

KOSSUTH REGIONAL HEALTH CENTER

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2013 AND 2012

**KOSSUTH REGIONAL HEALTH CENTER
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**KOSSUTH REGIONAL HEALTH CENTER
BOARD OF TRUSTEES
JUNE 30, 2013**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jack Munch	Chairperson	December 31, 2014
Conley Nelson	Secretary	December 31, 2018
Thomas Geelan	Treasurer	December 31, 2014
Eileen Bormann	Member	December 31, 2018
John Cowin	Member	December 31, 2016
HEALTH CENTER OFFICIALS		
Scott Curtis	Chief Executive Officer	
Jason Feucht	Chief Financial Officer	
Daniel Myers	Controller	

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kossuth Regional Health Center, and its discretely presented component unit, Kossuth Regional Health Center Foundation (Foundation), which comprise the respective statements of net position and balance sheets as of June 30, 2013 and 2012 and December 31, 2012 and 2011, respectively, and the related statements of revenues, expenses and changes in net position, statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Kossuth Regional Health Center and its discretely presented component unit as of June 30, 2013, and 2012, and December 31, 2012 and 2011, and the respective changes in its financial position and its cash flows thereof for the years ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the Governmental Accounting Standards Board (GASB) Statement Number 65 *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred inflows and outflows of resources. The effect of adopting the new accounting standard did not have a material adverse effect on its financial position for the year ended June 30, 2013. Our opinion is not modified with respect to that matter

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 - 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

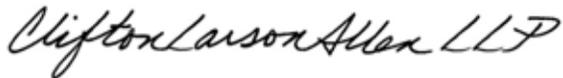
Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Kossuth Regional Health Center as a whole. The supplementary information on pages 38 through 45 and the budgetary comparison information on page 37 is presented for the purpose of additional analysis and is not a required part of the basic 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.

Board of Trustees
Kossuth Regional Health Center

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of Kossuth Regional Health Center's internal control over financial reporting and on our test 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kossuth Regional Health Center's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
October 28, 2013

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**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

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, 2013. 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, 2013 and 2012 financial reports include the following audited financial statements:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- Total assets increased by \$1,127,107, or 3.5%, in 2013, by \$812,878, or 2.6%, in 2012 and by \$2,711,277, or 9.4%, in 2011.
- Net position increased in each of the last two years with a \$1,224,548, or 6.5%, increase in 2013, a \$1,220,690, or 6.9%, increase in 2012 and a \$1,367,198, or 8.4% increase in 2011.
- The Health Center reported operating income of \$562,709 in 2013, \$445,503 in 2012 and \$508,567 in 2011. This represents an increase in 2013 of \$58,396, a decrease of \$63,064 in 2012, and a decrease in 2011 of \$243,847.

THE STATEMENTS OF NET POSITION AND REVENUES, EXPENSES AND CHANGES IN NET POSITION

These financial statements report information about the Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The Statement of Net Position 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 Position. 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, 2013 AND 2012**

FINANCIAL ANALYSIS OF THE HEALTH CENTER

The information from the statements of net position and revenues, expenses and changes in net position, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net position of the Health Center and the changes in them. Increases or decreases in the net position 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 Position

	2013	2012	RESTATED 2011
Assets:			
Current Assets	\$ 12,667,000	\$ 13,140,364	\$ 12,364,445
Non-current Cash and Investments	3,228,106	2,287,681	1,789,053
Capital Assets, Net	17,170,943	16,378,754	16,839,432
Succeeding Year Property Tax Receivable	404,332	377,633	365,867
Other Assets	-	158,842	171,599
	<u>\$ 33,470,381</u>	<u>\$ 32,343,274</u>	<u>\$ 31,530,396</u>
Liabilities:			
Total Current Liabilities	\$ 2,873,922	\$ 2,939,687	\$ 2,820,265
Long-Term Debt (Less Current Maturities)	10,031,651	10,090,026	10,629,026
Deferred Revenue from Succeeding Year Property Tax Receivable	404,332	377,633	365,867
Total Liabilities	<u>13,309,905</u>	<u>13,407,346</u>	<u>13,815,158</u>
Net Position:			
Net Investment in Capital Assets	6,717,947	5,749,416	5,670,826
Restricted:			
Under Debt Agreement	274,225	270,247	266,896
Unrestricted	13,168,304	12,916,265	11,777,516
Total Net Position	<u>20,160,476</u>	<u>18,935,928</u>	<u>17,715,238</u>
Total Liabilities and Net Position	<u>\$ 33,470,381</u>	<u>\$ 32,343,274</u>	<u>\$ 31,530,396</u>

Asset categories changing significantly during 2013, 2012 and 2011 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents decreased by \$907,342, or 14.2%, in 2013, increased by \$336,833, or 5.6%, in 2012, and increased by \$641,084, or 11.9% in 2011. Current Investments increased by \$28,449, or 1.4%, in 2013 and \$514,324, or 32.4%, in 2012, and \$609,426 or 62% in 2011. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2013 by \$226,322, or 7.9%, increased in 2012 by \$234,883, or 7.9%, and decreased in 2011 by \$147,560, or -4.8%.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)

The current ratio (current assets divided by current liabilities) for 2013 was 4.4, for 2012 was 4.5 and for 2011 was 4.4. 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 2013, 2012 and 2011 included non-current cash and investments. Non-current cash and investments increased by \$940,425 or 41%, in 2013, increased by \$498,628 or 28%, in 2012 and decreased by \$350,930, or 16% in 2011.

