

**REGIONAL HEALTH SERVICES
OF HOWARD COUNTY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2014**

<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, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, statements of activities and cash flows for the year ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Health Services of Howard County and its discretely presented component unit as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 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 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 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 September 29, 2014 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
September 29, 2014

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

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, 2014. 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, 2014 and 2013 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 \$18,909, or 0.1%, in 2014, and increased by \$16,124,854, or 97.9%, in 2013.
- RSHHC's Net Position decreased by \$979,544, or (6.2%), in 2014, and increased by \$846,354, or 5.7%, 2013.
- RSHHC reported an operating income (loss) of \$(1,624,778) in 2014, \$51,105 in 2013 and \$(335,642) in 2012. This represents a decrease in operating income 2014 of \$1,675,883 and an increase in 2013 of \$386,747, 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, 2014 AND 2013**

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>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current Assets	\$ 10,346,990	\$ 10,424,719	\$ 8,688,379
Capital Assets, Net	15,298,995	6,733,253	4,469,218
Noncurrent Cash and Investments	<u>6,970,779</u>	<u>15,439,883</u>	<u>3,315,404</u>
Total Assets	<u>\$ 32,616,764</u>	<u>\$ 32,597,855</u>	<u>\$ 16,473,001</u>
Liabilities:			
Total Current Liabilities	\$ 3,090,355	\$ 1,525,524	\$ 1,032,835
Long-Term Debt (Less Current Maturities)	<u>14,175,000</u>	<u>14,765,000</u>	<u>-</u>
Total Liabilities	17,265,355	16,290,524	1,032,835
Deferred Inflows of Resources	567,385	543,763	522,952
Net Position:			
Invested in Capital Assets Net of Related Debt	5,269,494	4,725,968	4,469,218
Restricted	1,117,045	1,647,564	-
Unrestricted	<u>8,397,485</u>	<u>9,390,036</u>	<u>10,447,996</u>
Total Net Position	<u>14,784,024</u>	<u>15,763,568</u>	<u>14,917,214</u>
Total Liabilities and Net Position	<u>\$ 32,616,764</u>	<u>\$ 32,597,855</u>	<u>\$ 16,473,001</u>

Asset categories changing significantly during 2014 and 2013 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$878,977, or 23%, in 2014 and increased by \$756,424, or 24%, in 2013. Current Investments decreased by \$2,113,298, or (74%), in 2014 and increased by \$1,327,575, or 86%, in 2013 as investments were converted into cash during the year. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2014 by \$283,857, or 13%, and decreased in 2013 by \$34,111, or (2%).

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

The current ratio (current assets divided by current liabilities) for 2014 was 3.3, for 2013 was 6.8 and for 2012 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 2014, 2013 and 2012 included non-current cash and investments. Non-current cash and investments decreased by \$8,469,104, or (55%), in 2014, and increased by \$12,124,479, or 366%, in 2013.

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

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

	2014	2013	2012
Net Patient Service Revenue	\$ 14,167,578	\$ 15,158,429	\$ 13,733,262
Other Operating Revenue	474,461	435,261	421,207
Total Revenue	<u>14,642,039</u>	<u>15,593,690</u>	<u>14,154,469</u>
Operating Expenses:			
Salaries and Wages	6,374,607	5,950,050	5,547,246
Employee Benefits	2,137,160	1,978,508	1,852,213
Supplies and Miscellaneous	6,694,285	6,635,248	5,918,430
Depreciation	1,060,765	978,779	893,421
Total Operating Expenses	<u>16,266,817</u>	<u>15,542,585</u>	<u>14,211,310</u>
Operating Income (Loss)	(1,624,778)	51,105	(56,841)
Non-Operating Revenues (Expenses) :			
Tax Revenue	545,098	520,408	491,716
Investment Income	14,085	17,347	43,532
Noncapital Grants and Contributions	23,927	23,962	55,446
Gain (Loss) on Sale of Property and Equipment	(38,930)	-	11,167
Non-Operating Revenues (Expenses)	<u>544,180</u>	<u>561,717</u>	<u>601,861</u>
Excess (Deficit) of Revenues over Expenses before Capital Grants and Contributions	(1,080,598)	612,822	545,020
Capital Grants and Contributions	<u>101,054</u>	<u>233,532</u>	<u>163,936</u>
Increase (Decrease) in Net Position	(979,544)	846,354	708,956
Net Position, Beginning of Year	<u>16,042,369</u>	<u>15,196,015</u>	<u>14,487,059</u>
Net Position, End of Year	<u>\$ 15,062,825</u>	<u>\$ 16,042,369</u>	<u>\$ 15,196,015</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

