



Financial Statements
June 30, 2011 and 2010

Regional Health Services of Howard County

Regional Health Services of Howard County

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June 30, 2011 and 2010

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Regional Health Services of Howard County
Board of Trustees and Health Services Officials
June 30, 2011 and 2010

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------|---------------------------|---------------------|
| <u>Board of Trustees</u> | | |
| George Willis | Chairperson | December 31, 2014 |
| John Wacha, III | Vice-Chairperson | December 31, 2016 |
| Diana Sobolik | Secretary | December 31, 2016 |
| Linda McConnell | Treasurer | December 31, 2014 |
| Allen Moudry | Member | December 31, 2012 |
| Thais Folta | Member | December 31, 2012 |
| Connie McGrane | Member | December 31, 2012 |
| <u>Health Services Officials</u> | | |
| David Hartberg | Chief Executive Officer | |
| Brenda Moser | Vice President of Finance | |



Independent Auditor's Report

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

We have audited the accompanying balance sheets of Regional Health Services of Howard County (RHSHC) and its discretely presented component unit, Regional Health Services Foundation, as of June 30, 2011 and 2010, 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 RHSHC'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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011, on our consideration of RHSHC's internal control over financial reporting and on 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.

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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 33 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
September 22, 2011

This discussion and analysis of the financial performance of Regional Health Services of Howard County provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities, as well as the Regional Health Services of Howard County Foundation's net assets, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and Foundation and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$15,977,020, total liabilities of \$1,489,961, and net assets of \$14,487,059.
- The Statements of Revenues, Expenses and Changes in Net Assets indicates total net patient service revenue of \$13,652,595 increased 4.1% over the previous fiscal year, total operating expenses of \$13,868,024 increased 7.4% resulting in a gain from operations of \$165,473 a 67.9% decrease from the previous year. A net non-operating gain of \$1,149,518 brings the excess of revenues over expenses to \$1,314,991 a 21.5% increase.

- The Hospital's current assets exceeded its current liabilities by \$ 6,844,038 at June 30, 2011, providing a 5.6 current ratio.
- The Hospital recorded an excess of revenues over expenses for fiscal year ending June 30, 2011, amounting to \$1,314,991.
- Gross outpatient charges increased 11.8% during fiscal year 2011.
- Total operating expenses increased 7.4% from the previous fiscal year.
- Net days in accounts receivable continue to be very favorable at 47 on June 30, 2011.
- Total volumes for fiscal year 2011
 - 707 - Acute Care (12% decrease)
 - 791 - Swing Bed (3% increase)
 - 143 - Newborn Days (23% decrease)
 - 21,569 - Outpatient visits (2% decrease)
 - 25,572 - Cresco Clinic Visits (6% increase)
 - 1,317 - Lime Springs Visits (3% decrease)

Organization Highlights

The organization continued to make many positive changes over this last fiscal year, including:

- Upgraded mammography services to digital
- Began the implementation of a Cerner Electronic Health Record and made progress towards a go-live date of December 2011
- Expanded the Board of Trustees from a five-member board to a seven-member board
- Added Andrea Dietzenbach, PA, to our Medical Staff in October 2010
- Completed a Master Facility Planning Process
- Continued the implementation of Process Excellence Initiatives, including 4 new Huddles, Value-Stream Mapping for our Pre-Authorization process, Standard Work for the Nurse to Nurse Handoff process and 5S Rapid Improvement Events in both the ER and the Cresco Medical Clinic

Condensed Financial Statements

Balance Sheets

| | June 30 2011 | June 30 2010 | June 30 2009 |
|--|----------------------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 1,810,554 | \$ 795,312 | \$ 855,114 |
| Investments | 3,583,458 | 4,056,596 | 2,713,255 |
| Assets limited as to use or restricted | 60,621 | 57,714 | 52,515 |
| Receivables | | | |
| Patient, net of estimated uncollectibles | 1,774,976 | 1,813,004 | 1,833,042 |
| Estimated third-party payor settlements | - | - | 205,000 |
| Succeeding year property tax | 490,463 | 471,403 | 437,551 |
| Other | 113,203 | 99,058 | 130,289 |
| Other assets | 500,724 | 469,255 | 407,550 |
| Total current assets | 8,333,999 | 7,762,342 | 6,634,316 |
| Assets Limited as to Use or Restricted | 3,856,338 | 3,806,163 | 3,657,876 |
| Capital Assets, Net | 3,781,263 | 3,654,082 | 3,716,610 |
| Other Assets | 5,420 | 11,332 | 17,244 |
| Total assets | <u>\$ 15,977,020</u> | <u>\$ 15,233,919</u> | <u>\$ 14,026,046</u> |

Condensed Financial Statements

Balance Sheets (continued)

| | June 30 2011 | June 30 2010 | June 30 2009 |
|---|-----------------|-----------------|-----------------|
| Liabilities and Net Assets | | | |
| Current Liabilities | | | |
| Current maturities of long-term debt | \$ 160,000 | \$ 160,327 | \$ 173,759 |
| Accounts payable | 306,512 | 419,837 | 401,134 |
| Estimated third-party payor settlements | 6,500 | 196,000 | - |
| Accrued expenses | 526,486 | 715,820 | 695,198 |
| Deferred revenue for succeeding year property tax receivable | 490,463 | 471,403 | 437,551 |
| Total current liabilities | 1,489,961 | 1,963,387 | 1,707,642 |
| Long-Term Debt, Less Current Maturities | - | 155,666 | 311,264 |
| Total liabilities | 1,489,961 | 2,119,053 | 2,018,906 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 3,621,263 | 3,338,089 | 3,231,587 |
| Restricted | 126,500 | 126,506 | 126,645 |
| Unrestricted | 10,739,296 | 9,650,271 | 8,648,908 |
| Total net assets | 14,487,059 | 13,114,866 | 12,007,140 |
| Total liabilities and net assets | \$ 15,977,020 | \$ 15,233,919 | \$ 14,026,046 |

Regional Health Services of Howard County
Management's Discussion and Analysis
June 30, 2011 and 2010

