

**FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

**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**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Gerald Ferrie	Chairperson	December 31, 2010
Steven McCarville	Vice-Chairperson	November 14, 2008
Connie McGrane	Secretary	December 31, 2010
Jeffery Mason	Treasurer	November 14, 2008
Allen Moudry	Member	December 31, 2012
<u>Health Services Officials</u>		
Ed Maahs	Interim Administrator	
David Hartberg	Chief Executive Officer (Effective August 22, 2007)	
Brenda Moser	Chief Financial Officer	



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Regional Health Services of Howard County (RHS HC) and its discretely presented component unit as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of RHS HC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RHS HC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of Regional Health Services of Howard County as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in RHS HC'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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2007, 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 5 and the Budgetary Comparison Information on pages 26 and 27 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 30, 2007

REGIONAL HEALTH SERVICES OF HOWARD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of Regional Health Services of Howard County (RHSHC) presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2007. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- RHSHC's total assets increased by \$963,734 or 8.3%. A significant portion of this increase represents investments in capital equipment and receivables from third-party payors.
- RHSHC's assets exceeded liabilities by \$10,194,534 at June 30, 2007.
- During the year, RHSHC's total operating revenues increased 7.9% to \$11,935,653, while the operating expenses increased 7.8% to \$11,836,381. RHSHC had operating income before affiliation agreement of \$99,272, which is .8% of total operating revenues.
- RHSHC made capital equipment and building investments totaling \$1,320,122 during the fiscal year. The source of funding for these items was derived from operations and county tax support.

Overview of the Financial Statements

The basic financial statements of RHSHC report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of RHSHC's assets and liabilities. The balance sheet at June 30, 2007, reports total assets of \$12,526,474, total liabilities of \$2,331,940 and net assets of \$10,194,534.

The statements of revenues, expenses, and changes in net assets provide information on RHSHC's revenues and expenses. These statements indicate total operating revenues of \$11,935,653 and total operating expenses of \$11,836,381 during fiscal year 2007. The operating income before affiliation agreement was \$99,272 in 2007, compared to an operating income of \$91,191 in 2006.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of RHSHC's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Long-term Debt

At year-end, Regional Health Services of Howard County had \$804,024 in long-term debt. Long-term debt of \$77,543 represents a capital lease with Beckman Coulter for a piece of lab equipment. The remaining \$726,481 represents 2003 Revenue Bonds that were issued on April 1, 2003.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Factors Bearing on Financial Future

Regional Health Services of Howard County is in the process of developing a strategic plan that will identify both short- and long-term goals/needs of the facility and the community. A debt capacity study was done in fiscal year 2007 to help determine the capital spending ability of Regional Health Services of Howard County. In conjunction with the Strategic Plan, most likely a Master Facility Plan will be developed.

On August 1, 2007, a new provider will be joining the team at Regional Health Services of Howard County. This new provider is a MD, who will be doing family practice in our attached Medical Clinic. He will also be practicing OB, which will bring our total number internal OB providers to three.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Regional Health Services of Howard County
Attn: Chief Financial Officer
235 8th Avenue West
Cresco, IA 52136

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BALANCE SHEETS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,070,854	\$ 1,155,566
Investments - Note 4	1,375,000	767,014
Assets limited as to use or restricted - Note 4	36,592	27,454
Receivables		
Patient, net of estimated uncollectibles		
of \$1,056,000 in 2007 and \$966,000 in 2006	1,678,021	1,921,790
Estimated third-party payor settlements	376,930	72,900
Succeeding year property tax	432,897	395,674
Other	103,423	32,528
Supplies	297,540	261,736
Prepaid expense	<u>90,363</u>	<u>69,519</u>
Total current assets	<u>5,461,620</u>	<u>4,704,181</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for grant agency	18	477
Internally designated for capital improvements	2,916,124	3,337,684
Restricted by contributors and grantors	-	1,789
Restricted under bond agreement	<u>126,977</u>	<u>126,996</u>
Total assets limited as to use or restricted	<u>3,043,119</u>	<u>3,466,946</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>3,992,666</u>	<u>3,356,632</u>
OTHER ASSETS		
Bond issuance costs, net of accumulated amortization	<u>29,069</u>	<u>34,981</u>
Total assets	<u>\$ 12,526,474</u>	<u>\$ 11,562,740</u>