Net patient service revenue made up 97% in 2014, 97% in 2013 and 97% in 2012 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

	2014	2013	2012
Total Patient Service Revenues	\$ 24,649,041	\$ 24,395,822	\$ 21,894,977
Contractual Adjustments and Provision for Bad Debt	10,481,463	9,237,393	8,161,715
Net Patient Service Revenue	<u>\$ 14,167,578</u>	<u>\$ 15,158,429</u>	<u>\$ 13,733,262</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>42.52%</u>	<u>37.86%</u>	<u>37.28%</u>

Total operating expenses increased \$724,232, or 4.66%, in 2014 and increased \$1,052,474, or 7.26%, in 2013. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 33 and 34 of the audited financial statements for this information.

Operating Income (loss) was \$(1,624,778), or (11.1%) of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2014 compared to \$51,105, or (0.3%), in 2013.

Other Operating Revenue increased by \$39,200, or 0.25%, in 2014 and increased by \$14,054, or 0.1%, in 2013 and increased by \$40,305, or 11%, in 2012. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2014	2013	2012
Meals Sold	\$ 44,672	\$ 41,289	\$ 34,421
Dietary Consultations	51,746	48,003	51,440
Medical Records Transcripts	3,132	3,167	2,407
Occupational Health	13,911	18,925	9,923
Vending Machines	312	796	1,302
Purchase Discounts and Rebates	39,243	34,745	30,205
Grant Revenues	20,620	23,880	25,997
Public Health Support	107,415	107,000	84,000
Clinic Rental Income	44,877	48,864	47,174
Miscellaneous	148,533	108,592	134,338
Total Other Revenues	<u>\$ 474,461</u>	<u>\$ 435,261</u>	<u>\$ 421,207</u>

HOSPITAL STATISTICAL DATA

Table 5 shows RSHHC's statistical data. Acute Patient Days decreased in 2014 by 23 days or 3.6%, increased in 2013 by 41 days or 7%. Swing Bed Days have decreased in 2014 by 183 days or -24%, decreased by 123 days or -16% in 2013, and increased by 107 days, or 13.5% in 2012.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

HOSPITAL STATISTICAL DATA (CONTINUED)

Table 5: Statistical Data

	2014	2013	2012
Patient Days			
Acute	619	642	601
Swing Bed	592	775	898
Newborn	100	110	101
Total	<u>1,311</u>	<u>1,527</u>	<u>1,600</u>
Admissions			
Acute	214	238	228
Swing Bed	58	82	94
Newborn	47	55	51
Total	<u>319</u>	<u>375</u>	<u>373</u>
Discharges			
Acute	215	234	231
Swing Bed	58	81	97
Newborn	45	55	49
Total	<u>318</u>	<u>370</u>	<u>377</u>
Average Length of Stay, Acute	<u>2.88</u>	<u>2.44</u>	<u>2.62</u>
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute, Based on 25 Beds	6.8%	7.0%	6.6%
Swing, Based on 25 Beds	6.5%	8.5%	9.8%

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, 2014, RHSHC had \$15,298,995 invested in capital assets, net of accumulated depreciation. In 2014, RHSHC expended \$9,693,629 to purchase property and equipment. In 2013 and 2012, RHSHC purchased property and equipment costing \$3,242,814 and \$1,432,255, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

HOSPITAL STATISTICAL DATA (CONTINUED)

Long-Term Debt

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

Table 6: Long-Term Debt

	2014	2013	2012
2012 Series Bonds	\$ 9,735,000	\$ 9,735,000	\$ -
2013 Series Bonds	5,030,000	5,030,000	-
Total Long-Term Debt	<u>\$ 14,765,000</u>	<u>\$ 14,765,000</u>	<u>\$ -</u>

During the 2013 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 2015 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 2014 we are highlighting the following items:

1. Phase one of the \$14 Million Building Expansion/Renovation project was completed in June of 2014. Phase one included eight single Med/Surgery patient rooms, same day surgery rooms, a new Rehab department, including a gymnasium area for patients, a new front entrance/reception area and a full upgrade to our mechanical system.
2. In March of 2014, an additional CRNA, specializing in Pain Management, was hired and RSHHC opened up a Pain Management Clinic.
3. The addition of two Family Practice Physicians and one Nurse Practitioner, to our provider group.
4. Development of 340b Outpatient Drug Program with Sterling Drug.
5. As part of our Process Excellence Journey, a Waste Elimination Program was implemented.
6. RSHHC implemented a hospitalist model, allowing continuity of care for patients and staff and a better work/life balance for our providers.