Statements of Revenues, Expenses, and Changes in Net Assets

| | June 30 2011 | June 30 2010 | June 30 2009 |
|---|-----------------------------|-----------------------------|-----------------------------|
| Operating Revenues | | | |
| Net patient service revenue (net of provision for bad debts) | \$ 13,652,595 | \$ 13,110,250 | \$ 12,625,784 |
| Other operating revenues | 380,902 | 319,565 | 446,384 |
| Total Operating Revenues | <u>14,033,497</u> | <u>13,429,815</u> | <u>13,072,168</u> |
| Operating Expenses | | | |
| Salaries and wages | 5,427,213 | 5,174,247 | 5,125,933 |
| Employee benefits | 1,692,646 | 1,543,701 | 1,451,221 |
| Supplies and other expenses | 5,904,572 | 5,463,761 | 5,662,474 |
| Depreciation | 820,147 | 701,155 | 677,834 |
| Interest and amortization | 23,446 | 30,977 | 37,699 |
| Total Operating Expenses | <u>13,868,024</u> | <u>12,913,841</u> | <u>12,955,161</u> |
| Operating Income | <u>165,473</u> | <u>515,974</u> | <u>117,007</u> |
| Nonoperating Revenues (Expenses) | | | |
| Tax revenue | 482,156 | 443,384 | 431,011 |
| Investment income | 81,701 | 108,529 | 180,174 |
| Noncapital grants and contributions | 590,664 | 17,580 | 20,976 |
| Loss on sale of property and equipment | (5,003) | (2,914) | - |
| Other | - | - | - |
| Net Nonoperating Revenues | <u>1,149,518</u> | <u>566,579</u> | <u>632,161</u> |
| Revenues in Excess of Expenses | 1,314,991 | 1,082,553 | 749,168 |
| Capital contributions and grants | <u>57,202</u> | <u>25,173</u> | <u>46,595</u> |
| Increase in Net Assets | 1,372,193 | 1,107,726 | 795,763 |
| Net Assets, Beginning of Year | <u>13,114,866</u> | <u>12,007,140</u> | <u>11,211,377</u> |
| Net Assets, End of Year | <u><u>\$ 14,487,059</u></u> | <u><u>\$ 13,114,866</u></u> | <u><u>\$ 12,007,140</u></u> |

Capital Assets

This past year RSHHC has continued its focus on making facility improvements through a potential project of remodeling and construction. In the fall of 2010 RSHHC hired Accord Architecture to work on a multi-month process of interviewing employees, patients, community members and hospital leaders to assess facility needs. In February 2011 Accord was able to present those findings and potential project drawings. Later in the Spring 2011 the Board of Trustees engaged LarsonAllen, LLP to provide some financial advisory to the Board of Trustees and other Hospital Leaders on the appropriate level of debt that could be absorbed. Over the past few months the Board of Trustees, Medical Staff and Senior Leadership have continued its work with Accord and LarsonAllen to redefine the scope of a possible project that would help improve hospital efficiency, patient privacy, safety and convenience, as well as allow for the improvement of space for key services into the future, along with updated infrastructure to be able to support any new and remodeled space.

Long-Term Debt

At June 30, 2011, Regional Health Services of Howard County had \$160,000 in short-term and long-term debt. The debt was initially incurred to support the 1992 renovation/building project. In 2003, this debt was refinanced into the 2003 Hospital Revenue Bonds. On June 1, 2012 this debt will be paid in full, leaving Regional Health Services of Howard County debt free.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Energy costs
- Patient safety initiatives
- Technology advances
- Electronic Health Record implementation
- Medical Staff issues
- Lower return on investments

Summary

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our employees provides to every patient, visitor and fellow employee they serve. The organization has seen an improvement in employee satisfaction, supported by the outcomes of a recent employee engagement survey, and the Press Ganey patient satisfaction scores continue to increase, specifically the Outpatient Areas, which were focused upon in a mini strategic plan in 2010-11. RSHHC was also recognized this past year by the University of North Carolina's (UNC) Sheps Center for Health Services Research for being named one of only 32 of the nation's 1,300 Critical Access Hospitals that has been able to perform better than benchmark in five financial areas each of the past three years. RSHHC would also like to thank each member of the Hospitals Medical Staff for their dedication and support provided.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Regional Health Services of Howard County
Attn: Vice President of Finance
235 8th Avenue West
Cresco, IA 52136

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,810,554 | \$ 795,312 |
| Investments - Note 4 | 3,583,458 | 4,056,596 |
| Assets limited as to use or restricted - Note 4 | 60,621 | 57,714 |
| Receivables | | |
| Patient, net of estimated uncollectibles | | |
| of \$1,325,000 in 2011 and \$1,091,000 in 2010 | 1,774,976 | 1,813,004 |
| Succeeding year property tax | 490,463 | 471,403 |
| Other | 113,203 | 99,058 |
| Supplies | 368,620 | 355,030 |
| Prepaid expenses | 132,104 | 114,225 |
| Total current assets | <u>8,333,999</u> | <u>7,762,342</u> |
| Assets Limited as to Use or Restricted - Note 4 | | |
| Internally designated for capital improvements | 3,729,838 | 3,679,657 |
| Restricted under bond agreement | 126,500 | 126,506 |
| Total assets limited as to use or restricted | <u>3,856,338</u> | <u>3,806,163</u> |
| Capital Assets - Note 5 | | |
| Capital assets not being depreciated | 172,445 | 105,387 |
| Depreciable capital assets, net of accumulated depreciation | 3,608,818 | 3,548,695 |
| Total capital assets, net | <u>3,781,263</u> | <u>3,654,082</u> |
| Other Assets | | |
| Bond issuance costs, net of accumulated amortization | 5,420 | 11,332 |
| Total assets | <u><u>\$ 15,977,020</u></u> | <u><u>\$ 15,233,919</u></u> |

See Notes to Financial Statements

Regional Health Services of Howard County

Balance Sheets

June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------|---------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt - Note 6 | \$ 160,000 | \$ 160,327 |
| Accounts payable | | |
| Trade | 153,545 | 214,510 |
| Related party - Note 9 | 152,967 | 205,327 |
| Estimated third-party payor settlements | 6,500 | 196,000 |
| Accrued expenses | | |
| Salaries and wages | 76,687 | 307,762 |
| Vacation | 390,434 | 370,787 |
| Interest | 600 | 1,131 |
| Payroll taxes and employee benefits | 20,625 | 36,140 |
| Other | 38,140 | - |
| Deferred revenue for succeeding year property tax receivable | 490,463 | 471,403 |
| Total current liabilities | 1,489,961 | 1,963,387 |
| Long-Term Debt, Less Current Maturities - Note 6 | - | 155,666 |
| Total liabilities | 1,489,961 | 2,119,053 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 3,621,263 | 3,338,089 |
| Restricted | | |
| Expendable under bond agreement | 126,500 | 126,506 |
| Unrestricted | 10,739,296 | 9,650,271 |
| Total net assets | 14,487,059 | 13,114,866 |
| Total liabilities and net assets | \$ 15,977,020 | \$ 15,233,919 |