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 161,078	\$ 154,854
Accounts payable		
Trade	189,532	188,993
Related party	193,696	147,328
Accrued expenses		
Salaries and wages	318,017	157,690
Vacation	314,046	308,069
Interest	2,456	2,811
Payroll taxes and employee benefits	40,232	44,369
Other	37,022	35,920
Deferred revenue for succeeding year property tax receivable	<u>432,897</u>	<u>395,674</u>
Total current liabilities	1,688,976	1,435,708
OTHER LIABILITIES		
Grant funds held in trust	18	477
LONG-TERM DEBT, less current maturities - Note 6	<u>642,946</u>	<u>799,295</u>
Total liabilities	<u>2,331,940</u>	<u>2,235,480</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,188,642	2,402,483
Restricted		
By contributors and grantors	-	1,789
Under bond agreement	126,977	126,996
Unrestricted	<u>6,878,915</u>	<u>6,795,992</u>
Total net assets	<u>10,194,534</u>	<u>9,327,260</u>
Total liabilities and net assets	<u>\$ 12,526,474</u>	<u>\$ 11,562,740</u>

REGIONAL HEALTH SERVICES FOUNDATION
BALANCE SHEETS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	<u>\$ 81,445</u>	<u>\$ 29,517</u>
 LIABILITIES AND NET ASSETS		
 CURRENT LIABILITIES		
Accounts payable	\$ 54,994	\$ 1,389
 NET ASSETS, Unrestricted	<u>26,451</u>	<u>28,128</u>
 Total liabilities and net assets	<u>\$ 81,445</u>	<u>\$ 29,517</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$516,732 in 2007 and \$391,246 in 2006) - Notes 2 and 3	\$ 11,629,719	\$ 10,790,216
Other operating revenues	<u>305,934</u>	<u>276,547</u>
TOTAL OPERATING REVENUES	<u>11,935,653</u>	<u>11,066,763</u>
OPERATING EXPENSES		
Salaries and wages	5,099,593	4,707,585
Employee benefits	1,356,655	1,225,413
Supplies and other expenses	4,693,609	4,428,053
Depreciation	637,119	563,116
Interest and amortization	<u>49,405</u>	<u>51,405</u>
TOTAL OPERATING EXPENSES	<u>11,836,381</u>	<u>10,975,572</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	99,272	91,191
AFFILIATION AGREEMENT EXPENSE	<u>(49,636)</u>	<u>(45,596)</u>
OPERATING INCOME	<u>49,636</u>	<u>45,595</u>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	479,490	461,370
Investment income	269,737	205,831
Noncapital grants and contributions	44,792	27,757
Loss on sale of property and equipment	(32,322)	(3,763)
Other	<u>2,303</u>	<u>19,909</u>
NET NONOPERATING REVENUES	<u>764,000</u>	<u>711,104</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	813,636	756,699
Capital contributions and grants	<u>53,638</u>	<u>30,274</u>
INCREASE IN NET ASSETS	867,274	786,973
NET ASSETS BEGINNING OF YEAR	<u>9,327,260</u>	<u>8,540,287</u>
NET ASSETS END OF YEAR	<u>\$ 10,194,534</u>	<u>\$ 9,327,260</u>

See notes to financial statements.

REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Contributions	\$ 65,966	\$ 44,170
Interest income	<u>289</u>	<u>216</u>
TOTAL OPERATING REVENUES	<u>66,255</u>	<u>44,386</u>
EXPENSES		
Contributions to Regional Health Services of Howard County	62,366	42,884
Supplies and other expenses	<u>5,566</u>	<u>10,455</u>
TOTAL EXPENSES	<u>67,932</u>	<u>53,339</u>
DECREASE IN NET ASSETS	(1,677)	(8,953)
NET ASSETS BEGINNING OF YEAR	<u>28,128</u>	<u>37,081</u>
NET ASSETS END OF YEAR	<u>\$ 26,451</u>	<u>\$ 28,128</u>

See notes to financial statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 11,498,563	\$ 9,933,046
Payments of salaries and wages	(4,933,289)	(4,671,852)
Payments of supplies and other expenses	(6,112,676)	(5,826,717)
Other receipts and payments, net	<u>305,934</u>	<u>276,547</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>758,532</u>	<u>(288,976)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	47,095	47,666
County tax revenue received	<u>479,490</u>	<u>461,370</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>526,585</u>	<u>509,036</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(1,307,976)	(480,190)
Proceeds from sale of property and equipment	2,500	3,150
Principal payments on long-term debt	(154,853)	(146,044)
Proceeds from issuance of long-term debt	-	108,441
Interest payments on long-term debt	(39,119)	(41,073)
Capital contributions and grants	<u>53,638</u>	<u>30,274</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,445,810)</u>	<u>(525,442)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	269,737	205,831
(Increase) decrease in assets limited as to use or restricted	<u>(193,756)</u>	<u>355,552</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>75,981</u>	<u>561,383</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(84,712)	256,001
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,155,566</u>	<u>899,565</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,070,854</u>	<u>\$ 1,155,566</u>

(continued)

