REGIONAL HEALTH SERVICES OF HOWARD COUNTY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2005 AND 2004

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REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BOARD OF TRUSTEES
YEARS ENDED JUNE 30, 2005

Name	Title	Term Expires
Bernard Pecinovsky	Chairperson	December 31, 2006
Dave Jones	Vice Chairperson	December 31, 2002
Connie McGrane	Secretary	December 31, 2010
Alvin Herold	Treasurer	December 31, 2006
Gerald Ferrie	Member	December 31, 2010
Elizabeth Doty	President/Chief Executive Officer	
Gary Kirchhof	Vice President of Hospital Services	
Brenda Moser	Chief Financial Officer	

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Regional Health Services of Howard County and its discretely presented component unit for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of RHSHC'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 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.

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, 2005 and 2004, 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 5, 2005 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.

Larson, Allen, Weishair & Co., LLP | An Independent Member of Baker Tilly International

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 29 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 30 to 37 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 38 has been summarized from RHSHC'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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 5, 2005

This section of the Regional Health Services of Howard County (RHSHC) annual audited financial report represents management's discussion and analysis of RHSHC's financial performance during the fiscal year ending June 30, 2005. The analysis will focus on RHSHC's financial performance as a whole. Please read it in conjunction with the audited financial report.

USING THIS ANNUAL REPORT

The June 30, 2005 and 2004 financial reports include the following audited financial statements:

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

FINANCIAL HIGHLIGHTS

- RHSHC's total assets increased by $1,520,063, or 15.1%, in 2005, by $542,299, or 5.7%, in 2004 and by $358,828, or 3.9%, in 2003.
- RHSHC's net assets increased in each of the last two years with a $858,019, or 11.2%, increase in 2005, a $639,437, or 9.1%, increase in 2004 and a $379,260 or 5.7% increase in 2003.
- RHSHC reported an operating income (loss) of $448,725 in 2005, $35,530 in 2004 and $(298,875) in 2003. This represents an increase in 2005 and 2004 of $163,195 and $334,405, respectively, 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 RHSHC using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of RHSHC's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to RHSHC creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of RHSHC's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of RHSHC that determines RHSHC's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

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

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

FINANCIAL ANALYSIS OF RHSHC

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 RHSHC and the changes in them. Increases or decreases in net assets 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 Assets

	2005	2004	2003
Assets:			
Current Assets	$ 4,612,880	$ 3,273,705	$ 2,727,099
Noncurrent Cash and Investments	3,113,561	2,685,767	2,465,799
Capital Assets, Net	3,446,471	3,694,666	3,872,738
Succeeding Year Property Tax Receivable	388,668	381,467	421,758
Other Assets	40,894	46,806	52,718
Total Assets	$ 11,602,474	$ 10,082,411	$ 9,540,112
Liabilities:			
Total Current Liabilities	$ 1,791,570	$ 1,006,888	$ 939,330
Other Liabilities	29,925	29,491	28,625
Long-Term Debt (Less Current Maturities)	852,024	982,296	1,107,567
Deferred Revenue from Succeeding Year Property Tax Receivable	388,668	381,467	421,758
Total Liabilities	3,062,187	2,400,142	2,497,280
Net Assets:			
Invested in Capital Assets Net of Related Debt	2,459,447	2,582,370	2,645,171
Restricted by Contributors and Grantors	6,675	6,815	10,888
Restricted Under Bond Agreement	126,771	126,771	126,771
Unrestricted	5,947,394	4,966,313	4,260,002
Total Net Assets	8,540,287	7,682,269	7,042,832
Total Liabilities and Net Assets	$ 11,602,474	$ 10,082,411	$ 9,540,112

Asset categories changing significantly during 2005, 2004 and 2003 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 $141,892, or 13.6%, in 2005, increased by $794,338, or 321.4%, in 2004, and decreased by $350,533, or 58.7% in 2003. Current Investments increased by $1,260,247, or 504.1%, in 2005 and $250,000, or 100%, in 2004 as Cash was converted into investments during the year. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2005 by $180,719, or 11.4%, 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 2005 was 2.57, for 2004 was 3.25 and for 2003 was 2.90. The current ratio is a measure of liquidity, providing an indication of RHSHC's ability to pay current liabilities: a high ratio number is preferred.

FINANCIAL ANALYSIS OF RHSHC (CONTINUED)

Other non-current Asset categories changing significantly during 2005, 2004 and 2003 included Non-Current Cash and Investments. Non-Current Cash and Investments increased by $427,794, or 15.9%, in 2005, increased by $219,967, or 8.9%, in 2004 and decreased by $105,283, or 4.1% in 2003.

