

KOSSUTH REGIONAL HEALTH CENTER

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2012 AND 2011

**KOSSUTH REGIONAL HEALTH CENTER
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**KOSSUTH REGIONAL HEALTH CENTER
BOARD OF TRUSTEES
JUNE 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jack Munch	Chairperson	December 31, 2014
Conley Nelson	Secretary	December 31, 2014
Thomas Geelan	Treasurer	December 31, 2012
Eileen Bormann	Member	December 31, 2012
John Cowin	Member	December 31, 2016
HEALTH CENTER OFFICIALS		
Scott Curtis	Administrator	
Daniel Myers	Controller	

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www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the accompanying balance sheet of Kossuth Regional Health Center and the related statement of financial position of its discretely presented component unit, Kossuth Regional Health Center Foundation as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets (Health Center), activities and changes in net assets (Foundation) and cash flows for the year 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 audit. The financial statements of Kossuth Regional Health Center as of June 30, 2011, were audited by other auditors whose report dated September 15, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit provides 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 and its discretely presented component unit as of June 30, 2012 and the changes in its financial position and its cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the financial statements, an error resulting in the overstatement of previously reported total assets and net assets was discovered during the current year. Accordingly, an adjustment has been made to net assets as of July 1, 2011, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012 on our consideration of Kossuth Regional Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees
Kossuth Regional Health Center

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on page 34 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 statement 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 regarding 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.



CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

This section of the Kossuth Regional Health Center annual audited financial report represents management's discussion and analysis of the Health Center's financial performance during the fiscal year ended June 30, 2012. The analysis will focus on the Health Center's financial performance as a whole. Please read it in conjunction with the audited financial report.

USING THIS ANNUAL REPORT

The June 30, 2012 and 2011 financial reports include the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- Total assets increased by \$812,878, or 2.6%, in 2012, by \$2,711,277, or 9.4%, in 2011 and by \$9,387,680, or 48%, in 2010.
- Net assets increased in each of the last two years with a \$1,220,690, or 6.9%, increase in 2012, a \$1,367,198, or 8.4%, increase in 2011 and a \$1,518,342 or 10.2% increase in 2010.
- The Health Center reported an operating income of \$445,503 in 2012, \$508,567 in 2011 and \$752,414 in 2010. This represents a decrease in 2012 and 2011 of \$63,064 and \$243,847, respectively, and an increase in 2010 of \$620,216.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

These financial statements report information about the Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Health Center's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to the Health Center creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Health Center's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the Health Center that determines the Health Center's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF THE HEALTH CENTER

The information from the balance sheets, statements of revenues, expenses and changes in net assets, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Health Center and the changes in them. Increases or decreases in net assets are one indicator of whether or not the Health Center's financial health is improving. Other non-financial factors can also have an effect on the Health Center's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as changes in the economic environment of Kossuth County and the surrounding areas.

Table 1: Assets, Liabilities and Net Assets

	2012	RESTATED 2011	RESTATED 2010
Assets:			
Current Assets	\$ 13,140,364	\$ 12,364,445	\$ 10,609,753
Non-current Cash and Investments	2,287,681	1,789,053	2,139,983
Capital Assets, Net	16,378,754	16,839,432	15,533,035
Succeeding Year Property Tax Receivable	377,633	365,867	352,303
Other Assets	158,842	171,599	184,045
	<u>\$ 32,343,274</u>	<u>\$ 31,530,396</u>	<u>\$ 28,819,119</u>
Liabilities:			
Total Current Liabilities	\$ 2,939,687	\$ 2,820,265	\$ 3,393,016
Long-Term Debt (Less Current Maturities)	10,090,026	10,629,026	8,725,760
Deferred Revenue from Succeeding Year Property Tax Receivable	377,633	365,867	352,303
Total Liabilities	<u>13,407,346</u>	<u>13,815,158</u>	<u>12,471,079</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	5,749,416	5,670,826	6,570,486
Restricted:			
Under Debt Agreement	270,247	266,896	260,974
Unrestricted	12,916,265	11,777,516	9,516,580
Total Net Assets	<u>18,935,928</u>	<u>17,715,238</u>	<u>16,348,040</u>
	<u>\$ 32,343,274</u>	<u>\$ 31,530,396</u>	<u>\$ 28,819,119</u>
Total Liabilities and Net Assets			

Asset categories changing significantly during 2012, 2011 and 2010 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$336,833, or 5.6%, in 2012, increased by \$641,084, or 11.9%, in 2011, and increased by \$1,990,283, or 5.8% in 2010. Current Investments increased by \$514,324, or 32.4%, in 2012 and \$609,426 or 62%, in 2011 as Cash was converted into investments during the year. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2012 by \$234,883, or 7.9%, decreased in 2011 by \$147,560, or -4.8%, and increased in 2010 by \$188,211 or 6.5%.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)

The current ratio (current assets divided by current liabilities) for 2012 was 4.5, for 2011 was 4.4 and for 2010 was 3.1. The current ratio is a measure of liquidity, providing an indication of the Health Center's ability to pay current liabilities: a high ratio number is preferred.

Other non-current asset categories changing significantly during 2012, 2011 and 2010 included non-current cash and investments. Non-current cash and investments increased by \$498,628 or 28%, in 2012, decreased by \$350,930, or -16%, in 2011 and decreased by \$355,834, or 20% in 2010.

Table 2 summarizes information from the statements of revenues, expenses and changes in net assets

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

	2012	RESTATED 2011	RESTATED 2010
Net Patient Service Revenue	\$ 26,374,596	\$ 25,411,427	\$ 23,517,845
Other Operating Revenue	3,527,000	3,404,980	3,224,940
Total Operating Revenues	<u>29,901,596</u>	<u>28,816,407</u>	<u>26,742,785</u>
Operating Expenses			
Salaries and Wages	9,430,176	9,075,429	8,631,087
Employee Benefits	3,315,836	3,079,535	2,720,041
Supplies and Miscellaneous	14,626,960	14,385,241	13,741,674
Depreciation	1,604,394	1,407,482	897,569
Interest	478,727	360,153	-
Total Operating Expenses	<u>29,456,093</u>	<u>28,307,840</u>	<u>25,990,371</u>
Operating Income	445,503	508,567	752,414
Due to Affiliated Organizations	-	(19,725)	(126,208)
Adjusted Operating Income	<u>445,503</u>	<u>488,842</u>	<u>626,206</u>
Non-Operating Income and Expenses	<u>560,028</u>	<u>453,476</u>	<u>470,508</u>
Excess of Revenues Over Expenses	1,005,531	942,318	1,096,714
Capital Grants and Contributions	215,159	424,880	421,628
Increases in Net Assets	<u>1,220,690</u>	<u>1,367,198</u>	<u>1,518,342</u>
Net Assets, Beginning of Year	<u>17,715,238</u>	<u>16,348,040</u>	<u>14,829,698</u>
Net Assets, End of Year	<u>\$ 18,935,928</u>	<u>\$ 17,715,238</u>	<u>\$ 16,348,040</u>

