

**REGIONAL HEALTH SERVICES
OF HOWARD COUNTY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2013 AND 2012

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2013**

<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, 2018
Helen Jean Kapler	Member	December 31, 2014
Chuck Malek	Member	December 31, 2018
Mike Mahr	Member	December 31, 2018
Robin Schluter	Chief Executive Officer	
Brenda Moser	Chief Financial Officer	

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Health Services of Howard County (the Hospital) and its discretely presented component unit, Regional Health Services Foundation (the Foundation), which comprise the statements of net position and balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, statements of activities and cash flows for the years ended June 30, 2013 and 2012, 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 opinions 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 audits 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 financial position of Regional Health Services of Howard County and its discretely presented component unit as of June 30, 2013 and 2012, and the results of its operations, changes in its financial position and its cash flows for the years ended June 30, 2013 and 2012 in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 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 Regional Health Services of Howard County as a whole. The supplementary information on pages 30 through 37 and the budgetary comparison information on page 29 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2013 on our consideration of Regional Health Services of Howard County's internal control over financial reporting and on 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 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 Regional Health Services of Howard County's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
October 24, 2013

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

This section of the Regional Health Services of Howard County (RSHHC) annual audited financial report represents management's discussion and analysis of RSHHC's financial performance during the fiscal year ended June 30, 2013. The analysis will focus on RSHHC's financial performance as a whole. Please read it in conjunction with the audited financial report.

USING THIS ANNUAL REPORT

The June 30, 2013 and 2012 financial reports include the following audited financial statements:

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

FINANCIAL HIGHLIGHTS

- RSHHC's total assets increased by \$16,142,585, or 102%, in 2013, and by \$495,981, or 3.10%, in 2012.
- RSHHC's Net Position increased in each of the last two years with a \$875,678, or 5.87%, increase in 2013, and a \$430,155, or 2.97%, increase in 2012.
- RSHHC reported an operating income (loss) of \$80,429 in 2013, \$(335,642) in 2012 and \$165,473 in 2011. This represents an increase in 2013 of \$416,071 and a decrease in 2012 of \$(501,115), respectively.

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

These financial statements report information about RSHHC using Governmental Accounting Standards Board (GASB) accounting principles. The statement of net position is a statement of financial position. It includes all of RSHHC's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to RSHHC 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 RSHHC'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 RSHHC that determines RSHHC'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, 2013 AND 2012**

FINANCIAL ANALYSIS OF RSHHC

The information from the statements of net position, statements of 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 RSHHC and the changes in them. Increases or decreases in Net Position 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 Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current Assets	\$ 10,424,719	\$ 8,688,379	\$ 8,333,999
Capital Assets, Net	6,733,253	4,469,218	3,781,263
Noncurrent Cash and Investments	15,439,883	3,315,404	3,856,338
Other Assets	<u>-</u>	<u>-</u>	<u>5,420</u>
Total Assets	<u>\$ 32,597,855</u>	<u>\$ 16,473,001</u>	<u>\$ 15,977,020</u>
Liabilities:			
Total Current Liabilities	\$ 2,069,287	\$ 1,555,787	\$ 1,489,961
Long-Term Debt (Less Current Maturities)	<u>14,765,000</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>16,834,287</u>	<u>1,555,787</u>	<u>1,489,961</u>
Net Position:			
Invested in Capital Assets Net of Related Debt	4,725,968	4,469,218	3,621,263
Restricted	1,647,564	-	126,500
Unrestricted	<u>9,390,036</u>	<u>10,447,996</u>	<u>10,739,296</u>
Total Net Position	<u>15,763,568</u>	<u>14,917,214</u>	<u>14,487,059</u>
Total Liabilities and Net Position	<u>\$ 32,597,855</u>	<u>\$ 16,473,001</u>	<u>\$ 15,977,020</u>

Asset categories changing significantly during 2013 and 2012 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$756,424, or 24%, in 2013 and increased by \$1,282,983, or 71%, in 2012. Current Investments increased by \$1,327,575, or 86%, in 2013 and decreased by \$(2,042,279), or -57%, in 2012 as investments were converted into cash during the year. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2013 by \$6,194, or 0.28%, and increased in 2012 by \$449,333, or 25%.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

The current ratio (current assets divided by current liabilities) for 2013 was 5.07, for 2012 was 5.58 and for 2011 was 5.59. 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 2013, 2012 and 2011 included non-current cash and investments. Non-current cash and investments increased by \$12,124,479, or 466%, in 2013, and decreased by \$540,934, or (14%), in 2012.

Table 2 summarizes information from the statements of revenues, expenses and changes in Net Position.

