

**FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**REGIONAL HEALTH SERVICES OF**  
**HOWARD COUNTY**

# REGIONAL HEALTH SERVICES OF HOWARD COUNTY

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
BOARD OF TRUSTEES AND HEALTH SERVICES OFFICIALS**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Alvin Herold	Chairperson	December 31, 2006
Bernard Pecinovsky	Vice-Chairperson	December 31, 2006
Connie McGrane	Secretary	December 31, 2010
Gerald Ferrie	Treasurer	December 31, 2010
Steven McCarville	Member	December 31, 2006

Health Services Officials

Elizabeth Doty	President/Chief Executive Officer
Gary Kirchhof	Vice President of Hospital Services
Brenda Moser	Chief Financial Officer
Matt Kabliska	Administrator of Community Health Services
Joan Stone	Director of Clinics



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of **Regional Health Services of Howard County (RHSHC)** and its discretely presented component unit as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of RHSHC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Regional Health Services of Howard County** as of June 30, 2005, were audited by other auditors whose report dated August 5, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Regional Health Services of Howard County** as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in RHSHC's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006, on our consideration of RSHHC'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 with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 30 and 31 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa  
August 17, 2006

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

This section of the Regional Health Services of Howard County (RSHHC) annual audited financial report represents management's discussion and analysis of RSHHC's financial performance during the fiscal year ending June 30, 2006. The analysis will focus on RSHHC's financial performance as a whole. Please read it in conjunction with the audited financial report.

**Using This Annual Report**

The June 30, 2006 and 2005, 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**

- RSHHC's total assets decreased by \$39,734, or .3%, in 2006, while increasing by \$1,520,063, or 15.1%, in 2005 and by \$542,299, or 5.7%, in 2004.
- RSHHC's net assets increased in each of the last three years with a \$786,973, or 9.2%, increase in 2006, a \$858,018, or 11.2%, increase in 2005 and a \$639,437, or 9.1%, increase in 2004.
- The RSHHC reported an operating income of \$91,191 in 2006, \$448,725 in 2005 and \$35,530 in 2004. This represents a decrease in 2006 of \$357,534 and an increase in 2005 and 2004 of \$413,195 and \$334,405, respectively

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

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

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

- Schedules of Net Patient Service Revenue
- Schedules of Other Operating Revenues
- Schedules of Operating Expenses
- Schedules of Patient Receivables and Allowance for Doubtful Accounts
- Schedules of Supplies and Prepaid Expense
- Schedules of Bond Investment Transactions
- Statistical Information

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**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 RSHHC's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payors, as well as changes in the economic environment of Howard County and the surrounding areas.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current Assets	\$ 4,704,181	\$ 5,001,548	\$ 3,655,172
Assets Limited as to Use or Restricted	3,466,946	3,113,561	2,685,767
Land, Buildings, and Equipment - net	3,356,632	3,446,471	3,694,666
Other Assets	<u>34,981</u>	<u>40,894</u>	<u>46,806</u>
Total Assets	<u>\$ 11,562,740</u>	<u>\$ 11,602,474</u>	<u>\$ 10,082,411</u>
Liabilities:			
Total Current Liabilities	\$ 1,435,708	\$ 2,180,238	\$ 1,388,355
Other Liabilities	477	29,925	29,491
Long-Term Debt (Less Current Maturities)	<u>799,295</u>	<u>852,024</u>	<u>982,296</u>
Total Liabilities	<u>2,235,480</u>	<u>3,062,187</u>	<u>2,400,142</u>
Total Net Assets	<u>9,327,260</u>	<u>8,540,287</u>	<u>7,682,269</u>
Total Liabilities and Net Assets	<u>\$ 11,562,740</u>	<u>\$ 11,602,474</u>	<u>\$ 10,082,411</u>

Asset categories changing significantly during 2006, 2005 and 2004 included Cash and Cash Equivalents, Investments and Patient Receivables, Less Allowance for Uncollectible Accounts, which are part of Current Assets. Cash and Cash Equivalents increased by \$256,001, or 28.5%, in 2006, decreased by \$141,892, or 13.6%, in 2005, and increased by \$794,338, or 321.4% in 2004. Current Investments decreased by \$743,233, or 49.2%, in 2006, and increased by \$1,260,247, or 504.1%, in 2005 as Cash was converted into investments during the year. In 2004 Current Investments increased by \$250,000, or 100%. Patient Receivables, Less Allowance for Uncollectible Accounts, increased in 2006 by \$151,433, or 8.6%, increased in 2005 by \$180,719, or 11.4%, and increased in 2004 by \$79,238, or 5.3%.

The current ratio (current assets divided by current liabilities) for 2006 was 3.28, for 2005 was 2.29, and for 2004 was 2.63. The current ratio is a measure of liquidity, providing an indication of RSHHC's ability to pay current liabilities; a high ratio number is preferred.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**Financial Analysis of RSHHC (Continued)**

Other non-current asset categories changing significantly during 2006, 2005 and 2004 included Cash and Investments Limited as to Use. Cash and Investments Limited as to Use increased by \$353,385, or 11.3%, in 2006, by \$427,794, or 15.9%, in 2005, and by \$219,967, or 8.9%, in 2004.

