



Financial Statements  
June 30, 2010 and 2009

# Regional Health Services of Howard County

# REGIONAL HEALTH SERVICES OF HOWARD COUNTY

## Table of Contents

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	<u>Page</u>
<b>BOARD OF TRUSTEES AND HEALTH SERVICES OFFICIALS</b>	1
<b>INDEPENDENT AUDITOR’S REPORT</b>	2-3
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	4-5
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance Sheets – Regional Health Services of Howard County	6
Balance Sheets – Regional Health Services Foundation	7
Statements of Revenues, Expenses, and Changes in Net Assets – Regional Health Services of Howard County	8
Statements of Revenues, Expenses, and Changes in Net Assets – Regional Health Services Foundation	9
Statements of Cash Flows – Regional Health Services of Howard County	10-11
Statements of Cash Flows – Regional Health Services Foundation	12
Notes to Financial Statements	13-27
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	28
Notes to Required Supplementary Information – Budgetary Reporting	29
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Independent Auditor’s Report on Supplementary Information Schedules	30
Net Patient Service Revenue	31
Other Operating Revenues	32
Operating Expenses	33-36
Patient Receivables and Allowance for Doubtful Accounts	37
Supplies and Prepaid Expense	38
Bond Investment Transactions	39
Statistical Information (Unaudited)	40
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	41-42
<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	43-45
<b>INDEPENDENT AUDITOR’S REPORT ON DEBT AGREEMENT COVENANTS</b>	46-47

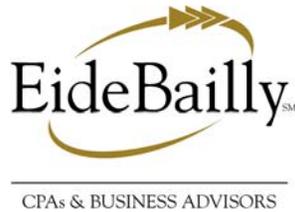
**REGIONAL HEALTH SERVICES OF HOWARD COUNTY  
BOARD OF TRUSTEES AND HEALTH SERVICES OFFICIALS**

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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	December 31, 2014

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, 2010 and 2009, 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, 2010 and 2009, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in 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 Statements 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 15, 2010, 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 28 and 29 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 text of the firm's name and location.

Dubuque, Iowa  
September 15, 2010

## **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, 2010. 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 \$1,207,873 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 \$13,114,866 at June 30, 2010.
- During the year, the Hospital's total operating revenues increased by \$357,647 to \$13,429,815, while the operating expenses decreased .3% to \$12,913,841. The Hospital had income from operations of \$515,974, which is 3.8% of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$641,541 during the fiscal year. The source of funding for these items was derived from operations and county tax levies.

#### **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, 2010, reports total assets of \$15,233,919, total liabilities of \$2,119,053 and net assets of \$13,114,866.

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 \$13,429,815, and total operating expenses of \$12,913,841 during fiscal year 2010. The operating income was \$515,974 in 2010, compared to an operating income of \$117,007 in 2009.

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 \$315,993 in long-term debt. \$10,327 of this long-term debt represents a capital lease with Beckman Coulter for a piece of lab equipment. The remaining \$305,666 represents 2003 Revenue Bonds that were issued on April 1, 2003.

## **Factors Bearing on Financial Future**

During fiscal year 2010, Regional Health Services of Howard County continued to execute their 2008-10 strategic plan that identified goals / needs of the facility and the community. As a part of that plan three items were focused upon, an increased focus upon our Press Ganey Patient Satisfaction Scores, specifically in the outpatient areas, work towards a final decision on an Electronic Health Record (EHR), and the completion of a Master Facility Plan (MFP).

With regards to the Press Ganey scores, a team of Senior Leadership members and Board members conducted a facilitated strategic planning process to identify gaps in patient satisfaction scores and where processes could be improved and tracked to show upward improvements. With regards to the EHR, a Clinical Steering Team was convened early in CY2010 with the goal of seeking information from vendors and conducting site visits to make a recommendation to the Board in the Fall of 2010. The MFP process was advanced by identifying three architectural firms and requesting they submit proposals that would complete a MFP by the end of 2010. The Board was to make a decision on one of the architectural firms by Fall 2010.