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating income	\$ 49,636	\$ 45,595
Adjustments to reconcile operating income to net cash provided by (used for) operating activities		
Depreciation	637,119	563,116
Interest expense considered capital and related financing activity	49,760	51,714
Provision for bad debts	516,732	391,246
Changes in assets and liabilities		
Patient receivables	(272,963)	(542,679)
Estimated third-party payor settlements	(304,030)	(738,148)
Other receivables	(70,895)	32,411
Supplies	(35,804)	2,527
Prepaid expense	(20,844)	11,384
Accounts payable - trade and related	46,907	(142,854)
Accrued expenses	<u>162,914</u>	<u>36,712</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 758,532</u>	<u>\$ (288,976)</u>

REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,677)	\$ (8,953)
Increase (decrease) in accounts payable	<u>53,605</u>	<u>(4,111)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>51,928</u>	<u>(13,064)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	51,928	(13,064)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>29,517</u>	<u>42,581</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 81,445</u>	<u>\$ 29,517</u>

See notes to financial statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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.

RSHHC's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

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, 2007 AND 2006

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 estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, 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, 2007 AND 2006

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, 2007 and 2006, accumulated amortization was \$24,635 and \$18,723, respectively. In addition, the remaining unamortized issuance costs from the Series 1992 Hospital Revenue Bonds refunded during 2003 (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, 2007 and 2006, accumulated amortization was \$19,702 and \$14,973, respectively. Total amortization expense for the bond issuance costs and deferred loss from refinancing was \$10,641 for the years ended June 30, 2007 and 2006.

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, 2007 AND 2006

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 nonoperating revenues 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, 2007.

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 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, 2007 AND 2006

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 \$51,271 and \$41,746 for advertising costs for the years ended June 30, 2007 and 2006, 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.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

County Tax Revenue

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 items from the 2006 financial statements have been reclassified to conform to the current year presentation.

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, 2007 and 2006, were \$38,850 and \$75,438, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years ended June 30, 2007 and 2006, were \$24,433 and \$47,444, respectively.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 is licensed as a Critical Access Hospital (CAH). RHSHC is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by RHSHC and are subject to audits thereof by the Medicare fiscal intermediary. RHSHC's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2005. 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.

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

Other Payors: RHSHC has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to RHSHC 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 10%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2007, and 44% and 8%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2006.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Total patient service revenue	<u>\$ 16,553,852</u>	<u>\$ 15,501,761</u>
Contractual adjustments:		
Medicare	(1,839,702)	(2,088,125)
Medicaid	(597,887)	(446,394)
Blue Cross	(700,833)	(657,549)
Other	<u>(1,268,979)</u>	<u>(1,128,231)</u>
Total contractual adjustments	<u>(4,407,401)</u>	<u>(4,320,299)</u>
Net patient service revenue	12,146,451	11,181,462
Provision for bad debts	<u>(516,732)</u>	<u>(391,246)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,629,719</u>	<u>\$ 10,790,216</u>

(continued on next page)

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 – CASH AND DEPOSITS

RHSHC’s deposits in banks at June 30, 2007 and 2006, 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.

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, 2007 and 2006, RHSHC’s carrying amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Checking and savings accounts	\$ 254,033	\$ 838,203
Certificates of deposit	4,193,629	3,416,544
Interest receivable	<u>7,049</u>	<u>6,667</u>
 Total deposits	 <u>\$ 4,454,711</u>	 <u>\$ 4,261,414</u>
 Included in the following balance sheet captions:		
Investments	\$ 1,375,000	\$ 767,014
Assets limited as to use or restricted	<u>3,079,711</u>	<u>3,494,400</u>
	<u>\$ 4,454,711</u>	<u>\$ 4,261,414</u>

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, 2007 AND 2006

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
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	<u>\$ 3,446,472</u>				<u>\$ 3,356,632</u>

The majority of construction in progress at June 30, 2007, represents installation and other costs related to new information software. The project is expected to be completed early in fiscal year 2008. The estimated remaining cost to complete the project is \$150,000 which will be financed with RSHSC cash reserves.

NOTE 6 – LONG-TERM DEBT

A schedule of changes in long-term debt for 2007 and 2006 is as follows:

	June 30, 2006			June 30, 2007	Amounts Due
	Balance	Additions	Deductions	Balance	Within One Year
2003 revenue bonds	\$ 880,000	\$ -	\$ (135,000)	\$ 745,000	\$ 140,000
Capitalized lease obligation - Note 7	97,397	-	(19,854)	77,543	21,078
Deferred loss on refinancing	(23,248)	-	4,729	(18,519)	-
Total long-term debt	\$ 954,149	\$ -	\$ (150,125)	804,024	\$ 161,078
Less current maturities				(161,078)	
Long-term debt, less current maturities				<u>\$ 642,946</u>	