Regional Health Services Foundation
Balance Sheets
June 30, 2011 and 2010

| | 2011 | 2010 |
|---|-----------|-----------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 38,632 | \$ 28,389 |
| Beneficial interest in community foundation | 24,492 | 20,769 |
| Total assets | \$ 63,124 | \$ 49,158 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 3,362 | \$ 2,831 |
| Net Assets, Unrestricted | 59,762 | 46,327 |
| Total liabilities and net assets | \$ 63,124 | \$ 49,158 |

Regional Health Services of Howard County
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---------------|---------------|
| Operating Revenues | | |
| Net patient service revenue (net of provision for bad debts of \$768,293 in 2011 and \$676,651 in 2010) - Notes 2 and 3 | \$ 13,652,595 | \$ 13,110,250 |
| Other operating revenues | 380,902 | 319,565 |
| Total Operating Revenues | 14,033,497 | 13,429,815 |
| Operating Expenses | | |
| Salaries and wages | 5,427,213 | 5,174,247 |
| Employee benefits | 1,692,646 | 1,543,701 |
| Supplies and other expenses | 5,904,572 | 5,463,761 |
| Depreciation | 820,147 | 701,155 |
| Interest and amortization | 23,446 | 30,977 |
| Total Operating Expenses | 13,868,024 | 12,913,841 |
| Operating Income | 165,473 | 515,974 |
| Nonoperating Revenues (Expenses) | | |
| Tax revenue | 482,156 | 443,384 |
| Investment income | 81,701 | 108,529 |
| Noncapital grants and contributions | 590,664 | 17,580 |
| Loss on sale of capital assets | (5,003) | (2,914) |
| Net Nonoperating Revenues | 1,149,518 | 566,579 |
| Revenues in Excess of Expenses | 1,314,991 | 1,082,553 |
| Other Changes in Net Assets | | |
| Capital contributions and grants | 57,202 | 25,173 |
| Increase in Net Assets | 1,372,193 | 1,107,726 |
| Net Assets Beginning of Year | 13,114,866 | 12,007,140 |
| Net Assets End of Year | \$ 14,487,059 | \$ 13,114,866 |

Regional Health Services Foundation
 Statements of Revenues, Expenses, and Changes in Net Assets
 Years Ending June 30, 2011 and 2010

| | 2011 | 2010 |
|--|-----------|-----------|
| Operating Revenues | | |
| Contributions | \$ 19,735 | \$ 19,723 |
| Investment income | 4,200 | 919 |
| Total Operating Revenues | 23,935 | 20,642 |
| | | |
| Expenses | | |
| Contributions to Regional Health Services of Howard County | - | 7,632 |
| Supplies and other expenses | 10,500 | 3,579 |
| Total Expenses | 10,500 | 11,211 |
| | | |
| Increase in Net Assets | 13,435 | 9,431 |
| | | |
| Net Assets Beginning of Year | 46,327 | 36,896 |
| | | |
| Net Assets End of Year | \$ 59,762 | \$ 46,327 |

Regional Health Services of Howard County
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|--------------------|
| Cash Flows from Operating Activities | | |
| Receipts of patient service revenue | \$ 13,485,823 | \$ 13,557,009 |
| Payments of salaries and wages | (5,638,641) | (5,138,370) |
| Payments of supplies and other expenses | (7,719,387) | (7,065,231) |
| Other receipts and payments, net | <u>380,902</u> | <u>319,565</u> |
| Net Cash Provided by Operating Activities | <u>508,697</u> | <u>1,672,973</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Noncapital grants and contributions received | 590,664 | 17,580 |
| County tax revenue received | <u>481,737</u> | <u>446,897</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>1,072,401</u> | <u>464,477</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Cash received from the sale of capital assets | 374 | - |
| Purchase of capital assets | (952,705) | (641,541) |
| Principal payments on long-term debt | (160,327) | (173,759) |
| Interest payments on long-term debt | (13,731) | (20,824) |
| Capital contributions and grants | <u>57,202</u> | <u>25,173</u> |
| Net Cash used for Capital and Related Financing Activities | <u>(1,069,187)</u> | <u>(810,951)</u> |
| Cash Flows from Investing Activities | | |
| Investment income | 83,275 | 110,526 |
| Purchase of investments | (8,140,051) | (10,337,465) |
| Proceeds from the sale of investments | <u>8,560,107</u> | <u>8,840,638</u> |
| Net Cash Provided by (used for) Investing Activities | <u>503,331</u> | <u>(1,386,301)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,015,242 | (59,802) |
| Cash and Cash Equivalents at Beginning of Year | <u>795,312</u> | <u>855,114</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,810,554</u> | <u>\$ 795,312</u> |

Regional Health Services of Howard County
 Statements of Cash Flows
 Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|-------------------|---------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities | | |
| Operating income | \$ 165,473 | \$ 515,974 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 820,147 | 701,155 |
| Interest and amortization expense considered capital and related financing activity | 23,446 | 30,977 |
| Provision for bad debts | 768,293 | 676,651 |
| Changes in assets and liabilities | | |
| Patient receivables | (730,265) | (656,613) |
| Estimated third-party payor settlements | (189,500) | 401,000 |
| Other receivables | (15,300) | 25,721 |
| Supplies | (13,590) | (47,137) |
| Prepaid expenses | (17,879) | (14,568) |
| Accounts payable - trade and related | (113,325) | 18,703 |
| Accrued expenses | (188,803) | 21,110 |
| | <u>\$ 508,697</u> | <u>\$ 1,672,973</u> |
| Net Cash Provided by Operating Activities | | |

Regional Health Services Foundation
 Statements of Cash Flows
 Years Ending June 30, 2011 and 2010

| | 2011 | 2010 |
|---|-----------|-----------|
| Cash Flows from Operating Activities | | |
| Increase in net assets | \$ 13,435 | \$ 9,431 |
| Increase in accounts payable | 531 | 1,938 |
| Net Cash Provided by Operating Activities | 13,966 | 11,369 |
| Cash Flows from Investing Activities | | |
| Investment in beneficial interest in community foundation | (3,723) | (10,769) |
| Increase in Cash and Cash Equivalents | 10,243 | 600 |
| Cash and Cash Equivalents at Beginning of Year | 28,389 | 27,789 |
| Cash and Cash Equivalents at End of Year | \$ 38,632 | \$ 28,389 |

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, 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.

Tax Exempt Status

Regional Health Services of Howard County is an Iowa 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 income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

RSHHC believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. RSHHC would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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 non-profit 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.

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'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 (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.

RSHHC uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, RSHHC has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

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.

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, 2011 and 2010, accumulated amortization was \$48,283 and \$42,371, 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, 2011 and 2010, accumulated amortization was \$38,221 and \$33,887, respectively. Total amortization expense for the bond issuance costs and deferred loss from refinancing was \$10,246 and \$10,641 for the years ended June 30, 2011 and 2010, respectively.

