

**REGIONAL HEALTH SERVICES  
OF HOWARD COUNTY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2004 AND 2003**

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
BOARD OF TRUSTEES  
YEARS ENDED JUNE 30, 2004 AND 2003**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bernard Pecinovsky	Chairperson	December 31, 2006
Max Schmidt, Jr.	Vice Chairperson	December 31, 2004
Connie McGrane	Secretary	December 31, 2004
Alvin Herold	Treasurer	December 31, 2006
Dave Jones	Member	December 31, 2008
Elizabeth Doty	President/Chief Executive Officer	
Gary Kirchhof	Vice President of Hospital Services	
Brenda Moser	Chief Financial Officer	

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Regional Health Services of Howard County and its discretely presented component unit for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of RSHSC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, Regional Health Services of Howard County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Disclosures* as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Regional Health Services of Howard County and its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2004 on our consideration Regional Health Services of Howard County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance of *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 31 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on Regional Health Services of Howard County's basic financial statements. The other supplementary information from pages 32 to 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 41 has been summarized from RSHHC's records and was not subjected to auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on such data.



**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
August 26, 2004

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

This section of the Regional Health Services of Howard County (RHS HC) annual audited financial report represents management's discussion and analysis of RHS HC's financial performance during the fiscal year ending June 30, 2004. The analysis will focus on RHS HC's financial performance as a whole. Please read it in conjunction with the audited financial report.

**Using This Annual Report**

The June 30, 2004 and 2003 financial reports include the following audited financial statements:

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

**Financial Highlights**

- RHS HC's total assets increased by \$542,299 or 5.7% in 2004 and increased by \$358,828 or 3.9% in 2003.
- RHS HC's net assets increased in each of the last two years with a \$639,437 or 9.1% increase in 2004 and a \$379,260 or 5.7% increase in 2003.
- The RHS HC reported an operating income (loss) of \$35,530 in 2004 and \$(298,875) in 2003. This represents an increase in 2004 of \$334,405 and a decrease in 2003 of \$253,101.

**The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets**

These financial statements report information about the RHS HC using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of RHS HC's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to RHS HC creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of RHS HC'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 RHS HC that determines RHS HC's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenue
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions
- Schedule of Insurance
- Comparative Statistics

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Analysis of RSHHC**

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of RSHHC and the changes in them. Increases or decreases in net assets are one indicator of whether or not RSHHC's financial health is improving. Other non-financial factors can also have an effect on the RSHHC's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as changes in the economic environment of Howard County and the surrounding areas.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Current Assets	\$ 3,273,705	\$ 2,727,099	\$ 2,403,092
Noncurrent Cash and Investments	2,685,767	2,465,799	2,571,082
Capital Assets, Net	3,694,666	3,872,738	3,749,928
Succeeding Year Property Tax Receivable	381,467	421,758	415,670
Other Assets	46,806	52,718	41,512
<b>Total Assets</b>	<u><u>\$ 10,082,411</u></u>	<u><u>\$ 9,540,112</u></u>	<u><u>\$ 9,181,284</u></u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 1,006,888	\$ 939,330	\$ 834,004
Other Liabilities	29,491	28,625	28,038
Long-Term Debt (Less Current Maturities)	982,296	1,107,567	1,240,000
Deferred Revenue from Succeeding Year Property Tax Receivable	381,467	421,758	415,670
<b>Total Liabilities</b>	<u><u>2,400,142</u></u>	<u><u>2,497,280</u></u>	<u><u>2,517,712</u></u>
<b>Total Net Assets</b>	<u><u>7,682,269</u></u>	<u><u>7,042,832</u></u>	<u><u>6,663,572</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 10,082,411</u></u>	<u><u>\$ 9,540,112</u></u>	<u><u>\$ 9,181,284</u></u>

Asset categories changing significantly during 2004 and 2003 included Cash and Cash Equivalents and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$1,044,338 or 422.6% in 2004 and decreased by \$350,533 or 58.7%. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2004 by \$79,238 or 5.3% and increased in 2003 by \$446,125 or 41.9%.

The current ratio (current assets divided by current liabilities) for 2004 was 3.3 and 2003 was 2.90. It is a measure of liquidity, providing an indication of RSHHC's ability to pay current liabilities: a high ratio number is preferred.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Analysis of RSHHC (Continued)**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**Table 2: Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 9,286,264	\$ 8,068,870	\$ 6,851,072
Operating Expenses	<u>9,250,734</u>	<u>8,367,745</u>	<u>6,896,846</u>
Operating Income	35,530	(298,875)	(45,774)
Mercy Medical Center Share of Loss	(17,765)	100,993	-
Non-Operating Revenues (Expenses)	<u>579,090</u>	<u>573,524</u>	<u>577,879</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	596,855	375,642	532,105
Capital Grants and Contributions	<u>42,582</u>	<u>3,618</u>	<u>21,930</u>
Increase in Net Assets	639,437	379,260	554,035
Net Assets, Beginning of Year	<u>7,042,832</u>	<u>6,663,572</u>	<u>6,109,537</u>
Net Assets, End of Year	<u>\$ 7,682,269</u>	<u>\$ 7,042,832</u>	<u>\$ 6,663,572</u>

Net patient service revenue made up 97.7% in 2004 and 97.9 % in 2003 of RSHHC's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 11,830,541	\$ 9,907,199	\$ 8,918,442
Contractual Adjustments and Provisions for Bad D	<u>2,754,854</u>	<u>2,010,465</u>	<u>2,303,814</u>
Net Patient Service Revenue	<u>\$ 9,075,687</u>	<u>\$ 7,896,734</u>	<u>\$ 6,614,628</u>
Contractual Adjustments as a Percent of Revenues	<u>23.29%</u>	<u>20.29%</u>	<u>25.83%</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Financial Analysis of RSHHC (Continued)**

Total operating expenses increased \$882,989, or 10.5%, in 2004 and increased \$1,470,899, or 21.3%, in 2003. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 32-33 of the audited financial statements for this information. In both 2004 and 2003 there were significant increases in Salaries and Wages and Professional Fees. This is due to the Formation of the Physician Hospital Organization on November 1, 2002. This Physician Hospital Organization represents a Master Affiliation Agreement between RSHHC and Mercy Medical Center – North Iowa. On November 1, 2002 RSHHC assumed operations of the Cresco and Lime Springs Medical Clinic. The employees working in these clinics became employees of RSHHC, which caused Salaries and Wages to increase in both 2004 and 2003. As part of this Master Affiliation Agreement with Mercy Medical Center – North Iowa, the RSHHC contracts physician medical services from Mercy Medical Center – North Iowa. This has caused an increase in Professional Fees of \$360,749, or 28.3%, in 2004 and an increase of \$672,545, or 111.8%, in 2003. In 2004 and 2003 there was a decrease in Interest and Amortization expense. This is due to RSHHC refunding the existing Hospital Revenue Bonds, Series 1992 with the Hospital Revenue Bonds, Series 2003. The purpose of the refinancing was to reduce the overall effective interest rates on the RSHHC's outstanding bond obligation. As a result of this refinancing, Interest and Amortization expense decreased by \$46,889, or 48.4%, in 2004 and \$9,845, or 9.2%, in 2003.