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

1. The recruitment of an additional Family Practice Physician who also performs OB services.
2. Completing the construction of the final phases of our \$14 Million Building Expansion / Renovation project.
3. Opening the Cresco Family Pharmacy, an on-site retail pharmacy, owned and operated by RSHHC.
4. The recruitment of a Mental Health Provider and execution of Mental Health Services business Plan.
5. Implementation of Clinical Electronic Health Record.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

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, 2014 AND 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,728,938	\$ 3,849,961
Investments	755,456	2,868,754
Current Portion of Noncurrent Cash and Investments	388,452	-
Patient Receivables, Less Allowance for Uncollectible Accounts of \$764,000 in 2014 and \$800,000 in 2013	2,474,055	2,190,198
Other Receivables	207,355	151,851
Estimated Third-Party Payor Settlements	533,771	169,175
Supplies	410,446	393,596
Prepaid Expenses	281,500	257,573
Succeeding Year Property Tax Receivable	567,017	543,611
Total Current Assets	10,346,990	10,424,719
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	1,118,235	1,034,604
Restricted Project Funds	4,735,499	12,757,715
Restricted Under Debt Agreements	1,117,045	1,647,564
Total Noncurrent Cash and Investments	6,970,779	15,439,883
CAPITAL ASSETS, NET		
	15,298,995	6,733,253
Total Assets	\$ 32,616,764	\$ 32,597,855

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 590,000	\$ -
Accounts Payable	829,588	520,770
Construction Payable	968,058	344,986
Accrued Expenses	702,709	659,768
Total Current Liabilities	<u>3,090,355</u>	<u>1,525,524</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES	<u>14,175,000</u>	<u>14,765,000</u>
Total Liabilities	17,265,355	16,290,524
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue - Succeeding Year Property Tax Receivable	<u>567,385</u>	<u>543,763</u>
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	5,269,494	4,725,968
Restricted Under Debt Agreements	1,117,045	1,647,564
Unrestricted	8,397,485	9,390,036
Total Net Position	<u>14,784,024</u>	<u>15,763,568</u>
Total Liabilities and Net Position	<u>\$ 32,616,764</u>	<u>\$ 32,597,855</u>

**REGIONAL HEALTH SERVICES FOUNDATION
BALANCE SHEETS
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 413,293	\$ 49,231
Current Portion of Pledges Receivable	264,614	247,235
Beneficial Interest in Community Foundation	28,583	26,408
Total Current Assets	706,490	322,874
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	447,613	580,184
Total Assets	\$ 1,154,103	\$ 903,058
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 576	\$ 14
NET ASSETS		
Unrestricted	78,674	75,327
Temporarily Restricted	1,074,853	827,717
Total Net Assets	1,153,527	903,044
Total Liabilities and Net Assets	\$ 1,154,103	\$ 903,058

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, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$1,278,325 in 2014 and \$1,120,590 in 2013)	\$ 14,167,578	\$ 15,158,429
Other Operating Revenue	474,461	435,261
Total Operating Revenues	14,642,039	15,593,690
EXPENSES		
Salaries and Wages	6,374,607	5,950,050
Employee Benefits	2,137,160	1,978,508
Supplies and Miscellaneous	6,694,285	6,635,248
Depreciation	1,060,765	978,779
Total Expenses	16,266,817	15,542,585
OPERATING INCOME (LOSS)	(1,624,778)	51,105
NON-OPERATING GAINS (LOSS)		
Tax Revenue	545,098	520,408
Investment Income	14,085	17,347
Noncapital Grants and Contributions	23,927	23,962
Loss on Sale of Capital Assets	(38,930)	-
Non-Operating Gains, Net	544,180	561,717
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(1,080,598)	612,822
Capital Contributions and Grants	101,054	233,532
Increase (Decrease)in Net Position	(979,544)	846,354
Net Position - Beginning of Year	15,763,568	14,917,214
Net Position - End of Year	\$ 14,784,024	\$ 15,763,568