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)

Net patient service revenue made up 88% in 2012, 88% in 2011 and 88% in 2010 of the Health Center's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Patient Service Revenues	\$ 41,387,968	\$ 40,832,798	\$ 38,434,559
Contractual Adjustments and Provisions for Bad Debt	<u>15,013,372</u>	<u>15,421,371</u>	<u>14,916,714</u>
Net Patient Service Revenue	<u>\$ 26,374,596</u>	<u>\$ 25,411,427</u>	<u>\$ 23,517,845</u>
Contractual Adjustments and Bad Debt as a Percent of Total Patient Revenue	<u>36.27 %</u>	<u>37.77 %</u>	<u>30.95 %</u>

Total operating expenses increased \$1,148,253, or 4.1%, in 2012, increased \$2,317,469, or 8.9%, in 2011, and increased \$2,002,402, or 8.3%, in 2010. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 34-35 of the audited financial statements for this information. In 2011 and 2010

Operating Income was \$445,503, or 1.5% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2012 compared to \$508,567, or 1.8%, in 2011 and \$752,414, or 2.8%, in 2010.

Other Operating Revenue increased by \$122,020, or 3.6%, in 2012, increased by \$180,040, or 5.6%, in 2011 and decreased by \$249,264, or 7.2%, in 2010. Table 4 shows the detail for this line item.

Table 4: Other Operating Revenues

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cafeteria	\$ 92,353	\$ 88,799	\$ 66,748
Medical Records Fees	1,123	1,613	4,175
Rental Income	32,690	40,770	30,437
Grants	217,434	427,551	426,938
Retail Pharmacy	2,960,744	2,775,941	2,663,962
Miscellaneous	<u>222,656</u>	<u>70,306</u>	<u>32,680</u>
Total Other Revenues	<u>\$ 3,527,000</u>	<u>\$ 3,404,980</u>	<u>\$ 3,224,940</u>

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)

Hospital Statistical Data

Table 5 shows the Health Center's statistical data. Acute Patient Days, Admissions and Discharges stayed consistent through 2012. Acute Patient Days decreased by 6 days, or .3%, in 2012, compared to the increase of 44 days, or 2.2%, in 2011 and an increase of 127 days, or 6.6%, in 2010. Swing Bed Days have also had a significant decrease in 2012. Swing Bed Days decreased by 468 days, or 31.8% in 2012, increased by 89 days, or 6.4%, in 2011 and increased by 221 days, or 19%, in 2010.

- Key patient statistics for the Health Center are as follows:
 - Acute Care patient days were 2,080 (.3% decrease)
 - Swing Bed patient days were 1,005 (31.8% decrease)
 - Newborn births were 20 (8.5% decrease)
 - Total outpatient visits were 28,031 (.4% decrease)
 - Total Clinic visits were 47,346 (3.2% increase)
 - Physical Therapy visits totaled 15,071 (4.8% increase)
 - Laboratory procedures totaled 220,187 (.2% increase)

Table 5: Statistical Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Patient Days			
Acute	2,080	2,086	2,042
Swing Bed	1,005	1,473	1,384
Newborn	214	234	205
Total	<u>3,299</u>	<u>3,793</u>	<u>3,631</u>
Admissions			
Acute	624	640	611
Swing Bed	144	130	146
Total	<u>768</u>	<u>770</u>	<u>757</u>
Discharges			
Acute	624	635	611
Swing Bed	144	138	145
Total	<u>768</u>	<u>773</u>	<u>756</u>
Average Length of Stay, Acute	<u>3.33</u>	<u>3.30</u>	<u>3.30</u>
Beds – Acute and Swing Bed	<u>25</u>	<u>25</u>	<u>25</u>
Occupancy Percentage	<u>33.8%</u>	<u>39.0%</u>	<u>37.5%</u>

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)

The Health Center's Cash Flows

KRHC's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

CAPITAL ASSETS

At June 30, 2012, the Health Center had \$16,378,754 invested in capital assets, net of accumulated depreciation. In 2012, the Health Center expended \$1,132,284 to purchase property and equipment. In 2011 and 2010, the Health Center purchased property and equipment costing \$2,863,287 and \$7,391,260, respectively.

LONG-TERM DEBT

Table 6 shows a summary of KRHC's long-term debt outstanding.

Table 6: Long-Term Debt

	2012	RESTATED 2011	RESTATED 2010
USDA Notes Payable	\$ 552,416	\$ 742,856	\$ 897,532
Hospital Revenue Notes	10,017,743	10,281,316	8,125,017
Capital Lease Payable	59,179	144,434	-
Total Long-Term Debt	<u>\$ 10,629,338</u>	<u>\$ 11,168,606</u>	<u>\$ 9,022,549</u>

The 2009A and 2009B Revenue Bonds are \$1,050,000 Hospital Revenue Bonds issued January 2009. 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 adjusted 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.

The Health Center obtained financing from the USDA in the amount of \$537,532 for a portion of the 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 and began on July 1, 2010. The note is unsecured.

The Health Center obtained financing from the USDA through the Cornbelt Cooperative for the expansion of the health center in the amount of \$360,000. The loan is a non-interest bearing loan and due in monthly installments beginning October 1, 2011. The note is unsecured. During the year, it was discovered the prior period financial statement presentation of the associated loan liability was in error, there was a prior period adjustment of \$91,250 related to the USDA loan through the Cornbelt Cooperative made in the current year.

The Capital Lease for the CT Scanner was recorded as an operating lease in the prior year financial statements, based on current year discoveries, it was determined the lease should have been recorded as a capital lease. A prior period adjustment in the amount of \$144,434 was made to add the lease to the hospital's long term debt.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

ECONOMIC & OTHER FACTORS

The Health Center continues to improve its operational and financial performance. The organization continued to make many positive changes over this last fiscal year, including:

- A team based planning process identified as a “3P” event was conducted prior to the planning phase for a redesign of our Laboratory Department. This work was a result of the previous 3P process that was used in the planning phase for the Emergency Room. The result of this work will result in a renovation project for both the Emergency Room and Laboratory departments. That work will be completed during FY 2013.
- Work has continued on the next Electronic Medical Records project with planning and build work being done for the Clinic Provider EMR system.
- There were two changes to our Clinic Provider staff that occurred during FY 2012. Dr. Brent Owen began seeing patients in our Algona Clinic on August 1, 2011. This was followed by the retirement of long-term provider Dr. Stephen Richards on October 1, 2011.
- A full time Process Excellence coordinator was hired by KRHC. Brian “Pete” Petersen fills that roll. 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. KRHC participates in the State – wide Hospital Patient Quality Data Reporting and Benchmarking project. Over time, the data benchmarking opportunities have allowed us to compare ourselves to other CAH hospitals across the state, and assist in identifying opportunities for further improvement. We serve on the CAH Quality Benchmarking workgroup, which is a cooperative effort between the Iowa Hospital Association and the Iowa Department of Public Health.
- The KRHC Board of Trustees each received the honor of Board Certification by the Iowa Hospital Association in the Spring of 2012 in Des Moines, recognizing their education and commitment to healthcare.
- Several members of our Medical Staff have become involved in mentoring medical students by serving as preceptors for those students seeking to come to KRHC for their clinical rotations. The number of medical students has grown significantly during the last year and it is anticipated that this will enable us to be more effective in our recruitment efforts in the future.