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

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

	2013	2012	RESTATED 2011
Net Patient Service Revenue	\$ 27,264,673	\$ 26,374,596	\$ 25,411,427
Other Operating Revenue	3,535,154	3,527,000	3,404,980
Total Operating Revenues	<u>30,799,827</u>	<u>29,901,596</u>	<u>28,816,407</u>
Operating Expenses			
Salaries and Wages	9,709,859	9,430,176	9,075,429
Employee Benefits	3,039,351	3,315,836	3,079,535
Supplies and Miscellaneous	15,310,489	14,626,960	14,385,241
Depreciation	1,719,776	1,604,394	1,407,482
Interest	457,643	478,727	360,153
Total Operating Expenses	<u>30,237,118</u>	<u>29,456,093</u>	<u>28,307,840</u>
Operating Income	562,709	445,503	508,567
Due to Affiliated Organizations	(15,677)	-	(19,725)
Adjusted Operating Income	<u>547,032</u>	<u>445,503</u>	<u>488,842</u>
Non-Operating Income and Expenses	<u>545,664</u>	<u>560,028</u>	<u>453,476</u>
Excess of Revenues Over Expenses	1,092,696	1,005,531	942,318
Capital Grants and Contributions	131,852	215,159	424,880
Increases in Net Position	<u>1,224,548</u>	<u>1,220,690</u>	<u>1,367,198</u>
Net Position, Beginning of Year	<u>18,935,928</u>	<u>17,715,238</u>	<u>16,348,040</u>
Net Position, End of Year	<u>\$ 20,160,476</u>	<u>\$ 18,935,928</u>	<u>\$ 17,715,238</u>

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)

Net patient service revenue made up 89% in 2013, 89% in 2012 and 88% in 2011 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>2013</u>	<u>2012</u>	<u>2011</u>
Total Patient Service Revenues	\$ 40,193,448	\$ 41,387,968	\$ 40,832,798
Contractual Adjustments and Provisions for Bad Debt	<u>12,928,775</u>	<u>15,013,372</u>	<u>15,421,371</u>
Net Patient Service Revenue	<u>\$ 27,264,673</u>	<u>\$ 26,374,596</u>	<u>\$ 25,411,427</u>
Contractual Adjustments and Bad Debt as a Percent of Total Patient Revenue	<u>32.17 %</u>	<u>36.27 %</u>	<u>30.95 %</u>

Total operating expenses increased \$781,025, or 2.7%, in 2013, increased \$1,148,253, or 4.1%, in 2012, and increased \$2,317,469, or 8.9%, in 2011. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 40-41 of the audited financial statements for this information.

In 2013 Operating Income was \$562,709, or 1.8% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) compared to \$445,503, or 1.5%, in 2012 and \$508,567, or 1.8%, in 2011.

Other Operating Revenue increased by \$8,154, or .2%, in 2013, increased by \$122,020, or 3.6%, in 2012 and increased by \$180,040, or 5.6%, in 2011. Table 4 shows the detail for this line item.

Table 4: Other Operating Revenues

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 115,611	\$ 92,353	\$ 88,799
Medical Records Fees	915	1,123	1,613
Rental Income	31,320	32,690	40,770
Grants	255,427	217,434	427,551
Retail Pharmacy	2,987,721	2,960,744	2,775,941
Miscellaneous	<u>144,160</u>	<u>222,656</u>	<u>70,306</u>
Total Other Revenues	<u>\$ 3,535,154</u>	<u>\$ 3,527,000</u>	<u>\$ 3,404,980</u>

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

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 2013. Acute Patient Days decreased by 181 days, or 8.7%, in 2013, compared to the decrease of 6 days, or .3%, in 2012 and an increase of 44 days, or 2.2%, in 2011. Swing Bed Days increased in 2013 by 512 days, or 51%. Swing Bed Days decreased by 468 days, or 31.8% in 2012, increased by 89 days, or 6.4%, in 2011.

- Key patient statistics for the Health Center are as follows:
 - Acute Care patient days were 1,889 (8.7% decrease)
 - Swing Bed patient days were 1,517 (51% increase)
 - Newborn births were 231 (7.9% decrease)
 - Total outpatient visits were 27,703 (1.2% decrease)
 - Total Clinic visits were 47,818 (1.0% increase)
 - Physical Therapy visits totaled 15,543 (3.1% increase)
 - Laboratory procedures totaled 217,861 (1.1% decrease)

Table 5: Statistical Data

	2013	2012	2011
Patient Days			
Acute	1,899	2,080	2,086
Swing Bed	1,517	1,005	1,473
Newborn	231	214	234
Total	<u>3,647</u>	<u>3,299</u>	<u>3,793</u>
Admissions			
Acute	642	624	640
Swing Bed	150	144	130
Total	<u>792</u>	<u>768</u>	<u>770</u>
Discharges			
Acute	640	624	635
Swing Bed	152	144	138
Total	<u>792</u>	<u>768</u>	<u>773</u>
Average Length of Stay, Acute	<u>3.10</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>37.4%</u>	<u>33.8%</u>	<u>39.0%</u>

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

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, 2013, the Health Center had \$17,170,943 invested in capital assets, net of accumulated depreciation. In 2013, the Health Center expended \$2,353,196 to purchase property and equipment. In 2012 and 2011, the Health Center purchased property and equipment costing \$1,297,771 and \$2,863,287, respectively.

LONG-TERM DEBT

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

Table 6: Long-Term Debt

	2013	2012	RESTATED 2011
USDA Notes Payable	\$ 712,008	\$ 552,416	\$ 742,856
Hospital Revenue Notes	9,740,988	10,017,743	10,281,316
Capital Lease Payable	-	59,179	144,434
Total Long-Term Debt	<u>\$ 10,452,996</u>	<u>\$ 10,629,338</u>	<u>\$ 11,168,606</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. In 2011, 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.

