

**REGIONAL HEALTH SERVICES
OF HOWARD COUNTY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

BOARD OF TRUSTEES	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION - REGIONAL HEALTH SERVICES OF HOWARD COUNTY	12
STATEMENTS OF FINANCIAL POSITION – REGIONAL HEALTH SERVICES FOUNDATION	14
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – REGIONAL HEALTH SERVICES OF HOWARD COUNTY	15
STATEMENTS OF ACTIVITIES – REGIONAL HEALTH SERVICES FOUNDATION	16
STATEMENTS OF CASH FLOWS – REGIONAL HEALTH SERVICES OF HOWARD COUNTY	17
STATEMENTS OF CASH FLOWS – REGIONAL HEALTH SERVICES FOUNDATION	19
NOTES TO FINANCIAL STATEMENTS	20
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	37
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)	38
SCHEDULE OF HOSPITAL CONTRIBUTIONS	39
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF PATIENT SERVICE REVENUE	40
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUE	42
SCHEDULES OF OPERATING EXPENSES	43

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	45
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	46
SCHEDULES OF BOND INVESTMENT TRANSACTIONS	47
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	48
SCHEDULE OF FINDINGS AND RESPONSES	50

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2016**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Willis	Chairperson	December 31, 2020
John Wacha, III	Vice Chairperson	December 31, 2016
Helen Jean Kapler	Secretary	December 31, 2020
Allen Moudry	Treasurer	December 31, 2018
Don Recker	Member	December 31, 2016
Chuck Malek	Member	December 31, 2018
Mike Mahr	Member	December 31, 2018
Robin Schluter	Chief Executive Officer	
Gregory Burkel	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 statements of financial position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, statements of activities, and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

During the year ended June 30, 2016, an error was identified in the June 2015 financial statements of Regional Health Services of Howard County. As a result, a prior period adjustment is required to restate amounts in the financial statements as of and for the year ended June 30, 2015. Regional Health Services of Howard County reported a restatement for the correction of the error (See Note 12). Our auditors' opinion was not modified with respect to the restatement.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11, the budgetary comparison information on page 37 and the proportionate share of the net pension liability and pension contribution information on pages 38 and 39 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.

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

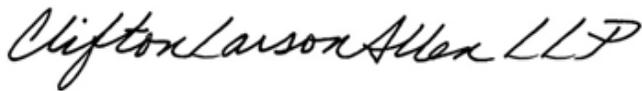
Supplementary Information

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 40 through 47 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Board of Trustees
Regional Health Services of Howard County

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
October 24, 2016

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

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, 2016. 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, 2016 and 2015 financial reports include the following audited financial statements:

- Statements of Net Position - Regional Health Services of Howard County
- Statements of Financial Position - Regional Health Services Foundation
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Activates
- Statements of Cash Flows
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- RSHHC's total assets decreased by \$1,010,136, or (3.3%), in 2016 and decreased by \$1,799,421, or (5.5%), in 2015.
- RSHHC's Net Position decreased by \$561,961, or (6.3%), in 2016, and decreased by \$481,862, or (5.1%), in 2015.
- RSHHC reported an operating income (loss) of \$(1,265,807) in 2016, \$(1,661,065) in 2015 and \$(1,624,778) in 2014. This represents an increase in operating income in 2016 of \$395,258 and a decrease in 2015 of \$36,287, 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 Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

FINANCIAL ANALYSIS OF RHSHC

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 RHSHC and the changes in them. Increases or decreases in Net Position are one indicator of whether or not RHSHC's financial health is improving. Other non-financial factors can also have an effect on the RHSHC'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

	2016	2015 As Restated	2014
Assets:			
Current Assets	\$ 9,178,255	\$ 9,934,588	\$ 10,346,990
Capital Assets, Net	17,147,849	17,301,337	15,298,995
Noncurrent Cash and Investments	3,481,103	3,581,418	6,970,779
Total Assets	29,807,207	30,817,343	32,616,764
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	957,767	1,728,065	-
Total Assets and Deferred Outflows of Resources	\$ 30,764,974	\$ 32,545,408	\$ 32,616,764
Liabilities:			
Total Current Liabilities	\$ 2,664,112	\$ 2,635,633	\$ 3,090,355
Long-Term Debt (Less Current Maturities)	13,282,787	13,580,000	14,175,000
Total Liabilities	15,946,899	16,215,633	17,265,355
NET PENSION LIABILITY	5,127,990	4,352,982	
Deferred Inflows of Resources	1,292,393	3,017,140	567,385
Net Position:			
Invested in Capital Assets Net of Related Debt	3,190,054	4,850,308	13,881,710
Restricted	1,123,406	1,120,334	1,647,564
Unrestricted	4,084,232	2,989,011	(745,250)
Total Net Position	8,397,692	8,959,653	14,784,024
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 30,764,974	\$ 32,545,408	\$ 32,616,764

Asset categories changing significantly during 2016 and 2015 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents decreased by \$633,562, or (12.5%), in 2016 and increased by \$324,885, or 6.9% in 2015. Current Investments remained the same in 2016 and decreased by \$755,368, or (100%) in 2015 as investments were converted into cash during the year. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2016 by \$7,268, or (0.3%), and decreased in 2015 by \$24,222, or (1.0%).

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

The current ratio (current assets divided by current liabilities including deferred tax revenue) for 2016 was 3.2, for 2015 was 3.5 and for 2014 was 2.8. 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 2016, 2015 and 2014 included non-current cash and investments. Non-current cash and investments decreased by \$100,315, or (2.8%), in 2016, and decreased by \$3,389,361, or (48.6%) in 2015.