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013**

	Unrestricted	Temporarily Restricted	2014 Total
OPERATING REVENUES			
Contributions	\$ 220	\$ 327,281	\$ 327,501
Interest Income	4,078	-	4,078
Released From Restrictions	80,145	(80,145)	-
Total Operating Revenues	84,443	247,136	331,579
EXPENSES			
Contributions to Regional Health Services of Howard County	80,145	-	80,145
Supplies and Miscellaneous	951	-	951
Total Expenses	81,096	-	81,096
INCREASE IN NET ASSETS	3,347	247,136	250,483
Net Assets - Beginning of Year	75,327	827,717	903,044
Net Assets - End of Year	\$ 78,674	\$ 1,074,853	\$ 1,153,527
	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

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 13,519,125	\$ 15,556,238
Cash Paid to Employees	(8,468,826)	(7,783,313)
Cash Paid to Suppliers	(6,413,744)	(6,531,009)
Other Receipts and Payments, Net	431,457	415,106
Net Cash Provided (Used) by Operating Activities	(931,988)	1,657,022
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions and Other Nonoperating Revenue	23,927	23,962
Tax Appropriations	545,314	518,291
Net Cash Provided by Non-Capital Financing Activities	569,241	542,253
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment,	(9,070,565)	(3,055,282)
Proceeds from Sale of Property and Equipment	3,200	-
Proceeds From Bonds	-	14,765,000
Capital Contributions and Grants	101,054	233,532
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,966,311)	11,943,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	14,085	17,347
(Increase) Decrease in Noncurrent Cash and Investments	10,193,950	(13,403,448)
Net Cash Provided (Used) by Financing Activities	10,208,035	(13,386,101)
INCREASE IN CASH AND CASH EQUIVALENTS	878,977	756,424
Cash and Cash Equivalents - Beginning	3,849,961	3,093,537
CASH AND CASH EQUIVALENTS - ENDING	\$ 4,728,938	\$ 3,849,961

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,624,778)	\$ 51,105
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Provision for Bad Debts	1,278,325	1,120,590
Depreciation	1,060,765	978,779
(Increase) Decrease in:		
Patient Receivables	(1,562,182)	(1,086,479)
Third-Party Payor Settlements Receivable	(364,596)	363,698
Other Receivables	(43,004)	(20,155)
Supplies	(16,850)	(23,451)
Prepaid Expenses	(11,427)	(32,222)
Increase (Decrease) in:		
Accounts Payable	308,818	159,912
Accrued Expenses	42,941	145,245
Net Cash Provided (Used) by Operating Activities	\$ (931,988)	\$ 1,657,022
 NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid For Interest	\$ 521,368	\$ 220,553

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 250,483	\$ 849,963
(Increase) Decrease in Pledge Receivable	115,192	(827,419)
Increase (Decrease) in Accounts Payable	562	(281)
Net Cash Provided by Operating Activities	366,237	22,263
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Beneficial Interest in Community Foundation	(2,175)	(2,313)
INCREASE IN CASH AND CASH EQUIVALENTS	364,062	19,950
Cash and Cash Equivalents - Beginning	49,231	29,281
CASH AND CASH EQUIVALENTS - ENDING	\$ 413,293	\$ 49,231

See accompanying Notes to Financial Statements.

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REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 13.

Tax Exempt Status

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

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

Reporting Entity

For financial reporting purposes, the 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, 2014 AND 2013

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, 2014 and 2013, the allowance for uncollectible accounts was approximately \$764,000 and \$800,000, 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, 2014 AND 2013

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 \$712,227 and \$827,419 as of June 30, 2014 and 2013, 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 \$148,698 and \$194,152 at June 30, 2014 and 2013, 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 \$5,000 or greater are capitalized and depreciated over the life of the asset. Capital expenditures less than \$5,000 are expensed when incurred.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consists of succeeding year property tax receivable.

Net Position

Net Position of RSHSC 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, 2012 have been settled by the intermediary.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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

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, 2014 and 2013 was \$175,834 and \$101,058, respectively.

Change in Accounting Standards

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

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

Reclassifications

Certain items in the 2013 financial statements have been reclassified for consistency with the 2014 financial statements. The results of these reclassifications did not result in changes to the Hospital's net position or increase in net position as previously reported.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 DESIGNATED NET POSITION

Of the \$7,807,485 and \$9,390,036 of unrestricted Net Position at June 30, 2014 and 2013, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2014	2013
For Capital Improvements	\$ 1,118,235	\$ 1,034,604

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, 2012.