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

	2013	2012	2011
Net Patient Service Revenue	\$ 15,158,429	\$ 13,733,262	\$ 13,652,595
Other Operating Revenue	435,261	421,207	380,902
Total Revenue	<u>15,593,690</u>	<u>14,154,469</u>	<u>14,033,497</u>
Operating Expenses:			
Salaries and Wages	5,950,050	5,547,260	5,427,213
Employee Benefits	1,978,508	1,852,213	1,692,646
Supplies and Miscellaneous	6,635,248	6,185,197	5,904,572
Depreciation	978,779	893,421	820,147
Interest and Amortization	-	12,020	23,446
Total Operating Expenses	<u>15,542,585</u>	<u>14,490,111</u>	<u>13,868,024</u>
Operating Income (Loss)	51,105	(335,642)	165,473
Non-Operating Revenues (Expenses) :			
Tax Revenue	520,408	491,716	472,156
Investment Income	17,347	43,532	81,701
Noncapital Grants and Contributions	23,962	55,446	600,664
Loss on Sale of Property and Equipment	-	11,167	(5,003)
Other Non-operating Gains (Losses)	-	-	-
Non-Operating Revenues (Expenses)	<u>561,717</u>	<u>601,861</u>	<u>1,149,518</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	612,822	266,219	1,314,991
Capital Grants and Contributions	<u>233,532</u>	<u>163,936</u>	<u>57,202</u>
Increase in Net Position	846,354	430,155	1,372,193
Net Position, Beginning of Year	<u>14,917,214</u>	<u>14,487,059</u>	<u>13,114,866</u>
Net Position, End of Year	<u><u>\$ 15,763,568</u></u>	<u><u>\$ 14,917,214</u></u>	<u><u>\$ 14,487,059</u></u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

Net patient service revenue made up 97% in 2013, 97% in 2012 and 97% in 2011 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

	2013	2012	2011
Total Patient Service Revenues	\$ 24,395,822	\$ 21,894,977	\$ 21,884,389
Contractual Adjustments and Provision for Bad Debt	9,237,393	8,161,715	8,231,794
Net Patient Service Revenue	<u>\$ 15,158,429</u>	<u>\$ 13,733,262</u>	<u>\$ 13,652,595</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>37.86%</u>	<u>37.28%</u>	<u>37.61%</u>

Total operating expenses increased \$1,020,336, or 7.04%, in 2013 and increased \$622,087, or 4.49%, in 2012. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 31 and 32 of the audited financial statements for this information.

Operating Income (loss) was \$80,429, or .5% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2013 compared to \$(335,642), or (2.4%), in 2012.

Other Operating Revenue increased by \$14,054, or 3.3%, in 2013 and increased by \$40,305, or 11%, in 2012 and increased by \$61,337, or 19%, in 2011. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2013	2012	2011
Meals Sold	\$ 41,289	\$ 34,421	\$ 30,689
Dietary Consultations	48,003	51,440	45,152
Medical Records Transcripts	3,167	2,407	2,524
Occupational Health	18,925	9,923	10,641
Vending Machines	796	1,302	847
Purchase Discounts and Rebates	34,745	30,205	18,371
Grant Revenues	39,399	35,349	34,262
Public Health Support	107,000	84,000	84,000
Management Fees	-	-	21,000
Clinic Rental Income	48,864	47,174	32,700
Miscellaneous	93,073	124,986	100,716
Total Other Revenues	<u>\$ 435,261</u>	<u>\$ 421,207</u>	<u>\$ 380,902</u>

HOSPITAL STATISTICAL DATA

Table 5 shows RSHHC's statistical data. Acute Patient Days increased in 2013 by 41 days or 7%, decreased in 2012 by 106 days, or -15%, and increased by 99 days, or -12%, in 2011. Swing Bed Days have decreased in 2013 by 123 days or -16%. Swing bed days increased in both 2012 and 2011. Swing Bed Days increased by 107 days, or 13.5% in 2012, increased by 107 days, or 13.5% in 2011.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

HOSPITAL STATISTICAL DATA (CONTINUED)

Table 5: Statistical Data

	2013	2012	2011
Patient Days			
Acute	642	601	707
Swing Bed	775	898	791
Newborn	110	101	143
Total	<u>1,527</u>	<u>1,600</u>	<u>1,641</u>
Admissions			
Acute	238	228	289
Swing Bed	82	94	75
Newborn	55	51	70
Total	<u>375</u>	<u>373</u>	<u>434</u>
Discharges			
Acute	234	231	290
Swing Bed	81	97	77
Newborn	55	49	70
Total	<u>370</u>	<u>377</u>	<u>437</u>
Average Length of Stay, Acute	<u>2.74</u>	<u>2.44</u>	<u>2.62</u>
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute, Based on 25 Beds	7.0%	6.6%	7.7%
Swing, Based on 25 Beds	8.5%	9.8%	8.7%

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, 2013, RHSHC had \$6,733,253 invested in capital assets, net of accumulated depreciation. In 2013, RHSHC expended \$2,897,831 to purchase property and equipment. In 2012 and 2011, RHSHC purchased property and equipment costing \$1,432,255 and \$952,705, respectively.

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

HOSPITAL STATISTICAL DATA (CONTINUED)

Long-Term Debt

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

Table 6: Long-Term Debt

	2013	2012	2011
2003 Series Bonds	\$ -	\$ -	\$ 160,000
2012 Series Bonds	9,735,000	-	-
2013 Series Bonds	5,030,000	-	-
Total Long-Term Debt	<u>\$ 14,765,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>

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. During the current fiscal year series 2012 and 2013 Hospital Revenue Bonds were issued December 28, 2012, and January 15, 2013. In the amounts of \$9,735,000 and \$5,030,000. Principal payments begin in fiscal year 2014 for the 2013 bonds, and in 2022 for the 2012 series bonds.

