

**FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**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>		
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>		
David Hartberg	Chief Executive Officer	
Brenda Moser	Vice President of Finance	



CPAs & BUSINESS ADVISORS

## 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 sheets of Regional Health Services of Howard County (RSHHC) and its discretely presented component unit, Regional Health Services Foundation, as of June 30, 2008 and 2007, 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 RSHHC'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Health Services of Howard County and Regional Health Services Foundation as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in RSHHC'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 Accounting 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 September 12, 2008, 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 audits.

Management's Discussion and Analysis on pages 4 and 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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed text of the firm's name and location.

Dubuque, Iowa  
September 12, 2008

# Regional Health Services of Howard County

## Management's Discussion and Analysis

This section of Regional Health Services of Howard County's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2008. We encourage readers to read this analysis in conjunction with the financial statements in this report.

### Financial Highlights

- The Hospital's total assets increased by \$1,073,011 or 8.6%. The majority of this increase is related to an increase in the Hospital's investments.
- The Hospital's assets exceeded liabilities by \$11,211,377 at June 30, 2008.
- During the year, the Hospital's total operating revenues increased 9.2% to \$13,035,999, while the operating expenses increased 7.5% to \$12,728,861. The Hospital had income from operations of \$307,138, which is 2.4% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$422,234 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 the Hospital 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 the Hospital's assets and liabilities. The balance sheet at June 30, 2008, reports total assets of \$13,599,485, total liabilities of \$2,388,108 and net assets of \$11,211,377.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$13,035,999 and total operating expenses of \$12,728,861 during fiscal year 2008. The operating income was \$307,138 in 2008, compared to an operating income of \$99,272 in 2007.

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 the Hospital'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 \$647,673 in long-term debt. \$56,464 of this long-term debt represents a capital lease with Beckman Coulter for a piece of lab equipment. The remaining \$591,209 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**

During fiscal year 2008, Regional Health Services of Howard County developed a strategic plan that identified goals / needs of the facility and the community. On-going work is being done to meet these goals / needs of the facility. An updated debt capacity study was done in fiscal year 2008 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.

### **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 VP of Finance at the following address:

Regional Health Services of Howard County  
Attn: VP of Finance  
235 8<sup>th</sup> Avenue West  
Cresco, IA 52136

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**BALANCE SHEETS**  
**JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 766,288	\$ 1,070,854
Investments - Note 4	2,472,322	1,375,000
Assets limited as to use or restricted - Note 4	45,928	36,592
Receivables		
Patient, net of estimated uncollectibles		
of \$1,111,000 in 2008 and \$1,056,000 in 2007	1,920,213	1,678,021
Estimated third-party payor settlements	32,000	376,930
Succeeding year property tax	420,094	432,897
Other	199,648	103,423
Supplies	377,928	297,540
Prepaid expense	95,622	90,363
Total current assets	<u>6,330,043</u>	<u>5,461,620</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Internally designated for grant agency	-	18
Internally designated for capital improvements	3,420,985	2,916,124
Restricted under bond agreement	126,658	126,977
Total assets limited as to use or restricted	<u>3,547,643</u>	<u>3,043,119</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>3,698,642</u>	<u>3,992,666</u>
<b>OTHER ASSETS</b>		
Bond issuance costs, net of accumulated amortization	<u>23,157</u>	<u>29,069</u>
Total assets	<u>\$ 13,599,485</u>	<u>\$ 12,526,474</u>

See notes to financial statements.

	<u>2008</u>	<u>2007</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 6	\$ 167,379	\$ 161,078
Accounts payable		
Trade	354,648	189,532
Related party	279,391	193,696
Accrued expenses		
Salaries and wages	270,426	318,017
Vacation	325,659	314,046
Interest	2,060	2,456
Payroll taxes and employee benefits	56,486	40,232
Other	31,671	37,022
Deferred revenue for succeeding year property tax receivable	<u>420,094</u>	<u>432,897</u>
Total current liabilities	<b>1,907,814</b>	1,688,976
<b>OTHER LIABILITIES</b>		
Grant funds held in trust	-	18
LONG-TERM DEBT, less current maturities - Note 6	<u>480,294</u>	<u>642,946</u>
Total liabilities	<u><b>2,388,108</b></u>	<u>2,331,940</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,050,969	3,188,642
Restricted		
Under bond agreement	126,658	126,977
Unrestricted	<u>8,033,750</u>	<u>6,878,915</u>
Total net assets	<u><b>11,211,377</b></u>	<u>10,194,534</u>
Total liabilities and net assets	<u><b>\$ 13,599,485</b></u>	<u>\$ 12,526,474</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**BALANCE SHEETS**  
**JUNE 30, 2008 AND 2007**