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

	2005	2004	2003
Net Patient Service Revenue	$ 10,499,962	$ 9,075,687	$ 7,896,734
Other Operating Revenue	198,739	210,577	172,136
Total Revenue	10,698,701	9,286,264	8,068,870
Operating Expenses			
Salaries and Wages	4,321,317	4,009,119	3,770,630
Employee Benefits	1,031,374	919,485	858,136
Professional Fees	1,887,151	1,634,782	1,274,033
Utilities	153,418	135,840	127,199
Management, Legal, and Accounting Fees	244,163	214,327	207,762
Insurance	88,752	88,363	94,809
Supplies and Miscellaneous	1,926,840	1,665,633	1,429,897
Depreciation	546,137	533,277	508,482
Interest and Amortization	50,824	49,908	96,797
Total Operating Expenses	10,249,976	9,250,734	8,367,745
Operating Income	448,725	35,530	(298,875)
Mercy Medical Center Share of Loss	(224,363)	(17,765)	100,993
Non-Operating Revenues (Expenses)			
Tax Revenue	456,633	492,308	498,514
Investment Income	101,857	47,799	75,487
Unrestricted Contributions	21,210	36,231	23,494
Loss on Joint Venture	-	-	(22,223)
Loss on Sale of Property and Equipment	(6,545)	(1,884)	(1,748)
Other Non-operating Gains (Losses)	5,495	4,636	-
Non-Operating Revenues (Expenses)	578,650	579,090	573,524
Excess of Revenues over Expenses before Capital Grants and Contributions	803,012	596,855	375,642
Capital Grants and Contributions	55,006	42,582	3,618
Increase in Net Assets	858,018	639,437	379,260
Net Assets, Beginning of Year	7,682,269	7,042,832	6,663,572
Net Assets, End of Year	$ 8,540,287	$ 7,682,269	$ 7,042,832

FINANCIAL ANALYSIS OF RHSHC (CONTINUED)

Net patient service revenue made up 98.1% in 2005, 97.7 % in 2004 and 97.9% in 2003 of RHSHC'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

	2005	2004	2003
Total Patient Service Revenues	$ 14,614,071	$ 11,830,541	$ 9,907,199
Contractual Adjustments and Provisions for Bad Debt	4,114,109	2,754,854	2,010,465
Net Patient Service Revenue	$ 10,499,962	$ 9,075,687	$ 7,896,734
Contractual Adjustments as a Percent of Revenues	28.15%	23.29%	20.29%

Total operating expenses increased $999,242, or 10.8%, in 2005 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 34-35 of the audited financial statements for this information. In 2004 and 2003 there were significant increases in Salaries and Wages and Professional Fees. The increase in 2004 and 2003 was due to the Formation of the Physician Hospital Organization on November 1, 2002. This Physician Hospital Organization represents a Master Affiliation Agreement between RHSHC and Mercy Medical Center – North Iowa. On November 1, 2002 RHSHC assumed operations of the Cresco and Lime Springs Medical Clinic. The employees working in these clinics became employees of RHSHC, 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 RHSHC contracts physician medical services from Mercy Medical Center – North Iowa. This 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. Professional Fees also increased by $252,369, or 15.4%, in 2005. This is mainly due to RHSHC contracting both radiology and lab technicians during part of 2005 to help cover staffing shortages in these departments. In 2005 there was a significant increase in Supplies and Miscellaneous Expense. The increase of $261,207, or 15.7%, in 2005 was partly due to a change in our capitalization policy, where we now expense capital assets costing less than $5,000. The other item having a big impact on Supplies and Miscellaneous Expense in 2005 was the increase in our volumes, as shown in Table 5. In 2004 and 2003 there was a decrease in Interest and Amortization expense. This is due to RHSHC 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 RHSHC'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) was $448,725, or 4.2% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2005 compared to $35,530, or .4%, in 2004 and $(298,875), or (3.7)%, in 2003.

FINANCIAL ANALYSIS OF RHSHC (CONTINUED)

Other Operating Revenue decreased by $11,838, or 5.6%, in 2005, 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

	2005	2004	2003
Meals Sold	$ 65,440	$ 64,001	$ 51,866
Dietary Consultations	20,453	22,701	22,309
Medical Records Transcripts	2,387	1,111	1,402
Vending Machines	4,378	4,742	5,097
Purchase Discounts and Rebates	25,302	12,615	5,903
Professional Standards Review Reimbursement	-	-	4
Clinic Rental Income	33,328	22,966	57,047
Miscellaneous	47,451	82,441	28,508
Total Other Revenues	$ 198,739	$ 210,577	$ 172,136

HOSPITAL STATISTICAL DATA

Table 5 shows RHSHC's statistical data. Acute Patient Days, Admissions and Discharges turned around in 2005, compared to the steady decrease they have been on since 2002. Acute Patient Days increased by 252 days, or 38.8%, in 2005, compared to the decrease of 114 days, or 14.9%, in 2004 and the decrease of 233 days, or 23.4%, in 2003. Swing Bed Days have also had significant increases in both 2005 and 2004. Swing Bed Days increased by 487 days, or 54.5% in 2005, increased by 447 days, or 101.6%, in 2004 and decreased by 261 days, or 37.2%, in 2003.