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

	June 30, 2005			June 30, 2006		Amounts Due Within One Year
	Balance	Additions	Deductions	Balance		
2003 revenue bonds	\$ 1,015,000	\$ -	\$ (135,000)	\$ 880,000	\$ 135,000	
Capitalized lease obligation	-	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>	954,149	<u>\$ 154,854</u>	
Less current maturities				<u>(154,854)</u>		
Long-term debt, less current maturities				<u>\$ 799,295</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. Principal payments are due on 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, 2007 and 2006. 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
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>\$ 822,543</u>	<u>\$ 102,808</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 – LEASES

RHSHC 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, 2007 and 2006, for all operating leases was \$23,217 and 25,147, respectively. The capitalized leased assets consist of:

Major movable equipment	\$ 108,441
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(34,340)</u>
	<u>\$ 74,101</u>

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

<u>Year Ending June 30,</u>	
2008	\$ 25,158
2009	25,158
2010	25,158
2011	<u>10,482</u>
Total minimum lease payments	\$ 85,956
Less interest	<u>(8,413)</u>
Present value of minimum lease payments - Note 6	<u>\$ 77,543</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, 2007, 2006, and 2005. Contribution requirements are established by state statute. RHSHC's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$287,136, \$265,450, and \$247,439, respectively, equal to the required contributions for each year.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 – RELATED PARTY TRANSACTIONS

Regional Health Services Foundation

Regional Health Services Foundation was formed to perform fund raising activities for RSHHC. The Foundation contributed cash and capital equipment in the amount of \$62,366 and \$42,884 to RSHHC in 2007 and 2006, respectively.

Master Affiliation Agreement

RSHHC entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, RSHHC entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides physician medical services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$1,521,860 and \$1,289,538 for the years ended June 30, 2007 and 2006, respectively.

Operating income and losses from the operation of RSHHC services in Howard County are shared in accordance to the formulas outlined in the Master Affiliation Agreement. Total operating gains to be allocated between Mercy Medical Center – North Iowa and RSHHC amounted to \$49,636 and \$45,596 for the years ended June 30, 2007 and 2006, respectively.

Due to/From Affiliated Organization

As of June 30, 2007 and 2006, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center – North Iowa of \$193,696 and \$147,328, respectively, for the various services and distributions related to these agreements.

Management Services Agreement

RSHHC has a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to RSHHC. The arrangement does not alter the authority or responsibility of the Board of Trustees of RSHHC. Expenses for the administrative and management services received for the years ended June 30, 2007 and 2006, were approximately \$271,000 and \$213,000, respectively.

NOTE 10 – CONTINGENCIES

Malpractice Insurance

RSHHC 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.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

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 the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

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 regulatory actions unknown or unasserted at this time.

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. RSHHC assumes liability for any deductibles and claims in excess of coverage limitations. 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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	23%	29%
Medicaid	8	5
Commercial insurance	25	24
Other third-party payors and patients	<u>44</u>	<u>42</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, 2007

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 479,490	\$ -	\$ 479,490	\$ 407,608	\$ 71,882
Estimated other revenues/receipts	<u>12,306,123</u>	<u>(128,656)</u>	<u>12,177,467</u>	<u>12,973,325</u>	<u>(795,858)</u>
	12,785,613	(128,656)	12,656,957	13,380,933	(723,976)
Expenses/disbursements	<u>11,918,339</u>	<u>630,033</u>	<u>12,548,372</u>	<u>14,067,451</u>	<u>1,519,079</u>
Net	867,274	(758,689)	108,585	(686,518)	<u>\$ 795,103</u>
Balance beginning of year	<u>9,327,260</u>	<u>(3,910,280)</u>	<u>5,416,980</u>	<u>6,785,858</u>	
Balance end of year	<u>\$ 10,194,534</u>	<u>\$ (4,668,969)</u>	<u>\$ 5,525,565</u>	<u>\$ 6,099,340</u>	

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

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, 2007.

For the year ended June 30, 2007, RSHHC's expenditures did not exceed the amount budgeted.

**REGIONAL HEALTH SERVICES OF
HOWARD COUNTY**



CPAs & BUSINESS ADVISORS

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

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

Our audits were 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 38 marked "unaudited," has been subjected to the auditing procedures applied in the audits 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.

