

**KOSSUTH REGIONAL HEALTH CENTER**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2014 AND 2013**

**KOSSUTH REGIONAL HEALTH CENTER  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2014 AND 2013**

<b>BOARD OF TRUSTEES</b>	<b>1</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF NET POSITION – HEALTH CENTER</b>	<b>12</b>
<b>BALANCE SHEETS – FOUNDATION</b>	<b>14</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –     HEALTH CENTER</b>	<b>15</b>
<b>STATEMENTS OF ACTIVITIES – FOUNDATION</b>	<b>16</b>
<b>STATEMENTS OF CASH FLOWS - HEALTH CENTER</b>	<b>17</b>
<b>STATEMENTS OF CASH FLOWS - FOUNDATION</b>	<b>19</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>20</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND     CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS)</b>	<b>35</b>
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF PATIENT SERVICE REVENUES</b>	<b>36</b>
<b>SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER     REVENUES</b>	<b>38</b>
<b>SCHEDULES OF OPERATING EXPENSES</b>	<b>39</b>
<b>SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS     AND ALLOWANCE FOR DOUBTFUL ACCOUNTS</b>	<b>41</b>
<b>SCHEDULES OF INVENTORIES AND PREPAID EXPENSES</b>	<b>42</b>
<b>SCHEDULE OF BOND INVESTMENT TRANSACTIONS</b>	<b>43</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>44</b>
<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	<b>46</b>

**KOSSUTH REGIONAL HEALTH CENTER  
BOARD OF TRUSTEES  
JUNE 30, 2014**

<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	

(This page intentionally left blank)

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Kossuth Regional Health Center  
Algona, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Kossuth Regional Health Center (the Hospital) and its discretely presented component unit, Kossuth Region Health Center Foundation (the Foundation), which comprise the statements of net position as of June 30, 2014 and 2013 and balance sheets as of December 31, 2013 and 2012, 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.

### ***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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 as of June 30, 2014 and 2013 and its discretely presented component unit as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

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

*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 37 through 44 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 audits 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014, 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 17, 2014

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

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, 2014. 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, 2014 and 2013 financial reports include the following audited financial statements:

- Kossuth Regional Health Center
  - Statements of Net Position
  - Statements of Revenues, Expenses and Changes in Net Position
  - Statements of Cash Flows
  - Notes to Financial Statements
- Kossuth Regional Health Center Foundation (as of December 31, 2013 and 2012)
  - Balance Sheets
  - Statement of Activities
  - Statements of Cash Flows

**FINANCIAL HIGHLIGHTS**

- Total assets increased by \$838,831 or 2.5%, in 2014, by \$1,127,107 or 3.5%, in 2013 and by \$812,878, or 2.6%, in 2012.
- Net position increased in each of the last two years with a \$1,236,899, or 6.1%, increase in 2014, a \$1,224,548, or 6.5%, increase in 2013 and a \$1,220,690, or 6.9% increase in 2012.
- The Health Center reported operating income of \$421,815 in 2014, \$562,709 in 2013 and \$445,503 in 2012. This represents a decrease in 2014 of \$140,894, an increase of \$117,206 in 2013, and a decrease in 2012 of \$63,064.

**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, liabilities and deferred inflows resources 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, 2014 AND 2013**

**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, Deferred Inflows of Resources and Net Position**

	2014	2013	2012
Assets:			
Current Assets	\$ 14,578,549	\$ 14,215,200	\$ 14,192,170
Non-current Cash and Investments	2,010,255	1,679,906	1,235,875
Capital Assets, Net	17,303,883	17,170,943	16,378,754
Succeeding Year Property Tax Receivable	416,525	404,332	377,633
Other Assets	-	-	158,842
	<u>\$ 34,309,212</u>	<u>\$ 33,470,381</u>	<u>\$ 32,343,274</u>
Total Assets			
Liabilities:			
Total Current Liabilities	\$ 2,842,296	\$ 2,873,922	\$ 2,939,687
Long-Term Debt (Less Current Maturities)	9,653,016	10,031,651	10,090,026
Total Liabilities	<u>12,495,312</u>	<u>12,905,573</u>	<u>13,029,713</u>
Deferred Inflows of Resources	416,525	404,332	377,633
Net Position:			
Net Investment in Capital Assets	7,258,948	6,717,947	5,749,416
Restricted:			
Under Debt Agreement	276,551	274,225	270,247
Unrestricted	13,861,876	13,168,304	12,916,265
Total Net Position	<u>21,397,375</u>	<u>20,160,476</u>	<u>18,935,928</u>
Total Liabilities, Deferred Inflows of Resources, Resources, and Net Position	<u>\$ 34,309,212</u>	<u>\$ 33,470,381</u>	<u>\$ 32,343,274</u>

Asset categories changing significantly during 2014, 2013 and 2012 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 \$268,260, or 4.9%, in 2014, decreased by \$907,342, or 14.2%, in 2013, and increased by \$336,833, or 5.6% in 2012. Current Investments increased by \$193,637, or 5.3%, in 2014 and \$542,843, or 16.6%, in 2013, and \$725,764, or 29.9% in 2012. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2014 by \$457,299, or 13.4%, increased in 2013 by \$226,322, or 7.9%, and increased in 2012 by \$234,883, or 7.9%.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)**

The current ratio (current assets divided by current liabilities) for 2014 was 5.3, for 2013 was 5.1 and for 2012 was 5.0. 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 2014, 2013 and 2012 included non-current cash and investments. Non-current cash and investments increased by \$330,349 or 19.7%, in 2014, increased by \$444,031 or 35.9%, in 2013 and by \$287,188 or 30.3% in 2012.