## **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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 795,312	\$ 855,114
Investments - Note 4	4,056,596	2,713,255
Assets limited as to use or restricted - Note 4	57,714	52,515
Receivables		
Patient, net of estimated uncollectibles		
of \$1,091,000 in 2010 and \$1,199,000 in 2009	1,813,004	1,833,042
Estimated third-party payor settlements	-	205,000
Succeeding year property tax	471,403	437,551
Other	99,058	130,289
Supplies	355,030	307,893
Prepaid expense	<u>114,225</u>	<u>99,657</u>
Total current assets	<u>7,762,342</u>	<u>6,634,316</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Internally designated for capital improvements	3,679,657	3,531,231
Restricted under bond agreement	<u>126,506</u>	<u>126,645</u>
Total assets limited as to use or restricted	<u>3,806,163</u>	<u>3,657,876</u>
<b>CAPITAL ASSETS, net - Note 5</b>	<u>3,654,082</u>	<u>3,716,610</u>
<b>OTHER ASSETS</b>		
Bond issuance costs, net of accumulated amortization	<u>11,332</u>	<u>17,244</u>
Total assets	<u>\$ 15,233,919</u>	<u>\$ 14,026,046</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 6	\$ 160,327	\$ 173,759
Accounts payable		
Trade	214,510	223,263
Related party - Note 9	205,327	177,871
Estimated third-party payor settlements	196,000	-
Accrued expenses		
Salaries and wages	307,762	286,352
Vacation	370,787	356,320
Interest	1,131	1,619
Payroll taxes and employee benefits	36,140	47,568
Other	-	3,339
Deferred revenue for succeeding year property tax receivable	<u>471,403</u>	<u>437,551</u>
 Total current liabilities	 <b>1,963,387</b>	 1,707,642
 LONG-TERM DEBT, less current maturities - Note 6	 <u>155,666</u>	 <u>311,264</u>
 Total liabilities	 <u>2,119,053</u>	 <u>2,018,906</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,338,089	3,231,587
Restricted		
Expendable under bond agreement	126,506	126,645
Unrestricted	<u>9,650,271</u>	<u>8,648,908</u>
 Total net assets	 <u>13,114,866</u>	 <u>12,007,140</u>
 Total liabilities and net assets	 <u>\$ 15,233,919</u>	 <u>\$ 14,026,046</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**BALANCE SHEETS**  
**JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 28,389	\$ 27,789
Beneficial interest in community foundation	<u>20,769</u>	<u>10,000</u>
Total assets	<u>\$ 49,158</u>	<u>\$ 37,789</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,831	\$ 893
NET ASSETS, Unrestricted	<u>46,327</u>	<u>36,896</u>
Total liabilities and net assets	<u>\$ 49,158</u>	<u>\$ 37,789</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$676,651 in 2010 and \$591,056 in 2009) - Notes 2 and 3	\$ 13,110,250	\$ 12,625,784
Other operating revenues	<u>319,565</u>	<u>446,384</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>13,429,815</u></b>	<b><u>13,072,168</u></b>
OPERATING EXPENSES		
Salaries and wages	5,174,247	5,125,933
Employee benefits	1,543,701	1,451,221
Supplies and other expenses	5,463,761	5,662,474
Depreciation	701,155	677,834
Interest and amortization	<u>30,977</u>	<u>37,699</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>12,913,841</u></b>	<b><u>12,955,161</u></b>
<b>OPERATING INCOME</b>	<b><u>515,974</u></b>	<b><u>117,007</u></b>
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	443,384	431,011
Investment income	108,529	180,174
Noncapital grants and contributions	17,580	20,976
Loss on sale of capital assets	<u>(2,914)</u>	<u>-</u>
<b>NET NONOPERATING REVENUES</b>	<b><u>566,579</u></b>	<b><u>632,161</u></b>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	1,082,553	749,168
Capital contributions and grants	<u>25,173</u>	<u>46,595</u>
<b>INCREASE IN NET ASSETS</b>	<b>1,107,726</b>	<b>795,763</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>12,007,140</u></b>	<b><u>11,211,377</u></b>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 13,114,866</u></b>	<b><u>\$ 12,007,140</u></b>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Contributions	\$ 19,723	\$ 22,812
Investment income	<u>919</u>	<u>224</u>
 TOTAL OPERATING REVENUES	 <u>20,642</u>	 <u>23,036</u>
 EXPENSES		
Contributions to Regional Health Services of Howard County	7,632	614
Supplies and other expenses	<u>3,579</u>	<u>8,878</u>
 TOTAL EXPENSES	 <u>11,211</u>	 <u>9,492</u>
 INCREASE IN NET ASSETS	 9,431	 13,544
 NET ASSETS BEGINNING OF YEAR	 <u>36,896</u>	 <u>23,352</u>
 NET ASSETS END OF YEAR	 <u>\$ 46,327</u>	 <u>\$ 36,896</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	<b>\$ 13,557,009</b>	\$ 12,605,846
Payments of salaries and wages	<b>(5,138,370)</b>	(5,079,346)
Payments of supplies and other expenses	<b>(7,065,231)</b>	(7,317,850)
Other receipts and payments, net	<b>319,565</b>	446,384
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>1,672,973</u></b>	<u>655,034</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	<b>17,580</b>	20,976
County tax revenue received	<b>446,897</b>	428,368
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>464,477</u></b>	<u>449,344</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<b>(641,541)</b>	(695,802)
Principal payments on long-term debt	<b>(173,759)</b>	(167,378)
Interest payments on long-term debt	<b>(20,824)</b>	(27,499)
Capital contributions and grants	<b>25,173</b>	46,595
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(810,951)</u></b>	<u>(844,084)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	<b>110,526</b>	186,285
Increase in assets limited as to use or restricted	<b>(1,496,827)</b>	(357,753)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b><u>(1,386,301)</u></b>	<u>(171,468)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>(59,802)</b>	88,826
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>855,114</u></b>	<u>766,288</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 795,312</u></b>	<u>\$ 855,114</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 515,974	\$ 117,007
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	701,155	677,834
Interest and amortization expense considered capital and related financing activity	30,977	37,699
Provision for bad debts	676,651	591,056
Changes in assets and liabilities		
Patient receivables	(656,613)	(503,885)
Estimated third-party payor settlements	401,000	(173,000)
Other receivables	25,721	65,891
Supplies	(47,137)	70,035
Prepaid expense	(14,568)	(4,035)
Accounts payable - trade and related	18,703	(232,905)
Accrued expenses	<u>21,110</u>	<u>9,337</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,672,973</u>	<u>\$ 655,034</u>