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, 2014 AND 2013

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	<u>2014</u>	<u>2013</u>
Total Patient Service Revenue	\$ 24,649,041	\$ 24,395,822
Contractual Adjustments:		
Medicare	3,296,089	2,788,465
Medicaid	1,256,651	1,058,955
Provision for Bad Debt	1,278,325	1,120,590
Other	<u>4,650,398</u>	<u>4,269,383</u>
Total Contractual Adjustments	<u>10,481,463</u>	<u>9,237,393</u>
Net Patient Service Revenue	<u>\$ 14,167,578</u>	<u>\$ 15,158,429</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 \$534,000 at June 30, 2014. At June 30, 2013, the agencies owed the hospital approximately \$147,000.

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by RHSHC at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Receivables from Patients and Their Insurance Carriers	\$ 1,468,654	\$ 2,208,562
Receivables from Medicare	1,457,695	640,162
Receivables from Medicaid	311,836	141,390
Total Patient Receivables	<u>3,238,185</u>	<u>2,990,114</u>
Less: Allowance for Doubtful Accounts	(764,130)	(799,916)
Patient Receivables, Net	<u>\$ 2,474,055</u>	<u>\$ 2,190,198</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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, 2014 and 2013:

	2014	2013
Less than One Year	\$ 270,692	\$ 253,340
One to Five Years	590,233	768,231
	860,925	1,021,571
Less Discount	(69,562)	(102,217)
Less Allowance for Uncollectible Promises to Give	(79,136)	(91,935)
Unconditional Promises to Give, Net	\$ 712,227	\$ 827,419

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.

NOTE 8 DEPOSITS AND INVESTMENTS

The deposits of RSHHC at June 30, 2014 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.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits and investments shown above are included in RSHHC's statement of net position as follows:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 4,728,938	\$ 3,849,961
Investments	755,456	2,868,754
Current Portion of Noncurrent Cash and Investments	388,452	-
Noncurrent Cash and Investments:		
Internally Designated for Bond Agreement	1,117,045	1,647,564
Internally Designated for Project Funds	4,735,499	12,757,715
Internally Designated for Capital Improvements	1,118,235	1,034,604
Total	<u>\$ 12,843,625</u>	<u>\$ 22,158,598</u>

NOTE 9 CAPITAL ASSETS

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

	Balance June 30, 2013	Additions	Transfers	(Retirements)	Balance June 30, 2014
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 227,107	\$ -	\$ 28,761	\$ (22,964)	\$ 232,904
Building	3,651,040	6,260	6,695,495	(104,926)	10,247,869
Fixed Equipment	2,547,615	-	2,787,700	(322,708)	5,012,607
Major Movable Equipment	6,930,886	245,184	361,765	(362,732)	7,175,103
Construction in Process	2,637,002	9,442,185	(9,873,721)	(56,351)	2,149,115
Total	<u>15,993,650</u>	<u>9,693,629</u>	<u>-</u>	<u>(869,681)</u>	<u>24,817,598</u>
ACCUMULATED DEPRECIATION					
Land Improvements	175,319	7,266	-	(22,964)	159,621
Building	2,672,945	111,684	-	(104,926)	2,679,703
Fixed Equipment	2,165,484	118,218	-	(320,040)	1,963,662
Major Movable Equipment	4,246,649	823,212	-	(354,244)	4,715,617
Total	<u>9,260,397</u>	<u>\$ 1,060,380</u>	<u>\$ -</u>	<u>\$ (802,174)</u>	<u>9,518,603</u>
Property and Equipment, Net	<u>\$ 6,733,253</u>				<u>\$ 15,298,995</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 9 CAPITAL ASSETS (CONTINUED)

	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>

Construction in progress (CIP) at June 30, 2014 of \$2,149,868 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. Phase one of the three phase project was completed during the fiscal year. The preliminary estimates of project costs are approximately \$14.5 million. Interest expense was capitalized in the amount of \$531,368 and \$264,833 during the year ended June 30, 2014 and 2013, respectively.

NOTE 10 LONG-TERM DEBT

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

	Balance June 30, 2013	Additions	Payments (Amortization)	Balance June 30, 2014	Amounts Due Within One Year
2012 Series Bonds	\$ 9,735,000	\$ -	\$ -	\$ 9,735,000	\$ -
2013 Series Bonds	5,030,000	-	-	5,030,000	590,000
Total Long-Term Debt	<u>\$ 14,765,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,765,000</u>	<u>\$ 590,000</u>
	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>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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
2015	\$ 590,000	\$ 527,828
2016	595,000	520,123
2017	605,000	510,815
2018	615,000	499,523
2019	630,000	485,970
2020-2024	3,440,000	2,140,468
2025-2029	4,185,000	1,396,871
2030-2033	4,105,000	396,508
	<u>\$ 14,765,000</u>	<u>\$ 6,478,106</u>

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. Payments of interest at rates from 1.2% to 4.9% are payable semi-annually on June 1 and December 1, and principal payments are due annually on December 1 through 2032.