Eide Bailly LLP

Dubuque, Iowa
August 30, 2007

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REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2007 AND 2006

	TOTAL	
	2007	2006
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,216,204	\$ 1,304,164
Nursery	<u>129,805</u>	<u>95,809</u>
Total	<u>1,346,009</u>	<u>1,399,973</u>
OTHER PROFESSIONAL SERVICES		
Operating room	1,207,206	1,083,490
Labor and delivery room	114,471	84,511
Anesthesiology	628,199	659,750
Radiology	2,198,805	2,067,280
Laboratory	2,037,665	1,798,328
Blood	113,762	94,039
Respiratory therapy	309,662	432,729
Physical therapy	335,415	293,843
Occupational therapy	209,268	215,259
Speech pathology	23,687	18,338
Electrocardiology	251,533	243,906
Central supply	565,122	572,719
Pharmacy	585,701	701,448
Cardiac rehabilitation	53,947	47,302
Outpatient clinic	42,114	42,552
Clinics	3,767,510	3,281,906
Emergency room	997,578	895,311
Ambulance	403,175	383,971
Home health	954,360	856,102
Durable medical equipment	<u>447,513</u>	<u>404,442</u>
Total	<u>15,246,693</u>	<u>14,177,226</u>
Charity care	<u>(38,850)</u>	<u>(75,438)</u>
Total patient service revenue	<u>16,553,852</u>	<u>15,501,761</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(1,839,702)	(2,088,125)
Medicaid	(597,887)	(446,394)
Blue Cross	(700,833)	(657,549)
Other	<u>(1,268,979)</u>	<u>(1,128,231)</u>
Total contractual adjustments	<u>(4,407,401)</u>	<u>(4,320,299)</u>
NET PATIENT SERVICE REVENUE	12,146,451	11,181,462
PROVISION FOR BAD DEBTS	<u>(516,732)</u>	<u>(391,246)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 11,629,719</u>	<u>\$ 10,790,216</u>

INPATIENT		OUTPATIENT	
2007	2006	2007	2006
\$ 985,629	\$ 1,066,979	\$ 230,575	\$ 237,185
<u>129,685</u>	<u>95,749</u>	<u>120</u>	<u>60</u>
1,115,314	1,162,728	230,695	237,245
233,877	330,486	973,329	753,004
96,511	73,236	17,960	11,275
153,774	213,801	474,425	445,949
119,099	152,969	2,079,706	1,914,311
213,106	209,041	1,824,559	1,589,287
40,492	38,510	73,270	55,529
254,718	384,519	54,944	48,210
73,086	56,706	262,329	237,137
103,669	91,344	105,599	123,915
2,925	5,872	20,762	12,466
16,617	24,736	234,916	219,170
258,161	280,950	306,961	291,769
255,344	311,535	330,357	389,913
-	-	53,947	47,302
-	82	42,114	42,470
-	-	3,767,510	3,281,906
27,097	29,903	970,481	865,408
16,221	15,325	386,954	368,646
-	-	954,360	856,102
<u>354</u>	<u>-</u>	<u>447,159</u>	<u>404,442</u>
1,865,051	2,219,015	13,381,642	11,958,211
\$ 2,980,365	\$ 3,381,743	\$ 13,612,337	\$ 12,195,456

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Meals sold	\$ 78,791	\$ 67,984
Grant revenues	81,856	71,850
Clinic rental income	41,650	30,634
Purchase discounts and rebates	28,826	20,751
Management fees	21,000	21,000
Dietary consultations	17,671	15,721
Medical records transcripts	2,445	1,858
Occupational health	2,856	6,481
Vending machines	903	1,125
Other	<u>29,936</u>	<u>39,143</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 305,934</u>	 <u>\$ 276,547</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 57,241	\$ 46,892
Supplies and other expenses	7,899	6,417
	<u>65,140</u>	<u>53,309</u>
ADULTS AND PEDIATRICS		
Salaries and wages	678,910	651,149
Supplies and other expenses	61,492	48,553
	<u>740,402</u>	<u>699,702</u>
NURSERY		
Salaries and wages	26,872	15,452
Supplies and other expenses	1,305	-
	<u>28,177</u>	<u>15,452</u>
OPERATING ROOM		
Salaries and wages	165,353	141,100
Supplies and other expenses	100,066	101,758
	<u>265,419</u>	<u>242,858</u>
LABOR AND DELIVERY ROOM		
Salaries and wages	33,896	17,702
Supplies and other expenses	147	-
	<u>34,043</u>	<u>17,702</u>
ANESTHESIOLOGY		
Supplies and other expenses	14,447	17,052
	<u>14,447</u>	<u>17,052</u>
NONPHYSICIAN ANESTHETISTS		
Salaries and wages	121,182	120,110
Supplies and other expenses	43,307	46,308
	<u>164,489</u>	<u>166,418</u>
RADIOLOGY		
Salaries and wages	219,121	227,188
Supplies and other expenses	315,744	311,289
	<u>534,865</u>	<u>538,477</u>
LABORATORY		
Salaries and wages	209,997	197,859
Supplies and other expenses	197,384	218,064
	<u>407,381</u>	<u>415,923</u>

(continued)