**REGIONAL HEALTH SERVICES FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 9,431	\$ 13,544
Increase (decrease) in accounts payable	<u>1,938</u>	<u>(3,184)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<b>11,369</b>	10,360
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in beneficial interest in community foundation	<u>(10,769)</u>	<u>(10,000)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<b>600</b>	360
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>27,789</u>	<u>27,429</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 28,389</u>	<u>\$ 27,789</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

*Organization*

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

Regional Health Services of Howard County is a non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, RSHHC would be subject to federal income tax on any unrelated business taxable income.

RSHHC's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America 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 (Foundation) is a nonprofit entity legally separate from RSHHC. RSHHC does not appoint a voting majority of the Foundation's board of directors for Foundation 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:*

*Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by RSHHC.

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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

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

*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.

RSHHC 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, RSHHC 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 revenues 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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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.

*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 Trustees 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 Trustees 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, 2010 and 2009, accumulated amortization was \$42,371 and \$36,459, 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, 2010 and 2009, accumulated amortization was \$33,887 and \$29,158, respectively. Total amortization expense for the bond issuance costs and deferred loss from refinancing was \$10,641 for the years ended June 30, 2010 and 2009.

*Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*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.

*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, 2010 and 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 statements 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*Net Patient Service Revenue*

RHSHC has agreements with third-party payors that provide for payments to RHSHC 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.

*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. RHSHC incurred \$23,574 and \$37,197 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

*Charity Care*

To fulfill its mission of community service, RHSHC 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 RHSHC 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*

RHSHC has evaluated subsequent events through September 15, 2010, the date which the financial statements were available to be issued.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*Accounting for Uncertainty in Taxes*

Regional Health Services of Howard County has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

RHSHC will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

*Reclassifications*

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

*Other Significant Accounting Policies*

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

**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 \$104,430 and \$98,633 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon an overall cost to charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$68,000 and \$70,000, 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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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, 2008.

**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, 2007.

**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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that RHSHC may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is RHSHC's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Revenue from the Medicare and Medicaid programs accounted for approximately 40% and 8%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2010, and 43% and 10%, respectively, of RHSHC's net patient service revenue for the year ended June 30, 2009.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 20,353,281</u>	<u>\$ 18,469,304</u>
Contractual adjustments:		
Medicare	(2,888,306)	(2,412,170)
Medicaid	(889,591)	(598,502)
Blue Cross	(849,709)	(680,302)
Other	<u>(1,938,774)</u>	<u>(1,561,490)</u>
Total contractual adjustments	<u>(6,566,380)</u>	<u>(5,252,464)</u>
Net patient service revenue	<b>13,786,901</b>	13,216,840
Provision for bad debts	<u>(676,651)</u>	<u>(591,056)</u>
Net patient service revenue (net of provision for bad debts)	<u><b>\$ 13,110,250</b></u>	<u>\$ 12,625,784</u>

**NOTE 4 – CASH AND DEPOSITS**

RHSHC's deposits in banks at June 30, 2010 and 2009, 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, 2010 AND 2009**

At June 30, 2010 and 2009, RSHHC's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	\$ 339,431	\$ 614,830
Certificates of deposit	7,576,813	5,801,653
Interest receivable	<u>4,229</u>	<u>7,163</u>
 Total deposits	 <u>\$ 7,920,473</u>	 <u>\$ 6,423,646</u>

Included in the following balance sheet captions:

Investments	\$ 4,056,596	\$ 2,713,255
Assets limited as to use or restricted	<u>3,863,877</u>	<u>3,710,391</u>
	<u>\$ 7,920,473</u>	<u>\$ 6,423,646</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 – CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital assets					
Land and land improvements	\$ 291,500	\$ -	\$ -	\$ -	\$ 291,500
Building	3,839,337	19,545	-	-	3,858,882
Fixed equipment	3,150,921	13,577	-	-	3,164,498
Major movable equipment	4,319,097	250,634	(65,550)	309,185	4,813,366
Construction in progress	<u>26,280</u>	<u>357,784</u>	<u>-</u>	<u>(309,185)</u>	<u>74,879</u>
 Total	 <u>11,627,135</u>	 <u>\$ 641,540</u>	 <u>\$ (65,550)</u>	 <u>\$ -</u>	 <u>12,203,125</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
Accumulated depreciation					
Land improvements	\$ 222,971	\$ 6,092	\$ -	\$ -	\$ 229,063
Building	2,440,684	133,585	-	-	2,574,269
Fixed equipment	2,374,726	123,028	-	-	2,497,754
Major movable equipment	2,872,144	438,449	(62,636)	-	3,247,957
Total	7,910,525	\$ 701,154	\$ (62,636)	\$ -	8,549,043
Capital assets, net	\$ 3,716,610				\$ 3,654,082
	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets					
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	135,788	525,293	-	(634,801)	26,280
Total	11,401,425	\$ 695,806	\$ (470,096)	\$ -	11,627,135
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
Durable medical equipment	-	-	-	-	-
Total	7,702,783	\$ 677,835	\$ (470,093)	\$ -	7,910,525
Capital assets, net	\$ 3,698,642				\$ 3,716,610

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 6 – LONG-TERM DEBT**

A schedule of changes in long-term debt for 2010 and 2009 is as follows:

	June 30, 2009	Additions	Deductions	June 30, 2010	Amounts Due
	<u>Balance</u>			<u>Balance</u>	<u>Within One Year</u>
2003 revenue bonds	\$ 460,000	\$ -	\$ (150,000)	\$ 310,000	\$ 150,000
Capitalized lease obligation - Note 7	34,085	-	(23,758)	10,327	10,327
Deferred loss from refinancing	<u>(9,062)</u>	<u>-</u>	<u>4,728</u>	<u>(4,334)</u>	<u>-</u>
Total long-term debt	<u>\$ 485,023</u>	<u>\$ -</u>	<u>\$ (169,030)</u>	<u>315,993</u>	<u>\$ 160,327</u>
Less current maturities				<u>(160,327)</u>	
Long-term debt, less current maturities				<u>\$ 155,666</u>	
	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	56,464	-	(22,379)	34,085	23,759
Deferred loss from 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>	485,023	<u>\$ 173,759</u>
Less current maturities				<u>(173,759)</u>	
Long-term debt, less current maturities				<u>\$ 311,264</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, 2010 and 2009. 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, 2010 AND 2009**

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>
2011	\$ 160,327	\$ 13,730
2012	<u>160,000</u>	<u>7,200</u>
	<u>\$ 320,327</u>	<u>\$ 20,930</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, 2010 and 2009, for all operating leases was \$26,839 and \$23,894, respectively. The capitalized leased assets consist of:

Major movable equipment	\$ 108,441
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(99,404)</u>
	<u>\$ 9,037</u>

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

<u>Year Ending June 30,</u>	
2011	10,482
Less interest	<u>(155)</u>
Present value of minimum lease payments - Note 6	<u>\$ 10,327</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, 2010 AND 2009**

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Plan members are required to contribute 4.30% of their annual covered salary, and RSHHC is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and RSHHC was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. RSHHC's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$342,608, \$316,701, and \$314,202, 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 \$7,632 and \$614 to RSHHC in 2010 and 2009, 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 \$1,411,000 and \$1,312,000 for the years ended June 30, 2010 and 2009, respectively.

*Due to/From Affiliated Organization*

As of June 30, 2010 and 2009, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center – North Iowa of \$205,327 and \$177,871, 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, 2010 and 2009, were approximately \$268,000 and \$369,000, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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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.

*Litigations, Claims, and Other Disputes*

RHSHC is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Organization.

*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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	27%	24%
Medicaid	9	8
Commercial insurance	29	30
Other third-party payors and patients	<u>35</u>	<u>38</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information  
June 30, 2010 and 2009

# 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, 2010**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 443,384	\$ 3,513	\$ 446,897	\$ 437,551	\$ 9,346
Estimated other revenues/receipts	<u>13,581,097</u>	<u>448,756</u>	<u>14,029,853</u>	<u>13,442,528</u>	<u>587,325</u>
	14,024,481	452,269	14,476,750	13,880,079	596,671
Expenses/disbursements	<u>12,916,755</u>	<u>122,970</u>	<u>13,039,725</u>	<u>14,163,755</u>	<u>1,124,030</u>
Net	1,107,726	329,299	1,437,025	(283,676)	<u>\$ 1,720,701</u>
Balance beginning of year	<u>12,007,140</u>	<u>(4,728,380)</u>	<u>7,278,760</u>	<u>7,869,584</u>	
Balance end of year	<u>\$ 13,114,866</u>	<u>\$ (4,399,081)</u>	<u>\$ 8,715,785</u>	<u>\$ 7,585,908</u>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**JUNE 30, 2010**

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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, 2010.

