



Financial Statements
June 30, 2011 and 2010

Kossuth Regional Health Center

Kossuth Regional Health Center

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June 30, 2011 and 2010

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Kossuth Regional Health Center
Board of Trustees and Health Center Officials
June 30, 2011 and 2010

<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, 2016

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, 2011 and 2010, and its discretely presented component unit, Kossuth Regional Health Center Foundation, as of December 31, 2010 and 2009, 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, 2011 and 2010, and the financial statements of its discretely presented component unit as of December 31, 2010 and 2009, 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 15, 2011, 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.

Accounting principles generally accepted in the United State of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Dubuque, Iowa
September 15, 2011

This discussion and analysis of the financial performance of Kossuth Regional Health Center provides an overall review of the Health Center's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Health Center's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health Center's financial statements, including the notes thereto to enhance their understanding of the Health Center's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health Center's finances.

The Health Center's financial statements offer short and long term information about its activities. The balance sheets include all of the Health Center's assets and liabilities, as well as the Kossuth Regional Health Center Foundation's net assets, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health Center creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Health Center's operations over the past year and can be used to determine whether the Health Center has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statements of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Health Center and Foundation and the changes in them. The Health Center's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$31,385,595, total liabilities of \$13,579,474, and net assets of \$17,806,121.
- The Statements of Revenues, Expenses and Changes in Net Assets indicates total net patient service revenue of \$25,411,427 increased 8.1% over the previous fiscal year, other operating revenues of \$3,404,980, total operating expenses of \$28,276,957 increased 8.8% and affiliation agreement expenses of \$19,725 resulting in a gain from operations of \$519,725 a 17.0% decrease from the previous year. A net non-operating gain of \$973,201 brings the excess of revenues over expenses to \$1,398,081 a 11.4% decrease.

- The Health Center's current assets exceeded its current liabilities by \$9,625,685 at June 30, 2011, providing a 4.1 current ratio.
- Gross patient charges increased 6.0% during fiscal year 2011
- Total operating expenses increased 8.8% from the previous fiscal year.
- Net days in accounts receivable continue to be very favorable at 42.5 at June 30, 2011.
- Key patient statistics for the Health Center are as follows:
 - Acute Care patient days were 2,086 (2.2% increase)
 - Swing Bed patient days were 1,473 (6.4% increase)
 - Newborn births were 107 (15.0% increase)
 - Total outpatient visits were 28,142 (2.0% increase)
 - Total Clinic visits were 45,862 (7.3% increase)
 - Physical Therapy visits totaled 14,382 (8.5% increase)
 - Laboratory procedures totaled 219,729 (27.0% increase)

Organization Highlights

The organization continued to make many positive changes over this last fiscal year, including:

- Completion of the three-story construction and renovation project. This project included the addition of ten patient rooms and renovation of the existing patient rooms as we converted to private rooms. A new Physical Therapy department, expanded Pre/Post Op Surgery rooms along with new kitchen, cafeteria, diabetic education offices and conference rooms. The General Storeroom was relocated and offices were updated as part of the renovation phase of the project.
- A team based planning process identified as a "3P" event was conducted as we began the planning phase for a redesign of our Emergency Department.
- Work has begun on the next Electronic Medical Records project with planning and build work being done for the Clinic Provider EMR system.
- The patient registration process was enhanced when we installed scanners to collect and store patient demographic information more efficiently.
- Replacement of one Radiographic and Fluoroscopic machine was completed in our Radiology department.
- We continue to embrace the Process Excellence concepts and methods under the guidance of Mercy Medical Center – North Iowa. Many educational opportunities have been conducted for our staff, and have resulted in numerous projects completed that have improved the process flows and efficiency of our facility.
- Strategic Planning has continued with the facilitation of the Iowa Quality Center. Focus has been placed on defining the Quality pillar of the strategic plan and the role that the Board of Trustees plays in its implementation.
- We successfully recruited a family practice physician to join the practice effective August 1, 2011. This addition effectively fills vacancies that have occurred as well as positions us well for future transitions that may occur with the medical staff.

Condensed Financial Statements

Balance Sheets

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 6,041,258	\$ 5,400,174	\$ 3,409,891
Investments	1,586,540	977,114	693,568
Assets limited as to use or restricted	356,202	50,028	180,505
Receivables			
Patient, net of estimated uncollectibles	2,958,967	3,106,527	2,918,316
Estimated third-party payor settlements	251,000	-	190,000
Succeeding year property tax	365,867	352,303	312,773
Other	56,977	26,965	204,831
Other assets	<u>1,113,501</u>	<u>1,048,945</u>	<u>1,154,763</u>
	<u>12,730,312</u>	<u>10,962,056</u>	<u>9,064,647</u>
Assets Limited as to Use or Restricted	<u>1,789,053</u>	<u>2,139,983</u>	<u>1,784,149</u>
Capital Assets, Net	<u>16,694,631</u>	<u>15,533,035</u>	<u>8,398,598</u>
Other Assets			
Deferred financing costs	<u>171,599</u>	<u>184,045</u>	<u>184,045</u>
	<u>\$ 31,385,595</u>	<u>\$ 28,819,119</u>	<u>\$ 19,431,439</u>

Condensed Financial Statements

Balance Sheets (continued)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 458,075	\$ 296,789	\$ 10,000
Accounts payable			
Trade	260,172	275,303	601,385
Construction	506,443	821,251	180,505
Affiliated organization	228,357	325,819	196,765
Estimated health claims payable	300,000	350,631	309,000
Estimated third-party payor settlements	-	440,000	-
Accrued expenses	985,713	883,223	791,313
Deferred tax revenue	365,867	352,303	312,773
	<u>3,104,627</u>	<u>3,745,319</u>	<u>2,401,741</u>
Long-term Debt, Less Current Maturities	<u>10,474,847</u>	<u>8,665,760</u>	<u>2,200,000</u>
Total liabilities	<u>13,579,474</u>	<u>12,411,079</u>	<u>4,601,741</u>
Net Assets			
Invested in capital assets, net of related debt	5,761,709	6,570,486	6,188,598
Restricted			
Expendable under debt agreement	266,896	260,974	452,529
Unrestricted	<u>11,777,516</u>	<u>9,576,580</u>	<u>8,188,571</u>
Total net assets	<u>17,806,121</u>	<u>16,408,040</u>	<u>14,829,698</u>
Total liabilities and net assets	<u>\$ 31,385,595</u>	<u>\$ 28,819,119</u>	<u>\$ 19,431,439</u>

