

**REGIONAL HEALTH SERVICES
OF HOWARD COUNTY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2012 AND 2011

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Willis	Chairperson	December 31, 2014
John Wacha, III	Vice Chairperson	December 31, 2016
Diana Sobolik	Secretary	December 31, 2016
Allen Moudry	Treasurer	December 31, 2012
Connie McGrane	Member	December 31, 2012
Thais Folta	Member	December 31, 2012
David Hartberg	President/Chief Executive Officer (resigned June 2012)	
Brenda Moser	Chief Financial Officer	

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Regional Health Services of Howard County
Cresco, Iowa

We have audited the accompanying balance sheet of Regional Health Services of Howard County (RHSHC) and the related statement of financial position of its discretely presented component unit, Regional Health Services Foundation as of June 30, 2012 and the related statements of revenues, expenses and changes in net assets (Health Services), activities and changes in net assets (Foundation) and cash flows for the year then ended. These financial statements are the responsibility of RHSHC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Regional Health Services of Howard County as of June 30, 2011 were audited by other auditors whose report dated September 22, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Regional Health Services of Howard County and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

Board of Trustees
Regional Health Services of Howard County

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 28 through 35 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

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

USING THIS ANNUAL REPORT

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

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

FINANCIAL HIGHLIGHTS

- RHSHC's total assets increased by \$495,981, or 3.10%, in 2012, by \$743,101, or 4.88%, in 2011 and by \$1,207,873, or 8.61%, in 2010.
- RHSHC's net assets increased in each of the last two years with a \$430,155, or 2.97%, increase in 2012, a \$1,372,193, or 10.46%, increase in 2011 and a \$1,107,726 or 9.23% increase in 2010.
- RHSHC reported an operating income (loss) of \$(335,642) in 2012, \$165,473 in 2011 and \$515,974 in 2010. This represents a decrease in 2012 and 2011 of \$(501,115) and \$(350,501), respectively, and an increase in 2010 of \$398,967.

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

These financial statements report information about RHSHC using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of RHSHC's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to RHSHC creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of RHSHC'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 RHSHC that determines RHSHC'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 Net Patient Service Revenue
- Schedules of Adjustments to Net 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
- Comparative Statistics

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF RSHHC

The information from the balance sheets, statements of revenues, expenses and changes in net assets, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of RSHHC and the changes in them. Increases or decreases in net assets are one indicator of whether or not RSHHC's financial health is improving. Other non-financial factors can also have an effect on the RSHHC'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 Howard County and the surrounding areas.

Table 1: Assets, Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current Assets	\$ 8,688,379	\$ 8,333,999	\$ 7,762,342
Capital Assets, Net	4,469,218	3,781,263	3,654,082
Assets Limited as to Use or Restricted	3,315,404	3,856,338	3,806,163
Other Assets	<u>-</u>	<u>5,420</u>	<u>11,332</u>
Total Assets	<u>\$ 16,473,001</u>	<u>\$ 15,977,020</u>	<u>\$ 15,233,919</u>
Liabilities:			
Total Current Liabilities	\$ 1,555,787	\$ 1,489,961	\$ 1,963,387
Long-Term Debt (Less Current Maturities)	-	-	155,666
Total Liabilities	<u>1,555,787</u>	<u>1,489,961</u>	<u>2,119,053</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	4,469,218	3,621,263	3,338,089
Restricted	-	126,500	126,506
Unrestricted	<u>10,447,996</u>	<u>10,739,296</u>	<u>9,650,271</u>
Total Net Assets	<u>14,917,214</u>	<u>14,487,059</u>	<u>13,114,866</u>
Total Liabilities and Net Assets	<u>\$ 16,473,001</u>	<u>\$ 15,977,020</u>	<u>\$ 15,233,919</u>

Asset categories changing significantly during 2012, 2011 and 2010 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$1,282,983, or 71%, in 2012, increased by \$1,015,242, or 128%, in 2011, and decreased by \$59,802, or -7% in 2010. Current Investments decreased by \$(2,042,279), or -57%, in 2012 and \$(473,138), or -12%, in 2011 as investments were converted into cash during the year. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2012 by \$449,333, or 25%, decreased in 2011 by \$38,028, or -2%, and decreased in 2010 by \$20,038 or -1%.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

The current ratio (current assets divided by current liabilities) for 2012 was 5.58, for 2011 was 5.59 and for 2010 was 3.95. The current ratio is a measure of liquidity, providing an indication of RSHHC's ability to pay current liabilities: a high ratio number is preferred.

Other non-current asset categories changing significantly during 2012, 2011 and 2010 included non-current cash and investments. Non-current cash and investments decreased by \$540,934, or -14%, in 2012, increased by \$50,175, or 1%, in 2011 and increased by \$148,287, or 4% in 2010.