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 |

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 projected vacation payouts are recorded as a current liability on the balance sheet, based on pay rates that are in effect at June 30, 2011 and 2010.

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

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

Net Patient Service Revenue

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.

Contributions and Grants

Revenues from contributions and grants (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions and grants 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 \$26,794 and \$23,574 for advertising costs for the years ended June 30, 2011 and 2010, 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 22, 2011, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

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 \$93,782 and \$104,430 for the years ended June 30, 2011 and 2010, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2011 and 2010, were \$61,000 and \$68,000, respectively.

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

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

Note 3 - Net Patient Service Revenue

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

Medicare:

RHSHC is licensed as a Critical Access Hospital (CAH). RHSHC is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by RHSHC and are subject to audits thereof by the Medicare fiscal intermediary. RHSHC's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2009.

Medicaid:

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. RSHHC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by RSHHC and audits thereof by the Medicaid fiscal intermediary. RSHHC's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2008.

Other Payors:

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

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

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 RSHHC 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 RSHHC'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 RSHHC and CMS.

Revenue from the Medicare and Medicaid programs accounted for approximately 42% and 12%, respectively, of RSHHC's net patient service revenue for the year ended June 30, 2011, and 40% and 8%, respectively, of RSHHC's net patient service revenue for the year ended June 30, 2010.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|--|---------------|---------------|
| Total Patient Service Revenue | \$ 21,884,389 | \$ 20,353,281 |
| Contractual Adjustments: | | |
| Medicare | (3,250,815) | (2,888,306) |
| Medicaid | (1,097,927) | (889,591) |
| Blue Cross | (1,098,802) | (849,709) |
| Other | (2,015,957) | (1,938,774) |
| Total contractual adjustments | (7,463,501) | (6,566,380) |
| Net Patient Service Revenue | 14,420,888 | 13,786,901 |
| Provision for Bad Debts | (768,293) | (676,651) |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | \$ 13,652,595 | \$ 13,110,250 |

Note 4 - Cash and Deposits

RHSHC's deposits in banks at June 30, 2011 and 2010, 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, 2011 and 2010

At June 30, 2011 and 2010, RHSHC's carrying amounts of cash and deposits are as follows:

| | 2011 | 2010 |
|-------------------------------|--------------|--------------|
| Checking and Savings Accounts | \$ 1,071,110 | \$ 339,431 |
| Certificates of Deposit | 6,427,823 | 7,576,813 |
| Interest Receivable | 1,484 | 4,229 |
| Total deposits | \$ 7,500,417 | \$ 7,920,473 |

Included in the following balance sheet captions:

| | | |
|--|--------------|--------------|
| Investments | \$ 3,583,458 | \$ 4,056,596 |
| Assets Limited as to Use or Restricted | 3,916,959 | 3,863,877 |
| | \$ 7,500,417 | \$ 7,920,473 |

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

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

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

Note 5 - Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

| | June 30, 2010 | | | | June 30, 2011 |
|---|---------------------|-------------------|-----------------|------------------|---------------------|
| | Balance | Additions | Deductions | Transfers | Balance |
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$ 30,508 | \$ - | \$ - | \$ - | \$ 30,508 |
| Construction in progress | 74,879 | 601,660 | - | (534,602) | 141,937 |
| Total capital assets not being depreciated | <u>105,387</u> | <u>601,660</u> | <u>-</u> | <u>(534,602)</u> | <u>172,445</u> |
| Capital Assets Being Depreciated: | | | | | |
| Land improvements | 260,992 | 7,055 | 6,680 | - | 261,367 |
| Building | 3,858,882 | - | 30,821 | 30,524 | 3,858,585 |
| Fixed equipment | 3,164,498 | 132 | 48,154 | 51,110 | 3,167,586 |
| Major movable equipment | <u>4,813,366</u> | <u>343,858</u> | <u>592,734</u> | <u>452,968</u> | <u>5,017,458</u> |
| Total capital assets being depreciated | <u>12,097,738</u> | <u>351,045</u> | <u>678,389</u> | <u>534,602</u> | <u>12,304,996</u> |
| Less Accumulated Depreciation For: | | | | | |
| Land improvements | 229,063 | 6,587 | 6,680 | - | 228,970 |
| Building | 2,574,269 | 128,604 | 30,819 | - | 2,672,054 |
| Fixed equipment | 2,497,754 | 118,359 | 48,153 | - | 2,567,960 |
| Major movable equipment | <u>3,247,957</u> | <u>566,597</u> | <u>587,360</u> | <u>-</u> | <u>3,227,194</u> |
| Total accumulated depreciation | <u>8,549,043</u> | <u>820,147</u> | <u>673,012</u> | <u>-</u> | <u>8,696,178</u> |
| Total Capital Assets Being Depreciated, Net | <u>3,548,695</u> | <u>(469,102)</u> | <u>5,377</u> | <u>534,602</u> | <u>3,608,818</u> |
| Total Capital Assets, Net | <u>\$ 3,654,082</u> | <u>\$ 132,558</u> | <u>\$ 5,377</u> | <u>\$ -</u> | <u>\$ 3,781,263</u> |

Construction in progress at June 30, 2011, represents initial costs incurred for a master facility project that is still in the planning stages. Construction in progress also represents costs incurred for the implementation of electronic health records. Total cost of the project is estimated at \$400,000, will be funded through operations, and is expected to be completed during December 2011.

Regional Health Services of Howard County
Notes to Financial Statements
June 30, 2011 and 2010

| | June 30, 2009 | | | | June 30, 2010 |
|---|---------------------|--------------------|-------------------|------------------|---------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u> |
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$ 30,508 | \$ - | \$ - | \$ - | \$ 30,508 |
| Construction in progress | 26,280 | 357,784 | - | (309,185) | 74,879 |
| Total capital assets not being depreciated | <u>56,788</u> | <u>357,784</u> | <u>-</u> | <u>(309,185)</u> | <u>105,387</u> |
| Capital Assets Being Depreciated: | | | | | |
| Land improvements | 260,992 | - | - | - | 260,992 |
| 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 |
| Total capital assets being depreciated | <u>11,570,347</u> | <u>283,756</u> | <u>65,550</u> | <u>309,185</u> | <u>12,097,738</u> |
| Less Accumulated Depreciation For: | | | | | |
| 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 accumulated depreciation | <u>7,910,525</u> | <u>701,154</u> | <u>62,636</u> | <u>-</u> | <u>8,549,043</u> |
| Total Capital Assets Being Depreciated, Net | <u>3,659,822</u> | <u>(417,398)</u> | <u>2,914</u> | <u>309,185</u> | <u>3,548,695</u> |
| Total Capital Assets, Net | <u>\$ 3,716,610</u> | <u>\$ (59,614)</u> | <u>\$ 2,914</u> | <u>\$ -</u> | <u>\$ 3,654,082</u> |