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

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues	\$ 11,003,107	\$ 10,698,701	\$ 9,286,264
Operating Expenses	<u>10,911,916</u>	<u>10,249,976</u>	<u>9,250,734</u>
Operating Income	91,191	448,725	35,530
Affiliation Agreement Expense	(45,596)	(224,363)	(17,765)
Nonoperating Revenues (Expenses)	<u>711,104</u>	<u>578,650</u>	<u>579,090</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	756,699	803,012	596,855
Capital Contributions and Grants	<u>30,274</u>	<u>55,006</u>	<u>42,582</u>
Increase in Net Assets	786,973	858,018	639,437
Net Assets, Beginning of Year	<u>8,540,287</u>	<u>7,682,269</u>	<u>7,042,832</u>
Net Assets, End of Year	<u>\$ 9,327,260</u>	<u>\$ 8,540,287</u>	<u>\$ 7,682,269</u>

Net patient service revenue made up 98.1% in 2006 and 2005 and 97.7% in 2004 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>2006</u>	<u>2005</u>	<u>2004</u>
Total Patient Service Revenues	15,501,761	14,614,071	11,830,541
Contractual Adjustments and Provisions for Bad Debt	<u>4,711,545</u>	<u>4,114,109</u>	<u>2,754,854</u>
Net Patient Service Revenue	<u>\$ 10,790,216</u>	<u>\$ 10,499,962</u>	<u>\$ 9,075,687</u>
Contractual Adjustments as a Percent of Revenues	<u>30.39%</u>	<u>28.15%</u>	<u>23.29%</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**Financial Analysis of RSHHC (Continued)**

Total operating expenses increased \$661,940, or 6.5%, in 2006, \$999,242, or 10.8%, in 2005, and increased \$882,989, or 10.5%, in 2004. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 36-39 of the audited financial statements for this information. In 2006, Salaries and Wages increased by \$337,866, or 7.8%. In addition to merit wage rate increases given at the time of employee evaluations of 3.75%, FTE's rose by 5.5 in 2006, causing the remainder of the increase in Salaries & Wages. In 2006, Employee Benefits also increased by \$181,908, or 17.6%. This is due to the rise in Health Insurance costs on January 1, 2006. In 2004, there was also a significant increase in both Salaries and Wages and Professional Fees, which are part of Supplies and other expense. The increase was 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 2004 as this was the first full year of salaries paid to these clinic employees. 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 caused an increase in Professional Fees of \$360,749, or 28.3%, in 2004. Professional Fees also increased by \$252,369, or 15.4%, in 2005. This is mainly due to RSHHC contracting both radiology and lab technicians during part of 2005 to help cover staffing shortages in these departments. In 2005 there was also a significant increase in Supplies and Other Expense. The increase 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 Other Expenses in 2005 was the increase in our volumes, as shown in Table 5. In 2004 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.

Operating Income (loss) (total operating revenue less total operating expenses divided by total operating revenue) was \$91,191, or .8% of total operating revenue in 2006 compared to \$448,725, or 4.2% of total operating revenue in 2005 and \$35,530, or .4%, in 2004.

Other Operating Revenue increased by \$14,152, or 7.1%, in 2006, decreased by \$11,838, or 5.6%, in 2005, and increased by \$38,441, or 22.3%, in 2004. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Meals Sold	\$ 67,984	\$ 65,440	\$ 64,001
Dietary Consultations	15,722	20,453	22,701
Medical Records Transcripts	1,858	2,387	1,111
Vending Machines	1,125	4,378	4,742
Purchase Discounts and Rebates	20,751	25,302	12,615
Clinic Rental Income	30,635	33,328	22,966
Miscellaneous	<u>74,816</u>	<u>47,451</u>	<u>82,441</u>
Total Other Revenues	<u>\$ 212,891</u>	<u>\$ 198,739</u>	<u>\$ 210,577</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**Financial Analysis of RSHHC (Continued)**

**Hospital Statistical Data**

Table 5 shows RSHHC's statistical data. In 2006, Total Patient Days decreased by 360 days, or 14.8%. This is due to a decrease in our Swing Bed Days from 2005. This came after a huge turn around in 2005 of Total Patient Days. From 2004, Total Patient Days increased by 786 days, or 47.6%. Prior to that, Patient Days had been on a steady decrease since 2002.

**Table 5: Statistical Data**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Patient Days</b>			
Acute	956	902	650
Swing Bed	961	1,370	887
Newborn	159	164	113
Total	<u>2,076</u>	<u>2,436</u>	<u>1,650</u>
<b>Admissions</b>			
Acute	335	293	231
Swing Bed	85	99	67
Newborn	80	75	55
Total	<u>500</u>	<u>467</u>	<u>353</u>
<b>Discharges</b>			
Acute	334	295	227
Swing Bed	83	103	64
Newborn	79	76	54
Total	<u>496</u>	<u>474</u>	<u>345</u>
<b>Average Length of Stay, Acute</b>	<u>2.86</u>	<u>3.06</u>	<u>2.86</u>
<b>Beds</b>			
Acute and Swing	25	25	25
<b>Occupancy Percentage</b>			
Acute, Based on 25 Beds	10.5%	9.9%	7.1%
Swing, Based on 25 Beds	10.5%	15.0%	9.7%

**RSHHC's Cash Flows**

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

**Land, Buildings, & Equipment**

At June 30, 2006, RSHHC had \$3,356,632 invested in capital assets, net of accumulated depreciation. In 2006, RSHHC expended \$480,190 to purchase property and equipment. In 2005 and 2004, RSHHC purchased property and equipment costing \$304,488 and \$358,689, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**Long Term Debt**

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

**Table 6: Long Term Debt**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
2003 Revenue Bonds	\$ 880,000	\$ 1,015,000	\$ 1,145,000
Lease Payable	97,397	-	-
Deferred Loss on Refinancing	<u>(23,248)</u>	<u>(27,976)</u>	<u>(32,704)</u>
 Total Long Term Debt	 <u>\$ 954,149</u>	 <u>\$ 987,024</u>	 <u>\$ 1,112,296</u>

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

The Lease Payable is related to a Lab Chemistry Machine in which RSHHC is making monthly principal and interest payments of \$2,096.47. This lease began in November, 2005 and goes through November, 2010.

**Economic Factors**

RSHHC saw a very successful year in FY 2006. Volumes continued strong, especially in the Home Health area, where Medicare visits climbed substantially. Skilled nursing, or Swing Bed, continues to be a good revenue source, as does surgery.