For the year ended June 30, 2010, RSHHC's expenditures did not exceed the amount budgeted.



Other Supplementary Information  
June 30, 2010 and 2009

# Regional Health Services of Howard County



**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 40 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.

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

Dubuque, Iowa  
September 15, 2010

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	TOTAL	
	2010	2009
<b>PATIENT CARE SERVICES</b>		
Adults and pediatrics	\$ 1,477,578	\$ 1,306,609
Nursery	155,232	95,803
Subtotal	<u>1,632,810</u>	<u>1,402,412</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating room	1,235,463	1,242,475
Labor and delivery room	117,322	83,773
Anesthesiology	615,340	607,667
Radiology	2,683,514	2,520,293
Laboratory	2,816,101	2,531,720
Blood	109,407	80,305
Respiratory therapy	499,189	400,949
Physical therapy	568,601	509,039
Occupational therapy	331,724	260,052
Speech pathology	48,492	13,710
Electrocardiology	368,384	296,742
Central supply	497,577	625,497
Pharmacy	924,778	632,506
Cardiac rehabilitation	98,271	87,341
Outpatient clinic	44,263	41,859
Clinics	4,753,431	4,311,110
Emergency room	1,306,362	1,234,047
Ambulance	554,378	520,258
Home health	834,337	739,511
Durable medical equipment	380,967	426,671
Sleep lab	37,000	-
Subtotal	<u>18,824,901</u>	<u>17,165,525</u>
Total	20,457,711	18,567,937
Charity care	<u>(104,430)</u>	<u>(98,633)</u>
Total patient service revenue	<u>20,353,281</u>	<u>18,469,304</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(2,888,306)	(2,412,170)
Medicaid	(889,591)	(598,502)
Blue Cross	(849,709)	(680,302)
Other	<u>(1,938,774)</u>	<u>(1,561,490)</u>
Total contractual adjustments	<u>(6,566,380)</u>	<u>(5,252,464)</u>
NET PATIENT SERVICE REVENUE	13,786,901	13,216,840
PROVISION FOR BAD DEBTS	<u>(676,651)</u>	<u>(591,056)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 13,110,250</u>	<u>\$ 12,625,784</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 1,195,990	\$ 1,053,351	\$ 281,588	\$ 253,258
155,232	95,764	-	39
<u>1,351,222</u>	<u>1,149,115</u>	<u>281,588</u>	<u>253,297</u>
302,802	215,393	932,661	1,027,082
94,133	69,303	23,189	14,470
195,704	133,534	419,636	474,133
182,704	139,113	2,500,810	2,381,180
331,998	277,710	2,484,103	2,254,010
36,571	28,284	72,836	52,021
436,205	331,352	62,984	69,597
152,533	130,473	416,068	378,566
118,803	109,921	212,921	150,131
3,892	3,108	44,600	10,602
47,917	46,186	320,467	250,556
227,294	286,215	270,283	339,282
445,444	312,887	479,334	319,619
-	-	98,271	87,341
-	-	44,263	41,859
-	-	4,753,431	4,311,110
40,295	26,762	1,266,067	1,207,285
6,349	5,086	548,029	515,172
-	-	834,337	739,511
137	-	380,830	426,671
-	-	37,000	-
<u>2,622,781</u>	<u>2,115,327</u>	<u>16,202,120</u>	<u>15,050,198</u>
<u>\$ 3,974,003</u>	<u>\$ 3,264,442</u>	<u>\$ 16,483,708</u>	<u>\$ 15,303,495</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Grant revenues	\$ 61,476	\$ 56,691
Public health support	50,000	50,000
Meals sold	29,958	44,826
Clinic rental income	29,467	28,715
Management fees	21,000	21,000
Dietary consultations	37,481	20,110
Purchase discounts and rebates	10,356	13,518
Occupational health	9,020	12,129
Medical records transcripts	3,259	2,652
Vending machines	944	1,105
Rehab expenses reimbursement	-	138,036
Other	<u>66,604</u>	<u>57,602</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 319,565</u>	 <u>\$ 446,384</u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 111,501	\$ 131,120
Supplies and other expenses	<u>9,382</u>	<u>9,631</u>
	<u>120,883</u>	<u>140,751</u>
<b>ADULTS AND PEDIATRICS</b>		
Salaries and wages	686,259	660,765