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	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<u>\$ 27,429</u>	<u>\$ 81,445</u>
 <b>LIABILITIES AND NET ASSETS</b>		
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,077	\$ 54,994
 NET ASSETS, Unrestricted	<u>23,352</u>	<u>26,451</u>
 Total liabilities and net assets	<u>\$ 27,429</u>	<u>\$ 81,445</u>

See notes to financial statements.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$518,000 in 2008 and \$517,000 in 2007) - Notes 2 and 3	\$ 12,641,656	\$ 11,629,719
Other operating revenues	<u>394,343</u>	<u>305,934</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>13,035,999</u></b>	<b><u>11,935,653</u></b>
OPERATING EXPENSES		
Salaries and wages	5,206,668	5,099,593
Employee benefits	1,434,779	1,356,655
Supplies and other expenses	5,379,101	4,693,609
Depreciation	664,512	637,119
Interest and amortization	<u>43,801</u>	<u>49,405</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>12,728,861</u></b>	<b><u>11,836,381</u></b>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	307,138	99,272
AFFILIATION AGREEMENT EXPENSE	<u>(153,569)</u>	<u>(49,636)</u>
OPERATING INCOME	<u>153,569</u>	<u>49,636</u>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	492,289	479,490
Investment income	267,521	269,737
Noncapital grants and contributions	36,510	44,792
Loss on sale of property and equipment	(3,728)	(32,322)
Other	<u>1,023</u>	<u>2,303</u>
NET NONOPERATING REVENUES	<u>793,615</u>	<u>764,000</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	947,184	813,636
Capital contributions and grants	<u>69,659</u>	<u>53,638</u>
INCREASE IN NET ASSETS	1,016,843	867,274
NET ASSETS BEGINNING OF YEAR	<u>10,194,534</u>	<u>9,327,260</u>
NET ASSETS END OF YEAR	<u>\$ 11,211,377</u>	<u>\$ 10,194,534</u>

See notes to financial statements.

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Contributions	\$ 2,962	\$ 65,966
Interest income	<u>295</u>	<u>289</u>
 TOTAL OPERATING REVENUES	 <u>3,257</u>	 <u>66,255</u>
 EXPENSES		
Contributions to Regional Health Services of Howard County	322	62,366
Supplies and other expenses	<u>6,034</u>	<u>5,566</u>
 TOTAL EXPENSES	 <u>6,356</u>	 <u>67,932</u>
 DECREASE IN NET ASSETS	 (3,099)	 (1,677)
 NET ASSETS BEGINNING OF YEAR	 <u>26,451</u>	 <u>28,128</u>
 NET ASSETS END OF YEAR	 <u>\$ 23,352</u>	 <u>\$ 26,451</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 12,648,169	\$ 11,498,563
Payments of salaries and wages	(5,242,646)	(4,933,289)
Payments of supplies and other expenses	(6,743,362)	(6,112,676)
Other receipts and payments, net	<u>394,343</u>	<u>305,934</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>1,056,504</b></u>	<u>758,532</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	37,533	47,095
County tax revenue received	<u>492,289</u>	<u>479,490</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>529,822</b></u>	<u>526,585</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(422,237)	(1,307,976)
Proceeds from sale of property and equipment	-	2,500
Principal payments on long-term debt	(161,078)	(154,853)
Interest payments on long-term debt	(33,557)	(39,119)
Capital contributions and grants	<u>69,659</u>	<u>53,638</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(547,213)</b></u>	<u>(1,445,810)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	267,521	269,737
Increase in assets limited as to use or restricted	<u>(1,611,200)</u>	<u>(193,756)</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u><b>(1,343,679)</b></u>	<u>75,981</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(304,566)</b>	(84,712)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>1,070,854</b></u>	<u>1,155,566</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 766,288</b></u>	<u>\$ 1,070,854</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 153,569	\$ 49,636
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	664,512	637,119
Interest expense considered capital and related financing activity	43,801	49,405
Provision for bad debts	518,090	516,732
Changes in assets and liabilities		
Patient receivables	(760,282)	(272,963)
Estimated third-party payor settlements	344,930	(304,030)
Other receivables	(96,225)	(70,895)
Supplies	(32,368)	(35,804)
Prepaid expense	(5,259)	(20,844)
Accounts payable - trade and related	250,811	46,907
Accrued expenses	(25,075)	163,269
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,056,504</u>	<u>\$ 758,532</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,099)	\$ (1,677)
Increase (decrease) in accounts payable	<u>(50,917)</u>	<u>53,605</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(54,016)</u>	<u>51,928</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,016)	51,928
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>81,445</u>	<u>29,517</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 27,429</u>	<u>\$ 81,445</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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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 Iowa Code. 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 nonprofit 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 RSHHC's policy to use restricted resources first.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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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 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 patient 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, 2008 AND 2007**

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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, 2008 and 2007, accumulated amortization was \$30,547 and \$24,635, 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, 2008 and 2007, accumulated amortization was \$24,430 and \$19,702, respectively. Total amortization expense for the bond issuance costs and deferred loss from refinancing was \$10,622 for the year ended June 30, 2008 and \$10,641 for the year ended June 30, 2007.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and are 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 class of 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, 2008 AND 2007**

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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 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, 2008.