**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

LONG-TERM DEBT (CONTINUED)

The Health Center obtained financing from the USDA through the Corn Belt Power Cooperative for their emergency room and laboratory projects for two loans in the amount of \$360,000 each. The loans are a non-interest bearing loans that are due in monthly installments. The notes are unsecured.

The Capital Lease for the CT Scanner was recorded as an operating lease in the 2011 financial statements, based on 2012 discoveries, it was determined the lease should have been recorded as a capital lease. In 2012 a prior period adjustment in the amount of \$144,434 was made to add the lease to the hospital's long term debt.

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:

- KRHC's Board of Directors and Senior Team developed a new strategic plan that is structured to support the Triple AIM Core Values (Improved Health for Patients, Enhanced Experience of Care, and Reduced cost per Capita). KRHC's Strategic Plan is focused on the key areas of: Better Health For Community (Improved Health for Patients), Improve Patient Experience (Enhanced Experience of Care), and Financial Stewardship (Reduce cost per Capita). This approach will strategically align KRHC's focus within the current Health Care Economic environment.
- KRHC hired a CFO during the FYE 2013. This is a new position for KRHC. The CFO reports directly to the CEO/Administrator of the Hospital and the CFO will focus on Key Strategic Plan initiatives and alignment of revenue and expense processes.
- KRHC and Mercy Medical Center North Iowa Dialysis have worked together to renovate a downtown Algona office building into a state of the art Dialysis Center. The Dialysis Center currently in the KRHC Hospital will be relocated to the downtown location during early fall 2013. KRHC will use the vacated hospital space to expand current services and to provide space for future facility renovation.
- KRHC's Board and Senior Team to continue to invest time and monies into improving hospital departments to better the services provided by the Hospital. During the FYE 2013, the Hospital completed renovations to the Emergency and Laboratory Departments. The Emergency Department was renovated to add two emergency rooms. The Laboratory Department renovations provide improved process efficiencies and space for new Lab equipment.

The KRHC's Board and management considered many factors when preparing the fiscal year 2014 budget. Primary considerations require us to make educated determinations specific to the unknowns of health care reform and the continued fluctuations of the economy. Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and under-insured
- Staffing benchmarks
- Increased expectations for quality at a lower price

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**KOSSUTH REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

ECONOMIC & OTHER FACTORS (CONTINUED)

- Salary and benefit costs
- Increasing supply costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments

SUMMARY

KRHC's Board of Trustees and Administrative Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our employees provides to every person they serve.

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. 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: Jason Feucht, CFO
1515 South Phillips Street
Algona, IA 50511

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012**

ASSETS	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,470,749	\$ 6,378,091
Investments	2,129,313	2,100,864
Patient Receivables, Less Allowance for Uncollectible Accounts of \$983,082 in 2013 and \$801,423 in 2012	3,420,172	3,193,850
Estimated Third-Party Payor Settlements Receivable	475,441	295,507
Succeeding Year Property Tax Receivable	404,332	377,633
Other Receivables	123,042	80,020
Supplies	613,398	662,129
Prepaid Expenses	434,885	429,903
Total Current Assets	13,071,332	13,517,997
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Hospice Expenditures	168,140	152,259
Internally Designated for Health Benefits	2,785,741	1,865,175
Restricted Under Debt Agreement	274,225	270,247
Total Noncurrent Cash and Investments	3,228,106	2,287,681
CAPITAL ASSETS, NET	17,170,943	16,378,754
BOND ISSUANCE COSTS, NET	-	158,842
Total Assets	\$ 33,470,381	\$ 32,343,274

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 421,345	\$ 539,312
Accounts Payable - Trade	567,291	476,163
Accounts Payable - Construction	101,599	-
Due to Affiliated Organization	295,695	281,202
Estimated Health Claims Payable	273,464	355,508
Accrued Expenses	1,168,949	1,287,502
Deferred Revenue - Succeeding Year Property Tax Receivable	404,332	377,633
Other Liabilities	45,579	-
Total Current Liabilities	<u>3,278,254</u>	<u>3,317,320</u>
LONG-TERM DEBT, Less Current Maturities	<u>10,031,651</u>	<u>10,090,026</u>
Total Liabilities	13,309,905	13,407,346
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	6,717,947	5,749,416
Restricted - Expendable Under Bond Agreement	274,225	270,247
Unrestricted	<u>13,168,304</u>	<u>12,916,265</u>
Total Net Position	<u>20,160,476</u>	<u>18,935,928</u>
Total Liabilities and Net Position	<u><u>\$ 33,470,381</u></u>	<u><u>\$ 32,343,274</u></u>

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 321,676	\$ 152,889
Unconditional Promises to Give	67,630	142,971
Total Current Assets	389,306	295,860
NONCURRENT ASSETS		
Cash and Investments	2,149,343	1,904,185
Unconditional Promises to Give	124,101	216,605
Total Noncurrent Assets	2,273,444	2,120,790
Total Assets	\$ 2,662,750	\$ 2,416,650
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 2,638	\$ 1,720
NET ASSETS		
Unrestricted	2,468,381	2,055,354
Temporarily Restricted	191,731	359,576
Total Net Assets	2,660,112	2,414,930
Total Liabilities and Net Assets	\$ 2,662,750	\$ 2,416,650

