

**KOSSUTH REGIONAL HEALTH CENTER**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2015 AND 2014**



**KOSSUTH REGIONAL HEALTH CENTER  
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**KOSSUTH REGIONAL HEALTH CENTER  
BOARD OF TRUSTEES  
JUNE 30, 2015 AND 2014**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jack Munch	Chairperson	December 31, 2019
Conley Nelson	Secretary	December 31, 2018
Thomas Geelan	Treasurer	December 31, 2019
Eileen Bormann	Member	December 31, 2018
John Cowin	Member	December 31, 2016
HEALTH CENTER OFFICIALS		
Scott Curtis	Chief Executive Officer	
Jason Feucht	Chief Financial Officer	
Daniel Myers	Controller	

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Kossuth Regional Health Center  
Algona, Iowa

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

We have audited the accompanying financial statements of Kossuth Regional Health Center (the Health Center) and its discretely presented component unit, Kossuth Region Health Center Foundation (the Foundation), which comprise the statements of net position as of June 30, 2015 and 2014 and statements of financial position as of December 31, 2014 and 2013, 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 Kossuth Regional Health Center as of June 30, 2015 and 2014 and its discretely presented component unit as of December 31, 2014 and 2013, 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**

*Emphasis of Matter*

During fiscal year ended June 30, 2015, Kossuth Regional Health Center, adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. As a result of the implementation of these standards Kossuth Regional Health Center, reported a restatement for the change in accounting principle (See Note 16). Our auditors' opinion was not modified with respect to the restatement.

*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 44 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 45 through 52 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.

The table of the board of trustees and health system officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees  
Kossuth Regional Health Center

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015, on our consideration of Kossuth Regional Health Center's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kossuth Regional Health Center's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
October 28, 2015

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**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2015 AND 2014**

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, 2015. 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, 2015 and 2014 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, 2014 and 2013)
  - Balance Sheets
  - Statement of Activities
  - Statements of Cash Flows

**FINANCIAL HIGHLIGHTS**

- Total assets increased by \$3,945,733 or 12%, in 2015, by \$838,831 or 2.5%, in 2014, and by \$1,127,107, or 3.5%, in 2013.
- Net position decreased by \$5,223,216 or -24.4%, in 2015, increased by \$1,236,899, or 6.1%, in 2014, and increased by \$1,224,548, or 6.5% in 2013.
- The Health Center reported operating income of \$831,764 in 2015, \$421,815 in 2014 and \$562,709 in 2013. This represents an increase in 2015 of \$409,949, a decrease of \$140,894 in 2014, and an increase in 2013 of \$117,206.

**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, 2015 AND 2014**

**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**

	2015	2014 (Not Restated)	2013 (Not Restated)
<b>ASSETS AND DEFERRED INFLOWS OF RESOURCES</b>			
Current Assets	\$ 17,335,878	\$ 14,578,549	\$ 15,763,400
Non-current Cash and Investments	1,365,963	2,010,255	131,706
Capital Assets, Net	19,124,240	17,303,883	17,170,943
Succeeding Year Property Tax Receivable	428,864	416,525	404,332
Total Assets	<u>38,254,945</u>	<u>34,309,212</u>	<u>33,470,381</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows	<u>1,971,749</u>	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 40,226,694</u>	<u>\$ 34,309,212</u>	<u>\$ 33,470,381</u>
<b>LIABILITIES</b>			
Total Current Liabilities	\$ 5,294,744	\$ 2,842,296	\$ 2,873,922
Net Pension Liability	5,356,184	-	-
Long-Term Debt (Less Current Maturities)	<u>10,024,545</u>	<u>9,653,016</u>	<u>10,031,651</u>
Total Liabilities	20,675,473	12,495,312	12,905,573
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenue - Succeeding Year Property Tax Receivable	416,525	416,525	404,332
Pension Related Deferred Inflows of Resources	<u>2,960,537</u>	-	-
Total Deferred Inflows of Resources	3,377,062	416,525	404,332
<b>Net Position:</b>			
Net Investment in Capital Assets	8,660,268	7,258,948	6,717,947
Restricted:			
Under Debt Agreement	278,493	276,551	274,225
Unrestricted	<u>7,235,398</u>	<u>13,861,876</u>	<u>13,168,304</u>
Total Net Position	<u>16,174,159</u>	<u>21,397,375</u>	<u>20,160,476</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 40,226,694</u>	<u>\$ 34,309,212</u>	<u>\$ 33,470,381</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2015 AND 2014**

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

Asset categories changing significantly during 2015, 2014 and 2013 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$921,794, or 18%, in 2015, decreased by \$268,260, or 4.9%, in 2014, and decreased by \$907,342, or 14.2% in 2013. Current Investments increased by \$19,169, or .35%, in 2015, by \$193,637, or 5.3%, in 2014, and \$542,843, or 16.6% in 2013. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2015 by \$2,152,574, or 56%, increased in 2014 by \$457,299, or 13.4%, and increased in 2013 by \$226,322, or 7.9%.

The current ratio (current assets divided by current liabilities) for 2015 was 3.36, for 2014 was 5.3 and for 2013 was 5.1. The current ratio is a measure of liquidity, providing an indication of the Health Center's ability to pay current liabilities: a high ratio number is preferred.

Other non-current asset categories changing significantly during 2015, 2014 and 2013 included non-current cash and investments. Non-current cash and investments decreased by \$644,292 or -32%, in 2015, increased by \$330,349 or 19.7%, in 2014 and by \$444,031 or 35.9% in 2013.