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

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

	2012	2011	2010
Net Patient Service Revenue	\$ 13,733,262	\$ 13,652,595	\$ 13,110,250
Other Operating Revenue	421,207	380,902	319,565
Total Revenue	<u>14,154,469</u>	<u>14,033,497</u>	<u>13,429,815</u>
Operating Expenses:			
Salaries and Wages	5,547,260	5,427,213	5,174,247
Employee Benefits	1,852,213	1,692,646	1,543,701
Supplies and Miscellaneous	6,185,197	5,904,572	5,463,761
Depreciation	893,421	820,147	701,155
Interest and Amortization	12,020	23,446	30,977
Total Operating Expenses	<u>14,490,111</u>	<u>13,868,024</u>	<u>12,913,841</u>
Operating Income	(335,642)	165,473	515,974
Non-Operating Revenues (Expenses) :			
Tax Revenue	491,716	472,156	443,384
Investment Income	43,532	81,701	108,529
Noncapital Grants and Contributions	55,446	600,664	17,580
Loss on Sale of Property and Equipment	11,167	(5,003)	(2,914)
Other Non-operating Gains (Losses)	-	-	-
Non-Operating Revenues (Expenses)	<u>601,861</u>	<u>1,149,518</u>	<u>566,579</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	266,219	1,314,991	1,082,553
Capital Grants and Contributions	<u>163,936</u>	<u>57,202</u>	<u>25,173</u>
Increase in Net Assets	430,155	1,372,193	1,107,726
Net Assets, Beginning of Year	<u>14,487,059</u>	<u>13,114,866</u>	<u>12,007,140</u>
Net Assets, End of Year	<u>\$ 14,917,214</u>	<u>\$ 14,487,059</u>	<u>\$ 13,114,866</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

Net patient service revenue made up 97% in 2012, 97% in 2011 and 98% in 2010 of RSHHC's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2012	2011	2010
Total Patient Service Revenues	\$ 21,894,977	\$ 21,884,389	\$ 20,353,281
Contractual Adjustments and Provisions for Bad Debt	8,161,715	8,231,794	7,243,031
Net Patient Service Revenue	<u>\$ 13,733,262</u>	<u>\$ 13,652,595</u>	<u>\$ 13,110,250</u>
Contractual Adjustments as a Percent of Revenues	<u>37.28%</u>	<u>37.61%</u>	<u>35.59%</u>

Total operating expenses increased \$622,087, or 4.49%, in 2012, increased \$954,183, or 7.39%, in 2011, and decreased \$41,320, or -.32%, in 2010. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 33-34 of the audited financial statements for this information.

Operating Income (loss) was \$(335,642), or -2% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2012 compared to \$165,473, or 1%, in 2011 and \$515,974, or 4%, in 2010.

Other Operating Revenue increased by \$40,305, or 11%, in 2012, increased by \$61,337, or 19%, in 2011 and decreased by \$126,819, or -28%, in 2010. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2012	2011	2010
Meals Sold	\$ 34,421	\$ 30,689	\$ 29,958
Dietary Consultations	51,440	45,152	37,481
Medical Records Transcripts	2,407	2,524	3,259
Occupational Health	9,923	10,641	9,020
Vending Machines	1,302	847	944
Purchase Discounts and Rebates	30,205	18,371	10,356
Grant Revenues	35,349	34,262	61,476
Public Health Support	84,000	84,000	50,000
Management Fees	-	21,000	21,000
Clinic Rental Income	47,174	32,700	29,467
Miscellaneous	124,986	100,716	66,604
Total Other Revenues	<u>\$ 421,207</u>	<u>\$ 380,902</u>	<u>\$ 319,565</u>

HOSPITAL STATISTICAL DATA

Table 5 shows RSHHC's statistical data. Acute Patient Days decreased less than in 2011, but did decrease by 106 days, or -15%, in 2012, compared to the decrease of 99 days, or -12%, in 2011 and the increase of 68 days, or 9%, in 2010. Swing Bed Days have also had increases in both 2012 and 2011. Swing Bed Days increased by 107 days, or 13.5% in 2012, increased by 24 days, or 3.13%, in 2011.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

HOSPITAL STATISTICAL DATA (CONTINUED)

Table 5: Statistical Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Patient Days			
Acute	601	707	806
Swing Bed	898	791	767
Newborn	101	143	185
Total	<u>1,600</u>	<u>1,641</u>	<u>1,758</u>
Admissions			
Acute	228	289	308
Swing Bed	94	75	82
Newborn	51	70	81
Total	<u>373</u>	<u>434</u>	<u>471</u>
Discharges			
Acute	231	290	308
Swing Bed	97	77	80
Newborn	49	70	82
Total	<u>377</u>	<u>437</u>	<u>470</u>
Average Length of Stay, Acute	<u>2.60</u>	<u>2.44</u>	<u>2.62</u>
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute, Based on 25 Beds	6.6%	7.7%	8.8%
Swing, Based on 25 Beds	9.8%	8.7%	8.4%

RHSHC's Cash Flows

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

Capital Assets

At June 30, 2012, RHSHC had \$4,469,218 invested in capital assets, net of accumulated depreciation. In 2012, RHSHC expended \$1,432,255 to purchase property and equipment. In 2011 and 2010, RHSHC purchased property and equipment costing \$952,705 and \$641,541, respectively.