Note 6 - Long-Term Debt

A summary of changes in long-term liabilities for the years ended June 30, 2011 and 2010 are as follows:

| | June 30, 2010 <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | June 30, 2011 <u>Balance</u> | Amounts Due Within One Year |
|--|---------------------------------|------------------|-------------------|---------------------------------|--------------------------------|
| 2003 Revenue Bonds | \$ 310,000 | \$ - | \$ 150,000 | \$ 160,000 | \$ 160,000 |
| Capitalized Lease Obligation | 10,327 | - | 10,327 | - | - |
| Deferred Loss from Refinancing | <u>(4,334)</u> | <u>4,334</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total long-term debt | <u>\$ 315,993</u> | <u>\$ 4,334</u> | <u>\$ 160,327</u> | 160,000 | <u>\$ 160,000</u> |
| Less current maturities | | | | <u>(160,000)</u> | |
| Long-term debt, less current maturities | | | | <u>\$ -</u> | |
| | June 30, 2009 <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | June 30, 2010 <u>Balance</u> | Amounts Due Within One Year |
| 2003 Revenue Bonds | \$ 460,000 | \$ - | \$ 150,000 | \$ 310,000 | \$ 150,000 |
| Capitalized Lease Obligation | 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> | 315,993 | <u>\$ 160,327</u> |
| Less current maturities | | | | <u>(160,327)</u> | |
| Long-term debt, less current maturities | | | | <u>\$ 155,666</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, 2011 and 2010. 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 was due to Beckman Coulter, in monthly installments of \$2,096 through November 4, 2010. Interest was charged on the lease agreement at a rate of 6%. The lease payable was secured by equipment and paid in full during the year ended June 30, 2011.

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

| Year Ending June 30, | Long-Term Debt | |
|----------------------|----------------|----------|
| | Principal | Interest |
| 2012 | \$ 160,000 | \$ 7,200 |

Note 7 - Leases

RHSHC leases certain equipment under noncancelable long-term lease agreements. Total lease expense for the years ended June 30, 2011 and 2010, for all operating leases was \$22,288 and \$26,839, respectively.

Note 8 - Pension and Retirement Benefits

RHSHC contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary, and RHSHC is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and RHSHC was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute. RHSHC's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$374,771, \$342,608, and \$316,701, respectively, equal to the required contributions for each year.

Note 9 - Related Party Transactions

Regional Health Services Foundation

Regional Health Services Foundation was formed to perform fund raising activities for RHSHC. The Foundation contributed cash and capital equipment in the amount of \$0 and \$7,632 to RHSHC for the years ended June 30, 2011 and 2010, respectively.

Master Affiliation Agreement

RHSHC entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, RHSHC entered into a professional 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 \$1,333,505 and \$1,411,000 for the years ended June 30, 2011 and 2010, respectively.

Due to/From Affiliated Organization

As of June 30, 2011 and 2010, Regional Health Services of Howard County's records reflect a due to Mercy Medical Center – North Iowa of \$152,967 and \$205,327, respectively, for the various services and distributions related to these agreements.

Management Services Agreement

RHSHC has a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to RHSHC. The arrangement does not alter the authority or responsibility of the Board of Trustees of RHSHC. Expenses for the administrative and management services received for the years ended June 30, 2011 and 2010, were approximately \$271,367 and \$268,000, respectively.

Note 10 - Contingencies

Malpractice Insurance

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

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.

Note 11 - Risk Management

RHSHC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The coverage has not changed significantly from the previous year. RHSHC assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Note 12 - Concentration of Credit Risk

RHSHC grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|---------------------------------------|------|------|
| Medicare | 22% | 27% |
| Medicaid | 10% | 9% |
| Commercial Insurance | 32% | 29% |
| Other Third-Party Payors and Patients | 36% | 35% |
| | 100% | 100% |



Required Supplementary Information
June 30, 2011

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, 2011

| | Actual Accrual Basis | Accrual Adjustments | Actual Cash Basis | Budget | Variance Favorable (Unfavorable) |
|--|----------------------------|------------------------|----------------------|---------------------|--|
| Estimated Amount to be Raised by Taxation | \$ 482,156 | \$ (419) | \$ 481,737 | \$ 471,403 | \$ 10,334 |
| Estimated Other Revenues/Receipts | <u>14,763,064</u> | <u>(165,198)</u> | <u>14,597,866</u> | <u>14,357,383</u> | <u>240,483</u> |
| | 15,245,220 | (165,617) | 15,079,603 | 14,828,786 | 250,817 |
| Expenses/Disbursements | <u>13,873,027</u> | <u>611,390</u> | <u>14,484,417</u> | <u>14,498,033</u> | <u>13,616</u> |
| Net | 1,372,193 | (777,007) | 595,186 | 330,753 | <u>\$ 264,433</u> |
| Balance, Beginning of Year | <u>13,114,866</u> | <u>(4,399,081)</u> | <u>8,715,785</u> | <u>7,585,908</u> | |
| Balance, End of Year | <u>\$ 14,487,059</u> | <u>\$ (5,176,088)</u> | <u>\$ 9,310,971</u> | <u>\$ 7,916,661</u> | |

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 RHSHC 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 RHSHC on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A 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, 2011.

For the year ended June 30, 2011, RHSHC's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2011 and 2010

Regional Health Services of Howard County



Independent Auditor's Report on Supplementary Information

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

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue, other operating revenue, operating expenses, patient receivables and allowance for doubtful accounts, supplies and prepaid expenses, bond investments transactions, and statistical information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenue, operating expenses, supplies and prepaid expenses, and bond investments transactions, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of receivables, allowance for doubtful accounts, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2011