Table 5: Statistical Data

	2005	2004	2003
Patient Days			
Acute	902	650	764
Swing Bed	1,370	887	440
Newborn	164	113	122
Total	2,436	1,650	1,326
Admissions			
Acute	293	231	285
Swing Bed	99	67	51
Newborn	75	55	60
Total	467	353	396
Discharges			
Acute	295	227	286
Swing Bed	103	64	50
Newborn	76	54	60
Total	474	345	396
Average Length of Stay, Acute	3.06	2.86	2.67
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute, Based on 25 Beds	9.9%	7.1%	8.4%
Swing, Based on 25 Beds	15.0%	9.7%	4.8%

HOSPITAL STATISTICAL DATA (CONTINUED)

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, 2005, RHSHC had $3,446,471 invested in capital assets, net of accumulated depreciation. In 2005, RHSHC expended $304,488 to purchase property and equipment. In 2004 and 2003, RHSHC purchased property and equipment costing $358,689 and $633,540, respectively.

Long-Term Debt

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

Table 6: Long-Term Debt

	2005	2004	2003
2003 Revenue Bonds	$ 1,015,000	1,145,000	1,265,000
Deferred Loss on Refinancing	(27,976)	(32,704)	(37,433)
Total Long-Term Debt	$ 987,024	$ 1,112,296	$ 1,227,567

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 RHSHC to maintain a sinking fund and a reserve fund. The remaining unamortized issue costs from the Series 1992 Hospital Revenue Bonds that were advance refunded during 2003 are recorded as a deferred loss from refinancing and are presented as a reduction of long term debt, and are getting amortized using the straight line method over the remaining life of the Series 1992 Hospital Revenue Bonds.

ECONOMIC FACTORS

RHSHC continues to improve its operational and financial performance. Fiscal year 2005 saw a strong bottom line: this was due in great measure to the addition of a second general surgeon, a visiting ophthalmologist who does cataracts, and a strong increase in skilled nursing days. Volumes in most areas increased, with the exception of Home Health.

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

1. The recruitment of another Family Practice physician who does obstetrics. Our deliveries are up from last year, and our goal is to keep ER call to one night in seven. Presently we are continuing to employee a short-term, non-OB physician to fill the gap in coverage.
2. Insurance rates continue to rise at astronomical rates, particularly for obstetrical services.
3. Medicaid clients in Home Health continue to operate at a loss. Our challenge is to increase our Medicare and private pay clients to offset the losses incurred with 60% of the clients on Medicaid.

ECONOMIC FACTORS (CONTINUED)

4. The overall facility needs updating. The remodeling/construction project was nearly ten years ago. We have outgrown our space for the therapies; the laboratory has no waiting area or private blood draw area; billing, coding, transcription and medical records are severely cramped for space and the overall facility is beginning to show wear and tear.
5. The disposition of skilled nursing patients will be a challenge. With two local nursing homes offering skilled services, and Home Health offering skilled services in the home, we will be utilizing specialists to help us determine what situation is best in terms of the patient's care and reimbursement.
6. The monopoly of Wellmark and the continued ratcheting down of reimbursement rates loom large. We need to look for ways to expand our services (in a relatively contained market), as not all accommodations can be made through expense reduction.

CONTACTING RHSHC

The financial report is designed to provide our citizens, customers, and creditors with a general overview of RHSHC's finances and to demonstrate RHSHC'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 8th Avenue West, Cresco, IA 52136.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BALANCE SHEETS
JUNE 30, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	$ 899,565	$ 1,041,457
Investments	1,510,247	250,000
Current Portion Of Noncurrent Cash and Investments	22,606	17,544
Patient Receivables, Less Allowance for Uncollectible Accounts of $448,488 in 2005 and $332,206 in 2004	1,770,357	1,589,638
Other Receivables	64,939	63,118
Inventories	264,263	235,225
Prepaid Expenses	80,903	76,723
Total Current Assets	4,612,880	3,273,705
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Grant Agency	29,925	29,491
Internally Designated for Capital Improvements	2,950,190	2,522,690
Restricted by Contributors and Grantors	6,675	6,815
Restricted Under Bond Agreement	126,771	126,771
Total Noncurrent Cash and Investments	3,113,561	2,685,767
CAPITAL ASSETS, NET	3,446,471	3,694,666
SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	388,668	381,467
OTHER ASSETS		
Bond Issuance Costs, Net of Accumulated Amortization	40,894	46,806
Total Assets	$ 11,602,474	$ 10,082,411

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 135,000	$ 130,000
Accounts Payable	254,812	239,218
Accrued Expenses	512,147	473,336
Accounts Payable - Related Party	224,363	17,765
Third-Party Payor Settlement Payable	665,248	146,569
Total Current Liabilities	1,791,570	1,006,888
OTHER LIABILITIES		
Grant Funds Held in Trust	29,925	29,491
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
Bonds Payable	852,024	982,296
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	388,668	381,467
Total Liabilities	3,062,187	2,400,142
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,459,447	2,582,370
Restricted by Contributors and Grantors	6,675	6,815
Restricted Under Bond Agreement	126,771	126,771
Unrestricted	5,947,394	4,966,313
Total Net Assets	8,540,287	7,682,269
Total Liabilities and Net Assets	$ 11,602,474	$ 10,082,411