Operating Income (loss) (total operating revenue less total operating expenses divided by total operating revenue) was \$35,530, or .4%, of total operating revenue in 2004 compared to \$(298,875), or (3.7)%, in 2003.

Other Operating Revenue increased by \$38,441, or 22.3%, in 2004 and decreased by \$64,308, or 27.2%, in 2003. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Meals Sold	\$ 64,001	\$ 51,866	\$ 56,141
Dietary Consultations	22,701	22,309	24,662
Medical Records Transcripts	1,111	1,402	1,167
Vending Machines	4,742	5,097	4,708
Purchase Discounts and Rebates	12,615	5,903	6,697
Professional Standards Review Reimbursement	-	4	157
Clinic Rental Income	22,966	57,047	130,737
Miscellaneous	82,441	28,508	12,175
	<u>\$ 210,577</u>	<u>\$ 172,136</u>	<u>\$ 236,444</u>
Total Other Revenues	<u>\$ 210,577</u>	<u>\$ 172,136</u>	<u>\$ 236,444</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Hospital Statistical Data**

Table 5 shows RSHC's statistical data. Acute Patient Days, Admissions and Discharges have been on a steady decrease since 2002. Acute Patient Days decreased by 114 days, or 14.9%, in 2004 and by 233 days, or 23.4%, in 2003. Swing Bed Days have also had significant changes since 2002. Swing Bed Days increased by 447 days, or 102.6%, in 2004 and decreased by 261 days, or 37.2%, in 2003.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	650	764	997
Swing Bed	887	440	701
Newborn	113	122	158
Total	<u>1,650</u>	<u>1,326</u>	<u>1,856</u>
<b>Admissions</b>			
Acute	231	285	355
Swing Bed	67	51	58
Newborn	55	60	74
Total	<u>353</u>	<u>396</u>	<u>487</u>
<b>Discharges</b>			
Acute	227	286	355
Swing Bed	64	50	58
Newborn	54	60	74
Total	<u>345</u>	<u>396</u>	<u>487</u>
<b>Average Length of Stay, Acute</b>	<u>2.86</u>	<u>2.67</u>	<u>2.81</u>
<b>Beds</b>			
Acute and Swing	25	25	25
<b>Occupancy Percentage</b>			
Acute, Based on 25 Beds	7.1%	8.4%	10.9%
Swing, Based on 25 Beds	9.7%	4.8%	7.7%

**RSHC's Cash Flows**

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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Capital Assets**

At June 30, 2004 RSHHC had \$3,694,666 invested in capital assets, net of accumulated depreciation. In 2004, RSHHC expended \$358,689 to purchase property and equipment. In 2003, RSHHC purchased property and equipment costing \$633,540.

**Long Term Debt**

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

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
1992 Revenue Bonds	\$ -	\$ -	\$ 1,335,000
2003 Revenue Bonds	1,145,000	1,265,000	-
Deferred Loss on Refinancing	<u>(32,704)</u>	<u>(37,433)</u>	<u>-</u>
 Total Long Term Debt	 <u>\$ 1,112,296</u>	 <u>\$ 1,227,567</u>	 <u>\$ 1,335,000</u>

The 1992 Revenue Bonds are \$2,000,000 Hospital Revenue Bonds issued October 1, 1992. Effective April 1, 2003 the Hospital Revenue Bonds, Series 1992 were advance refunded with the hospital Revenue Bonds, Series 2003. The purpose of the refinancing was to reduce the overall effective interest rates on the outstanding bond obligation. The 2003 Revenue Bonds are \$1,265,000 Hospital Revenue Bonds issued April 1, 2003. Payments of principal and interest of 2.0% to 4.5% are payable semi-annually on June 1 and December 1 through June 1, 2012. The terms of the 2003 Hospital Revenue Bonds require RSHHC to maintain a sinking fund and a reserve fund. The remaining unamortized issue costs from the Series 1992 Hospital Revenue Bonds are recorded as a deferred loss from refinancing and are presented as a reduction of long term debt, and are getting amortized using the straight line method over the remaining life of the Series 1992 Hospital Revenue Bonds.

**Economic Factors**

RSHHC is continuing to improve its financial position during the current year. Volumes in some areas have increased: Skilled Nursing has benefited from direct marketing to surrounding hospitals.

RSHHC's position remains, as always, challenged. The following are areas of particular concern:

- Recruitment and retention of staff are of concern, particularly in areas of national shortage, such as radiology, laboratory, and nursing.
- Salaries continue to rise, as do the costs of benefits. Our organization competes with Mayo (Rochester, MN) and Gundersen (LaCrosse, WI) for staff, thus we often provide training for qualified staff who then choose to go to a larger center with higher pay and better benefits.
- The cost of health care continues to rise and the ability of the organization to absorb those increases is limited. We foresee the need to pass on more of these expenses to our employees, which could result in loss of staff.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Economic Factors (Continued)**

The monopoly of Blue Cross/Blue Shield (Wellmark) is becoming a more and more significant factor. They are so all pervasive that they are able to dictate larger and larger discounts. We have found in the past year that smaller insurance programs are using Wellmark as their standard, thus reducing their payments for services.

·We have a strong and committed medical staff, and we are actively recruiting another Family Practice physician who will do Obstetrics.

·Issues we have faced in the past regarding accessibility to our clinic physicians seem to be resolving. Hours of service are more variable, and providers are more accommodating. Clinic visits continue to increase.