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**

	2015	2014 (Not Restated)	2013 (Not Restated)
Net Patient Service Revenue	\$ 28,108,868	\$ 26,605,906	\$ 27,264,673
Other Operating Revenue	4,115,302	3,775,609	3,535,154
Total Operating Revenues	<u>32,224,170</u>	<u>30,381,515</u>	<u>30,799,827</u>
Operating Expenses			
Salaries and Wages	10,712,800	9,891,635	9,709,859
Employee Benefits	3,163,765	3,368,114	3,039,351
Supplies and Miscellaneous	15,405,569	14,605,711	15,310,489
Depreciation	1,747,704	1,665,239	1,719,776
Interest	362,568	429,001	457,643
Total Operating Expenses	<u>31,392,406</u>	<u>29,959,700</u>	<u>30,237,118</u>
Operating Income	831,764	421,815	562,709
Due to Affiliated Organizations	-	-	(15,677)
Adjusted Operating Income	<u>831,764</u>	<u>421,815</u>	<u>547,032</u>
Non-Operating Income and Expenses	<u>657,908</u>	<u>643,908</u>	<u>545,664</u>
Excess of Revenues Over Expenses	1,489,672	1,065,723	1,092,696
Capital Grants and Contributions	<u>149,219</u>	<u>171,176</u>	<u>131,852</u>
Increases in Net Position	1,638,891	1,236,899	1,224,548
Net Position, Beginning of Year as Restated	<u>14,535,268</u>	<u>18,939,786</u>	<u>17,715,238</u>
Net Position, End of Year	<u>\$ 16,174,159</u>	<u>\$ 20,176,685</u>	<u>\$ 18,939,786</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2015 AND 2014**

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

Net patient service revenue made up 87% in 2015, 89% in 2014 and 89% in 2013 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 payers. Table 3 below shows the contractual adjustments that were recognized:

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	2015	2014	2013
Total Patient Service Revenues	\$ 42,462,982	\$ 39,216,995	\$ 40,193,448
Contractual Adjustments and Provision for Bad Debts	<u>14,354,114</u>	<u>12,611,089</u>	<u>12,928,775</u>
Net Patient Service Revenue	<u>\$ 28,108,868</u>	<u>\$ 26,605,906</u>	<u>\$ 27,264,673</u>
Contractual Adjustments and Bad Debt as a Percent of Total Patient Revenue	<u>33.80 %</u>	<u>32.16 %</u>	<u>32.17 %</u>

Total operating expenses increased \$1,432,706, or 5%, in 2015, decreased \$277,418, or .9%, in 2014, and increased \$781,025, or 2.7%, in 2013. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 46-47 of the audited financial statements for this information.

In 2015 Operating Income was \$831,764 or 2.6% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) compared to \$421,815, or 1.4%, in 2014 and \$562,709, or 1.8%, in 2013.

Other Operating Revenue increased by \$339,693, or 8.9%, in 2015, increased by \$240,455, or 6.8%, in 2014 and increased by \$8,154, or .2%, in 2013. Table 4 shows the detail for this line item.

**Table 4: Other Operating Revenues**

	2015	2014	2013
Cafeteria	\$ 135,553	\$ 120,771	\$ 115,611
Medical Records Fees	1,036	986	915
Rental Income	22,860	39,445	31,320
Grants	241,652	217,094	255,427
Retail Pharmacy	3,366,679	3,158,995	2,987,721
Miscellaneous	<u>347,522</u>	<u>238,318</u>	<u>144,160</u>
Total Other Revenues	<u>\$ 4,115,302</u>	<u>\$ 3,775,609</u>	<u>\$ 3,535,154</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2015 AND 2014**

**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 2015. Acute Patient Days increased by 178 days, or 10.5%, in 2015, compared to the decrease of 200 days, or 10.5%, in 2014 and a decrease of 181 days, or 8.7%, in 2013. Swing Bed Days increased in 2015 by 599 days, or 46.6%. Swing Bed Days decreased by 232 days, or 15.3% in 2014, increased by 512 days, or 50.9%, in 2013.

- Key patient statistics for the Health Center are as follows:
  - Acute Care patient days were 1,877 (10.5% increase)
  - Swing Bed patient days were 1,884 (46.6% increase)
  - Newborn births were 265 (2.7% increase)
  - Total outpatient visits were 27,589 (2.89% increase)
  - Total Clinic visits were 47,421 (1.8% increase)
  - Physical Therapy visits totaled 16,930 (10.15% increase)

**Table 5: Statistical Data**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Patient Days</b>			
Acute	1,877	1,699	1,899
Swing Bed	1,884	1,285	1,517
Newborn	265	258	231
Total	<u>4,026</u>	<u>3,242</u>	<u>3,647</u>
<b>Admissions</b>			
Acute	731	611	642
Swing Bed	199	127	150
Total	<u>930</u>	<u>738</u>	<u>792</u>
<b>Discharges</b>			
Acute	728	612	624
Swing Bed	206	122	144
Total	<u>934</u>	<u>734</u>	<u>768</u>
<b>Average Length of Stay, Acute</b>	<u>3.10</u>	<u>3.10</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>41.2%</u>	<u>32.7%</u>	<u>37.4%</u>

**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2015 AND 2014**

**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, 2015, the Health Center had \$19,124,240 invested in capital assets, net of accumulated depreciation. In 2015, the Health Center expended \$3,288,112 to purchase property and equipment. In 2014 and 2013, the Health Center purchased property and equipment costing \$1,796,448 and \$2,353,196, respectively.

**LONG-TERM DEBT**

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

**Table 6: Long-Term Debt**

	2015	2014	2013
USDA Notes Payable	\$ 528,750	\$ 600,000	\$ 712,008
Hospital Revenue Notes	9,935,222	9,444,935	9,740,988
Total Long-Term Debt	<u>\$ 10,463,972</u>	<u>\$ 10,044,935</u>	<u>\$ 10,452,996</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, 2015 AND 2014**

**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.

Hospital Revenue Bonds, Series 2014, were issued in the amount of \$2,877,375 on December 23, 2014. Proceeds of the bonds will be distributed by Iowa State Bank as they are needed for construction costs as described in Note 9. Entire balance of the bonds must be advanced by December 31, 2015. Payments of interest at rates of 3.90% began January 10, 2015 and are scheduled to be paid monthly until March 10, 2031. Principal payments are scheduled to begin April 10, 2016 and paid monthly through March 10, 2031.