Supplies and other expenses	<u>44,446</u>	<u>50,628</u>
	<u>730,705</u>	<u>711,393</u>
<b>NURSERY</b>		
Salaries and wages	26,134	16,507
Supplies and other expenses	<u>141</u>	<u>30</u>
	<u>26,275</u>	<u>16,537</u>
<b>OPERATING ROOM</b>		
Salaries and wages	189,956	188,014
Supplies and other expenses	<u>91,586</u>	<u>228,325</u>
	<u>281,542</u>	<u>416,339</u>
<b>LABOR AND DELIVERY ROOM</b>		
Salaries and wages	26,268	21,769
Supplies and other expenses	<u>104</u>	<u>4</u>
	<u>26,372</u>	<u>21,773</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>16,954</u>	<u>15,429</u>
<b>NONPHYSICIAN ANESTHETISTS</b>		
Salaries and wages	154,753	150,893
Supplies and other expenses	<u>59,465</u>	<u>32,560</u>
	<u>214,218</u>	<u>183,453</u>
<b>RADIOLOGY</b>		
Salaries and wages	253,004	249,925
Supplies and other expenses	<u>328,514</u>	<u>305,524</u>
	<u>581,518</u>	<u>555,449</u>
<b>LABORATORY</b>		
Salaries and wages	217,137	169,852
Supplies and other expenses	<u>261,853</u>	<u>412,515</u>
	<u>478,990</u>	<u>582,367</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>BLOOD</b>		
Salaries and wages	\$ 4,494	\$ 1,787
Supplies and other expenses	<u>54,934</u>	<u>36,334</u>
	<u>59,428</u>	<u>38,121</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	16,327	21,519
Supplies and other expenses	<u>16,889</u>	<u>10,953</u>
	<u>33,216</u>	<u>32,472</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	108,266	105,243
Supplies and other expenses	<u>221,437</u>	<u>311,392</u>
	<u>329,703</u>	<u>416,635</u>
<b>OCCUPATIONAL THERAPY</b>		
Salaries and wages	11,113	12,299
Supplies and other expenses	<u>130,388</u>	<u>156,102</u>
	<u>141,501</u>	<u>168,401</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries and wages	2,692	3,915
Supplies and other expenses	<u>2,943</u>	<u>2,247</u>
	<u>5,635</u>	<u>6,162</u>
<b>SPEECH PATHOLOGY</b>		
Supplies and other expenses	<u>18,564</u>	<u>7,476</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	4,491	4,455
Supplies and other expenses	<u>42,969</u>	<u>35,475</u>
	<u>47,460</u>	<u>39,930</u>
<b>CENTRAL SUPPLY</b>		
Salaries and wages	4,840	6,324
Supplies and other expenses	<u>52,543</u>	<u>53,738</u>
	<u>57,383</u>	<u>60,062</u>
<b>PHARMACY</b>		
Salaries and wages	7,553	4,136
Supplies and other expenses	<u>199,921</u>	<u>248,756</u>
	<u>207,474</u>	<u>252,892</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	\$ 32,108	\$ 34,575
Supplies and other expenses	<u>379</u>	<u>4,031</u>
	<u>32,487</u>	<u>38,606</u>
<b>OUTPATIENT CLINIC</b>		
Salaries and wages	105,691	122,810
Supplies and other expenses	<u>9,354</u>	<u>10,072</u>
	<u>115,045</u>	<u>132,882</u>
<b>CLINICS</b>		
Salaries and wages	840,732	841,726
Supplies and other expenses	<u>1,734,858</u>	<u>1,617,326</u>
	<u>2,575,590</u>	<u>2,459,052</u>
<b>EMERGENCY ROOM</b>		
Salaries and wages	200,707	183,747
Supplies and other expenses	<u>433,256</u>	<u>439,902</u>
	<u>633,963</u>	<u>623,649</u>
<b>AMBULANCE</b>		
Salaries and wages	143,415	150,687
Supplies and other expenses	<u>40,398</u>	<u>47,536</u>
	<u>183,813</u>	<u>198,223</u>
<b>HOME HEALTH</b>		
Salaries and wages	486,661	479,292
Supplies and other expenses	<u>166,794</u>	<u>165,423</u>
	<u>653,455</u>	<u>644,715</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	119,463	127,255
Supplies and other expenses	<u>97,553</u>	<u>135,147</u>
	<u>217,016</u>	<u>262,402</u>
<b>SOCIAL SERVICE</b>		
Salaries and wages	37,157	36,811
Supplies and other expenses	<u>1,088</u>	<u>729</u>
	<u>38,245</u>	<u>37,540</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	178,046	207,691
Supplies and other expenses	<u>25,616</u>	<u>19,520</u>
	<u>203,662</u>	<u>227,211</u>