During the coming year we expect to see surgical services increase from the addition of another General Surgeon, a visiting Ophthalmologist, and a visiting Orthopedist.

**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 Hospital Administration at Regional Health Services of Howard County, 235 8<sup>th</sup> Avenue West, Cresco, IA 52136.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**BALANCE SHEETS**  
**JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,291,457	\$ 247,119
Current Portion Of Noncurrent Cash and Investments	17,544	29,281
Patient Receivables, Less Allowance for Uncollectible Accounts of \$332,206 and \$291,299 in 2004 and 2003, Respectively	1,589,638	1,510,400
Third Party Payor Settlement Receivable	-	456,129
Other Receivables	63,118	103,988
Accounts Receivable - Related Party	-	100,993
Inventories	235,225	217,616
Prepaid Expenses	76,723	61,573
Total Current Assets	<u>3,273,705</u>	<u>2,727,099</u>
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Grant Agency	29,491	28,625
Internally Designated for Capital Improvements	2,522,690	2,299,786
Restricted Under Bond Agreement	126,771	126,500
Restricted by Contributors and Grantors	6,815	10,888
	<u>2,685,767</u>	<u>2,465,799</u>
<b>CAPITAL ASSETS, NET</b>	3,694,666	3,872,738
<b>SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	381,467	421,758
<b>OTHER ASSETS</b>		
Bond Issuance Costs, Net of Accumulated Amortization	<u>46,806</u>	<u>52,718</u>
Total Assets	<u>\$ 10,082,411</u>	<u>\$ 9,540,112</u>

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	2004	2003
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 130,000	\$ 120,000
Accounts Payable	239,218	272,160
Accrued Expenses	473,336	547,170
Accounts Payable - Related Party	17,765	-
Third-Party Payor Settlement Payable	146,569	-
Total Current Liabilities	1,006,888	939,330
<b>OTHER LIABILITIES</b>		
Grant Funds Held in Trust	29,491	28,625
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>		
Bonds Payable	982,296	1,107,567
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>		
	381,467	421,758
Total Liabilities	2,400,142	2,497,280
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	2,582,370	2,765,171
Restricted by Contributors and Grantors	6,815	10,888
Restricted Under Bond Agreement	126,771	126,500
Unrestricted	4,966,313	4,140,273
	7,682,269	7,042,832
Total Liabilities and Net Assets	\$ 10,082,411	\$ 9,540,112

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**REGIONAL HEALTH SERVICES FOUNDATION**  
**BALANCE SHEETS**  
**JUNE 30, 2004 AND 2003**

	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 37,320	\$ 48,762
Total Assets	\$ 37,320	\$ 48,762
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS, Unrestricted</b>	\$ 37,320	\$ 48,762
Total Liabilities and Net Assets	\$ 37,320	\$ 48,762

*See accompanying Notes to Financial Statements.*

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (net of provision for bad debts of \$323,343 in 2004 and \$273,533 in 2003)	\$ 9,075,687	\$ 7,896,734
Other Revenue	210,577	172,136
	9,286,264	8,068,870
<b>EXPENSES</b>		
Salaries and Wages	4,009,119	3,770,630
Employee Benefits	919,485	858,136
Professional Fees	1,634,782	1,274,033
Utilities	135,840	127,199
Management, Legal, and Accounting Fees	214,327	207,762
Insurance	88,363	94,809
Supplies and Miscellaneous	1,665,633	1,429,897
Depreciation	533,277	508,482
Interest and Amortization	49,908	96,797
	9,250,734	8,367,745
<b>OPERATING INCOME (LOSS)</b>	35,530	(298,875)
<b>MERCY MEDICAL CENTER SHARE OF LOSS (INCOME)</b>	(17,765)	100,993
<b>NON-OPERATING GAINS (LOSS)</b>		
Tax Revenue	492,308	498,514
Investment Income	47,799	75,487
Loss on Investment in Joint Venture	-	(22,223)
Unrestricted Contributions	36,231	23,494
Loss on Sale of Property and Equipment	(1,884)	(1,748)
Other Non-operating Gains (Losses)	4,636	-
	579,090	573,524
<b>EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	596,855	375,642
Capital Contributions and Grants	42,582	3,618
Increase in Net Assets	639,437	379,260
Net Assets Beginning of Year	7,042,832	6,663,572
Net Assets End of Year	\$ 7,682,269	\$ 7,042,832

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Contributions	\$ 41,181	\$ 34,636
Interest Income	184	272
	41,365	34,908
<b>EXPENSES</b>		
Contributions to Regional Health Services of Howard County	43,784	2,737
Supplies and Miscellaneous	9,023	7,465
	52,807	10,202
Increase (Decrease) in Net Assets	(11,442)	24,706
Net Assets Beginning of Year	48,762	24,056
Net Assets End of Year	\$ 37,320	\$ 48,762

*See accompanying Notes to Financial Statements.*

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 9,599,147	\$ 6,824,480
Cash Paid to Employees	(4,998,444)	(4,537,219)
Cash Paid to Suppliers	(3,760,516)	(2,951,448)
Other Receipts and Payments, Net	210,577	172,136
Net Cash Provided (Used) by Operating Activities	1,050,764	(492,051)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Contributions and Other Nonoperating Revenue	83,449	27,112
Contribution from Mercy Medical Center - North Iowa	100,993	-
Tax Appropriations	492,308	498,514
Net Cash Provided by Non-Capital Financing Activities	676,750	525,626
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Property and Equipment,	(358,689)	(633,540)
Proceeds from Sale of Property and Equipment	1,600	500
Payments on Long Term Debt	(120,000)	(1,335,000)
Proceeds from the Issuance of Long-Term Debt	-	1,265,000
Cash paid for Bond Issue Costs	-	(53,704)
Interest Payments on Long-Term Debt	(46,521)	(89,220)
Net Cash Used by Capital and Related Financing Activities	(523,610)	(845,964)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	47,799	75,487
Increase (Decrease) in Noncurrent Cash and Investments	(207,365)	408,592
Loss on Investment in Joint Venture		
Net of Increase in Investment	-	(22,223)
Net Cash Provided (Used) by Financing Activities	(159,566)	461,856
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,044,338	(350,533)
Cash and Cash Equivalents - Beginning	247,119	597,652
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 1,291,457	\$ 247,119