ECONOMIC FACTORS

RSHHC continues to improve its operational and financial performance. During the Fiscal year 2013 we are highlighting the following items:

1. Construction has begun for a \$14 Million Building Expansion/Renovation project. Hospital revenue bonds have been issued in the amount of \$14.765 million.
2. Continued on our Process Excellence Journey with the addition of a full-time Process Excellence Director.
3. 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.
4. In March 2012, we began providing Orthopedic services to our patients, in conjunction with Mayo Clinic and Gundersen Lutheran Clinic.
5. Recruited a new CEO, that started work in December of 2012.
6. Received Press Ganey Guardian of Excellence Award. Achieved by reaching the 95th percentile for patient satisfaction in two areas; Home Health and Inpatient Services.

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

1. The recruitment of an additional Family Practice Physician.
2. Completing the construction of a \$14 Million building expansion/renovation project.

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
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,849,961	\$ 3,093,537
Investments	2,868,754	1,541,179
Current Portion of Noncurrent Cash and Investments	-	48,606
Patient Receivables, Less Allowance for Uncollectible Accounts of \$799,900 in 2013 and \$703,200 in 2012	2,190,198	2,224,309
Other Receivables	151,851	131,696
Estimated Third-Party Payor Settlements	169,175	532,873
Supplies	393,596	370,145
Prepaid Expenses	257,573	225,351
Succeeding Year Property Tax Receivable	543,611	520,683
Total Current Assets	10,424,719	8,688,379
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	1,034,604	3,315,404
Restricted Project Funds	12,757,715	-
Restricted Under Debt Agreements	1,647,564	-
Total Assets Limited as to Use or Restricted	15,439,883	3,315,404
CAPITAL ASSETS, NET	6,733,253	4,469,218
Total Assets	\$ 32,597,855	\$ 16,473,001

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 520,770	\$ 360,858
Construction Payable	344,986	157,454
Accrued Expenses	659,768	514,523
Deferred Revenue - Succeeding Year Property Tax Receivable	543,763	522,952
Total Current Liabilities	<u>2,069,287</u>	<u>1,555,787</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES	<u>14,765,000</u>	<u>-</u>
Total Liabilities	16,834,287	1,555,787
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	4,725,968	4,469,218
Restricted Under Debt Agreements	1,647,564	-
Unrestricted	9,390,036	10,447,996
Total Net Position	<u>15,763,568</u>	<u>14,917,214</u>
Total Liabilities and Net Position	<u>\$ 32,597,855</u>	<u>\$ 16,473,001</u>

**REGIONAL HEALTH SERVICES FOUNDATION
BALANCE SHEETS
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 49,231	\$ 29,281
Current Portion of Pledges Receivable	247,235	-
Beneficial Interest in Community Foundation	26,408	24,095
Total Current Assets	322,874	53,376
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	580,184	-
Total Assets	\$ 903,058	\$ 53,376
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 14	\$ 295
NET ASSETS		
Unrestricted	75,327	53,081
Temporarily Restricted	827,717	-
Total Net Assets	903,044	53,081
Total Liabilities and Net Assets	\$ 903,058	\$ 53,376

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$1,120,590 in 2013 and \$797,007 in 2012)	\$ 15,158,429	\$ 13,733,262
Other Operating Revenue	435,261	421,207
Total Operating Revenues	15,593,690	14,154,469
EXPENSES		
Salaries and Wages	5,950,050	5,547,260
Employee Benefits	1,978,508	1,852,213
Supplies and Miscellaneous	6,635,248	6,185,197
Depreciation	978,779	893,421
Interest and Amortization	-	12,020
Total Expenses	15,542,585	14,490,111
OPERATING INCOME (LOSS)	51,105	(335,642)
NON-OPERATING GAINS (LOSS)		
Tax Revenue	520,408	491,716
Investment Income	17,347	43,532
Noncapital Grants and Contributions	23,962	55,446
Gain on Sale of Capital Assets	-	11,167
Non-Operating Gains, Net	561,717	601,861
EXCESS OF REVENUES OVER EXPENSES	612,822	266,219
Capital Contributions and Grants	233,532	163,936
Increase in Net Position	846,354	430,155
Net Position - Beginning of Year	14,917,214	14,487,059
Net Position - End of Year	\$ 15,763,568	\$ 14,917,214