In the coming year we see the following as being our primary opportunities and challenges:

1. We are well on our way to having an Electronic Medical Record. Several modules were installed over the past two years (Pharmacy, Lab, Radiology, Transcription, Therapy), as well as our having the financial package in place for a number of years. The challenge will be implementing a clinic-based electronic record to encompass all areas of clinical practice. We are actively seeking vendors with an appropriate product for us.
2. A Master Facility Plan is in the pipeline for this fiscal year. We are working with a firm to develop a debt capacity study to determine what kind of debt we can afford to take on, how much cash we can afford to spend, and where we can most expeditiously spend our resources. When that tool is completed, we will go into the facility planning phase, where we incorporate the needs of the facilities with the available finances.
3. Staffing of clinical professionals remains a huge challenge. RNs are in high demand in all areas, and salaries are rising with the geographical competition. Our primary competition for professional nursing staff is Rochester, MN (Mayo), where salaries are substantially higher than a rural hospital can afford to pay.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2006 AND 2005**

**Economic Factors (Continued)**

4. Equipment purchases are a big unknown as new technologies emerge and relatively new equipment becomes obsolete in only a few years. Budgeting for capital expenses remains a focal point of management.
5. The provision of health care benefits for staff remains prohibitively expensive. We are actively exploring options to Wellmark, the monolith in this part of the country. We also are look at ways to support health care benefits for part-time employees.

**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, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,155,566	\$ 899,565
Investments	767,014	1,510,247
Assets limited as to use or restricted	27,454	22,606
Receivables		
Patient, net of estimated uncollectibles		
of \$966,062 in 2006 and \$777,965 in 2005	1,921,790	1,770,357
Estimated third-party payor settlements	72,900	-
Succeeding year property tax	395,674	388,668
Other	32,528	64,939
Supplies	261,736	264,263
Prepaid expense	<u>69,519</u>	<u>80,903</u>
Total current assets	<u>4,704,181</u>	<u>5,001,548</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Internally designated for grant agency	477	29,925
Internally designated for capital improvements	3,337,684	2,950,190
Restricted by contributors and grantors	1,789	6,675
Restricted under bond agreement	<u>126,996</u>	<u>126,771</u>
Total assets limited as to use or restricted	<u>3,466,946</u>	<u>3,113,561</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>3,356,632</u>	<u>3,446,471</u>
<b>OTHER ASSETS</b>		
Bond issuance costs, net of accumulated amortization	<u>34,981</u>	<u>40,894</u>
<b>Total assets</b>	<u>\$ 11,562,740</u>	<u>\$ 11,602,474</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 6	\$ 154,854	\$ 135,000
Accounts payable		
Trade	290,725	254,812
Related party	45,596	224,363
Estimated third-party payor settlements	-	665,248
Accrued expenses		
Salaries and wages	157,690	142,257
Vacation	308,069	287,769
Interest	2,811	3,120
Payroll taxes and employee benefits	44,369	42,817
Other	35,920	36,184
Deferred revenue for succeeding year property tax receivable	<u>395,674</u>	<u>388,668</u>
 Total current liabilities	 <b>1,435,708</b>	 2,180,238
<b>OTHER LIABILITIES</b>		
Grant funds held in trust	477	29,925
 LONG-TERM DEBT, less current maturities - Note 6	 <u>799,295</u>	 <u>852,024</u>
 Total liabilities	 <u>2,235,480</u>	 <u>3,062,187</u>
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	2,402,483	2,459,447
Restricted		
By contributors and grantors	1,789	6,675
Under bond agreement	126,996	126,771
Unrestricted	<u>6,795,992</u>	<u>5,947,394</u>
 Total net assets	 <u>9,327,260</u>	 <u>8,540,287</u>
 Total liabilities and net assets	 <u>\$ 11,562,740</u>	 <u>\$ 11,602,474</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**BALANCE SHEETS**  
**JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ <u>29,517</u>	\$ <u>42,581</u>
 <b>LIABILITIES AND NET ASSETS</b>		
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,389	\$ 5,500
 NET ASSETS, Unrestricted	<u>28,128</u>	<u>37,081</u>
 Total liabilities and net assets	<u>\$ 29,517</u>	<u>\$ 42,581</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$391,246 in 2006 and \$427,352 in 2005) - Notes 2 and 3	<b>\$ 10,790,216</b>	\$ 10,499,962
Other operating revenues	<b><u>212,891</u></b>	<u>198,739</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>11,003,107</u></b>	<u>10,698,701</u>
OPERATING EXPENSES		
Salaries and wages	<b>4,659,183</b>	4,321,317
Employee benefits	<b>1,213,282</b>	1,031,374
Supplies and other expenses	<b>4,424,930</b>	4,300,324
Depreciation	<b>563,116</b>	546,137
Interest and amortization	<b><u>51,405</u></b>	<u>50,824</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>10,911,916</u></b>	<u>10,249,976</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	<b>91,191</b>	448,725
AFFILIATION AGREEMENT EXPENSE	<b><u>(45,596)</u></b>	<u>(224,363)</u>
OPERATING INCOME	<b><u>45,595</u></b>	<u>224,362</u>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	<b>461,370</b>	456,633
Investment income	<b>205,831</b>	101,857
Noncapital grants and contributions	<b>27,757</b>	21,210
Loss on sale of property and equipment	<b>(3,763)</b>	(6,545)
Other	<b><u>19,909</u></b>	<u>5,495</u>
<b>NET NONOPERATING REVENUES</b>	<b><u>711,104</u></b>	<u>578,650</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	<b>756,699</b>	803,012
Capital contributions and grants	<b><u>30,274</u></b>	<u>55,006</u>
<b>INCREASE IN NET ASSETS</b>	<b>786,973</b>	858,018
NET ASSETS BEGINNING OF YEAR	<b><u>8,540,287</u></b>	<u>7,682,269</u>
NET ASSETS END OF YEAR	<b><u>\$ 9,327,260</u></b>	<u>\$ 8,540,287</u>

See notes to financial statements.