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**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Patient Service Revenue	\$ 26,605,906	\$ 27,264,673	\$ 26,374,596
Other Operating Revenue	3,775,609	3,535,154	3,527,000
Total Operating Revenues	<u>30,381,515</u>	<u>30,799,827</u>	<u>29,901,596</u>
Operating Expenses			
Salaries and Wages	9,891,635	9,709,859	9,430,176
Employee Benefits	3,368,114	3,039,351	3,315,836
Supplies and Miscellaneous	14,605,711	15,310,489	14,626,960
Depreciation	1,665,239	1,719,776	1,604,394
Interest	429,001	457,643	478,727
Total Operating Expenses	<u>29,959,700</u>	<u>30,237,118</u>	<u>29,456,093</u>
Operating Income	421,815	562,709	445,503
Due to Affiliated Organizations	-	(15,677)	-
Adjusted Operating Income	<u>421,815</u>	<u>547,032</u>	<u>445,503</u>
Non-Operating Income and Expenses	<u>643,908</u>	<u>545,664</u>	<u>560,028</u>
Excess of Revenues Over Expenses	1,065,723	1,092,696	1,005,531
Capital Grants and Contributions	171,176	131,852	215,159
Increases in Net Position	<u>1,236,899</u>	<u>1,224,548</u>	<u>1,220,690</u>
Net Position, Beginning of Year	<u>20,160,476</u>	<u>18,935,928</u>	<u>17,715,238</u>
Net Position, End of Year	<u>\$ 21,397,375</u>	<u>\$ 20,160,476</u>	<u>\$ 18,935,928</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**FINANCIAL ANALYSIS OF HEALTH CENTER (CONTINUED)**

Net patient service revenue made up 89% in 2014, 89% in 2013 and 88% in 2012 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>2014</u>	<u>2013</u>	<u>2012</u>
Total Patient Service Revenues	\$ 39,216,995	\$ 40,193,448	\$ 41,387,968
Contractual Adjustments and Provision for Bad Debts	<u>12,611,089</u>	<u>12,928,775</u>	<u>15,013,372</u>
Net Patient Service Revenue	<u>\$ 26,605,906</u>	<u>\$ 27,264,673</u>	<u>\$ 26,374,596</u>
Contractual Adjustments and Bad Debt as a Percent of Total Patient Revenue	<u>32.16 %</u>	<u>32.17 %</u>	<u>36.27 %</u>

Total operating expenses decreased \$277,418, or 0.9%, in 2014, increased \$781,025, or 2.7%, in 2013, and increased \$1,148,253, or 4.1%, in 2012. 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 2014 Operating Income was \$421,815 or 1.4% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) compared to \$562,709, or 1.8%, in 2013 and \$445,503, or 1.5%, in 2012.

Other Operating Revenue increased by \$240,455, or 6.8%, in 2014, increased by \$8,154, or 0.2%, in 2013 and increased by \$122,020, or 3.6%, in 2012. Table 4 shows the detail for this line item.

**Table 4: Other Operating Revenues**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cafeteria	\$ 120,771	\$ 115,611	\$ 92,353
Medical Records Fees	986	915	1,123
Rental Income	39,445	31,320	32,690
Grants	217,094	255,427	217,434
Retail Pharmacy	3,158,995	2,987,721	2,960,744
Miscellaneous	<u>238,318</u>	<u>144,160</u>	<u>222,656</u>
Total Other Revenues	<u>\$ 3,775,609</u>	<u>\$ 3,535,154</u>	<u>\$ 3,527,000</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**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 2014. Acute Patient Days decreased by 200 days, or 10.5%, in 2014, compared to the decrease of 181 days, or 8.7%, in 2013 and an decrease of 6 days, or 0.3%, in 2012. Swing Bed Days decreased in 2014 by 232 days, or 15.3%. Swing Bed Days increased by 512 days, or 50.9% in 2013, decreased by 468 days, or 31.8%, in 2012.

- Key patient statistics for the Health Center are as follows:
  - Acute Care patient days were 1,699 (10.5% decrease)
  - Swing Bed patient days were 1,285 (15.3% decrease)
  - Newborn births were 258 (11.7% increase)
  - Total outpatient visits were 26,813 (3.2% decrease)
  - Total Clinic visits were 46,578 (2.6% decrease)
  - Physical Therapy visits totaled 15,369 (1.1% decrease)

**Table 5: Statistical Data**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Patient Days</b>			
Acute	1,699	1,899	2,080
Swing Bed	1,285	1,517	1,005
Newborn	258	231	214
Total	<u>3,242</u>	<u>3,647</u>	<u>3,299</u>
<b>Admissions</b>			
Acute	611	642	624
Swing Bed	127	150	144
Total	<u>738</u>	<u>792</u>	<u>768</u>
<b>Discharges</b>			
Acute	612	624	624
Swing Bed	122	144	144
Total	<u>734</u>	<u>768</u>	<u>768</u>
<b>Average Length of Stay, Acute</b>	<u>3.10</u>	<u>3.30</u>	<u>3.30</u>
<b>Beds – Acute and Swing Bed</b>	<u>25</u>	<u>25</u>	<u>25</u>
<b>Occupancy Percentage</b>	<u>32.7%</u>	<u>37.4%</u>	<u>33.8%</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**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, 2014, the Health Center had \$17,303,883 invested in capital assets, net of accumulated depreciation. In 2014, the Health Center expended \$1,796,448 to purchase property and equipment. In 2013 and 2012, the Health Center purchased property and equipment costing \$2,353,196 and \$1,297,771, respectively.