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| | Total | |
|--|----------------------|----------------------|
| | 2011 | 2010 |
| Patient Care Services | | |
| Adults and pediatrics | \$ 1,426,329 | \$ 1,477,578 |
| Nursery | 128,784 | 155,232 |
| Subtotal | <u>1,555,113</u> | <u>1,632,810</u> |
| Other Professional Services | | |
| Operating room | 1,277,566 | 1,235,463 |
| Labor and delivery room | 113,647 | 117,322 |
| Anesthesiology | 669,831 | 615,340 |
| Radiology | 2,865,374 | 2,392,954 |
| Laboratory | 2,935,255 | 2,816,101 |
| Blood | 160,532 | 109,407 |
| Respiratory therapy | 431,656 | 499,189 |
| Physical therapy | 729,099 | 568,601 |
| Occupational therapy | 340,194 | 331,724 |
| Speech pathology | 91,831 | 48,492 |
| Electrocardiology | 379,203 | 368,384 |
| Central supply | 226,327 | 497,577 |
| Pharmacy | 1,541,024 | 1,215,338 |
| Cardiac rehabilitation | 85,458 | 98,271 |
| Outpatient clinic | 54,386 | 44,263 |
| Clinics | 5,100,218 | 4,753,431 |
| Emergency room | 1,522,555 | 1,306,362 |
| Ambulance | 530,179 | 554,378 |
| Home health | 853,974 | 834,337 |
| Durable medical equipment | 406,649 | 380,967 |
| Sleep lab | 108,100 | 37,000 |
| Subtotal | <u>20,423,058</u> | <u>18,824,901</u> |
| Total | 21,978,171 | 20,457,711 |
| Charity care | <u>(93,782)</u> | <u>(104,430)</u> |
| Total patient service revenue | <u>21,884,389</u> | <u>20,353,281</u> |
| Contractual Adjustments | | |
| Medicare | (3,250,815) | (2,888,306) |
| Medicaid | (1,097,927) | (889,591) |
| Blue Cross | (1,098,802) | (849,709) |
| Other | <u>(2,015,957)</u> | <u>(1,938,774)</u> |
| Total contractual adjustments | <u>(7,463,501)</u> | <u>(6,566,380)</u> |
| Net Patient Service Revenue | 14,420,888 | 13,786,901 |
| Provision for Bad Debts | <u>(768,293)</u> | <u>(676,651)</u> |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | <u>\$ 13,652,595</u> | <u>\$ 13,110,250</u> |

Regional Health Services of Howard County
Schedules of Net Patient Service Revenue
Years Ended June 30, 2011 and 2010

| Inpatient | | Outpatient | |
|---------------------|---------------------|----------------------|----------------------|
| 2011 | 2010 | 2011 | 2010 |
| \$ 1,101,454 | \$ 1,195,990 | \$ 324,875 | \$ 281,588 |
| 128,523 | 155,232 | 261 | - |
| <u>1,229,977</u> | <u>1,351,222</u> | <u>325,136</u> | <u>281,588</u> |
| 228,871 | 302,802 | 1,048,695 | 932,661 |
| 93,840 | 94,133 | 19,807 | 23,189 |
| 156,846 | 195,704 | 512,985 | 419,636 |
| 107,046 | 177,596 | 2,758,328 | 2,215,358 |
| 301,067 | 331,998 | 2,634,188 | 2,484,103 |
| 41,419 | 36,571 | 119,113 | 72,836 |
| 365,442 | 436,205 | 66,214 | 62,984 |
| 151,747 | 152,533 | 577,352 | 416,068 |
| 94,043 | 118,803 | 246,151 | 212,921 |
| 4,936 | 3,892 | 86,895 | 44,600 |
| 24,135 | 47,917 | 355,068 | 320,467 |
| 90,509 | 227,294 | 135,818 | 270,283 |
| 616,480 | 450,552 | 924,544 | 764,786 |
| - | - | 85,458 | 98,271 |
| - | - | 54,386 | 44,263 |
| - | - | 5,100,218 | 4,753,431 |
| 38,862 | 40,295 | 1,483,693 | 1,266,067 |
| 7,336 | 6,349 | 522,843 | 548,029 |
| - | - | 853,974 | 834,337 |
| - | 137 | 406,649 | 380,830 |
| - | - | 108,100 | 37,000 |
| <u>2,322,579</u> | <u>2,622,781</u> | <u>18,100,479</u> | <u>16,202,120</u> |
| <u>\$ 3,552,556</u> | <u>\$ 3,974,003</u> | <u>\$ 18,425,615</u> | <u>\$ 16,483,708</u> |

Regional Health Services of Howard County
Schedules of Other Operating Revenues
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Other Operating Revenues | | |
| Grant revenues | \$ 34,262 | \$ 61,476 |
| Public health support | 84,000 | 50,000 |
| Meals sold | 30,689 | 29,958 |
| Clinic rental income | 32,700 | 29,467 |
| Management fees | 21,000 | 21,000 |
| Dietary consultations | 45,152 | 37,481 |
| Purchase discounts and rebates | 18,371 | 10,356 |
| Occupational health | 10,641 | 9,020 |
| Medical records transcripts | 2,524 | 3,259 |
| Vending machines | 847 | 944 |
| Other | 100,716 | 66,604 |
| Total Other Operating Revenues | \$ 380,902 | \$ 319,565 |

Regional Health Services of Howard County
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------|----------------|----------------|
| Nursing Administration | | |
| Salaries and wages | \$ 115,733 | \$ 111,501 |
| Supplies and other expenses | 8,861 | 9,382 |
| | <u>124,594</u> | <u>120,883</u> |
| Adults and Pediatrics | | |
| Salaries and wages | 749,612 | 686,259 |
| Supplies and other expenses | 94,899 | 44,446 |
| | <u>844,511</u> | <u>730,705</u> |
| Nursery | | |
| Salaries and wages | 18,552 | 26,134 |
| Supplies and other expenses | 391 | 141 |
| | <u>18,943</u> | <u>26,275</u> |
| Operating Room | | |
| Salaries and wages | 193,993 | 189,956 |
| Supplies and other expenses | 140,469 | 91,586 |
| | <u>334,462</u> | <u>281,542</u> |
| Labor and Delivery Room | | |
| Salaries and wages | 28,141 | 26,268 |
| Supplies and other expenses | 307 | 104 |
| | <u>28,448</u> | <u>26,372</u> |
| Anesthesiology | | |
| Supplies and other expenses | 23,380 | 16,954 |
| | <u>23,380</u> | <u>16,954</u> |
| Nonphysician Anesthetists | | |
| Salaries and wages | 153,505 | 154,753 |
| Supplies and other expenses | 40,464 | 59,465 |
| | <u>193,969</u> | <u>214,218</u> |
| Radiology | | |
| Salaries and wages | 274,168 | 253,004 |
| Supplies and other expenses | 391,212 | 328,514 |
| | <u>665,380</u> | <u>581,518</u> |
| Laboratory | | |
| Salaries and wages | 234,411 | 217,137 |
| Supplies and other expenses | 269,319 | 261,853 |
| | <u>503,730</u> | <u>478,990</u> |