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Contributions	\$ 44,170	\$ 31,269
Interest income	<u>216</u>	<u>190</u>
 TOTAL OPERATING REVENUES	 <u>44,386</u>	 <u>31,459</u>
 EXPENSES		
Contributions to Regional Health Services of Howard County	42,884	21,353
Supplies and miscellaneous	<u>10,455</u>	<u>10,345</u>
 TOTAL EXPENSES	 <u>53,339</u>	 <u>31,698</u>
 DECREASE IN NET ASSETS	 (8,953)	 (239)
 NET ASSETS BEGINNING OF YEAR	 <u>37,081</u>	 <u>37,320</u>
 NET ASSETS END OF YEAR	 <u>\$ 28,128</u>	 <u>\$ 37,081</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 9,933,046	\$ 10,836,101
Payments of salaries and wages	(4,623,450)	(4,286,315)
Payments of supplies and other expenses	(5,811,463)	(5,363,029)
Other receipts and payments, net	<u>212,891</u>	<u>198,739</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING</b>		
<b>ACTIVITIES</b>	<u>(288,976)</u>	<u>1,385,496</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING</b>		
<b>ACTIVITIES</b>		
Noncapital grants and contributions received	47,666	26,705
County tax revenue received	<u>461,370</u>	<u>456,633</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING</b>		
<b>ACTIVITIES</b>	<u>509,036</u>	<u>483,338</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>		
<b>FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(480,190)	(304,488)
Proceeds from sale of property and equipment	3,150	-
Principal payments on long-term debt	(146,044)	(130,000)
Proceeds from issuance of long-term debt	108,441	-
Interest payments on long-term debt	(41,073)	(40,432)
Capital contributions and grants	<u>30,274</u>	<u>55,006</u>
<b>NET CASH USED FOR CAPITAL AND RELATED</b>		
<b>FINANCING ACTIVITIES</b>	<u>(525,442)</u>	<u>(419,914)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	205,831	101,857
Decrease (increase) in assets limited as to use or restricted	<u>355,552</u>	<u>(1,692,669)</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING</b>		
<b>ACTIVITIES</b>	<u>561,383</u>	<u>(1,590,812)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH</b>		
<b>EQUIVALENTS</b>	<u>256,001</u>	<u>(141,892)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>899,565</u>	<u>1,041,457</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,155,566</u>	<u>\$ 899,565</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income	\$ 45,595	\$ 224,362
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation	563,116	546,137
Interest expense considered capital and related financing activity	51,714	51,073
Provision for bad debts	391,246	427,352
Changes in assets and liabilities		
Patient receivables	(542,679)	(608,071)
Estimated third-party payor settlements receivable	(72,900)	-
Other receivables	32,411	(1,821)
Supplies	2,527	(29,038)
Prepaid expense	11,384	(4,180)
Accounts payable - trade and related	(142,854)	222,192
Accrued expenses	36,712	38,811
Estimated third-party payor settlements payable	<u>(665,248)</u>	<u>518,679</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (288,976)</u>	<u>\$ 1,385,496</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,953)	\$ (239)
Increase in accounts payable	<u>(4,111)</u>	<u>5,500</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(13,064)</u>	<u>5,261</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,064)	5,261
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>42,581</u>	<u>37,320</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 29,517</u>	<u>\$ 42,581</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Regional Health Services of Howard County (RSHHC) is a 25-bed county public hospital located in Cresco, Iowa. It is organized under Chapter 347A of the Code of Iowa. RSHHC provides health care services in accordance with a Master Affiliation Agreement discussed further in Note 9. Services are provided to residents of Howard County and surrounding counties in Iowa. RSHHC is exempt from income taxes as a political subdivision.

*Reporting Entity*

For financial reporting purposes, RSHHC has included all funds, organizations, 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 Governmental 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 RSHHC to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on RSHHC.

Regional Health Services Foundation (the Foundation) is a not-for-profit entity legally separate from RSHHC. RSHHC does not appoint a voting majority of the Foundation's board of directors or in any way impose its will over the Foundation. However, the Foundation is included as a discrete presentation due to the nature and significance of its relationship with RSHHC.

*Basis of Presentation*

The balance sheet displays RSHHC's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the RSHHC's policy to use restricted resources first.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Measurement Focus and Basis of Accounting*

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

RHSHC reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, RHSHC applies all applicable GASB pronouncements for proprietary funds 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 Procedure.

*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.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, RHSHC considers saving accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use or restricted.

*Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*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 fiscal 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.

*Supplies*

Supplies are valued at cost using the first-in, first-out method.

*Unamortized Bond Issuance Costs and Expense*

Bond issuance 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, 2006 and 2005, accumulated amortization was \$18,722 and \$12,810, respectively. In addition, the remaining unamortized issuance costs from the Series 1992 Hospital Revenue Bonds refunded during 2004 (see Note 6) are recorded as a deferred loss from refinancing and are presented as a reduction of long-term debt, and are being 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, 2006 and 2005, accumulated amortization was \$14,973 and \$10,245, respectively. Total amortization expense for the bond issuance costs and deferred loss from refinancing was \$10,641 for the years ended June 30, 2006 and 2005.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for RSHHC's operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	3-15 years

*Investments*

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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include assets which have been internally designated by RSHHC'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 RSHHC 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.

*Compensated Absences*

RSHHC employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006.

*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.

*Operating Revenues and Expenses*

RSHHC's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – RSHHC's principal activity. Non-exchange 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.

*Net Patient Service Revenue*

RSHHC has agreements with third-party payors that provide for payments to RSHHC at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Grants and Contributions*

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and 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.

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. RSHHC incurred \$41,746 and \$47,106 for advertising costs for the years ended June 30, 2006 and 2005, respectively.

*Charity Care*

To fulfill its mission of community service, RSHHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is recorded in the accounting system at the established rates, but RSHHC does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

*County Tax Revenues*

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

*Reclassifications*

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

*Other Significant Accounting Policies*

Other significant accounting policies are set forth in the financial statements and the notes thereto.

**NOTE 2 – CHARITY CARE**

RSHHC maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, were \$75,438 and \$62,108, respectively.