**LONG-TERM DEBT**

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

**Table 6: Long-Term Debt**

	2014	2013	2012
USDA Notes Payable	\$ 600,000	\$ 712,008	\$ 552,416
Hospital Revenue Notes	9,444,935	9,740,988	10,017,743
Capital Lease Payable	-	-	59,179
Total Long-Term Debt	<u>\$ 10,044,935</u>	<u>\$ 10,452,996</u>	<u>\$ 10,629,338</u>

The 2009A and 2009B Revenue Bonds are \$10,500,000 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 were due at a rate of 4.625%. On the 10<sup>th</sup> day of February in each of the years 2014, 2019, 2024, and 2029, the interest rate will be adjusted to 150 basis points 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%. On February 10, 2014 the interest rate adjusted to 4.125%. On June 10, 2014, the facility amended and refinanced their debt to obtain a 3.9% interest rate. The 3.9% rate is fixed until February 10, 2024. On the 10<sup>th</sup> day of February in each of the years 2024 and 2029, the interest rate will be adjusted to 150 basis points plus the Federal Home Loan Bank rate. On February 10, 2024 the interest rate will not increase above 6.9% nor decrease to a rate lower than 3.9%. On February 10, 2029, the interest rate will not increase by more than 150 basis points above the last preceding adjusted interest rate nor decrease to a rate lower than 3.9%. 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.

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**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 continue to developed and adapt KRHC's strategic plan which 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 The 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 signed a contract with Cerner to purchase Cerner Community Works a meaningful use compliant application which will provide fully integrated and improved EMR (electronic medical record), revenue cycle, and patient flow capabilities for the entire facility. KRHC will go live with this application during August 2015.
- 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 fiscal year 2014, the Hospital completed a Master Facility Plan. This plan provides a road map for future renovations. During fiscal year 2015, KRHC will be renovating the Radiology department and relocating Patient Accounts, Information Technology, Health Information, and the Administrative Conference Room. These renovations will improve patient satisfaction, privacy, and improve the workflow of the facility. The expected completion dates for these planned renovations is spring 2016.

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

(This page intentionally left blank)

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**ECONOMIC & OTHER FACTORS (CONTINUED)**

- Salary and benefit costs
- Increasing supply costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staffing
- 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, 2014 AND 2013**

<b>ASSETS</b>	2014	2013
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5,202,489	\$ 5,470,749
Investments	3,871,150	3,677,513
Patient Receivables, Less Allowance for Uncollectible Accounts of \$961,194 in 2014 and \$983,082 in 2013	3,877,471	3,420,172
Estimated Third-Party Payor Settlements Receivable	513,389	475,441
Succeeding Year Property Tax Receivable	416,525	404,332
Other Receivables	150,110	123,042
Supplies	623,281	613,398
Prepaid Expenses	340,659	434,885
Total Current Assets	14,995,074	14,619,532
 <b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Hospice Expenditures	167,428	168,140
Internally Designated for Health Benefits	1,566,276	1,237,541
Restricted Under Debt Agreement	276,551	274,225
Total Noncurrent Cash and Investments	2,010,255	1,679,906
 <b>CAPITAL ASSETS, NET</b>		
	17,303,883	17,170,943
Total Assets	\$ 34,309,212	\$ 33,470,381

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET POSITION</b>	2014	2013
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 391,919	\$ 421,345
Accounts Payable - Trade	527,020	567,291
Accounts Payable - Construction	-	101,599
Due to Affiliated Organization	248,649	295,695
Estimated Health Claims Payable	273,311	273,464
Accrued Expenses	1,396,045	1,168,949
Other Liabilities	5,352	45,579
Total Current Liabilities	2,842,296	2,873,922
<b>LONG-TERM DEBT, Less Current Maturities</b>	9,653,016	10,031,651
Total Liabilities	12,495,312	12,905,573
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Revenue - Succeeding Year Property Tax Receivable	416,525	404,332
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	7,258,948	6,717,947
Restricted - Expendable Under Bond Agreement	276,551	274,225
Unrestricted	13,861,876	13,168,304
Total Net Position	21,397,375	20,160,476
Total Liabilities and Net Position	\$ 34,309,212	\$ 33,470,381

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
BALANCE SHEETS  
DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 338,024	\$ 321,676
Unconditional Promises to Give	69,346	67,630
Total Current Assets	407,370	389,306
<b>NONCURRENT ASSETS</b>		
Cash and Investments	2,704,824	2,149,343
Unconditional Promises to Give	15,800	124,101
Total Noncurrent Assets	2,720,624	2,273,444
Total Assets	\$ 3,127,994	\$ 2,662,750
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Grants Payable	\$ 240	\$ 2,638
<b>NET ASSETS</b>		
Unrestricted	3,042,608	2,468,381
Temporarily Restricted	85,146	191,731
Total Net Assets	3,127,754	2,660,112
Total Liabilities and Net Assets	\$ 3,127,994	\$ 2,662,750