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
OPERATING REVENUES		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$1,329,425 in 2013 and \$972,719 in 2012	\$ 27,264,673	\$ 26,374,596
Other Operating Revenue	3,535,154	3,527,000
Total Operating Revenues	30,799,827	29,901,596
OPERATING EXPENSES		
Salaries and Wages	9,709,859	9,430,176
Employee Benefits	3,039,351	3,315,836
Supplies and Miscellaneous	15,310,489	14,626,960
Depreciation	1,719,776	1,604,394
Interest	457,643	478,727
Total Operating Expenses	30,237,118	29,456,093
OPERATING INCOME	562,709	445,503
AFFILIATION AGREEMENT EXPENSE	(15,677)	-
ADJUSTED OPERATING INCOME	547,032	445,503
NON-OPERATING REVENUE		
Investment Income	48,307	35,082
Tax Apportionments	387,324	367,382
Dialysis Unit Rental Income	25,000	27,483
Noncapital Contributions and Grants	81,636	124,190
Loss on Sale of Property and Equipment	3,397	(1,325)
Miscellaneous	-	7,216
Net Non-Operating Income	545,664	560,028
EXCESS OF REVENUES OVER EXPENSES	1,092,696	1,005,531
CAPITAL GRANTS AND CONTRIBUTIONS	131,852	215,159
INCREASE IN NET POSITION	1,224,548	1,220,690
Net Position - Beginning of Year	18,935,928	17,715,238
NET POSITION - END OF YEAR	\$ 20,160,476	\$ 18,935,928

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
REVENUES		
Contributions	\$ 249,567	\$ 153,874
Investment Income (Loss)	245,340	(26,800)
Net Assets Released from Restriction	167,845	177,461
Total Revenues	662,752	304,535
EXPENSES		
Fundraising	22,962	41,390
Contributions to Kossuth Regional Health Center	213,205	246,999
Supplies and Other Expenses	13,558	13,541
Total Expenses	249,725	301,930
INCREASE IN UNRESTRICTED NET ASSETS	413,027	2,605
TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released from Restriction	(167,845)	(177,461)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(167,845)	(177,461)
INCREASE (DECREASE) IN NET ASSETS	245,182	(174,856)
Net Assets Beginning of Year	2,414,930	2,589,786
NET ASSETS END OF YEAR	\$ 2,660,112	\$ 2,414,930

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 26,858,417	\$ 26,095,206
Cash Paid to Employees	(12,949,807)	(12,383,918)
Cash Paid to Suppliers	(14,971,191)	(14,887,983)
Other Receipts and Payments, Net	3,332,106	3,544,045
Net Cash Provided by Operating Activities	2,269,525	2,367,350
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions	81,636	124,190
Dialysis Unit Rental Income	25,000	27,483
Tax Appropriations	387,324	367,382
Miscellaneous	-	7,216
Net Cash Provided by Non-Capital Financing Activities	493,960	526,271
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(2,248,127)	(1,132,284)
Proceeds from Issuance of Long-Term Debt	360,000	-
Principal Payments on Long-Term Debt	(536,342)	(539,268)
Interest Payments on Long-Term Debt	(457,643)	(478,727)
Capital Grants and Contributions	131,852	215,159
Net Cash Used by Capital and Related Financing Activities	(2,750,260)	(1,935,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	48,307	35,082
Sale of Investments	1,579,086	1,586,540
Purchase of Investments	(1,607,535)	(2,100,864)
Net Change in Noncurrent Cash and Investments	(940,425)	(142,426)
Net Cash Used by Investing Activities	(920,567)	(621,668)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(907,342)	336,833
Cash and Cash Equivalents - Beginning	6,378,091	6,041,258
CASH AND CASH EQUIVALENTS - ENDING	\$ 5,470,749	\$ 6,378,091

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 547,032	\$ 445,503
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	1,719,776	1,604,394
Interest Expense Considered Capital and Related Financing Activity	457,643	478,727
(Increase) Decrease in:		
Patient Receivables	(226,322)	(234,883)
Other Receivables	(43,022)	(23,043)
Supplies	48,731	(5,014)
Prepaid Expenses	(4,982)	26,483
Third-Party Payor Settlements Receivable	(179,934)	(44,507)
Increase (Decrease) in:		
Accounts Payable	136,707	(295,249)
Accrued Expenses	(118,553)	306,586
Due to Affiliated Organization	14,493	52,845
Estimated Health Claims Payable	(82,044)	55,508
Net Cash Provided by Operating Activities	\$ 2,269,525	\$ 2,367,350

NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash was paid for interest in the amount of \$457,643 and \$478,727 during the years ended June 30, 2013 and 2012.

Equipment was acquired under a capital lease obligation in the amount of \$165,487 during the year ended June 30, 2012.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Donor and Contributors	\$ 417,412	\$ 331,335
Interest Received	8,612	8,601
Cash Paid to Suppliers	(36,520)	(54,931)
Payments to Kossuth Regional Health Center	(214,123)	(236,804)
Net Cash Provided by Operating Activities	175,381	48,201
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(6,594)	(38,445)
NET INCREASE IN CASH AND CASH EQUIVALENTS	168,787	9,756
Cash and Cash Equivalents - Beginning of Year	152,889	143,133
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 321,676	\$ 152,889
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 245,182	\$ (174,856)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Investments	(188,998)	80,916
Realized Gain on Sale of Investments, Reinvested Capital Gains and Dividends on Investments	(47,730)	(45,515)
Change in Unconditional Promises to Give	167,845	177,461
Increase (Decrease) in Grants Payable	(918)	10,195
Net Cash Provided by Operating Activities	\$ 175,381	\$ 48,201

See accompanying Notes to Financial Statements.

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**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 ORGANIZATION AND 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 (GASB).

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 GASB 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.

Measurement Focus and Basis of Accounting

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

The Health System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

Measurement Focus and Basis of Accounting (Continued)

The Health System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position (previously referred to as net assets) displays the Health Center's assets and liabilities, with the difference reported as net position.

Net position is reported in the following categories/components:

Net investment in capital assets 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 Position

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

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

Unrestricted net position consists of net position not meeting the definition of the preceding categories. The Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. 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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

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, 2013 and 2012, the allowance for uncollectible accounts was approximately \$983,000 and \$801,000, respectively.