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2012 AND 2011**

HOSPITAL STATISTICAL DATA (CONTINUED)

Long-Term Debt

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

Table 6: Long-Term Debt

	2012	2011	2010
2003 Revenue Bonds	\$ -	\$ 160,000	\$ 310,000
Capital Lease	-	-	10,327
Deferred Loss on Refinancing	-	-	(4,334)
Total Long-Term Debt	\$ -	\$ 160,000	\$ 315,993

The 2003 Revenue Bonds are \$1,265,000 Hospital Revenue Bonds issued April 1, 2003. Payments of principal and interest of 2.0% to 4.5% are payable semi-annually on June 1 and December 1 through June 1, 2012. The bonds were paid in full as of June 30, 2012.

ECONOMIC FACTORS

RSHHC continues to improve its operational and financial performance. During the Fiscal year 2012 we are highlighting the following items:

1. Implemented an Electronic Health Record in both the Hospital and Home Health/Hospice areas of the organization and entered into our 90 day attestation period for Meaningful Use.
2. While Dennis Colby, DO, and Joan Kepros, MD, are no longer a part of our Medical Staff, we have added Adriana Sikyta, PA-C, Dawn Pedersen, ARNP, and J. David Maher, MD.
3. Completed the Design Development stage of a proposed \$14 Million Building Expansion/Renovation project.
4. Continued on our Process Excellence Journey with the addition of a full-time Process Excellence Director.
5. In collaboration with the Iowa Hospital Association, Iowa Healthcare Collaborative and all Iowa hospitals, began working on a Partnership for Patients initiative, which is ultimately focused on improving quality and patient safety in the hospital.
6. In March 2012, we began providing Orthopedic services to our patients, in conjunction with Mayo Clinic and Gunderson Lutheran Clinic.
7. Received a Journey for Improvement award from Press Ganey, our patient satisfaction surveyor, for improvement of the overall mean score for Inpatient Services.

The following issues are the primary challenges in the coming year:

1. The recruitment of an additional Family Practice Physician.
2. Securing financing for and potentially entering into the Construction Phase of a \$14 Million Building Expansion / Renovation Project.
3. Recruitment of a CEO to fill in the vacancy created with David Hartberg's resignation.

CONTACTING RSHHC

The financial report is designed to provide our citizens, customers, and creditors with a general overview of RSHHC's finances and to demonstrate RSHHC's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the VP of Finance at Regional Health Services of Howard County, 235 8th Avenue West, Cresco, IA 52136.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,093,537	\$ 1,810,554
Investments	1,541,179	3,583,458
Assets Limited as to Use	48,606	60,621
Patient Receivables, Less Allowance for Uncollectible Accounts of \$703,175 in 2012 and \$664,611 in 2011	2,224,309	1,774,976
Other Receivables	131,696	113,203
Estimated Third-Party Payor Settlements	532,873	-
Supplies	370,145	368,620
Prepaid Expenses	225,351	132,104
Succeeding Year Property Tax Receivable	520,683	490,463
Total Current Assets	<u>8,688,379</u>	<u>8,333,999</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	3,315,404	3,729,838
Restricted Under Bond Agreement	-	126,500
Total Assets Limited as to Use or Restricted	<u>3,315,404</u>	<u>3,856,338</u>
CAPITAL ASSETS, NET	4,469,218	3,781,263
OTHER ASSETS		
Bond Issuance Costs, Net of Accumulated Amortization	-	5,420
Total Assets	<u><u>\$ 16,473,001</u></u>	<u><u>\$ 15,977,020</u></u>

See accompanying Notes to Financial Statements.

	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ -	\$ 160,000
Accounts Payable	518,312	341,576
Accrued Expenses	514,523	491,486
Estimated Third-Party Payor Settlement Payable	-	6,500
Deferred Revenue - Succeeding Year Property Tax Receivable	522,952	490,399
Total Current Liabilities	<u>1,555,787</u>	<u>1,489,961</u>
Total Liabilities	1,555,787	1,489,961
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Operating Fund Balance - Contributions	4,469,218	3,621,263
Restricted Fund Balance	-	126,500
Unrestricted	10,447,996	10,739,296
Total Net Assets	<u>14,917,214</u>	<u>14,487,059</u>
Total Liabilities and Net Assets	<u>\$ 16,473,001</u>	<u>\$ 15,977,020</u>

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**REGIONAL HEALTH SERVICES FOUNDATION
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 29,281	\$ 38,632
Beneficial Interest in Community Foundation	24,095	24,492
Total Assets	\$ 53,376	\$ 63,124
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 295	\$ 3,362
NET ASSETS, Unrestricted	53,081	59,762
Total Liabilities and Net Assets	\$ 53,376	\$ 63,124

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$797,007 in 2012 and \$768,293 in 2011)	\$ 13,733,262	\$ 13,652,595
Other Operating Revenue	421,207	380,902
Total Operating Revenues	14,154,469	14,033,497
EXPENSES		
Salaries and Wages	5,547,260	5,427,213
Employee Benefits	1,852,213	1,692,646
Supplies and Miscellaneous	6,185,197	5,904,572
Depreciation	893,421	820,147
Interest and Amortization	12,020	23,446
Total Expenses	14,490,111	13,868,024
OPERATING INCOME (LOSS)	(335,642)	165,473
NON-OPERATING GAINS (LOSS)		
Tax Revenue	491,716	472,156
Investment Income	43,532	81,701
Noncapital Grants and Contributions	55,446	600,664
Gain (Loss) on Sale of Capital Assets	11,167	(5,003)
Non-Operating Gains, Net	601,861	1,149,518
EXCESS OF REVENUES OVER EXPENSES	266,219	1,314,991
Capital Contributions and Grants	163,936	57,202
Increase in Net Assets	430,155	1,372,193
Net Assets - Beginning of Year	14,487,059	13,114,866
Net Assets - End of Year	\$ 14,917,214	\$ 14,487,059

See accompanying Notes to Financial Statements.