CONTACTING KRHC

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability for the money it receives. 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

**KOSSUTH REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011 As Restated
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,378,091	\$ 6,041,258
Investments	2,100,864	1,586,540
Noncurrent Cash and Investments - Current	-	356,202
Patient Receivables, Less Allowance for Uncollectible Accounts of \$801,423 in 2012 and \$804,749 in 2011	3,193,850	2,958,967
Estimated Third-Party Payor Settlements Receivable	295,507	251,000
Succeeding Year Property Tax Receivable	377,633	365,867
Other Receivables	80,020	56,977
Supplies	662,129	657,115
Prepaid Expenses	429,903	456,386
Total Current Assets	13,517,997	12,730,312
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Hospice Expenditures	152,259	141,416
Internally Designated for Health Benefits	1,865,175	1,380,741
Restricted Under Debt Agreement	270,247	266,896
Total Noncurrent Cash and Investments	2,287,681	1,789,053
CAPITAL ASSETS, NET	16,378,754	16,839,432
BOND ISSUANCE COSTS, NET	158,842	171,599
Total Assets	\$ 32,343,274	\$ 31,530,396

See accompanying Notes to Financial Statements.

	<u>2012</u>	<u>2011 As Restated</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 539,312	\$ 539,580
Accounts Payable - Trade	476,163	260,172
Accounts Payable - Construction	-	506,443
Due to Affiliated Organization	281,202	228,357
Estimated Health Claims Payable	355,508	300,000
Accrued Expenses	1,287,502	980,916
Deferred Revenue - Succeeding Year Property Tax Receivable	377,633	365,867
Other Liabilities	-	4,797
Total Current Liabilities	<u>3,317,320</u>	<u>3,186,132</u>
COMMITMENTS AND CONTINGENCIES		
LONG-TERM DEBT, Less Current Maturities	<u>10,090,026</u>	<u>10,629,026</u>
Total Liabilities	13,407,346	13,815,158
NET ASSETS		
Invested in Capital Assets Net of Related Debt	5,749,416	5,670,826
Restricted - Expendable Under Bond Agreement	270,247	266,896
Unrestricted	<u>12,916,265</u>	<u>11,777,516</u>
Total Net Assets	<u>18,935,928</u>	<u>17,715,238</u>
Total Liabilities and Net Assets	<u><u>\$ 32,343,274</u></u>	<u><u>\$ 31,530,396</u></u>

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010**

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 152,889	\$ 143,133
Unconditional Promises to Give	142,971	260,644
Total Current Assets	295,860	403,777
NONCURRENT ASSETS		
Cash and Investments	1,904,185	1,921,531
Unconditional Promises to Give	216,605	276,393
Total Noncurrent Assets	2,120,790	2,197,924
Total Assets	\$ 2,416,650	\$ 2,601,701
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 1,720	\$ 11,915
NET ASSETS		
Unrestricted	2,055,354	2,052,749
Temporarily Restricted	359,576	537,037
Total Net Assets	2,414,930	2,589,786
Total Liabilities and Net Assets	\$ 2,416,650	\$ 2,601,701

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011 As Restated
OPERATING REVENUES		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$972,719 in 2012 and \$1,159,252 in 2011	\$ 26,374,596	\$ 25,411,427
Other Operating Revenue	3,527,000	3,404,980
Total Operating Revenues	29,901,596	28,816,407
OPERATING EXPENSES		
Salaries and Wages	9,430,176	9,075,429
Employee Benefits	3,315,836	3,079,535
Supplies and Miscellaneous	14,626,960	14,385,241
Depreciation	1,604,394	1,407,482
Interest	478,727	360,153
Total Operating Expenses	29,456,093	28,307,840
OPERATING INCOME	445,503	508,567
AFFILIATION AGREEMENT EXPENSE	-	(19,725)
ADJUSTED OPERATING INCOME	445,503	488,842
NON-OPERATING INCOME		
Investment Income	35,082	54,326
Tax Apportionments	367,382	351,860
Dialysis Unit Rental Income	27,483	10,417
Noncapital Contributions and Grants	124,190	41,508
Loss on Sale of Property and Equipment	(1,325)	(4,635)
Miscellaneous	7,216	-
Net Non-Operating Income	560,028	453,476
REVENUES IN EXCESS OF EXPENSES	1,005,531	942,318
CAPITAL GRANTS AND CONTRIBUTIONS	215,159	424,880
INCREASE IN NET ASSETS	1,220,690	1,367,198
Net Assets - Beginning of Year As Previously Stated	17,715,238	16,408,040
Prior Period Audit Adjustment	-	(60,000)
Net Assets - As Restated	17,715,238	16,348,040
NET ASSETS - END OF YEAR	\$ 18,935,928	\$ 17,715,238

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
REVENUES		
Contributions	\$ 153,874	\$ 154,423
Investment Income (Loss)	(26,800)	268,302
Net Assets Released from Restriction	177,461	211,689
Total Revenues	304,535	634,414
EXPENSES		
Fundraising	41,390	28,857
Contributions to Kossuth Regional Health Center	246,999	298,297
Supplies and Other Expenses	13,541	13,084
Total Expenses	301,930	340,238
INCREASE IN UNRESTRICTED NET ASSETS	2,605	294,176
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	10,000
Net Assets Released from Restriction	(177,461)	(211,689)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(177,461)	(201,689)
INCREASE IN NET ASSETS	(174,856)	92,487
Net Assets Beginning of Year	2,589,786	2,497,299
Net Assets End of Year	\$ 2,414,930	\$ 2,589,786