**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 be 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's Implementation Team started the Cerner Community Works Software Build during the fiscal year. The Cerner Community Works Software is a Meaningful Use compliant application which will provide KRHC a fully integrated and improved EMR (electronic medical record) with enhanced revenue cycle, and patient flow capabilities. KRHC's Cerner Community Works go live date is August 31, 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 the fiscal year 2015, the Hospital completed its relocations and renovations of Patient Accounts, Information Technology, Health Information, and the Administrative Conference Room. KRHC also started its renovations to the Radiology Department. 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 2016 budget. Primary considerations require us to make educated determinations specific to the unknowns of health care reform and the continued fluctuations of the economy. Items listed below were also considered:

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

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**KOSSUTH REGIONAL HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2015 AND 2014**

**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, 2015 AND 2014**

	2015	2014 (Not Restated)
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 6,124,283	\$ 5,202,489
Investments	3,890,319	\$ 3,871,150
Patient Receivables, Less Allowance for Uncollectible Accounts of \$1,143,121 in 2015 and \$961,194 in 2014	6,030,045	3,877,471
Estimated Third-Party Payer Settlements Receivable	-	513,389
Succeeding Year Property Tax Receivable	428,864	416,525
Other Receivables	331,464	150,110
Supplies	623,622	623,281
Prepaid Expenses	336,145	340,659
Total Current Assets	17,764,742	14,995,074
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Expenditures	50,009	-
Internally Designated for Hospice Expenditures	128,912	167,428
Internally Designated for Health Benefits	908,549	1,566,276
Restricted Under Debt Agreement	278,493	276,551
Total Noncurrent Cash and Investments	1,365,963	2,010,255
<b>CAPITAL ASSETS, NET</b>	19,124,240	17,303,883
Total Assets	38,254,945	34,309,212
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related Deferred Outflows	1,971,749	-
Total Assets and Deferred Outflows of Resources	\$ 40,226,694	\$ 34,309,212

See accompanying Notes to Financial Statements.

<b>LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>2015</u>	<u>2014 (Not Restated)</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 439,427	\$ 391,919
Accounts Payable - Trade	396,559	425,421
Accounts Payable - Construction	345,816	101,599
Due to Affiliated Organization	776,952	248,649
Estimated Health Claims Payable	344,303	273,311
Accrued Expenses	1,585,536	1,396,045
Other Liabilities	150,377	5,352
Estimated Third-Party Settlements	1,255,774	-
Total Current Liabilities	<u>5,294,744</u>	<u>2,842,296</u>
<b>NET PENSION LIABILITY</b>	5,356,184	-
<b>LONG-TERM DEBT, Less Current Maturities</b>	<u>10,024,545</u>	<u>9,653,016</u>
Total Liabilities	20,675,473	12,495,312
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Revenue - Succeeding Year Property Tax Receivable	416,525	416,525
Pension Related Deferred Inflows of Resources	2,960,537	-
Total Deferred Inflows of Resources	<u>3,377,062</u>	<u>416,525</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	8,660,268	7,258,948
Restricted - Expendable Under Bond Agreement	278,493	276,551
Unrestricted	7,235,398	13,861,876
Total Net Position	<u>16,174,159</u>	<u>21,397,375</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 40,226,694</u>	<u>\$ 34,309,212</u>

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2015 AND 2014**

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 308,790	\$ 338,024
Unconditional Promises to Give	52,638	69,346
Total Current Assets	361,428	407,370
<b>NONCURRENT ASSETS</b>		
Cash and Investments	3,081,236	2,704,824
Unconditional Promises to Give	1,418	15,800
Total Noncurrent Assets	3,082,654	2,720,624
Total Assets	\$ 3,444,082	\$ 3,127,994
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Grants Payable	\$ 112,892	\$ 240
<b>NET ASSETS</b>		
Unrestricted	3,274,422	3,042,608
Temporarily Restricted	56,768	85,146
Total Net Assets	3,331,190	3,127,754
Total Liabilities and Net Assets	\$ 3,444,082	\$ 3,127,994

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$990,217 in 2015 and \$1,037,967 in 2014	\$ 28,108,868	\$ 26,605,906
Other Operating Revenue	4,115,302	3,775,609
Total Operating Revenues	32,224,170	30,381,515
<b>OPERATING EXPENSES</b>		
Salaries and Wages	10,712,800	9,891,635
Employee Benefits	3,163,765	3,368,114
Supplies and Miscellaneous	15,405,569	14,605,711
Depreciation	1,747,704	1,665,239
Interest	362,568	429,001
Total Operating Expenses	31,392,406	29,959,700
<b>OPERATING INCOME</b>	831,764	421,815
<b>NON-OPERATING REVENUE</b>		
Investment Income	39,461	36,986
Tax Apportionments	420,760	406,582
Dialysis Unit Rental Income (Net)	83,352	76,377
Noncapital Contributions and Grants	48,902	122,232
Gain on Sale of Property and Equipment	35,732	1,731
Net Non-Operating Income	657,908	643,908
<b>EXCESS OF REVENUES OVER EXPENSES</b>	1,489,672	1,065,723
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	149,219	171,176
<b>INCREASE IN NET POSITION</b>	1,638,891	1,236,899
Net Position - Beginning of Year as Restated	14,535,268	20,160,476
<b>NET POSITION - END OF YEAR</b>	\$ 16,174,159	\$ 21,397,375

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2014	2013
<b>REVENUES</b>		
Contributions	\$ 198,168	\$ 172,920
Investment Income	216,955	522,866
Net Assets Released from Restrictions	31,090	106,585
Total Revenues	446,213	802,371
<b>EXPENSES</b>		
Fundraising	19,933	22,849
Contributions to Kossuth Regional Health Center	151,220	184,557
Supplies and Other Expenses	43,246	20,738
Total Expenses	214,399	228,144
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	231,814	574,227
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	2,712	-
Net Assets Released from Restriction	(31,090)	(106,585)
<b>DECREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	(28,378)	(106,585)
<b>INCREASE IN NET ASSETS</b>	203,436	467,642
Net Assets - Beginning of Year	3,127,754	2,660,112
<b>NET ASSETS - END OF YEAR</b>	\$ 3,331,190	\$ 3,127,754