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

	2012	2011
OPERATING REVENUES		
Contributions	\$ 19,602	\$ 19,735
Interest Income	36	4,200
Total Operating Revenues	19,638	23,935
EXPENSES		
Contributions to Regional Health Services of Howard County	16,028	-
Supplies and Miscellaneous	10,291	10,500
Total Expenses	26,319	10,500
INCREASE (DECREASE) IN NET ASSETS	(6,681)	13,435
Net Assets - Beginning of Year	59,762	46,327
Net Assets - End of Year	\$ 53,081	\$ 59,762

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 12,744,556	\$ 13,485,823
Cash Paid to Employees	(7,376,436)	(5,638,641)
Cash Paid to Suppliers	(6,260,687)	(7,719,387)
Other Receipts and Payments, Net	402,714	380,902
Net Cash Provided (Used) by Operating Activities	<u>(489,853)</u>	<u>508,697</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions and Other Nonoperating Revenue	55,446	590,664
Tax Appropriations	494,049	481,737
Net Cash Provided by Non-Capital Financing Activities	<u>549,495</u>	<u>1,072,401</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment,	(1,432,255)	(952,705)
Proceeds from Sale of Property and Equipment	19,500	374
Capital Contributions and Grants	163,936	57,202
Payments on Long Term Debt	(160,000)	(160,327)
Interest Payments on Long-Term Debt	(6,600)	(13,731)
Net Cash Used by Capital and Related Financing Activities	<u>(1,415,419)</u>	<u>(1,069,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	43,532	83,275
Increase in Noncurrent Cash and Investments	2,595,228	420,056
Net Cash Provided by Financing Activities	<u>2,638,760</u>	<u>503,331</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,282,983	1,015,242
Cash and Cash Equivalents - Beginning	<u>1,810,554</u>	<u>795,312</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,093,537</u>	<u>\$ 1,810,554</u>

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (335,642)	\$ 165,473
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Provision for Bad Debts	797,007	768,293
Interest Expense Considered Capital and Related Financing Activity	6,600	23,446
Depreciation	893,421	809,901
Amortization	5,420	10,246
(Increase) Decrease in:		
Patient Receivables	(1,246,340)	(730,265)
Third-Party Payor Settlements Receivable	(539,373)	(189,500)
Other Receivables	(18,493)	(15,300)
Supplies	(1,525)	(13,590)
Prepaid Expenses	(93,247)	(17,879)
Increase (Decrease) in:		
Accounts Payable	19,282	(113,325)
Accrued Expenses	23,037	(188,803)
Net Cash Provided (Used) by Operating Activities	\$ (489,853)	\$ 508,697
 NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets included in Accounts Payable	\$ 157,454	\$ -

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (6,681)	\$ 13,435
Increase (Decrease) in Accounts Payable	(3,067)	531
Net Cash Provided (Used) by Operating Activities	(9,748)	13,966
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Beneficial Interest in Community Foundation	397	(3,723)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,351)	10,243
Cash and Cash Equivalents - Beginning	38,632	28,389
CASH AND CASH EQUIVALENTS - ENDING	\$ 29,281	\$ 38,632

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Regional Health Services of Howard County (hereafter RSHHC), consists of a 25-bed acute care hospital, organized under Chapter 347A, Code of Iowa. The hospital is located in Cresco, Iowa and services are provided primarily to residents of Howard and surrounding counties in northeastern Iowa. RSHHC provides health care services in accordance with a Management Agreement which is discussed in Note 11.

Tax Exempt Status

RSHHC 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). RSHHC is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

RSHHC 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. RSHHC 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 RSHHC has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. RSHHC has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the RSHHC are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization 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 RSHHC.

Regional Health Services Foundation (the Foundation) is a not-for-profit entity legally separate from RSHHC. RSHHC 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 discrete presentation due to the nature and significance of its relationship with RSHHC.

Basis of Accounting

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

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

RHSHC 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 120 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 RHSHC. At June 30, 2012 and 2011, the allowance for uncollectible accounts was approximately \$703,000 and \$665,000, respectively.

Inventories

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments includes assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments also includes assets held by the bank for use in an ongoing construction project.

Capital Assets

Capital assets are reported at cost, if purchased, or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures greater than \$5,000 are capitalized and depreciated over the life of the asset. Capital expenditures less than \$5,000 are expensed when incurred.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets of RSHHC are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted net assets are the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted net assets.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. Medicare cost reports through June 30, 2010 have been settled by the intermediary.

Contributions

From time to time RSHHC receives contributions from individuals and private organizations. Revenue contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. 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.