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 35,530	\$ (298,875)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Interest Expense Considered Capital and Related Financing Activity	46,521	89,220
Amortization of Bond Issue Costs and Deferred Loss	10,641	5,065
Depreciation	533,277	508,482
Decrease (Increase) in -		
Patient Receivables	(79,238)	(446,125)
Third Party Payor Settlements Receivable	456,129	(456,129)
Other Receivables	40,870	57,468
Inventories	(17,609)	(28,093)
Prepaid Expenses	(15,150)	(3,390)
Increase (Decrease) in -		
Accounts Payable	(32,942)	153,951
Accrued Salaries, Wages, Benefits and Other	(73,834)	96,375
Third Party Payor Settlements Payable	146,569	(170,000)
Net Cash Provided (Used) by Operating Activities	\$ 1,050,764	\$ (492,051)
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Receipt of Donated Equipment	\$ -	\$ 3,618

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (11,442)	\$ 24,706
Net Cash Provided (Used) by Operating Activities	(11,442)	24,706
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(11,442)	24,706
Cash and Cash Equivalents - Beginning	48,762	24,056
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 37,320	\$ 48,762

*See accompanying Notes to Financial Statements.*

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Regional Health Services of Howard County (RSHHC) is a county public hospital, organized under Chapter 347A, Code of Iowa. Services are provided primarily to residents of Howard and surrounding counties in northeastern Iowa.

**A. Reporting Entity**

For financial reporting purposes, RSHHC has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. RSHHC has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with RSHHC are such that exclusion would cause RSHHC'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 the organization.

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.

Effective November 1, 2002, RSHHC assumed the operations of two local clinics from Mercy Medical Center – North Iowa (Mercy), located in Cresco, Iowa and Lime Springs, Iowa, for the formation of a physician hospital organization (PHO) (see Note 10). There were no assets purchased or liabilities assumed as part of the transaction.

**B. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those amounts.

**C. Basis of Accounting**

RSHHC has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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

**C. Basis of Accounting (Continued)**

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, RSHHC applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**D. Assets, Liabilities, and Net Assets**

The following accounting policies are followed in preparing the balance sheets:

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, RSHHC considers savings accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Patient Receivables* – Patient receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts and contractual adjustments from third party payors. RSHHC provides an allowance for bad debts using the allowance method using management's judgement. Services are sold on an unsecured basis. Accounts past due more than 90 days are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of collectibility has occurred. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$332,206 and \$291,299, respectively.

*Inventory* - Inventory is valued at cost using the first-in, first-out method.

*Unamortized Bond Issuance Costs and Expense* - Bond issue costs of \$53,704 from the Series 2003 Hospital Revenue Bonds are being amortized over the life of the bonds using the straight-line method. As of June 30, 2004 and 2003, accumulated amortization was \$6,898 and \$986, respectively. In addition, the remaining unamortized issue costs from the Series 1992 Hospital Revenue Bonds refunded during 2004 (see Note 7) are recorded as a deferred loss from refinancing and are presented as a reduction of long term debt, and are getting amortized on the straight line method over the remaining life of the Series 1992 Hospital Revenue Bonds. The gross amount of the deferred loss is \$38,221. As of June 30, 2004 and 2003, accumulated amortization was \$5,517 and \$788, respectively. Total amortization expense for the bond issue costs and deferred loss from refinancing was \$10,641 and \$5,065 for the years ended June 30, 2004 and 2003, respectively.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, and Net Assets (Continued)**

*Capital Assets, Net* – Capital Assets are stated on the basis of cost or fair market value if donated. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is policy of RHSHC to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than \$500 are expensed as incurred. Capital expenditures of \$500 or greater are capitalized and amortized over the life of the asset.

*Investments* – Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of savings accounts, certificates of deposits with original deposits greater than three months, and accrued interest receivable.

*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. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next year. By statute, the Board of Supervisors 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 include assets which have been internally designated by RHSHC's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of RHSHC for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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

**D. Assets, Liabilities, and Net Assets (Continued)**

*Net Assets* – Net assets of RHSHC are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to RHSHC. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted. Net assets of \$6,815 and \$10,888 at June 30, 2004 and 2003, respectively, are restricted for the purchase of home health equipment.

**E. Investment in Joint Ventures**

RHSHC was a partner in a joint venture agreement with Mercy Medical Center – North Iowa (Mercy) to provide health care services through two medical clinics located in Lime Springs, Iowa and attached to the hospital building. The medical clinic was managed and operated by Mercy. RHSHC shared in 49% of the profits, net of losses. The investment was accounted for using the equity method. On November 1, 2002, RHSHC assumed the operations of the medical clinics, and have included the operations in these financial statements. RHSHC is also a partner in a joint venture agreement with the City of Elma, Iowa and Mercy Medical Center – North Iowa to provide health care services through a medical clinic located in Elma, Iowa. The medical clinic is managed and operated by Mercy. RHSHC shares in 33% of the profits, net of losses. This medical clinic was closed during the year ended June 30, 2003. Prior to its closing, RHSHC's investment was accounted for using the equity method.

**F. Contributions**

From time to time RHSHC receives contributions from individuals and private organizations. Revenues from 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**G. Restricted Resources**

When RHSHC has both restricted and unrestricted resources available to finance a particular program, it is RHSHC's policy to use restricted resources before unrestricted resources.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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

**H. Operating Revenues and Expenses**

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

**I. Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare cost reports through June 30, 2001 have been audited and settled by the intermediary. Medicaid cost reports have been settled through June 30, 2001.

**J. Charity Care**

RHSHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because RHSHC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ending June 30, 2004 and 2003 was \$20,673 and \$6,754, respectively.

**K. County Tax Revenues**

Taxes levied to finance the current year are included in other operating revenue.

**NOTE 2 DESIGNATED NET ASSETS**

Of the \$7,548,683 and \$6,905,444 of unrestricted net assets at June 30, 2004 and 2003, 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.

	2004	2003
By Grant Agency	\$ 29,491	\$ 28,625
For Capital Improvements	2,522,690	2,299,786
Total Designated Net Assets	\$ 2,552,181	\$ 2,328,411

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 3 NET PATIENT SERVICE REVENUE**

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

**Medicare**

RHSHC has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. RHSHC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with RHSHC. RHSHC's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2001.