(continued)

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>DIETARY</b>		
Salaries and wages	\$ 171,871	\$ 180,565
Supplies and other expenses	<u>71,057</u>	<u>69,454</u>
	<u>242,928</u>	<u>250,019</u>
<b>OPERATION OF PLANT</b>		
Salaries and wages	189,531	197,240
Supplies and other expenses	<u>203,519</u>	<u>202,539</u>
	<u>393,050</u>	<u>399,779</u>
<b>FOUNDATION</b>		
Salaries and wages	14,719	14,183
Supplies and other expenses	<u>2,301</u>	<u>2,200</u>
	<u>17,020</u>	<u>16,383</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	64,318	58,995
Supplies and other expenses	<u>14,468</u>	<u>11,488</u>
	<u>78,786</u>	<u>70,483</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	6,038	7,106
Supplies and other expenses	<u>18,248</u>	<u>18,984</u>
	<u>24,286</u>	<u>26,090</u>
<b>SLEEP LAB</b>		
Supplies and other expenses	<u>6,469</u>	<u>-</u>
<b>ADMINISTRATIVE AND GENERAL</b>		
Salaries and wages	759,002	734,727
Supplies and other expenses	<u>1,085,370</u>	<u>1,001,004</u>
	<u>1,844,372</u>	<u>1,735,731</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation	701,155	677,834
Interest and amortization	30,977	37,699
Employee benefits	<u>1,543,701</u>	<u>1,451,221</u>
	<u>2,275,833</u>	<u>2,166,754</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 12,913,841</u></u>	<u><u>\$ 12,955,161</u></u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2010 AND 2009**

ANALYSIS OF AGING	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,628,088	56.06%	\$ 1,511,574	49.85%
31 to 60 days	406,522	14.00%	476,248	15.71%
61 to 90 days	231,649	7.98%	266,317	8.78%
91 days and over	637,955	21.96%	778,162	25.66%
	<b>2,904,214</b>	<b>100.00%</b>	3,032,301	100.00%
Less: Allowance for doubtful accounts	537,275		648,269	
Allowance for contractual adjustments	553,935		550,990	
Net	<b>\$ 1,813,004</b>		<b>\$ 1,833,042</b>	
Net patient service revenue per calendar day	<b>\$ 35,918</b>		<b>\$ 34,591</b>	
Days of net revenue in net accounts receivable at year end	<b>50</b>		<b>53</b>	

**ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	2010		2009	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 648,269		\$ 645,402	
Add:				
Provision for bad debts	676,651	5.16%	591,056	4.68%
Recoveries previously written off	238,955	1.82%	213,941	1.69%
	<b>915,606</b>		<b>804,997</b>	
Less:				
Accounts written off	(1,026,600)	7.83%	(802,130)	6.35%
Ending Balance	<b>\$ 537,275</b>		<b>\$ 648,269</b>	

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
<b>SUPPLIES</b>		
Central supply	\$ 142,318	\$ 153,816
Pharmacy	107,901	52,413
Dietary	8,277	6,204
DME supplies	93,119	87,134
Other	<u>3,415</u>	<u>8,326</u>
Total supplies	<u>\$ 355,030</u>	<u>\$ 307,893</u>
<b>PREPAID EXPENSE</b>		
Insurance	\$ 17,742	\$ 14,292
Dues and other	<u>96,483</u>	<u>85,365</u>
Total prepaid expense	<u>\$ 114,225</u>	<u>\$ 99,657</u>

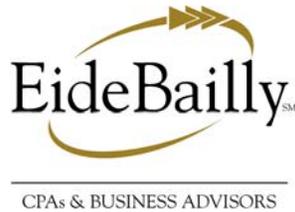
**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF BOND INVESTMENT TRANSACTIONS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

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	Balance July 1, 2009	Invested	Redeemed	Balance June 30, 2010
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Revenue bond sinking fund				
Money market savings	\$ 52,515	\$ 174,624	\$ (169,425)	\$ <b>57,714</b>
Reserve fund				
Certificate of deposit	<u>126,645</u>	<u>131,168</u>	<u>(131,307)</u>	<u><b>126,506</b></u>
Total	<u>\$ 179,160</u>	<u>\$ 305,792</u>	<u>\$ (300,732)</u>	<u><b>\$ 184,220</b></u>

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULES OF STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2010 AND 2009 (UNAUDITED)**