Operating Revenues and Expenses

RSHHC's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants and contributions received for the purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Charity Care

RSHHC provides care to patients who meet certain criteria under its charity care policy without a charge or at amounts less than its established rates. Because RSHHC does not pursue collection of amounts determined to qualify as charity care, an adjustment has been recorded to offset the revenue recorded. Charity care provided during the years ended June 30, 2012 and 2011 was \$94,664 and \$93,782, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 2 DESIGNATED NET ASSETS

Of the \$3,315,404 and \$3,856,338 of unrestricted net assets at June 30, 2012 and 2011, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2012	2011
For Bond Agreement	\$ -	\$ 126,500
For Capital Improvements	3,315,404	3,729,838
Total Designated Net Assets	\$ 3,315,404	\$ 3,856,338

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

RHSHC 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. RHSHC'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 RHSHC. RHSHC's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2010.

Medicaid

RHSHC 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. RHSHC's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2010.

Other

RHSHC 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.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

A summary of patient service revenue and contractual adjustments is as follows:

	<u>2012</u>	<u>2011</u>
Total Patient Service Revenue	\$ 21,894,977	\$ 21,884,389
Contractual Adjustments:		
Medicare	2,797,118	3,250,815
Medicaid	978,220	1,097,927
Provision for Bad Debt	797,007	768,293
Other	3,589,370	3,114,759
Total Contractual Adjustments	<u>8,161,715</u>	<u>8,231,794</u>
Net Patient Service Revenue	<u>\$ 13,733,262</u>	<u>\$ 13,652,595</u>

NOTE 4 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

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

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost findings indicated the agencies owed the Hospital approximately \$533,000 at June 30, 2012. At June 30, 2011, the Hospital owed the agencies approximately \$6,000.

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by RHSHC at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Receivables from Patients and Their Insurance Carriers	\$ 2,242,300	\$ 1,658,919
Receivables from Medicare	457,290	536,709
Receivables from Medicaid	227,894	243,959
Total Patient Receivables	<u>2,927,484</u>	<u>2,439,587</u>
Less: Allowance for Doubtful Accounts	(703,175)	(664,611)
Patient Receivables, Net	<u>\$ 2,224,309</u>	<u>\$ 1,774,976</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 DEPOSITS AND INVESTMENTS

The deposits of RSHHC at June 30, 2012 were entirely covered by Federal depository insurance and State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

RSHHC 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 and the Treasurer of the State of Iowa; 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.

Deposits and investments shown above are included in RSHHC's balance sheet as follows:

	2012	2011
Cash and Cash Equivalents	\$ 3,142,143	\$ 1,871,175
Investments	1,541,179	3,583,458
Noncurrent Cash and Investments:		
Internally Designated for Bond Agreement	-	126,500
Internally Designated for Capital Improvements	3,315,404	3,729,838
Total	\$ 7,998,726	\$ 9,310,971

NOTE 7 CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Transfers	(Retirements)	Balance June 30, 2012
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 291,875	\$ -	\$ -	\$ -	\$ 291,875
Building	3,858,585				3,858,585
Fixed Equipment	3,167,586		12,359	-	3,179,945
Major Movable Equipment	5,017,458	399,074	745,316	(78,297)	6,083,551
Construction in Process	141,937	1,190,635	(757,675)	-	574,897
Total	12,477,441	1,589,709	-	(78,297)	13,988,853
ACCUMULATED DEPRECIATION					
Land Improvements	228,970	5,772	-	-	234,742
Building	2,672,054	110,974	-	-	2,783,028
Fixed Equipment	2,567,960	126,788	-	-	2,694,748
Major Movable Equipment	3,227,194	649,887	-	(69,964)	3,807,117
Total	8,696,178	\$ 893,421	\$ -	\$ (69,964)	9,519,635
Property and Equipment, Net	\$ 3,781,263				\$ 4,469,218

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7 CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2010	Additions	Transfers	Retirements	Balance June 30, 2011
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 291,500	\$ 7,055	\$ -	\$ (6,680)	\$ 291,875
Building	3,858,882	-	30,524	(30,821)	3,858,585
Fixed Equipment	3,164,498	132	51,110	(48,154)	3,167,586
Major Movable Equipment	4,813,366	343,858	452,968	(592,734)	5,017,458
Construction in Process	74,879	601,660	(534,602)	-	141,937
Total	<u>12,203,125</u>	<u>952,705</u>	<u>-</u>	<u>(678,389)</u>	<u>12,477,441</u>
ACCUMULATED DEPRECIATION					
Land Improvements	229,063	6,587	-	(6,680)	228,970
Building	2,574,269	128,604	-	(30,819)	2,672,054
Fixed Equipment	2,497,754	118,359	-	(48,153)	2,567,960
Major Movable Equipment	3,247,957	566,597	-	(587,360)	3,227,194
Total	<u>8,549,043</u>	<u>\$ 820,147</u>	<u>\$ -</u>	<u>\$ (673,012)</u>	<u>8,696,178</u>
Property and Equipment, Net	<u>\$ 3,654,082</u>				<u>\$ 3,781,263</u>

Construction in progress (CIP) at June 30, 2012 of \$574,897 was related to a document imaging project and a Master Facility Project. The document imaging project will allow the facility to maintain all patient related documents electronically and is being funded through internal funds. The Master Facility Project is a building expansion/renovation project that is in the planning phase; they are pursuing various funding options. The preliminary estimates of project costs are approximately \$14.5 million.