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
BLOOD		
Salaries and wages	\$ 4,533	\$ 3,989
Supplies and other expenses	<u>50,977</u>	<u>45,807</u>
	<u>55,510</u>	<u>49,796</u>
RESPIRATORY THERAPY		
Salaries and wages	29,237	22,583
Supplies and other expenses	<u>12,634</u>	<u>15,861</u>
	<u>41,871</u>	<u>38,444</u>
PHYSICAL THERAPY		
Salaries and wages	144,759	127,848
Supplies and other expenses	<u>16,710</u>	<u>37,963</u>
	<u>161,469</u>	<u>165,811</u>
OCCUPATIONAL THERAPY		
Salaries and wages	66,015	72,214
Supplies and other expenses	<u>7,865</u>	<u>5,552</u>
	<u>73,880</u>	<u>77,766</u>
OCCUPATIONAL HEALTH		
Salaries and wages	709	1,618
Supplies and other expenses	<u>772</u>	<u>1,144</u>
	<u>1,481</u>	<u>2,762</u>
SPEECH PATHOLOGY		
Salaries and wages	-	(7)
Supplies and other expenses	<u>5,182</u>	<u>5,076</u>
	<u>5,182</u>	<u>5,069</u>
ELECTROCARDIOLOGY		
Salaries and wages	4,245	4,719
Supplies and other expenses	<u>38,885</u>	<u>50,191</u>
	<u>43,130</u>	<u>54,910</u>
CENTRAL SUPPLY		
Salaries and wages	6,608	5,797
Supplies and other expenses	<u>60,437</u>	<u>65,593</u>
	<u>67,045</u>	<u>71,390</u>
PHARMACY		
Salaries and wages	4,860	7,358
Supplies and other expenses	<u>200,356</u>	<u>235,303</u>
	<u>205,216</u>	<u>242,661</u>

(continued)

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CARDIAC REHABILITATION		
Salaries and wages	\$ 18,023	\$ 16,323
Supplies and other expenses	556	2,267
	<u>18,579</u>	<u>18,590</u>
OUTPATIENT CLINIC		
Salaries and wages	117,260	126,733
Supplies and other expenses	9,214	6,579
	<u>126,474</u>	<u>133,312</u>
CLINICS		
Salaries and wages	775,734	732,425
Supplies and other expenses	1,564,323	1,477,878
	<u>2,340,057</u>	<u>2,210,303</u>
EMERGENCY ROOM		
Salaries and wages	144,965	131,394
Supplies and other expenses	358,392	336,549
	<u>503,357</u>	<u>467,943</u>
AMBULANCE		
Salaries and wages	134,139	137,078
Supplies and other expenses	33,716	33,223
	<u>167,855</u>	<u>170,301</u>
HOME HEALTH		
Salaries and wages	648,418	582,685
Supplies and other expenses	209,168	169,509
	<u>857,586</u>	<u>752,194</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	118,997	94,917
Supplies and other expenses	148,864	128,463
	<u>267,861</u>	<u>223,380</u>
SOCIAL SERVICE		
Salaries and wages	32,995	29,137
Supplies and other expenses	699	981
	<u>33,694</u>	<u>30,118</u>
MEDICAL RECORDS		
Salaries and wages	209,494	179,864
Supplies and other expenses	23,466	29,703
	<u>232,960</u>	<u>209,567</u>

(continued)

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
DIETARY		
Salaries and wages	\$ 164,253	\$ 154,405
Supplies and other expenses	<u>71,965</u>	<u>70,315</u>
	<u>236,218</u>	<u>224,720</u>
OPERATION OF PLANT		
Salaries and wages	180,031	147,077
Supplies and other expenses	<u>220,014</u>	<u>234,135</u>
	<u>400,045</u>	<u>381,212</u>
FOUNDATION		
Salaries and wages	50,379	46,784
Supplies and other expenses	<u>-</u>	<u>1,979</u>
	<u>50,379</u>	<u>48,763</u>
HOUSEKEEPING		
Salaries and wages	60,683	66,649
Supplies and other expenses	<u>18,353</u>	<u>14,187</u>
	<u>79,036</u>	<u>80,836</u>
LAUNDRY AND LINEN		
Salaries and wages	8,150	8,264
Supplies and other expenses	<u>23,328</u>	<u>22,252</u>
	<u>31,478</u>	<u>30,516</u>
ADMINISTRATIVE AND GENERAL		
Salaries and wages	662,534	590,279
Supplies and other expenses	<u>875,942</u>	<u>688,102</u>
	<u>1,538,476</u>	<u>1,278,381</u>
UNASSIGNED EXPENSES		
Depreciation	637,119	563,116
Interest and amortization	49,405	51,405
Employee benefits	<u>1,356,655</u>	<u>1,225,413</u>
	<u>2,043,179</u>	<u>1,839,934</u>
TOTAL OPERATING EXPENSES	<u>\$ 11,836,381</u>	<u>\$ 10,975,572</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2007 AND 2006

