

**FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**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
Connie McGrane	Vice-Chairperson	December 31, 2010
Allen Moudry	Secretary	December 31, 2012
Jeffery Mason	Treasurer	December 31, 2012
Linda McConnell	Member	January 2, 2015

Health Services Officials

David Hartberg	Chief Executive Officer
Brenda Moser	Vice President of Finance



## 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, 2009 and 2008, 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2009, 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.

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  
September 17, 2009

# 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, 2009. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

### Financial Highlights

- The Hospital's total assets increased by \$426,561 or 3.1%. The majority of this increase is related to an increase in the Hospital's investments.
- The Hospital's assets exceeded liabilities by \$12,007,140 at June 30, 2009.
- During the year, the Hospital's total operating revenues decreased by \$13,831 to \$13,072,168, while the operating expenses increased 1.8% to \$12,955,161. The Hospital had income from operations of \$117,007, which is .9% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$695,806 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, 2009, reports total assets of \$14,026,046, total liabilities of \$2,018,906 and net assets of \$12,007,140.

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 \$13,072,168, and total operating expenses of \$12,955,161 during fiscal year 2009. The operating income was \$117,007 in 2009, compared to an operating income of \$357,138 in 2008 and \$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 \$485,023 in long-term debt of which \$34,085 represents a capital lease with Beckman Coulter for a piece of lab equipment, and the remaining \$450,938 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 2009, Regional Health Services of Howard County continued to execute their 2008 constructed Strategic Plan that identified goals/needs of the facility and the community. In conjunction with the Strategic Plan, a Master Facility Plan has been further discussed, with many site visits completed by members of the senior leadership team, board and medical staff, in preparation for an updated Strategic Plan to be completed during this next fiscal year, a plan that should make operational the discussions on a MFP.

### **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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 855,114	\$ 766,288
Investments - Note 4	2,713,255	2,472,322
Assets limited as to use or restricted - Note 4	52,515	45,928
Receivables		
Patient, net of estimated uncollectibles		
of \$1,199,000 in 2009 and \$1,111,000 in 2008	1,833,042	1,920,213
Estimated third-party payor settlements	205,000	32,000
Succeeding year property tax	437,551	420,094
Other	130,289	199,648
Supplies	307,893	377,928
Prepaid expense	<u>99,657</u>	<u>95,622</u>
Total current assets	<u>6,634,316</u>	<u>6,330,043</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Internally designated for capital improvements	3,531,231	3,420,985
Restricted under bond agreement	<u>126,645</u>	<u>126,658</u>
Total assets limited as to use or restricted	<u>3,657,876</u>	<u>3,547,643</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>3,716,610</u>	<u>3,698,642</u>
<b>OTHER ASSETS</b>		
Bond issuance costs, net of accumulated amortization	<u>17,244</u>	<u>23,157</u>
Total assets	<u>\$ 14,026,046</u>	<u>\$ 13,599,485</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 6	\$ 173,759	\$ 167,379
Accounts payable		
Trade	223,263	354,648
Related party - Note 9	177,871	279,391
Accrued expenses		
Salaries and wages	286,352	270,426
Vacation	356,320	325,659
Interest	1,619	2,060
Payroll taxes and employee benefits	47,568	56,486
Other	3,339	31,671
Deferred revenue for succeeding year property tax receivable	<u>437,551</u>	<u>420,094</u>
 Total current liabilities	 <b>1,707,642</b>	 1,907,814
 LONG-TERM DEBT, less current maturities - Note 6	 <u>311,264</u>	 <u>480,294</u>
 Total liabilities	 <u><b>2,018,906</b></u>	 <u>2,388,108</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,231,587	3,050,969
Restricted		
Under bond agreement	126,645	126,658
Unrestricted	<u>8,648,908</u>	<u>8,033,750</u>
 Total net assets	 <u><b>12,007,140</b></u>	 <u>11,211,377</u>
 Total liabilities and net assets	 <u><b>\$ 14,026,046</b></u>	 <u>\$ 13,599,485</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**BALANCE SHEETS**  
**JUNE 30, 2009 AND 2008**