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

	2016	2015 As Restated	2014
Net Patient Service Revenue	\$ 17,642,842	\$ 15,900,739	\$ 14,167,578
Other Operating Revenue	1,577,876	1,006,962	474,461
Total Revenue	<u>19,220,718</u>	<u>16,907,701</u>	<u>14,642,039</u>
Operating Expenses:			
Salaries and Wages	7,157,360	7,412,682	6,374,607
Employee Benefits	2,380,332	2,335,171	2,137,160
Supplies and Miscellaneous	8,627,037	7,211,772	6,694,285
Depreciation	1,798,487	1,609,141	1,060,765
Total Operating Expenses	<u>20,486,525</u>	<u>18,568,766</u>	<u>16,266,817</u>
Operating Income (Loss)	(1,265,807)	(1,661,065)	(1,624,778)
Non-Operating Revenues (Expenses) :			
Tax Revenue	599,490	571,956	545,098
Investment Income	8,599	8,712	14,085
Noncapital Grants and Contributions	22,176	36,240	23,927
Gain (Loss) on Sale of Property and Equipment	-	(252)	(38,930)
Non-Operating Revenues (Expenses)	<u>630,265</u>	<u>616,656</u>	<u>544,180</u>
Excess (Deficit) of Revenues over Expenses before Capital Grants and Contributions	(635,542)	(1,044,409)	(1,080,598)
Capital Grants and Contributions	<u>73,581</u>	<u>562,547</u>	<u>101,054</u>
Increase (Decrease) in Net Position	(561,961)	(481,862)	(979,544)
Net Position, Beginning of Year	<u>8,959,653</u>	<u>9,441,515</u>	<u>15,763,568</u>
Net Position, End of Year	<u>\$ 8,397,692</u>	<u>\$ 8,959,653</u>	<u>\$ 14,784,024</u>

Net patient service revenue made up 92% in 2016, 94% in 2015 and 97% in 2014 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 payers. Table 3 below shows the contractual adjustments that were recognized:

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

FINANCIAL ANALYSIS OF RSHHC (CONTINUED)

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2016	2015	2014
Total Patient Service Revenues	\$ 29,183,667	\$ 27,852,286	\$ 24,649,041
Contractual Adjustments and Provision for Bad Debt	11,540,825	11,951,547	10,481,463
Net Patient Service Revenue	<u>\$ 17,642,842</u>	<u>\$ 15,900,739</u>	<u>\$ 14,167,578</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>39.55%</u>	<u>42.91%</u>	<u>42.52%</u>

Total operating expenses increased \$1,917,759, or 10.3% in 2016 and increased \$2,301,949, or 14.2% in 2015. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 41 and 42 of the audited financial statements for this information.

Operating Income (loss) was \$(1,265,807), or (6.6%) of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2016 compared to \$(1,661,065), (9.8%), in 2015

Other Operating Revenue increased by \$570,914, or 56.7% in 2016 and increased by \$532,501, or 112.2% in 2015 and increased by \$39,200, or 9.0% in 2014. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2016	2015	2014
Meals Sold	\$ 54,632	\$ 51,671	\$ 44,672
Dietary Consultations	28,940	47,962	51,746
Medical Records Transcripts	2,990	2,063	3,132
Occupational Health	26,079	28,199	13,911
Vending Machines	814	674	312
Purchase Discounts and Rebates	30,863	43,485	39,243
Grant Revenues	51,678	-	5,050
Public Health Support	137,610	111,918	107,415
Clinic Rental Income	42,708	45,755	44,877
340B Pharmacy Revenue	898,103	384,977	56,400
Miscellaneous	303,459	290,258	107,703
Total Other Revenues	<u>\$ 1,577,876</u>	<u>\$ 1,006,962</u>	<u>\$ 474,461</u>

HOSPITAL STATISTICAL DATA

Table 5 shows RSHHC's statistical data. Acute Patient Days decreased in 2016 by 53 days or (10.0%), decreased in 2015 by 91 days or (14.7%). Swing Bed Days have decreased in 2016 by 26 days or (3.3%), decreased by 187 days or (31.6%) in 2015, and decreased by 183 days, or (24.0%) in 2014.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

HOSPITAL STATISTICAL DATA (CONTINUED)

Table 5: Statistical Data

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Patient Days			
Acute	475	528	619
Swing Bed	753	779	592
Newborn	91	138	100
Total	<u>1,319</u>	<u>1,445</u>	<u>1,311</u>
<hr/> As Stated <hr/>			
Acute	154	177	214
Swing Bed	79	72	58
Newborn	42	62	47
Total	<u>275</u>	<u>311</u>	<u>319</u>
Discharges			
Acute	152	174	215
Swing Bed	76	75	58
Newborn	42	62	45
Total	<u>270</u>	<u>311</u>	<u>318</u>
Average Length of Stay, Acute	<u>3.13</u>	<u>2.44</u>	<u>2.44</u>
Beds			
Acute and Swing	18	18	25
Occupancy Percentage			
Acute, Based on 18 Beds in 2015 and 25 Beds in 2014	7.2%	8.0%	6.8%
Swing, Based on 18 Beds in 2015 and 25 Beds in 2014	11.5%	11.9%	6.5%

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, 2016, RHSHC had \$17,147,849 invested in capital assets, net of accumulation depreciation. In 2016, RHSHC expended \$1,644,999 to purchase property and equipment. In 2015 and 2014, RHSHC purchased property and equipment costing \$3,611,735 and \$9,693,637, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

HOSPITAL STATISTICAL DATA (CONTINUED)

Long-Term Debt

Table 6 reflects a summary of RHSHC's long-term debt outstanding.

Table 6: Long-Term Debt

	2016	2015	2014
2012 Series Bonds	\$ 9,735,000	\$ 9,735,000	\$ 9,735,000
2012 Series Bonds	3,845,000	4,440,000	5,030,000
Capital Lease Obligations	377,795	-	-
Total Long-Term Debt	<u>\$ 13,957,795</u>	<u>\$ 14,175,000</u>	<u>\$ 14,765,000</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 began in fiscal year 2015 for the 2013 bonds, and in 2022 for the 2012 series bonds.