RHSHC is subject to certain covenants under the bond agreement regarding the funding of a sinking fund and a reserve fund. Both of these were fully funded at June 30, 2014 and 2013.

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

NOTE 11 PENSION PLAN

RHSHC 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 5.95% of their annual salary and RHSHC is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. RHSHC's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$505,000, \$474,000, and \$448,000, respectively, equal to the required contributions for each year.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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, 2014 and 2013 was as follows:

	2014	2013
Medicare	34%	29%
Medicaid	7%	6%
Blue Cross	21%	17%
Other Third-Party Payors, Patients and Residents	38%	48%
	100%	100%

NOTE 13 RELATED PARTY TRANSACTIONS

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, 2014 and 2013 of \$80,145 and \$205,251, 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 \$2,469,093 and \$2,404,936 for the years ended June 30, 2014 and 2013, respectively.

Due to/From Affiliated Organization

As of June 30, 2014 and 2013, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center - North Iowa of \$251,170 and \$158,159, respectively, for the various services and distributions related to these agreements.

Management Services Agreement

RHSHC has a contractual arrangement with Mercy Health Network under which Mercy Health Network 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, 2014 and 2013 were approximately \$305,509 and \$299,235, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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.

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, 2014**

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 545,098	\$ 216	\$ 545,314	\$ 537,054	\$ 8,260
Estimated Other Revenues/Receipts	<u>14,742,175</u>	<u>(649,327)</u>	<u>14,092,848</u>	<u>17,563,011</u>	<u>(3,470,163)</u>
	15,287,273	(649,111)	14,638,162	18,100,065	(3,461,903)
Expenses/Disbursements Net	<u>16,266,817</u>	<u>7,686,318</u>	<u>23,953,135</u>	<u>29,594,982</u>	<u>5,641,847</u>
	(979,544)	(8,335,429)	(9,314,973)	(11,494,917)	2,179,944
Balance Beginning of Year	<u>15,763,568</u>	<u>6,395,030</u>	<u>22,158,598</u>	<u>22,577,257</u>	<u>(418,659)</u>
Balance End of Year	<u>\$ 14,784,024</u>	<u>\$ (1,940,399)</u>	<u>\$ 12,843,625</u>	<u>\$ 11,082,340</u>	<u>\$ 1,761,285</u>

This budgetary comparison is presented as Required Supplementary Information in accordance with the Governmental Accounting Standards Board 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, 2014.

For the year ended June 30, 2014, 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, 2014 AND 2013**

	TOTAL	
	2014	2013
PATIENT CARE SERVICES		
Adults and Pediatrics	\$ 1,369,238	\$ 1,520,584
Nursery	96,205	96,659
Total Patient Care Service Revenue	<u>1,465,443</u>	<u>1,617,243</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	1,554,665	1,458,113
Labor and Delivery Room	86,116	89,983
Anesthesiology	716,439	657,862
Radiology	3,818,951	3,811,228
Laboratory	4,504,818	4,082,337
Blood	128,540	130,033
Respiratory Therapy	313,732	370,814
Cardiac Rehabilitation	115,023	131,610
Physical Therapy	793,773	838,830
Occupational Therapy	342,878	386,694
Speech Therapy	51,446	53,108
Electrocardiology	447,942	493,331
Medical and Surgical Supplies	196,872	218,690
Pharmacy	1,356,457	1,473,136
Emergency Room	1,916,588	1,803,347
Ambulance	633,736	736,739
Home Health	927,522	877,188
Outpatient Clinic	61,726	53,267
Clinical Operations	4,872,138	4,676,293
Sleep Lab	118,654	143,833
Durable Medical Equipment	401,416	393,201
Total Other Professional Service Revenue	<u>23,359,432</u>	<u>22,879,637</u>
Gross Patient and Resident Charges	24,824,875	24,496,880
Charity Care	<u>(175,834)</u>	<u>(101,058)</u>
Total Patient Service Revenues	24,649,041	24,395,822
Adjustments to Patient Services Revenues	<u>(10,481,463)</u>	<u>(9,237,393)</u>
Net Patient Service Revenues	<u>\$ 14,167,578</u>	<u>\$ 15,158,429</u>