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012**

	Unrestricted	Temporarily Restricted	2013 Total
OPERATING REVENUES			
Contributions	\$ 715	\$ 1,052,216	\$ 1,052,931
Interest Income	2,472	263	2,735
Released From Restrictions	224,762	(224,762)	-
Total Operating Revenues	227,949	827,717	1,055,666
EXPENSES			
Contributions to Regional Health Services of Howard County	205,251	-	205,251
Supplies and Miscellaneous	452	-	452
Total Expenses	205,703	-	205,703
INCREASE IN NET ASSETS	22,246	827,717	849,963
Net Assets - Beginning of Year	53,081	-	53,081
Net Assets - End of Year	\$ 75,327	\$ 827,717	\$ 903,044
	Unrestricted	Temporarily Restricted	2012 Total
OPERATING REVENUES			
Contributions	\$ 19,602	\$ -	\$ 19,602
Interest Income	36	-	36
Total Operating Revenues	19,638	-	19,638
EXPENSES			
Contributions to Regional Health Services of Howard County	16,028	-	16,028
Supplies and Miscellaneous	10,291	-	10,291
Total Expenses	26,319	-	26,319
DECREASE IN NET ASSETS	(6,681)	-	(6,681)
Net Assets - Beginning of Year	59,762	-	59,762
Net Assets - End of Year	\$ 53,081	\$ -	\$ 53,081

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 15,556,238	\$ 12,744,556
Cash Paid to Employees	(7,783,313)	(7,376,436)
Cash Paid to Suppliers	(6,531,009)	(6,260,687)
Other Receipts and Payments, Net	415,106	402,714
Net Cash Provided (Used) by Operating Activities	1,657,022	(489,853)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions and Other Nonoperating Revenue	23,962	55,446
Tax Appropriations	518,291	494,049
Net Cash Provided by Non-Capital Financing Activities	542,253	549,495
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment,	(3,055,282)	(1,432,255)
Proceeds from Sale of Property and Equipment	-	19,500
Proceeds From Bonds	14,765,000	-
Capital Contributions and Grants	233,532	163,936
Payments on Long Term Debt	-	(160,000)
Interest Payments on Long-Term Debt	-	(6,600)
Net Cash Provided (Used) by Capital and Related Financing Activities	11,943,250	(1,415,419)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	17,347	43,532
(Increase) Decrease in Noncurrent Cash and Investments	(13,403,448)	2,595,228
Net Cash Provided (Used) by Financing Activities	(13,386,101)	2,638,760
INCREASE IN CASH AND CASH EQUIVALENTS	756,424	1,282,983
Cash and Cash Equivalents - Beginning	3,093,537	1,810,554
CASH AND CASH EQUIVALENTS - ENDING	\$ 3,849,961	\$ 3,093,537

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 51,105	\$ (335,642)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Provision for Bad Debts	1,120,590	797,007
Interest Expense Considered Capital and Related Financing Activity	-	6,600
Depreciation	978,779	893,421
Amortization	-	5,420
(Increase) Decrease in:		
Patient Receivables	(1,086,479)	(1,246,340)
Third-Party Payor Settlements Receivable	363,698	(539,373)
Other Receivables	(20,155)	(18,493)
Supplies	(23,451)	(1,525)
Prepaid Expenses	(32,222)	(93,247)
Increase (Decrease) in:		
Accounts Payable	159,912	19,282
Accrued Expenses	145,245	23,037
Net Cash Provided (Used) by Operating Activities	\$ 1,657,022	\$ (489,853)
 NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid For Interest	\$ 220,553	\$ -

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 849,963	\$ (6,681)
(Increase) Decrease in Pledge Receivable	(827,419)	-
Increase (Decrease) in Accounts Payable	(281)	(3,067)
Net Cash Provided (Used) by Operating Activities	22,263	(9,748)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Beneficial Interest in Community Foundation	(2,313)	397
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,950	(9,351)
Cash and Cash Equivalents - Beginning	29,281	38,632
CASH AND CASH EQUIVALENTS - ENDING	\$ 49,231	\$ 29,281

See accompanying Notes to Financial Statements.

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

The statements of net position display the Health System's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Restricted Net Position

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

Expendable – Expendable net position result when constraints placed on net asset 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. 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 System's policy to use restricted net position first.

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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, 2013 and 2012, the allowance for uncollectible accounts was approximately \$800,000 and \$703,000, respectively.

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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Pledges Receivable

The Foundation has net pledges receivable of \$827,419 and \$0 as of June 30, 2013 and 2012, respectively. Pledges receivable represent commitments to make gifts received from residents of Howard County and the surrounding area. The pledges are not legally enforceable, therefore, the Foundation has recorded an allowance for uncollectible pledges and discount in the amount of \$194,152 and \$0 at June 30, 2013 and 2012, respectively.

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.

Net Position

Net Position of RSHHC are classified in three components. Net Position 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 Position are non-capital Net Position that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted Net Position are the remaining Net Position that do not meet the definition of invested in capital assets net of related debt or restricted Net Position.

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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

RHSHC's statement of revenues, expenses, and changes in Net Position 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

RHSHC 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 RHSHC 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, 2013 and 2012 was \$101,058 and \$94,664, respectively. The estimated costs of the charges foregone, based on an overall cost-to-charge ratio calculation, for the years ended June 30, 2013 and 2012 were approximately \$59,624 and \$55,852, respectively.

NOTE 2 DESIGNATED NET POSITION

Of the \$9,419,360 and \$10,447,996 of unrestricted Net Position at June 30, 2013 and 2012, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2013	2012
For Capital Improvements	\$ 1,034,604	\$ 3,315,404

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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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.