ECONOMIC FACTORS

RHSHC continues to improve its operational and financial performance. During the Fiscal year 2016 we are highlighting the following items:

1. The final phase of the \$14 Million Building Expansion/Renovation project was completed during the year. With this project, the hospital decertified from its 25 bed CAH status to 19 beds.
2. There were significant changes to staffing during the year: the organization completed a staffing analysis with Clifton Larson Allen and made some right-sizing staffing changes. In addition, the organization experienced the loss of three senior leader positions: the Vice President of Finance resigned her position October 2015 and the Vice President of Human Resources position December 2015 and the Chief Nursing Officer in May 2015. With these departures, RHSHC partnered with Mitchell County Regional Health Center in collaboration to share an experienced Chief Financial Officer and transitioned the oversight of human resources to the Vice President of Operations. A new Chief Nursing Officer was hired in April 2016.
3. Expansion of the Retail 340B Outpatient Drug program occurred to add Walmart Pharmacy. Additional work with Wellpartner, the third party administrator for the program, occurred to audit and expand the program.

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

4. The State of Iowa converted their Medicaid program to managed care effective April 1, 2016. Iowa chose three (3) contractors: AmeriHealth, Amerigroup and United Healthcare. RHSHC, through its partnership with the Mercy Health Network, signed with AmeriHealth and Amerigroup. Due to a delay in contracting with United Health Care, RHSHC chose to contract directly with the insurance provider to assure its patients had the access they needed.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2016 AND 2015**

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 Chief Financial Officer 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, 2016 AND 2015**

	<u>2016</u>	<u>2015 As Restated</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,420,261	\$ 5,053,823
Investments	88	88
Current Portion of Noncurrent Cash and Investments	397,168	391,144
Patient Receivables, Less Allowance for Uncollectible Accounts of \$763,000 in 2016 and \$788,000 in 2015	2,457,101	2,449,833
Other Receivables	352,481	181,376
Estimated Third-Party Payor Settlements Receivable	-	350,465
Supplies	614,475	588,006
Prepaid Expenses	331,321	340,009
Succeeding Year Property Tax Receivable	605,360	579,844
Total Current Assets	<u>9,178,255</u>	<u>9,934,588</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement Project Funds	631,370	737,113
Restricted Under Debt Agreements	1,726,327	1,723,971
Total Noncurrent Cash and Investments	<u>1,123,406</u>	<u>1,120,334</u>
	3,481,103	3,581,418
CAPITAL ASSETS, NET	<u>17,147,849</u>	<u>17,301,337</u>
Total Assets	29,807,207	30,817,343
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	<u>957,767</u>	<u>1,728,065</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 30,764,974</u>	<u>\$ 32,545,408</u>

See accompanying Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF REOUSOURCES AND NET POSITION	<u>2016</u>	<u>2015 As Restated</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 675,008	\$ 595,000
Accounts Payable	649,241	258,256
Construction Payable	351,676	968,058
Accrued Expenses	781,404	814,319
Estimated Third-Party Payor Settlements Payable	<u>206,783</u>	<u>-</u>
Total Current Liabilities	2,664,112	2,635,633
NET PENSION LIABILITY	5,127,990	4,352,982
LONG-TERM DEBT, NET OF CURRENT MATURITIES	<u>13,282,787</u>	<u>13,580,000</u>
Total Liabilities	21,074,889	20,568,615
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue - Succeeding Year Property Tax Receivable	606,298	578,073
Pension Related Deferred Inflows	<u>686,095</u>	<u>2,439,067</u>
Total Deferred Inflows of Resources	1,292,393	3,017,140
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	3,190,054	4,850,308
Restricted Under Debt Agreements	1,123,406	1,120,334
Unrestricted	<u>4,084,232</u>	<u>2,989,011</u>
Total Net Position	<u>8,397,692</u>	<u>8,959,653</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 30,764,974</u>	<u>\$ 32,545,408</u>

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 596,604	\$ 314,216
Current Portion of Pledges Receivable	172,336	238,960
Beneficial Interest in Community Foundation	27,147	27,115
Total Current Assets	796,087	580,291
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	94,673	272,148
Total Assets	\$ 890,760	\$ 852,439
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 6,398	\$ 6,646
NET ASSETS		
Unrestricted	(395,098)	93,084
Temporarily Restricted	1,279,460	752,709
Total Net Assets	884,362	845,793
Total Liabilities and Net Assets	\$ 890,760	\$ 852,439

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, 2016 AND 2015**

	2016	2015 As Restated
OPERATING REVENUES		
Net Patient Service Revenue, Net of Provision for Bad Debts of \$763,503 in 2016 and \$915,529 in 2015	\$ 17,642,842	\$ 15,900,739
Other Operating Revenue	1,577,876	1,006,962
Total Operating Revenues	19,220,718	16,907,701
EXPENSES		
Salaries and Wages	7,157,360	7,412,682
Employee Benefits	2,380,332	2,335,171
Supplies and Miscellaneous	8,627,037	7,211,772
Depreciation	1,798,487	1,609,141
Interest and Amortization	523,309	-
Total Expenses	20,486,525	18,568,766
OPERATING LOSS	(1,265,807)	(1,661,065)
NON-OPERATING GAINS (LOSS)		
Tax Revenue	599,490	571,956
Investment Income	8,599	8,712
Noncapital Grants and Contributions	22,176	36,240
Loss on Sale of Capital Assets	-	(252)
Non-Operating Gains, Net	630,265	616,656
DEFICIT OF REVENUES OVER EXPENSES	(635,542)	(1,044,409)
Capital Contributions and Grants	73,581	562,547
DECREASE IN NET POSITION	(561,961)	(481,862)
Net Position - Beginning of Year	8,959,653	9,441,515
NET POSITION - END OF YEAR	\$ 8,397,692	\$ 8,959,653