*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, 2008 AND 2007**

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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 \$53,902 and \$51,271 for advertising costs for the years ended June 30, 2008 and 2007, 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 2007 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, 2008 and 2007, were \$50,490 and \$38,850, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio calculation, for the years ended June 30, 2008 and 2007, were \$35,518 and \$28,202, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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**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, 2006. 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, 2005.

**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 40% and 10%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2008, and 43% and 10%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2007.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Total patient service revenue	<u>\$ 18,218,457</u>	<u>\$ 16,553,852</u>
Contractual adjustments:		
Medicare	(2,179,204)	(1,839,702)
Medicaid	(621,783)	(597,887)
Blue Cross	(674,616)	(700,833)
Other	<u>(1,583,108)</u>	<u>(1,268,979)</u>
Total contractual adjustments	<u>(5,058,711)</u>	<u>(4,407,401)</u>
Net patient service revenue	<b>13,159,746</b>	12,146,451
Provision for bad debts	<u>(518,090)</u>	<u>(516,732)</u>
Net patient service revenue (net of provision for bad debts)	<u><b>\$ 12,641,656</b></u>	<u>\$ 11,629,719</u>

**NOTE 4 – CASH AND DEPOSITS**

RHSHC's deposits in banks at June 30, 2008 and 2007, 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, 2008 and 2007, RHSHC's carrying amounts of cash and deposits are as follows:

	<u>2008</u>	<u>2007</u>
Checking and savings accounts	<u>\$ 899,439</u>	<u>\$ 254,033</u>
Certificates of deposit	<b>5,158,373</b>	4,193,629
Interest receivable	<u>8,081</u>	<u>7,049</u>
Total deposits	<u><b>\$ 6,065,893</b></u>	<u>\$ 4,454,711</u>

Included in the following balance sheet captions:

Investments	<b>\$ 2,472,322</b>	\$ 1,375,000
Assets limited as to use or restricted	<u><b>3,593,571</b></u>	<u>3,079,711</u>
	<u><b>\$ 6,065,893</b></u>	<u>\$ 4,454,711</u>

(continued on next page)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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 RSHHC 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.

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

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

Summaries of land, buildings, and equipment for the years June 30, 2008 and 2007, are as follows:

	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Land, buildings, and equipment					
Land and land improvements	\$ 301,639	\$ 13,466	\$ (23,605)	\$ -	\$ 291,500
Building	3,595,494	-	-	-	3,595,494
Fixed equipment	3,300,661	-	-	-	3,300,661
Major movable equipment	3,933,899	373,896	(229,813)	-	4,077,982
Construction in progress	100,916	34,872	-	-	135,788
Total	<u>11,232,609</u>	<u>\$ 422,234</u>	<u>\$ (253,418)</u>	<u>\$ -</u>	<u>11,401,425</u>
Accumulated depreciation					
Land improvements	227,891	\$ 10,151	\$ (21,246)	\$ -	216,796
Building	2,194,795	121,660	-	-	2,316,455
Fixed equipment	2,353,987	131,057	-	-	2,485,044
Major movable equipment	2,385,999	401,644	(103,155)	-	2,684,488
Durable medical equipment	77,271	-	(77,271)	-	-
Total	<u>7,239,943</u>	<u>\$ 664,512</u>	<u>\$ (201,672)</u>	<u>\$ -</u>	<u>7,702,783</u>
Land, buildings, and equipment, net	<u>\$ 3,992,666</u>				<u>\$ 3,698,642</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

	June 30, 2006				June 30, 2007
	Balance	Additions	Deductions	Transfers	Balance
Land, buildings, and equipment					
Land and land improvements	\$ 289,154	\$ -	\$ -	\$ 12,485	\$ 301,639
Building	3,397,055	73,964	(13,590)	138,065	3,595,494
Fixed equipment	3,303,852	73,870	(77,061)	-	3,300,661
Major movable equipment	4,212,168	932,665	(1,210,934)	-	3,933,899
Construction in progress	11,843	239,623	-	(150,550)	100,916
<b>Total</b>	<b>11,214,072</b>	<b>\$ 1,320,122</b>	<b>\$ (1,301,585)</b>	<b>\$ -</b>	<b>11,232,609</b>
Accumulated depreciation					
Land improvements	217,632	\$ 10,259	\$ -	\$ -	227,891
Building	2,092,799	115,586	(13,590)	-	2,194,795
Fixed equipment	2,298,774	132,116	(76,903)	-	2,353,987
Major movable equipment	3,162,703	361,533	(1,138,237)	-	2,385,999
Durable medical equipment	85,532	17,625	(25,886)	-	77,271
<b>Total</b>	<b>7,857,440</b>	<b>\$ 637,119</b>	<b>\$ (1,254,616)</b>	<b>\$ -</b>	<b>7,239,943</b>
Land, buildings, and equipment, net	<b>\$ 3,356,632</b>				<b>\$ 3,992,666</b>