INPATIENT		OUTPATIENT	
2014	2013	2014	2013
\$ 1,039,232	\$ 1,161,362	\$ 330,006	\$ 359,222
95,881	97,173	324	(514)
<u>1,135,113</u>	<u>1,258,535</u>	<u>330,330</u>	<u>358,708</u>
167,196	213,389	1,387,469	1,244,724
72,098	73,693	14,018	16,290
96,527	127,364	619,912	530,498
125,377	176,300	3,693,574	3,634,928
361,969	340,766	4,142,849	3,741,571
31,076	28,753	97,464	101,280
255,147	309,428	58,585	61,386
-	-	115,023	131,610
154,247	221,499	639,526	617,331
105,469	127,800	237,409	258,894
15,658	3,509	35,788	49,599
24,104	25,218	423,838	468,113
60,107	62,958	136,765	155,732
541,984	605,783	814,473	867,353
39,990	49,704	1,876,598	1,753,643
5,133	7,701	628,603	729,038
-	-	927,522	877,188
-	-	61,726	53,267
-	-	4,872,138	4,676,293
-	-	118,654	143,833
-	-	401,416	393,201
<u>2,056,082</u>	<u>2,373,865</u>	<u>21,303,350</u>	<u>20,505,772</u>
<u>\$ 3,191,195</u>	<u>\$ 3,632,400</u>	<u>\$ 21,633,680</u>	<u>\$ 20,864,480</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, 2014 AND 2013**

	2014	2013
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 3,296,089	\$ 2,788,465
Contractual Adjustments - Medicaid	1,256,651	1,058,955
Provision for Bad Debts	1,278,325	1,120,590
Other Allowances and Adjustments	4,650,398	4,269,383
Total Adjustments	\$ 10,481,463	\$ 9,237,393
OTHER REVENUES		
Cafeteria and Meals	\$ 44,672	\$ 41,289
Medical Records Fees	3,132	3,167
Rental Income	44,877	48,864
Grants	107,415	107,000
Miscellaneous	274,365	234,941
Total Other Revenue	\$ 474,461	\$ 435,261

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
Employee Benefits	\$ 2,137,160	\$ 1,978,508
Administrative and General	2,227,231	2,383,939
Foundation	7,907	19,399
Central Supply	49,664	46,606
Operation of Plant	349,664	343,957
Laundry and Linen	36,384	31,231
Housekeeping	101,642	89,769
Social Services	28,637	35,189
Nursing Administration	121,612	115,241
Dietary	280,281	303,658
Medical Records	281,851	262,810
Adults and Pediatrics	1,132,128	1,055,991
Nursery	9,212	4,245
Operating and Recovery Room	434,853	294,071
Labor and Delivery Room	19,538	16,469
Anesthesiology	21,793	20,896
Nonphysician Anesthetists	232,021	271,357
Radiology	734,049	924,080
Laboratory	705,321	644,314
Blood	35,607	40,086
Respiratory Therapy	17,421	26,526
Physical Therapy	514,137	492,902
Occupational Therapy	175,809	172,450
Speech Pathology	26,651	21,981
Electrocardiology	51,474	57,772
Pharmacy and Intravenous Therapy	371,316	204,576
Cardiac Rehabilitation	46,790	36,699
Clinics	2,702,061	2,493,685
Ambulance	289,774	234,963
Outpatient Clinic	9,243	1,636
Durable Medical Equipment	218,643	208,601
Sleep Lab	21,390	20,800
Occupational Health	9,644	5,347
Emergency	965,726	739,042
Home Health	839,418	686,242
Depreciation Expense	1,060,765	978,779
Amortization Expense	-	278,801
TOTAL	\$ 16,266,817	\$ 15,542,618