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	Unrestricted	Temporarily Restricted	2016 Total
OPERATING REVENUES			
Contributions	\$ 10	\$ 283,544	\$ 283,554
Interest Income	373	-	373
Released From Restrictions	(243,207)	243,207	-
Total Operating Revenues	(242,824)	526,751	283,927
EXPENSES			
Contributions to Regional Health Services of Howard County	243,207	-	243,207
Supplies and Miscellaneous	2,151	-	2,151
Total Expenses	245,358	-	245,358
INCREASE (DECREASE) IN NET ASSETS	(488,182)	526,751	38,569
Net Assets - Beginning of Year	93,084	752,709	845,793
NET ASSETS - END OF YEAR	\$ (395,098)	\$ 1,279,460	\$ 884,362
	Unrestricted	Temporarily Restricted	2015 Total
OPERATING REVENUES			
Contributions	\$ 20,550	\$ 154,197	\$ 174,747
Interest Income	696	-	696
Released From Restrictions	476,341	(476,341)	-
Total Operating Revenues	497,587	(322,144)	175,443
EXPENSES			
Contributions to Regional Health Services of Howard County	476,341	-	476,341
Supplies and Miscellaneous	6,836	-	6,836
Total Expenses	483,177	-	483,177
INCREASE (DECREASE) IN NET ASSETS	14,410	(322,144)	(307,734)
Net Assets - Beginning of Year	78,674	1,074,853	1,153,527
NET ASSETS - END OF YEAR	\$ 93,084	\$ 752,709	\$ 845,793

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 18,192,822	\$ 16,108,267
Cash Paid to Employees	(9,570,607)	(9,294,684)
Cash Paid to Suppliers	(8,253,833)	(7,665,327)
Other Receipts and Payments, Net	1,199,105	412,857
Net Cash Provided (Used) by Operating Activities	<u>1,567,487</u>	<u>(438,887)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions and Other Nonoperating Revenue	22,176	36,240
Tax Appropriations	602,199	569,817
Net Cash Provided by Non-Capital Financing Activities	<u>624,375</u>	<u>606,057</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment	(1,843,281)	(3,965,581)
Capital Contributions and Grants	73,581	562,547
Payments on Long Term Debt	(635,305)	(590,000)
Net Cash Used by Capital and Related Financing Activities	<u>(2,928,314)</u>	<u>(3,993,034)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	8,599	8,712
Decrease in Noncurrent Cash and Investments	94,291	4,142,037
Net Cash Provided by Financing Activities	<u>102,890</u>	<u>4,150,749</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(633,562)	324,885
Cash and Cash Equivalents - Beginning of Year	<u>5,053,823</u>	<u>4,728,938</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,420,261</u>	<u>\$ 5,053,823</u>

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015 As Restated
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Loss	\$ (1,265,807)	\$ (1,661,065)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Provision for Bad Debts	763,503	915,529
Depreciation	1,798,487	1,609,141
(Increase) Decrease in:		
Patient Receivables	(770,771)	(891,307)
Third-Party Payer Settlements Receivable	557,248	183,306
Other Receivables	(171,105)	25,979
Supplies	(26,469)	(177,560)
Prepaid Expenses	8,688	(58,509)
Increase (Decrease) in:		
Accounts Payable	390,985	(217,486)
Pension Liability	(207,666)	(278,525)
Accrued Expenses	(32,915)	111,610
Net Cash Provided (Used) by Operating Activities	\$ 1,567,487	\$ (438,887)
 SUPPLEMENTAL CASHFLOW DISCLOSURE		
Cash Paid for Interest-Included in Acquisition of Property and Equipment	\$ -	\$ 527,828
 Equipment Acquired Under Capital Lease Obligation	\$ 418,100	\$ -

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 38,569	\$ (307,734)
Decrease in Pledge Receivable	244,099	201,119
Increase (Decrease) in Accounts Payable	<u>(248)</u>	<u>6,070</u>
Net Cash Provided (Used) by Operating Activities	282,420	(100,545)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Beneficial Interest in Community Foundation	<u>(32)</u>	<u>1,468</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	282,388	(99,077)
Cash and Cash Equivalents - Beginning of Year	<u>314,216</u>	<u>413,293</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 596,604</u>	<u>\$ 314,216</u>

See accompanying Notes to Financial Statements.

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Regional Health Services of Howard County (hereafter RSHHC) consists of a 19-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 14.

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.

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.

Basis of Accounting – Health Center

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

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting – Health Center (Continued)

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

Restricted Net Position

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

Basis of Presentation-Foundation

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

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

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

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

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions. Temporarily restricted net assets at June 30, 2016 and 2015, consist of capital campaign contributions and interests in the net assets of other foundations.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

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

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

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

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

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, 2016 and 2015, the allowance for uncollectible accounts was approximately \$763,000 and \$788,000, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Receivable

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

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 restricted under debt agreements.

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 \$267,009 and \$511,108 as of June 30, 2016 and 2015, 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 \$45,508 and \$94,759 at June 30, 2016 and 2015, 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.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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, 2014, have been settled by the intermediary.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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, 2016 and 2015 was \$46,134 and \$50,259, respectively.

Pensions

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

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

NOTE 2 DESIGNATED NET POSITION

Of the \$4,084,232 and \$2,989,011 of unrestricted Net Position at June 30, 2016 and 2015, 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.

	2016	2015
For Capital Improvements	\$ 631,370	\$ 737,113

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

RHSHC has received designation 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, 2014.

Medicaid

RHSHC has received designation 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, 2014.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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>2016</u>	<u>2015</u>
Total Patient Service Revenue	\$ 29,183,667	\$ 27,852,286
Contractual Adjustments:		
Medicare	3,687,692	3,686,735
Medicaid	1,438,930	1,449,068
Provision for Bad Debt	763,503	915,529
Other	<u>5,650,700</u>	<u>5,900,215</u>
Total Contractual Adjustments	<u>11,540,825</u>	<u>11,951,547</u>
Net Patient Service Revenue	<u>\$ 17,642,842</u>	<u>\$ 15,900,739</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. Amounts recognized in net patient service revenue due to changes in estimated amounts due to and from contracting agencies was approximately \$450,000 for the year ended June 30, 2016 (none in 2015).