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 include 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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

**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 position 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

Unamortized Bond Issuance Costs and Expense

Bond issuance costs of \$191,736 from the Series 2009A and 2009B Hospital Revenue Bonds are being amortized over the life of the bonds using the straight-line method. During the year ended June 30, 2013, the Health Center implemented the GASB Statement *Items Previously Reported as Assets and Liabilities*. As a result the Health Center expensed the remaining unamortized debt issue costs from the 2009A and 2009B Hospital Revenue Bonds. Total debt issue cost expensed during the year ended June 30, 2013 were \$158,842 related to the 2009A and 2009B Hospital Revenue bonds. Amortization expense of \$12,757 was recognized during the year ended June 30, 2012.

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, 2013 and 2012.

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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

**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 position distinguishes between operating and non-operating 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 non-operating 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 \$72,068 and \$49,568 for advertising costs for the years ended June 30, 2013 and 2012, 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 non-operating 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, 2013 AND 2012**

**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.

Change in Accounting Standards

The hospital adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from “net assets” to “net position”. The financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB 20. GASB 20 gave governments the choice to elect to follow only GASB’s authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASB 62, all governmental accounting guidance is codified into the GASB literature.

Subsequent Events

The Health System has evaluated subsequent events through October 28, 2013, the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET POSITION

Of the \$13,168,304 and \$12,916,265 of unrestricted net position at June 30, 2013 and 2012, 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.

	2013	2012
For Hospice Expenditures	\$ 168,140	\$ 152,259
For Health Benefits	2,785,741	1,865,175
Total Designated Net Position	\$ 2,953,881	\$ 2,017,434

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2011.

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, 2011.

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, 2013 and 2012 is as follows:

	2013	2012
Total Patient Service Revenue	\$ 40,193,448	\$ 41,387,968
Revenue Adjustments:		
Medicare	4,539,163	6,527,500
Medicaid	1,088,550	1,389,836
Provision for Bad Debt	1,329,425	972,719
Other Allowances and Adjustments	5,971,637	6,123,317
Total Contractual Adjustments and Bad Debts	12,928,775	15,013,372
Net Patient Service Revenue	\$ 27,264,673	\$ 26,374,596

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

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. A substantial amount of this intended payment was received during the fiscal year ending June 30, 2013. This amount is recognized as other operating revenue in the statements of revenues, expenses and changes in net position for the year ending June 30, 2012. No additional funds were received in 2013. 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.

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 3.25%, the current federal prime rate as of the date of the report. Prior years were computed using a risk free interest rate of 3.5%.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

The following is a summary of unconditional promises to give as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Less than One Year	\$ 138,493	\$ 163,486
One to Five Years	85,007	264,035
	<u>223,500</u>	<u>427,521</u>
Less: Discount	(10,760)	(27,758)
Less: Allowance for Uncollectible Promises to Give	(21,009)	(40,187)
Unconditional Promises to Give, Net	<u>\$ 191,731</u>	<u>\$ 359,576</u>

NOTE 7 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2013 and 2012 are the following:

	<u>2013</u>	<u>2012</u>
Receivable from Patients and Their Insurance Carriers	\$ 2,031,586	\$ 1,567,496
Receivable from Medicare	2,087,185	2,010,423
Receivable from Medicaid	284,483	417,354
Total Patient Receivables	<u>4,403,254</u>	<u>3,995,273</u>
Less: Allowance for Doubtful Accounts	(983,082)	(801,423)
Patient Receivables, Net	<u>\$ 3,420,172</u>	<u>\$ 3,193,850</u>

NOTE 8 DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2013 did not exceed 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, 2013. 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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2013 and 2012, the Health Center's carrying amounts of cash and investments are as follows:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 5,470,749	\$ 6,378,091
Investments	2,129,313	2,100,864
Noncurrent Cash and Investments:		
Internally Designated for Hospice Expenditures	168,140	152,259
Internally Designated for Health Benefits	2,785,741	1,865,175
Restricted Under Debt Agreement	274,225	270,247
Total	<u>\$ 10,828,168</u>	<u>\$ 10,766,636</u>

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

Foundation Investments

The Foundation's investments consisted of mutual funds at June 30, 2013 and 2012. These investments are carried at fair value. Unrealized holding gains (losses) at June 30, 2013 and 2012 amounted to \$187,181 and (\$80,916), respectively.

Investment income for the Foundation is comprised of the following for the years ended June 30, 2013 and 2012:

	<u>2012</u>	<u>2011</u>
Investment Income (Loss):		
Interest and Dividend Income	\$ 27,641	\$ 28,230
Realized Gains	30,518	25,886
Changes in Unrealized Gains (Losses)	187,181	(80,916)
Total	<u>\$ 245,340</u>	<u>\$ (26,800)</u>

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 9 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2013 and 2012 are as follows:

	Balance June 30, 2012	Additions	(Retirements)	Transfers	Balance June 30, 2013
Capital Assets					
Land and Land Improvements	\$ 646,788	\$ 39,109	\$ -	\$ -	\$ 685,897
Building	18,955,819	78,024	-	1,084,786	20,118,629
Fixed Equipment	3,878,226	204,666	(27,202)	-	4,055,690
Major Movable Equipment	5,756,422	489,851	(286,645)	(51,980)	5,907,648
Construction in Progress	261,012	1,541,546	-	(1,032,806)	769,752
Totals	<u>29,498,267</u>	<u>2,353,196</u>	<u>(313,847)</u>	<u>-</u>	<u>31,537,616</u>
Accumulated Depreciation					
Land Improvements	424,078	24,797	-	-	448,875
Building	5,779,802	864,858	-	-	6,644,660
Fixed Equipment	2,238,210	339,598	(27,202)	-	2,550,606
Major Movable Equipment	4,677,423	331,681	(286,572)	-	4,722,532
Totals	<u>13,119,513</u>	<u>\$ 1,560,934</u>	<u>\$ (313,774)</u>	<u>\$ -</u>	<u>14,366,673</u>
	<u>\$ 16,378,754</u>				<u>\$ 17,170,943</u>
	Balance June 30, 2011	Additions	(Retirements)	Transfers	Balance June 30, 2012
Capital Assets					
Land and Land Improvements	\$ 646,788	\$ -	\$ -	\$ -	\$ 646,788
Building	18,466,481	68,823	(37,830)	458,345	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	592,908	-	(458,345)	261,012
Totals	<u>28,459,613</u>	<u>1,132,284</u>	<u>(93,630)</u>	<u>-</u>	<u>29,498,267</u>
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	<u>11,620,181</u>	<u>\$ 1,591,637</u>	<u>\$ (92,305)</u>	<u>\$ -</u>	<u>13,119,513</u>
	<u>\$ 16,839,432</u>				<u>\$ 16,378,754</u>

During 2013 KRHC completed an Emergency Room (ER) and Lab renovation project with total construction costs of approximately \$1.1 million.

Construction in progress (CIP) at June 30, 2013, consists of a dialysis department project to house the dialysis department in a new location; the project is anticipated to be completed in 2014 with an estimate remaining cost of \$300,000. The project will be financed through internal funds. The remaining amount in CIP as of June, 30 2013 consists of about \$140,000 for an OT/Sleep Study Project which is expected to be completed in 2014. Additional costs are not expected to be substantial.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for 2013 and 2012 is as follows:

	Balance June 30, 2012	Additions	Payments	Balance June 30, 2013	Amounts Due Within One Year
USDA/Cornbelt Loan 2012	\$ -	\$ 360,000	\$ -	\$ 360,000	\$ 21,000
Revenue Note Series 2009A	8,824,099	-	(243,945)	8,580,154	253,925
Revenue Note Series 2009B	1,193,644	-	(32,810)	1,160,834	34,361
USDA EHR10 Loan	226,166	-	(159,158)	67,008	67,059
USDA/Cornbelt Loan 2010	326,250	-	(41,250)	285,000	45,000
Total Long-Term Debt	10,570,159	360,000	(477,163)	10,452,996	421,345
Capital Lease Payable	59,179	-	(59,179)	-	-
Total Long-Term Debt	<u>\$ 10,629,338</u>	<u>\$ 360,000</u>	<u>\$ (536,342)</u>	<u>\$ 10,452,996</u>	<u>\$ 421,345</u>

	Balance June 30, 2011 As Restated	Additions As Restated	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	11,024,172	-	(454,013)	10,570,159	480,133
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>

The terms and due dates of the Health Center's long-term debt, including capital lease obligations, at June 30, 2013 and 2012, 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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LONG TERM DEBT (CONTINUED)

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.

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.

USDA/Corn Belt 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 beginning October 2013. 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. In 2013 ownership of the CT Scanner was transferred to KRHC.

The cost of the equipment under the capital lease obligation is \$165,487. Amortization of the equipment was \$62,612 and \$82,189, and accumulated amortization was \$165,487 and \$102,875 for the years ended June 30, 2013 and 2012, respectively.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 LONG TERM DEBT (CONTINUED)

Capital Lease Obligation

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

Years Ending June 30,	Long-Term Debt	
	Principal	Interest
2014	\$ 421,345	\$ 444,807
2015	383,723	430,821
2016	398,024	416,520
2017	413,001	401,543
2018	428,686	385,858
2019-2023	2,240,119	1,666,823
2024-2028	2,535,359	1,147,361
2029-2033	3,174,680	493,040
2034	458,059	7,643
Total	<u>\$ 10,452,996</u>	<u>\$ 5,394,416</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 5.78% of their annual salary and the Health Center is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. The Health Center's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$760,700, \$697,200, and \$573,100, respectively, equal to the required contributions for each year.

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 \$6,061,100 and \$6,164,200 for the years ended June 30, 2013 and 2012, respectively.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 12 RELATED PARTY TRANSACTIONS (CONTINUED)

Master Affiliation Agreement (Continued)

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. There were no operating gains allocated between Mercy Medical Center-North Iowa and the Health Center for the years ended June 30, 2013 and 2012.

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 \$1,079,000 and \$918,000 for the years ended June 30, 2013 and 2012, respectively.

Due to and from Affiliated Organization

As of June 30, 2013 and 2012, the Health Center's records reflect a due to MMC-NI of \$295,695 and \$281,202, 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, 2013 and 2012 of \$213,205 and \$246,999, respectively.

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.

**KOSSUTH REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

Litigation

The Health Center is subject to litigation in the normal course of business. Management intends to vigorously defend any claims does not estimate any adverse negative outcomes.

REQUIRED SUPPLEMENTARY INFORMATION

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**KOSSUTH REGIONAL HEALTH CENTER
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 BUDGET AND ACTUAL (CASH BASIS)
 YEAR ENDED JUNE 30, 2013**

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	\$ 387,324	\$ -	\$ 387,324	\$ 377,633	\$ 9,691
Estimated Other Revenues/Receipts	31,090,019	(252,701)	30,837,318	31,734,816	(897,498)
	<u>31,477,343</u>	<u>(252,701)</u>	<u>31,224,642</u>	<u>32,112,449</u>	<u>(887,807)</u>
Expenses/Disbursements Net	30,252,795	910,315	31,163,110	32,121,912	958,802
	1,224,548	(1,163,016)	61,532	(9,463)	70,995
Balance Beginning of Year	<u>18,935,928</u>	<u>(8,169,292)</u>	<u>10,766,636</u>	<u>9,799,709</u>	<u>966,927</u>
Balance End of Year	<u>\$ 20,160,476</u>	<u>\$ (9,332,308)</u>	<u>\$ 10,828,168</u>	<u>\$ 9,790,246</u>	<u>\$ 1,037,922</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, 2013 AND 2012**