**NOTE 3 – NET PATIENT SERVICE REVENUE**

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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**Medicare:** RSHHC is licensed as a Critical Access Hospital (CAH). RSHHC is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by RSHHC and are subject to audits thereof by the Medicare fiscal intermediary. RSHHC's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2004. RSHHC'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 RSHHC.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. RSHHC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by RSHHC and audits thereof by the Medicaid fiscal intermediary. RSHHC's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

**Other Payors:** RSHHC has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to RSHHC under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 15,501,761</u>	<u>\$ 14,614,071</u>
Contractual adjustments:		
Medicare	(2,088,125)	(1,885,823)
Medicaid	(446,394)	(378,948)
Blue Cross	(657,549)	(564,889)
Other	<u>(1,128,231)</u>	<u>(857,097)</u>
Total contractual adjustments	<u>(4,320,299)</u>	<u>(3,686,757)</u>
Net patient service revenue	<b>11,181,462</b>	10,927,314
Provision for bad debts	<u>(391,246)</u>	<u>(427,352)</u>
Net patient service revenue (net of provision for bad debts)	<u><b>\$ 10,790,216</b></u>	<u><b>\$ 10,499,962</b></u>

**NOTE 4 – CASH AND DEPOSITS**

RSHHC's deposits in banks at June 30, 2006 and 2005, were entirely covered by federal depository insurance or the 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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; 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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2006 and 2005, the RHSHC's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Checking and savings accounts	\$ 838,203	\$ 576,927
Certificates of deposit	3,416,544	4,065,152
Interest receivable	<u>6,667</u>	<u>4,335</u>
 Total Deposits	 <u>\$ 4,261,414</u>	 <u>\$ 4,646,414</u>

Included in the following balance sheet captions:

Investments	\$ 767,014	\$ 1,510,247
Assets limited as to use or restricted	<u>3,494,400</u>	<u>3,136,167</u>
	<u>\$ 4,261,414</u>	<u>\$ 4,646,414</u>

All of the above cash and deposits have a maturity date of less than one year.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of RHSHC are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

RHSHC attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT**

Summaries of capital assets for the years June 30, 2006 and 2005, are as follows:

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Land, buildings, and equipment					
Land and land improvements	\$ 279,448	\$ 9,706	\$ -	\$ -	\$ 289,154
Building	3,291,893	-	-	105,162	3,397,055
Fixed equipment	3,277,298	26,554	-	-	3,303,852
Major movable equipment	4,003,426	341,305	(141,971)	9,408	4,212,168
Construction in progress	23,788	102,625	-	(114,570)	11,843
Total	10,875,853	480,190	(141,971)	-	11,214,072
Accumulated depreciation					
Land improvements	\$ 205,260	\$ 12,372	\$ -	\$ -	\$ 217,632
Building	1,984,654	108,145	-	-	2,092,799
Fixed equipment	2,165,218	133,556	-	-	2,298,774
Major movable equipment	2,998,714	292,810	(128,821)	-	3,162,703
Durable medical equipment	75,535	16,233	(6,236)	-	85,532
Total	7,429,381	563,116	(135,057)	-	7,857,440
Land, buildings, and equipment, net	\$ 3,446,472				\$ 3,356,632
	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
Land, buildings, 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 progress	-	23,788	-	-	23,788
Total	10,587,204	304,488	(15,840)	-	10,875,852

(continued on next page)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
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
Land, buildings, and equipment, net	<u>\$ 3,694,666</u>				<u>\$ 3,446,471</u>

**NOTE 6 – LONG-TERM DEBT**

A schedule of changes in long-term debt for 2006 and 2005 is as follows:

	June 30, 2005			June 30, 2006	Amounts Due
	Balance	Additions	Deductions	Balance	Within One Year
2003 revenue bonds	\$ 1,015,000	\$ -	\$ (135,000)	\$ 880,000	\$ 135,000
Capitalized lease obligation - Note 7	-	108,441	(11,044)	97,397	19,854
Deferred loss on refinancing	(27,976)	-	4,728	(23,248)	-
Total long-term debt	<u>\$ 987,024</u>	<u>\$ 108,441</u>	<u>\$ (141,316)</u>	<b>954,149</b>	<u>\$ 154,854</u>
Less current maturities				<u>(154,854)</u>	
Long-term debt, less current maturities				<u><b>\$ 799,295</b></u>	

  

	June 30, 2004			June 30, 2005	Amounts Due
	Balance	Additions	Deductions	Balance	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	<u>\$ 1,112,296</u>	<u>\$ -</u>	<u>\$ (125,272)</u>	987,024	<u>\$ 135,000</u>
Less current maturities				<u>(135,000)</u>	
Long-term debt, less current maturities				<u><b>\$ 852,024</b></u>	

(continued on next page)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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. RSHHC is required to maintain a sinking fund and a reserve fund. Both of these were fully funded at June 30, 2006 and 2005. The remaining unamortized issuance 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 RSHHC and do not constitute an indebtedness of the County.

The capital lease payable is due to Beckman Coulter due in monthly installments of \$2,096 until November 4, 2010. Interest is charged on the lease agreement at a rate of 6%. The lease payable is secured by equipment.

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
2007	\$ 154,854	\$ 39,034
2008	161,078	33,557
2009	167,379	27,497
2010	173,759	20,824
2011	160,327	13,730
2012	160,000	7,200
	<u>\$ 977,397</u>	<u>\$ 141,842</u>

**NOTE 7 – LEASES**

RSHHC leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2006 and 2005 for all operating leases was \$25,147 and 19,714, respectively. The capitalized leased asset consists of:

Major movable equipment	\$ 108,441
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(12,651)</u>
	<u>\$ 95,790</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

Minimum future lease payments for the capitalized lease are as follows:

<u>Year Ending June 30,</u>		
2007	\$	25,158
2008		25,158
2009		25,158
2010		25,158
2011		<u>10,482</u>
Total minimum lease payments	\$	111,114
Less interest		<u>(13,717)</u>
Present value of minimum lease payments - Note 6	\$	<u><u>97,397</u></u>

**NOTE 8 – PENSION AND RETIREMENT BENEFITS**

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 covered salary, and RHSHC is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by state statute. RHSHC's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$265,450, \$247,439, and \$233,298, 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 \$42,884 and \$17,133 to RHSHC in 2006 and 2005, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Master Affiliation Agreement*

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 service 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 \$1,289,538 and \$1,339,442 for the years ended June 30, 2006 and 2005, respectively.