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	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 27,789	\$ 27,429
Beneficial interest in community foundation	<u>10,000</u>	<u>-</u>
 Total assets	 <u>\$ 37,789</u>	 <u>\$ 27,429</u>
 <b>LIABILITIES AND NET ASSETS</b>		
 <b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 893	\$ 4,077
 NET ASSETS, Unrestricted	 <u>36,896</u>	 <u>23,352</u>
 Total liabilities and net assets	 <u>\$ 37,789</u>	 <u>\$ 27,429</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$591,056 in 2009 and \$518,090 in 2008) - Notes 2 and 3	\$ 12,625,784	\$ 12,641,656
Other operating revenues	<u>446,384</u>	<u>444,343</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>13,072,168</u></b>	<b><u>13,085,999</u></b>
OPERATING EXPENSES		
Salaries and wages	5,125,933	5,206,668
Employee benefits	1,451,221	1,434,779
Supplies and other expenses	5,662,474	5,379,101
Depreciation	677,834	664,512
Interest and amortization	<u>37,699</u>	<u>43,801</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>12,955,161</u></b>	<b><u>12,728,861</u></b>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	117,007	357,138
AFFILIATION AGREEMENT EXPENSE - Note 9	<u>-</u>	<u>(153,569)</u>
OPERATING INCOME	<u>117,007</u>	<u>203,569</u>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	431,011	442,289
Investment income	180,174	267,521
Noncapital grants and contributions	20,976	36,510
Loss on sale of property and equipment	-	(3,728)
Other	<u>-</u>	<u>1,023</u>
NET NONOPERATING REVENUES	<u>632,161</u>	<u>743,615</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	749,168	947,184
Capital contributions and grants	<u>46,595</u>	<u>69,659</u>
INCREASE IN NET ASSETS	795,763	1,016,843
NET ASSETS BEGINNING OF YEAR	<u>11,211,377</u>	<u>10,194,534</u>
NET ASSETS END OF YEAR	<u>\$ 12,007,140</u>	<u>\$ 11,211,377</u>

See notes to financial statements.

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Contributions	\$ 22,812	\$ 2,962
Interest income	<u>224</u>	<u>295</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>23,036</u></b>	<b><u>3,257</u></b>
EXPENSES		
Contributions to Regional Health Services of Howard County	614	322
Supplies and other expenses	<u>8,878</u>	<u>6,034</u>
<b>TOTAL EXPENSES</b>	<b><u>9,492</u></b>	<b><u>6,356</u></b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>13,544</b>	<b>(3,099)</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>23,352</u></b>	<b><u>26,451</u></b>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 36,896</u></b>	<b><u>\$ 23,352</u></b>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 12,605,846	\$ 12,648,169
Payments of salaries and wages	(5,079,346)	(5,242,646)
Payments of supplies and other expenses	(7,317,850)	(6,743,362)
Other receipts and payments, net	<u>446,384</u>	<u>444,343</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>655,034</u></b>	<b><u>1,106,504</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	20,976	37,533
County tax revenue received	<u>428,368</u>	<u>442,289</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>449,344</u></b>	<b><u>479,822</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(695,802)	(422,237)
Principal payments on long-term debt	(167,378)	(161,078)
Interest payments on long-term debt	(27,499)	(33,557)
Capital contributions and grants	<u>46,595</u>	<u>69,659</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(844,084)</u></b>	<b><u>(547,213)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	186,285	267,521
Increase in assets limited as to use or restricted	<u>(357,753)</u>	<u>(1,611,200)</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b><u>(171,468)</u></b>	<b><u>(1,343,679)</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>88,826</b>	<b>(304,566)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>766,288</u></b>	<b><u>1,070,854</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 855,114</u></b>	<b><u>\$ 766,288</u></b>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 117,007	\$ 203,569
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	677,834	664,512
Interest expense considered capital and related financing activity	37,699	43,801
Provision for bad debts	591,056	518,090
Changes in assets and liabilities		
Patient receivables	(503,885)	(760,282)
Estimated third-party payor settlements	(173,000)	344,930
Other receivables	65,891	(96,225)
Supplies	70,035	(32,368)
Prepaid expense	(4,035)	(5,259)
Accounts payable - trade and related	(232,905)	250,811
Accrued expenses	9,337	(25,075)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 655,034</u>	<u>\$ 1,106,504</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,544	\$ (3,099)
Decrease in accounts payable	<u>(3,184)</u>	<u>(50,917)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<b>10,360</b>	(54,016)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in beneficial interest in community foundation	<u>(10,000)</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>360</b>	(54,016)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>27,429</u>	<u>81,445</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 27,789</u>	<u>\$ 27,429</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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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 a 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, 2009 AND 2008**