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

	<u>2013</u>	<u>2012</u>
Total Patient Service Revenue	\$ 24,395,822	\$ 21,894,977
Contractual Adjustments:		
Medicare	2,788,465	2,797,118
Medicaid	1,058,955	978,220
Provision for Bad Debt	1,120,590	797,007
Other	<u>4,269,383</u>	<u>3,589,370</u>
Total Contractual Adjustments	<u>9,237,393</u>	<u>8,161,715</u>
Net Patient Service Revenue	<u>\$ 15,158,429</u>	<u>\$ 13,733,262</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 \$147,000 at June 30, 2013. At June 30, 2012, the agencies owed the hospital approximately \$533,000.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by RSHHC at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Receivables from Patients and Their Insurance Carriers	\$ 2,208,562	\$ 2,242,300
Receivables from Medicare	640,162	457,290
Receivables from Medicaid	141,390	227,894
Total Patient Receivables	<u>2,990,114</u>	<u>2,927,484</u>
Less: Allowance for Doubtful Accounts	(799,916)	(703,175)
Patient Receivables, Net	<u><u>\$ 2,190,198</u></u>	<u><u>\$ 2,224,309</u></u>

NOTE 6 PLEDGES RECEIVABLE

Regional Health Services Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5%.

The following is a summary of unconditional promises to give as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Less than One Year	\$ 253,340	\$ -
One to Five Years	768,231	-
	<u>1,021,571</u>	<u>-</u>
Less Discount	(102,217)	-
Less Allowance for Uncollectible Promises to Give	(91,935)	-
Unconditional Promises to Give, Net	<u><u>\$ 827,419</u></u>	<u><u>\$ -</u></u>

NOTE 7 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

The Foundation is a benefactor of an annuity life contribution maintained by an independent trustee, Community Foundation of Greater Des Moines (Community Foundation). The Community Foundation's assets are to be held in perpetuity. The foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The gifts have been recognized in the financial statements as beneficial interest in net assets of the Community Foundation. It should be noted, however, that the Foundation has granted the Community Foundation variance power, which allows the Community Foundation to modify the Foundation's stipulations under certain circumstances as the Community Foundation monitors the changing needs of the community.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 8 DEPOSITS AND INVESTMENTS

The deposits of RHSHC at June 30, 2013 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.

RHSHC 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 RHSHC's statement of net position as follows:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 3,849,961	\$ 3,142,143
Investments	2,868,754	1,541,179
Noncurrent Cash and Investments:		
Internally Designated for Bond Agreement	1,647,564	-
Internally Designated for Project Funds	12,757,715	-
Internally Designated for Capital Improvements	1,034,604	3,315,404
Total	<u>\$ 22,158,598</u>	<u>\$ 7,998,726</u>

NOTE 9 CAPITAL ASSETS

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

	Balance June 30, 2012	Additions	Transfers	(Retirements)	Balance June 30, 2013
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 291,875	\$ -	\$ -	\$ (64,768)	\$ 227,107
Building	3,858,585	10,525	-	(218,070)	3,651,040
Fixed Equipment	3,179,945	9,115	-	(641,445)	2,547,615
Major Movable Equipment	6,083,551	684,410	476,659	(313,734)	6,930,886
Construction in Process	574,897	2,538,764	(476,659)	-	2,637,002
Total	<u>13,988,853</u>	<u>3,242,814</u>	<u>-</u>	<u>(1,238,017)</u>	<u>15,993,650</u>
ACCUMULATED DEPRECIATION					
Land Improvements	234,742	5,345	-	(64,768)	175,319
Building	2,783,028	107,987	-	(218,070)	2,672,945
Fixed Equipment	2,694,748	112,181	-	(641,445)	2,165,484
Major Movable Equipment	3,807,117	753,266	-	(313,734)	4,246,649
Total	<u>9,519,635</u>	<u>\$ 978,779</u>	<u>\$ -</u>	<u>\$ (1,238,017)</u>	<u>9,260,397</u>
Property and Equipment, Net	<u>\$ 4,469,218</u>				<u>\$ 6,733,253</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 9 CAPITAL ASSETS (CONTINUED)

	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	<u>12,477,441</u>	<u>1,589,709</u>	<u>-</u>	<u>(78,297)</u>	<u>13,988,853</u>
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	<u>8,696,178</u>	<u>\$ 893,421</u>	<u>\$ -</u>	<u>\$ (69,964)</u>	<u>9,519,635</u>
Property and Equipment, Net	<u>\$ 3,781,263</u>				<u>\$ 4,469,218</u>

Construction in progress (CIP) at June 30, 2013 of \$2,637,004 is related to a Master Facility Project. The Master Facility Project is a building expansion/renovation project that is now in the construction phase, and has been funded mainly through hospital revenue bonds. The preliminary estimates of project costs are approximately \$14.5 million. Interest expense was capitalized in the amount of \$264,833 during the year ended June 30, 2013.