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$1,037,967 in 2014 and \$1,329,425 in 2013	\$ 26,605,906	\$ 27,264,673
Other Operating Revenue	3,775,609	3,535,154
Total Operating Revenues	30,381,515	30,799,827
<b>OPERATING EXPENSES</b>		
Salaries and Wages	9,891,635	9,709,859
Employee Benefits	3,368,114	3,039,351
Supplies and Miscellaneous	14,605,711	15,310,489
Depreciation	1,665,239	1,719,776
Interest	429,001	457,643
Total Operating Expenses	29,959,700	30,237,118
<b>OPERATING INCOME</b>	421,815	562,709
<b>AFFILIATION AGREEMENT EXPENSE</b>	-	(15,677)
<b>ADJUSTED OPERATING INCOME</b>	421,815	547,032
<b>NON-OPERATING REVENUE</b>		
Investment Income	36,986	48,307
Tax Apportionments	406,582	387,324
Dialysis Unit Rental Income	76,377	25,000
Noncapital Contributions and Grants	122,232	81,636
Gain on Sale of Property and Equipment	1,731	3,397
Net Non-Operating Income	643,908	545,664
<b>EXCESS OF REVENUES OVER EXPENSES</b>	1,065,723	1,092,696
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	171,176	131,852
<b>INCREASE IN NET POSITION</b>	1,236,899	1,224,548
Net Position - Beginning of Year	20,160,476	18,935,928
<b>NET POSITION - END OF YEAR</b>	\$ 21,397,375	\$ 20,160,476

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>REVENUES</b>		
Contributions	\$ 172,920	\$ 249,567
Investment Income	522,866	245,340
Net Assets Released from Restriction	106,585	167,845
Total Revenues	802,371	662,752
<b>EXPENSES</b>		
Fundraising	22,849	22,962
Contributions to Kossuth Regional Health Center	184,557	213,205
Supplies and Other Expenses	20,738	13,558
Total Expenses	228,144	249,725
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	574,227	413,027
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Net Assets Released from Restriction	(106,585)	(167,845)
<b>DECREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	(106,585)	(167,845)
<b>INCREASE IN NET ASSETS</b>	467,642	245,182
Net Assets Beginning of Year	2,660,112	2,414,930
<b>NET ASSETS END OF YEAR</b>	\$ 3,127,754	\$ 2,660,112

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 26,110,659	\$ 26,858,417
Cash Paid to Employees	(13,032,806)	(12,949,807)
Cash Paid to Suppliers	(14,601,866)	(14,971,191)
Other Receipts and Payments, Net	3,701,495	3,332,106
Net Cash Provided by Operating Activities	2,177,482	2,269,525
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Contributions	122,232	81,636
Dialysis Unit Rental Income	76,377	25,000
Tax Appropriations	406,582	387,324
Net Cash Provided by Non-Capital Financing Activities	605,191	493,960
<b>CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(1,898,047)	(2,248,127)
Proceeds from Issuance of Long-Term Debt	-	360,000
Principal Payments on Long-Term Debt	(408,061)	(536,342)
Interest Payments on Long-Term Debt	(429,001)	(457,643)
Capital Grants and Contributions	171,176	131,852
Net Cash Used by Capital and Related Financing Activities	(2,563,933)	(2,750,260)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	36,986	48,307
Sale of Investments	-	1,082,692
Purchase of Investments	(193,637)	(1,607,535)
Net Change in Noncurrent Cash and Investments	(330,349)	(444,031)
Net Cash Used by Investing Activities	(487,000)	(920,567)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(268,260)	(907,342)
Cash and Cash Equivalents - Beginning	5,470,749	6,378,091
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 5,202,489	\$ 5,470,749

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 421,815	\$ 547,032
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	1,665,239	1,719,776
Interest Expense Considered Capital and Related Financing Activity	429,001	457,643
(Increase) Decrease in:		
Patient Receivables	(457,299)	(226,322)
Other Receivables	(27,068)	(43,022)
Supplies	(9,883)	48,731
Prepaid Expenses	94,226	(4,982)
Third-Party Payor Settlements Receivable	(37,948)	(179,934)
Increase (Decrease) in:		
Accounts Payable	(80,498)	136,707
Accrued Expenses	227,096	(118,553)
Due to Affiliated Organization	(47,046)	14,493
Estimated Health Claims Payable	(153)	(82,044)
Net Cash Provided by Operating Activities	\$ 2,177,482	\$ 2,269,525

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Donor and Contributors	\$ 279,505	\$ 417,412
Interest Received	85,857	25,824
Cash Paid to Suppliers	(43,587)	(36,520)
Payments to Kossuth Regional Health Center	(182,159)	(214,123)
Net Cash Provided by Operating Activities	139,616	192,593
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(2,078,920)	(23,806)
Proceeds from Sale of Investments	1,955,652	-
Net Cash Used by Investing Activities	(123,268)	(23,806)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	16,348	168,787
Cash and Cash Equivalents - Beginning of Year	321,676	152,889
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 338,024	\$ 321,676
<b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 467,642	\$ 245,182
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Investments	1,731	(188,998)
Realized Gain on Sale of Investments, Reinvested Capital Gains and Dividends on Investments	(438,740)	(30,518)
Change in Unconditional Promises to Give	106,585	167,845
Increase (Decrease) in Grants Payable	2,398	(918)
Net Cash Provided by Operating Activities	\$ 139,616	\$ 192,593

See accompanying Notes to Financial Statements.

(This page intentionally left blank)

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 12. 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).

**Tax Exempt Status**

The Foundation is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Measurement Focus and Basis of Accounting**

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

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

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

The 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, liabilities and deferred inflows of resources, 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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Basis of Presentation (Continued)**

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.

**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, 2014 and 2013, the allowance for uncollectible accounts was approximately \$961,000 and \$983,000, 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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**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.

**Capital Assets**

Capital asset acquisitions in excess greater than or equal to \$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

**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, 2014 and 2013.

**Deferred Inflows of Resources**

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 inflows of resources 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 inflows of resources 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, 2014 AND 2013**

**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 financing costs.

**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.

**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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**Change in Accounting Standards**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for KRHC's fiscal year ending June 30, 2015. Management is evaluating the impact of adopting this statement but is not currently able to arrive at an estimate.