Kossuth Regional Health Center
Management's Discussion and Analysis
June 30, 2011 and 2010

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 25,411,427	\$ 23,517,845	\$ 20,645,925
Other operating revenues	3,404,980	3,224,940	3,474,204
Total Operating Revenues	<u>28,816,407</u>	<u>26,742,785</u>	<u>24,120,129</u>
Operating Expenses			
Salaries and wages	9,075,429	8,631,087	7,680,034
Employee benefits	3,079,535	2,720,041	3,139,680
Supplies and other expenses	14,407,538	13,741,674	12,336,252
Depreciation and amortization	1,386,796	897,569	824,535
Interest	327,659	-	7,430
Total Operating Expenses	<u>28,276,957</u>	<u>25,990,371</u>	<u>23,987,931</u>
Operating Income Before Affiliation Agreement	539,450	752,414	132,198
Affiliation Agreement Expense	<u>(19,725)</u>	<u>(126,208)</u>	<u>-</u>
Operating Income	<u>519,725</u>	<u>626,206</u>	<u>132,198</u>
Nonoperating Revenues (Expenses)			
County tax revenue	351,860	322,527	298,248
Investment income	54,326	62,563	107,329
Noncapital contributions and grants	41,508	128,101	67,917
Gain (loss) on sale of capital assets	(4,635)	873	834
Dialysis unit rental income	10,417	16,444	11,025
Net Nonoperating Revenues	<u>453,476</u>	<u>530,508</u>	<u>485,353</u>
Revenues in Excess of Expenses	973,201	1,156,714	617,551
Other Changes in Net Assets	<u>424,880</u>	<u>421,628</u>	<u>217,285</u>
Increase in Net Assets	1,398,081	1,578,342	834,836
Net Assets, Beginning of Year	<u>16,408,040</u>	<u>14,829,698</u>	<u>13,994,862</u>
Net Assets, End of Year	<u>\$ 17,806,121</u>	<u>\$ 16,408,040</u>	<u>\$ 14,829,698</u>

Capital Assets

Kossuth Regional Health Center completed the construction of a three-story building project on the southeast side of our building during the 2011 fiscal year. That project included new private patient rooms, a new Physical Therapy department, expanded Pre/Post Operative rooms, new kitchen, cafeteria and conference rooms. A second phase of the construction project included the renovation of the existing patient rooms, the relocation of the General Storeroom, expanded Data Processing and other offices. The total cost of the project was \$10,403,724. Other costs for capital improvements associated with the project totaled \$849,628.

Long-Term Debt

Kossuth Regional Health Center had \$458,075 and \$10,932,922 in short-term and long-term debt, respectively, for the year ended June 30, 2011, and \$296,789 and \$8,962,549 in short-term and long-term debt, respectively, for the year ended June 30, 2010. The debt was incurred to construct and equip the three story construction and renovation projects, and the Electronic Medical Record system.

Economic and Other Factors and Next Year's Budget

The Health Center's Board and management considered many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increased Wellmark patient services and reimbursement challenges
- Nursing Home reimbursement
- Staffing benchmarks
- Salary and benefit costs
- Supply and drug costs
- Energy costs
- Medical Staff changes
- Technology advances

Summary

The Health Center's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 223 employees and contracted staff provides to every person they serve. We would also like to thank each member of the Health Center's Medical Staff for their dedication and support provided.

Contacting the Health Center's Finance Department

The Health Center's financial statements are designed to present users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

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

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,041,258	\$ 5,400,174
Investments - Note 4	1,586,540	977,114
Assets limited as to use or restricted - Note 4	356,202	50,028
Receivables		
Patient, net of estimated uncollectibles of \$2,569,000 in 2011 and \$2,452,000 in 2010	2,958,967	3,106,527
Estimated third-party payor settlements	251,000	-
Succeeding year property tax	365,867	352,303
Other	56,977	26,965
Supplies	657,115	629,394
Prepaid expense	456,386	419,551
Total current assets	<u>12,730,312</u>	<u>10,962,056</u>
Assets Limited as to Use or Restricted - Note 4		
Internally designated for hospice expenditures	141,416	172,867
Internally designated for capital improvements	-	1,155,367
Internally designated for health benefits	1,380,741	550,775
Restricted under debt agreement	266,896	260,974
Total assets limited as to use or restricted	<u>1,789,053</u>	<u>2,139,983</u>
Capital Assets - Note 6		
Capital assets not being depreciated	165,414	9,302,242
Depreciable capital assets, net of accumulated depreciation	16,529,217	6,230,793
Total capital assets, net	<u>16,694,631</u>	<u>15,533,035</u>
Other Assets		
Deferred financing costs net of accumulated amortization of \$12,446 in 2011 and \$0 in 2010	171,599	184,045
Total assets	<u>\$ 31,385,595</u>	<u>\$ 28,819,119</u>

See Notes to Financial Statements

Kossuth Regional Health Center
Balance Sheets – Health Center
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 458,075	\$ 296,789
Accounts payable		
Trade	260,172	275,303
Construction	506,443	821,251
Affiliated organization - Note 10	228,357	325,819
Estimated health claims payable - Note 11	300,000	350,631
Estimated third-party payor settlements	-	440,000
Accrued expenses		
Salaries and wages	334,429	292,819
Paid leave	629,627	570,607
Payroll taxes and employee benefits	16,860	14,521
Other	4,797	5,276
Deferred revenue for succeeding year property tax receivable	365,867	352,303
Total current liabilities	3,104,627	3,745,319
Long-Term Debt, Less Current Maturities - Note 7	10,474,847	8,665,760
Total liabilities	13,579,474	12,411,079
Net Assets		
Invested in capital assets, net of related debt	5,761,709	6,570,486
Restricted		
Expendable under debt agreement	266,896	260,974
Unrestricted	11,777,516	9,576,580
Total net assets	17,806,121	16,408,040
Total liabilities and net assets	\$ 31,385,595	\$ 28,819,119