Regional Health Services of Howard County
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------|----------------|----------------|
| Blood | | |
| Salaries and wages | \$ 3,876 | \$ 4,494 |
| Supplies and other expenses | 58,785 | 54,934 |
| | <u>62,661</u> | <u>59,428</u> |
| Respiratory Therapy | | |
| Salaries and wages | 10,898 | 16,327 |
| Supplies and other expenses | 17,679 | 16,889 |
| | <u>28,577</u> | <u>33,216</u> |
| Physical Therapy | | |
| Salaries and wages | 116,735 | 108,266 |
| Supplies and other expenses | 305,141 | 221,437 |
| | <u>421,876</u> | <u>329,703</u> |
| Occupational Therapy | | |
| Salaries and wages | 8,463 | 11,113 |
| Supplies and other expenses | 139,343 | 130,388 |
| | <u>147,806</u> | <u>141,501</u> |
| Occupational Health | | |
| Salaries and wages | 2,859 | 2,692 |
| Supplies and other expenses | 2,157 | 2,943 |
| | <u>5,016</u> | <u>5,635</u> |
| Speech Pathology | | |
| Supplies and other expenses | 34,860 | 18,564 |
| | <u>34,860</u> | <u>18,564</u> |
| Electrocardiology | | |
| Salaries and wages | 5,999 | 4,491 |
| Supplies and other expenses | 46,328 | 42,969 |
| | <u>52,327</u> | <u>47,460</u> |
| Central Supply | | |
| Salaries and wages | 5,132 | 4,840 |
| Supplies and other expenses | 50,775 | 52,543 |
| | <u>55,907</u> | <u>57,383</u> |
| Pharmacy | | |
| Salaries and wages | 8,867 | 7,553 |
| Supplies and other expenses | 219,203 | 199,921 |
| | <u>228,070</u> | <u>207,474</u> |

Regional Health Services of Howard County
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------|------------------|------------------|
| Cardiac Rehabilitation | | |
| Salaries and wages | \$ 34,377 | \$ 32,108 |
| Supplies and other expenses | 321 | 379 |
| | <u>34,698</u> | <u>32,487</u> |
| Outpatient Clinic | | |
| Salaries and wages | 111,239 | 105,691 |
| Supplies and other expenses | 9,546 | 9,354 |
| | <u>120,785</u> | <u>115,045</u> |
| Clinics | | |
| Salaries and wages | 922,574 | 840,732 |
| Supplies and other expenses | 1,811,652 | 1,734,858 |
| | <u>2,734,226</u> | <u>2,575,590</u> |
| Emergency Room | | |
| Salaries and wages | 203,442 | 200,707 |
| Supplies and other expenses | 446,046 | 433,256 |
| | <u>649,488</u> | <u>633,963</u> |
| Ambulance | | |
| Salaries and wages | 163,871 | 143,415 |
| Supplies and other expenses | 40,032 | 40,398 |
| | <u>203,903</u> | <u>183,813</u> |
| Home Health | | |
| Salaries and wages | 490,289 | 486,661 |
| Supplies and other expenses | 219,950 | 166,794 |
| | <u>710,239</u> | <u>653,455</u> |
| Durable Medical Equipment | | |
| Salaries and wages | 122,338 | 119,463 |
| Supplies and other expenses | 101,102 | 97,553 |
| | <u>223,440</u> | <u>217,016</u> |
| Social Service | | |
| Salaries and wages | 33,126 | 37,157 |
| Supplies and other expenses | 1,384 | 1,088 |
| | <u>34,510</u> | <u>38,245</u> |
| Medical Records | | |
| Salaries and wages | 178,848 | 178,046 |
| Supplies and other expenses | 23,739 | 25,616 |
| | <u>202,587</u> | <u>203,662</u> |

Regional Health Services of Howard County
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|-----------------------------|----------------------|----------------------|
| Dietary | | |
| Salaries and wages | \$ 175,251 | \$ 171,871 |
| Supplies and other expenses | 90,981 | 71,057 |
| | <u>266,232</u> | <u>242,928</u> |
| Operation of Plant | | |
| Salaries and wages | 199,796 | 189,531 |
| Supplies and other expenses | 221,174 | 203,519 |
| | <u>420,970</u> | <u>393,050</u> |
| Foundation | | |
| Salaries and wages | 15,032 | 14,719 |
| Supplies and other expenses | 2,400 | 2,301 |
| | <u>17,432</u> | <u>17,020</u> |
| Housekeeping | | |
| Salaries and wages | 66,493 | 64,318 |
| Supplies and other expenses | 17,368 | 14,468 |
| | <u>83,861</u> | <u>78,786</u> |
| Laundry and Linen | | |
| Salaries and wages | 6,547 | 6,038 |
| Supplies and other expenses | 19,638 | 18,248 |
| | <u>26,185</u> | <u>24,286</u> |
| Sleep Lab | | |
| Supplies and other expenses | 18,400 | 6,469 |
| Administrative and General | | |
| Salaries and wages | 773,046 | 759,002 |
| Supplies and other expenses | 1,037,266 | 1,085,370 |
| | <u>1,810,312</u> | <u>1,844,372</u> |
| Unassigned Expenses | | |
| Depreciation | 820,147 | 701,155 |
| Interest and amortization | 23,446 | 30,977 |
| Employee benefits | 1,692,646 | 1,543,701 |
| | <u>2,536,239</u> | <u>2,275,833</u> |
| Total Operating Expenses | <u>\$ 13,868,024</u> | <u>\$ 12,913,841</u> |

Regional Health Services of Howard County
Schedules of Patient Receivables and Allowance for Doubtful Accounts (Unaudited)
Years Ended June 30, 2011 and 2010

| Analysis of Aging | 2011 | | 2010 | |
|--|---------------------|------------------|---------------------|------------------|
| | Amount | Percent to Total | Amount | Percent to Total |
| Days Since Discharge | | | | |
| 30 days or less | \$ 1,441,836 | 46.51% | \$ 1,628,088 | 56.06% |
| 31 to 60 days | 523,355 | 16.88% | 406,522 | 14.00% |
| 61 to 90 days | 285,399 | 9.21% | 231,649 | 7.98% |
| 91 days and over | 849,597 | 27.40% | 637,955 | 21.96% |
| | <u>3,100,187</u> | <u>100.00%</u> | <u>2,904,214</u> | <u>100.00%</u> |
| Less: Allowance for Doubtful Accounts | 664,611 | | 537,275 | |
| Allowance for Contractual Adjustments | 660,600 | | 553,935 | |
| Net | <u>\$ 1,774,976</u> | | <u>\$ 1,813,004</u> | |
| Net patient service revenue per calendar day | <u>\$ 37,404</u> | | <u>\$ 35,918</u> | |
| Days of net revenue in net accounts receivable at year end | <u>47</u> | | <u>50</u> | |