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 26,095,206	\$ 24,867,987
Cash Paid to Employees	(12,383,918)	(12,104,965)
Cash Paid to Suppliers	(14,887,983)	(14,547,761)
Other Receipts and Payments, Net	3,544,045	3,342,474
Net Cash Provided by Operating Activities	2,367,350	1,557,735
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions	124,190	41,508
Dialysis Unit Rental Income	27,483	10,417
Tax Appropriations	367,382	351,860
Miscellaneous	7,216	-
Net Cash Provided by Non-Capital Financing Activities	526,271	403,785
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(1,132,284)	(2,863,287)
Proceeds from Sale of Capital Assets	-	7,898
Proceeds from Issuance of Long-Term Debt	-	2,374,983
Principal Payments on Long-Term Debt	(539,268)	(394,413)
Interest Payments on Long-Term Debt	(478,727)	(360,153)
Capital Grants and Contributions	215,159	424,880
Net Cash Used by Capital and Related Financing Activities	(1,935,120)	(810,092)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	35,082	54,326
Sale of Investments	1,586,540	255,673
Purchase of Investments	(2,100,864)	(865,099)
Sale of Noncurrent Cash and Investments	(142,426)	309,699
Purchase of Noncurrent Cash and Investments	-	(264,943)
Net Cash Used by Investing Activities	(621,668)	(510,344)
INCREASE IN CASH AND CASH EQUIVALENTS	336,833	641,084
Cash and Cash Equivalents - Beginning	6,041,258	5,400,174
CASH AND CASH EQUIVALENTS - ENDING	\$ 6,378,091	\$ 6,041,258

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011 As Restated
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 445,503	\$ 488,842
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and amortization	1,604,394	1,407,482
Interest Expense Considered Capital and Related Financing Activity	478,727	360,153
(Increase) Decrease in:		
Patient Receivables	(234,883)	147,560
Other Receivables	(23,043)	(30,012)
Supplies	(5,014)	(27,721)
Prepaid Expenses	26,483	(36,835)
Third-Party Payor Settlements Receivable	(44,507)	(691,000)
Increase (Decrease) in:		
Accounts Payable	(295,249)	(148,861)
Accrued Expenses	306,586	102,940
Due to Affiliated Organization	52,845	35,818
Estimated Health Claims Payable	55,508	(50,631)
Net Cash Provided by Operating Activities	\$ 2,367,350	\$ 1,557,735

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash was paid for interest in the amount of \$478,727 and \$466,692 during the years ended June 30, 2012, and June 30, 2011 respectively, including capitalized interest in the amount of \$106,539 and \$- during the year ended June 30, 2011 and June 30, 2012, respectively.

Equipment was acquired under a capital lease obligation in the amount of \$165,487 during the year ended June 30, 2011.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Donor and Contributors	\$ 331,335	\$ 366,112
Interest Received	8,601	16,097
Cash Paid to Suppliers	(54,931)	(41,941)
Payments to Kossuth Regional Health Center	(236,804)	(299,471)
Net Cash Provided by Operating Activities	48,201	40,797
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(38,445)	(16,319)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,756	24,478
Cash and Cash Equivalents - Beginning of Year	143,133	118,655
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 152,889	\$ 143,133
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in Net Assets	\$ (174,856)	\$ 92,487
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Investments	80,916	(132,323)
Realized (Gain) Loss on Sale of Investments, Reinvested Capital Gains and Dividends on Investments	(45,515)	(119,882)
Change in Unconditional Promises to Give	177,461	201,689
Decrease in Grants Payable	10,195	(1,174)
Net Cash Provided by Operating Activities	\$ 48,201	\$ 40,797

See accompanying Notes to Financial Statements.

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**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kossuth Regional Health Center (the 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 Accounting

KRHC uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, KRHC has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Accounting (Continued)

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. The Health Center does not have any restricted nonexpendable net assets.

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.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposit accounts, and savings accounts.

Accounts Receivable

The Health Center provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 90 days are individually analyzed for collectability. Amounts for which no payments have been received are written off using management's judgment on a per account basis. In addition, an allowance is estimated for other accounts based on historical experience of the Health Center. At June 30, 2012 and 2011, the allowance for uncollectible accounts was approximately \$801,000 and \$805,000, respectively.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

Inventories

Inventories are stated at lower of average cost or market, using the latest invoice cost, which approximates the First-In, First-Out method.

Noncurrent Cash and Investments

Noncurrent cash and investments includes assets set aside by the board of directors, over which the board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments also includes that are restricted under debt agreements.

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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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. Deferred financing costs consist of issuance costs related to the Series 2009A and 2009B Revenue Notes with original costs of \$184,045. Amortization expense was \$12,757 and \$12,446 accumulated amortization was \$25,203 and \$12,446 for the years ended June 30, 2012 and 2011, respectively.

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 accrued expenses on the balance sheet based on pay rates that are in effect at June 30, 2012 and 2011.

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.

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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

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, including than financing costs.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$49,568 and \$44,401 for advertising costs for the years ended June 30, 2012 and 2011, 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.

County Tax Apportionments

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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Electronic Health Record Incentive Payments

As discussed in Note 4, the Health Center received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Health Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Health Center will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

Subsequent Events

The Health System has evaluated subsequent events through October 17, 2012, the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$12,791,265 and \$11,777,516 of unrestricted net assets at June 30, 2012 and 2011, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2012	2011
For Hospice Expenditures	\$ 152,259	\$ 141,416
For Health Benefits	1,865,175	1,380,741
For Debt Agreement	270,247	266,896
Total Designated Net Assets	\$ 2,287,681	\$ 1,789,053

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

The health center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The health center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the health center. The health center's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2010.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

The health center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The health center's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2010.

Other

The health center has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Total Patient Service Revenue	\$ 41,387,968	\$ 40,832,798
Revenue Adjustments:		
Medicare	6,527,500	7,762,994
Medicaid	1,389,836	1,625,162
Provision for Bad Debt	972,719	1,159,252
Other Allowances and Adjustments	6,123,317	4,873,963
Total Contractual Adjustments and Bad Debts	15,013,372	15,421,371
Net Patient Service Revenue	\$ 26,374,596	\$ 25,411,427

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Health Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by 1/4, 1/2, and 3/4.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)

The Health System demonstrated meaningful use to the 90-day period ended May 31, 2012 and received notice of the first tentative incentive payment of \$113,560 in June 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net assets. The final amount of this payment will be determined based on information from the Health Centers' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

KRHC has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Health Center during the year. The annual cost findings indicated the Health Center owed the agencies approximately \$47,000 at June 30, 2012. At June 30, 2011, the agencies owed the Health Center approximately \$251,000.

NOTE 6 UNCONDITIONAL PROMISES TO GIVE

KRHC 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 3.5%, the current federal prime rate as of the date of the report. Prior years were computed using a risk free interest rate of 4.0%.