Kossuth Regional Health Center
Balance Sheets – Foundation
December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents - Note 4	\$ 143,133	\$ 118,655
Unconditional promises to give - Note 5	260,644	309,523
Total current assets	403,777	428,178
Noncurrent Assets		
Cash and investments - Note 4	1,921,531	1,653,007
Unconditional promises to give - Note 5	276,393	429,203
Total noncurrent assets	2,197,924	2,082,210
Total assets	\$ 2,601,701	\$ 2,510,388
Liabilities and Net Assets		
Current Liabilities		
Grants payable	\$ 11,915	\$ 13,089
Net Assets		
Unrestricted	2,052,749	1,758,573
Temporarily restricted	537,037	738,726
Total net assets	2,589,786	2,497,299
Total liabilities and net assets	\$ 2,601,701	\$ 2,510,388

Kossuth Regional Health Center
Statements of Revenues, Expenses, and Changes in Net Assets – Health Center
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$1,159,252 in 2011 and \$1,003,594 in 2010) - Notes 2 and 3	\$ 25,411,427	\$ 23,517,845
Other operating revenues	3,404,980	3,224,940
Total Operating Revenues	28,816,407	26,742,785
Operating Expenses		
Salaries and wages	9,075,429	8,631,087
Employee benefits	3,079,535	2,720,041
Supplies and other expenses	14,407,538	13,741,674
Depreciation and amortization	1,386,796	897,569
Interest	327,659	-
Total Operating Expenses	28,276,957	25,990,371
Operating Income Before Affiliation Agreement	539,450	752,414
Affiliation Agreement Expense	(19,725)	(126,208)
Operating Income	519,725	626,206
Nonoperating Revenues (Expenses)		
County tax revenue	351,860	322,527
Investment income	54,326	62,563
Noncapital contributions and grants	41,508	128,101
Gain (loss) on sale of capital assets	(4,635)	873
Dialysis unit rental income	10,417	16,444
Net Nonoperating Revenues	453,476	530,508
Revenues in Excess of Expenses	973,201	1,156,714
Other Changes in Net Assets		
Capital contributions and grants	424,880	421,628
Increase in Net Assets	1,398,081	1,578,342
Net Assets, Beginning of Year	16,408,040	14,829,698
Net Assets, End of Year	\$ 17,806,121	\$ 16,408,040

Kossuth Regional Health Center
Statements of Revenues, Expenses, and Changes in Net Assets – Foundation
Years Ended December 31, 2010 and 2009

	2010	2009
Unrestricted Operating Revenues		
Contributions	\$ 154,423	\$ 75,945
Investment income	268,302	402,478
Net assets released from restriction	211,689	406,533
Total Unrestricted Operating Revenues	634,414	884,956
Expenses		
Fundraising	28,857	45,989
Contributions to Kossuth Regional Health Center - Note 10	298,297	407,532
Supplies and other expenses	13,084	24,149
Total Expenses	340,238	477,670
Increase in Unrestricted Net Assets	294,176	407,286
Temporarily Restricted Net Assets		
Contributions	10,000	636,683
Net assets released from restriction	(211,689)	(406,533)
Increase (Decrease) in Temporarily Restricted Net Assets	(201,689)	230,150
Increase in Net Assets	92,487	637,436
Net Assets, Beginning of Year	2,497,299	1,859,863
Net Assets, End of Year	\$ 2,589,786	\$ 2,497,299

Kossuth Regional Health Center
Statements of Cash Flows – Health Center
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 24,867,987	\$ 23,959,634
Payments of salaries and wages	(9,025,430)	(8,499,776)
Payments of supplies and other expenses	(17,682,087)	(16,676,903)
Other receipts and payments, net	3,374,968	3,402,806
Net Cash Provided by Operating Activities	<u>1,535,438</u>	<u>2,185,761</u>
Cash Flows from Noncapital Financing Activities		
Noncapital contributions and grants received	41,508	128,101
County tax revenue received	351,860	322,527
Dialysis unit rental income	10,417	16,444
Net Cash Provided by Noncapital Financing Activities	<u>403,785</u>	<u>467,072</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,863,287)	(7,391,260)
Proceeds from sale of capital assets	7,898	873
Principal payments on long-term debt	(404,610)	(10,000)
Proceeds from issuance of long-term debt	2,374,983	6,762,549
Interest payments on long-term debt, excluding amounts capitalized	(327,659)	-
Capital contributions and grants	424,880	421,628
Net Cash used for Capital and Related Financing Activities	<u>(787,795)</u>	<u>(216,210)</u>
Cash Flows from Investing Activities		
Investment income	54,326	62,563
Sale of investments	255,673	216,454
Purchase of investments	(865,099)	(500,000)
Sale of assets limited as to use or restricted	309,699	(125,276)
Purchase of assets limited as to use or restricted	(264,943)	(100,081)
Net Cash used for Investing Activities	<u>(510,344)</u>	<u>(446,340)</u>
Net Increase in Cash and Cash Equivalents	641,084	1,990,283
Cash and Cash Equivalents at Beginning of Year	<u>5,400,174</u>	<u>3,409,891</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,041,258</u>	<u>\$ 5,400,174</u>

(continued)

Kossuth Regional Health Center
 Statements of Cash Flows – Health Center
 Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 519,725	\$ 626,206
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,386,796	897,569
Interest expense considered capital and related financing activity	327,659	-
Provision for bad debts	1,159,252	1,003,594
Changes in assets and liabilities		
Patient receivables	(1,011,692)	(1,191,805)
Estimated third-party payor settlements	(691,000)	630,000
Other receivables	(30,012)	177,866
Supplies	(27,721)	(27,476)
Prepaid expense	(36,835)	133,294
Accounts payable - trade and affiliated organization	(112,593)	(197,028)
Estimated health claims payable	(50,631)	41,631
Accrued expenses	102,490	91,910
	\$ 1,535,438	\$ 2,185,761