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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 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, 2009 AND 2008**

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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, 2009 and 2008, accumulated amortization was \$36,459 and \$30,547, 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, 2009 and 2008, accumulated amortization was \$29,158 and \$24,430, respectively. Total amortization expense for the bond issuance costs and deferred loss from refinancing was \$10,640 for the year ended June 30, 2009 and \$10,622 for the year ended June 30, 2008.

*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 cost, or fair market value at date of acquisition if donated. Investments consist of checking and 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, 2009 AND 2008**

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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, 2009.

*Deferred Revenue*

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

*Operating Revenues and Expenses*

RSHHC's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – RSHHC's principal activity. Non-exchange revenues, including interest income, taxes, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

*Net Patient Service Revenue*

RSHHC has agreements with third-party payors that provide for payments to RSHHC at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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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 \$37,197 and \$53,902 for advertising costs for the years ended June 30, 2009 and 2008, 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.

*Subsequent Events*

RSHHC has evaluated subsequent events through September 17, 2009, the date which the financial statements were available to be issued.

*Reclassification*

Certain items from the 2008 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS**

RHSHC maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$98,633 and \$50,490 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon an overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$70,000 and \$36,000, respectively.

In addition, RHSHC provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

RHSHC also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**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, 2007.

**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, 2006.

**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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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, 2009, and 40% and 10%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2008.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 18,469,304</u>	<u>\$ 18,218,457</u>
Contractual adjustments:		
Medicare	(2,412,170)	(2,179,204)
Medicaid	(598,502)	(621,783)
Blue Cross	(680,302)	(674,616)
Other	<u>(1,561,490)</u>	<u>(1,583,108)</u>
Total contractual adjustments	<u>(5,252,464)</u>	<u>(5,058,711)</u>
Net patient service revenue	<b>13,216,840</b>	13,159,746
Provision for bad debts	<u>(591,056)</u>	<u>(518,090)</u>
Net patient service revenue (net of provision for bad debts)	<u><b>\$ 12,625,784</b></u>	<u>\$ 12,641,656</u>

**NOTE 4 – CASH AND DEPOSITS**

RHSHC's deposits in banks at June 30, 2009 and 2008, 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

At June 30, 2009 and 2008, RSHHC's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	\$ 614,830	\$ 899,439
Certificates of deposit	5,801,653	5,158,373
Interest receivable	<u>7,163</u>	<u>8,081</u>
Total deposits	<u>\$ 6,423,646</u>	<u>\$ 6,065,893</u>

Included in the following balance sheet captions:

Investments	\$ 2,713,255	\$ 2,472,322
Assets limited as to use or restricted	<u>3,710,391</u>	<u>3,593,571</u>
	<u>\$ 6,423,646</u>	<u>\$ 6,065,893</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 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, 2009 and 2008, are as follows:

	June 30, 2008				June 30, 2009
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Land, buildings, and equipment					
Land and land improvements	\$ 291,500	\$ -	\$ -	\$ -	\$ 291,500
Building	3,595,494	50,000	-	193,843	3,839,337
Fixed equipment	3,300,661	-	(237,758)	88,018	3,150,921
Major movable equipment	4,077,982	120,513	(232,338)	352,940	4,319,097
Construction in progress	<u>135,788</u>	<u>525,293</u>	<u>-</u>	<u>(634,801)</u>	<u>26,280</u>
Total	<u>11,401,425</u>	<u>\$ 695,806</u>	<u>\$ (470,096)</u>	<u>\$ -</u>	<u>11,627,135</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Accumulated depreciation					
Land improvements	\$ 216,796	\$ 6,175	\$ -	\$ -	\$ 222,971
Building	2,316,455	124,229	-	-	2,440,684
Fixed equipment	2,485,044	127,439	(237,757)	-	2,374,726
Major movable equipment	2,684,488	419,992	(232,336)	-	2,872,144
Total	7,702,783	\$ 677,835	\$ (470,093)	\$ -	7,910,525
Land, buildings, and equipment, net	\$ 3,698,642				\$ 3,716,610
	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	11,232,609	\$ 422,234	\$ (253,418)	\$ -	11,401,425
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	7,239,943	\$ 664,512	\$ (201,672)	\$ -	7,702,783
Land, buildings, and equipment, net	\$ 3,992,666				\$ 3,698,642