	TOTAL	
	2013	2012
PATIENT CARE SERVICES		
Medical and Surgical	\$ 2,158,408	\$ 2,231,686
Intensive Care Unit	3,824	956
Swing Bed	692,580	601,020
Intermediate Care	1,841	4,997
Nursery	147,528	120,204
Total Patient Care Service Revenue	<u>3,004,181</u>	<u>2,958,863</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	2,475,362	2,642,953
Labor and Delivery Room	86,054	70,308
Anesthesiology	993,684	1,132,964
Radiology	2,322,944	2,428,794
Laboratory	4,124,619	4,537,300
Respiratory Therapy	312,247	362,829
Cardiac Rehabilitation	247,317	208,555
Physical Therapy	2,688,834	2,688,386
Occupational Therapy	493,359	493,506
Speech Therapy	17,160	21,860
Electrocardiology	161,944	181,420
Scans	3,623,569	3,797,725
Medical and Surgical Supplies	1,359,448	1,476,811
Pharmacy	3,929,216	4,010,381
Intravenous Therapy	177,700	215,014
Acupuncture	43,706	30,030
Emergency Room	2,432,732	2,312,890
Home Health	837,628	808,571
Hospice	673,936	807,710
Urology	78,943	798
Clinical Operations	10,051,105	10,257,125
Immunizations	7,650	5,374
Diabetic Education	83,587	72,917
Total Other Professional Service Revenue	<u>37,222,744</u>	<u>38,564,221</u>
Gross Patient Charges	40,226,925	41,523,084
Charity Care	<u>(33,477)</u>	<u>(135,116)</u>
Total Patient Service Revenues	40,193,448	41,387,968
Adjustments to Patient Services Revenues	<u>(12,928,775)</u>	<u>(15,013,372)</u>
NET PATIENT SERVICE REVENUES	<u><u>\$ 27,264,673</u></u>	<u><u>\$ 26,374,596</u></u>

INPATIENT		OUTPATIENT	
2013	2012	2013	2012
\$ 1,513,710	\$ 1,843,172	\$ 644,698	\$ 388,514
3,824	956	-	-
692,580	601,020	-	-
1,841	4,997	-	-
147,528	120,204	-	-
<u>2,359,483</u>	<u>2,570,349</u>	<u>644,698</u>	<u>388,514</u>
215,286	201,989	2,260,076	2,440,964
85,428	70,308	626	-
234,786	210,142	758,898	922,822
110,582	120,865	2,212,362	2,307,929
526,194	639,433	3,598,425	3,897,867
252,774	314,672	59,473	48,157
-	-	247,317	208,555
556,937	535,585	2,131,897	2,152,801
328,856	346,246	164,503	147,260
7,340	16,940	9,820	4,920
9,765	14,385	152,179	167,035
218,072	250,265	3,405,497	3,547,460
442,079	461,399	917,369	1,015,412
1,195,994	1,324,123	2,733,222	2,686,258
61,976	80,860	115,724	134,154
43,706	30,030	-	-
318,145	315,048	2,114,587	1,997,842
-	-	837,628	808,571
110,845	191,332	563,091	616,378
308	798	78,635	-
-	-	10,051,105	10,257,125
-	-	7,650	5,374
-	-	83,587	72,917
<u>4,719,073</u>	<u>5,124,420</u>	<u>32,503,671</u>	<u>33,439,801</u>
<u>\$ 7,078,556</u>	<u>\$ 7,694,769</u>	<u>\$ 33,148,369</u>	<u>\$ 33,828,315</u>

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**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 4,539,163	\$ 6,527,500
Contractual Adjustments - Medicaid	1,088,550	1,389,836
Provision for Bad Debts	1,329,425	972,719
Other Allowances and Adjustments	5,971,637	6,123,317
Total Adjustments	<u>\$ 12,928,775</u>	<u>\$ 15,013,372</u>
OTHER REVENUES		
Cafeteria and Meals	\$ 115,611	\$ 92,353
Medical Records Fees	915	1,123
Rental Income	31,320	32,690
Grants	255,427	217,434
Retail Pharmacy	2,987,721	2,960,744
Miscellaneous	144,160	222,656
Total Other Revenues	<u>\$ 3,535,154</u>	<u>\$ 3,527,000</u>

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012**

	TOTAL	
	2013	2012
Employee Benefits	\$ 3,039,351	\$ 3,315,836
Administrative and General	2,847,039	2,612,281
Operation of Plant	653,127	643,434
Laundry and Linen	74,124	76,277
Housekeeping	257,676	279,394
Dietary	411,765	382,699
Medical Records	425,772	380,710
Electronic Health Records	553,360	479,637
Adults and Pediatrics	2,125,403	2,181,376
Nursery	13,085	9,997
Operating and Recovery Room	777,458	667,296
Labor and Delivery Room	49,367	39,908
Anesthesiology	383,640	426,952
Radiology	527,923	466,828
Laboratory	1,152,142	1,086,117
Blood	57,351	93,699
Respiratory Therapy	106,843	117,474
Physical Therapy	781,647	790,615
Occupational Therapy	171,873	149,576
Speech Therapy	3,376	5,614
Acupuncture	33,206	20,246
Electrocardiology	5,356	8,753
Scans	669,445	647,699
Medical and Surgical Supplies	285,601	302,267
Pharmacy and Intravenous Therapy	923,055	926,528
Cardiac Rehabilitation	57,579	45,678
Clinics	6,686,106	6,525,150
Emergency	1,014,126	757,205
Home Health	1,005,470	970,590
Hospice	192,391	269,735
Retail Pharmacy	2,728,492	2,626,842
Rejuvenation Clinic	46,550	66,559
Depreciation Expense	1,719,776	1,604,394
Interest Expense	457,643	478,727
Total	<u>\$ 30,237,118</u>	<u>\$ 29,456,093</u>