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REGIONAL HEALTH SERVICES FOUNDATION
BALANCE SHEETS
JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 42,581	$ 37,320
Total Assets	$ 42,581	$ 37,320
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 5,500	$ -
NET ASSETS, Unrestricted	37,081	37,320
Total Liabilities and Net Assets	$ 42,581	$ 37,320

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, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of $427,352 in 2005 and $323,343 in 2004	$ 10,499,962	$ 9,075,687
Other Revenue	198,739	210,577
Total Revenues	10,698,701	9,286,264
EXPENSES		
Salaries and Wages	4,321,317	4,009,119
Employee Benefits	1,031,374	919,485
Professional Fees	1,887,151	1,634,782
Utilities	153,418	135,840
Management, Legal, and Accounting Fees	244,163	214,327
Insurance	88,752	88,363
Supplies and Miscellaneous	1,926,840	1,665,633
Depreciation	546,137	533,277
Interest and Amortization	50,824	49,908
Total Expenses	10,249,976	9,250,734
OPERATING INCOME	448,725	35,530
MERCY MEDICAL CENTER SHARE OF INCOME	(224,363)	(17,765)
ADJUSTED OPERATING INCOME	224,362	17,765
NON-OPERATING GAINS (LOSS)		
Tax Revenue	456,633	492,308
Investment Income	101,857	47,799
Unrestricted Contributions	21,210	36,231
Loss on Sale of Property and Equipment	(6,545)	(1,884)
Other Non-operating Gains (Losses)	5,495	4,636
Non-Operating Gains, Net	578,650	579,090
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	803,012	596,855
Capital Contributions and Grants	55,006	42,582
Increase in Net Assets	858,018	639,437
Net Assets Beginning of Year	7,682,269	7,042,832
Net Assets End of Year	$ 8,540,287	$ 7,682,269

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Contributions	$ 31,269	$ 41,181
Interest Income	190	184
Total Revenues	31,459	41,365
EXPENSES		
Contributions to Regional Health Services of Howard County	21,353	43,784
Supplies and Miscellaneous	10,345	9,023
Total Expenses	31,698	52,807
Decrease in Net Assets	(239)	(11,442)
Net Assets Beginning of Year	37,320	48,762
Net Assets End of Year	$ 37,081	$ 37,320

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	$ 10,837,922	$ 9,599,147
Cash Paid to Employees	(5,314,025)	(4,998,444)
Cash Paid to Suppliers	(4,319,375)	(3,760,516)
Other Receipts and Payments, Net	198,739	210,577
Net Cash Provided by Operating Activities	1,403,261	1,050,764
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions and Other Nonoperating Revenue	81,711	83,449
Contribution from Mercy Medical Center - North Iowa	(17,765)	100,993
Tax Appropriations	456,633	492,308
Net Cash Provided by Non-Capital Financing Activities	520,579	676,750
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment,	(304,488)	(358,689)
Proceeds from Sale of Property and Equipment	-	1,600
Payments on Long Term Debt	(130,000)	(120,000)
Interest Payments on Long-Term Debt	(40,432)	(46,521)
Net Cash Used by Capital and Related Financing Activities	(474,920)	(523,610)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	101,857	47,799
Decrease in Noncurrent Cash and Investments	(1,692,669)	(457,365)
Net Cash Used by Financing Activities	(1,590,812)	(409,566)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(141,892)	794,338
Cash and Cash Equivalents - Beginning	1,041,457	247,119
CASH AND CASH EQUIVALENTS - ENDING	$ 899,565	$ 1,041,457

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 448,725	$ 35,530
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operatng Activities		
Interest Expense Considered Capital and Related Financing Activity	40,432	46,521
Amortization of Bond Issue Costs and Deferred Loss	10,641	10,641
Depreciation	546,137	533,277
Decrease (Increase) in -		
Patient Receivables	(180,719)	(79,238)
Third Party Payor Settlements Receivable	-	456,129
Other Receivables	(1,821)	40,870
Inventories	(29,038)	(17,609)
Prepaid Expenses	(4,180)	(15,150)
Increase (Decrease) in -		
Accounts Payable	15,594	(32,942)
Accrued Salaries, Wages, Benefits and Other	38,811	(73,834)
Third Party Payor Settlements Payable	518,679	146,569
Net Cash Provided by Operating Activities	$ 1,403,261	$ 1,050,764

REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (239)	$ (11,442)
Increase in Accounts Payable	5,500	-
Net Cash Provided (Used) by Operating Activities	5,261	(11,442)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,261	(11,442)
Cash and Cash Equivalents - Beginning	37,320	48,762
CASH AND CASH EQUIVALENTS - ENDING	$ 42,581	$ 37,320

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regional Health Services of Howard County (RHSHC) 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, RHSHC has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. RHSHC 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 RHSHC are such that exclusion would cause RHSHC'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 RHSHC. RHSHC 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 RHSHC.