(continued on next page)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 6 – LONG-TERM DEBT**

A schedule of changes in long-term debt for 2009 and 2008 is as follows:

	June 30, 2008	Additions	Deductions	June 30, 2009	Amounts Due
	<u>Balance</u>			<u>Balance</u>	<u>Within One Year</u>
2003 revenue bonds	\$ 605,000	\$ -	\$ (145,000)	\$ 460,000	\$ 150,000
Capitalized lease obligation - Note 7	56,464	-	(22,379)	34,085	23,759
Deferred loss on refinancing	<u>(13,791)</u>	<u>-</u>	<u>4,729</u>	<u>(9,062)</u>	<u>-</u>
Total long-term debt	<u>\$ 647,673</u>	<u>\$ -</u>	<u>\$ (162,650)</u>	<u>485,023</u>	<u>\$ 173,759</u>
Less current maturities				<u>(173,759)</u>	
Long-term debt, less current maturities				<u>\$ 311,264</u>	

  

	June 30, 2007	Additions	Deductions	June 30, 2008	Amounts Due
	<u>Balance</u>			<u>Balance</u>	<u>Within One Year</u>
2003 revenue bonds	\$ 745,000	\$ -	\$ (140,000)	\$ 605,000	\$ 145,000
Capitalized lease obligation	77,543	-	(21,079)	56,464	22,379
Deferred loss on refinancing	<u>(18,519)</u>	<u>-</u>	<u>4,728</u>	<u>(13,791)</u>	<u>-</u>
Total long-term debt	<u>\$ 804,024</u>	<u>\$ -</u>	<u>\$ (156,351)</u>	647,673	<u>\$ 167,379</u>
Less current maturities				<u>(167,379)</u>	
Long-term debt, less current maturities				<u>\$ 480,294</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, 2009 and 2008. 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 173,759	\$ 20,824
2011	160,326	13,730
2012	160,000	7,200
	<u>\$ 494,085</u>	<u>\$ 41,754</u>

**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, 2009 and 2008, for all operating leases was \$23,894 and 20,589, respectively. The capitalized leased assets consist of:

Major movable equipment	\$ 108,441
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(77,716)</u>
	<u>\$ 30,725</u>

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

<u>Year Ending June 30,</u>	
2010	\$ 25,158
2011	<u>10,481</u>
Total minimum lease payments	35,639
Less interest	<u>(1,554)</u>
Present value of minimum lease payments - Note 6	<u>\$ 34,085</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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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Plan members are required to contribute 4.10% of their annual covered salary, and RSHHC is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and RSHHC was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. RSHHC's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$316,701, \$314,202, and \$287,136, respectively, equal to the required contributions for each year.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

*Regional Health Services Foundation*

Regional Health Services Foundation was formed to perform fund raising activities for RSHHC. The Foundation contributed cash and capital equipment in the amount of \$614 and \$322 to RSHHC in 2009 and 2008, 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 approximately \$1,312,000 and \$1,320,000 for the years ended June 30, 2009 and 2008, respectively.

Through June 30, 2008, operating income and losses from the operation of RSHHC services in Howard County were shared in accordance to the formulas outlined in the Master Affiliation Agreement. Total operating income allocated between Mercy Medical Center – North Iowa and RSHHC amounted to \$153,569 for the year ended June 30, 2008.