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by RSHHC at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Receivables from Patients and Their Insurance Carriers	\$ 1,526,207	\$ 1,803,104
Receivables from Medicare	1,181,073	1,113,400
Receivables from Medicaid	512,799	321,791
Total Patient Receivables	<u>3,220,079</u>	<u>3,238,295</u>
Less: Allowance for Doubtful Accounts	<u>(762,978)</u>	<u>(788,462)</u>
Patient Receivables, Net	<u>\$ 2,457,101</u>	<u>\$ 2,449,833</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Less than One Year	\$ 172,336	\$ 238,960
One to Five Years	140,181	366,907
	<u>312,517</u>	<u>605,867</u>
Less Discount	(14,256)	(38,168)
Less Allowance for Uncollectible Promises to Give	<u>(31,252)</u>	<u>(56,591)</u>
Unconditional Promises to Give, Net	<u>\$ 267,009</u>	<u>\$ 511,108</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, 2016 AND 2015

NOTE 8 DEPOSITS AND INVESTMENTS

The deposits of RSHHC at June 30, 2016 were entirely covered by Federal depository insurance and State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

	2016	2015
Cash and Cash Equivalents	\$ 4,420,261	\$ 5,053,823
Investments	88	88
Current Portion of Noncurrent Cash and Investments	397,168	391,144
Noncurrent Cash and Investments:		
Internally Designated for Bond Agreement	1,123,406	1,120,334
Internally Designated for Project Funds	1,726,327	1,723,971
Internally Designated for Capital Improvements	631,370	737,113
Total	\$ 8,298,620	\$ 9,026,473

NOTE 9 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2016 and 2015 are as follows:

	Balance June 30, 2015	Additions	Transfers	(Retirements)	Balance June 30, 2016
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 317,701	\$ -	\$ 21,984	\$ -	\$ 339,685
Building	13,015,326	-	2,439,424	-	15,454,750
Fixed Equipment	5,888,284	-	-	-	5,888,284
Major Movable Equipment	7,494,014	472,667	372,954	-	8,339,635
Construction in Process	1,713,756	1,172,332	(2,834,362)	-	51,726
Total	28,429,081	1,644,999	-	-	30,074,080
ACCUMULATED DEPRECIATION					
Land Improvements	169,382	13,655	-	-	183,037
Building	3,213,860	769,939	-	-	3,983,799
Fixed Equipment	2,268,004	327,422	-	-	2,595,426
Major Movable Equipment	5,476,498	687,471	-	-	6,163,969
Total	11,127,744	\$ 1,798,487	\$ -	\$ -	12,926,231
Property and Equipment, Net	\$ 17,301,337				\$ 17,147,849

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2014	Additions	Transfers	Retirements	Balance June 30, 2015
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 232,904	\$ -	\$ 84,797	\$ -	\$ 317,701
Building	10,247,869	-	2,767,457	-	13,015,326
Fixed Equipment	5,012,607	-	875,677	-	5,888,284
Major Movable Equipment	7,175,103	238,450	80,461	-	7,494,014
Construction in Process	2,149,115	3,373,033	(3,808,392)	-	1,713,756
Total	<u>24,817,598</u>	<u>3,611,483</u>	<u>-</u>	<u>-</u>	<u>28,429,081</u>
ACCUMULATED DEPRECIATION					
Land Improvements	159,621	9,761	-	-	169,382
Building	2,679,703	534,157	-	-	3,213,860
Fixed Equipment	1,963,662	304,342	-	-	2,268,004
Major Movable Equipment	4,715,617	760,881	-	-	5,476,498
Total	<u>9,518,603</u>	<u>\$ 1,609,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>11,127,744</u>
Property and Equipment, Net	<u>\$ 15,298,995</u>				<u>\$ 17,301,337</u>

Construction in progress (CIP) at June 30, 2016 of \$51,726 is related to down payments made on moveable equipment that will be received and installed in the coming fiscal year. Interest expense was capitalized in the amount of \$0 and \$527,238 during the year ended June 30, 2016 and 2015, respectively.

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for 2016 and 2015 is as follows:

	Balance June 30, 2015	Additions	Payments (Amortization)	Balance June 30, 2016	Amounts Due Within One Year
2012 Series Bonds	\$ 9,735,000	\$ -	\$ -	\$ 9,735,000	\$ -
2013 Series Bonds	4,440,000	-	595,000	3,845,000	605,000
Capital Leases	-	418,100	40,305	377,795	70,008
Total Long-Term Debt	<u>\$ 14,175,000</u>	<u>\$ 418,100</u>	<u>\$ 635,305</u>	<u>\$ 13,957,795</u>	<u>\$ 675,008</u>

	Balance June 30, 2014	Additions	Payments (Amortization)	Balance June 30, 2015	Amounts Due Within One Year
2012 Series Bonds	\$ 9,735,000	\$ -	\$ -	\$ 9,735,000	\$ -
2013 Series Bonds	5,030,000	-	590,000	4,440,000	595,000
Total Long-Term Debt	<u>\$ 14,765,000</u>	<u>\$ -</u>	<u>\$ 590,000</u>	<u>\$ 14,175,000</u>	<u>\$ 595,000</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2017	\$ 605,000	\$ 510,815	\$ 70,008	\$ 5,740
2018	615,000	499,523	71,179	4,569
2019	630,000	485,970	72,370	3,379
2020	645,000	470,183	73,581	2,168
2021	665,000	451,823	90,657	624
2022-2026	3,695,000	1,887,090	-	-
2027-2031	4,585,000	996,351	-	-
2032-2033	2,140,000	128,400	-	-
	<u>\$ 13,580,000</u>	<u>\$ 5,430,155</u>	<u>\$ 377,795</u>	<u>\$ 16,480</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, 2016 and 2015.

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

RHSHC is engaged in a capital lease obligation for a 128-slice CT Scanner. The property and equipment under capital lease obligations is recorded in the amount of \$418,100 with accumulated depreciation of \$61,000 at June 30, 2016.