The majority of construction in progress at June 30, 2008, represents installation and other costs related to new information software. The project is expected to be completed early in fiscal year 2009. 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 2008 and 2007 is as follows:

	June 30, 2007			June 30, 2008	Amounts Due
	Balance	Additions	Deductions	Balance	Within One Year
2003 revenue bonds	\$ 745,000	\$ -	\$ (140,000)	\$ 605,000	\$ 145,000
Capitalized lease obligation - Note 7	77,543	-	(21,079)	56,464	22,379
Deferred loss on refinancing	(18,519)	-	4,728	(13,791)	-
<b>Total long-term debt</b>	<b>\$ 804,024</b>	<b>\$ -</b>	<b>\$ (156,351)</b>	<b>647,673</b>	<b>\$ 167,379</b>
Less current maturities				<b>(167,379)</b>	
Long-term debt, less current maturities				<b>\$ 480,294</b>	

(continued on next page)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

	June 30, 2006			June 30, 2007		Amounts Due Within One Year
	Balance	Additions	Deductions	Balance		
2003 revenue bonds	\$ 880,000	\$ -	\$ (135,000)	\$ 745,000	\$ 140,000	
Capitalized lease obligation	97,397	-	(19,854)	77,543	21,078	
Deferred loss on refinancing	(23,248)	-	4,729	(18,519)	-	
Total long-term debt	<u>\$ 954,149</u>	<u>\$ -</u>	<u>\$ (150,125)</u>	804,024	<u>\$ 161,078</u>	
Less current maturities				<u>(161,078)</u>		
Long-term debt, less current maturities				<u>\$ 642,946</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, 2008 and 2007. 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
2009	\$ 167,379	\$ 27,497
2010	173,758	20,824
2011	160,327	13,730
2012	160,000	7,200
	<u>\$ 661,464</u>	<u>\$ 69,251</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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**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, 2008 and 2007, for all operating leases was \$20,589 and 23,217, respectively. The capitalized leased assets consist of:

Major movable equipment	\$ 108,441
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(56,028)</u>
	<u>\$ 52,413</u>

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

<u>Year Ending June 30,</u>	
2009	\$ 25,158
2010	25,158
2011	<u>10,481</u>
Total minimum lease payments	60,797
Less interest	<u>(4,333)</u>
Present value of minimum lease payments - Note 6	<u>\$ 56,464</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 3.90% of their annual covered salary, and RHSHC is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members were required to contribute 3.70% of their annual covered salary, and RHSHC was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by state statute. RHSHC's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$314,202, \$287,136, and \$265,450, respectively, equal to the required contributions for each year.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

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**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 \$322 and \$62,366 to RSHHC in 2008 and 2007, 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 \$1,319,743 and \$1,521,860 for the years ended June 30, 2008 and 2007, 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 \$153,569 and \$49,636 for the years ended June 30, 2008 and 2007, respectively.

*Due to/From Affiliated Organization*

As of June 30, 2008 and 2007, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center – North Iowa of \$279,391 and \$193,696, 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, 2008 and 2007, were approximately \$379,000 and \$271,000, 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, 2008 AND 2007**

*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, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	20%	23%
Medicaid	8	8
Commercial insurance	32	25
Other third-party payors and patients	<u>40</u>	<u>44</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, 2008**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 492,289	\$ -	\$ 492,289	\$ 432,897	\$ 59,392
Estimated other revenues/receipts	<u>13,410,712</u>	<u>6,513</u>	<u>13,417,225</u>	<u>13,969,730</u>	<u>(552,505)</u>
	13,903,001	6,513	13,909,514	14,402,627	(493,113)
Expenses/disbursements	<u>12,886,158</u>	<u>(283,260)</u>	<u>12,602,898</u>	<u>15,566,661</u>	<u>2,963,763</u>
Net	1,016,843	289,773	1,306,616	(1,164,034)	<u>\$ 2,470,650</u>
Balance beginning of year	<u>10,194,534</u>	<u>(4,668,969)</u>	<u>5,525,565</u>	<u>6,715,853</u>	
Balance end of year	<u>\$ 11,211,377</u>	<u>\$ (4,379,196)</u>	<u>\$ 6,832,181</u>	<u>\$ 5,551,819</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2008**

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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, 2008.