**Medicaid**

RHSHC has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. RHSHC's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2001.

**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.

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

	2004	2003
Total Patient Service Revenue	\$ 11,830,541	\$ 9,907,199
Contractual Adjustments:		
Medicare	1,141,753	1,072,791
Medicaid	370,192	283,323
Provision for Bad Debt	323,343	273,533
Other	919,566	380,818
Total Contractual Adjustments	2,754,854	2,010,465
Net Patient Service Revenue	\$ 9,075,687	\$ 7,896,734

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 4 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Organization at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Receivables from Patients and Their Insurance Carriers	\$ 1,338,792	\$ 1,306,486
Receivables from Medicare	475,848	353,397
Receivables from Medicaid	107,204	141,816
Total Patient Receivables	1,921,844	1,801,699
Less Allowance for Doubtful Accounts	(332,206)	(291,299)
Patient Receivables, Net	\$ 1,589,638	\$ 1,510,400

**NOTE 5 DEPOSITS AND INVESTMENTS**

The deposits of RHSHC at June 30, 2004 were entirely covered by Federal depository insurance and State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

RHSHC's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by RHSHC at year end. RHSHC's cash and cash equivalents and investments are all category 1, which means that the cash and cash equivalents and investments are insured or registered or the securities are held by RHSHC or its agent in RHSHC's name.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)**

At June 30, 2004 and 2003, RSHHC had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 4,111,654</u>	<u>\$ 2,870,672</u>
Carrying Amount	<u>\$ 3,994,768</u>	<u>\$ 2,742,199</u>

The carrying amount of deposits and investments shown above are included in RSHHC's balance sheet as follows:

	<u>2004</u>	<u>2003</u>
Deposits	<u>\$ 3,994,768</u>	<u>\$ 2,742,199</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 1,291,457	\$ 247,119
Current Portion Of Noncurrent Cash and Investments	17,544	29,281
Noncurrent Cash and Investments		
Internally Designated for Bond Agreement	126,771	126,500
Internally Designated for Grant Agency	29,491	28,625
Internally Designated for Capital Improvements	2,522,690	2,299,786
Restricted by Contributors and Grantors	<u>6,815</u>	<u>10,888</u>
	<u>\$ 3,994,768</u>	<u>\$ 2,742,199</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 6 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	Balance June 30, 2003	Additions	Transfers	(Retirements)	Balance June 30, 2004
<b>PROPERTY AND EQUIPMENT</b>					
Land and Land Improvements	\$ 260,550	\$ 11,049	\$ -	\$ -	\$ 271,599
Building	3,245,549	-	-	-	3,245,549
Fixed Equipment	3,230,025	27,282	8,042	-	3,265,349
Major Movable Equipment	3,507,865	297,435	22,923	(23,516)	3,804,707
Construction in Process	8,042	22,923	(30,965)	-	-
<b>Total</b>	<b>10,252,031</b>	<b>358,689</b>	<b>-</b>	<b>(23,516)</b>	<b>10,587,204</b>
<b>ACCUMULATED DEPRECIATION</b>					
Land Improvements	181,502	11,673	-	-	193,175
Building	1,760,928	110,911	-	-	1,871,839
Fixed Equipment	1,889,908	137,142	-	-	2,027,050
Major Movable Equipment	2,494,395	257,837	-	(18,015)	2,734,217
Durable Medical Equipment	52,560	15,714	-	(2,017)	66,257
<b>Total</b>	<b>6,379,293</b>	<b>\$ 533,277</b>	<b>\$ -</b>	<b>\$ (20,032)</b>	<b>6,892,538</b>
<b>Property and Equipment, Net</b>	<b>\$ 3,872,738</b>				<b>\$ 3,694,666</b>
	Balance June 30, 2002	Additions	Transfers	(Retirements)	Balance June 30, 2003
<b>PROPERTY AND EQUIPMENT</b>					
Land and Land Improvements	\$ 257,675	\$ 2,875	\$ -	\$ -	\$ 260,550
Building	3,204,931	40,618	-	-	3,245,549
Fixed Equipment	3,106,157	123,868	-	-	3,230,025
Major Movable Equipment	2,989,439	458,137	104,000	(43,711)	3,507,865
Construction in Process	104,000	8,042	(104,000)	-	8,042
<b>Total</b>	<b>9,662,202</b>	<b>633,540</b>	<b>-</b>	<b>(43,711)</b>	<b>10,252,031</b>
<b>ACCUMULATED DEPRECIATION</b>					
Land Improvements	169,285	12,217	-	-	181,502
Building	1,639,965	120,963	-	-	1,760,928
Fixed Equipment	1,744,192	145,716	-	-	1,889,908
Major Movable Equipment	2,313,757	216,225	-	(35,587)	2,494,395
Durable Medical Equipment	45,075	13,361	-	(5,876)	52,560
<b>Total</b>	<b>5,912,274</b>	<b>\$ 508,482</b>	<b>\$ -</b>	<b>\$ (41,463)</b>	<b>6,379,293</b>
<b>Property and Equipment, Net</b>	<b>\$ 3,749,928</b>				<b>\$ 3,872,738</b>

Construction in progress at June 30, 2003, consists of costs to renovate a central supply room, including the addition of purchasing software and related hardware. The total cost was approximately \$31,000 and was financed through operations.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 7 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance June 30, 2003	Additions	Payments (Amortization)	Balance June 30, 2004	Amounts Due Within One Year
2003 Revenue Bonds	\$ 1,265,000	\$ -	\$ (120,000)	\$ 1,145,000	\$ 130,000
Deferred Loss on Refinancing	(37,433)	-	4,729	(32,704)	-
<b>Total Long Term Debt</b>	<b>\$ 1,227,567</b>	<b>\$ -</b>	<b>\$ (115,271)</b>	<b>\$ 1,112,296</b>	<b>\$ 130,000</b>
	Balance June 30, 2002	Additions	Payments (Amortization)	Balance June 30, 2003	Amounts Due Within One Year
1992 Revenue Bonds	\$ 1,335,000	\$ -	\$ (1,335,000)	\$ -	\$ -
2003 Revenue Bonds	-	1,265,000	-	1,265,000	120,000
Deferred Loss on Refinancing	-	(38,221)	788	(37,433)	-
<b>Total Long Term Debt</b>	<b>\$ 1,335,000</b>	<b>\$ 1,226,779</b>	<b>\$ (1,334,212)</b>	<b>\$ 1,227,567</b>	<b>\$ 120,000</b>

The 1992 Revenue Bonds are \$2,000,000 Hospital Revenue Bonds issued October 1, 1992. Payments of principal and interest at 4.25 to 7.20%, are payable semi-annually on June 1 and December 1. Principal payments are made June 1 through 2007.