Supplemental Disclosure of Cash Flow Information
 Cash paid during the year for interest, including amounts capitalized, was \$434,198 in 2011 and \$242,749 in 2010

Kossuth Regional Health Center
 Statements of Cash Flows – Foundation
 Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from donors and contributors	\$ 366,112	\$ 482,478
Interest received	16,097	17,822
Cash paid to suppliers	(41,941)	(70,138)
Payments to Kossuth Regional Health Center	(299,471)	(414,427)
Net Cash Provided by Operating Activities	40,797	15,735
Investing Activities		
Purchase of investments	(16,319)	(14,118)
Increase in Cash and Cash Equivalents	24,478	1,617
Cash and Cash Equivalents at Beginning of Year	118,655	117,038
Cash and Cash Equivalents at End of Year	\$ 143,133	\$ 118,655
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities		
Increase in net assets	\$ 92,487	\$ 637,436
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in unrealized gains and losses on investments	(132,323)	(369,187)
Realized gain on sale of investments, reinvested capital gains and dividends on investments	(119,882)	(15,469)
Change in unconditional promises to give	201,689	(230,150)
Decrease in grants payable	(1,174)	(6,895)
Net Cash Provided by Operating Activities	\$ 40,797	\$ 15,735

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.

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'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 (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.

The Health Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Health Center has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts.

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.

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 projected paid leave payouts is recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2011 and 2010.

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

Net Patient Service Revenue

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

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

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$46,163 and \$53,617 for advertising costs for the years ended June 30, 2011 and 2010, 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 15, 2011, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

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 \$90,365 and \$190,133 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, were \$55,000 and \$113,000, 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.

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, 2008.

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 the 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 45% and 7%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2011, and 47% and 8%, respectively, of the Health Center's net patient service revenue, for the year ended June 30, 2010. The 2011 and 2010 net patient service revenue increased approximately \$170,000 and \$125,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	\$ 40,832,798	\$ 38,434,559
Contractual Adjustments:		
Medicare	(7,762,994)	(8,108,480)
Medicaid	(1,625,162)	(1,697,198)
Other	(4,873,963)	(4,107,442)
Total contractual adjustments	(14,262,119)	(13,913,120)
Net Patient Service Revenue	26,570,679	24,521,439
Provision for Bad Debts	(1,159,252)	(1,003,594)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 25,411,427	\$ 23,517,845

Note 4 - Cash and Deposits

The Health Center's deposits in banks at June 30, 2011 and 2010, 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, 2011 and 2010, the Health Center's carrying amounts of cash and deposits are as follows:

	2011	2010
Checking and Savings Accounts	\$ 1,742,252	\$ 1,177,599
Certificates of Deposit	1,989,543	1,989,526
Total deposits	\$ 3,731,795	\$ 3,167,125
Included in the Following Balance Sheet Captions:		
Investments	\$ 1,586,540	\$ 977,114
Assets limited as to use or restricted	2,145,255	2,190,011
	\$ 3,731,795	\$ 3,167,125

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, 2010 and 2009, the Foundation's carrying amounts of cash and deposits are as follows:

	2010	2009
Checking and Savings Accounts	\$ 90,725	\$ 66,928
Cash Surrender Value of Life Insurance	59,553	50,032
Certificates of Deposit	52,408	51,727
Mutual Funds	1,861,978	1,602,975
Total deposits	\$ 2,064,664	\$ 1,771,662
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 143,133	\$ 118,655
Noncurrent cash and investments	1,921,531	1,653,007
	\$ 2,064,664	\$ 1,771,662

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, 2010 and 2009:

	2010	2009
Less Than One Year	\$ 297,776	\$ 343,915
One to Five Years	337,050	543,821
	634,826	887,736
Less Unamortized Discount	(38,118)	(66,929)
Less Allowance for Uncollectible Promises to Give	(59,671)	(82,081)
Unconditional Promises to Give, Net	\$ 537,037	\$ 738,726

Note 6 - Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2010				June 30, 2011
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated					
Land	\$ 38,965	\$ -	\$ -	\$ -	\$ 38,965
Construction in progress	9,263,277	1,557,845	-	(10,694,673)	126,449
Total capital assets not being depreciated	<u>9,302,242</u>	<u>1,557,845</u>	<u>-</u>	<u>(10,694,673)</u>	<u>165,414</u>
Capital Assets Being Depreciated					
Land improvements	538,380	45,175	1,911	26,178	607,822
Buildings	8,101,989	96,380	29,396	10,297,508	18,466,481
Fixed equipment	2,921,733	384,889	274,937	350,235	3,381,920
Major movable equipment	5,449,909	480,922	258,343	-	5,672,488
Total capital assets being depreciated	<u>17,012,011</u>	<u>1,007,366</u>	<u>564,587</u>	<u>10,673,921</u>	<u>28,128,711</u>
Less Accumulated Depreciation for:					
Land improvements	379,305	22,684	1,911	-	400,078
Buildings	4,290,564	702,179	22,752	-	4,969,991
Fixed equipment	1,942,444	214,407	266,484	-	1,890,367
Major movable equipment	4,168,905	432,769	262,616	-	4,339,058
Total accumulated depreciation	<u>10,781,218</u>	<u>1,372,039</u>	<u>553,763</u>	<u>-</u>	<u>11,599,494</u>
Total Capital Assets Being Depreciated, Net	<u>6,230,793</u>	<u>(364,673)</u>	<u>10,824</u>	<u>10,673,921</u>	<u>16,529,217</u>
Total Capital Assets, Net	<u>\$ 15,533,035</u>	<u>\$ 1,193,172</u>	<u>\$ 10,824</u>	<u>\$ (20,752)</u>	<u>\$ 16,694,631</u>

Construction in progress at June 30, 2011, represents costs incurred for various projects. One project is the boiler project, which includes the expansion of the boiler house and the installation of an additional boiler. The project is expected to be completed in calendar year 2011, with an estimated total cost of \$225,000 that will be funded with available cash. Also included in construction in progress is initial planning costs to renovate the emergency and laboratory departments. It is the Health Center's intent to proceed with the project in the early spring of 2012 and complete it by the end of 2012. The estimated cost of the project is approximately \$1,000,000. The Health Center intends to finance with debt approximately \$360,000 of the total cost, with the remaining amount being funded with available cash. The final project is a signage project which is substantially complete at June 30, 2011.