For the year ended June 30, 2008, 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**

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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  
September 12, 2008

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	TOTAL	
	2008	2007
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 1,329,980	\$ 1,216,204
Nursery	125,209	129,805
Total	<u>1,455,189</u>	<u>1,346,009</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	1,199,591	1,207,206
Labor and delivery room	123,157	114,471
Anesthesiology	570,174	628,199
Radiology	2,356,564	2,198,805
Laboratory	2,275,566	2,037,665
Blood	87,415	113,762
Respiratory therapy	424,502	309,662
Physical therapy	502,981	335,415
Occupational therapy	272,733	209,268
Speech pathology	30,786	23,687
Electrocardiology	295,369	251,533
Central supply	628,432	565,122
Pharmacy	636,332	585,701
Cardiac rehabilitation	94,982	53,947
Outpatient clinic	48,495	42,114
Clinics	4,126,051	3,767,510
Emergency room	1,310,589	997,578
Ambulance	454,819	403,175
Home health	959,069	954,360
Durable medical equipment	416,151	447,513
Total	<u>16,813,758</u>	<u>15,246,693</u>
Charity care	<u>(50,490)</u>	<u>(38,850)</u>
Total patient service revenue	<u>18,218,457</u>	<u>16,553,852</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(2,179,204)	(1,839,702)
Medicaid	(621,783)	(597,887)
Blue Cross	(674,616)	(700,833)
Other	(1,583,108)	(1,268,979)
Total contractual adjustments	<u>(5,058,711)</u>	<u>(4,407,401)</u>
NET PATIENT SERVICE REVENUE	13,159,746	12,146,451
PROVISION FOR BAD DEBTS	<u>(518,090)</u>	<u>(516,732)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 12,641,656</u>	<u>\$ 11,629,719</u>