	<u>2010</u>	<u>2009</u>
<b>PATIENT DAYS</b>		
Acute	<b>806</b>	738
Swing-bed	<b>767</b>	828
Newborn	<b>185</b>	123
	<hr/>	<hr/>
Totals	<b>1,758</b>	1,689
	<hr/> <hr/>	<hr/> <hr/>
<b>ADMISSIONS</b>		
Acute	<b>308</b>	291
Swing-bed	<b>82</b>	79
Newborn	<b>81</b>	58
	<hr/>	<hr/>
Totals	<b>471</b>	428
	<hr/> <hr/>	<hr/> <hr/>
<b>DISCHARGES</b>		
Acute	<b>308</b>	293
Swing-bed	<b>80</b>	79
Newborn	<b>82</b>	58
	<hr/>	<hr/>
Totals	<b>470</b>	430
	<hr/> <hr/>	<hr/> <hr/>
AVERAGE LENGTH OF STAY, ACUTE	<b>2.62</b>	2.52
	<hr/> <hr/>	<hr/> <hr/>
BEDS	<b>25</b>	25
	<hr/> <hr/>	<hr/> <hr/>
<b>OCCUPANCY PERCENTAGE</b>		
Acute, based on 25 beds	<b>8.8%</b>	8.1%
Swing-bed, based on 25 beds	<b>8.4%</b>	9.1%
	<hr/> <hr/>	<hr/> <hr/>
OUTPATIENT VISITS	<b>21,983</b>	21,414
	<hr/> <hr/>	<hr/> <hr/>
<b>CLINIC VISITS</b>		
Kessel	<b>24,057</b>	23,797
Lime Springs	<b>1,361</b>	1,610
	<hr/> <hr/>	<hr/> <hr/>



**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, 2010 and 2009, 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 15, 2010. 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 opinions 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 other matters which are 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, 2010, 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 15, 2010

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2010**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-10      Segregation of Duties

Criteria – One important aspect of internal control 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-10      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 control 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, 2010**

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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 year-end 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:**

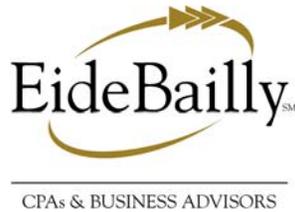
- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 Travel Expense – No expenditures of RSHHC money for travel expenses of spouses of RSHHC officials and/or employees were noted.
- II-D-10 Business Transactions – We noted no material business transactions between RSHHC and RSHHC officials and/or employees.
- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 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.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2010**

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

- II-G-10     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...”. RSHC published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.



## 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 sheet of Regional Health Services of Howard County (RHS HC) as of June 30, 2010, 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 RHS HC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Health Services of Howard County as of June 30, 2010, 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, we have obtained no knowledge of any default by any member in the fulfillment of 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 RHS HC" 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 default.

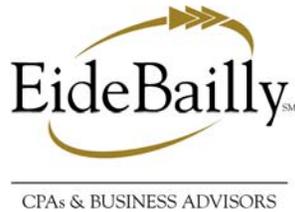
In connection with the foregoing, we advise you that we are in fact the independent auditor of Regional Health Services of Howard County and are not a regular employee of RHS HC.

We further certify that the undersigned has no interest, direct or indirect, in any contract with RHS HC other than to make the annual audit of RHS HC and to furnish this certificate as respectively required in the loan agreement and is not connected with said RHS HC as an officer or employee thereof.

This report is intended solely for the information and use of the Board of Trustees, management of Regional Health Services of Howard County, bond counsel, and the County of Howard, Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Sully LLP*

Dubuque, Iowa  
September 15, 2010



The 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 (RSHHC) for the year ended June 30, 2010. 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 15, 2010. 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. RSHHC adopted the provisions of FASB Accounting Standards and Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009, as disclosed in the financial statements. Other than the adoption of ASC 740-10, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2010. We noted no transactions entered into by RSHHC 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, amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that 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.

Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

*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.

We discussed all adjustments to the financial statements with management during the audit. The following adjustment was made during the 2010 audit.

To adjust estimated third-party payor settlements	\$ (150,184)
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The net effect of the adjustment was to decrease net assets by \$150,184.

*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 15, 2010.

*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 the 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 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 "Eric Sully LLP".

Dubuque, Iowa  
September 15, 2010

xc: Mr. David Hartberg



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

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In planning and performing our audit of the financial statements of Regional Health Services of Howard County (RHSHC) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered RHSHC's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of RHSHC's internal control. Accordingly, we do not express an opinion on the effectiveness of RHSHC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of RHSHC's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in RHSHC's internal control to be significant deficiencies:

#### Preparation of Financial Statements

A properly designed system of internal control over financial reporting includes 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 control 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 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. 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. The effect of this condition is that the year-end 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 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.

#### Segregation of Duties

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

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



Dubuque, Iowa  
September 15, 2010

xc: Mr. David Hartberg