The following is a summary of unconditional promises to give as of December 31, 2011 and 2010:

	2011	2010
Less than One Year	\$ 163,486	\$ 297,776
One to Five Years	264,035	337,050
	427,521	634,826
Less Discount	(27,758)	(38,118)
Less Allowance for Uncollectible Promises to Give	(40,187)	(59,671)
Unconditional Promises to Give, Net	\$ 359,576	\$ 537,037

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 7 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2012 and 2011 are the following:

	2012	2011
Receivable from Patients and Their Insurance Carriers	\$ 1,567,496	\$ 1,512,740
Receivable from Medicare	2,010,423	2,014,120
Receivable from Medicaid	417,354	236,856
Total Patient Receivables	3,995,273	3,763,716
Less: Allowance for Doubtful Accounts	(801,423)	(804,749)
Patient Receivables, Net	\$ 3,193,850	\$ 2,958,967

NOTE 8 DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2012 exceeded coverage amounts covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Deposits in banks were entirely covered at June 30, 2011. 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 deposits and investments in this note.

At June 30, 2012 and 2011, the Health Center's carrying amounts of cash and investments are as follows:

	2012	2011
Cash and Cash Equivalents	\$ 6,378,091	\$ 6,041,258
Investments	2,100,864	1,586,540
Limited to Use	-	356,202
Noncurrent Cash and Investments:		
Internally Designated for Hospice Expenditures	152,259	141,416
Internally Designated for Health Benefits	1,865,175	1,380,741
Internally Designated Under Debt Agreement	270,247	266,896
Total	\$ 10,766,636	\$ 9,773,053

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Foundation Investments

The Foundation's investments consisted of mutual funds at June 30, 2012 and 2011. These investments are carried at fair value. Unrealized holding gains (losses) at June 30, 2012 and 2011 amounted to (\$80,916) and \$132,323, respectively.

Investment income for the Foundation is comprised of the following for the years ended June 30, 2012 and 2011:

	2011	2010
Investment Income (Loss):		
Interest and Dividend Income	\$ 28,230	\$ 34,115
Realized Gains (Losses)	25,886	101,864
Changes in Unrealized Gains (Losses)	(80,916)	132,323
Total	\$ (26,800)	\$ 268,302

NOTE 9 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2012 and 2011 are as follows:

	Balance June 30, 2011	Additions	(Retirements)	Balance June 30, 2012
Capital Assets				
Land and Land Improvements	\$ 646,788	\$ -	\$ -	\$ 646,788
Building	18,466,481	527,168	(37,830)	18,955,819
Fixed Equipment	3,547,407	333,389	(2,570)	3,878,226
Major Movable Equipment	5,672,488	137,164	(53,230)	5,756,422
Construction in Progress	126,449	613,606	(479,043)	261,012
Totals	28,459,613	1,611,327	(572,673)	29,498,267
Accumulated Depreciation				
Land Improvements	400,077	24,001	-	424,078
Building	4,969,991	846,215	(36,404)	5,779,802
Fixed Equipment	1,911,055	339,238	(12,083)	2,238,210
Major Movable Equipment	4,339,058	382,183	(43,818)	4,677,423
Totals	11,620,181	\$ 1,591,637	\$ (92,305)	13,119,513
	\$ 16,839,432			\$ 16,378,754

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 9 CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2010	Additions As Restated	(Retirements)	June 30, 2011 As Restated
Capital Assets				
Land and Land Improvements	\$ 577,345	\$ 71,353	\$ (1,910)	\$ 646,788
Building	8,101,989	10,393,888	(29,396)	18,466,481
Fixed Equipment	2,921,733	900,611	(274,937)	3,547,407
Major Movable Equipment	5,449,909	480,922	(258,343)	5,672,488
Construction in Progress	9,263,277	1,557,845	(10,694,673)	126,449
Totals	<u>26,314,253</u>	<u>13,404,619</u>	<u>(11,259,259)</u>	<u>28,459,613</u>
Accumulated Depreciation				
Land Improvements	379,305	22,684	(1,912)	400,077
Building	4,290,564	702,179	(22,752)	4,969,991
Fixed Equipment	1,942,444	235,093	(266,482)	1,911,055
Major Movable Equipment	4,168,905	432,768	(262,615)	4,339,058
Totals	<u>10,781,218</u>	<u>\$ 1,392,724</u>	<u>\$ (553,761)</u>	<u>11,620,181</u>
	<u>\$ 15,533,035</u>			<u>\$ 16,839,432</u>

Construction in progress (CIP) at June 30, 2012 of \$110,000 was related to the renovation of the Emergency Room (ER) and Lab space. A contract in the amount of \$849,450 was entered into during the fiscal year for the ER/Lab renovation and is anticipated to be completed during the fiscal year ending June 30, 2013. On November 16, 2011 the health center was approved for a USDA Loan in the amount of \$300,000 which carries no interest, these funds along with amounts from the foundation and internally derived funds will pay for the project.

The remaining \$150,000 is related to the dialysis department project to house the dialysis department in a new location; the project is anticipated to be completed in 2013 with an estimated total remaining cost of \$300,000. The project will be financed through internal funds.

The schedule above includes changes related to the prior period adjustment as discussed in Note 14.

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for 2012 and 2011 is as follows:

	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012	Amounts Due Within One Year
Revenue Note Series 2009A	\$ 9,056,342	\$ -	\$ (232,243)	\$ 8,824,099	\$ 243,215
Revenue Note Series 2009B	1,224,974	-	(31,330)	1,193,644	32,810
USDA EHR10 Loan	382,856	-	(156,690)	226,166	159,108
USDA/Cornbelt Loan	360,000	-	(33,750)	326,250	45,000
Total Long-Term Debt	<u>11,024,172</u>	<u>-</u>	<u>(454,013)</u>	<u>10,570,159</u>	<u>480,133</u>
Capital Lease Payable	144,434	-	(85,255)	59,179	59,179
Total Long-Term Debt	<u>\$ 11,168,606</u>	<u>\$ -</u>	<u>\$ (539,268)</u>	<u>\$ 10,629,338</u>	<u>\$ 539,312</u>

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 10 LONG TERM DEBT (CONTINUED)

	Balance		Payments	Balance		Amounts Due Within One Year
	June 30, 2010 As Restated	Additions As Restated		June 30, 2011 As Restated		
Revenue Note Series 2009A	\$ 6,875,017	\$ 2,374,983	\$ (193,658)	\$ 9,056,342	\$ 232,244	
Revenue Note Series 2009B	1,250,000	-	(25,026)	1,224,974	31,331	
USDA EHR10 Loan	537,532	-	(154,676)	382,856	157,000	
USDA/Cornbelt Loan	360,000	-	-	360,000	33,750	
Total Long-Term Debt	9,022,549	2,374,983	(373,360)	11,024,172	454,325	
Capital Lease Payable	-	165,487	(21,053)	144,434	85,255	
Total Long-Term Debt	<u>\$ 9,022,549</u>	<u>\$ 2,540,470</u>	<u>\$ (394,413)</u>	<u>\$ 11,168,606</u>	<u>\$ 539,580</u>	

The schedule above includes changes related to the prior period adjustment as discussed in Note 14.