INPATIENT		OUTPATIENT	
2008	2007	2008	2007
\$ 1,073,431	\$ 985,629	\$ 256,549	\$ 230,575
<u>125,209</u>	<u>129,685</u>	<u>-</u>	<u>120</u>
<b>1,198,640</b>	<b>1,115,314</b>	<b>256,549</b>	<b>230,695</b>
<b>205,702</b>	233,877	<b>993,889</b>	973,329
<b>104,707</b>	96,511	<b>18,450</b>	17,960
<b>126,660</b>	153,774	<b>443,514</b>	474,425
<b>106,595</b>	119,099	<b>2,249,969</b>	2,079,706
<b>246,696</b>	213,106	<b>2,028,870</b>	1,824,559
<b>34,039</b>	40,492	<b>53,376</b>	73,270
<b>358,737</b>	254,718	<b>65,765</b>	54,944
<b>111,409</b>	73,086	<b>391,572</b>	262,329
<b>93,640</b>	103,669	<b>179,093</b>	105,599
<b>6,561</b>	2,925	<b>24,225</b>	20,762
<b>37,406</b>	16,617	<b>257,963</b>	234,916
<b>287,764</b>	258,161	<b>340,668</b>	306,961
<b>333,151</b>	255,344	<b>303,181</b>	330,357
-	-	<b>94,982</b>	53,947
-	-	<b>48,495</b>	42,114
-	-	<b>4,126,051</b>	3,767,510
<b>42,951</b>	27,097	<b>1,267,638</b>	970,481
<b>11,370</b>	16,221	<b>443,449</b>	386,954
-	-	<b>959,069</b>	954,360
<b>(354)</b>	<b>354</b>	<b>416,505</b>	<b>447,159</b>
<b>2,107,034</b>	<b>1,865,051</b>	<b>14,706,724</b>	<b>13,381,642</b>
<b>\$ 3,305,674</b>	<b>\$ 2,980,365</b>	<b>\$ 14,963,273</b>	<b>\$ 13,612,337</b>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OTHER OPERATING REVENUES		
Rehab expenses reimbursement	\$ 126,913	\$ -
Meals sold	68,742	78,791
Grant revenues	35,371	81,856
Purchase discounts and rebates	35,153	28,826
Clinic rental income	33,545	41,650
Management fees	21,000	21,000
Dietary consultations	13,480	17,671
Occupational health	3,080	2,856
Medical records transcripts	2,969	2,445
Vending machines	1,112	903
Other	<u>52,978</u>	<u>29,936</u>
<b>TOTAL OTHER OPERATING REVENUES</b>	<u><b>\$ 394,343</b></u>	<u><b>\$ 305,934</b></u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 71,236	\$ 57,241
Supplies and other expenses	<u>7,623</u>	<u>7,899</u>
	<u>78,859</u>	<u>65,140</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	715,962	678,910
Supplies and other expenses	<u>57,329</u>	<u>61,492</u>
	<u>773,291</u>	<u>740,402</u>
<b>NURSERY</b>		
Salaries and wages	22,780	26,872
Supplies and other expenses	<u>515</u>	<u>1,305</u>
	<u>23,295</u>	<u>28,177</u>
<b>OPERATING ROOM</b>		
Salaries and wages	163,759	165,353
Supplies and other expenses	<u>252,952</u>	<u>100,066</u>
	<u>416,711</u>	<u>265,419</u>
<b>LABOR AND DELIVERY ROOM</b>		
Salaries and wages	33,541	33,896
Supplies and other expenses	<u>83</u>	<u>147</u>
	<u>33,624</u>	<u>34,043</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>19,690</u>	<u>14,447</u>
<b>NONPHYSICIAN ANESTHETISTS</b>		
Salaries and wages	141,895	121,182
Supplies and other expenses	<u>43,601</u>	<u>43,307</u>
	<u>185,496</u>	<u>164,489</u>
<b>RADIOLOGY</b>		
Salaries and wages	257,831	219,121
Supplies and other expenses	<u>286,326</u>	<u>315,744</u>
	<u>544,157</u>	<u>534,865</u>
<b>LABORATORY</b>		
Salaries and wages	213,510	209,997
Supplies and other expenses	<u>216,471</u>	<u>197,384</u>
	<u>429,981</u>	<u>407,381</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>BLOOD</b>		
Salaries and wages	\$ 4,107	\$ 4,533
Supplies and other expenses	<u>37,597</u>	<u>50,977</u>
	<u>41,704</u>	<u>55,510</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	24,208	29,237
Supplies and other expenses	<u>13,310</u>	<u>12,634</u>
	<u>37,518</u>	<u>41,871</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	94,167	144,759
Supplies and other expenses	<u>310,842</u>	<u>16,710</u>
	<u>405,009</u>	<u>161,469</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	15,285	66,015
Supplies and other expenses	<u>167,635</u>	<u>7,865</u>
	<u>182,920</u>	<u>73,880</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries and wages	2,096	709
Supplies and other expenses	<u>2,901</u>	<u>772</u>
	<u>4,997</u>	<u>1,481</u>
<b>SPEECH PATHOLOGY</b>		
Supplies and other expenses	<u>15,399</u>	<u>5,182</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	4,502	4,245
Supplies and other expenses	<u>41,855</u>	<u>38,885</u>
	<u>46,357</u>	<u>43,130</u>
<b>CENTRAL SUPPLY</b>		
Salaries and wages	7,591	6,608
Supplies and other expenses	<u>56,672</u>	<u>60,437</u>
	<u>64,263</u>	<u>67,045</u>
<b>PHARMACY</b>		
Salaries and wages	6,016	4,860
Supplies and other expenses	<u>185,598</u>	<u>200,356</u>
	<u>191,614</u>	<u>205,216</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	\$ 23,921	\$ 18,023
Supplies and other expenses	<u>700</u>	<u>556</u>
	<u>24,621</u>	<u>18,579</u>
<b>OUTPATIENT CLINIC</b>		
Salaries and wages	125,754	117,260
Supplies and other expenses	<u>10,627</u>	<u>9,214</u>
	<u>136,381</u>	<u>126,474</u>
<b>CLINICS</b>		
Salaries and wages	816,616	775,734
Supplies and other expenses	<u>1,759,063</u>	<u>1,564,323</u>
	<u>2,575,679</u>	<u>2,340,057</u>
<b>EMERGENCY ROOM</b>		
Salaries and wages	168,927	144,965
Supplies and other expenses	<u>415,993</u>	<u>358,392</u>
	<u>584,920</u>	<u>503,357</u>
<b>AMBULANCE</b>		
Salaries and wages	180,315	134,139
Supplies and other expenses	<u>36,264</u>	<u>33,716</u>
	<u>216,579</u>	<u>167,855</u>
<b>HOME HEALTH</b>		
Salaries and wages	645,587	648,418
Supplies and other expenses	<u>198,718</u>	<u>209,168</u>
	<u>844,305</u>	<u>857,586</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	133,552	118,997
Supplies and other expenses	<u>139,234</u>	<u>148,864</u>
	<u>272,786</u>	<u>267,861</u>
<b>SOCIAL SERVICE</b>		
Salaries and wages	36,751	32,995
Supplies and other expenses	<u>466</u>	<u>699</u>
	<u>37,217</u>	<u>33,694</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	239,762	209,494
Supplies and other expenses	<u>22,799</u>	<u>23,466</u>
	<u>262,561</u>	<u>232,960</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>DIETARY</b>		
Salaries and wages	\$ 181,052	\$ 164,253
Supplies and other expenses	<u>75,562</u>	<u>71,965</u>
	<u>256,614</u>	<u>236,218</u>
<b>OPERATION OF PLANT</b>		
Salaries and wages	178,569	180,031
Supplies and other expenses	<u>214,785</u>	<u>220,014</u>
	<u>393,354</u>	<u>400,045</u>
<b>FOUNDATION</b>		
Salaries and wages	<u>10,693</u>	<u>50,379</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	70,666	60,683
Supplies and other expenses	<u>13,009</u>	<u>18,353</u>
	<u>83,675</u>	<u>79,036</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	6,940	8,150
Supplies and other expenses	<u>23,237</u>	<u>23,328</u>
	<u>30,177</u>	<u>31,478</u>
<b>ADMINISTRATIVE AND GENERAL</b>		
Salaries and wages	609,076	662,534
Supplies and other expenses	<u>752,246</u>	<u>875,942</u>
	<u>1,361,322</u>	<u>1,538,476</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation	664,512	637,119
Interest and amortization	43,801	49,405
Employee benefits	<u>1,434,779</u>	<u>1,356,655</u>
	<u>2,143,092</u>	<u>2,043,179</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 12,728,861</u>	<u>\$ 11,836,381</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2008 AND 2007**