*Due to/From Affiliated Organization*

As of June 30, 2009 and 2008, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center – North Iowa of \$177,871 and \$279,391, 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, 2009 and 2008, were approximately \$369,000 and \$379,000, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**NOTE 10 – CONTINGENCIES**

*Malpractice Insurance*

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

*Health Care Legislation and Regulation*

The health care 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 health care 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 health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that RHSHC 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**

RHSHC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The coverage has not changed significantly from the previous year. RHSHC 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**

RHSHC 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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	24%	20%
Medicaid	8	8
Commercial insurance	30	32
Other third-party payors and patients	<u>38</u>	<u>40</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, 2009**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	431,011	\$ (2,643)	\$ 428,368	\$ 420,094	\$ 8,274
Estimated other revenues/receipts	<u>13,319,913</u>	<u>(13,827)</u>	<u>13,306,086</u>	<u>14,591,512</u>	<u>(1,285,426)</u>
	13,750,924	(16,470)	13,734,454	15,011,606	(1,277,152)
Expenses/disbursements	<u>12,955,161</u>	<u>332,714</u>	<u>13,287,875</u>	<u>15,531,455</u>	<u>2,243,580</u>
Net	795,763	(349,184)	446,579	(519,849)	<u>\$ 966,428</u>
Balance beginning of year	<u>11,211,377</u>	<u>(4,379,196)</u>	<u>6,832,181</u>	<u>7,961,482</u>	
Balance end of year	<u>\$ 12,007,140</u>	<u>\$ (4,728,380)</u>	<u>\$ 7,278,760</u>	<u>\$ 7,441,633</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**JUNE 30, 2009**

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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 perspective 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, 2009.

For the year ended June 30, 2009, 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 Schedules of Statistical Information on page 38 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