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 27,725,457	\$ 26,110,659
Cash Paid to Employees	(13,616,082)	(13,032,806)
Cash Paid to Suppliers	(15,285,233)	(14,601,866)
Other Receipts and Payments, Net	4,462,251	3,701,495
Change in Pension Liability	(517,135)	-
Net Cash Provided by Operating Activities	2,769,258	2,177,482
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Contributions	48,902	122,232
Dialysis Unit Rental Income	83,352	76,377
Tax Appropriations	408,421	406,582
Miscellaneous	29,701	-
Net Cash Provided by Non-Capital Financing Activities	570,376	605,191
<b>CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(3,288,112)	(1,898,047)
Proceeds from Issuance of Long-Term Debt	816,208	-
Principal Payments on Long-Term Debt	(397,171)	(408,061)
Interest Payments on Long-Term Debt	(362,568)	(429,001)
Capital Grants and Contributions	149,219	171,176
Net Cash Used by Capital and Related Financing Activities	(3,082,424)	(2,563,933)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	39,461	36,986
Sale of Investments	174,468	-
Purchase of Investments	(193,637)	(193,637)
Net Change in Noncurrent Cash and Investments	644,292	(330,349)
Net Cash Provided (Used) by Investing Activities	664,584	(487,000)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	921,794	(268,260)
Cash and Cash Equivalents - Beginning of Year	5,202,489	5,470,749
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 6,124,283	\$ 5,202,489

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 831,764	\$ 421,815
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation and Amortization	1,747,704	1,665,239
Interest Expense Considered Capital and Related Financing Activity	362,568	429,001
(Increase) Decrease in:		
Patient Receivables	(2,152,574)	(457,299)
Other Receivables	(181,354)	(27,068)
Supplies	(341)	(9,883)
Prepaid Expenses	4,514	94,226
Third-Party Payer Settlements Receivable	1,769,163	(37,948)
Increase (Decrease) in:		
Accounts Payable	116,163	(80,498)
Accrued Expenses	189,491	227,096
Due to Affiliated Organization	528,303	(47,046)
Estimated Health Claims Payable	70,992	(153)
Pension Liability	(517,135)	-
Net Cash Provided by Operating Activities	\$ 2,769,258	\$ 2,177,482

See accompanying Notes to Financial Statements.

**KOSSUTH REGIONAL HEALTH CENTER FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Donor and Contributors	\$ 229,258	\$ 279,505
Interest Received	139,630	85,857
Cash Paid to Suppliers	(63,179)	(43,587)
Payments to Kossuth Regional Health Center	(38,568)	(182,159)
Net Cash Provided by Operating Activities	267,141	139,616
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(813,684)	(2,078,920)
Proceeds from Sale of Investments	517,309	1,955,652
Net Cash Used by Investing Activities	(296,375)	(123,268)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(29,234)	16,348
Cash and Cash Equivalents - Beginning of Year	338,024	321,676
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 308,790	\$ 338,024
<b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 203,436	\$ 467,642
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Investments	(53,529)	1,731
Change in Beneficial Interest	(2,179)	-
Realized Gain on Sale of Investments, Reinvested Capital Gains and Dividends on Investments	(24,329)	(438,740)
Change in Unconditional Promises to Give	31,090	106,585
Increase (Decrease) in Grants Payable	112,652	2,398
Net Cash Provided by Operating Activities	\$ 267,141	\$ 139,616

See accompanying Notes to Financial Statements.

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**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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.

Kossuth Regional Health Center Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. 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.

**Tax Exempt Status**

The Health Center is exempt from income taxes as a political subdivision.

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, 2015 AND 2014**

**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 – Health Center**

The statement of net position displays the Health Center's assets, deferred outflows of resources, 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.

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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**Basis of Presentation-Foundation**

Contributions received are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**Unrestricted** - Those resources over which the Board of Directors has discretionary control.

**Temporarily Restricted** - Those resources subject to donor imposed restrictions that will be satisfied by actions of the Corporation or passage of time.

**Permanently Restricted** - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources have permitted the Foundation to use the income earned for unrestricted purposes.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions. Temporarily restricted net assets at December 31, 2014 and 2013, consist of capital campaign contributions and interests in the net assets of other foundations.

**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, 2015 and 2014, the allowance for uncollectible accounts was approximately \$1,143,000 and \$961,000, respectively.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**Property Tax Receivable**

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**Inventories**

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

**Noncurrent Cash and Investments**

Noncurrent cash and investments 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

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**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, 2015 and 2014.

**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 consist of succeeding year property tax receivable.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

**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.

**Net Patient Service Revenue**

The Health Center has agreements with third-party payers 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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**Net Patient Service Revenue (Continued)**

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers 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.

**Fair Value Measurements**

The Foundation has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**Fair Value Measurements (Continued)**

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

**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.

**Reclassifications**

Certain items in the 2014 financial statements were reclassified for comparison purposes with the 2015 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 \$7,235,398 and \$13,861,876 of unrestricted net position at June 30, 2015 and 2014, 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.

	<u>2015</u>	<u>2014</u>
For Capital Expenditures	\$ 50,009	\$ -
For Hospice Expenditures	128,912	167,428
For Health Benefits	908,549	1,566,276
Total Designated Net Position	<u>\$ 1,087,470</u>	<u>\$ 1,733,704</u>

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 3 NET PATIENT SERVICE REVENUE**

The health center has agreements with third-party payers that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payers 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, 2013.

**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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Total Patient Service Revenue	\$ 42,462,982	\$ 39,216,995
Revenue Adjustments:		
Medicare	6,542,314	5,406,648
Medicaid	1,457,807	1,124,397
Provision for Bad Debt	990,217	1,037,967
Other Allowances and Adjustments	<u>5,363,776</u>	<u>5,042,077</u>
Total Contractual Adjustments and Bad Debts	<u>14,354,114</u>	<u>12,611,089</u>
Net Patient Service Revenue	<u>\$ 28,108,868</u>	<u>\$ 26,605,906</u>

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM**

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

The Health System initially demonstrated meaningful use during the 90-day period ended September 30, 2011, and has received incentive payments in prior years. The Health System completed additional expenditures for EHR and will submit costs for reimbursement subsequent to year end. The final amounts of payments will be determined based on information from the Health Centers' Medicare cost reports. Events could occur that would cause the final payment to differ materially upon final settlement.

**NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES**

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

**NOTE 6 UNCONDITIONAL PROMISES TO GIVE**

KRHC Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a discount interest rate of 3.25%. Prior years were computed using a discount interest rate of 3.25%.

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**NOTE 6 UNCONDITIONAL PROMISES TO GIVE (CONTINUED)**

The following is a summary of unconditional promises to give as of December 31, 2014 and 2013:

	2014	2013
Less than One Year	\$ 62,364	\$ 79,296
One to Five Years	1,930	18,970
	64,294	98,266
Less: Discount	(4,195)	(3,883)
Less: Allowance for Uncollectible Promises to Give	(6,043)	(9,237)
Unconditional Promises to Give, Net	\$ 54,056	\$ 85,146

**NOTE 7 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Health Center at June 30, 2015 and 2014 are the following:

	2015	2014
Receivable from Patients and Their Insurance Carriers	\$ 3,807,140	\$ 2,972,496
Receivable from Medicare	2,885,680	1,626,293
Receivable from Medicaid	480,346	239,876
Total Patient Receivables	7,173,166	4,838,665
Less: Allowance for Doubtful Accounts	(1,143,121)	(961,194)
Patient Receivables, Net	\$ 6,030,045	\$ 3,877,471

**NOTE 8 DEPOSITS AND INVESTMENTS**

The Health Center's deposits in banks at June 30, 2015 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, 2015. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

At June 30, 2015 and 2014, the Health Center's carrying amounts of cash and investments are as follows:

	2015	2014
Cash and Cash Equivalents	\$ 6,124,283	\$ 5,202,489
Investments	3,890,319	3,871,150
Noncurrent Cash and Investments:		
Internally Designated for Hospice Expenditures	128,912	167,428
Internally Designated for Health Benefits	908,549	1,566,276
Restricted Under Debt Agreement	278,493	276,551
Total	<u>\$ 11,330,556</u>	<u>\$ 11,083,894</u>

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

**Foundation Investments**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation measures fair value refer to Note 1 – Summary of Significant Accounting Principles. The following table presents the fair value hierarchy for the balances of the financial assets of the Foundation measured at fair value on a recurring basis as of December 31, 2014 and 2013:

	2015	2014
Cash and Cash Equivalents	\$ 6,124,283	\$ 5,202,489
Investments	3,890,319	3,871,150
Noncurrent Cash and Investments:		
Internally Designated for Hospice Expenditures	128,912	167,428
Internally Designated for Health Benefits	908,549	1,566,276
Restricted Under Debt Agreement	278,493	276,551
Total	<u>\$ 11,330,556</u>	<u>\$ 11,083,894</u>

These investments are carried at fair value. Unrealized holding gains (losses) at December 31, 2014 and 2013 amounted to \$53,529 and (\$4,443) respectively.

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Foundation Investments (Continued)**

Investment income for the Foundation is comprised of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Investment Income (Loss):		
Interest and Dividend Income	\$ 139,097	\$ 88,569
Realized Gains	24,329	438,740
Changes in Unrealized Gains (Losses)	53,529	(4,443)
Total	<u>\$ 216,955</u>	<u>\$ 522,866</u>

**NOTE 9 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2015 and 2014 are as follows:

	Balance June 30, 2014	Additions	(Retirements)	Transfers	Balance June 30, 2015
<b>Capital Assets</b>					
Land and Land Improvements	\$ 684,124	\$ -	\$ -	\$ -	\$ 684,124
Building	21,696,528	-	-	494,693	22,191,221
Fixed Equipment	4,361,793	185,353	-	-	4,547,146
Major Movable Equipment	6,336,675	399,228	(110,725)	-	6,625,178
Construction in Progress	45,232	3,001,932	-	(494,693)	2,552,471
Totals	<u>33,124,352</u>	<u>3,586,513</u>	<u>(110,725)</u>	<u>-</u>	<u>36,600,140</u>
<b>Accumulated Depreciation</b>					
Land Improvements	471,818	23,679	-	-	495,497
Building	7,404,410	1,008,430	-	-	8,412,840
Fixed Equipment	2,845,009	300,947	-	-	3,145,956
Major Movable Equipment	5,099,232	414,648	(92,273)	-	5,421,607
Totals	<u>15,820,469</u>	<u>\$ 1,747,704</u>	<u>\$ (92,273)</u>	<u>\$ -</u>	<u>17,475,900</u>
	<u>\$ 17,303,883</u>				<u>\$ 19,124,240</u>

	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	<u>31,537,616</u>	<u>1,798,311</u>	<u>(211,575)</u>	<u>-</u>	<u>33,124,352</u>
<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	<u>14,366,673</u>	<u>\$ 1,560,934</u>	<u>\$ (107,138)</u>	<u>\$ -</u>	<u>15,820,469</u>
	<u>\$ 17,170,943</u>				<u>\$ 17,303,883</u>

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 9 CAPITAL ASSETS (CONTINUED)**

During 2015 the Hospital capitalized remodeling costs for nursery, lab, patient financial services, and IT and conference room costs. Costs capitalized were approximately \$495,000. During 2014 the Hospital completed an Elevator, Dialysis, Occupational Therapy, and Sleep Study project, totaling approximately \$1.6 million in construction costs.

Construction in progress (CIP) at June 30, 2015, consists mainly of the Cerner Community Works Project (Electronic Health Records). The project is expected to be completed August of 2015. There are minimal costs related to this project at year end. Facility is also working on a Master Facility Project, but is in the early stages and no costs are estimated as of June 30, 2015.

**NOTE 10 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2015 and 2014 is as follows:

	Balance June 30, 2014	Additions	Payments	Balance June 30, 2015	Amounts Due Within One Year
USDA/Cornbelt Loan 2012	\$ 360,000	\$ -	\$ (26,250)	\$ 333,750	\$ 45,000
Revenue Note Series 2009A	8,319,133	-	(287,070)	8,032,063	298,468
Revenue Note Series 2009B	1,125,802	-	(38,851)	1,086,951	40,391
USDA/Cornbelt Loan 2010	240,000	-	(45,000)	195,000	45,000
Revenue Note Series 2014C	-	816,208	-	816,208	10,568
Total Long-Term Debt	<u>\$ 10,044,935</u>	<u>\$ 816,208</u>	<u>\$ (397,171)</u>	<u>\$ 10,463,972</u>	<u>\$ 439,427</u>

	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>

The terms and due dates of the Health Center's long-term debt at June 30, 2015 and 2014, are as follows:

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 10 LONG TERM DEBT (CONTINUED)**

**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.

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**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.