NOTE 10 LONG-TERM DEBT

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

	Balance June 30, 2012	Additions	Payments (Amortization)	Balance June 30, 2013	Amounts Due Within One Year
2012 Series Bonds	\$ -	\$ 9,735,000	\$ -	\$ 9,735,000	\$ -
2013 Series Bonds	-	5,030,000	-	5,030,000	-
Total Long-Term Debt	<u>\$ -</u>	<u>\$ 14,765,000</u>	<u>\$ -</u>	<u>\$ 14,765,000</u>	<u>\$ -</u>
	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>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 LONG-TERM DEBT (CONTINUED)

Future payments of principal and interest on long-term debt obligations are as follows:

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2014	\$ -	\$ 531,368
2015	-	527,828
2016	590,000	520,123
2017	595,000	510,815
2018	605,000	499,523
2019-2032	<u>12,975,000</u>	<u>4,419,816</u>
	<u>\$ 14,765,000</u>	<u>\$ 7,009,473</u>

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 2012 and 2013 Hospital Revenue Bonds were issued on December 28, 2012 and January 15, 2013 in the amounts of \$9,735,000 and \$5,030,000. RSHHC is required to maintain a sinking fund and a reserve fund. Both of these were fully funded at June 30, 2013.

The bonds are payable solely and only from revenues and receipts of RSHHC and do not constitute an indebtedness of the County.

NOTE 11 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 5.78% of their annual salary and RSHHC is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. RSHHC's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$474,000, \$448,000, and \$377,000, respectively, equal to the required contributions for each year.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 12 CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2013 and 2012 was as follows:

	2013	2012
Medicare	29%	21%
Medicaid	6%	10%
Blue Cross	17%	19%
Other Third-Party Payors, Patients and Residents	48%	50%
	100%	100%

NOTE 13 RELATED PARTY TRANSACTIONS

Regional Health Services Foundation

Regional Health Services Foundation was formed to perform fund raising activities for RHSHC. The Foundation contributed cash and capital equipment in the amount of \$16,028 and \$0 to RHSHC in 2013 and 2012, respectively.

Master Affiliation Agreement

On November 1, 2002, RHSHC 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, RHSHC 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 \$1,180,940 and \$1,204,364 for the years ended June 30, 2013 and 2012, respectively.

Due to/From Affiliated Organization

As of June 30, 2013 and 2012, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center - North Iowa of \$158,159 and \$163,474, 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, 2013 and 2012 were approximately \$299,235 and \$282,268, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 13 RELATED PARTY TRANSACTIONS (CONTINUED)

Regional Health Services of Howard County Foundation

The Foundation was organized under the provisions of the Internal Revenue Code Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Regional Health Services of Howard County. The Foundation made contributions to the Hospital during the years ended June 30, 2013 and 2012 of \$205,251 and \$0, respectively.

NOTE 14 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 POSITION
YEAR ENDED JUNE 30, 2013**

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 520,408	\$ (2,117)	\$ 518,291	\$ 520,683	\$ (2,392)
Estimated Other Revenues/Receipts	<u>15,868,531</u>	<u>377,654</u>	<u>16,246,185</u>	<u>15,701,661</u>	<u>544,524</u>
	16,388,939	375,537	16,764,476	16,222,344	542,132
Expenses/Disbursements Net	<u>15,542,585</u>	<u>1,827,019</u>	<u>17,369,604</u>	<u>19,755,207</u>	<u>2,385,603</u>
	846,354	(1,451,482)	(605,128)	(3,532,863)	2,927,735
Balance Beginning of Year	<u>14,917,214</u>	<u>(6,918,488)</u>	<u>7,998,726</u>	<u>10,163,879</u>	<u>(2,165,153)</u>
Balance End of Year	<u>\$ 15,763,568</u>	<u>\$ (8,369,970)</u>	<u>\$ 7,393,598</u>	<u>\$ 6,631,016</u>	<u>\$ 762,582</u>

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, 2013, the Health System's expenditures did not exceed the amount budgeted.

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OTHER SUPPLEMENTARY INFORMATION

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2013 AND 2012**

	TOTAL	
	<u>2013</u>	<u>2012</u>
PATIENT CARE SERVICES		
Adults and Pediatrics	\$ 1,520,584	\$ 1,372,237
Nursery	96,659	72,727
Total Patient Care Service Revenue	<u>1,617,243</u>	<u>1,444,964</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	1,458,113	1,325,437
Labor and Delivery Room	89,983	68,168
Anesthesiology	657,862	610,119
Radiology	3,811,228	3,268,961
Laboratory	4,082,337	3,394,998
Blood	130,033	119,140
Respiratory Therapy	370,814	376,278
Cardiac Rehabilitation	131,610	130,449
Physical Therapy	838,830	821,621
Occupational Therapy	386,694	353,474
Speech Therapy	53,108	69,160
Electrocardiology	493,331	375,930
Medical and Surgical Supplies	218,690	179,766
Pharmacy	1,473,136	1,435,315
Emergency Room	1,803,347	1,637,458
Ambulance	736,739	626,310
Home Health	877,188	723,236
Outpatient Clinic	53,267	49,004
Clinical Operations	4,676,293	4,466,486
Sleep Lab	143,833	108,941
Durable Medical Equipment	393,201	404,426
Total Other Professional Service Revenue	<u>22,879,637</u>	<u>20,544,677</u>
Gross Patient and Resident Charges	24,496,880	21,989,641
Charity Care	<u>(101,058)</u>	<u>(94,664)</u>
Total Patient Service Revenues	24,395,822	21,894,977
Adjustments to Patient Services Revenues	<u>(9,237,393)</u>	<u>(8,161,715)</u>
Net Patient Service Revenues	<u>\$ 15,158,429</u>	<u>\$ 13,733,262</u>