Dubuque, Iowa  
September 17, 2009

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	TOTAL	
	2009	2008
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 1,306,609	\$ 1,329,980
Nursery	95,803	125,209
Subtotal	<u>1,402,412</u>	<u>1,455,189</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	1,242,475	1,199,591
Labor and delivery room	83,773	123,157
Anesthesiology	607,667	570,174
Radiology	2,520,293	2,356,564
Laboratory	2,531,720	2,275,566
Blood	80,305	87,415
Respiratory therapy	400,949	424,502
Physical therapy	509,039	502,981
Occupational therapy	260,052	272,733
Speech pathology	13,710	30,786
Electrocardiology	296,742	295,369
Central supply	625,497	628,432
Pharmacy	632,506	636,332
Cardiac rehabilitation	87,341	94,982
Outpatient clinic	41,859	48,495
Clinics	4,311,110	4,126,051
Emergency room	1,234,047	1,310,589
Ambulance	520,258	454,819
Home health	739,511	959,069
Durable medical equipment	426,671	416,151
Subtotal	<u>17,165,525</u>	<u>16,813,758</u>
Total	18,567,937	18,268,947
Charity care	<u>(98,633)</u>	<u>(50,490)</u>
Total patient service revenue	<u>18,469,304</u>	<u>18,218,457</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(2,412,170)	(2,179,204)
Medicaid	(598,502)	(621,783)
Blue Cross	(680,302)	(674,616)
Other	<u>(1,561,490)</u>	<u>(1,583,108)</u>
Total contractual adjustments	<u>(5,252,464)</u>	<u>(5,058,711)</u>
NET PATIENT SERVICE REVENUE	13,216,840	13,159,746
PROVISION FOR BAD DEBTS	<u>(591,056)</u>	<u>(518,090)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 12,625,784</u>	<u>\$ 12,641,656</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 1,053,351	\$ 1,073,431	\$ 253,258	\$ 256,549
95,764	125,209	39	-
<b>1,149,115</b>	1,198,640	<b>253,297</b>	256,549
215,393	205,702	1,027,082	993,889
69,303	104,707	14,470	18,450
133,534	126,660	474,133	443,514
139,113	106,595	2,381,180	2,249,969
277,710	246,696	2,254,010	2,028,870
28,284	34,039	52,021	53,376
331,352	358,737	69,597	65,765
130,473	111,409	378,566	391,572
109,921	93,640	150,131	179,093
3,108	6,561	10,602	24,225
46,186	37,406	250,556	257,963
286,215	287,764	339,282	340,668
312,887	333,151	319,619	303,181
-	-	87,341	94,982
-	-	41,859	48,495
-	-	4,311,110	4,126,051
26,762	42,951	1,207,285	1,267,638
5,086	11,370	515,172	443,449
-	-	739,511	959,069
-	(354)	426,671	416,505
<b>2,115,327</b>	2,107,034	<b>15,050,198</b>	14,706,724
<b>\$ 3,264,442</b>	<b>\$ 3,305,674</b>	<b>\$ 15,303,495</b>	<b>\$ 14,963,273</b>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Rehab expenses reimbursement	\$ 138,036	\$ 126,913
Grant revenues	56,691	35,371
Public health support	50,000	50,000
Meals sold	44,826	68,742
Clinic rental income	28,715	33,545
Management fees	21,000	21,000
Dietary consultations	20,110	13,480
Purchase discounts and rebates	13,518	35,153
Occupational health	12,129	3,080
Medical records transcripts	2,652	2,969
Vending machines	1,105	1,112
Other	<u>57,602</u>	<u>52,978</u>
<b>TOTAL OTHER OPERATING REVENUES</b>	<b><u>\$ 446,384</u></b>	<b><u>\$ 444,343</u></b>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 131,120	\$ 71,236
Supplies and other expenses	<u>9,631</u>	<u>7,623</u>
	<u>140,751</u>	<u>78,859</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	660,765	715,962
Supplies and other expenses	<u>50,628</u>	<u>57,329</u>
	<u>711,393</u>	<u>773,291</u>
<b>NURSERY</b>		
Salaries and wages	16,507	22,780
Supplies and other expenses	<u>30</u>	<u>515</u>
	<u>16,537</u>	<u>23,295</u>
<b>OPERATING ROOM</b>		
Salaries and wages	188,014	163,759
Supplies and other expenses	<u>228,325</u>	<u>252,952</u>
	<u>416,339</u>	<u>416,711</u>
<b>LABOR AND DELIVERY ROOM</b>		
Salaries and wages	21,769	33,541
Supplies and other expenses	<u>4</u>	<u>83</u>
	<u>21,773</u>	<u>33,624</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>15,429</u>	<u>19,690</u>
<b>NONPHYSICIAN ANESTHETISTS</b>		
Salaries and wages	150,893	141,895
Supplies and other expenses	<u>32,560</u>	<u>43,601</u>
	<u>183,453</u>	<u>185,496</u>
<b>RADIOLOGY</b>		
