

Ringgold County Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Ringgold County Hospital
June 30, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

We have audited the accompanying balance sheets of Ringgold County Hospital as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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 for 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 Ringgold County Hospital as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
November 7, 2007

Ringgold County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Introduction

This management's discussion and analysis of the financial performance of Ringgold County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2007 and 2006. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and noncurrent investments increased in 2007 by \$253,694 or 36% and decreased in 2006 by \$184,377 or 20%.
- The Hospital's net assets increased in 2007 by \$226,936 or 6% and \$39,686 or 7%, respectively.
- The Hospital reported operating losses in 2007 \$(491,403), 2006 \$(648,030) and 2005 \$(1,428,197). The operating loss in 2007 decreased by \$156,627 or 24% from the operating loss reported in 2006. The operating loss in 2006 decreased by \$780,167 or 55% from the operating loss reported in 2005.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$226,936 or 6% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Patient accounts receivable, net	\$ 1,400,764	\$ 1,477,807	\$ 1,124,657
Other current assets	1,681,958	1,100,950	1,120,013
Capital assets, net	2,864,478	3,033,437	3,185,375
Other noncurrent assets	<u>316,394</u>	<u>460,718</u>	<u>580,321</u>
Total assets	<u>\$ 6,263,594</u>	<u>\$ 6,072,912</u>	<u>\$ 6,010,366</u>
Liabilities			
Long-term debt	\$ 284,410	\$ 447,639	\$ 752,404
Other current and noncurrent liabilities	<u>1,983,493</u>	<u>1,856,518</u>	<u>1,528,893</u>
Total liabilities	<u>2,267,903</u>	<u>2,304,157</u>	<u>2,281,297</u>
Net Assets			
Invested in capital assets, net of related debt	2,415,362	2,414,653	2,432,971
Unrestricted	<u>1,580,329</u>	<u>1,354,102</u>	<u>1,296,098</u>
Total net assets	<u>3,995,691</u>	<u>3,768,755</u>	<u>3,729,069</u>
Total liabilities and net assets	<u>\$ 6,263,594</u>	<u>\$ 6,072,912</u>	<u>\$ 6,010,366</u>

A significant element of the Hospital's assets is patient accounts receivable. The Hospital's patient accounts receivable decreased by \$77,403 (5%) at June 30, 2007, as compared to June 30, 2006. In 2006, the Hospital's patient accounts receivable increased by \$353,150 (31%) as compared to 2005. Part of the decrease in patient accounts receivable in 2007 is due to increased allowances for contractual adjustments and bad debts. The Hospital is experiencing increasing discounts from third-party commercial insurance payers and an increase in self-pay balances.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$226,936 or 6%, as shown in Table 2. This increase is made up of several different components discussed below and was an improvement compared to the increase in net assets for 2006 of \$39,686.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	2005
Operating Revenues			
Net patient service revenue, net of 2007 and 2006 provisions for uncollectible accounts of \$360,588 and \$322,195, respectively	\$ 9,302,275	\$ 8,726,229	\$ 7,361,247
Other	<u>85,974</u>	<u>116,680</u>	<u>81,332</u>
Total operating revenues	<u>9,388,249</u>	<u>8,842,909</u>	<u>7,442,579</u>
Operating Expenses			
Nursing services	1,389,229	1,313,868	1,204,111
Other professional services	5,131,305	5,109,698	4,971,464
General services	778,057	754,474	669,537
Administrative and fiscal services	2,174,269	1,994,118	1,685,286
Depreciation	<u>406,792</u>	<u>318,781</u>	<u>340,378</u>
Total operating expenses	<u>9,879,652</u>	<u>9,490,939</u>	<u>8,870,776</u>
Operating Loss	<u>(491,403)</u>	<u>(648,030)</u>	<u>(1,428,197)</u>
Nonoperating Revenues (Expenses)			
County taxes	654,342	666,301	664,915
Investment income	41,754	24,053	14,599
Interest expense	(27,546)	(35,159)	(42,354)
Noncapital gifts	21,614	1,288	3,486
Rental income	<u>28,175</u>	<u>31,233</u>	<u>24,831</u>
Total nonoperating revenues	<u>718,339</u>	<u>687,716</u>	<u>665,477</u>
Increase (Decrease) in Net Assets	<u>\$ 226,936</u>	<u>\$ 39,686</u>	<u>\$ (762,720)</u>