ANALYSIS OF AGING	2007		2006	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,365,881	49.96%	\$ 1,400,121	48.48%
31 to 60 days	379,110	13.87%	474,557	16.43%
61 to 90 days	157,753	5.77%	211,249	7.32%
91 days and over	831,110	30.40%	801,925	27.77%
	<u>2,733,854</u>	<u>100.00%</u>	<u>2,887,852</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	644,458		542,813	
Allowance for contractual adjustments	411,375		423,249	
Net	<u>\$ 1,678,021</u>		<u>\$ 1,921,790</u>	
Net patient service revenue per calendar day-excluding bad debts	<u>\$ 33,278</u>		<u>\$ 30,634</u>	
Days of net revenue in net accounts receivable at year end	<u>50</u>		<u>63</u>	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2007		2006	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	<u>\$ 542,813</u>		<u>\$ 448,488</u>	
Add:				
Provision for bad debts	480,169	4.13%	391,246	3.63%
Recoveries previously written off	276,176	2.37%	154,732	1.43%
	<u>756,345</u>		<u>545,978</u>	
Less:				
Accounts written off	<u>(654,700)</u>	5.63%	<u>(451,653)</u>	4.19%
Ending Balance	<u>\$ 644,458</u>		<u>\$ 542,813</u>	

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
SUPPLIES		
Central supply	\$ 158,669	\$ 146,353
Pharmacy	89,765	75,515
Dietary	7,609	6,721
DME supplies	31,170	19,567
Other	<u>10,327</u>	<u>13,580</u>
 Total supplies	 <u>\$ 297,540</u>	 <u>\$ 261,736</u>
 PREPAID EXPENSE		
Insurance	\$ 32,391	\$ 9,972
Dues and other	<u>57,972</u>	<u>59,547</u>
 Total prepaid expense	 <u>\$ 90,363</u>	 <u>\$ 69,519</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2007 AND 2006

	Balance July 1, 2006	Invested	Redeemed	Balance June 30, 2007
Revenue bond sinking fund				
Money market savings	\$ 27,454	\$ 177,868	\$ (168,730)	\$ 36,592
Reserve fund				
Certificate of deposit	<u>126,996</u>	<u>-</u>	<u>(19)</u>	<u>126,977</u>
 Total	 <u>\$ 154,450</u>	 <u>\$ 177,868</u>	 <u>\$ (168,749)</u>	 <u>\$ 163,569</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Acute	780	956
Swing-bed	898	961
Newborn	190	159
	<hr/>	<hr/>
Totals	1,868	2,076
	<hr/> <hr/>	<hr/> <hr/>
ADMISSIONS		
Acute	280	335
Swing-bed	70	85
Newborn	93	80
	<hr/>	<hr/>
Totals	443	500
	<hr/> <hr/>	<hr/> <hr/>
DISCHARGES		
Acute	283	334
Swing-bed	70	83
Newborn	94	79
	<hr/>	<hr/>
Totals	447	496
	<hr/> <hr/>	<hr/> <hr/>
AVERAGE LENGTH OF STAY, ACUTE	2.76	2.86
	<hr/> <hr/>	<hr/> <hr/>
BEDS	25	25
	<hr/> <hr/>	<hr/> <hr/>
OCCUPANCY PERCENTAGE		
Acute, based on 25 beds	8.5%	10.5%
Swing-bed, based on 25 beds	9.8%	10.5%
	<hr/> <hr/>	<hr/> <hr/>
OUTPATIENT VISITS	20,940	21,464
	<hr/> <hr/>	<hr/> <hr/>
CLINIC VISITS		
Kessel	24,178	23,460
Lime Springs	2,009	1,786
	<hr/> <hr/>	<hr/> <hr/>



CPAs & BUSINESS ADVISORS

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

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

We have audited the accompanying balance sheets of Regional Health Services of Howard County (RSHHC) and its discretely presented component unit as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated August 30, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RSHHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinions on the effectiveness of RSHHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RSHHC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects RSHHC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of RSHHC's financial statements that is more than inconsequential will not be prevented or detected by RSHHC's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by RSHHC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of RSHHC 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*. However, we noted a certain immaterial instance of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about RSHHC's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of RSHHC. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

RSHHC's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on RSHHC's responses, we did not audit RSHHC's responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of RSHHC in a separate letter dated August 30, 2007.