Operating income 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 \$45,596 and \$224,363 for the years ended June 30, 2006 and 2005, respectively.

*Due to/From Affiliated Organization*

As of June 30, 2006 and 2005, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center – North Iowa of \$143,596 and \$117,364, 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, 2006 and 2005, were approximately \$213,000 and \$298,000, respectively.

**NOTE 10 – CONTINGENCIES**

*Malpractice Insurance*

RHSHC has malpractice insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. 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.

*Healthcare Legislation and Regulation*

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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Management believes that RSHHC is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

*Litigation*

RSHHC 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 RSHHC's financial position or results of operations.

**NOTE 11 – RISK MANAGEMENT**

RSHHC 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 RSHHC's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 12 – CONCENTRATION OF CREDIT RISK**

RSHHC grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	29%	23%
Medicaid	5	9
Commercial insurance	24	27
Other third-party payors and patients	<u>42</u>	<u>41</u>
	<u>100%</u>	<u>100%</u>

**REGIONAL HEALTH SERVICES OF  
HOWARD COUNTY**

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)**  
**YEAR ENDED JUNE 30, 2006**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 461,370	\$ -	\$ 461,370	\$ 388,668	\$ 72,702
Estimated other revenues/receipts	<u>11,286,878</u>	<u>(745,579)</u>	<u>10,541,299</u>	<u>11,618,134</u>	<u>(1,076,835)</u>
	11,748,248	(745,579)	11,002,669	12,006,802	(1,004,133)
Expenses/disbursements	<u>10,961,275</u>	<u>170,393</u>	<u>11,131,668</u>	<u>12,704,025</u>	<u>\$ 1,572,357</u>
Net	786,973	(915,972)	(128,999)	(697,223)	
Balance beginning of year	<u>8,540,287</u>	<u>(2,994,308)</u>	<u>5,545,979</u>	<u>5,556,238</u>	
Balance end of year	<u>\$ 9,327,260</u>	<u>\$ (3,910,280)</u>	<u>\$ 5,416,980</u>	<u>\$ 4,859,015</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**  
**BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2006**

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**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 resulting from RSHHC preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of RSHHC 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. The budget was not amended during the year ended June 30, 2006.

**REGIONAL HEALTH SERVICES OF  
HOWARD COUNTY**



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION**

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 43 marked "unaudited," 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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa  
August 17, 2006