INPATIENT		OUTPATIENT	
2013	2012	2013	2012
\$ 1,161,362	\$ 1,041,756	\$ 359,222	\$ 330,481
97,173	72,727	(514)	-
<u>1,258,535</u>	<u>1,114,483</u>	<u>358,708</u>	<u>330,481</u>
213,389	185,349	1,244,724	1,140,088
73,693	53,903	16,290	14,265
127,364	112,488	530,498	497,631
176,300	123,463	3,634,928	3,145,498
340,766	296,325	3,741,571	3,098,673
28,753	42,125	101,280	77,015
309,428	314,213	61,386	62,065
-	-	131,610	130,449
221,499	201,286	617,331	620,335
127,800	130,607	258,894	222,867
3,509	1,866	49,599	67,294
25,218	28,039	468,113	347,891
62,958	49,648	155,732	130,118
605,783	508,360	867,353	926,955
49,704	38,267	1,753,643	1,599,191
7,701	4,544	729,038	621,766
-	-	877,188	723,236
-	-	53,267	49,004
-	-	4,676,293	4,466,486
-	-	143,833	108,941
-	-	393,201	404,426
<u>2,373,865</u>	<u>2,090,483</u>	<u>20,505,772</u>	<u>18,454,194</u>
<u>\$ 3,632,400</u>	<u>\$ 3,204,966</u>	<u>\$ 20,864,480</u>	<u>\$ 18,784,675</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, 2013 AND 2012**

	2013	2012
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 2,788,465	\$ 2,797,118
Contractual Adjustments - Medicaid	1,058,955	978,220
Provision for Bad Debts	1,120,590	797,007
Other Allowances and Adjustments	4,269,383	3,589,370
Total Adjustments	\$ 9,237,393	\$ 8,161,715
OTHER REVENUES		
Cafeteria and Meals	\$ 41,289	\$ 34,421
Medical Records Fees	3,167	2,407
Rental Income	48,864	47,174
Grants	107,000	84,000
Miscellaneous	234,941	253,205
Total Other Revenue	\$ 435,261	\$ 421,207

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012**

	TOTAL	
	2013	2012
Employee Benefits	\$ 1,978,508	\$ 1,852,213
Administrative and General	2,383,939	2,010,097
Foundation	19,399	14,114
Central Supply	46,606	37,619
Operation of Plant	343,957	377,267
Laundry and Linen	31,231	27,513
Housekeeping	89,769	87,350
Social Services	35,189	37,436
Nursing Administration	115,241	107,877
Dietary	303,658	289,688
Medical Records	262,810	228,502
Adults and Pediatrics	1,055,991	910,318
Nursery	4,245	16,444
Operating and Recovery Room	294,071	297,954
Labor and Delivery Room	16,469	18,990
Anesthesiology	20,896	19,390
Nonphysician Anesthetists	271,357	214,445
Radiology	924,080	813,182
Laboratory	644,314	565,132
Blood	40,086	38,208
Respiratory Therapy	26,526	31,403
Physical Therapy	492,902	430,449
Occupational Therapy	172,450	151,267
Speech Pathology	21,981	26,345
Electrocardiology	57,772	42,857
Pharmacy and Intravenous Therapy	204,576	239,541
Cardiac Rehabilitation	36,699	39,856
Clinics	2,493,685	2,640,989
Ambulance	234,963	210,214
Outpatient Clinic	1,636	111,013
Durable Medical Equipment	208,601	262,613
Sleep Lab	20,800	15,600
Occupational Health	5,347	4,325
Emergency	739,042	788,464
Home Health	686,209	625,995
Depreciation Expense	978,779	893,421
Interest Expense	278,801	12,020
TOTAL	\$ 15,542,585	\$ 14,490,111