**Reclassifications**

Certain items in the 2013 financial statements were reclassified for comparison purposes with the 2014 financial statements. The reclassifications did not result in a change in net position or change in net position as previously reported.

**NOTE 2 DESIGNATED NET POSITION**

Of the \$13,861,876 and \$13,168,304 of unrestricted net position at June 30, 2014 and 2013, 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.

	2014	2013
For Hospice Expenditures	\$ 167,428	\$ 168,140
For Health Benefits	1,566,276	1,237,541
Total Designated Net Position	\$ 1,733,704	\$ 1,405,681

**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, 2012.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)**

**Medicaid**

The health center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The health center's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 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, 2014 and 2013 is as follows:

	2014	2013
Total Patient Service Revenue	\$ 39,216,995	\$ 40,193,448
Revenue Adjustments:		
Medicare	5,406,648	4,539,163
Medicaid	1,124,397	1,088,550
Provision for Bad Debt	1,037,967	1,329,425
Other Allowances and Adjustments	5,042,077	5,971,637
Total Contractual Adjustments and Bad Debts	12,611,089	12,928,775
Net Patient Service Revenue	\$ 26,605,906	\$ 27,264,673

**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 ¼, ½, and ¾.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)**

The Health Center 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 ended June 30, 2012. No additional funds were received in 2013 or 2014. 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.

Subsequent to year end the Health Center entered into a contract for the purchase of a new electronic health record system. The system is expected to cost approximately \$2.46 million and will be paid over 18 months using the Health Centers reserves.

**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 discount interest rate of 3.25%. Prior years were computed using a discount interest rate of 3.25%.

The following is a summary of unconditional promises to give as of December 31, 2013 and 2012:

	2013	2012
Less than One Year	\$ 79,296	\$ 138,493
One to Five Years	18,970	85,007
	98,266	223,500
Less: Discount	(3,883)	(10,760)
Less: Allowance for Uncollectible Promises to Give	(9,237)	(21,009)
Unconditional Promises to Give, Net	\$ 85,146	\$ 191,731

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Health Center at June 30, 2014 and 2013 are the following:

	2014	2013
Receivable from Patients and Their Insurance Carriers	\$ 2,972,496	\$ 2,031,586
Receivable from Medicare	1,626,293	2,087,185
Receivable from Medicaid	239,876	284,483
Total Patient Receivables	4,838,665	4,403,254
Less: Allowance for Doubtful Accounts	(961,194)	(983,082)
Patient Receivables, Net	\$ 3,877,471	\$ 3,420,172

**NOTE 8 DEPOSITS AND INVESTMENTS**

The Health Center's deposits in banks at June 30, 2014 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, 2014. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as deposits and investments in this note.

At June 30, 2014 and 2013, the Health Center's carrying amounts of cash and investments are as follows:

	2014	2013
Cash and Cash Equivalents	\$ 5,202,489	\$ 5,470,749
Investments	3,871,150	3,677,513
Noncurrent Cash and Investments:		
Internally Designated for Hospice Expenditures	167,428	168,140
Internally Designated for Health Benefits	1,566,276	1,237,541
Restricted Under Debt Agreement	276,551	274,225
Total	\$ 11,083,894	\$ 10,828,168

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

**Foundation Investments**

The Foundation's investments consisted of mutual funds at December 31, 2013 and 2012. These investments are carried at fair value. Unrealized holding gains (losses) at December 31, 2013 and 2012 amounted to (\$4,443) and \$187,181, respectively.

Investment income for the Foundation is comprised of the following for the years ended December 31, 2013 and 2012:

	2013	2012
Investment Income (Loss):		
Interest and Dividend Income	\$ 88,569	\$ 27,641
Realized Gains	438,740	30,518
Changes in Unrealized Gains (Losses)	(4,443)	187,181
Total	\$ 522,866	\$ 245,340

**NOTE 9 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2014 and 2013 are as follows:

	Balance June 30, 2013	Additions	(Retirements)	Transfers	Balance June 30, 2014
<b>Capital Assets</b>					
Land and Land Improvements	\$ 685,897	\$ -	\$ (1,773)	\$ -	\$ 684,124
Building	20,118,629	157,586	(191,750)	1,612,063	21,696,528
Fixed Equipment	4,055,690	308,956	(2,853)	-	4,361,793
Major Movable Equipment	5,907,648	444,226	(15,199)	-	6,336,675
Construction in Progress	769,752	887,543	-	(1,612,063)	45,232
Totals	31,537,616	1,798,311	(211,575)	-	33,124,352
<b>Accumulated Depreciation</b>					
Land Improvements	448,875	24,797	(1,854)	-	471,818
Building	6,644,660	864,858	(105,108)	-	7,404,410
Fixed Equipment	2,550,606	339,598	(45,195)	-	2,845,009
Major Movable Equipment	4,722,532	331,681	45,019	-	5,099,232
Totals	14,366,673	\$ 1,560,934	\$ (107,138)	\$ -	15,820,469
	\$ 17,170,943				\$ 17,303,883

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 9 CAPITAL ASSETS (CONTINUED)**

	Balance June 30, 2012	Additions	(Retirements)	Transfers	Balance June 30, 2013
<b>Capital Assets</b>					
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>
<b>Accumulated Depreciation</b>					
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>

During 2014 KRHC completed an Elevator, Dialysis, Occupational Therapy, and Sleep Study project, totaling approximately \$1.6 million in construction costs. 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, 2014, consists mainly of a Radiology Renovation Project with an estimated completion cost of \$2.5 million, and an approximate completion date in the spring of 2016.