NOTE 8 LONG-TERM DEBT

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

	Balance June 30, 2011	Additions	Payments (Amortization)	Balance June 30, 2012	Amounts Due Within One Year
2003 Revenue Bonds	\$ 160,000	\$ -	\$ 160,000	\$ -	\$ -
Total Long-Term Debt	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ -</u>
	Balance June 30, 2010	Additions	Payments (Amortization)	Balance June 30, 2011	Amounts Due Within One Year
2003 Revenue Bonds	\$ 310,000	\$ -	\$ 150,000	\$ 160,000	\$ 160,000
Capital Lease Obligation	10,327	-	10,327	-	-
Deferred Loss on Refinancing	(4,334)	4,334	-	-	-
Total Long-Term Debt	<u>\$ 315,993</u>	<u>\$ 4,334</u>	<u>\$ 160,327</u>	<u>\$ 160,000</u>	<u>\$ 160,000</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 8 LONG-TERM DEBT (CONTINUED)

The 2003 Revenue Bonds are \$1,265,000 Hospital Revenue Bonds issued April 1, 2003. Payments of principal and interest of 2.0% to 4.5% are payable semi-annually on June 1 and December 1 through June of 2012, when the bond was paid in full. The Bonds are collateralized by patient revenues of RSHHC. RSHHC is required to maintain a sinking fund and a reserve fund. Both of these were fully funded at June 30, 2012. The remaining unamortized issue costs from the Series 1992 Hospital Revenue Bonds that were advance refunded during 2003 are recorded as a deferred loss from refinancing and are presented as a reduction of long term debt, and are amortized using the straight-line method over the remaining life of the Series 1992 Hospital Revenue Bonds.

The bonds are payable solely and only from revenues and receipts of RSHHC and do not constitute an indebtedness of the County. During the year ended June 30, 2012 the 2003 Revenue Bonds were paid in full.

NOTE 9 PENSION PLAN

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

Plan members are required to contribute 5.38% of their annual salary and RSHHC is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. RSHHC's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$448,000, \$377,000, and \$342,608, respectively, equal to the required contributions for each year.

NOTE 10 RELATED PARTY TRANSACTIONS

Regional Health Services Foundation

Regional Health Services Foundation was formed to perform fund raising activities for RSHHC. The Foundation contributed cash and capital equipment in the amount of \$16,028 and \$0 to RSHHC in 2012 and 2011, respectively.

Master Affiliation Agreement

On November 1, 2002, RSHHC entered into a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, RSHHC entered into a professional services agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to approximately \$1,204,364 and \$1,333,505 for the years ended June 30, 2012 and 2011, respectively.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

Due to/From Affiliated Organization

As of June 30, 2012 and 2011, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center - North Iowa of \$163,474 and \$152,967, respectively, for the various services and distributions related to these agreements.

Management Services Agreement

RHSHC has a contractual arrangement with Mercy Medical Center - North Iowa under which Mercy Medical Center - North Iowa provides administrative staff, management consultation, and other services to RHSHC. The arrangement does not alter the authority or responsibility of the Board of Trustees of RHSHC. Expenses for the administrative and management services received for the years ended June 30, 2012 and 2011 were approximately \$282,268 and \$271,367, respectively.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

RHSHC 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.

Hospital Risk Management

RHSHC 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. There has been no significant reduction in insurance coverage from the previous year in any of RHSHC's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

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REQUIRED SUPPLEMENTARY INFORMATION

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012**

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

The board of trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of RSHC on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A of the Code of Iowa. The board of trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Health System did not amend its original budget during the year ended June 30, 2011.

For the year ended June 30, 2012, the Health System's expenditures did not exceed the amount budgeted.

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Original	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 491,716	\$ 2,333	\$ 494,049	\$ 483,806	\$ 10,243
Estimated Other Revenues/Receipts	14,428,550	(998,866)	13,429,684	14,978,407	(1,548,723)
	<u>14,920,266</u>	<u>(996,533)</u>	<u>13,923,733</u>	<u>15,462,213</u>	<u>(1,538,480)</u>
Expenses/Disbursements Net	14,490,111	745,867	15,235,978	15,310,406	74,428
	<u>430,155</u>	<u>(1,742,400)</u>	<u>(1,312,245)</u>	<u>151,807</u>	<u>(1,464,052)</u>
Balance Beginning of Year	<u>14,487,059</u>	<u>(5,176,088)</u>	<u>9,310,971</u>	<u>10,142,052</u>	<u>(831,081)</u>
Balance End of Year	<u>\$ 14,917,214</u>	<u>\$ (6,918,488)</u>	<u>\$ 7,998,726</u>	<u>\$ 10,293,859</u>	<u>\$ (2,295,133)</u>

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OTHER SUPPLEMENTARY INFORMATION