SALARIES		OTHER	
2013	2012	2013	2012
\$ -	\$ -	\$ 3,039,351	\$ 3,315,836
1,010,883	903,647	1,836,156	1,708,634
228,316	223,147	424,811	420,287
-	-	74,124	76,277
217,539	229,259	40,137	50,135
260,875	238,079	150,890	144,620
305,481	267,447	120,291	113,263
65,499	58,485	487,861	421,152
1,834,105	1,840,456	291,298	340,920
6,206	6,457	6,879	3,540
506,991	442,762	270,467	224,534
44,401	36,555	4,966	3,353
-	-	383,640	426,952
331,044	310,787	196,879	156,041
384,159	409,489	767,983	676,628
8,048	16,970	49,303	76,729
19,160	8,599	87,683	108,875
192,058	162,368	589,589	628,247
149,500	144,837	22,373	4,739
3,361	5,614	15	-
31,858	19,890	1,348	356
4,453	7,529	903	1,224
137,576	131,541	531,869	516,158
-	-	285,601	302,267
37,567	37,498	885,488	889,030
26,919	26,767	30,660	18,911
2,519,797	2,510,747	4,166,309	4,014,403
202,529	185,815	811,597	571,390
750,392	750,428	255,078	220,162
141,679	165,414	50,712	104,321
282,746	277,233	2,445,746	2,349,609
6,717	12,356	39,833	54,203
-	-	1,719,776	1,604,394
-	-	457,643	478,727
<u>\$ 9,709,859</u>	<u>\$ 9,430,176</u>	<u>\$ 20,527,259</u>	<u>\$ 20,025,917</u>

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2013 AND 2012**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2013		2012	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 3,197,774	54%	\$ 3,577,991	61%
31-60 Days	1,007,501	17%	928,201	16%
61-90 Days	446,979	8%	296,956	5%
91 Days and Over	1,310,367	21%	1,050,342	18%
Total Accounts Receivable	<u>5,962,621</u>	<u>100%</u>	<u>5,853,490</u>	<u>100%</u>
ALLOWANCES				
Contractual -				
Medicare	(719,007)		(777,280)	
Medicaid	(118,801)		(181,092)	
Other	(721,559)		(899,845)	
Doubtful Accounts	(983,082)		(801,423)	
Net Accounts Receivable	<u>\$ 3,420,172</u>		<u>\$ 3,193,850</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 78,340</u>		<u>\$ 74,924</u>	
Days of Net Revenue in Net Accounts Receivable at Year End	<u>44</u>		<u>43</u>	

Analysis of Allowance for Doubtful Accounts

	2013		2012	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 801,423		\$ 804,749	
Add:				
Provision for Doubtful Accounts	1,329,425	4.88 %	972,719	3.69 %
Recoveries Previously Written Off	235,833	0.86 %	56,173	0.21 %
	<u>1,565,258</u>		<u>1,028,892</u>	
Deduct:				
Accounts Written Off	(1,383,599)	5.07 %	(1,032,218)	3.91 %
Ending Balance	<u>\$ 983,082</u>		<u>\$ 801,423</u>	

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
INVENTORIES		
Central Stores	\$ 92,028	\$ 91,782
Pharmacy	42,669	39,528
Retail Pharmacy	284,198	302,274
Other Departments	128,380	156,689
Clinics	66,123	71,856
Total Inventories	\$ 613,398	\$ 662,129
PREPAID EXPENSES		
Insurance	\$ 93,546	\$ 101,849
Lease on Bancroft Clinic	200,630	215,677
Other	140,709	112,377
Total Prepaid Expenses	\$ 434,885	\$ 429,903

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2013 AND 2012**

	Balance July 1, 2012	Invested	Redeemed	Balance June 30, 2013
Revenue Bond Designated Fund: Certificate of Deposit	\$ 270,247	\$ 3,978	\$ -	\$ 274,225
Total	<u>\$ 270,247</u>	<u>\$ 3,978</u>	<u>\$ -</u>	<u>\$ 274,225</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Kossuth Regional Health Center
Algona, Iowa

We have audited the financial statements of Kossuth Regional Health Center as of June 30, 2013 and its discretely presented component unit Kossuth Regional Health Center Foundation, as of December 31, 2012, and have issued our report thereon dated October 28, 2013. 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

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs listed as item 2013-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Health Center, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters 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 Schedule of Finding and Responses.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2013, 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.

Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
October 28, 2013

**KOSSUTH REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements:

2013-1 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 (CONTINUED)
YEAR ENDED JUNE 30, 2013**

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

2013-2 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: The duties within the disbursement and financial report cycle are frequently prepared by one individual.

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 (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-13 **Certified Budget:** Health Center cash basis expenditures during the year ended June 30, 2013, did not exceed budgeted amounts.
- II-B-13 **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-13 **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-13 **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-13 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

The Health Center may hold closed board meetings for specific purposes as allowed by the Code of Iowa. For two meetings during the year, the board meeting minutes did not specifically note the vote of each member, the reason for holding the closed session and the final action.

Recommendation: The minutes for closed sessions should include the vote of each member, the reason for the closed session and follow through with final action in the open meeting.

Health Center Response: The minutes will be in compliance in future sessions per the Code of Iowa

Conclusion: Response accepted

- II-F-13 **Deposits and Investments:** No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the code of Iowa and the Health Center's investment policy were noted.
- II-G-13 **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.