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	TOTAL	
	2006	2005
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 1,304,164	\$ 1,429,304
Nursery	95,809	94,205
 Total	 <u>1,399,973</u>	 <u>1,523,509</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	1,083,490	1,151,038
Labor and delivery room	84,511	66,484
Anesthesiology	659,750	595,744
Radiology	2,067,280	1,791,110
Laboratory	1,798,328	1,572,770
Blood	94,039	77,714
Respiratory therapy	432,729	359,537
Physical therapy	293,843	388,669
Occupational therapy	215,259	254,331
Speech pathology	18,338	24,506
Electrocardiology	243,906	233,989
Central supply	572,719	570,224
Pharmacy	701,448	619,746
Cardiac rehabilitation	47,302	48,240
Outpatient clinic	42,552	37,225
Clinics	3,281,906	3,039,049
Emergency room	895,311	856,714
Ambulance	383,971	366,232
Home health	856,102	653,856
Durable medical equipment	404,442	445,492
 Total	 <u>14,177,226</u>	 <u>13,152,670</u>
 Charity care	 <u>(75,438)</u>	 <u>(62,108)</u>
 Total patient service revenue	 <u>15,501,761</u>	 <u>14,614,071</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(2,088,125)	(1,885,823)
Medicaid	(446,394)	(378,948)
Blue Cross	(657,549)	(564,889)
Other	(1,128,231)	(857,097)
 Total contractual adjustments	 <u>(4,320,299)</u>	 <u>(3,686,757)</u>
 NET PATIENT SERVICE REVENUE	 <u>11,181,462</u>	 10,927,314
 PROVISION FOR BAD DEBTS	 <u>(391,246)</u>	 <u>(427,352)</u>
 NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	 <u>\$ 10,790,216</u>	 <u>\$ 10,499,962</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 1,066,979	\$ 1,120,933	\$ 237,185	\$ 308,371
<u>95,749</u>	<u>94,205</u>	<u>60</u>	<u>-</u>
<b>1,162,728</b>	<b>1,215,138</b>	<b>237,245</b>	<b>308,371</b>
<b>330,486</b>	254,358	<b>753,004</b>	896,680
<b>73,236</b>	63,231	<b>11,275</b>	3,253
<b>213,801</b>	164,399	<b>445,949</b>	431,345
<b>152,969</b>	131,897	<b>1,914,311</b>	1,659,213
<b>209,041</b>	185,449	<b>1,589,287</b>	1,387,321
<b>38,510</b>	25,790	<b>55,529</b>	51,924
<b>384,519</b>	307,801	<b>48,210</b>	51,736
<b>56,706</b>	98,271	<b>237,137</b>	290,398
<b>91,344</b>	116,080	<b>123,915</b>	138,251
<b>5,872</b>	12,832	<b>12,466</b>	11,674
<b>24,736</b>	25,178	<b>219,170</b>	208,811
<b>280,950</b>	290,377	<b>291,769</b>	279,847
<b>311,535</b>	325,864	<b>389,913</b>	293,882
-	-	<b>47,302</b>	48,240
<b>82</b>	225	<b>42,470</b>	37,000
-	-	<b>3,281,906</b>	3,039,049
<b>29,903</b>	23,145	<b>865,408</b>	833,569
<b>15,325</b>	18,722	<b>368,646</b>	347,510
-	-	<b>856,102</b>	653,856
-	302	<b>404,442</b>	445,190
<b>2,219,015</b>	<b>2,043,921</b>	<b>11,958,211</b>	<b>11,108,749</b>
<b>\$ 3,381,743</b>	<b>\$ 3,259,059</b>	<b>\$ 12,195,456</b>	<b>\$ 11,417,120</b>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Meals sold	\$ 67,984	\$ 65,440
Clinic rental income	30,634	33,328
Purchase discounts and rebates	20,751	25,302
Dietary consultations	15,721	20,453
Medical records transcripts	1,858	2,387
Vending machines	1,125	4,378
Other	<u>74,818</u>	<u>47,451</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 212,891</u>	 <u>\$ 198,739</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 46,892	\$ 59,725
Supplies and other expenses	<u>6,417</u>	<u>5,490</u>
	<u>53,309</u>	<u>65,215</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	651,149	614,085
Supplies and other expenses	<u>48,553</u>	<u>43,111</u>
	<u>699,702</u>	<u>657,196</u>
<b>NURSERY</b>		
Salaries and wages	15,452	15,591
Supplies and other expenses	<u>-</u>	<u>267</u>
	<u>15,452</u>	<u>15,858</u>
<b>OPERATING ROOM</b>		
Salaries and wages	141,100	137,014
Supplies and other expenses	<u>101,758</u>	<u>100,728</u>
	<u>242,858</u>	<u>237,742</u>
<b>LABOR AND DELIVERY ROOM</b>		
Salaries and wages	<u>17,702</u>	<u>16,011</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>17,052</u>	<u>22,225</u>
<b>NONPHYSICIAN ANESTHETISTS</b>		
Salaries and wages	120,110	118,998
Supplies and other expenses	<u>46,308</u>	<u>15,728</u>
	<u>166,418</u>	<u>134,726</u>
<b>RADIOLOGY</b>		
Salaries and wages	227,188	172,169
Supplies and other expenses	<u>311,289</u>	<u>387,516</u>
	<u>538,477</u>	<u>559,685</u>
<b>LABORATORY</b>		
Salaries and wages	197,859	151,402
Supplies and other expenses	<u>218,064</u>	<u>262,245</u>
	<u>415,923</u>	<u>413,647</u>
<b>BLOOD</b>		
Salaries and wages	3,989	3,076
Supplies and other expenses	<u>45,807</u>	<u>31,299</u>
	<u>49,796</u>	<u>34,375</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	\$ 22,583	\$ 19,887
Supplies and other expenses	<u>15,861</u>	<u>19,238</u>
	<u>38,444</u>	<u>39,125</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	127,848	141,038
Supplies and other expenses	<u>37,963</u>	<u>18,144</u>
	<u>165,811</u>	<u>159,182</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	72,214	71,371
Supplies and other expenses	<u>5,552</u>	<u>5,322</u>
	<u>77,766</u>	<u>76,693</u>
<b>SPEECH PATHOLOGY</b>		
Salaries and wages	(7)	25
Supplies and other expenses	<u>5,076</u>	<u>6,325</u>
	<u>5,069</u>	<u>6,350</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	4,719	4,461
Supplies and other expenses	<u>50,191</u>	<u>56,070</u>
	<u>54,910</u>	<u>60,531</u>
<b>CENTRAL SUPPLY</b>		
Salaries and wages	5,797	5,391
Supplies and other expenses	<u>65,593</u>	<u>86,823</u>
	<u>71,390</u>	<u>92,214</u>
<b>PHARMACY</b>		
Salaries and wages	7,358	3,922
Supplies and other expenses	<u>235,303</u>	<u>200,270</u>
	<u>242,661</u>	<u>204,192</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	16,323	15,389
Supplies and other expenses	<u>2,267</u>	<u>830</u>
	<u>18,590</u>	<u>16,219</u>
<b>OUTPATIENT CLINIC</b>		
Salaries and wages	126,733	117,471
Supplies and other expenses	<u>6,579</u>	<u>7,671</u>
	<u>133,312</u>	<u>125,142</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CLINICS</b>		
Salaries and wages	\$ 732,425	\$ 708,458
Supplies and other expenses	<u>1,477,878</u>	<u>1,429,263</u>
	<u>2,210,303</u>	<u>2,137,721</u>
<b>EMERGENCY ROOM</b>		
Salaries and wages	131,394	117,273
Supplies and other expenses	<u>336,549</u>	<u>341,518</u>
	<u>467,943</u>	<u>458,791</u>
<b>AMBULANCE</b>		
Salaries and wages	137,078	123,098
Supplies and other expenses	<u>33,223</u>	<u>39,029</u>
	<u>170,301</u>	<u>162,127</u>
<b>HOME HEALTH</b>		
Salaries and wages	582,685	499,400
Supplies and other expenses	<u>169,509</u>	<u>176,735</u>
	<u>752,194</u>	<u>676,135</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	94,917	96,009
Supplies and other expenses	<u>128,463</u>	<u>79,340</u>
	<u>223,380</u>	<u>175,349</u>
<b>SOCIAL SERVICE</b>		
Salaries and wages	29,137	27,572
Supplies and other expenses	<u>981</u>	<u>2,159</u>
	<u>30,118</u>	<u>29,731</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	179,864	173,698
Supplies and other expenses	<u>29,703</u>	<u>18,891</u>
	<u>209,567</u>	<u>192,589</u>
<b>DIETARY</b>		
Salaries and wages	154,405	150,473
Supplies and other expenses	<u>70,315</u>	<u>64,046</u>
	<u>224,720</u>	<u>214,519</u>
<b>OPERATION OF PLANT</b>		
Salaries and wages	147,077	119,316
Supplies and other expenses	<u>234,135</u>	<u>204,970</u>
	<u>381,212</u>	<u>324,286</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
HOUSEKEEPING		
Salaries and wages	\$ 66,649	\$ 63,798
Supplies and other expenses	<u>14,187</u>	<u>12,105</u>
	<u>80,836</u>	<u>75,903</u>
LAUNDRY AND LINEN		
Salaries and wages	8,264	8,093
Supplies and other expenses	<u>22,252</u>	<u>19,753</u>
	<u>30,516</u>	<u>27,846</u>
ADMINISTRATIVE AND GENERAL		
Salaries and wages	590,279	567,103
Supplies and other expenses	<u>688,102</u>	<u>643,213</u>
	<u>1,278,381</u>	<u>1,210,316</u>
UNASSIGNED EXPENSES		
Depreciation	563,116	546,137
Interest and amortization	51,405	50,824
Employee benefits	<u>1,213,282</u>	<u>1,031,374</u>
	<u>1,827,803</u>	<u>1,628,335</u>
TOTAL OPERATING EXPENSES	<u>\$ 10,911,916</u>	<u>\$ 10,249,976</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2006 AND 2005**