Kossuth Regional Health Center
Notes to Financial Statements
June 30, 2011 and 2010

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital Assets Not Being Depreciated					
Land	\$ 38,965	\$ -	\$ -	\$ -	\$ 38,965
Construction in progress	2,293,892	6,969,385	-	-	9,263,277
Total capital assets not being depreciated	<u>2,332,857</u>	<u>6,969,385</u>	<u>-</u>	<u>-</u>	<u>9,302,242</u>
Capital Assets Being Depreciated					
Land improvements	589,744	-	51,364	-	538,380
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
Total capital assets being depreciated	<u>17,013,675</u>	<u>1,062,622</u>	<u>1,064,286</u>	<u>-</u>	<u>17,012,011</u>
Less Accumulated Depreciation for:					
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
Total accumulated depreciation	<u>10,947,934</u>	<u>897,570</u>	<u>1,064,286</u>	<u>-</u>	<u>10,781,218</u>
Total Capital Assets Being Depreciated, Net	<u>6,065,741</u>	<u>165,052</u>	<u>-</u>	<u>-</u>	<u>6,230,793</u>
Total Capital Assets, Net	<u>\$ 8,398,598</u>	<u>\$ 7,134,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,533,035</u>

Note 7 - Long-Term Debt

A schedule of changes in long-term debt for 2011 and 2010, is as follows:

	June 30, 2010 Balance	Additions	Payments	June 30, 2011 Balance	Amounts Due Within One Year
Hospital Revenue Note - Series 2009A	\$ 6,875,017	\$ 2,374,983	\$ 193,658	\$ 9,056,342	\$ 232,244
Hospital Revenue Note - Series 2009B	1,250,000	-	25,026	1,224,974	31,331
USDA Loan	537,532	-	154,676	382,856	157,000
USDA/Corn Belt Loan	300,000	-	31,250	268,750	37,500
Total long-term debt	\$ 8,962,549	\$ 2,374,983	\$ 404,610	10,932,922	\$ 458,075
Less Current Maturities				(458,075)	
Long-Term Debt, Less Current Maturities				\$ 10,474,847	
	June 30, 2009 Balance	Additions	Payments	June 30, 2010 Balance	Amounts Due 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	\$ 2,210,000	\$ 6,762,549	\$ 10,000	8,962,549	\$ 296,789
Less Current Maturities				(296,789)	
Long-Term Debt, Less Current Maturities				\$ 8,665,760	

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
2012	\$ 458,075	\$ 474,215
2013	472,525	459,763
2014	393,423	444,807
2015	340,222	430,822
2016	354,434	416,520
2017-2021	1,905,691	1,843,279
2022-2026	2,298,092	1,369,628
2027-2031	2,894,709	773,012
2032-2034	1,815,751	116,350
	\$ 10,932,922	\$ 6,328,396

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 was 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 was 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 was 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 the Health Center with \$100,000 to be used in the operating suite renovation project. The note was a non-interest bearing note and called for the repayment of principal in ten annual installments beginning on March 1, 2001. The note was paid off in the fiscal year June 30, 2010.

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, 2010.

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, 2010.

Note 8 - Leases

The Health Center leases certain building space under noncancelable long-term lease agreements. Total lease expense for the years ended June 30, 2011 and 2010, for all leases was \$705,882 and \$673,593, respectively.

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

Year Ending June 30,	Building
2012	\$ 612,504
2013	612,504
2014	612,504
2015	612,504
2016	612,504
2017	317,554
2018	116,679
	\$ 3,496,753

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

Note 9 - Pension and Retirement Benefits

The Health Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary, and the Health Center is required to contribute 6.95% of their annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Health Center was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$573,246, \$536,386, and \$463,553, 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 \$5,931,782 and \$5,583,336 for the years ended June 30, 2011 and 2010, 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 \$19,725 and \$126,208 for the years ended June 30, 2011 and 2010, respectively.

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, 2011 and 2010, were \$878,535 and \$829,758, respectively.

Due to Affiliated Organization

As of June 30, 2011 and 2010, the Health Center's records reflect an amount due to MMC-NI of \$228,357 and \$325,819, respectively, for the various services and distributions related to these agreements.

Other Related Organizations

Auxiliary

The Kossuth County Hospital Auxiliary was established to advance and to promote the welfare of Kossuth Regional Health Center through ways and means approved by the Board of Directors of the Health Center auxiliary and endorsed by the Health Center administrator. The Auxiliary's unrestricted resources are distributed to the Health Center in amounts and in periods determined by the Auxiliary's Board of Directors.

Foundation

The Kossuth Regional Health Center Foundation was established to solicit funds and make contributions to the Kossuth Regional Health Center. The Foundation made contributions to the Health Center during the years ended June 30, 2011 and 2010, of \$298,297 and \$407,532, 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 \$300,000 and \$350,631 have been established to record the incurred but not reported claims outstanding and reported but not paid claims at June 30, 2011 and 2010, 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.

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. This coverage has not changed significantly from the previous year. The Health Center assumes liability for any deductibles and claims in excess of coverage limitations. 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, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	36%	31%
Medicaid	4%	6%
Blue Cross	23%	21%
Other Third-Party Payors and Patients	<u>37%</u>	<u>42%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>



Required Supplementary Information
June 30, 2011

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, 2011

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 351,860	\$ -	\$ 351,860	\$ 352,304	\$ (444)
Estimated Other Revenues/ Receipts	29,342,903	1,814,064	31,156,967	34,526,444	(3,369,477)
	29,694,763	1,814,064	31,508,827	34,878,748	(3,369,921)
Expenses/Disbursements	28,296,682	2,006,391	30,303,073	34,587,085	4,284,012
Net	1,398,081	(192,327)	1,205,754	291,663	\$ 914,091
Balance, Beginning of Year	16,408,040	(7,840,741)	8,567,299	7,001,357	
Balance, End of Year	<u>\$ 17,806,121</u>	<u>\$ (8,033,068)</u>	<u>\$ 9,773,053</u>	<u>\$ 7,293,020</u>	

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 347A 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, 2011.