The terms and due dates of the Health Center's long-term debt, including capital lease obligations, at June 30, 2012 and 2011, are as follows:

Hospital Revenue Note – Series 2009A

On January 14, 2009 the Health Center entered into a loan agreement with Iowa State Bank and thereby purchasing the Health Center's Hospital Revenue Note in the amount of \$9,250,000 for the Kossuth County Health Center 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 adjusted 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

On January 29, 2009 the Health Center entered into a loan agreement with Iowa State Bank and thereby purchasing the Health Center's Hospital Revenue Note in the amount of \$1,250,000 for the Kossuth County Health Center 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 adjusted 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.

USDA Loan

The Health Center obtained financing for a portion of the 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 and began on July 1, 2010. The note is unsecured.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 10 LONG TERM DEBT (CONTINUED)

USDA/Cornbelt Loan

The Health Center obtained financing for the expansion of the health center in the amount of \$360,000. The loan is a non-interest bearing loan and due in monthly installments of \$3,750 beginning October 2011. The note is unsecured.

Capital Lease Obligation

The Health Center entered into a lease obligation for the purchase of a CT Scanner. An imputed interest rate of 4% has been calculated and the lease is collateralized by the leased equipment.

The cost of the equipment under the capital lease obligation is \$165,487. Amortization of the equipment, subsequent to prior period adjustments as described in Note 14, was \$82,189 and \$20,686, and accumulated amortization was \$102,875 and \$20,686 for the years ended June 30, 2012 and 2011, respectively.

Scheduled principal and interest payments on long-term debt and capital lease obligations are as follows:

Years Ending June 30,	Long-Term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2013	\$ 480,133	\$ 459,763	\$ 59,179	\$ 965
2014	387,421	444,807	-	-
2015	347,723	430,821	-	-
2016	362,024	416,520	-	-
2017	377,001	401,543	-	-
2018-2022	2,011,883	1,757,087	-	-
2023-2027	2,406,661	1,261,059	-	-
2028-2032	3,031,464	636,256	-	-
2033-2034	1,165,849	46,323	-	-
Total	<u>\$ 10,570,159</u>	<u>\$ 5,854,179</u>	<u>\$ 59,179</u>	<u>\$ 965</u>

NOTE 11 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 5.38% of their annual salary and the Health Center is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The Health Center's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$697,200, \$573,100, and \$536,386, respectively, equal to the required contributions for each year.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 12 RELATED PARTY TRANSACTIONS

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 the North Central Iowa region. In conjunction with this agreement, the Health Center operates clinics in Algona and Bancroft, IA. As a part of the Master Affiliation Agreement, the Health Center entered into a professional service agreement with Mercy Medical Center-North Iowa, Inc. whereby Mercy Medical Center-North Iowa provides professional medical services for these clinics. Amounts paid to Mercy Medical Center-North Iowa for the provision of these services amounted to approximately \$6,164,190 and \$5,931,782 for the years ended June 30, 2012 and 2011, respectively.

Operating gains and losses from the consolidated operation of the Health Center services and Mercy Medical Center-North Iowa services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains allocated between Mercy Medical Center-North Iowa and the Health Center totaled \$0 and \$19,725 for the years ended June 30, 2012 and 2011, respectively.

Management and Other Services

The Health Center has a contractual arrangement with Mercy Medical Center-North Iowa under which Mercy Medical Center-North Iowa provides an administrator, director of nursing, management consultation, laboratory, housekeeping, emergency room, and other services to Kossuth Regional Health Center.

The arrangement does not alter the authority or responsibility of the Board of Trustees of Kossuth Regional Health Center. Expenses for these various services received totaled approximately \$918,323 and \$878,758 for the years ended June 30, 2012 and 2011, respectively.

Due to and from Affiliated Organization

As of June 30, 2012 and 2011, the Health Center's records reflect a due to MMC-NI of \$281,202 and \$228,357, respectively, for the various services 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 County Hospital 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, 2012 and 2011 of \$246,999 and \$298,297, respectively.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 13 COMMITMENTS AND CONTINGENCIES

Health Center 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Health Center has insurance coverage to provide protection for professional liability losses on a claims-made basis. 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 elected to self-insure their employee health insurance program. The Health Center has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year.

Construction Contract

The Health Center has entered into a construction contract during the year ended June 30, 2012 in the amount of \$849,450 to renovate the Emergency Room and Lab area. Financing for the new construction will be partially funded by a USDA Loan approved in fiscal year 2013 for \$360,000 and the remainder by Board of Trustees designated funds.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

In prior years, the Health Center recorded the value of the USDA Cornbelt loan at a reduced value, recording \$60,000 to Grant Revenue. The Health Center did not record the loan at the full value of \$360,000. It was determined that the loan should have been recorded during the year ending June 30, 2010 at the full value of \$360,000, resulting in a prior period adjustment of (\$60,000). In the year ending June 30, 2011, the Health Center recorded a reduction of the loan with a decrease to Interest Expense in the amount of \$31,250 to reflect a payment that wasn't made in 2011. The total adjustment to the USDA Cornbelt loan was an increase of \$91,250 to the loan balance as of June 30, 2011.

Additionally, a capital lease entered into during the fiscal year ending June 30, 2011 which the Health Center recorded as an operating lease. It was determined that due to a bargain purchase price, the lease should be capitalized. The Health Center has recorded the prior period adjustments.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 14 PRIOR PERIOD ADJUSTMENTS (CONTINUED)

The effect on the balance sheet of the restatement amounts for the year ending June 30, 2011 was (\$30,883) and the effect on the Statement of Revenues, Expenses and Changes in Net Assets – Health Center was \$30,883. The restatement effects as described in the preceding paragraphs are as follows:

<u>Net Assets at and for the Year Ended</u>	<u>As Previously Stated</u>	<u>Prior Period Adjustments</u>	<u>As Restated</u>
June 30, 2010:			
Grant Revenue	\$ 60,000	\$ (60,000)	\$ -
<u>Net Asset Decrease</u>			
For the Year Ended June 30, 2010	<u>\$ 16,408,040</u>	<u>\$ (60,000)</u>	<u>\$ 16,348,040</u>
Restated Accounts			
June 30, 2011:			
Depreciation Expense	\$ (1,386,796)	\$ (20,686)	\$ (1,407,482)
Supplies and other expenses	(14,407,538)	22,297	(14,385,241)
Interest Expense	(327,659)	(32,494)	(360,153)
<u>Net Asset Decrease</u>			
For the Year Ended June 30, 2011	<u>\$ 17,746,121</u>	<u>\$ (30,883)</u>	<u>\$ 17,715,238</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**KOSSUTH REGIONAL HEALTH CENTER
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 BUDGET AND ACTUAL (CASH BASIS)
 YEAR ENDED JUNE 30, 2012**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 367,382	\$ -	\$ 367,382	\$ 357,152	\$ 10,230
Estimated Other Revenues/Receipts	30,309,401	(261,020)	30,048,381	30,327,602	(279,221)
	<u>30,676,783</u>	<u>(261,020)</u>	<u>30,415,763</u>	<u>30,684,754</u>	<u>(268,991)</u>
Expenses/Disbursements	29,456,093	(33,913)	29,422,180	29,995,165	572,985
Net	1,220,690	(227,107)	993,583	689,589	303,994
Balance Beginning of Year	17,715,238	(7,942,185)	9,773,053	9,407,585	365,468
Balance End of Year	<u>\$ 18,935,928</u>	<u>\$ (8,169,292)</u>	<u>\$ 10,766,636</u>	<u>\$ 10,097,174</u>	<u>\$ 669,462</u>

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.

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OTHER SUPPLEMENTARY INFORMATION

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	2012	2011
PATIENT CARE SERVICES		
Medical and Surgical	\$ 2,231,686	\$ 2,035,377
Intensive Care Unit	956	9,560
Swing Bed	601,020	595,770
Intermediate Care	4,997	526
Nursery	120,204	150,471
Total Patient Care Service Revenue	<u>2,958,863</u>	<u>2,791,704</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	2,642,953	2,568,203
Labor and Delivery Room	70,308	96,012
Anesthesiology	1,132,964	1,198,230
Radiology	2,428,794	2,487,465
Laboratory	4,537,300	4,533,880
Respiratory Therapy	362,829	338,170
Cardiac Rehabilitation	208,555	290,551
Physical Therapy	2,688,386	2,554,622
Occupational Therapy	493,506	481,666
Speech Therapy	21,860	9,980
Electrocardiology	181,420	199,967
Scans	3,797,725	4,041,728
Medical and Surgical Supplies	1,476,811	1,320,606
Pharmacy	4,010,381	3,859,648
Intravenous Therapy	215,014	238,085
Acupuncture	30,030	41,615
Emergency Room	2,312,890	2,145,786
Home Health	808,571	905,068
Hospice	807,710	685,378
Utilization Review	69,614	97
Clinical Operations	10,188,309	10,015,053
Immunizations	5,374	6,183
Diabetic Education	72,917	113,466
Total Other Professional Service Revenue	<u>38,564,221</u>	<u>38,131,459</u>
Gross Patient and Resident Charges	41,523,084	40,923,163
Charity Care	<u>(135,116)</u>	<u>(90,365)</u>
Total Patient Service Revenues	41,387,968	40,832,798
Adjustments to Patient Services Revenues	<u>(15,013,372)</u>	<u>(15,421,371)</u>
NET PATIENT SERVICE REVENUES	<u><u>\$ 26,374,596</u></u>	<u><u>\$ 25,411,427</u></u>

INPATIENT		OUTPATIENT	
2012	2011	2012	2011
\$ 1,843,172	\$ 1,852,616	\$ 388,514	\$ 182,761
956	9,560	-	-
601,020	595,770	-	-
4,997	526	-	-
120,204	150,471	-	-
<u>2,570,349</u>	<u>2,608,943</u>	<u>388,514</u>	<u>182,761</u>
201,989	281,172	2,440,964	2,287,031
70,308	96,012	-	-
210,142	285,784	922,822	912,446
120,865	126,895	2,307,929	2,360,570
639,433	705,076	3,897,867	3,828,804
314,672	280,691	48,157	57,479
-	-	208,555	290,551
535,585	535,728	2,152,801	2,018,894
346,246	298,442	147,260	183,224
16,940	7,100	4,920	2,880
14,385	16,485	167,035	183,482
250,265	303,853	3,547,460	3,737,875
461,399	399,432	1,015,412	921,174
1,324,123	1,407,640	2,686,258	2,452,008
80,860	78,999	134,154	159,086
30,030	41,615	-	-
315,048	306,149	1,997,842	1,839,637
-	-	808,571	905,068
191,332	119,283	616,378	566,095
798	97	68,816	-
-	-	10,188,309	10,015,053
-	-	5,374	6,183
-	-	72,917	113,466
<u>5,124,420</u>	<u>5,290,453</u>	<u>33,439,801</u>	<u>32,841,006</u>
<u>\$ 7,694,769</u>	<u>\$ 7,899,396</u>	<u>\$ 33,828,315</u>	<u>\$ 33,023,767</u>

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**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 6,527,500	\$ 7,762,994
Contractual Adjustments - Medicaid	1,389,836	1,625,162
Provision for Bad Debts	972,719	1,159,252
Other Allowances and Adjustments	6,123,317	4,873,963
Total Adjustments	\$ 15,013,372	\$ 15,421,371
OTHER REVENUES		
Cafeteria and Meals	\$ 92,353	\$ 88,799
Medical Records Fees	1,123	1,613
Rental Income	32,690	40,770
Grants	217,434	427,551
Retail Pharmacy	2,960,744	2,775,941
Miscellaneous	222,656	70,306
Total Other Revenues	\$ 3,527,000	\$ 3,404,980

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	2012	2011
Employee Benefits	\$ 3,315,836	\$ 3,079,535
Administrative and General	2,612,281	2,579,349
Operation of Plant	643,434	623,311
Laundry and Linen	76,277	63,217
Housekeeping	279,394	285,063
Dietary	382,699	407,704
Medical Records	380,710	396,617
Electronic Health Records	479,637	374,984
Adults and Pediatrics	2,181,376	2,018,347
Nursery	9,997	22,684
Operating and Recovery Room	667,296	662,694
Labor and Delivery Room	39,908	78,311
Anesthesiology	426,952	437,411
Radiology	466,828	514,669
Laboratory	1,086,117	1,058,464
Blood	93,699	107,404
Respiratory Therapy	117,474	108,350
Physical Therapy	790,615	724,814
Occupational Therapy	149,576	157,722
Speech Therapy	5,614	3,278
Acupuncture	20,246	28,484
Electrocardiology	8,753	7,817
Scans	647,699	832,355
Medical and Surgical Supplies	302,267	323,560
Pharmacy and Intravenous Therapy	926,528	841,178
Cardiac Rehabilitation	45,678	64,633
Clinics	6,525,150	6,109,236
Emergency	757,205	803,750
Home Health	970,590	1,012,502
Hospice	269,735	215,096
Retail Pharmacy	2,626,842	2,548,719
Rejuvenation Clinic	66,559	48,947
Depreciation Expense	1,604,394	1,407,482
Interest Expense	478,727	360,153
Total	\$ 29,456,093	\$ 28,307,840