B. Use of Estimates

The preparation of financial statements in conformity with U.S. 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

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, RHSHC 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, RHSHC 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. RHSHC provides an allowance for bad debts using the allowance method using management's judgment. 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, 2005 and 2004, the allowance for uncollectible accounts was $448,488 and $332,206, 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, 2005 and 2004, accumulated amortization was $12,810 and $6,898, 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, 2005 and 2004, accumulated amortization was $10,245 and $5,517, respectively. Total amortization expense for the bond issue costs and deferred loss from refinancing was $10,641 for the years ended June 30, 2005 and 2004.

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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. It is policy of RHSHC to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than $5,000 are expensed as incurred. Capital expenditures of $5,000 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets (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. 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.

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 $6,675 and $6,815 at June 30, 2005 and 2004, respectively, are restricted for the purchase of home health equipment.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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 restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

F. 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.

G. 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 and non-exchange transactions associated with providing health care services – RHSHC's principal activity. Nonexchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

H. 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, 2002 have been audited and settled by the intermediary. Medicaid cost reports have been settled through June 30, 2002.

I. 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, 2005 and 2004 was $62,108 and $20,673, respectively.

J. County Tax Revenues

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

NOTE 2 DESIGNATED NET ASSETS

Of the $5,947,395 and $4,966,313 of unrestricted net assets at June 30, 2005 and 2004, 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.

	2005	2004
By Grant Agency	$ 29,925	$ 29,491
For Capital Improvements	2,950,190	2,522,690
Total Designated Net Assets	$ 2,980,115	$ 2,552,181

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, 2002.

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, 2002.

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.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	2005	2004
Total Patient Service Revenue	$ 14,614,071	$ 11,830,541
Contractual Adjustments:		
Medicare	1,885,823	1,141,753
Medicaid	378,948	370,192
Provision for Bad Debt	427,352	323,343
Other	1,421,986	919,566
Total Contractual Adjustments	4,114,109	2,754,854
Net Patient Service Revenue	$ 10,499,962	$ 9,075,687

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Organization at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Receivables from Patients and Their Insurance Carriers	$ 1,512,078	$ 1,338,792
Receivables from Medicare	506,072	475,848
Receivables from Medicaid	200,695	107,204
Total Patient Receivables	2,218,845	1,921,844
Less Allowance for Doubtful Accounts	(448,488)	(332,206)
Patient Receivables, Net	$ 1,770,357	$ 1,589,638

NOTE 5 DEPOSITS AND INVESTMENTS

The deposits of RHSHC at June 30, 2005 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.

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	2005	2004
Cash and Cash Equivalents	$ 899,565	$ 1,041,457
Investments	1,510,247	250,000
Current Portion of Noncurrent Cash and Investments	22,606	17,544
Noncurrent Cash and Investments		
Internally Designated for Bond Agreement	6,675	6,815
Internally Designated for Grant Agency	29,925	29,491
Internally Designated for Capital Improvements	2,950,190	2,522,690
Restricted by Contributors and Grantors	126,771	126,771
	$ 5,545,979	$ 3,994,768

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

	Balance June 30, 2004	Additions	Transfers	(Retirements)	Balance June 30, 2005
PROPERTY AND EQUIPMENT					
Land and Land Improvements	$ 271,598	$ 7,850	$ -	$ -	$ 279,448
Building	3,245,549	46,344	-	-	3,291,893
Fixed Equipment	3,265,349	11,949	-	-	3,277,298
Major Movable Equipment	3,804,708	214,557	-	(15,840)	4,003,425
Construction in Process	-	23,788	-	-	23,788
Total	10,587,204	304,488	-	(15,840)	10,875,852
ACCUMULATED DEPRECIATION					
Land Improvements	193,175	12,085	-	-	205,260
Building	1,871,839	112,815	-	-	1,984,654
Fixed Equipment	2,027,050	138,168	-	-	2,165,218
Major Movable Equipment	2,734,217	266,585	-	(2,088)	2,998,714
Durable Medical Equipment	66,257	16,484	-	(7,206)	75,535
Total	6,892,538	$ 546,137	$ -	$ (9,294)	7,429,381
Property and Equipment, Net	$ 3,694,666				$ 3,446,471

NOTE 6 CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2003	Additions	Transfers	(Retirements)	Balance June 30, 2004
PROPERTY AND EQUIPMENT					
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)	-	-
Total	10,252,031	358,689	-	(23,516)	10,587,204
ACCUMULATED DEPRECIATION					
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
Total	6,379,293	$ 533,277	$ -	$ (20,032)	6,892,538
Property and Equipment, Net	$ 3,872,738				$ 3,694,666

Construction in progress at June 30, 2005, consists of costs related to updates of the therapy, radiology and pharmacy modules of RHSHC's information system at a cost of approximately $40,000. Construction in progress also consists of a project to remodel the central supply department including the addition of a computer training area at a cost of approximately $88,000. Both projects are expected to be completed during the fiscal year ended June 30, 2006 and will be financed from RHSHC's reserves.