ANALYSIS OF AGING	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,400,121	48.48%	\$ 1,234,111	48.43%
31 to 60 days	474,557	16.43%	443,124	17.39%
61 to 90 days	211,249	7.32%	203,521	7.98%
91 days and over	<u>801,925</u>	<u>27.77%</u>	<u>667,566</u>	<u>26.20%</u>
	2,887,852	<u>100.00%</u>	2,548,322	<u>100.00%</u>
Less: Allowance for doubtful accounts	542,813		448,488	
Allowance for contractual adjustments	<u>423,249</u>		<u>329,477</u>	
Net	<u>\$ 1,921,790</u>		<u>\$ 1,770,357</u>	
Net patient service revenue per calendar day-excluding bad debts	<u>\$ 30,634</u>		<u>\$ 29,938</u>	
Days of net revenue in net accounts receivable at year end	<u>63</u>		<u>59</u>	

**ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	2006		2005	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	<u>\$ 448,488</u>		<u>\$ 332,206</u>	
Add:				
Provision for bad debts	391,246	3.63%	427,352	4.07%
Recoveries previously written off	<u>154,732</u>	<u>1.43%</u>	<u>138,490</u>	1.32%
	<u>545,978</u>		<u>565,842</u>	
Less:				
Accounts written off	<u>(451,653)</u>	<u>4.19%</u>	<u>(449,560)</u>	4.28%
Ending Balance	<u>\$ 542,813</u>		<u>\$ 448,488</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
SUPPLIES		
Central supply	\$ 146,353	\$ 156,687
Pharmacy	75,515	73,322
Dietary	6,721	6,168
Other	13,580	8,849
DME supplies	<u>19,567</u>	<u>19,237</u>
 Total supplies	 <u>\$ 261,736</u>	 <u>\$ 264,263</u>
 PREPAID EXPENSE		
Insurance	\$ 9,972	\$ 17,449
Dues and other	<u>59,547</u>	<u>63,454</u>
 Total prepaid expense	 <u>\$ 69,519</u>	 <u>\$ 80,903</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF BOND INVESTMENT TRANSACTIONS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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	Balance July 1, 2005	Invested	Redeemed	Balance June 30, 2006
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Revenue bond sinking fund				
Money market savings	\$ 22,606	\$ 177,291	\$ (172,443)	\$ 27,454
Reserve fund				
Certificate of deposit	<u>126,771</u>	<u>225</u>	<u>-</u>	<u>126,996</u>
Total	<u>\$ 149,377</u>	<u>\$ 177,516</u>	<u>\$ (172,443)</u>	<u>\$ 154,450</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)**

	<u>2006</u>	<u>2005</u>
<b>PATIENT DAYS</b>		
Acute	956	902
Swing-bed	961	1,370
Newborn	<u>159</u>	<u>164</u>
Totals	<u>2,076</u>	<u>2,436</u>
<b>ADMISSIONS</b>		
Acute	335	293
Swing-bed	85	99
Newborn	<u>80</u>	<u>75</u>
Totals	<u>500</u>	<u>467</u>
<b>DISCHARGES</b>		
Acute	334	295
Swing-bed	83	103
Newborn	<u>79</u>	<u>76</u>
Totals	<u>496</u>	<u>474</u>
AVERAGE LENGTH OF STAY, ACUTE	<u>2.86</u>	<u>3.06</u>
BEDS	<u>25</u>	<u>25</u>
<b>OCCUPANCY PERCENTAGE</b>		
Acute, based on 25 beds	<u>10.5%</u>	<u>9.9%</u>
Swing-bed, based on 25 beds	<u>10.5%</u>	<u>15.0%</u>



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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**

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

We have audited the accompanying balance sheet of **Regional Health Services of Howard County (RHSHC)** and its discretely presented component unit as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of RHSHC as of June 30, 2005, were audited by other auditors whose report dated August 5, 2005, expressed an unqualified opinion on those financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the internal control over financial reporting of RHSHC 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 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 the financial statements of RHSHC are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about RSHHC's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of RSHHC and are reported in Part II of the accompanying Schedule of Findings. 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.

We also noted certain additional matters that we reported to management of RSHHC in a separate letter dated August 17, 2006.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of RSHHC and other parties to whom RSHHC may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Regional Health Services of Howard County** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa  
August 17, 2006

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2006**

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**Part I: Findings Related to the Financial Statements:**

NONE

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-06     Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.
  
- II-B-06     Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
  
- II-C-06     Travel Expense – No expenditures of RSHHC money for travel expenses of spouses of RSHHC officials and/or employees were noted.
  
- II-D-06     Business Transactions – We noted no material business transactions between RSHHC and RSHHC officials and/or employees.
  
- II-E-06     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
  
- II-F-06     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the RSHHC’s investment policy were noted.
  
- II-G-06     Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of 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 AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

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The 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, 2006, and have issued our report thereon dated August 17, 2006.

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa  
August 17, 2006