SALARIES		OTHER	
2014	2013	2014	2013
\$ -	\$ -	\$ 2,137,160	\$ 1,978,508
872,719	1,057,153	1,354,512	1,326,786
6,907	17,899	1,000	1,500
3,965	5,079	45,699	41,527
125,886	132,950	223,778	211,007
2,957	5,383	33,427	25,848
82,343	74,458	19,299	15,311
28,343	34,498	294	691
109,742	105,715	11,870	9,526
184,162	190,048	96,119	113,610
258,099	241,236	23,752	21,574
970,650	986,168	161,478	69,823
9,190	13,120	22	(8,875)
287,792	192,726	147,061	101,345
19,497	16,469	41	-
-	-	21,793	20,896
172,956	160,618	59,065	110,739
287,068	293,843	446,981	630,237
299,473	276,003	405,848	368,311
5,750	3,990	29,857	36,096
1,814	4,324	15,607	22,202
60,851	59,446	453,286	433,456
9,653	9,656	166,156	162,794
-	-	26,651	21,981
7,181	9,299	44,293	48,473
80,385	6,689	290,931	197,887
37,398	36,003	9,392	696
1,047,983	961,961	1,654,078	1,531,724
242,950	193,635	46,824	41,328
7,335	(1,496)	1,908	3,132
100,863	106,788	117,780	101,813
-	-	21,390	20,800
6,020	3,599	3,624	1,748
465,524	277,028	500,202	462,014
579,151	475,795	260,267	210,447
-	-	1,060,765	978,779
-	-	-	278,801
<u>\$ 6,374,607</u>	<u>\$ 5,950,083</u>	<u>\$ 9,892,210</u>	<u>\$ 9,592,535</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2014 AND 2013**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2014		2013	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 2,114,578	49 %	\$ 1,909,128	49 %
31-60 Days	692,493	16 %	627,640	16 %
61-90 Days	370,114	9 %	317,102	8 %
91 Days and Over	1,121,547	26 %	1,012,144	27 %
Total Accounts Receivable	<u>4,298,732</u>	<u>100 %</u>	<u>3,866,014</u>	<u>100 %</u>
ALLOWANCES				
Contractual:				
Medicare	471,144		465,562	
Medicaid	175,629		83,375	
Other	413,774		326,963	
Doubtful Accounts	<u>764,130</u>		<u>799,916</u>	
Net Accounts Receivable	<u>\$ 2,474,055</u>		<u>\$ 2,190,198</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 42,318</u>		<u>\$ 40,695</u>	
Days of net Revenue in Net Accounts Receivable at Year-End	<u>58</u>		<u>54</u>	

Analysis of Allowance for Doubtful Accounts

	2014		2013	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 799,916		\$ 703,175	
Add:				
Provision for Doubtful Accounts	1,278,325	9.0 %	1,120,590	7.4 %
Recoveries Previously Written Off	<u>166,736</u>	1.2 %	<u>220,251</u>	1.5 %
	1,445,061		1,340,841	
Deduct:				
Accounts Written Off	<u>(1,480,847)</u>	(10.5)%	<u>(1,244,100)</u>	(8.2)%
Ending Balance	<u>\$ 764,130</u>		<u>\$ 799,916</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
INVENTORIES		
Central Supply	\$ 149,703	\$ 140,229
Pharmacy	118,665	128,215
Dietary	8,537	8,166
Other	1,921	2,790
DME Supplies	<u>131,620</u>	<u>114,196</u>
Total Inventories	<u>\$ 410,446</u>	<u>\$ 393,596</u>
PREPAID EXPENSES		
Insurance	\$ 165,274	\$ 139,245
Dues and Other	<u>116,226</u>	<u>118,328</u>
Total Prepaid Expenses	<u>\$ 281,500</u>	<u>\$ 257,573</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2014 AND 2013**

	Balance July 1, 2013	Invested	Redeemed	Balance June 30, 2014
Revenue Bond Sinking Fund:				
Money Market Savings	\$ -	\$ 344,171	\$ -	\$ 344,171
Reserve Fund:				
Building Project Fund	12,757,715	11,671	(8,033,887)	4,735,499
Interest Fund	530,564	47,085	(533,368)	44,281
Certificate of Deposit	1,117,000	45	-	1,117,045
	<u>\$ 14,405,279</u>	<u>\$ 402,972</u>	<u>\$ (8,567,255)</u>	<u>\$ 6,240,996</u>
Total				

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

Board of Trustees
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, 2014, and have issued our report thereon dated September 29, 2014. 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 2014-1 to be a material weakness.

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, 2014 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
September 29, 2014

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements:

2014-1 Segregation of Duties

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

Condition: 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, 2014**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 **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, 2014 did not exceed the amended budget amount in the general government and business type activities.
- II-B-14 **Questionable Expenditures:** We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-14 **Travel Expense:** No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-14 **Business Transactions:** We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-14 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-14 **Deposits and Investments:** We noted all the Health Service’s investments to be in compliance with the state statutes regarding investments.
- II-G-14 **Publication of Bills Allowed and Salaries:** RSHHC is organized under Chapter 347A and is not required to follow this section of the Iowa Code.