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, 2016, 2015, and 2014 were approximately \$619,730, \$651,566 and \$651,413, respectively, equal to the required contributions for each year.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 PENSION PLAN (CONTINUED)

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

RHSHC reported a liability of \$5,127,990 and \$4,352,982 at June 30, 2016 and at June 30, 2015 respectively for its proportionate share of the net pension liability. RHSHC's net pension liability was measured as of June 30, 2015 and June 30, 2014 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. RHSHC's proportion of the net pension liability was based on RHSHC's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015 RHSHC's collective proportion was .103908 percent which was a decrease of .005334 percent from its proportion measured as of June 30, 2014. At June 30, 2015 RHSHC's proportion for the protection service group was .086494 percent which was a .000808 percent decrease from its proportion measured as of June 30, 2014.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Balance at June 30, 2016		
Differences between expected and actual experience	\$ 77,727	\$ 7,361
Changes of Assumptions	140,925	-
Net difference between projected and actual earnings on pension plan investments	-	446,781
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	119,385	231,953
Health System contributions subsequent to the measurement date	<u>619,730</u>	<u>-</u>
	<u>\$ 957,767</u>	<u>\$ 686,095</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 PENSION PLAN (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance at June 30, 2015 - As Restated		
Differences between expected and actual experience	\$ 727,768	\$ -
Changes of Assumptions	195,114	-
Net difference between projected and actual earnings on pension plan investments	-	2,439,067
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	153,617	-
Health System contributions subsequent to the measurement date	651,566	-
	\$ 1,728,065	\$ 2,439,067

\$619,730 reported as deferred outflows of resources related to pensions resulting from the Health System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

Years Ending June 30,	
2017	\$ (172,686)
2018	(172,686)
2019	(172,686)
2020	178,604
2121	(8,604)
Total	\$ (348,058)

There were no non-employer contributing entities at IPERS.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experiences studies with dates corresponding to those listed above.

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core-plus Fixed Income	28 %	2.04
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Health System will be made at contractually required rates, actuarially determined. Based on those

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

assumptions, the pension plan's fiduciary net position was projected to be available to make

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 PENSION PLAN (CONTINUED)

Discount Rate (Continued)

all projected future benefit payments of current active employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Health System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
RHSHC's Proportionate Share of the Net Pension Liability	\$ 9,153,486	\$ 5,127,990	\$ 1,730,441

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2016, the Health System reported payables to the defined benefit pension plan of \$98,104 for legally required employer contributions and employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 12 PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2016, it was determined that the amount of IPERS contributions recognized as deferred outflows for the year ended June 30, 2015, was overstated by the amount of contributions made to the IPERS program by Health System employees, which was material to the financial statements. As a result, a prior period adjustment is required to restate amounts in the financial statements as of and for the year June 30, 2015, as follows:

	Originally Reported	Prior Period Adjustment	Restated
Operating Expenses	\$ 18,227,207	\$ 341,559	\$ 18,568,766
Decrease in Net Position	(140,303)	(341,559)	(481,862)
Net Position	9,301,212	(341,559)	8,959,653
Deferred Outflows	2,069,624	(341,559)	1,728,065
Deficit of Revenues Over Expenses	(702,850)	(341,559)	(1,044,409)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 13 CONCENTRATION OF CREDIT RISK

Regional Health Services of Howard County grants credit without collateral to its patients and residents, most of whom are insured under third-party payer agreements. The mix of receivables from third-party payers, patients, and residents at June 30, 2016 and 2015 was as follows:

	2016	2015
Medicare	28%	28%
Medicaid	8%	8%
Blue Cross	21%	21%
Other Third-Party Payers, Patients and Residents	43%	43%
	100%	100%

NOTE 14 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 transfers to the Hospital during the years ended June 30, 2016 and 2015 of \$73,581 and \$476,341, respectively.

Master Affiliation Agreement

On November 1, 2002, RSHHC entered into a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, RSHHC entered into a professional services agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to approximately \$2,483,700 and \$2,275,600 for the years ended June 30, 2016 and 2015, respectively.

Due to/From Affiliated Organization

As of June 30, 2016 and 2015, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center - North Iowa of \$171,153 and \$208,061, respectively, for the various services and distributions related to these agreements.

Management Services Agreement

RSHHC has a contractual arrangement with Mercy Health Network under which Mercy Health Network provides administrative staff, management consultation, and other services to RSHHC. The arrangement does not alter the authority or responsibility of the Board of Trustees of RSHHC. Expenses for the administrative and management services received for the years ended June 30, 2016 and 2015 were approximately \$335,400 and \$316,400, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

RHSHC has a contractual arrangement with Mitchell County Regional Health Center to share Chief Financial Officer services. Expenses for the services received for the year ended June 30, 2016 and June 30, 2015 were approximately \$70,000 and \$0 respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015**

NOTE 15 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.

NOTE 16 FUNCTIONAL EXPENSES

Program and General fundraising expenses for the Foundation for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Program	\$ 243,207	\$ 476,341
Management and General	2,151	6,836
Total	\$ 245,358	\$ 483,177

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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, 2016**

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 599,490	\$ 2,709	\$ 602,199	\$ 573,191	\$ 29,008
Estimated Other Revenues/Receipts	19,325,074	265,500	19,590,574	21,999,027	(2,408,453)
	<u>19,924,564</u>	<u>268,209</u>	<u>20,192,773</u>	<u>22,572,218</u>	<u>(2,379,445)</u>
Expenses/Disbursements Net	20,486,525	339,810	20,826,335	24,700,159	3,873,824
	<u>(561,961)</u>	<u>(71,601)</u>	<u>(633,562)</u>	<u>(2,127,941)</u>	<u>1,494,379</u>
Balance - Beginning of Year	<u>8,959,653</u>	<u>(3,905,830)</u>	<u>5,053,823</u>	<u>11,912,299</u>	<u>(6,858,476)</u>
Balance - End of Year	<u>\$ 8,397,692</u>	<u>\$ (3,977,431)</u>	<u>\$ 4,420,261</u>	<u>\$ 9,784,358</u>	<u>\$ (5,364,097)</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, 2016.

