u>112,355</u>	<u>118,734</u>
	<u>347,975</u>	<u>340,274</u>
DIETARY		
Salaries and wages	222,746	218,938
Supplies and other expenses	<u>153,122</u>	<u>113,071</u>
	<u>375,868</u>	<u>332,009</u>
OPERATION OF PLANT		
Salaries and wages	192,211	177,261
Supplies and other expenses	<u>378,304</u>	<u>360,284</u>
	<u>570,515</u>	<u>537,545</u>
HOUSEKEEPING		
Salaries and wages	175,400	151,610
Supplies and other expenses	<u>33,215</u>	<u>29,753</u>
	<u>208,615</u>	<u>181,363</u>
LAUNDRY AND LINEN		
Supplies and other expenses	<u>74,236</u>	<u>58,234</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	852,905	819,592
Supplies and other expenses	<u>1,605,462</u>	<u>1,403,141</u>
	<u>2,458,367</u>	<u>2,222,733</u>

(continued on next page)

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ELECTRONIC HEALTH RECORDS		
Salaries and wages	\$ 41,409	\$ 41,359
Supplies and other expenses	<u>45,653</u>	<u>282,772</u>
	<u>87,062</u>	<u>324,131</u>
UNASSIGNED EXPENSES		
Depreciation	897,569	824,535
Interest and amortization	-	7,430
Employee benefits	<u>2,720,041</u>	<u>3,139,680</u>
	<u>3,617,610</u>	<u>3,971,645</u>
TOTAL OPERATING EXPENSES	<u>\$ 25,990,371</u>	<u>\$ 23,987,931</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND
COLLECTION STATISTICS
JUNE 30, 2010 AND 2009

ANALYSIS OF AGING

Days Since Discharge	June 30, 2010		June 30, 2009	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 3,373,700	60.69%	\$ 2,809,468	61.87%
31 to 60 days	712,479	12.82%	612,000	13.48%
61 to 90 days	268,226	4.83%	242,242	5.33%
91 days and over	1,204,373	21.67%	877,592	19.32%
	5,558,778	100.00%	4,541,302	100.00%
Less: Allowance for doubtful accounts	733,108		566,686	
Allowance for contractual adjustments	1,719,143		1,056,300	
Net	\$ 3,106,527		\$ 2,918,316	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Beginning balance	\$ 566,686	\$ 612,432
Add:		
Provision for bad debts	1,003,594	780,887
Recoveries previously written off	181,583	189,570
	1,185,177	970,457
Less:		
Accounts written off	(1,018,755)	(1,016,203)
Ending balance	\$ 733,108	\$ 566,686

COLLECTION STATISTICS

Net accounts receivable - patients	\$ 3,106,527	\$ 2,918,316
Number of days charges outstanding	48	52
Uncollectible accounts (1)	1,193,727	875,229
Percentage of uncollectible accounts to total charges	3.1%	2.7%

(1) Includes provision for bad debts and charity care.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
SUPPLIES		
Retail pharmacy	\$ 268,929	\$ 274,966
Central supply	107,846	100,282
Clinics	84,060	73,355
Pharmacy	48,649	41,616
Other departments	<u>119,910</u>	<u>111,699</u>
Total supplies	<u>\$ 629,394</u>	<u>\$ 601,918</u>
PREPAID EXPENSE		
Insurance	\$ 64,085	\$ 52,617
Other	<u>355,466</u>	<u>500,228</u>
Total prepaid expense	<u>\$ 419,551</u>	<u>\$ 552,845</u>

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INSURANCE IN FORCE AT JUNE 30, 2010

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
PIC Wisconsin				
CH16	Professional liability		\$ 22,886	2/2/2011
	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		
	Pollution liability - sublimit & aggregate	\$ 250,000		
CH10	Umbrella liability		\$ 5,500	
	Each occurrence	\$ 5,000,000		
	Aggregate	\$ 5,000,000		
	Retention	\$ 10,000		
	Auto			
	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	
	Each occurrence	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
Pro Advantage Services				
CHUBB Group				
6802-3366	Directors & officers liability	\$ 1,000,000	\$ 7,900	3/4/2011
Employers Mutual			\$ 14,236	7/1/2010
1B1-77-73---009	Commercial property			
	Hospital & Algona clinic building	\$17,400,000		
	Business personal property	\$ 3,012,256		
	Extra expense	\$ 275,000		
	Boiler building	\$ 25,254		
	Maintenance garage	\$ 11,419		
	Bancroft clinic building	\$ 128,087		
	Business personal property	\$ 44,627		
	Extra expense	\$ 25,000		

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INSURANCE IN FORCE AT JUNE 30, 2010