**Hospital Revenue Note – Series 2014C**

On December 23, 2014 the Health Center entered into a loan agreement with Iowa State Bank in the amount of \$2,877,375. Proceeds of the note are to be distributed by Iowa State Bank as they are needed for construction costs as described in Note 9. Entire balance of note must be advanced by December 31, 2015. Payments of interest at rates of 3.90% began January 10, 2015, and are scheduled to be paid monthly until March 10, 2031. Principal payments are scheduled to begin April 10, 2016, and paid monthly through March 10, 2031.

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

Years Ending June 30,	Long-Term Debt	
	Principal	Interest
2016	\$ 439,427	\$ 357,946
2017	485,623	368,412
2018	501,330	352,703
2019	517,662	336,462
2020	534,642	322,194
2021-2025	2,581,222	1,327,843
2026-2030	3,040,320	1,089,611
2031-2035	2,363,746	176,650
Total	<u>\$ 10,463,972</u>	<u>\$ 4,331,821</u>

**NOTE 11 PENSION AND RETIREMENT BENEFITS**

**Plan Description**

The Health System 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  
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**NOTE 11 PENSION AND RETIREMENT (CONTINUED)**

**Plan Description (Continued)**

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**Pension Benefits**

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefits includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for serviced earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

**Disability and Death Benefits**

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 11 PENSION AND RETIREMENT (CONTINUED)**

**Contributions**

Effective July 1, 2012, as a result of the 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$887,972.

**Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

At June 30, 2015, the Hospital reported a liability of \$5,356,184 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014 the Hospital's collective proportionate was .00132347 percent which was a decrease of .002787 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$370,837. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 847,397	\$ -
Changes of Assumptions	236,381	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,960,537
Hospital Contributions Subsequent to the Measurement Date	887,971	-
	<u>\$ 1,971,749</u>	<u>\$ 2,960,537</u>

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

**Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)**

\$887,972 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Amount
2016	\$ (471,904)
2017	(471,904)
2018	(471,904)
2019	(471,904)
2020	10,856
Total	\$ (1,876,760)

There were no non-employer contributing entities at IPERS.

**Actuarial Assumptions**

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compound annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experiences studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

**KOSSUTH REGIONAL HEALTH CENTER  
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**NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

**Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15.00	6.76
Private Equity	13.00	11.34
Real Estate	8.00	3.52
Core Plus Fixed Income	28.00	2.06
Credit Opportunities	5.00	3.67
TIPS	5.00	1.92
Other Real Assets	2.00	6.27
Cash	1.00	(0.69)
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)**

**Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)**

	1% Decrease (6.5%)	1% Decrease (7.5%)	1% Decrease (8.5%)
Hospital's proportionate share of the net pension liability	10,120,359	5,214,034	1,344,727

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org)

**Payables to the Pension Plan**

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$148,525 for legally required employer contributions which had been withheld from employee wages but not yet remitted to IPERS.

**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 \$6,003,000 and \$6,128,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014.

**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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**Due to and from Affiliated Organization**

As of June 30, 2015 and 2014, the Health Center's records reflect a due to MMC-NI of \$776,952 and \$248,649, respectively, for the various services related to these agreements.

Other Related Organizations –

**Auxiliary**

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

**Foundation**

The Kossuth County Hospital Foundation was established to solicit funds and make contributions to the Kossuth Regional Health Center. The Foundation made contributions to the Health Center during the years ended June 30, 2015 and 2014 of \$149,219 and \$171,176, 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.

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 14 FUNCTIONAL EXPENSES**

Program, general, and fundraising expenses for the Foundation for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Program	\$ 151,220	\$ 184,557
Management and General	43,246	20,738
Fundraising	19,933	22,849
Total	\$ 214,399	\$ 228,144

**NOTE 15 GRANTS PAYABLE**

Grant expenses are recognized at the date of a formal unconditional promise to give. Conditional grants are recognized as expense in the period in which the grantee meets the terms of the conditions. The Foundation has \$112,892 and \$240 of grants payable for the years ended December 31, 2014 and 2013.

**NOTE 16 CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2015, Governmental Accounting Standards Board Statement, No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*, was implemented by the Hospital. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state a local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Stands Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Net Position
Net Position June 30, 2014 as Previously Reported	\$ 21,397,375
Net Pension Liability at June 30, 2014	(7,651,293)
Deferred Outflows of Resources Related to Contributions Made After the July 30, 2013 Measurement Date	789,186
Net Position July 1, 2014, as Restated	\$ 14,535,268

**KOSSUTH REGIONAL HEALTH CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 17 SUBSEQUENT EVENT**

Subsequent to year end the Health Center entered into a loan agreement in the amount of \$1,300,000 with Iowa State Bank. Iowa State Bank did not advance any funds from the loan as of June 30, 2015. Proceeds of the note are to be distributed as needed for capital improvement projects to the Health Center. Principal payments are scheduled to begin February of 2016 through January of 2021. Interest payments at 2.9% are scheduled to be paid monthly beginning In July of 2015 through January of 2021.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**KOSSUTH REGIONAL HEALTH CENTER  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
 AND CHANGES IN NET POSITION  
 BUDGET AND ACTUAL (CASH BASIS)  
 YEAR ENDED JUNE 30, 2015**