For the year ended June 30, 2016, the Health System's expenditures did not exceed the amount budgeted.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
RHSHC's Proportion of the Net Pension Liability Regular	0.1039080%	0.1092420%
RHSHC's Proportion of the Net Pension Liability Protection	0.0864940%	0.0873020%
RHSHC's Proportionate Share of the Net Pension Liability	\$ 5,127,990	\$ 4,352,982
RHSHC's Covered-Employee Payroll	\$ 7,157,360	\$ 7,412,682
RHSHC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	71.65%	58.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.19%	86.60%

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF HOSPITAL CONTRIBUTIONS
YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 619,730	\$ 651,566	\$ 561,716	\$ 501,453
Contributions in Relation to the Statutorily Required Contribution	<u>619,730</u>	<u>651,566</u>	<u>561,716</u>	<u>501,453</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
RHSHC Covered-Employee Payroll	7,157,360	7,412,682	6,374,607	5,950,083
Contributions as a Percentage of Covered-Employee Payroll (Regular)	8.93%	8.93%	8.93%	8.68%

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OTHER SUPPLEMENTARY INFORMATION

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2016 AND 2015**

	TOTAL	
	2016	2015
PATIENT CARE SERVICES		
Adults and Pediatrics	\$ 1,372,653	\$ 1,397,331
Nursery	79,540	130,136
Total Patient Care Service Revenue	<u>1,452,193</u>	<u>1,527,467</u>
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	2,378,613	2,541,246
Labor and Delivery Room	86,339	116,188
Anesthesiology	679,628	759,865
Radiology	3,998,766	4,073,156
Laboratory	4,985,055	4,846,653
Blood	94,100	102,049
Respiratory Therapy	282,726	277,059
Cardiac Rehabilitation	142,912	142,943
Physical Therapy	1,084,765	930,042
Occupational Therapy	370,321	356,649
Speech Therapy	88,455	65,238
Electrocardiology	523,959	486,331
Medical and Surgical Supplies	1,050,123	427,798
Pharmacy	1,615,390	1,577,422
Emergency Room	2,364,007	2,047,634
Ambulance	825,177	684,623
Home Health	1,118,265	1,017,615
Outpatient Clinic	44,976	61,779
Clinical Operations	5,559,197	5,398,052
Sleep Lab	152,264	110,211
Durable Medical Equipment	332,570	352,525
Total Other Professional Service Revenue	<u>27,777,608</u>	<u>26,375,078</u>
Gross Patient Charges	29,229,801	27,902,545
CHARITY CARE	<u>(46,134)</u>	<u>(50,259)</u>
Total Patient Service Revenues	29,183,667	27,852,286
Adjustments to Patient Services Revenues	<u>(11,540,825)</u>	<u>(11,951,547)</u>
Net Patient Service Revenues	<u>\$ 17,642,842</u>	<u>\$ 15,900,739</u>

INPATIENT		OUTPATIENT	
2016	2015	2016	2015
\$ 1,071,146	\$ 1,097,156	\$ 301,507	\$ 300,175
78,940	129,160	600	976
<u>1,150,086</u>	<u>1,226,316</u>	<u>302,107</u>	<u>301,151</u>
78,358	200,598	2,300,255	2,340,648
80,814	103,627	5,525	12,561
66,241	130,870	613,387	628,995
136,045	159,318	3,862,721	3,913,838
340,115	411,277	4,644,940	4,435,376
25,880	32,495	68,220	69,554
239,123	223,425	43,603	53,634
-	-	142,912	142,943
266,891	225,534	817,874	704,508
153,056	151,713	217,265	204,936
26,760	19,453	61,695	45,785
42,880	39,126	481,079	447,205
57,691	57,015	992,432	370,783
430,961	488,116	1,184,429	1,089,306
13,248	32,714	2,350,759	2,014,920
13,504	(1,296)	811,673	685,919
-	-	1,118,265	1,017,615
-	-	44,976	61,779
-	-	5,559,197	5,398,052
-	-	152,264	110,211
-	-	332,570	352,525
<u>1,971,567</u>	<u>2,273,985</u>	<u>25,806,041</u>	<u>24,101,093</u>
<u>\$ 3,121,653</u>	<u>\$ 3,500,301</u>	<u>\$ 26,108,148</u>	<u>\$ 24,402,244</u>

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUE
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 3,687,692	\$ 3,686,735
Contractual Adjustments - Medicaid	1,438,930	1,449,068
Provision for Bad Debts	763,503	915,529
Other Allowances and Adjustments	5,650,700	5,900,215
Total Adjustments	\$ 11,540,825	\$ 11,951,547
 OTHER REVENUES		
Cafeteria and Meals	\$ 54,632	\$ 51,671
Medical Records Fees	2,990	2,063
Rental Income	42,708	45,755
Grants	137,610	111,918
340B Pharmacy Revenue	898,103	384,977
Miscellaneous	441,833	410,578
Total Other Revenue	\$ 1,577,876	\$ 1,006,962

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015**

	TOTAL	
	2016	2015 As Restated
Employee Benefits	\$ 2,380,332	\$ 2,335,171
Administrative and General	2,412,367	2,332,656
Foundation	6,136	5,343
Central Supply	31,711	57,300
Operation of Plant	420,900	384,397
Laundry and Linen	30,671	36,341
Housekeeping	130,074	126,357
Social Services	32,338	39,801
Nursing Administration	126,972	134,915
Dietary	232,340	267,622
Medical Records	298,427	295,120
Adults and Pediatrics	1,300,007	1,349,808
Nursery	16,997	15,814
Operating and Recovery Room	709,000	688,809
Labor and Delivery Room	20,743	30,767
Anesthesiology	17,935	15,007
Nonphysician Anesthetists	171,880	168,149
Radiology	755,541	742,316
Laboratory	671,296	716,473
Blood	27,770	29,794
Respiratory Therapy	24,288	22,661
Physical Therapy	566,896	498,696
Occupational Therapy	185,737	178,219
Speech Pathology	40,059	30,188
Electrocardiology	64,323	57,858
Pharmacy and Intravenous Therapy	836,973	580,258
Cardiac Rehabilitation	39,156	40,990
Clinics	3,300,595	3,079,533
Ambulance	291,714	294,594
Outpatient Clinic	7,715	9,047
Durable Medical Equipment	196,704	222,007
Sleep Lab	28,849	21,547
Occupational Health	12,220	15,576
Emergency	1,079,627	916,898
Home Health	889,264	963,241
Retail Pharmacy	807,172	256,352
Depreciation Expense	1,798,487	1,609,141
Amortization Expense	523,309	-
Total	\$ 20,486,525	\$ 18,568,766