ANALYSIS OF AGING	2008		2007	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,363,701	44.99%	\$ 1,365,881	49.96%
31 to 60 days	565,060	18.64%	379,110	13.87%
61 to 90 days	271,746	8.96%	157,753	5.77%
91 days and over	830,758	27.41%	831,110	30.40%
	<u>3,031,265</u>	<u>100.00%</u>	<u>2,733,854</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	645,402		644,458	
Allowance for contractual adjustments	465,650		411,375	
Net	<u>\$ 1,920,213</u>		<u>\$ 1,678,021</u>	
Net patient service revenue per calendar day	<u>\$ 34,635</u>		<u>\$ 31,862</u>	
Days of net revenue in net accounts receivable at year end	<u>55</u>		<u>53</u>	

**ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	2008		2007	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 644,458		\$ 542,813	
Add:				
Provision for bad debts	518,090	4.10%	516,732	4.44%
Recoveries previously written off	171,837	1.36%	276,176	2.37%
	<u>689,927</u>		<u>792,908</u>	
Less:				
Accounts written off	(688,983)	5.45%	(691,263)	5.94%
Ending Balance	<u>\$ 645,402</u>		<u>\$ 644,458</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>SUPPLIES</b>		
Central supply	\$ 164,359	\$ 158,669
Pharmacy	95,947	89,765
Dietary	7,353	7,609
DME supplies	97,645	31,170
Other	<u>12,624</u>	<u>10,327</u>
Total supplies	<u>\$ 377,928</u>	<u>\$ 297,540</u>
 <b>PREPAID EXPENSE</b>		
Insurance	\$ 29,215	\$ 32,391
Dues and other	<u>66,407</u>	<u>57,972</u>
Total prepaid expense	<u>\$ 95,622</u>	<u>\$ 90,363</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF BOND INVESTMENT TRANSACTIONS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	Balance July 1, 2007	Invested	Redeemed	Balance June 30, 2008
Revenue bond sinking fund				
Money market savings	\$ 36,592	\$ 178,814	\$ (169,478)	\$ 45,928
Reserve fund				
Certificate of deposit	<u>126,977</u>	<u>-</u>	<u>(319)</u>	<u>126,658</u>
Total	<u>\$ 163,569</u>	<u>\$ 178,814</u>	<u>\$ (169,797)</u>	<u>\$ 172,586</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)**

	<u>2008</u>	<u>2007</u>
<b>PATIENT DAYS</b>		
Acute	854	780
Swing-bed	809	898
Newborn	172	190
	<u>1,835</u>	<u>1,868</u>
<b>ADMISSIONS</b>		
Acute	327	280
Swing-bed	79	70
Newborn	92	93
	<u>498</u>	<u>443</u>
<b>DISCHARGES</b>		
Acute	322	283
Swing-bed	80	70
Newborn	91	94
	<u>493</u>	<u>447</u>
<b>AVERAGE LENGTH OF STAY, ACUTE</b>	<u>2.65</u>	<u>2.76</u>
<b>BEDS</b>	<u>25</u>	<u>25</u>
<b>OCCUPANCY PERCENTAGE</b>		
Acute, based on 25 beds	<u>9.4%</u>	<u>8.5%</u>
Swing-bed, based on 25 beds	<u>8.9%</u>	<u>9.8%</u>
<b>OUTPATIENT VISITS</b>	<u>22,387</u>	<u>20,940</u>
<b>CLINIC VISITS</b>		
Kessel	<u>24,833</u>	<u>24,178</u>
Lime Springs	<u>1,950</u>	<u>2,009</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 sheets of Regional Health Services of Howard County (RSHHC) and its discretely presented component unit, Regional Health Services Foundation, as of June 30, 2008 and 2007, 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 September 12, 2008. 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 opinion 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 and Responses 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.