**NOTE 10 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2014 and 2013 is as follows:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
USDA/Cornbelt Loan 2012	\$ 360,000	\$ -	\$ -	\$ 360,000	\$ 21,000
Revenue Note Series 2009A	8,580,154	-	(261,021)	8,319,133	287,070
Revenue Note Series 2009B	1,160,834	-	(35,032)	1,125,802	38,849
USDA EHR10 Loan	67,008	-	(67,008)	-	-
USDA/Cornbelt Loan 2010	285,000	-	(45,000)	240,000	45,000
Total Long-Term Debt	<u>\$ 10,452,996</u>	<u>\$ -</u>	<u>\$ (408,061)</u>	<u>\$ 10,044,935</u>	<u>\$ 391,919</u>
	Balance June 30, 2012	Additions	Payments	Balance June 30, 2012	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	326,250	-	(41,250)	285,000	45,000
Total Long-Term Debt	<u>10,570,159</u>	<u>360,000</u>	<u>(477,163)</u>	<u>10,452,996</u>	<u>421,345</u>
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>

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 10 LONG TERM DEBT (CONTINUED)**

The terms and due dates of the Health Center's long-term debt, including capital lease obligations, at June 30, 2014 and 2013, 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. On the 10<sup>th</sup> day of February in each of the years 2014, 2019, 2024, and 2029, the interest rate will be adjusted to 150 basis points 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%. On February 10, 2014 the interest rate adjusted to 4.125%. On June 10, 2014, the facility amended and refinanced their debt to obtain a 3.9% interest rate. The 3.9% rate is fixed until February 10, 2024. On the 10<sup>th</sup> day of February in each of the years 2024 and 2029, the interest rate will be adjusted to 150 basis points plus the Federal Home Loan Bank rate. On February 10, 2024 the interest rate will not increase above 6.9% nor decrease to a rate lower than 3.9%. On February 10, 2029, the interest rate will not increase by more than 150 basis points above the last preceding adjusted interest rate nor decrease to a rate lower than 3.9%. Adjusted monthly principal and interest payments are due through February 10, 2034. The note is collateralized by the revenues of the Health Center.

**Hospital Revenue Note – Series 2009B**

On January 29, 2009 the Health Center entered into a loan agreement with Iowa State Bank and thereby purchasing the Health Center's Hospital Revenue Note in the amount of \$1,250,000 for the Kossuth County Health Center Project. Interest only was due monthly at a rate of 4.625% until August 10, 2010. On the 10<sup>th</sup> day of February in each of the years 2014, 2019, 2024, and 2029, the interest rate will be adjusted to 150 basis points 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%. On February 10, 2014 the interest rate adjusted to 4.125%. On June 10, 2014, the facility amended and refinanced their debt to obtain a 3.9% interest rate. The 3.9% rate is fixed until February 10, 2024. On the 10<sup>th</sup> day of February in each of the years 2024 and 2029, the interest rate will be adjusted to 150 basis points plus the Federal Home Loan Bank rate. On February 10, 2024 the interest rate will not increase above 6.9% nor decrease to a rate lower than 3.9%. On February 10, 2029, the interest rate will not increase by more than 150 basis points above the last preceding adjusted interest rate nor decrease to a rate lower than 3.9%. Adjusted monthly principal and interest payments are due through February 10, 2034. The note is collateralized by the revenues of the Health Center.

**USDA EMR Loan**

The Health Center obtained financing for a portion of the electronic medical record (EMR) filing system and purchase Cerner EMR software, server/communication equipment, workstations and digital interface equipment. Payments of principal and interest of 2.18% are payable in 60 monthly installments and began on July 1, 2010. The note is unsecured.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 10 LONG TERM DEBT (CONTINUED)**

**USDA/Cornbelt Loan 2010**

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/Cornbelt Loan 2012**

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 November 2014. 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 \$0 and \$62,612, and accumulated amortization was \$165,487 and \$165,487 for the years ended June 30, 2014 and 2013, respectively.

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
2015	\$ 391,919	\$ 606,138
2016	419,859	349,627
2017	433,314	336,173
2018	447,302	322,184
2019	461,846	307,731
2020-2024	2,353,432	1,300,010
2025-2029	2,604,101	1,148,091
2030-2034	2,933,162	273,004
Total	<u>\$ 10,044,935</u>	<u>\$ 4,642,958</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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

Plan members are required to contribute 5.95% of their annual salary and the Health Center is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by state statute. The Health Center's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$792,000, \$760,700, and \$697,200, 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 \$6,128,000 and \$6,061,100 for the years ended June 30, 2014 and 2013, respectively.

Operating gains and losses from the consolidated operation of the Health Center services and Mercy Medical Center-North Iowa services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. There were no operating gains allocated between Mercy Medical Center-North Iowa and the Health Center for the years ended June 30, 2014 and 2013.

**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.

**Due to and from Affiliated Organization**

As of June 30, 2014 and 2013, the Health Center's records reflect a due to MMC-NI of \$248,649 and \$295,695, 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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 12 RELATED PARTY TRANSACTIONS (CONTINUED)**

**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, 2014 and 2013 of \$171,176 and \$213,205, 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.