Effective April 1, 2003, Regional Health Services of Howard County advance refunded the existing Hospital Revenue Bonds, Series 1992 with the Hospital Revenue Bonds, Series 2003. The purpose of the refinancing was to reduce the overall effective interest rates on RSHHC's outstanding bond obligation. RSHHC is required to maintain a sinking fund and a reserve fund. Both of these were fully funded at June 30, 2004 and 2003

The 2003 Revenue Bonds are \$1,265,000 Hospital Revenue Bonds issued April 1, 2003. Payments of principal and interest of 2.0% to 4.5% are payable semi-annually on June 1 and December 1. Principal payments are due June 1 through 2012. The Bonds are collateralized by patient revenues of RSHHC.

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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2005	\$ 130,000	\$ 40,433
2006	135,000	37,443
2007	135,000	33,730
2008	140,000	29,478
2009	145,000	24,718
2010-2014	460,000	40,200
	<u>\$ 1,145,000</u>	<u>\$ 206,002</u>

**NOTE 8 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 3.70% of their annual salary and RHSHC is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. RHSHC's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$233,000, \$212,000, and \$184,000, respectively, equal to the required contributions for each year.

**NOTE 9 PROPERTY UNDER OPERATING LEASES**

RHSHC is the lessor of a part of the hospital building, which is used as the current clinic facility, and the old clinic building. Certain of the building leases provide for options to extend the term for additional three or five year terms. Rent income from these operating leases included in other operating revenues was approximately \$19,798 and \$52,700, for the years ended June 30, 2004 and 2003, respectively. RHSHC discontinued leasing the clinic space within the hospital during 2003 as it assumed the operations of the clinic in that location.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 10 RELATED PARTY TRANSACTIONS**

**Regional Health Services Foundation**

Regional Health Services Foundation was formed to perform fund raising activities for RSHHC. The Foundation contributed cash and capital equipment in the amount of \$43,784 \$2,737 to RSHHC in 2004 and 2003, respectively.

**Master Affiliation Agreement**

On November 1, 2002, RSHHC entered into a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, RSHHC entered into a professional services agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to approximately \$1,360,000 and \$713,000 for the years ended June 30, 2004 and 2003, respectively.

Operating gains and losses from the operation of RSHHC services in Howard County are shared in accordance to the formulas outlined in the Master Affiliation Agreement. Total operating gains (losses) to be allocated between Mercy Medical Center - North Iowa and RSHHC amounted to \$17,765 and (\$100,993) for the years ended June 30, 2004 and 2003, respectively.

**Due to/From Affiliated Organization**

As of June 30, 2004 and 2003, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center - North Iowa of \$115,423 and \$133,564, respectively, for the various services and distributions related to these agreements.

**Management Services Agreement**

RSHHC has a contractual arrangement with Mercy Medical Center - North Iowa under which Mercy Medical Center - North Iowa provides administrative staff, management consultation, and other services to 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, 2004 and 2003 were approximately \$204,000 and \$190,000, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

**Malpractice Insurance**

RHSHC has insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

**Hospital Risk Management**

RHSHC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of RHSHC's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Litigation**

RHSHC is involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on RHSHC's financial position or results of operations.

**Self-Funded Employee Health Insurance Plan**

RHSHC had elected to self-insure their employee health insurance program. RHSHC had entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims were accrued as incurred. The amounts charged to expense included administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at year-end. During the year ended June 30, 2003, RHSHC elected to discontinue the self-insured employee health insurance program.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
BUDGETARY COMPARISON SCHEDULE OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2004**

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 347 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.

	General Fund	Accrual Adjustments	Cash Basis	Budget
Estimated Amount to be Raised by Taxation	\$ 434,983	\$ -	\$ 434,983	\$ 421,758
Estimated Other Revenues/Receipts	9,455,188	644,102	10,099,290	10,414,545
	<u>9,890,171</u>	<u>644,102</u>	<u>10,534,273</u>	<u>10,836,303</u>
Expenses/Disbursements Net	9,250,734	30,970	9,281,704	10,715,420
	<u>639,437</u>	<u>613,132</u>	<u>1,252,569</u>	<u>120,883</u>
Balance Beginning of Year	<u>7,042,832</u>	<u>(4,300,633)</u>	<u>2,742,199</u>	<u>4,025,561</u>
Balance End of Year	<u>\$ 7,682,269</u>	<u>\$ (3,687,501)</u>	<u>\$ 3,994,768</u>	<u>\$ 4,146,444</u>

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## OTHER SUPPLEMENTARY INFORMATION