Analysis of Allowance for Doubtful Accounts

| | 2011 | 2010 |
|-----------------------------------|-------------------|--------------------|
| Beginning Balance | <u>\$ 537,275</u> | <u>\$ 648,269</u> |
| Add: | | |
| Provision for bad debts | 768,293 | 676,651 |
| Recoveries previously written off | 213,356 | 238,955 |
| | <u>981,649</u> | <u>915,606</u> |
| Less: | | |
| Accounts written off | <u>(854,313)</u> | <u>(1,026,600)</u> |
| Ending Balance | <u>\$ 664,611</u> | <u>\$ 537,275</u> |

Regional Health Services of Howard County
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|------------------------|------------|------------|
| Supplies | | |
| Central supply | \$ 149,410 | \$ 142,318 |
| DME supplies | 105,736 | 93,119 |
| Pharmacy | 104,431 | 107,901 |
| Dietary | 7,039 | 8,277 |
| Other | 2,004 | 3,415 |
| Total supplies | \$ 368,620 | \$ 355,030 |
| Prepaid Expenses | | |
| Dues and other | \$ 83,232 | \$ 96,483 |
| Insurance | 48,872 | 17,742 |
| Total prepaid expenses | \$ 132,104 | \$ 114,225 |

Regional Health Services of Howard County
Schedules of Bond Investment Transactions
Years Ended June 30, 2011 and 2010

| | <u>Balance</u> <u>June 30, 2010</u> | <u>Invested</u> | <u>Redeemed</u> | <u>Balance</u> <u>June 30, 2011</u> |
|---------------------------|--|-------------------|-------------------|--|
| Revenue Bond Sinking Fund | | | | |
| Money market savings | \$ 57,714 | \$ 166,482 | \$ 163,575 | \$ 60,621 |
| Reserve Fund | | | | |
| Certificate of deposit | <u>126,506</u> | <u>2,220</u> | <u>2,226</u> | <u>126,500</u> |
| Total | <u>\$ 184,220</u> | <u>\$ 168,702</u> | <u>\$ 165,801</u> | <u>\$ 187,121</u> |

Regional Health Services of Howard County
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|---------------|---------------|
| Patient Days | | |
| Acute | 707 | 806 |
| Swing-bed | 791 | 767 |
| Newborn | 143 | 185 |
| | <u>1,641</u> | <u>1,758</u> |
| Admissions | | |
| Acute | 289 | 308 |
| Swing-bed | 75 | 82 |
| Newborn | 70 | 81 |
| | <u>434</u> | <u>471</u> |
| Discharges | | |
| Acute | 290 | 308 |
| Swing-bed | 77 | 80 |
| Newborn | 70 | 82 |
| | <u>437</u> | <u>470</u> |
| Average Length of Stay, Acute | <u>2.44</u> | <u>2.62</u> |
| Beds | <u>25</u> | <u>25</u> |
| Occupancy Percentage | | |
| Acute, based on 25 beds | <u>7.7%</u> | <u>8.8%</u> |
| Swing-bed, based on 25 beds | <u>8.7%</u> | <u>8.4%</u> |
| Outpatient Visits | <u>21,569</u> | <u>21,983</u> |
| Clinic Visits | | |
| Cresco | <u>25,572</u> | <u>24,057</u> |
| Lime Springs | <u>1,317</u> | <u>1,361</u> |



**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

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

We have audited the accompanying balance sheets of Regional Health Services of Howard County (RHS HC) and its discretely presented component unit, Regional Health Services Foundation, as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 22, 2011. 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.

Internal Control over Financial Reporting

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

A deficiency in internal control 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 or correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting listed as findings I-A-II and I-B-II. 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.

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*.

Comments involving statutory and other legal matters about RSHHC's operations for the year ended June 30, 2011, 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.

We also noted a certain additional matter that we reported to management in a separate letter dated September 22, 2011.

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.



Dubuque, Iowa
September 22, 2011

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-11 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-11 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.

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 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-11 Certified Budget** – Disbursements during the year ended June 30, 2011, did not exceed the amount budgeted.
- II-B-11 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-11 Travel Expense** – No expenditures of RSHHC money for travel expenses of spouses of RSHHC officials and/or employees were noted.
- II-D-11 Business Transactions** – We noted no material business transactions between RSHHC and RSHHC officials and/or employees.
- II-E-11 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-11 Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and RSHHC's investment policy were noted.
- II-G-11 Publication of Bills Allowed and Salaries** – RSHHC is organized under Chapter 347A and is not required to follow this section of the Code of Iowa.



Independent Auditor's Report on Debt Agreement Covenants

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

We have audited the accompanying balance sheet of Regional Health Services of Howard County (RHSHC) as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of RHSHC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, 2011, 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," or Section Seventeen "Covenants Regarding the Operation of RHSHC" 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 RHSHC.

We further certify that the undersigned has no interest, direct or indirect, in any contract with RSHHC other than to make the annual audit of RSHHC and to furnish this certificate as respectively required in the loan agreement and is not connected with said RSHHC 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 22, 2011



CPAs & BUSINESS ADVISORS



September 22, 2011

To the Management of
Regional Health Services of Howard County
Cresco, Iowa

In conjunction with our recently completed audit of Regional Health Services of Howard County as of and for the year ended June 30, 2011, we provide the following comment related to accounting and operating issues.

Capturing of Statistical Information

During the review of statistics used for estimates related to third-party settlements, we noted some discrepancies between those reported from the Medical Records department compared to those included in the monthly statistical report prepared by the Finance department. More specifically, there were differences noted in adult and peds, swing bed and nursery patient days.

We have also noted that the Medicare rural health clinic visits per the Hospital's internal statistics have been much lower than those reported on the Provider Summary Reports provided by Medicare.

As the statistics noted above impact the calculations related to Medicare reimbursement, we recommend that the Finance department reconcile its compiled statistics to the Medical Records department to ensure there are no errors or differences. Furthermore, we recommend that differences between the Hospital's internal Medicare statistics and those reported by Medicare are also reconciled.

Sincerely,

EIDE BAILLY LLP
CPAs & Business Advisors

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



CPAs & BUSINESS ADVISORS



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

We have audited the financial statements of Regional Health Services of Howard County (RHSHC) for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. 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 June 27, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Regional Health Services of Howard County are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by RHSHC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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 22, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters

Following are additional comments for informational purposes only:

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all "Covered Entities," which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD-10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in the financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

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.

Eide Bailly LLP

Dubuque, Iowa
September 22, 2011

xc: Mr. David Hartberg