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	<u>2012</u>	<u>2011</u>
PATIENT CARE SERVICES		
Adults and Pediatrics	\$ 1,372,237	\$ 1,426,329
Nursery	72,727	128,784
Total Patient Care Service Revenue	<u>1,444,964</u>	<u>1,555,113</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	1,325,437	1,277,566
Labor and Delivery Room	68,168	113,647
Anesthesiology	610,119	669,831
Radiology	3,268,961	2,865,374
Laboratory	3,394,998	2,935,255
Blood	119,140	160,532
Respiratory Therapy	376,278	431,656
Cardiac Rehabilitation	130,449	85,458
Physical Therapy	821,621	729,099
Occupational Therapy	353,474	340,194
Speech Therapy	69,160	91,831
Electrocardiology	375,930	379,203
Medical and Surgical Supplies	179,766	226,327
Pharmacy	1,435,315	1,541,024
Emergency Room	1,637,458	1,522,555
Ambulance	626,310	530,179
Home Health	723,236	853,974
Outpatient Clinic	49,004	54,386
Clinical Operations	4,466,486	5,100,218
Sleep Lab	108,941	108,100
Durable Medical Equipment	404,426	406,649
Total Other Professional Service Revenue	<u>20,544,677</u>	<u>20,423,058</u>
Gross Patient and Resident Charges	21,989,641	21,978,171
Charity Care	<u>(94,664)</u>	<u>(93,782)</u>
Total Patient Service Revenues	21,894,977	21,884,389
Adjustments to Patient Services Revenues	<u>(8,161,715)</u>	<u>(8,231,794)</u>
Net Patient Service Revenues	<u>\$ 13,733,262</u>	<u>\$ 13,652,595</u>

INPATIENT		OUTPATIENT	
2012	2011	2012	2011
\$ 1,041,756	\$ 1,101,454	\$ 330,481	\$ 324,875
72,727	128,523	-	261
<u>1,114,483</u>	<u>1,229,977</u>	<u>330,481</u>	<u>325,136</u>
185,349	228,871	1,140,088	1,048,695
53,903	93,840	14,265	19,807
112,488	156,846	497,631	512,985
123,463	107,046	3,145,498	2,758,328
296,325	301,067	3,098,673	2,634,188
42,125	41,419	77,015	119,113
314,213	365,442	62,065	66,214
-	-	130,449	85,458
201,286	151,747	620,335	577,352
130,607	94,043	222,867	246,151
1,866	4,936	67,294	86,895
28,039	24,135	347,891	355,068
49,648	90,509	130,118	135,818
508,360	616,480	926,955	924,544
38,267	38,862	1,599,191	1,483,693
4,544	7,336	621,766	522,843
-	-	723,236	853,974
-	-	49,004	54,386
-	-	4,466,486	5,100,218
-	-	108,941	108,100
-	-	404,426	406,649
<u>2,090,483</u>	<u>2,322,579</u>	<u>18,454,194</u>	<u>18,100,479</u>
<u>\$ 3,204,966</u>	<u>\$ 3,552,556</u>	<u>\$ 18,784,675</u>	<u>\$ 18,425,615</u>

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE
REVENUES AND OTHER REVENUE
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 2,797,118	\$ 3,250,815
Contractual Adjustments - Medicaid	978,220	1,097,927
Provision for Bad Debts	797,007	768,293
Other Allowances and Adjustments	3,589,370	3,114,759
Total Adjustments	\$ 8,161,715	\$ 8,231,794
OTHER REVENUES		
Cafeteria and Meals	\$ 34,421	\$ 30,689
Medical Records Fees	2,407	2,524
Rental Income	47,174	32,700
Grants	84,000	84,000
Miscellaneous	253,205	230,989
Total Other Revenue	\$ 421,207	\$ 380,902

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	2012	2011
Employee Benefits	\$ 1,852,213	\$ 1,692,646
Administrative and General	2,010,097	1,810,312
Foundation	14,114	17,432
Central Supply	37,619	55,907
Operation of Plant	377,267	420,970
Laundry and Linen	27,513	26,185
Housekeeping	87,350	83,861
Social Services	37,436	34,510
Nursing Administration	107,877	124,594
Dietary	289,688	266,232
Medical Records	228,502	202,587
Adults and Pediatrics	910,318	844,511
Nursery	16,444	18,943
Operating and Recovery Room	297,954	334,462
Labor and Delivery Room	18,990	28,448
Anesthesiology	19,390	23,380
Nonphysician Anesthetists	214,445	193,969
Radiology	813,182	665,380
Laboratory	565,132	503,730
Blood	38,208	62,661
Respiratory Therapy	31,403	28,577
Physical Therapy	430,449	421,876
Occupational Therapy	151,267	147,806
Speech Pathology	26,345	34,860
Electrocardiology	42,857	52,327
Pharmacy and Intravenous Therapy	239,541	228,070
Cardiac Rehabilitation	39,856	34,698
Clinics	2,640,989	2,734,226
Ambulance	210,214	203,903
Outpatient Clinic	111,013	120,785
Durable Medical Equipment	262,613	223,440
Sleep Lab	15,600	18,400
Occupational Health	4,325	5,016
Emergency	788,464	649,488
Home Health	625,995	710,239
Depreciation Expense	893,421	820,147
Interest Expense	12,020	23,446
TOTAL	\$ 14,490,111	\$ 13,868,024