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	\$ 420,760	\$ (12,339)	\$ 408,421	\$ 406,934	\$ 1,487
Estimated Other Revenues/Receipts	<u>32,610,537</u> 33,031,297	<u>744,014</u> 731,675	<u>33,354,551</u> 33,762,972	<u>33,220,604</u> 33,627,538	<u>133,947</u> 135,434
Expenses/Disbursements Net	<u>31,392,406</u> 1,638,891	<u>2,073,895</u> (1,342,220)	<u>33,466,301</u> 296,671	<u>35,261,653</u> (1,634,115)	<u>1,795,352</u> 1,930,786
Balance Beginning of Year	<u>14,535,268</u>	<u>(3,451,374)</u>	<u>11,083,894</u>	<u>9,243,316</u>	<u>1,840,578</u>
Balance End of Year	<u>\$ 16,174,159</u>	<u>\$ (4,793,594)</u>	<u>\$ 11,380,565</u>	<u>\$ 7,609,201</u>	<u>\$ 3,771,364</u>

The board of trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A of the Code of Iowa. The board of trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

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**OTHER SUPPLEMENTARY INFORMATION**

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2015 AND 2014**

	TOTAL	
	2015	2014
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 2,389,839	\$ 1,967,582
Swing Bed	801,212	539,280
Intermediate Care	-	263
Nursery	173,938	167,616
Total Patient Care Service Revenue	<u>3,364,989</u>	<u>2,674,741</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating and Recovery Room	2,258,049	2,288,245
Labor and Delivery Room	116,336	102,764
Anesthesiology	1,061,203	1,035,990
Radiology	2,261,910	2,189,592
Laboratory	4,038,763	3,849,000
Respiratory Therapy	456,751	268,860
Cardiac Rehabilitation	277,673	268,414
Physical Therapy	2,795,248	2,596,255
Occupational Therapy	517,790	349,876
Speech Therapy	-	6,820
Electrocardiology	165,627	139,044
Scans	3,910,341	3,530,085
Medical and Surgical Supplies	1,387,753	1,195,640
Pharmacy	3,882,323	3,932,385
Intravenous Therapy	191,010	172,429
Emergency Room	2,420,224	2,126,348
Home Health	912,355	778,643
Hospice	675,258	1,175,883
Urology	56,111	75
Clinical Operations	11,630,115	10,545,231
Immunizations	24,463	6,407
Diabetic Education	100,366	65,104
Total Other Professional Service Revenue	<u>39,139,669</u>	<u>36,623,090</u>
Gross Patient Charges	42,504,658	39,297,831
Charity Care	<u>(41,676)</u>	<u>(80,836)</u>
Total Patient Service Revenues	42,462,982	39,216,995
Adjustments to Patient Services Revenues	<u>(14,354,114)</u>	<u>(12,611,089)</u>
<b>NET PATIENT SERVICE REVENUES</b>	<u><u>\$ 28,108,868</u></u>	<u><u>\$ 26,605,906</u></u>

INPATIENT		OUTPATIENT	
2015	2014	2015	2014
\$ 1,721,218	\$ 1,321,144	668,621	\$ 646,438
801,212	539,280	-	-
-	263	-	-
173,938	167,616	-	-
<u>2,696,368</u>	<u>2,028,303</u>	<u>668,621</u>	<u>646,438</u>
218,336	171,793	2,039,713	2,116,452
112,262	101,844	4,074	920
287,744	222,382	773,459	813,608
109,260	75,652	2,152,650	2,113,940
572,061	442,656	3,466,702	3,406,344
393,142	215,005	63,609	53,855
-	-	277,673	268,414
694,660	430,863	2,100,588	2,165,392
357,088	231,102	160,702	118,774
-	3,240	-	3,580
10,979	8,400	154,648	130,644
79,093	164,488	3,831,248	3,365,597
453,417	330,862	934,336	864,778
1,188,199	999,566	2,694,124	2,932,819
72,751	58,126	118,259	114,303
27,084	24,802	2,393,140	2,101,546
-	-	912,355	778,643
128,121	195,290	547,137	980,593
704	75	55,407	-
-	-	11,630,115	10,545,231
-	-	24,463	6,407
-	-	100,366	65,104
<u>4,704,901</u>	<u>3,676,146</u>	<u>34,434,768</u>	<u>32,946,944</u>
<u>\$ 7,401,269</u>	<u>\$ 5,704,449</u>	<u>\$ 35,103,389</u>	<u>\$ 33,593,382</u>

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**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES  
AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 6,542,314	\$ 5,406,648
Contractual Adjustments - Medicaid	1,457,807	1,124,397
Provision for Bad Debts	990,217	1,037,967
Other Allowances and Adjustments	5,363,776	5,042,077
Total Adjustments	\$ 14,354,114	\$ 12,611,089
<b>OTHER REVENUES</b>		
Cafeteria and Meals	\$ 135,553	\$ 120,771
Medical Records Fees	1,036	986
Rental Income	22,860	39,445
Grants	241,652	217,094
Retail Pharmacy	3,366,679	3,158,995
Miscellaneous	347,522	238,318
Total Other Revenues	\$ 4,115,302	\$ 3,775,609

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2015 AND 2014**

	TOTAL	
	2015	2014
Employee Benefits	\$ 3,163,765	\$ 3,368,114
Administrative and General	3,470,863	2,951,720
Operation of Plant	679,485	697,696
Laundry and Linen	57,895	63,676
Housekeeping	274,462	265,240
Sleep	14,937	-
Dietary	456,432	413,481
Medical Records	402,360	373,322
Electronic Health Records	594,848	639,003
Adults and Pediatrics	2,244,514	2,138,445
Nursery	16,553	13,473
Operating and Recovery Room	780,894	779,441
Labor and Delivery Room	50,831	65,638
Anesthesiology	392,529	407,505
Radiology	568,490	554,991
Laboratory	1,091,494	1,193,279
Blood	20,188	83,641
Respiratory Therapy	157,490	95,450
Physical Therapy	857,801	782,409
Occupational Therapy	207,678	146,570
Speech Therapy	-	1,251
Acupuncture	37,644	28,313
Electrocardiology	11,943	4,532
Scans	732,991	691,502
Medical and Surgical Supplies	317,020	211,347
Pharmacy and Intravenous Therapy	933,566	969,756
Cardiac Rehabilitation	67,144	67,721
Clinics	6,709,591	6,186,182
Emergency	895,212	908,158
Home Health	1,110,215	1,033,792
Hospice	218,327	252,441
Retail Pharmacy	2,680,728	2,440,530
Rejuvenation Clinic	64,244	36,841
Depreciation Expense	1,747,704	1,665,239
Interest Expense	362,568	429,001
Total	<u>\$ 31,392,406</u>	<u>\$ 29,959,700</u>