SALARIES		OTHER	
2013	2012	2013	2012
\$ -	\$ -	\$ 1,978,508	\$ 1,852,213
1,057,153	775,153	1,326,786	1,234,944
17,899	14,113	1,500	1
5,079	5,026	41,527	32,593
132,950	169,815	211,007	207,452
5,383	6,275	25,848	21,238
74,458	72,905	15,311	14,445
34,498	36,867	691	569
105,715	99,647	9,526	8,230
190,048	184,603	113,610	105,085
241,236	202,918	21,574	25,584
986,168	809,582	69,823	100,736
13,120	7,447	(8,875)	8,997
192,726	189,489	101,345	108,465
16,469	18,649	-	341
-	-	20,896	19,390
160,618	156,274	110,739	58,171
293,843	282,571	630,237	530,611
276,003	254,252	368,311	310,880
3,990	2,465	36,096	35,743
4,324	7,503	22,202	23,900
59,446	72,115	433,456	358,334
9,656	10,674	162,794	140,593
-	-	21,981	26,345
9,299	8,348	48,473	34,509
6,689	8,755	197,887	230,786
36,003	39,211	696	645
961,961	1,015,243	1,531,724	1,625,746
193,635	170,084	41,328	40,130
(1,496)	102,132	3,132	8,881
106,788	117,292	101,813	145,321
-	-	20,800	15,600
3,599	2,808	1,748	1,517
277,028	251,366	462,014	537,098
475,762	453,678	210,447	172,317
-	-	978,779	893,421
-	-	278,801	12,020
<u>\$ 5,950,050</u>	<u>\$ 5,547,260</u>	<u>\$ 9,592,535</u>	<u>\$ 8,942,851</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, 2013 AND 2012**

Age of Accounts (by Date of Discharge)	2013		2012	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,909,128	49 %	\$ 1,982,709	54 %
31-60 Days	627,640	16 %	502,050	14 %
61-90 Days	317,102	8 %	352,371	10 %
91 Days and Over	1,012,144	27 %	854,418	22 %
Total Accounts Receivable	<u>3,866,014</u>	<u>100 %</u>	<u>3,691,548</u>	<u>100 %</u>
ALLOWANCES				
Contractual:				
Medicare	465,562		321,217	
Medicaid	83,375		142,360	
Other	326,963		300,487	
Doubtful Accounts	<u>799,916</u>		<u>703,175</u>	
Net Accounts Receivable	<u>\$ 2,190,198</u>		<u>\$ 2,224,309</u>	
Net Patient Service Revenue per Calendar Day-Excluding Bad Debt	<u>\$ 44,600</u>		<u>\$ 39,809</u>	
Days of net Revenue in Net Accounts Receivable at Year-End	<u>49</u>		<u>56</u>	

Analysis of Allowance for Doubtful Accounts

	2013		2012	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 703,175		\$ 664,611	
Add:				
Provision for Doubtful Accounts	1,120,590	7.4 %	797,007	5.8 %
Recoveries Previously Written Off	-	- %	260,248	1.9 %
	<u>1,120,590</u>		<u>1,057,255</u>	
Deduct:				
Accounts Written Off	<u>(1,023,849)</u>	(6.8)%	<u>(1,018,691)</u>	(7.4)%
Ending Balance	<u>\$ 799,916</u>		<u>\$ 703,175</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
INVENTORIES		
Central Supply	\$ 140,229	\$ 161,694
Pharmacy	128,215	109,820
Dietary	8,166	5,919
Other	2,790	4,030
DME Supplies	<u>114,196</u>	<u>88,682</u>
Total Inventories	<u>\$ 393,596</u>	<u>\$ 370,145</u>
PREPAID EXPENSES		
Insurance	\$ 139,245	\$ 125,792
Dues and Other	<u>118,328</u>	<u>99,559</u>
Total Prepaid Expenses	<u>\$ 257,573</u>	<u>\$ 225,351</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2013 AND 2012**

	Balance July 1, 2012	Invested	Redeemed	Balance June 30, 2013
Revenue Bond Sinking Fund:				
Money Market Savings	\$ 48,606	\$ -	\$ (48,606)	\$ -
Reserve Fund:				
Building Project Fund	-	13,866,497	(1,108,782)	12,757,715
Depreciation Fund	-	751,116	(220,552)	530,564
Certificate of Deposit	-	1,117,000	-	1,117,000
	<u>\$ 48,606</u>	<u>\$ 15,734,613</u>	<u>\$ (1,377,940)</u>	<u>\$ 14,405,279</u>
Total	<u>\$ 48,606</u>	<u>\$ 15,734,613</u>	<u>\$ (1,377,940)</u>	<u>\$ 14,405,279</u>



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

Board of Trustees
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, Regional Health Services Foundation, as of and for the year ended June 30, 2013, and have issued our report thereon dated October 24, 2013. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as items 2013-1 and 2013-2 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*.

Comments involving statutory and other legal matters about RSHHC's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of 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.

Responses to Findings

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.

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 24, 2013

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements:

2013-1 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, RSHC 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, RSHC 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 RSHC. Due to the limited number of office employees, management will continue to monitor RSHC'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, 2013**

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

2013-2 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 RSHHC. 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 RSHHC 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 RSHHC'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, 2013**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-13 **Certified Budget:** Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation". Disbursements during the year ended June 30, 2013 did not exceed the amended budget amount in the general government and business type activities.
- II-B-13 **Questionable Expenditures:** We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13 **Travel Expense:** No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-13 **Business Transactions:** We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-13 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-13 **Deposits and Investments:** We noted all the Health Service's investments to be in compliance with the state statutes regarding investments.
- II-G-13 **Publication of Bills Allowed and Salaries:** RSHHC is organized under Chapter 347A and is not required to follow this section of the Iowa Code.