Salaries and wages	249,925	257,831
Supplies and other expenses	<u>305,524</u>	<u>286,326</u>
	<u>555,449</u>	<u>544,157</u>
<b>LABORATORY</b>		
Salaries and wages	169,852	213,510
Supplies and other expenses	<u>412,515</u>	<u>223,175</u>
	<u>582,367</u>	<u>436,685</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>BLOOD</b>		
Salaries and wages	\$ 1,787	\$ 4,107
Supplies and other expenses	<u>36,334</u>	<u>37,597</u>
	<u>38,121</u>	<u>41,704</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	21,519	24,208
Supplies and other expenses	<u>10,953</u>	<u>13,310</u>
	<u>32,472</u>	<u>37,518</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	105,243	94,167
Supplies and other expenses	<u>311,392</u>	<u>310,842</u>
	<u>416,635</u>	<u>405,009</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	12,299	15,285
Supplies and other expenses	<u>156,102</u>	<u>167,635</u>
	<u>168,401</u>	<u>182,920</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries and wages	3,915	2,096
Supplies and other expenses	<u>2,247</u>	<u>2,901</u>
	<u>6,162</u>	<u>4,997</u>
<b>SPEECH PATHOLOGY</b>		
Supplies and other expenses	<u>7,476</u>	<u>15,399</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	4,455	4,502
Supplies and other expenses	<u>35,475</u>	<u>41,855</u>
	<u>39,930</u>	<u>46,357</u>
<b>CENTRAL SUPPLY</b>		
Salaries and wages	6,324	7,591
Supplies and other expenses	<u>53,738</u>	<u>56,672</u>
	<u>60,062</u>	<u>64,263</u>
<b>PHARMACY</b>		
Salaries and wages	4,136	6,016
Supplies and other expenses	<u>248,756</u>	<u>185,598</u>
	<u>252,892</u>	<u>191,614</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	\$ 34,575	\$ 23,921
Supplies and other expenses	4,031	700
	<u>38,606</u>	<u>24,621</u>
<b>OUTPATIENT CLINIC</b>		
Salaries and wages	122,810	125,754
Supplies and other expenses	10,072	10,627
	<u>132,882</u>	<u>136,381</u>
<b>CLINICS</b>		
Salaries and wages	841,726	816,616
Supplies and other expenses	1,617,326	1,731,837
	<u>2,459,052</u>	<u>2,548,453</u>
<b>EMERGENCY ROOM</b>		
Salaries and wages	183,747	168,927
Supplies and other expenses	439,902	415,993
	<u>623,649</u>	<u>584,920</u>
<b>AMBULANCE</b>		
Salaries and wages	150,687	180,315
Supplies and other expenses	47,536	36,264
	<u>198,223</u>	<u>216,579</u>
<b>HOME HEALTH</b>		
Salaries and wages	479,292	562,521
Supplies and other expenses	165,423	175,768
	<u>644,715</u>	<u>738,289</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	127,255	133,552
Supplies and other expenses	135,147	139,234
	<u>262,402</u>	<u>272,786</u>
<b>SOCIAL SERVICE</b>		
Salaries and wages	36,811	36,751
Supplies and other expenses	729	471
	<u>37,540</u>	<u>37,222</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	207,691	239,882
Supplies and other expenses	19,520	22,799
	<u>227,211</u>	<u>262,681</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
DIETARY		
Salaries and wages	\$ 180,565	\$ 181,052
Supplies and other expenses	<u>69,454</u>	<u>75,562</u>
	<u>250,019</u>	<u>256,614</u>
OPERATION OF PLANT		
Salaries and wages	197,240	189,286
Supplies and other expenses	<u>202,539</u>	<u>214,785</u>
	<u>399,779</u>	<u>404,071</u>
FOUNDATION		
Salaries and wages	14,183	10,695
Supplies and other expenses	<u>2,200</u>	<u>-</u>
	<u>16,383</u>	<u>10,695</u>
HOUSEKEEPING		
Salaries and wages	58,995	70,666
Supplies and other expenses	<u>11,488</u>	<u>13,009</u>
	<u>70,483</u>	<u>83,675</u>
LAUNDRY AND LINEN		
Salaries and wages	7,106	6,940
Supplies and other expenses	<u>18,984</u>	<u>23,237</u>
	<u>26,090</u>	<u>30,177</u>
ADMINISTRATIVE AND GENERAL		
Salaries and wages	734,727	681,304
Supplies and other expenses	<u>1,001,004</u>	<u>795,712</u>
	<u>1,735,731</u>	<u>1,477,016</u>
UNASSIGNED EXPENSES		
Depreciation	677,834	664,512
Interest and amortization	37,699	43,801
Employee benefits	<u>1,451,221</u>	<u>1,434,779</u>
	<u>2,166,754</u>	<u>2,143,092</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,955,161</u>	<u>\$ 12,728,861</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2009 AND 2008**