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 933,008	\$ 765,323
Swing Bed	-	102,647
Respite Care	-	6,100
Nursery	59,276	58,370
Total	<u>992,284</u>	<u>932,440</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	647,606	632,191
Labor and Delivery Room	45,810	52,136
Anesthesiology	331,458	326,000
Radiology	1,374,010	1,078,645
Laboratory	1,305,814	1,170,746
Blood Supplies	50,000	53,611
Respiratory Therapy	190,922	244,709
Physical Therapy	334,042	288,057
Occupational Therapy	273,779	183,349
Speech Therapy	30,370	26,917
Electrocardiology	193,949	187,069
Medical and Surgical Supplies	407,141	371,220
Pharmacy	563,877	404,146
Cardiac Rehabilitation	69,412	101,914
Outpatient Clinic	44,086	36,536
Clinics	2,699,228	1,515,724
Emergency Room	823,089	796,037
Ambulance	361,948	314,082
Home Health	672,240	744,191
Durable Medical Equipment	440,149	454,233
Total	<u>10,858,930</u>	<u>8,981,513</u>
Charity Care	<u>(20,673)</u>	<u>(6,754)</u>
Total Patient Service Revenues	11,830,541	9,907,199
Adjustments to Patient Services Revenues	<u>(2,754,854)</u>	<u>(2,010,465)</u>
Net Patient Service Revenues	<u>\$ 9,075,687</u>	<u>\$ 7,896,734</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 720,672	\$ 539,844	\$ 212,336	\$ 225,479
-	102,647	-	-
-	6,100	-	-
59,172	58,346	104	24
<u>779,844</u>	<u>706,937</u>	<u>212,440</u>	<u>225,503</u>
159,183	145,353	488,423	486,838
45,539	51,883	271	253
101,051	106,033	230,407	219,967
81,944	73,767	1,292,066	1,004,878
112,019	136,323	1,193,795	1,034,423
13,679	21,803	36,321	31,808
139,699	213,232	51,223	31,477
66,113	35,907	267,929	252,150
65,658	31,845	208,121	151,504
9,090	6,598	21,280	20,319
14,911	22,172	179,038	164,897
192,382	187,682	214,759	183,538
193,285	205,867	370,592	198,279
-	-	69,412	101,914
275	124	43,811	36,412
-	-	2,699,228	1,515,724
20,325	51,173	802,764	744,864
14,255	14,806	347,693	299,276
-	-	672,240	744,191
-	-	440,149	454,233
<u>1,229,408</u>	<u>1,304,568</u>	<u>9,629,522</u>	<u>7,676,945</u>
<u>\$ 2,009,252</u>	<u>\$ 2,011,505</u>	<u>\$ 9,841,962</u>	<u>\$ 7,902,448</u>

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE  
REVENUES AND OTHER REVENUE  
YEARS ENDED JUNE 30, 2004 AND 2003**

<b>HOSPITAL</b>	2004	2003
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 1,141,753	\$ 1,072,791
Contractual Adjustments - Medicaid	370,192	283,323
Contractual Adjustments - Blue Cross	375,346	156,553
Provision for Bad Debt	323,343	273,533
Other Allowances and Adjustments	544,220	224,265
Total Adjustments	\$ 2,754,854	\$ 2,010,465
<b>OTHER REVENUES</b>		
Meal Sold	\$ 64,001	\$ 51,866
Dietary Consultations	22,701	22,309
Medical Records Transcripts	1,111	1,402
Vending Machines	4,742	5,097
Purchase Discounts and Rebates	12,615	5,903
Professional Standards Review Reimbursement	-	4
Clinic Rental Income	22,966	57,047
Miscellaneous	82,441	28,508
Total Other Revenue	\$ 210,577	\$ 172,136

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ 196,052	\$ 207,365
Capital Related Costs - Moveable Equipment	243,252	230,572
Capital Related Costs - Clinics	93,973	70,545
Employee Benefits	919,485	858,136
Administrative and General	1,084,441	990,815
Maintenance and Repairs	160,068	170,266
Operation of Plant	136,194	127,742
Laundry and Linen	20,782	20,622
Housekeeping	63,959	63,827
Dietary	196,279	196,391
Nursing Administration	33,291	55,291
Central Supply	110,104	37,983
Pharmacy	215,766	151,445
Medical Records	166,304	168,446
Social Service	27,905	35,172
Nonphysician Anesthetists	137,174	111,038
Adults and Pediatrics	583,727	574,894
Nursery	13,621	10,112
Operating Room	138,119	142,841
Labor and Delivery Room	11,409	13,134
Anesthesiology	16,214	36,719
Radiology	452,041	456,633
Laboratory	353,921	314,309
Blood	26,293	28,617
Respiratory Therapy	29,549	39,984
Physical Therapy	135,087	146,936
Occupational Therapy	90,739	60,641
Speech Pathology	11,175	17,033
Electrocardiology	44,772	46,183
Cardiac Rehabilitation	19,612	22,416
Outpatient Clinic	96,400	119,806
Emergency	382,435	388,740
Ambulance	127,872	136,075
Home Health	630,940	671,374
Durable Medical Equipment	168,653	225,922
Interest and Amortization	49,908	96,797
Clinics	2,063,218	1,322,923
<b>TOTAL</b>	<b>\$ 9,250,734</b>	<b>\$ 8,367,745</b>

SALARIES		OTHER	
2004	2003	2004	2003
\$ -	\$ -	\$ 196,052	\$ 207,365
-	-	243,252	230,572
-	-	93,973	70,545
-	-	919,485	858,136
526,859	479,009	557,582	511,806
124,944	134,217	35,124	36,049
-	-	136,194	127,742
1,267	-	19,515	20,622
53,627	54,889	10,332	8,938
144,391	145,361	51,888	51,030
31,934	48,969	1,357	6,322
5,520	18,703	104,584	19,280
4,141	3,373	211,625	148,072
148,422	152,109	17,882	16,337
27,439	34,884	466	288
114,399	111,038	22,775	-
560,085	555,978	23,642	18,916
13,599	9,816	22	296
85,232	80,659	52,887	62,182
11,409	11,936	-	1,198
-	-	16,214	36,719
157,094	132,919	294,947	323,714
150,589	135,731	203,332	178,578
2,965	3,159	23,328	25,458
16,945	25,357	12,604	14,627
126,636	131,213	8,451	15,723
84,637	54,696	6,102	5,945
-	-	11,175	17,033
6,561	6,251	38,211	39,932
18,910	21,818	702	598
92,635	117,758	3,765	2,048
115,051	97,411	267,384	291,329
116,966	119,466	10,906	16,609
479,472	527,237	151,468	144,137
101,799	102,300	66,854	123,622
-	-	49,908	96,797
685,591	454,373	1,377,627	868,550
<u>\$ 4,009,119</u>	<u>\$ 3,770,630</u>	<u>\$ 5,241,615</u>	<u>\$ 4,597,115</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS  
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,032,060	47 %	\$ 994,805	46 %
31-60 Days	370,485	17 %	323,894	14 %
61-90 Days	168,035	8 %	164,388	6 %
91 Days and Over	612,482	28 %	616,584	34 %
Total Accounts Receivable	<u>\$ 2,183,062</u>	<u>100 %</u>	<u>\$ 2,099,671</u>	<u>100 %</u>
<b>ALLOWANCES</b>				
Contractual -				
Medicare	\$ 215,378		\$ 244,972	
Medicaid	45,840		53,000	
Doubtful Accounts	<u>332,206</u>		<u>291,299</u>	
Net Accounts Receivable	<u>\$ 1,589,638</u>		<u>\$ 1,510,400</u>	
Net Patient Service Revenue per Calendar Day-excluding bad debt	<u>\$ 25,751</u>		<u>\$ 22,384</u>	
Days of net Revenue in Net Accounts Receivable at Year End	<u>62</u>		<u>67</u>	