NOTE 7 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance June 30, 2004	Additions	Payments (Amortization)	Balance June 30, 2005	Amounts Due Within One Year
2003 Revenue Bonds	$ 1,145,000	$ -	$ (130,000)	$ 1,015,000	$ 135,000
Deferred Loss on Refinancing	(32,704)	-	4,728	(27,976)	-
Total Long Term Debt	$ 1,112,296	$ -	$ (125,272)	$ 987,024	$ 135,000

NOTE 7 LONG-TERM DEBT (CONTINUED)

	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)	-
Total Long Term Debt	$ 1,227,567	$ -	$ (115,271)	$ 1,112,296	$ 130,000

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 RHSHC. RHSHC is required to maintain a sinking fund and a reserve fund. Both of these were fully funded at June 30, 2005 and 2004. The remaining unamortized issue costs from the Series 1992 Hospital Revenue Bonds that were advance refunded during 2003 are recorded as a deferred loss from refinancing and are presented as a reduction of long term debt, and are amortized using the straight line method over the remaining life of the Series 1992 Hospital Revenue Bonds.

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

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
2006	$ 135,000	$ 37,443
2007	135,000	33,730
2008	140,000	29,478
2009	145,000	24,718
2010	150,000	19,425
2011-2014	310,000	20,775
	$ 1,015,000	$ 165,569

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.

NOTE 8 PENSION PLAN (CONTINUED)

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 $247,000, $233,000, and $212,000, respectively, equal to the required contributions for each year.

NOTE 9 RELATED PARTY TRANSACTIONS

Regional Health Services Foundation

Regional Health Services Foundation was formed to perform fund raising activities for RHSHC. The Foundation contributed cash and capital equipment in the amount of $17,133 $43,784 to RHSHC in 2005 and 2004, respectively.

Master Affiliation Agreement

On November 1, 2002, RHSHC entered into a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, RHSHC entered into a professional services agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to approximately $1,339,442 and $1,360,000 for the years ended June 30, 2005 and 2004, respectively.

Operating gains and losses from the operation of RHSHC services in Howard County are shared in accordance to the formulas outlined in the Master Affiliation Agreement. Total operating gains to be allocated between Mercy Medical Center - North Iowa and RHSHC amounted to $224,363 and $17,765 for the years ended June 30, 2005 and 2004, respectively.

Due to/From Affiliated Organization

As of June 30, 2005 and 2004, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center - North Iowa of $117,364 and $115,423, respectively, for the various services and distributions related to these agreements.

Management Services Agreement

RHSHC has a contractual arrangement with Mercy Medical Center - North Iowa under which Mercy Medical Center - North Iowa provides administrative staff, management consultation, and other services to RHSHC. The arrangement does not alter the authority or responsibility of the Board of Trustees of RHSHC. Expenses for the administrative and management services received for the years ended June 30, 2005 and 2004 were approximately $298,000 and $204,000, respectively.

NOTE 10 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.

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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, 2005

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Original	Budgeted Amounts Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	$ 456,683	$ -	$ 456,683	$ 381,467	$ 381,467	$ 75,216
Estimated Other Revenues/Receipts	10,651,311	551,103	11,202,414	10,237,469	10,237,469	964,945
	11,107,994	551,103	11,659,097	10,618,936	10,618,936	1,040,161
Expenses/Disbursements	10,249,976	(142,090)	10,107,886	10,724,107	12,192,368	2,084,482
Net	858,018	693,193	1,551,211	(105,171)	(1,573,432)	3,124,643
Balance Beginning of Year	7,682,269	(3,687,501)	3,994,768	4,025,561	4,025,561	(30,793)
Balance End of Year	$ 8,540,287	$ (2,994,308)	$ 5,545,979	$ 3,920,390	$ 2,452,129	$ 3,093,850

NOTE 1 – BUDGETARY COMPARISON

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of RHSHC 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.

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OTHER SUPPLEMENTARY INFORMATION

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	$ 1,429,304	$ 933,008
Nursery	94,205	59,276
Total	1,523,509	992,284
OTHER PROFESSIONAL SERVICES		
Operating Room	1,151,038	647,606
Labor and Delivery Room	66,484	45,810
Anesthesiology	595,744	331,458
Radiology	1,791,110	1,374,010
Laboratory	1,572,770	1,305,814
Blood Supplies	77,714	50,000
Respiratory Therapy	359,537	190,922
Physical Therapy	388,669	334,042
Occupational Therapy	254,331	273,779
Speech Therapy	24,506	30,370
Electrocardiology	233,989	193,949
Medical and Surgical Supplies	570,224	407,141
Pharmacy	619,746	563,877
Cardiac Rehabilitation	48,240	69,412
Outpatient Clinic	37,225	44,086
Clinics	3,039,049	2,699,228
Emergency Room	856,714	823,089
Ambulance	366,232	361,948
Home Health	653,856	672,240
Durable Medical Equipment	445,492	440,149
Total	13,152,670	10,858,930
Charity Care	(62,108)	(20,673)
Total Patient Service Revenues	14,614,071	11,830,541
Adjustments to Patient Services Revenues	(4,114,109)	(2,754,854)
Net Patient Service Revenues	$ 10,499,962	$ 9,075,687