ANALYSIS OF AGING	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,511,574	49.85%	\$ 1,363,701	44.99%
31 to 60 days	476,248	15.71%	565,060	18.64%
61 to 90 days	266,317	8.78%	271,746	8.96%
91 days and over	778,162	25.66%	830,758	27.41%
	<b>3,032,301</b>	<b>100.00%</b>	3,031,265	100.00%
Less: Allowance for doubtful accounts	648,269		645,402	
Allowance for contractual adjustments	550,990		465,650	
Net	<b>\$ 1,833,042</b>		<b>\$ 1,920,213</b>	
Net patient service revenue per calendar day	<b>\$ 34,591</b>		<b>\$ 34,635</b>	
Days of net revenue in net accounts receivable at year end	<b>53</b>		<b>55</b>	

**ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	2009		2008	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 645,402		\$ 644,458	
Add:				
Provision for bad debts	591,056	4.68%	518,090	4.10%
Recoveries previously written off	213,941	1.69%	171,837	1.36%
	<b>804,997</b>		<b>689,927</b>	
Less:				
Accounts written off	(802,130)	6.35%	(688,983)	5.45%
Ending Balance	<b>\$ 648,269</b>		<b>\$ 645,402</b>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**JUNE 30, 2009 AND 2008**

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	<u>2009</u>	<u>2008</u>
SUPPLIES		
Central supply	\$ 153,816	\$ 164,359
Pharmacy	52,413	95,947
Dietary	6,204	7,353
DME supplies	87,134	97,645
Other	<u>8,326</u>	<u>12,624</u>
 Total supplies	 <u>\$ 307,893</u>	 <u>\$ 377,928</u>
 PREPAID EXPENSE		
Insurance	\$ 14,292	\$ 29,215
Dues and other	<u>85,365</u>	<u>66,407</u>
 Total prepaid expense	 <u>\$ 99,657</u>	 <u>\$ 95,622</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF BOND INVESTMENT TRANSACTIONS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	Balance July 1, 2008	Invested	Redeemed	Balance June 30, 2009
Revenue bond sinking fund				
Money market savings	\$ 45,928	\$ 176,305	\$ (169,718)	\$ 52,515
Reserve fund				
Certificate of deposit	<u>126,658</u>	<u>-</u>	<u>(13)</u>	<u>126,645</u>
Total	<u>\$ 172,586</u>	<u>\$ 176,305</u>	<u>\$ (169,731)</u>	<u>\$ 179,160</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)**

	<u>2009</u>	<u>2008</u>
<b>PATIENT DAYS</b>		
Acute	738	854
Swing-bed	828	809
Newborn	123	172
	<u>1,689</u>	<u>1,835</u>
<b>ADMISSIONS</b>		
Acute	291	327
Swing-bed	79	79
Newborn	58	92
	<u>428</u>	<u>498</u>
<b>DISCHARGES</b>		
Acute	293	322
Swing-bed	79	80
Newborn	58	91
	<u>430</u>	<u>493</u>
AVERAGE LENGTH OF STAY, ACUTE	<u>2.52</u>	<u>2.65</u>
BEDS	<u>25</u>	<u>25</u>
<b>OCCUPANCY PERCENTAGE</b>		
Acute, based on 25 beds	<u>8.1%</u>	<u>9.4%</u>
Swing-bed, based on 25 beds	<u>9.1%</u>	<u>8.9%</u>
OUTPATIENT VISITS	<u>21,414</u>	<u>22,387</u>
<b>CLINIC VISITS</b>		
Kessel	<u>23,797</u>	<u>24,833</u>
Lime Springs	<u>1,610</u>	<u>1,950</u>



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**

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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, 2009 and 2008, 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 17, 2009. 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.

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, we believe that none of the significant deficiencies described above is a material weakness.

### **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, 2009, 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 17, 2009

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2009**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-09      Segregation of Duties

Criteria – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A 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.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

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 RSHHC. 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-09      Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. 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).

Condition – RSHHC 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 GAAP. 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, 2009**

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

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the financial reporting is prepared by a party outside of RSHHC. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. 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.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the RSHHC’s procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. 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-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.
- II-B-09 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-09 Travel Expense – No expenditures of RSHHC money for travel expenses of spouses of RSHHC officials and/or employees were noted.
- II-D-09 Business Transactions – We noted no material business transactions between RSHHC and RSHHC officials and/or employees.
- II-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2009**

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

II-F-09     Deposits and Investments – RHSHC held accounts at financial institutions which exceeded the limits approved in its depository resolution at certain times during the year ended June 30, 2009.

Recommendation – It is recommended that RHSHC review its approved depository resolution limits and adjust the amounts as deemed appropriate so as to not exceed allowable amounts in the future.

Response – Subsequent to year end, RHSHC reviewed and approved an increase in certain depository resolution amounts so as not to exceed allowable amounts in the future.

Conclusion – Response accepted.

II-G-09     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...” RHSHC published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.



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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 the accompanying balance sheets of Regional Health Services of Howard County (RSHHC) as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of 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 as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 17, 2009

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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 (RHSHC) for the year ended June 30, 2009, and have issued our report thereon dated September 17, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 17, 2009. Professional standards also require that we communicate to you the following information related to our audit.

### **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, 2009. We noted no transactions entered into by RHSHC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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.

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*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 2009 audit:

Increase in net assets prior to audit adjustments	\$ 724,261
To adjust estimated third-party payor settlements	100,024
To adjust accrued payroll taxes and accrued IPERS liability	<u>(28,522)</u>
 Increase in net assets as reported	 <u>\$ 795,763</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 17, 2009.

*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 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.

*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 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.

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

Dubuque, Iowa  
September 17, 2009