**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.

(This page intentionally left blank)

**REQUIRED SUPPLEMENTARY INFORMATION**

(This page intentionally left blank)

**KOSSUTH REGIONAL HEALTH CENTER  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
 AND CHANGES IN NET POSITION  
 BUDGET AND ACTUAL (CASH BASIS)  
 YEAR ENDED JUNE 30, 2014**

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	\$ 406,582	\$ -	\$ 406,582	\$ 406,934	\$ (352)
Estimated Other Revenues/Receipts	30,790,017	(571,092)	30,218,925	33,220,604	(3,001,679)
	<u>31,196,599</u>	<u>(571,092)</u>	<u>30,625,507</u>	<u>33,627,538</u>	<u>(3,002,031)</u>
Expenses/Disbursements	29,959,700	410,081	30,369,781	34,094,858	3,725,077
Net	1,236,899	(981,173)	255,726	(467,320)	723,046
Balance Beginning of Year	<u>20,160,476</u>	<u>(9,332,308)</u>	<u>10,828,168</u>	<u>9,799,709</u>	<u>1,028,459</u>
Balance End of Year	<u>\$ 21,397,375</u>	<u>\$ (10,313,481)</u>	<u>\$ 11,083,894</u>	<u>\$ 9,332,389</u>	<u>\$ 1,751,505</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.

(This page intentionally left blank)

**OTHER SUPPLEMENTARY INFORMATION**

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 1,967,582	\$ 2,158,408
Intensive Care Unit	-	3,824
Swing Bed	539,280	692,580
Intermediate Care	263	1,841
Nursery	167,616	147,528
Total Patient Care Service Revenue	<u>2,674,741</u>	<u>3,004,181</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating and Recovery Room	2,288,245	2,475,362
Labor and Delivery Room	102,764	86,054
Anesthesiology	1,035,990	993,684
Radiology	2,189,592	2,322,944
Laboratory	3,849,000	4,124,619
Respiratory Therapy	268,860	312,247
Cardiac Rehabilitation	268,414	247,317
Physical Therapy	2,596,255	2,688,834
Occupational Therapy	349,876	493,359
Speech Therapy	6,820	17,160
Electrocardiology	139,044	161,944
Scans	3,530,085	3,623,569
Medical and Surgical Supplies	1,195,640	1,359,448
Pharmacy	3,932,385	3,929,216
Intravenous Therapy	172,429	177,700
Emergency Room	2,126,348	2,146,751
Home Health	778,643	793,593
Hospice	1,175,883	673,259
Urology	64,420	308
Clinical Operations	10,480,886	10,504,139
Immunizations	6,407	7,650
Diabetic Education	65,104	83,587
Total Other Professional Service Revenue	<u>36,623,090</u>	<u>37,222,744</u>
Gross Patient Charges	39,297,831	40,226,925
Charity Care	<u>(80,836)</u>	<u>(33,477)</u>
Total Patient Service Revenues	39,216,995	40,193,448
Adjustments to Patient Services Revenues	<u>(12,611,089)</u>	<u>(12,928,775)</u>
<b>NET PATIENT SERVICE REVENUES</b>	<u>\$ 26,605,906</u>	<u>\$ 27,264,673</u>

INPATIENT		OUTPATIENT	
2014	2013	2014	2013
\$ 1,321,144	\$ 1,513,710	\$ 646,438	\$ 644,698
-	3,824	-	-
539,280	692,580	-	-
263	1,841	-	-
167,616	147,528	-	-
<u>2,028,303</u>	<u>2,359,483</u>	<u>646,438</u>	<u>644,698</u>
171,793	215,286	2,116,452	2,260,076
101,844	85,428	920	626
222,382	234,786	813,608	758,898
75,652	110,582	2,113,940	2,212,362
442,656	526,194	3,406,344	3,598,425
215,005	252,774	53,855	59,473
-	-	268,414	247,317
430,863	556,937	2,165,392	2,131,897
231,102	328,856	118,774	164,503
3,240	7,340	3,580	9,820
8,400	9,765	130,644	152,179
164,488	218,072	3,365,597	3,405,497
330,862	442,079	864,778	917,369
999,566	1,195,994	2,932,819	2,733,222
58,126	61,976	114,303	115,724
24,802	32,164	2,101,546	2,114,587
-	-	778,643	793,593
195,290	110,168	980,593	563,091
75	308	64,345	-
-	-	10,480,886	10,504,139
-	-	6,407	7,650
-	-	65,104	83,587
<u>3,676,146</u>	<u>4,388,709</u>	<u>32,946,944</u>	<u>32,834,035</u>
<u>\$ 5,704,449</u>	<u>\$ 6,748,192</u>	<u>\$ 33,593,382</u>	<u>\$ 33,478,733</u>

(This page intentionally left blank)

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES  
AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 5,406,648	\$ 4,539,163
Contractual Adjustments - Medicaid	1,124,397	1,088,550
Provision for Bad Debts	1,037,967	1,329,425
Other Allowances and Adjustments	5,042,077	5,971,637
Total Adjustments	\$ 12,611,089	\$ 12,928,775
<b>OTHER REVENUES</b>		
Cafeteria and Meals	\$ 120,771	\$ 115,611
Medical Records Fees	986	915
Rental Income	39,445	31,320
Grants	217,094	255,427
Retail Pharmacy	3,158,995	2,987,721
Miscellaneous	238,318	144,160
Total Other Revenues	\$ 3,775,609	\$ 3,535,154