SALARIES		OTHER	
2015	2014	2015	2014
\$ -	\$ -	\$ 3,163,765	\$ 3,368,114
1,208,799	1,061,006	2,262,064	1,890,714
244,393	220,997	435,092	476,699
-	-	57,895	63,676
220,758	218,856	53,704	46,384
14,937	-	-	-
267,232	258,506	189,200	154,975
304,153	281,912	98,207	91,410
86,604	101,069	508,244	537,934
1,918,730	1,838,546	325,784	299,899
9,543	10,940	7,010	2,533
558,877	549,116	222,017	230,325
48,636	57,894	2,195	7,744
250,676	-	141,853	407,505
353,886	328,331	214,604	226,660
415,354	393,377	676,140	799,902
20,188	14,143	-	69,498
15,098	18,403	142,392	77,047
209,512	182,309	648,289	600,100
178,137	111,898	29,541	34,672
-	1,251	-	-
34,363	26,445	3,281	1,868
10,947	2,099	996	2,433
145,868	143,502	587,123	548,000
-	-	317,020	211,347
39,182	41,712	894,384	928,044
28,578	28,351	38,566	39,370
2,645,093	2,559,420	4,064,498	3,626,762
193,386	190,585	701,826	717,573
802,316	766,974	307,899	266,818
145,309	176,160	73,018	76,281
328,266	302,169	2,352,462	2,138,361
13,979	5,664	50,265	31,177
-	-	1,747,704	1,665,239
-	-	362,568	429,001
<u>\$ 10,712,800</u>	<u>\$ 9,891,635</u>	<u>\$ 20,679,606</u>	<u>\$ 20,068,065</u>

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE  
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2015 AND 2014**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2015		2014	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 4,152,792	45%	\$ 3,223,442	50%
31-60 Days	2,405,608	26%	1,341,158	21%
61-90 Days	1,317,400	14%	522,436	8%
91 Days and Over	1,434,654	15%	1,309,269	21%
Total Accounts Receivable	<u>9,310,454</u>	100%	<u>6,396,305</u>	100%
<b>ALLOWANCES</b>				
Contractual -				
Medicare	(756,286)		(601,027)	
Medicaid	(312,833)		(222,279)	
Other	(1,068,169)		(734,334)	
Doubtful Accounts	<u>(1,143,121)</u>		<u>(961,194)</u>	
Net Accounts Receivable	<u>\$ 6,030,045</u>		<u>\$ 3,877,471</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 77,011</u>		<u>\$ 72,893</u>	
Days of Net Revenue in Net Accounts Receivable at Year End	<u>78</u>		<u>53</u>	

**Analysis of Allowance for Doubtful Accounts**

	2015		2014	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 961,194		\$ 804,749	
Add:				
Provision for Doubtful Accounts	990,217	3.52 %	1,037,967	3.90 %
Recoveries Previously Written Off	260,231	0.93 %	285,091	1.07 %
	<u>1,250,448</u>		<u>1,323,058</u>	
Deduct:				
Accounts Written Off	<u>(1,068,521)</u>	3.80 %	<u>(1,166,613)</u>	4.38 %
Ending Balance	<u>\$ 1,143,121</u>		<u>\$ 961,194</u>	

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>INVENTORIES</b>		
Central Stores	\$ 111,948	\$ 106,464
Pharmacy	52,043	37,740
Retail Pharmacy	323,977	311,869
Other Departments	61,581	98,680
Clinics	<u>74,073</u>	<u>68,528</u>
Total Inventories	<u>\$ 623,622</u>	<u>\$ 623,281</u>
<b>PREPAID EXPENSES</b>		
Insurance	\$ 70,362	\$ 60,486
Lease on Bancroft Clinic	173,043	185,583
Other	<u>92,740</u>	<u>94,590</u>
Total Prepaid Expenses	<u>\$ 336,145</u>	<u>\$ 340,659</u>

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF BOND INVESTMENT TRANSACTIONS  
YEAR ENDED JUNE 30, 2015**

	Balance July 1, 2014	Invested	Redeemed	Balance June 30, 2015
Revenue Bond Designated Fund: Certificate of Deposit	\$ 276,551	\$ 1,942	\$ -	\$ 278,493
Total	<u>\$ 276,551</u>	<u>\$ 1,942</u>	<u>\$ -</u>	<u>\$ 278,493</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kossuth Regional Health Center (Health Center), as of and for the year ended June 30, 2015, and its discretely presented component unit, Kossuth Regional Health Center Foundation, as of December 31, 2014, which comprise the statements of net position and statements of financial position as of June 30, 2015 and 2014 and December 31, 2014 and 2013, respectively, and the related statements of revenues, expenses, and changes in net position, activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

**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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-1 and 2015-2 to be significant deficiencies.

### **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*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2015, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Responses to Findings**

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

### **Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Austin, Minnesota  
October 28, 2015

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

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

**2015-1 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, 2015**

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

**2015-2 Proposed Audit Adjustments**

**Criteria:** The Health Center must be able to prevent or detect a misstatement in the annual financial statements.

**Condition:** A misstatement of the financial statements could occur.

**Cause:** The Health Center relied on the audit firm to propose audit adjustments to reconcile various accounts at year end in particular the restatement to net position. All proposed audit adjustments are approved by management.

**Effect:** A material misstatement of the financial statements could occur.

**Recommendation:** We recommend that the Health Center accounting personnel review final account balances and consult with the auditors throughout the year regarding accounts and adjustments as needed.

**Response:** Management will consult with the audit firm as needed during the year in order to adjust accounts to appropriately reconcile accounts.

**Conclusion:** Response accepted.

**KOSSUTH REGIONAL HEALTH CENTER  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED JUNE 30, 2015**

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

- II-A-15     **Certified Budget:** Health Center cash basis expenditures during the year ended June 30, 2015, did not exceed budgeted amounts.
- II-B-15     **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-15     **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-15     **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-15     **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-15     **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-15     **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.