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
$ 1,120,933	$ 720,672	$ 308,371	$ 212,336
94,205	59,172	-	104
1,215,138	779,844	308,371	212,440
254,358	159,183	896,680	488,423
63,231	45,539	3,253	271
164,399	101,051	431,345	230,407
131,897	81,944	1,659,213	1,292,066
185,449	112,019	1,387,321	1,193,795
25,790	13,679	51,924	36,321
307,801	139,699	51,736	51,223
98,271	66,113	290,398	267,929
116,080	65,658	138,251	208,121
12,832	9,090	11,674	21,280
25,178	14,911	208,811	179,038
290,377	192,382	279,847	214,759
325,864	193,285	293,882	370,592
-	-	48,240	69,412
225	275	37,000	43,811
-	-	3,039,049	2,699,228
23,145	20,325	833,569	802,764
18,722	14,255	347,510	347,693
-	-	653,856	672,240
302	-	445,190	440,149
2,043,921	1,229,408	11,108,749	9,629,522
$ 3,259,059	$ 2,009,252	$ 11,417,120	$ 9,841,962

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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, 2005 AND 2004

HOSPITAL	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	$ 1,885,823	$ 1,141,753
Contractual Adjustments - Medicaid	378,948	370,192
Contractual Adjustments - Blue Cross	564,889	375,346
Provision for Bad Debt	427,352	323,343
Other Allowances and Adjustments	857,097	544,220
Total Adjustments	$ 4,114,109	$ 2,754,854
OTHER REVENUES		
Meal Sold	$ 65,440	$ 64,001
Dietary Consultations	20,453	22,701
Medical Records Transcripts	2,387	1,111
Vending Machines	4,378	4,742
Purchase Discounts and Rebates	25,302	12,615
Clinic Rental Income	33,328	22,966
Miscellaneous	47,451	82,441
Total Other Revenues	$ 198,739	$ 210,577

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	$ 195,112	$ 196,052
Capital Related Costs - Moveable Equipment	247,836	243,252
Capital Related Costs - Clinics	103,189	93,973
Employee Benefits	1,031,374	919,485
Administrative and General	1,210,316	1,084,441
Maintenance and Repairs	170,868	160,068
Operation of Plant	153,418	136,194
Laundry and Linen	27,846	20,782
Housekeeping	75,903	63,959
Dietary	214,519	196,279
Nursing Administration	65,215	33,291
Central Supply	92,214	110,104
Pharmacy	204,192	215,766
Medical Records	192,589	166,304
Social Service	29,731	27,905
Nonphysician Anesthetists	134,726	137,174
Adults and Pediatrics	657,196	583,727
Nursery	15,858	13,621
Operating Room	237,742	138,119
Labor and Delivery Room	16,011	11,409
Anesthesiology	22,225	16,214
Radiology	559,685	452,041
Laboratory	413,647	353,921
Blood	34,375	26,293
Respiratory Therapy	39,125	29,549
Physical Therapy	159,182	135,087
Occupational Therapy	76,693	90,739
Speech Pathology	6,350	11,175
Electrocardiology	60,531	44,772
Cardiac Rehabilitation	16,219	19,612
Outpatient Clinic	125,142	96,400
Emergency	458,791	382,435
Ambulance	162,127	127,872
Home Health	676,135	630,940
Durable Medical Equipment	175,349	168,653
Interest and Amortization	50,824	49,908
Clinics	2,137,721	2,063,218
TOTAL	$ 10,249,976	$ 9,250,734

SALARIES		OTHER	
2005	2004	2005	2004
$ -	$ -	$ 195,112	$ 196,052
-	-	247,836	243,252
-	-	103,189	93,973
-	-	1,031,374	919,485
567,103	526,859	643,213	557,582
119,316	124,944	51,552	35,124
-	-	153,418	136,194
8,093	1,267	19,753	19,515
63,798	53,627	12,105	10,332
150,473	144,391	64,046	51,888
59,725	31,934	5,490	1,357
5,391	5,520	86,823	104,584
3,922	4,141	200,270	211,625
173,698	148,422	18,891	17,882
27,572	27,439	2,159	466
118,998	114,399	15,728	22,775
614,085	560,085	43,111	23,642
15,591	13,599	267	22
137,014	85,232	100,728	52,887
16,011	11,409	-	-
-	-	22,225	16,214
172,169	157,094	387,516	294,947
151,402	150,589	262,245	203,332
3,076	2,965	31,299	23,328
19,887	16,945	19,238	12,604
141,038	126,636	18,144	8,451
71,371	84,637	5,322	6,102
25	-	6,325	11,175
4,461	6,561	56,070	38,211
15,389	18,910	830	702
117,471	92,635	7,671	3,765
117,273	115,051	341,518	267,384
123,098	116,966	39,029	10,906
499,400	479,472	176,735	151,468
96,009	101,799	79,340	66,854
-	-	50,824	49,908
708,458	685,591	1,429,263	1,377,627
$ 4,321,317	$ 4,009,119	$ 5,928,659	$ 5,241,615