For the year ended June 30, 2011, the Health Center's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2011 and 2010

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 as a whole. The schedules of net patient service revenue, adjustments to patient service revenue and other operating revenues, operating expenses, patient receivables, allowance for doubtful accounts, and collection statistics, supplies and prepaid expense, insurance in force, and statistical information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, adjustments to patient service revenue and other operating revenues, operating expenses, and supplies and prepaid expense are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, and collection statistics, insurance in force, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
September 15, 2011

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	Total	
	2011	2010
Patient Care Services		
Adults and pediatrics	\$ 2,035,377	\$ 1,949,338
Intensive care unit	9,560	10,516
Swing-bed	595,770	565,180
Intermediate care	526	2,981
Nursery	150,471	132,057
Subtotal	<u>2,791,704</u>	<u>2,660,072</u>
Other Professional Services		
Operating room	2,568,203	2,537,345
Labor and delivery room	96,012	73,202
Anesthesiology	1,198,230	1,109,292
Radiology	2,487,465	2,435,601
Laboratory	4,533,880	4,343,581
Respiratory therapy	338,170	373,641
Cardiac rehabilitation	290,551	268,236
Physical therapy	2,554,622	2,225,629
Occupational therapy	481,666	449,402
Speech therapy	9,980	11,380
Electrocardiology	199,967	159,227
Scans	4,041,728	4,172,957
Medical and surgical supplies	1,320,606	1,207,451
Pharmacy	3,859,648	3,228,102
Intravenous therapy	238,085	227,798
Clinics	10,015,053	9,110,014
Emergency room	2,145,786	2,114,454
Home health	905,068	916,987
Hospice	685,378	872,860
Immunizations	6,183	7,469
Acupuncture	41,615	36,605
Utilization review	97	172
Clinic	-	751
Diabetic education	113,466	82,464
Subtotal	<u>38,131,459</u>	<u>35,964,620</u>
Total	40,923,163	38,624,692
Charity care	<u>(90,365)</u>	<u>(190,133)</u>
Total patient service revenue	40,832,798	38,434,559
Adjustments to patient service revenue	<u>(15,421,371)</u>	<u>(14,916,714)</u>
Net Patient Service Revenue	<u>\$ 25,411,427</u>	<u>\$ 23,517,845</u>

Kossuth Regional Health Center
Schedules of Net Patient Service Revenue
Years Ended June 30, 2011 and 2010

Inpatient		Outpatient	
2011	2010	2011	2010
\$ 1,852,616	\$ 1,793,524	\$ 182,761	\$ 155,814
9,560	10,516	-	-
595,770	565,180	-	-
526	2,981	-	-
150,471	132,057	-	-
<u>2,608,943</u>	<u>2,504,258</u>	<u>182,761</u>	<u>155,814</u>
281,172	310,853	2,287,031	2,226,492
96,012	72,576	-	626
285,784	237,972	912,446	871,320
126,895	147,025	2,360,570	2,288,576
705,076	685,675	3,828,804	3,657,906
280,691	332,191	57,479	41,450
-	-	290,551	268,236
535,728	535,692	2,018,894	1,689,937
298,442	310,652	183,224	138,750
7,100	5,720	2,880	5,660
16,485	13,158	183,482	146,069
303,853	367,323	3,737,875	3,805,634
399,432	362,511	921,174	844,940
1,407,640	1,156,390	2,452,008	2,071,712
78,999	84,053	159,086	143,745
-	-	10,015,053	9,110,014
306,149	283,000	1,839,637	1,831,454
-	-	905,068	916,987
119,283	121,891	566,095	750,969
-	-	6,183	7,469
41,615	36,605	-	-
97	172	-	-
-	751	-	-
-	-	113,466	82,464
<u>5,290,453</u>	<u>5,064,210</u>	<u>32,841,006</u>	<u>30,900,410</u>
<u>\$ 7,899,396</u>	<u>\$ 7,568,468</u>	<u>\$ 33,023,767</u>	<u>\$ 31,056,224</u>

Kossuth Regional Health Center
Schedules of Adjustments to Patient Service Revenue and
Other Operating Revenues
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Adjustments to Patient Service Revenue		
Contractual adjustments - Medicare	\$ 7,762,994	\$ 8,108,480
Contractual adjustments - Medicaid	1,625,162	1,697,198
Provision for bad debts	1,159,252	1,003,594
Other allowances and adjustments	<u>4,873,963</u>	<u>4,107,442</u>
 Total Adjustments to Patient Service Revenue	 <u>\$ 15,421,371</u>	 <u>\$ 14,916,714</u>
 Other Operating Revenues		
Retail pharmacy	\$ 2,775,941	\$ 2,663,962
Grants	427,551	426,938
Cafeteria	88,799	66,748
Rental income	40,770	30,437
Medical records fees	1,613	4,175
Miscellaneous	<u>70,306</u>	<u>32,680</u>
 Total Other Operating Revenues	 <u>\$ 3,404,980</u>	 <u>\$ 3,224,940</u>

Kossuth Regional Health Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Adults and Pediatrics		
Salaries and wages	\$ 1,593,676	\$ 1,579,989
Supplies and other expenses	424,671	701,558
	<u>2,018,347</u>	<u>2,281,547</u>
Nursery		
Salaries and wages	17,007	12,119
Supplies and other expenses	5,677	3,188
	<u>22,684</u>	<u>15,307</u>
Operating Room		
Salaries and wages	469,630	469,647
Supplies and other expenses	193,064	228,193
	<u>662,694</u>	<u>697,840</u>
Labor and Delivery Rooms		
Salaries and wages	41,684	30,877
Supplies and other expenses	36,627	14,384
	<u>78,311</u>	<u>45,261</u>
Anesthesiology		
Supplies and other expenses	437,411	380,769
	<u>437,411</u>	<u>380,769</u>
Radiology		
Salaries and wages	311,104	304,111
Supplies and other expenses	203,565	237,415
	<u>514,669</u>	<u>541,526</u>
Laboratory		
Salaries and wages	399,396	372,992
Supplies and other expenses	659,068	530,302
	<u>1,058,464</u>	<u>903,294</u>
Blood		
Salaries and wages	20,058	20,092
Supplies and other expenses	87,346	76,714
	<u>107,404</u>	<u>96,806</u>
Respiratory Therapy		
Salaries and wages	8,622	10,287
Supplies and other expenses	99,728	107,687
	<u>108,350</u>	<u>117,974</u>
Cardiac Rehabilitation		
Salaries and wages	28,922	17,985
Supplies and other expenses	35,711	44,469
	<u>64,633</u>	<u>62,454</u>