SALARIES		OTHER	
2012	2011	2012	2011
\$ -	\$ -	\$ 1,852,213	\$ 1,692,646
775,153	773,046	1,234,944	1,037,266
14,113	15,032	1	2,400
5,026	5,132	32,593	50,775
169,815	199,796	207,452	221,174
6,275	6,547	21,238	19,638
72,905	66,493	14,445	17,368
36,867	33,126	569	1,384
99,647	115,733	8,230	8,861
184,603	175,251	105,085	90,981
202,918	178,848	25,584	23,739
809,582	749,612	100,736	94,899
7,447	18,552	8,997	391
189,489	193,993	108,465	140,469
18,649	28,141	341	307
-	-	19,390	23,380
156,274	153,505	58,171	40,464
282,571	274,168	530,611	391,212
254,252	234,411	310,880	269,319
2,465	3,876	35,743	58,785
7,503	10,898	23,900	17,679
72,115	116,735	358,334	305,141
10,674	8,463	140,593	139,343
-	-	26,345	34,860
8,348	5,999	34,509	46,328
8,755	8,867	230,786	219,203
39,211	34,377	645	321
1,015,243	922,574	1,625,746	1,811,652
170,084	163,871	40,130	40,032
102,132	111,239	8,881	9,546
117,292	122,338	145,321	101,102
-	-	15,600	18,400
2,808	2,859	1,517	2,157
251,366	203,442	537,098	446,046
453,678	490,289	172,317	219,950
-	-	893,421	820,147
-	-	12,020	23,446
<u>\$ 5,547,260</u>	<u>\$ 5,427,213</u>	<u>\$ 8,942,851</u>	<u>\$ 8,440,811</u>

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

Age of Accounts (by Date of Discharge)	2012		2011	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,982,709	53.00 %	\$ 1,441,836	46.51 %
31-60 Days	502,050	14.00	523,355	16.88
61-90 Days	352,371	10.00	285,399	9.21
91 Days and Over	854,418	23.00	849,597	27.40
Total Accounts Receivable	<u>3,691,548</u>	<u>100.00 %</u>	<u>3,100,187</u>	<u>100.00 %</u>
ALLOWANCES				
Contractual:				
Medicare	321,217		539,768	
Medicaid	142,360		45,840	
Other	300,487		74,992	
Doubtful Accounts	<u>703,175</u>		<u>664,611</u>	
Net Accounts Receivable	<u>\$ 2,224,309</u>		<u>\$ 1,774,976</u>	
Net Patient Service Revenue per Calendar Day-Excluding Bad Debt	<u>\$ 39,809</u>		<u>\$ 39,509</u>	
Days of net Revenue in Net Accounts Receivable at Year-End	<u>56</u>		<u>45</u>	

Analysis of Allowance for Doubtful Accounts

	2012		2011	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 664,611		\$ 537,275	
Add:				
Provision for Doubtful Accounts	797,007	5.8 %	768,293	5.6 %
Recoveries Previously Written Off	260,248	1.9 %	213,356	1.6 %
	<u>1,057,255</u>		<u>981,649</u>	
Deduct:				
Accounts Written Off	<u>(1,018,691)</u>	(7.4)%	<u>(854,313)</u>	(6.3)%
Ending Balance	<u>\$ 703,175</u>		<u>\$ 664,611</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
INVENTORIES		
Central Supply	\$ 161,694	\$ 149,410
Pharmacy	109,820	104,431
Dietary	5,919	7,039
Other	4,030	2,004
DME Supplies	<u>88,682</u>	<u>105,736</u>
 Total Inventories	 <u>\$ 370,145</u>	 <u>\$ 368,620</u>
 PREPAID EXPENSES		
Insurance	\$ 125,792	\$ 48,872
Dues and Other	<u>99,559</u>	<u>83,232</u>
 Total Prepaid Expenses	 <u>\$ 225,351</u>	 <u>\$ 132,104</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2012 AND 2011**

	Balance July 1, 2011	Invested	Redeemed	Balance June 30, 2012
Revenue Bond Sinking Fund:				
Money Market Savings	\$ 60,621	\$ -	\$ (12,015)	\$ 48,606
Reserve Fund:				
Certificate of Deposit	126,500	-	(126,500)	-
Total	\$ 187,121	\$ -	\$ (138,515)	\$ 48,606



**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
Regional Health Services of Howard County
Cresco, Iowa

We have audited the financial statements of Regional Health Services of Howard County (RHSHC) and its discretely presented component unit as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

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

Board of Trustees
Regional Health Services of Howard County

Comments involving statutory and other legal matters about RSHHC's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of RSHHC. 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.

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

This report is intended solely for the information and use of the officials, employees, and constituents of Regional Health Services of Howard County and other parties to whom Regional Health Services of Howard County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements:

2012-1 Segregation of Duties

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

Condition: Certain employees perform duties that are incompatible.

Cause: A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, RSHHC 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, RSHHC 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 RSHHC. Due to the limited number of office employees, management will continue to monitor RSHHC'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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

2012-2 Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: Regional Health Services of Howard County does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

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

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

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

Conclusion: Response accepted

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 **Certified Budget:** Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- II-B-12 **Questionable Expenditures:** We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 **Travel Expense:** No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-12 **Business Transactions:** We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-12 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-12 **Deposits and Investments:** We noted all the Health Service's investments to be in compliance with the state statutes regarding investments.
- II-G-12 **Publication of Bills Allowed and Salaries:** RSHHC is organized under Chapter 347A and is not required to follow this section of the Iowa Code.