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005 Amount	2005 Percent	2004 Amount	2004 Percent
1-30 days (Includes Patients in Hospital)	$ 1,234,111	48 %	$ 1,032,060	47 %
31-60 Days	443,124	17 %	370,485	17 %
61-90 Days	203,521	8 %	168,035	8 %
91 Days and Over	667,566	27 %	612,482	28 %
Total Accounts Receivable	2,548,322	100 %	2,183,062	100 %
ALLOWANCES				
Contractual -				
Medicare	143,101		140,386	
Medicaid	84,023		45,840	
Other	102,353		74,992	
Doubtful Accounts	448,488		332,206	
Net Accounts Receivable	$ 1,770,357		$ 1,589,638	
Net Patient Service Revenue per Calendar Day-excluding bad debt	$ 29,938		$ 25,751	
Days of net Revenue in Net Accounts Receivable at Year End	59		62	

Analysis of Allowance for Doubtful Accounts

	2005 Amount	2005 Percent of Net Patient Service Revenue	2004 Amount	2004 Percent of Net Patient Service Revenue
Beginning Balance	$ 332,206		$ 291,299	
Add:				
Provision for Doubtful Accounts	427,352	3.9 %	323,343	3.4 %
Recoveries Previously Written Off	138,490	1.3 %	116,458	1.2 %
	565,842		439,801	
Deduct:				
Accounts Written Off	(449,560)	(4.1)%	(398,894)	(4.2)%
Ending Balance	$ 448,488		$ 332,206	

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2005 AND 2004

	2005	2004
INVENTORIES		
Central Supply	$ 156,687	$ 142,195
Pharmacy	73,322	62,180
Dietary	6,168	5,971
Other	8,849	7,576
DME Supplies	19,237	17,303
Total Inventories	$ 264,263	$ 235,225
PREPAID EXPENSES		
Insurance	$ 17,449	$ 8,268
Dues and Other	63,454	68,455
Total Prepaid Expenses	$ 80,903	$ 76,723

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2005 AND 2004

	Balance July 1, 2004	Invested	Redeemed	Balance June 30, 2005
Revenue Bond Sinking Fund				
Money Market Savings	$ 17,544	$ 175,495	$ (170,433)	$ 22,606
Reserve Fund				
Certificate of Deposit	126,771	-	-	126,771
Total	$ 144,315	$ 175,495	$ (170,433)	$ 149,377

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2005 AND 2004 (UNAUDITED)

	2005	2004
PATIENT DAYS		
Acute	902	650
Swing Bed	1,370	887
Newborn	164	113
Totals	2,436	1,650
ADMISSIONS		
Acute	293	231
Swing Bed	99	67
Newborn	75	55
Totals	467	353
DISCHARGES		
Acute	295	227
Swing Bed	103	64
Newborn	76	54
Totals	474	345
AVERAGE LENGTH OF STAY, ACUTE	3.06	2.86
BEDS	25	25
OCCUPANCY PERCENTAGE		
Acute, Based on 25 Beds	9.9 %	7.1 %
Swing Bed, Based on 25 Beds	15.0 %	9.7 %

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

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

We have audited the financial statements of Regional Health Services of Howard County (RHSHC) and its discretely presented component unit as of and for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 opinions 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 material weaknesses. 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 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*.

We also noted certain additional matters that we reported to management of Regional Health Services of Howard County in a separate letter dated August 5, 2005.

Comments involving statutory and other legal matters about RHSHC's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of RHSHC. 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.

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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 5, 2005

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

05-1 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, 2005.

05-2 Certified Budget

Reported expenditures during the year ended June 30, 2005 did not exceed amounts budgeted.

05-3 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.

05-4 Travel Expense

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

05-5 Business Transactions

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

05-6 Board Minutes

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

05-7 Deposits and Investments

We noted all Hospital investments to be in compliance with the state statutes regarding investments.

05-8 Publication of Bills Allowed and Salaries

Chapter 374.13(14) of the Code of Iowa states "There shall be published quarterly in each o the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish a schedule of bills allowed or a schedule of salaries paid as required by the Code.

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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 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, 2005, and have issued our report thereon dated August 5, 2005.

In connection with our audit, nothing came to our attention that caused us to believe that RHSHC 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 RHSHC" 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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 5, 2005