Kossuth Regional Health Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Physical Therapy		
Salaries and wages	\$ 161,329	\$ 146,665
Supplies and other expenses	563,485	490,890
	<u>724,814</u>	<u>637,555</u>
Occupational Therapy		
Salaries and wages	141,978	130,096
Supplies and other expenses	15,744	9,190
	<u>157,722</u>	<u>139,286</u>
Speech Therapy		
Salaries and Wages	3,278	4,907
Supplies and other expenses	-	12
	<u>3,278</u>	<u>4,919</u>
Electrocardiology		
Salaries and wages	6,337	7,304
Supplies and other expenses	1,480	1,793
	<u>7,817</u>	<u>9,097</u>
Scans		
Salaries and wages	123,924	111,592
Supplies and other expenses	708,431	642,568
	<u>832,355</u>	<u>754,160</u>
Medical and Surgical Supplies		
Supplies and other expenses	323,560	286,875
Pharmacy and Intravenous Therapy		
Salaries and wages	43,903	30,943
Supplies and other expenses	797,275	606,627
	<u>841,178</u>	<u>637,570</u>
Retail Pharmacy		
Salaries and wages	264,335	253,931
Supplies and other expenses	2,284,384	2,156,114
	<u>2,548,719</u>	<u>2,410,045</u>
Clinics		
Salaries and wages	2,348,033	2,184,823
Supplies and other expenses	3,761,203	3,799,052
	<u>6,109,236</u>	<u>5,983,875</u>
Rejuvenation Clinic		
Salaries and wages	7,655	8,104
Supplies and other expenses	41,292	39,528
	<u>48,947</u>	<u>47,632</u>

Kossuth Regional Health Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Emergency Services		
Salaries and wages	\$ 235,593	\$ 234,107
Supplies and other expenses	568,157	569,825
	<u>803,750</u>	<u>803,932</u>
Home Health		
Salaries and wages	771,835	795,419
Supplies and other expenses	240,667	242,694
	<u>1,012,502</u>	<u>1,038,113</u>
Hospice		
Salaries and wages	149,901	161,762
Supplies and other expenses	65,195	167,122
	<u>215,096</u>	<u>328,884</u>
Acupuncture		
Salaries and wages	27,214	23,044
Supplies and other expenses	1,270	2,358
	<u>28,484</u>	<u>25,402</u>
Medical Records		
Salaries and wages	259,263	235,620
Supplies and other expenses	137,354	112,355
	<u>396,617</u>	<u>347,975</u>
Dietary		
Salaries and wages	237,137	222,746
Supplies and other expenses	170,567	153,122
	<u>407,704</u>	<u>375,868</u>
Operation of Plant		
Salaries and wages	221,797	192,211
Supplies and other expenses	423,811	378,304
	<u>645,608</u>	<u>570,515</u>
Housekeeping		
Salaries and wages	213,899	175,400
Supplies and other expenses	71,164	33,215
	<u>285,063</u>	<u>208,615</u>
Laundry and Linen		
Supplies and other expenses	63,217	74,236
Administrative Services		
Salaries and wages	926,899	852,905
Supplies and other expenses	1,652,450	1,605,462
	<u>2,579,349</u>	<u>2,458,367</u>

Kossuth Regional Health Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Electronic Health Records		
Salaries and wages	\$ 41,020	\$ 41,409
Supplies and other expenses	333,964	45,653
	374,984	87,062
Unassigned Expenses		
Depreciation and amortization	1,386,796	897,569
Interest	327,659	-
Employee benefits	3,079,535	2,720,041
	4,793,990	3,617,610
 Total Operating Expenses	 \$ 28,276,957	 \$ 25,990,371

Kossuth Regional Health Center
Schedules of Patient Receivables, Allowance for Doubtful Accounts, and
Collection Statistics (Unaudited)
June 30, 2011 and 2010

Analysis of Aging

Days Since Discharge	June 30, 2011		June 30, 2010	
	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	\$ 3,469,951	62.76%	\$ 3,373,700	60.68%
31 to 60 Days	750,549	13.58%	712,479	12.82%
61 to 90 Days	274,759	4.97%	268,226	4.83%
91 Days and over	1,032,952	18.69%	1,204,373	21.67%
	5,528,211	<u>100.00%</u>	5,558,778	<u>100.00%</u>
Less:				
Allowance for doubtful accounts	804,749		733,108	
Allowance for contractual adjustments	1,764,495		1,719,143	
Net	<u>\$ 2,958,967</u>		<u>\$ 3,106,527</u>	

Analysis of Allowance for Doubtful Accounts
Years Ended June 30, 2011 and 2010

	2011	2010
Beginning Balance	\$ 733,108	\$ 566,686
Add:		
Provision for bad debts	1,159,252	1,003,594
Recoveries previously written off	162,747	181,583
	<u>1,321,999</u>	<u>1,185,177</u>
Less:		
Accounts written off	(1,250,358)	(1,018,755)
Ending balance	<u>\$ 804,749</u>	<u>\$ 733,108</u>

Collection Statistics

Net accounts receivable - patients	\$ 2,958,967	\$ 3,106,527
Number of days charges outstanding (1)	43	48
Uncollectible accounts (2)	\$ 1,249,617	\$ 1,193,727
Percentage of uncollectible accounts to total charges	3.1%	3.1%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes Provision for Bad Debts and Charity Care.