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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 is described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about RSHHC's operations for the year ended June 30, 2008, 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 and Responses. 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.

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  
September 12, 2008

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2008**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-08      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. This is not an unusual condition in organizations of your size.

Recommendation

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. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. 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 agrees with the finding and has reviewed the operating procedures of Regional Health Services of Howard County. Due to the limited number of office employees, management will continue to monitor RSHHC's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion

Response accepted.

I-B-08      Preparation of Annual Financial Statements

Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Regional Health Services of Howard County does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2008**

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**Part I: Findings Related to the Financial Statements: (continued)**

Recommendation

We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of RSHHC's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response

Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion

Response accepted.

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

- II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008, did not exceed the amounts budgeted.
- II-B-08 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-08 Travel Expense – No expenditures of RSHHC money for travel expenses of spouses of RSHHC officials and/or employees were noted.
- II-D-08 Business Transactions – We noted no material business transactions between RSHHC and RSHHC officials and/or employees.
- II-E-08 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-08 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-08 Publication of Bills Allowed and Salaries – Chapter 347A 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2008**

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**Part II: Other Findings Related to Required Statutory Reporting: (continued)**

II-H-08     Closed Session Board Meetings – Chapter 21.5 of the Code of Iowa states “...the reason for holding the closed session by reference to a specific exemption under this section shall be announced publicly at the open session and entered in the minutes.” We noted announcement of closed session meetings under Chapter 21.5 of the Code of Iowa in the written board minutes. However, reference to a specific exemption under the Code section was not documented in the written board minutes

Recommendation – RHSHC should announce and document in the written board minutes the specific exemption under Chapter 21.5 of the Code of Iowa when entering into closed session.

Response – RHSHC will comply with the requirements set forth in Chapter 21.5 of the Code of Iowa.

Conclusion – Response accepted.



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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, 2008, and have issued our report thereon dated September 12, 2008.

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  
September 12, 2008



CPAs & BUSINESS ADVISORS

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

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We have audited the financial statements of Regional Health Services of Howard County (RHS HC) for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated March 31, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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 Regional Health Services of Howard County'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.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you and management on August 5, 2008 and in accordance to our engagement letter to you.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. 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, 2008. We noted no transactions entered into by RHS HC during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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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 are 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.

The disclosures in the financial statements are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We discussed all adjustments to the financial statements with RSHHC's staff during the audit. The following adjustments were made during the fiscal year 2008 audit:

Increase in net assets prior to audit adjustments	\$ 1,072,676
To adjust estimated third party payor settlements	(76,791)
To adjust allowances for contractual adjustments	(50,000)
To adjust payable to affiliate	<u>70,958</u>
 Increase in net assets as reported	 <u>\$ 1,016,843</u>

There were no significant passed adjustments.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 12, 2008.

*Management 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 RHSHC'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.

*Other Audit Findings or Issues*

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

**Other Comment**

We have included an additional comment for informational purposes only.

This information is intended solely for the use of the Finance Committee, Board of Trustees, and management 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 "Erik Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
September 12, 2008

# REGIONAL HEALTH SERVICES OF HOWARD COUNTY

YEAR ENDED JUNE 30, 2008

OTHER COMMENT

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## Revised Guidelines on Good Governance for Tax Exempt Entities

The issue of corporate governance of tax exempt organizations has emerged as a major focal point for the Internal Revenue Service (IRS) and is a key factor addressed in the newly revised Form 990, Return of Organization Exempt from Income Tax effective for 2008. These guidelines can be found in the IRS document “Governance and Related Topics – 501(c)(3) Organizations,” at the following link: [http://www.irs.gov/pub/irs-tege/governance\\_practices.pdf](http://www.irs.gov/pub/irs-tege/governance_practices.pdf). While tax law does not mandate the guidelines, they are a clear indication of the IRS’ strong commitment to monitoring governance practices of the tax-exempt community. The IRS has indicated its belief that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets and serve charitable interests than one without some of the recommended guidelines. The IRS document is in line with the redesigned Form 990 governance questions and focuses on six specific topics:

- Mission
- Organizational Documents
- Governing Body
- Governance & Management Policies
- Financial Statements & Form 990 Reporting
- Transparency and Accountability

The IRS intends to monitor the organizations’ practices by utilizing primarily yes/no questions and detailed descriptions of policies and procedures on the new Form 990.

Although these guidelines are directed towards 501(c)(3) organizations, all tax-exempt entities should consider the same governance practices. We recommend all tax-exempt organizations review the guidelines in detail, as well as the specific questions in Part VI of the 2008 Form 990 and consider whether current practices should be modified or new practices adopted. By reviewing RSHC's governance practices now, RSHC will be prepared to respond to the governance-related questions on the 2008 Form 990, if applicable, and portray a positive image to the IRS and the public.