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
Employee Benefits	\$ 3,368,114	\$ 3,039,351
Administrative and General	2,951,720	2,847,039
Operation of Plant	697,696	653,127
Laundry and Linen	63,676	74,124
Housekeeping	265,240	257,676
Dietary	413,481	411,765
Medical Records	373,322	425,772
Electronic Health Records	639,003	553,360
Adults and Pediatrics	2,138,445	2,125,403
Nursery	13,473	13,085
Operating and Recovery Room	779,441	777,458
Labor and Delivery Room	65,638	49,367
Anesthesiology	407,505	383,640
Radiology	554,991	527,923
Laboratory	1,194,502	1,151,697
Blood	82,418	57,796
Respiratory Therapy	95,450	106,843
Physical Therapy	782,409	781,647
Occupational Therapy	146,570	171,873
Speech Therapy	1,251	3,376
Acupuncture	28,313	33,206
Electrocardiology	4,532	5,356
Scans	691,502	669,445
Medical and Surgical Supplies	211,347	285,601
Pharmacy and Intravenous Therapy	969,756	923,055
Cardiac Rehabilitation	67,721	57,579
Clinics	6,186,182	6,686,106
Emergency	908,158	1,014,126
Home Health	1,033,792	1,005,470
Hospice	252,441	192,391
Retail Pharmacy	2,440,530	2,728,492
Rejuvenation Clinic	36,841	46,550
Depreciation Expense	1,665,239	1,719,776
Interest Expense	429,001	457,643
Total	<u>\$ 29,959,700</u>	<u>\$ 30,237,118</u>

SALARIES		OTHER	
2014	2013	2014	2013
\$ -	\$ -	\$ 3,368,114	\$ 3,039,351
1,061,006	1,010,883	1,890,714	1,836,156
220,997	228,316	476,699	424,811
-	-	63,676	74,124
218,856	217,539	46,384	40,137
258,506	260,875	154,975	150,890
281,912	305,481	91,410	120,291
101,069	65,499	537,934	487,861
1,838,546	1,834,105	299,899	291,298
10,940	6,206	2,533	6,879
549,116	506,991	230,325	270,467
57,894	44,401	7,744	4,966
-	-	407,505	383,640
328,331	331,044	226,660	196,879
394,600	383,714	799,902	767,983
12,920	8,493	69,498	49,303
18,403	19,160	77,047	87,683
182,309	192,058	600,100	589,589
111,898	149,500	34,672	22,373
1,251	3,361	-	15
26,445	31,858	1,868	1,348
2,099	4,453	2,433	903
143,502	137,576	548,000	531,869
-	-	211,347	285,601
41,712	37,567	928,044	885,488
28,351	26,919	39,370	30,660
2,559,420	2,519,797	3,626,762	4,166,309
190,585	202,529	717,573	811,597
766,974	750,392	266,818	255,078
176,160	141,679	76,281	50,712
302,169	282,746	2,138,361	2,445,746
5,664	6,717	31,177	39,833
-	-	1,665,239	1,719,776
-	-	429,001	457,643
<u>\$ 9,891,635</u>	<u>\$ 9,709,859</u>	<u>\$ 20,068,065</u>	<u>\$ 20,527,259</u>

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE  
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2014		2013	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 3,223,442	50%	\$ 3,197,774	54%
31-60 Days	1,341,158	21%	1,007,501	17%
61-90 Days	522,436	8%	446,979	8%
91 Days and Over	1,309,269	21%	1,310,367	21%
Total Accounts Receivable	<u>6,396,305</u>	<u>100%</u>	<u>5,962,621</u>	<u>100%</u>
<b>ALLOWANCES</b>				
Contractual -				
Medicare	(601,027)		(719,007)	
Medicaid	(222,279)		(118,801)	
Other	(734,334)		(721,559)	
Doubtful Accounts	(961,194)		(983,082)	
Net Accounts Receivable	<u>\$ 3,877,471</u>		<u>\$ 3,420,172</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 72,893</u>		<u>\$ 74,698</u>	
Days of Net Revenue in Net Accounts Receivable at Year End	<u>53</u>		<u>46</u>	

**Analysis of Allowance for Doubtful Accounts**

	2014		2013	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 983,082		\$ 804,749	
Add:				
Provision for Doubtful Accounts	1,037,967	3.90 %	1,329,425	4.88 %
Recoveries Previously Written Off	285,091	1.07 %	235,833	0.86 %
	<u>1,323,058</u>		<u>1,565,258</u>	
Deduct:				
Accounts Written Off	(1,344,946)	5.06 %	(1,386,925)	5.09 %
Ending Balance	<u>\$ 961,194</u>		<u>\$ 983,082</u>	

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>INVENTORIES</b>		
Central Stores	\$ 106,464	\$ 92,028
Pharmacy	37,740	42,669
Retail Pharmacy	311,869	284,198
Other Departments	98,680	128,380
Clinics	68,528	66,123
Total Inventories	\$ 623,281	\$ 613,398
<b>PREPAID EXPENSES</b>		
Insurance	\$ 60,486	\$ 93,546
Lease on Bancroft Clinic	185,583	200,630
Other	94,590	140,709
Total Prepaid Expenses	\$ 340,659	\$ 434,885

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF BOND INVESTMENT TRANSACTIONS  
YEAR ENDED JUNE 30, 2014**

	Balance July 1, 2013	Invested	Redeemed	Balance June 30, 2014
Revenue Bond Designated Fund: Certificate of Deposit	\$ 274,225	\$ 2,326	\$ -	\$ 276,551
Total	<u>\$ 274,225</u>	<u>\$ 2,326</u>	<u>\$ -</u>	<u>\$ 276,551</u>

**INDEPENDENT AUDITORS' 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, 2014 and its discretely presented component unit Kossuth Regional Health Center Foundation, as of December 31, 2013, and have issued our report thereon dated October 17, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit 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 opinions 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.

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 responses as item 2014-1 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, 2014, 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 17, 2014

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

**Part I: Findings Related to the Financial Statements:**

**2014-1 Segregation of Duties**

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

**Condition:** 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, 2014**

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-14     **Certified Budget:** Health Center cash basis expenditures during the year ended June 30, 2014, did not exceed budgeted amounts.
- II-B-14     **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-14     **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-14     **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-14     **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-14     **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-14     **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.