Kossuth Regional Health Center
Schedules of Supplies and Prepaid Expense
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Supplies		
Retail pharmacy	\$ 267,784	\$ 268,929
Central supply	117,932	107,846
Clinics	69,433	84,060
Pharmacy	48,579	48,649
Other departments	<u>153,387</u>	<u>119,910</u>
Total supplies	<u>\$ 657,115</u>	<u>\$ 629,394</u>
 Prepaid Expense		
Insurance	\$ 88,311	\$ 64,085
Other	<u>368,075</u>	<u>355,466</u>
Total prepaid expense	<u>\$ 456,386</u>	<u>\$ 419,551</u>

Kossuth Regional Health Center
Schedule of Insurance in Force at June 30, 2011 (Unaudited)

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
PIC Wisconsin				2/25/2012
CH16	Professional liability		\$ 45,327	
	Each professional incident	\$ 1,000,000		
	Each occurrence limit	\$ 1,000,000		
	General aggregate	\$ 3,000,000		
	General surgeon			
	Occurrence limit	\$ 1,000,000		
	Aggregate limit	\$ 3,000,000		
	General liability		\$ 4,631	
	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		\$ 40,797	
	Each occurrence	\$ 5,000,000		
	General aggregate	\$ 5,000,000		
Jester Insurance Services				
CHUBB Group				
6802-3366	Directors & officers liability	\$ 3,000,000	\$ 11,445	3/4/2012
	Crime		\$ 3,250	3/4/2012
	Employee theft	\$ 500,000		
	Premises coverage	\$ 500,000		
	In transit coverage	\$ 500,000		
	Forgery coverage	\$ 500,000		
	Computer fraud	\$ 500,000		
	Funds transfer fraud	\$ 500,000		
	Money orders and counterfeit currency fraud	\$ 500,000		
	Credit card fraud	\$ 500,000		
	Client coverage	\$ 500,000		
	Expense coverage	\$ 500,000		

Kossuth Regional Health Center
Schedule of Insurance in Force at June 30, 2011 (Unaudited)

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date		
Pro Advantage Services Employers Mutual 1B1-77-73---009	Commercial property Hospital & Algona clinic building	\$ 17,400,000	\$ 24,231	7/1/2011		
	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				
Pro Advantage Services Employers Mutual 1F1-77-73---09	Crime Inside the premises	\$ 7,500			\$ 2,831	7/1/2011
	Outside the premises	\$ 7,500				
1E1-77-73---09	Automobiles Liability	\$ 1,000,000	\$ 3,000	7/1/2011		
	Auto medical payments	\$ 1,000				
	Uninsured motorists	\$ 500,000				
	Underinsured motorists	\$ 500,000				
Pro Advantage Services Employers Mutual 1C1-77-73---09	Inland marine/builders risk Covered property at jobsite	\$ 305,000	\$ 3,630	7/1/2011		
	Debris removal, fraud & waterborne	\$ 75,000				
Liberty Mutual WC7-Z52-437601-019	Workers compensation	N/A	\$ 78,886	6/30/2011		
Pharmacists Mutual Insurance Co.	Liability - Retail Pharmacy	N/A	\$ 2,297	9/1/2011		

Kossuth Regional Health Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Patient Days		
Acute	2,086	2,042
Swing-bed	1,473	1,384
Newborn	234	205
Totals	<u>3,793</u>	<u>3,631</u>
Admissions		
Acute	640	611
Swing-bed	130	146
Totals	<u>770</u>	<u>757</u>
Discharges		
Acute	635	611
Swing-bed	138	145
Totals	<u>773</u>	<u>756</u>
Acute Average Length of Stay	<u>3.3</u>	<u>3.3</u>
Swing-Bed Average Length of Stay	<u>10.7</u>	<u>9.5</u>
Acute Beds	<u>25</u>	<u>25</u>
Percentage of Occupancy		
Acute, based on 25 beds	<u>22.86%</u>	<u>22.38%</u>
Swing-bed, based on 25 beds	<u>16.14%</u>	<u>15.17%</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, 2011, and its discretely presented component unit, Kossuth Regional Health Center Foundation, as of December 31, 2010, 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 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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, 2011, 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.

We also noted a certain additional matter that we reported to management in a separate letter dated September 15, 2011.

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.



Dubuque, Iowa
September 15, 2011

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-11 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.

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

I-B-11 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.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11** **Certified Budget:** Disbursements during the year ended June 30, 2011, did not exceed the amount budgeted.
- II-B-11** **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-11** **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-11** **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-11** **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-11** **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-11** **Publication of Bills Allowed and Salaries:** The Health Center is organized under Chapter 347A and is not required to follow this section of the Code of Iowa.
- II-H-11** **Official Depository Banks:** A resolution of official depository banks has been approved by the Board. The maximum amounts stated in the resolution were exceeded at one bank during the year ended June 30, 2011.
- 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 deposit 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 for the year ended June 30, 2011. 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 11, 2011. 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 Kossuth Regional Health Center are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Health Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, 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 estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

We discussed all adjustments to the financial statements with management during the audit. The following adjustments were made for the year ended June 30, 2011.

To adjust estimated third-party payor settlements	\$	668,358
To adjust long-term debt		86,543
To adjust capitalized interest on building project		40,654
To adjust beginning of year net assets		11,190
To record amortization of bond issuance costs		(12,446)
To record payable to Mercy Medical Center – North Iowa		(19,725)
To adjust estimated liability (IBNR) for self-insured health plan		(33,997)
To adjust allowance for uncollectible accounts and contractual adjustments		(250,000)

The net effect of the adjustments was to increase net assets by \$490,577.

In addition, the following material adjustments were made to Kossuth Regional Health Center Foundation’s financial statements during the fiscal year 2011 audit:

To adjust investments to fair market value	\$	132,323
To adjust unconditional promises to give		(201,689)

The net effect of the adjustments was to decrease net assets by \$69,366

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 15, 2011.

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.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters

Following are additional comments for informational purposes only:

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all "Covered Entities," which includes, in part, health centers, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

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.



Dubuque, Iowa
September 15, 2011