**Analysis of Allowance for Doubtful Accounts**

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 291,299		\$ 188,825	
Add:				
Provision for Doubtful Accounts	323,343	3.4 %	273,533	3.3 %
Recoveries Previously Written Off	116,458	1.2 %	82,063	1.0 %
	<u>439,801</u>		<u>355,596</u>	
Deduct:				
Accounts Written Off	<u>(398,894)</u>	(4.2)%	<u>(253,122)</u>	(3.1)%
Ending Balance	<u>\$ 332,206</u>		<u>\$ 291,299</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF INVENTORIES AND PREPAID EXPENSES**  
**JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>INVENTORIES</b>		
Central Supply	\$ 142,195	\$ 63,606
Pharmacy	62,180	64,693
Dietary	5,971	6,899
Other	7,576	66,397
DME Supplies	<u>17,303</u>	<u>16,021</u>
 Total Inventories	 <u>\$ 235,225</u>	 <u>\$ 217,616</u>
 <b>PREPAID EXPENSES</b>		
Insurance	\$ 8,268	\$ 6,349
Dues and Other	<u>68,455</u>	<u>55,224</u>
 Total Prepaid Expenses	 <u>\$ 76,723</u>	 <u>\$ 61,573</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
SCHEDULES OF BOND INVESTMENT TRANSACTIONS  
YEAR ENDED JUNE 30, 2004**

	Balance July 1, 2003	Invested	Redeemed	Balance June 30, 2004
Revenue Bond Sinking Fund Money Market Savings	\$ 29,281	\$ 158,234	\$ (169,971)	\$ 17,544
Reserve Fund Certificate of Deposit	<u>126,500</u>	<u>271</u>	<u>-</u>	<u>126,771</u>
Total	<u>\$ 155,781</u>	<u>\$ 158,505</u>	<u>\$ (169,971)</u>	<u>\$ 144,315</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF INSURANCE**  
**JUNE 30, 2004**

The following is a schedule of insurance in force for Regional Health Services of Howard County for the coverage period July 1, 2002 – June 30, 2004.

Insurer	Coverage Type	Effective Dates	Coverage Amount
Farm Bureau Mutual Insurance	Worker's Compensation	04/01/03 to 04/01/04	\$ 500,000/500,000/500,000
Ruhl & Ruhl, Inc.	Buildings and Contents (Total Blanket)	07/01/03 to 06/30/04	8,174,657
	General Liability		1,000,000
	Professional		1,000,000/3,000,000
	Automobile		1,000,000
	Blanket Earnings and Extra Expense		1,632,550
	Public Employees Blanket Bond		100,000
	Forgery and Alteration Directors and Officers Liability		100,000
	Umbrella - Excess Liability		1,000,000
			2,000,000

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
COMPARATIVE STATISTICS  
YEARS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
<b>PATIENT DAYS</b>		
Acute	650	764
Swing Bed	887	440
Newborn	113	122
Totals	<u>1,650</u>	<u>1,326</u>
<b>ADMISSIONS</b>		
Acute	231	285
Swing Bed	67	51
Newborn	55	60
Totals	<u>353</u>	<u>396</u>
<b>DISCHARGES</b>		
Acute	227	286
Swing Bed	64	50
Newborn	54	60
Totals	<u>345</u>	<u>396</u>
<b>AVERAGE LENGTH OF STAY, ACUTE</b>	<u>2.86</u>	<u>2.67</u>
<b>BEDS</b>	<u>25</u>	<u>25</u>
<b>OCCUPANCY PERCENTAGE</b>		
Acute, Based on 25 Beds	7.1 %	8.4 %
Swing Bed, Based on 25 Beds	<u>9.7 %</u>	<u>4.8 %</u>

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

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

We have audited the financial statements of Regional Health Services of Howard County (RHSHC) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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, we considered Regional Health Services of Howard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance

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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the Schedule of Findings.

We also noted certain additional matters that we reported to management of Regional Health Services of Howard County in a separate letter dated August 26, 2004.

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



**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
August 26, 2004

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

04-1 Official Depository Banks

A resolution of official depository banks has been approved by the governing board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget

Reported expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

04-3 Questionable Expenditures

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-4 Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Organization officials and/or employees were noted.

The Board of Trustees did not approve a change in the mileage reimbursement rate which occurred during fiscal 2004.

Recommendation

We recommend that the Board of Trustees approves the change in the mileage reimbursement rate.

Response

The Board of Trustees will approve the mileage reimbursement rate.

Conclusion

Response accepted

04-5 Business Transactions

No business transactions between RSHHC and Hospital officials and/or employees were noted.

04-6 Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the Board.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2004**

04-7     Deposits and Investments

We noted all Hospital investments to be in compliance with the state statutes regarding investments. However, RSHHC does not have a written investment policy.

Recommendation

We recommend approving a written investment policy.

Response

RSHHC will establish and approve a written investment policy.

Conclusion

Response accepted

04-8     Publication of Bills Allowed and Salaries

RSHHC is organized under Chapter 347A and is not required to follow this section of the Iowa Code.

04-9     Publication of notice of sale prior to selling personal property

RSHHC did not publish a notice of the sale of assets prior to their sale as required by Section 70A

Recommendation

RSHHC should make public notification prior to the sale of any assets.

Response

RSHHC will made public notification prior to the sale of assets in the future.

Conclusion

Response accepted

## INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

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

We have audited, in accordance with U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the primary government financial statements of Regional Health Services of Howard County as of June 30, 2004, and have issued our report thereon dated August 26, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that RSHSC was not in compliance with any of the terms, covenants, provisions or conditions of Section Fifteen "Patient Rates and Charges", Section Sixteen "Application of Revenues; Funds and Accounts; Investments", and Section Seventeen "Covenants Regarding the Operation of RSHSC" of the loan agreement dated April 1, 2003 relating to the \$1,265,000 issue of Hospital Revenue Bonds, Series 2003, with the County of Howard, Iowa, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees, management of Regional Health Services of Howard County, and the County of Howard, Iowa and is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota  
August 26, 2004