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
Pro Advantage Services				
Employers Mutual				
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		
Employers Mutual				
1C1-77-73---009	Equipment breakdown		\$ 29,700	7/1/2010
	Property damage	\$16,020,231		
	All others	\$ 200,000		
	Builders risk			7/1/2010
	Covered property	\$ 9,000,000		
	Additional debris removal	\$ 5,000		
	Emergency removal	\$ 10,000		
	Fraud and deceit	\$ 50,000		
	Waterborne property	\$ 10,000		
	Contract penalty	\$ 10,000		
	Expediting expenses	\$ 10,000		
	Fire dept. service charge	\$ 1,000		
	Ordinance or law - incr cost to repair	\$ 50,000		
	Personal property	\$ 10,000		
	Pollutant cleanup and removal	\$ 25,000		
	Rewards	\$ 1,000		
	Sewer backup and water below surface	\$ 10,000		
	Storage locations	\$ 10,000		
	Testing	\$ 10,000		
	Transit	\$ 10,000		
	Trees, shubs and plants	\$ 10,000		
Employers Mutual				
1C1-77-73---09	Inland marine/builders risk		\$ 820	7/1/2010
	Covered property at jobsite	\$ 305,000		
	Debris removal, fraud & waterborne	\$ 75,000		
Liberty Mutual				
WC7-Z52-437601-019	Workers compensation	N/A	\$ 71,769	6/30/2011

KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	2,042	1,915
Swing-bed	1,384	1,163
Newborn	205	219
Totals	<u>3,631</u>	<u>3,297</u>
ADMISSIONS		
Acute	611	627
Swing-bed	146	122
Totals	<u>757</u>	<u>749</u>
DISCHARGES		
Acute	611	629
Swing-bed	145	123
Totals	<u>756</u>	<u>752</u>
ACUTE AVERAGE LENGTH OF STAY	<u>3.3</u>	<u>3.0</u>
SWING-BED AVERAGE LENGTH OF STAY	<u>9.5</u>	<u>9.5</u>
ACUTE BEDS	<u>25</u>	<u>25</u>
PERCENTAGE OF OCCUPANCY		
Acute, based on 25 beds	<u>22.38%</u>	<u>20.99%</u>
Swing-bed, based on 25 beds	<u>15.17%</u>	<u>12.75%</u>



**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, 2010 and 2009, and its discretely presented component unit, Kossuth Regional Health Center Foundation, as of December 31, 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 thereon dated September 14, 2010. 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 an 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.

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 that a material misstatement of the Health Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Health Center'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 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 Responses. 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. 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 14, 2010

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-10 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.

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.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

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

I-B-10 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.

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.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 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.
- II-C-10 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-10 Business Transactions – We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 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.
- II-G-10 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.
- II-H-10 Official Depository Banks – A resolution of official depository banks has been approved by the Board. The maximum amounts stated in the resolution were exceeded during the year ended June 30, 2010, at one bank.

Recommendation

We recommend monitoring deposits at each bank to ensure deposits do not exceed the amount allowed by the current depository resolution. We also recommend evaluating the adequacy of the current maximum deposit amounts based on the existing cash and deposit balances.

Response

We will monitor cash balances and assess the adequacy of maximum depository amounts.

Conclusion

Response accepted.



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, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 July 15, 2010. Professional standards also require that we communicate to you 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 the 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 2010. 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 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, self-funded health insurance liability, 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.

Depreciation Expense – Management’s estimates 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 the estimates 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.

We discussed all adjustments to the financial statements with the Health Center’s staff during the audit. The following adjustments were made to the Health Center’s financial statements during the fiscal year 2010 audit:

To adjust allowance for contractual and estimated third-party payor settlements	\$	225,706
To adjust accounts payable		22,376
To adjust payable to Mercy Medical Center – North Iowa		(59,988)

The net effect of these adjustments was to increase net assets by \$188,094.

In addition, the following material adjustments were made to Kossuth Regional Health Center Foundation’s financial statements during the fiscal year 2010 audit:

To record unconditional promises to give	\$	230,150
To record investment income		369,187

The net effect of these adjustments was to increase net assets by \$599,337.

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 September 14, 2010.

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 Finance Committee, Board of Trustees, and management of Kossuth Regional Health Center and is not intended to be and should not be used by anyone other than these specified parties.

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 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 Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
September 14, 2010



The Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

In planning and performing our audit of the financial statements of Kossuth Regional Health Center (Health Center), as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Health Center's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Health Center's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Health Center's internal control to be significant deficiencies:

Preparation of Financial Statements

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). 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. 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. 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.

Segregation of Duties

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

This communication 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, and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
September 14, 2010