SALARIES		OTHER	
2016	2015 As Restated	2016	2015 As Restated
\$ -	\$ -	\$ 2,380,332	\$ 2,335,171
748,735	852,913	1,663,632	1,479,743
728	3,248	5,408	2,095
5,844	6,022	25,867	51,278
142,028	127,397	278,872	257,000
-	25	30,671	36,316
112,803	101,629	17,271	24,728
31,707	38,616	631	1,185
118,167	121,672	8,805	13,243
169,950	185,299	62,390	82,323
241,247	260,644	57,180	34,476
999,841	1,155,912	300,166	193,896
3,523	14,379	13,474	1,435
565,867	545,157	143,133	143,652
12,330	30,749	8,413	18
-	-	17,935	15,007
171,880	168,149	-	-
255,838	319,215	499,703	423,101
279,759	306,082	391,537	410,391
5,015	5,004	22,755	24,790
5,984	1,119	18,304	21,542
59,437	61,010	507,459	437,686
10,960	10,951	174,777	167,268
-	-	40,059	30,188
7,611	6,171	56,712	51,687
79,169	93,280	757,804	486,978
38,890	39,439	266	1,551
1,560,215	1,362,809	1,740,380	1,716,724
250,330	248,875	41,384	45,719
4,903	8,263	2,812	784
93,499	116,641	103,205	105,366
-	-	28,849	21,547
4,263	4,737	7,957	10,839
627,611	567,852	452,016	349,046
549,226	649,423	340,038	313,818
-	-	807,172	256,352
-	-	1,798,487	1,609,141
-	-	523,309	-
<u>\$ 7,157,360</u>	<u>\$ 7,412,682</u>	<u>\$ 13,329,165</u>	<u>\$ 11,156,084</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND
ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2016 AND 2015**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2016		2015	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 2,302,911	58 %	\$ 2,198,594	52 %
31-60 Days	480,458	12 %	512,977	12 %
61-90 Days	288,796	7 %	381,776	9 %
91 Days and Over	893,132	23 %	1,175,484	27 %
Total Accounts Receivable	<u>3,965,297</u>	<u>100 %</u>	<u>4,268,831</u>	<u>100 %</u>

ALLOWANCES

Contractual:

Medicare	322,009	522,355
Medicaid	278,199	171,933
Other	145,010	336,248
Doubtful Accounts	762,978	788,462
Net Accounts Receivable	<u>\$ 2,457,101</u>	<u>\$ 2,449,833</u>

Net Patient Service Revenue per

Calendar Day	<u>\$ 50,428</u>	<u>\$ 46,072</u>
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Days of Net Revenue in Net Accounts
Receivable at Year-End

<u>49</u>	<u>53</u>
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Analysis of Allowance for Doubtful Accounts

	2016		2015	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 788,462		\$ 764,130	
Add:				
Provision for Doubtful Accounts	763,503	4.3 %	915,529	5.8 %
Recoveries Previously Written Off	187,633	1.1 %	312,561	2.0 %
	<u>951,136</u>		<u>1,228,090</u>	
Deduct:				
Accounts Written Off	<u>(976,620)</u>	(5.5)%	<u>(1,203,758)</u>	(7.6)%
Ending Balance	<u>\$ 762,978</u>		<u>\$ 788,462</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
INVENTORIES		
Central Supply	\$ 159,280	\$ 153,496
Pharmacy	144,727	146,108
Dietary	7,071	7,163
Other	(615)	1,242
Retail Pharmacy Inventory	151,644	139,017
DME Supplies	152,368	140,980
Total Inventories	<u>\$ 614,475</u>	<u>\$ 588,006</u>
PREPAID EXPENSES		
Insurance	\$ 167,433	\$ 188,229
Dues and Other	163,888	151,780
Total Prepaid Expenses	<u>\$ 331,321</u>	<u>\$ 340,009</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2016 AND 2015**

	Balance July 1, 2015	Invested	Redeemed	Balance June 30, 2016
Debt Service Fund	\$ 391,144	\$ 1,123,147	\$ (1,117,123)	\$ 397,168
Reserve Fund:				
Building Project Fund	1,723,971	2,356	-	1,726,327
Revenue Bond Sinking Fund	1,120,334	3,072	-	1,123,406
 Total	 <u>\$ 3,235,449</u>	 <u>\$ 1,128,575</u>	 <u>\$ (1,117,123)</u>	 <u>\$ 3,246,901</u>



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

Board of Trustees
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, 2016, and have issued our report thereon dated October 24, 2016. 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be material weaknesses listed as items 2016-001 and 2016-002.

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, 2016 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 the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. RSHHC’s responses were not subjected to the auditing procedures applied in the audit of the financial statements 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, 2016

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

Part I: Findings Related to the Financial Statements:

2016-001 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 the size of RSHHC.

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 CliftonLarsonAllen. CliftonLarsonAllen 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. As part of its internal control over the preparation of its financial statements, including disclosures, RSHHC has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the RSHHC's activities and operations.

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 Health System'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, 2016**

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

2016-002 Material Audit Adjustments

Criteria: The Project must be able to prevent or detect a material misstatement in the annual financial statements.

Condition: Three audit adjustments were proposed and recorded by Regional Health Services of Howard County as a result of the financial statement audit in order to adjust a significant year-end estimate and prior period adjustment.

Cause: RSHHC relies on the audit firm to propose audit adjustments to reconcile various accounts at year-end. All proposed audit adjustments are approved by management

Effect: A material misstatement of the financial statements could occur and not be detected in a timely manner, resulting in the misstatement of the financial statements or restatement.

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

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

Conclusion: Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-16 **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, 2016 did not exceed the amended budget amount in the general government and business type activities.
- II-B-16 **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-16 **Travel Expense:** No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-16 **Business Transactions:** We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-16 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-16 **Deposits and Investments:** We noted all the Health Service's investments to be in compliance with the state statutes regarding investments.
- II-G-16 **Publication of Bills Allowed and Salaries:** RSHHC is organized under Chapter 347A and is not required to follow this section of the Iowa Code.