SALARIES		OTHER	
2012	2011	2012	2011
\$ -	\$ -	\$ 3,315,836	\$ 3,079,535
903,647	926,899	1,708,634	1,652,450
223,147	221,797	420,287	401,514
-	-	76,277	63,217
229,259	213,899	50,135	71,164
238,079	237,137	144,620	170,567
267,447	259,263	113,263	137,354
58,485	41,020	421,152	333,964
1,840,456	1,593,676	340,920	424,671
6,457	17,007	3,540	5,677
442,762	469,630	224,534	193,064
36,555	41,684	3,353	36,627
-	-	426,952	437,411
310,787	311,104	156,041	203,565
409,489	399,396	676,628	659,068
16,970	20,058	76,729	87,346
8,599	8,622	108,875	99,728
162,368	161,329	628,247	563,485
144,837	141,978	4,739	15,744
5,614	3,278	-	-
19,890	27,214	356	1,270
7,529	6,337	1,224	1,480
131,541	123,924	516,158	708,431
-	-	302,267	323,560
37,498	43,903	889,030	797,275
26,767	28,922	18,911	35,711
2,510,747	2,348,033	4,014,403	3,761,203
185,815	235,593	571,390	568,157
750,428	771,835	220,162	240,667
165,414	149,901	104,321	65,195
277,233	264,335	2,349,609	2,284,384
12,356	7,655	54,203	41,292
-	-	1,604,394	1,407,482
-	-	478,727	360,153
<u>\$ 9,430,176</u>	<u>\$ 9,075,429</u>	<u>\$ 20,025,917</u>	<u>\$ 19,232,411</u>

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2012 AND 2011**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2012		2011	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 3,577,991	61%	\$ 3,469,951	63%
31-60 Days	928,201	16%	750,549	13%
61-90 Days	296,956	5%	274,759	5%
91 Days and Over	1,050,342	18%	1,032,956	19%
Total Accounts Receivable	<u>5,853,490</u>	<u>100%</u>	<u>5,528,215</u>	<u>100%</u>
ALLOWANCES				
Contractual -				
Medicare	(777,280)		(967,881)	
Medicaid	(181,092)		(96,094)	
Other	(899,845)		(700,524)	
Doubtful Accounts	(801,423)		(804,749)	
Net Accounts Receivable	<u>\$ 3,193,850</u>		<u>\$ 2,958,967</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 74,924</u>		<u>\$ 72,796</u>	
Days of net Revenue in Net Accounts Receivable at Year End	<u>43</u>		<u>41</u>	

Analysis of Allowance for Doubtful Accounts

	2012		2011	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 804,749		\$ 733,108	
Add:				
Provision for Doubtful Accounts	972,719	3.69 %	1,159,252	4.56 %
Recoveries Previously Written Off	56,173	0.21 %	162,746	0.64 %
	<u>1,028,892</u>		<u>1,321,998</u>	
Deduct:				
Accounts Written Off	(1,032,218)	3.91 %	(1,250,357)	4.92 %
Ending Balance	<u>\$ 801,423</u>		<u>\$ 804,749</u>	

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2012 AND 2011**

	2012	2011
INVENTORIES		
Central Stores	\$ 91,782	\$ 117,932
Pharmacy	39,528	48,579
Retail Pharmacy	302,274	267,784
Other Departments	156,689	153,387
Clinics	71,856	69,433
Total Inventories	\$ 662,129	\$ 657,115
PREPAID EXPENSES		
Insurance	\$ 101,849	\$ 88,311
Lease on Bancroft Clinic	215,677	230,724
Other	112,377	137,351
Total Prepaid Expenses	\$ 429,903	\$ 456,386

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2012 AND 2011**

	Balance July 1, 2011	Invested	Redeemed	Balance June 30, 2012
Revenue Bond Designated Fund: Certificate of Deposit	\$ 266,896	\$ 3,351	\$ -	\$ 270,247
Total	<u>\$ 266,896</u>	<u>\$ 3,351</u>	<u>\$ -</u>	<u>\$ 270,247</u>



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**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**

Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the financial statements of Kossuth Regional Health Center and its discretely presented component unit as of June 30, 2012 and its discretely presented component unit Kossuth Regional Health Center Foundation, which collectively comprise Kossuth Regional Health Center's basic financial statements and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and one we consider to be a significant deficiency.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2012-1, 2012-2 and 2012-3 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Kossuth Regional Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Findings and Responses.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2012 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.

The Health System'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 System's responses, we did not audit the Health System's responses, and accordingly, we express no opinion on them.

This report 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.



CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

2012-1 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 health center's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion: Response accepted.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

2012-2 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 statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

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

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

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

Conclusion: Response accepted

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

2012-3 Restatement of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's internal accounting general ledger. Management is responsible for accounting for and maintaining an accurate financial position based on the year's activities in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: Kossuth Regional Health Center performs daily accounting activities to maintain accurate financial activity. However, during the audit we identified errors on the balance sheet and the Statement of Revenues, Expenses and Changes in Net Assets – Health Center for the year ending June 30, 2011 of (\$30,883) and an error related to the Statement of Revenues, Expenses and Changes in Net Assets – Health Center for the year ending June 30, 2010 of (\$60,000); which have resulted in a restatement of prior year financial statement balances.

Cause: We realize that errors can occur during the course of financial reporting, which may be significant at times.

Effect: The effect of this condition is that the 2010 year-end net assets were overstated by \$60,000 and balances reported in the 2011 year-end Statement of Revenues, Expenses and Changes in Net Assets – Health Center were overstated by \$30,883.

Recommendation: We recommend that management implement a review for operating procedures in order to reduce the possibility of an error in future balance sheets and the Statements of Revenues, Expenses and Changes in Net Assets – Health Center.

Response: This finding and recommendation is the result of a restatement of an error and we will work towards minimizing these events in the future.

Conclusion: Response accepted

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 **Certified Budget:** Health Center cash basis expenditures during the year ended June 30, 2012, did not exceed budgeted amounts.
- II-B-12 **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-12 **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-12 **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-12 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting (cont.):

II-F-12 **Deposits and Investments:** The Health Center exceeded limits within its depository resolution at certain times during the year ended June 30, 2012.

Recommendation: It is recommended that the Health Center increase its depository resolution limits to not exceed allowable amounts in the future.

Response: Subsequent to year end, the Health Center transferred funds from the bank in order to comply with their depository resolution.

Conclusion: Response accepted.

II-G-12 **Publication of Bills Allowed and Salaries:** The Health Center is organized under Chapter 347A and is not required to follow this section of the Iowa Code.