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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 30, 2007

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, RSHHC should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, RSHHC should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07 Preparation of Financial Statements – RSHHC does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, RSHHC’s management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 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-07 Travel Expense – No expenditures of RSHHC money for travel expenses of spouses of RSHHC officials and/or employees were noted.
- II-D-07 Business Transactions – We noted no material business transactions between RSHHC and RSHHC officials and/or employees.
- II-E-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07 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 RSHHC’s investment policy were noted.
- II-G-07 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...” RSHHC published a schedule of bills allowed and a schedule of salaries paid as required by the Code.
- II-H-07 Public Notice of Board Meetings – Chapter 21.4 of the Code of Iowa states “A governmental body shall give notice of the time, date, and place of each meeting, and its tentative agenda, in a manner reasonably calculated to apprise the public of that information.” Notice shall be given at least twenty-four hours prior to commencement of any meeting. We noted certain meetings held without public notice given at least twenty-four hours prior to commencement.

Recommendation – RSHHC should give public notice of meetings at least twenty-four hours prior to commencement as in accordance with Chapter 21.4 of the Code of Iowa.

Response – RSHHC will comply with the requirements set forth in Chapter 21.4 of the Code of Iowa.

Conclusion – Response accepted.



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INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

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, 2007, and have issued our report thereon dated August 30, 2007.

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 30, 2007

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The 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) for the year ended June 30, 2007, and have issued our report thereon dated August 30, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 7, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Regional Health Services of Howard County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of RHSHC's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Regional Health Services of Howard County are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by RHSHC during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors.

Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on RHSHC's financial reporting process (that is, cause future financial statements to be materially misstated). All of the adjustments we proposed were posted by RHSHC.

We discussed all adjustments to the financial statements with RHSHC's staff during the audit. The following adjustments were made during the fiscal year 2007 audit:

Increase in net assets prior to audit adjustments	\$ 847,774
To adjust payable to affiliate	10,000
To adjust construction in progress	<u>9,500</u>
 Increase in net assets as reported	 <u>\$ 867,274</u>

There were no significant passed adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to RSHHC’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as RSHHC’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Other Comments

We have included additional comments regarding RSHHC’s operations.

This information is intended solely for the use of the officials, employees, and constituents of Regional Health Services of Howard County and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Regional Health Services of Howard County.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 30, 2007

REGIONAL HEALTH SERVICES OF HOWARD COUNTY

YEAR ENDED JUNE 30, 2007

OTHER COMMENTS

Segregation of Duties and Compensating Controls over Accounting Procedures

We realize that an optimal segregation of duties in organizations your size is difficult. However, during our review of RSHHC's internal controls related to accounting functions, we identified some areas where other compensating controls or monitoring procedures could be implemented to obtain the maximum internal control possible under the circumstances. Those recommendations are as follows:

Cash Receipts

The same individual makes the deposit and posts the manual entry for miscellaneous non-patient receipts. To reduce the risk of misappropriation of cash, we recommend that the deposit be made by an employee not involved in the general ledger process.

Patient Accounts Receivable

The Business Office Manager and billings clerks have the capability to perform all functions of writing off uncollectible accounts receivable within RSHHC's computer system. Without proper review procedures in place, the possibility exists for a patient account to be improperly written off and not detected by RSHHC's management. We recommend that the Chief Financial Officer review patient accounts written off to allowance for doubtful accounts per the general ledger and any other miscellaneous adjustments that reduce patient account balances for appropriateness and accuracy.

Accounts Payable

The accounts payable clerks process the checks and related check registers and distribution reports. They also have the authority to make changes to the master vendor list. The clerks also mail the checks. As a result, these individuals have the capability to create improper checks to a fictitious vendor. To reduce this risk, we recommend that the administrative assistants mail the checks after signature stamping them rather than returning them to the accounts payable department to be mailed. Furthermore, we recommend that only the purchasing director be given the authority to update the master vendor list.

Payroll

The payroll clerks whom process the checks, prepare related payroll reports, and reconcile the related general ledger accounts also have the authority to add employees and change pay rates in the master file. As a result, these individuals have the capability to create improper checks to fictitious employees or process payments at improper rates. To reduce this risk, we recommend that the human resource department be given the responsibility of updating the master file for employee additions/deletions and changes in pay rates.

Journal Entries

There are several journal entries made monthly by the Chief Financial Officer and accounting staff. The Chief Financial Officer reviews entries made by accounting staff. However, due to the transition of hospital administrators during the year, there currently is no review process in place for entries made by the Chief Financial Officer. We recommend that journal entries prepared by the Chief Financial Officer be reviewed by RSHHC's administrator.

(continued)

REGIONAL HEALTH SERVICES OF HOWARD COUNTY

YEAR ENDED JUNE 30, 2007

OTHER COMMENTS (continued)

Risk Assessment Audit Standards

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have a significant impact on RSHHC's audit.