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2007, 2006 and 2005, the Hospital reported an operating loss primarily due to the Hospital's operating expenses increasing \$388,713 or 4% and continuing to be greater than Hospital operating revenues. The increase in operating expenses was offset by the increase in Hospital revenues of 6.6% during 2007, which resulted in an improvement in the operating loss of \$156,627 or 24% from 2006. In addition, 2007 was the first full year of operations as a Critical Access Hospital and with the Mount Ayr Medical Clinic operating as provider-based status under the Medicare program.

The Hospital was formed and is operated to serve residents of Ringgold County and the surrounding area. The Hospital levies county taxes to provide additional resources to enable the facility to serve lower income and other residents.

The conversion to a Critical Access Hospital and conversion to a provider-based clinic changed the reimbursement methodology for the Hospital and Clinic, which contributed to the improvement in the operating loss in 2007 and 2006.

The operating loss for 2007 and 2006 decreased by \$156,627 and \$780,167 or 24% and 55%, respectively. The primary component of the decreased operating losses in 2007 and 2006 was an increase in net patient service revenue, net of provision for uncollectible accounts, of \$587,571 or 7% and \$1,364,982 or 18%, respectively.

Net patient service revenue increased, in part, because of an increase in patient utilization from 2006 to 2007. Other factors impacting the change in net patient service revenue include commercial insurance carriers continuing to expect larger and larger discounts on services provided under preferred provider contracts, and the changes in payments from the Medicare program for both outpatient and provider-based clinic services.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county taxes and investment income and interest expense, all of which remained relatively constant in 2007, 2006 and 2005. With nonoperating funds invested in certificates of deposit, the Hospital's investment return has improved due to increasing interest rates. Also, the investment options of the Hospital are severely limited due to the governmental status of the Hospital, which prevents the Hospital from investing in alternative arrangements with more favorable returns.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$2,864,478 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2007, the Hospital purchased new capital assets costing \$234,662. During 2006, \$167,139 was spent to acquire new capital assets.

At the end of 2006, the Hospital had \$3,033,437 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2006, the Hospital purchased new capital assets costing \$167,139. During 2005, \$271,296 was spent to acquire new capital assets.

Debt

At June 30, 2007 and 2006, the Hospital had \$284,411 and \$447,638, respectively, in long-term debt outstanding. The Hospital issued no new debt in 2007 and 2006.

Other Economic Factors

The single largest economic factor affecting the Hospital is the aging, declining population of its service area. As the remaining population ages and median income decreases, the Hospital treats a larger and larger percentage of Medicare and Medicaid patients, thus, increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning (641) 464-3226.

Ringgold County Hospital

Balance Sheets

June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash	\$ 654,992	\$ 251,833
Patient accounts receivable, net of allowance; 2007 – \$515,000, 2006 – \$530,000	1,400,764	1,477,807
County taxes receivable	825,433	669,034
Other receivables	1,488	2,267
Supplies	155,493	130,636
Prepaid expenses	44,552	47,180
	<u>3,082,722</u>	<u>2,578,757</u>
Total current assets		
Noncurrent Investments		
Internally designated	<u>300,932</u>	<u>450,397</u>
Capital Assets, Net	<u>2,864,478</u>	<u>3,033,437</u>
Other Assets		
Assets managed by the South Central Iowa Community Foundation	<u>15,462</u>	<u>10,321</u>
Total assets	<u><u>\$ 6,263,594</u></u>	<u><u>\$ 6,072,912</u></u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 164,684	\$ 156,917
Accounts payable	166,204	192,378
Accrued salaries and payroll taxes	345,415	302,407
Estimated self-insurance costs	60,511	60,511
Accrued compensated absences	408,193	387,062
Estimated amounts due to third-party payers	26,000	105,000
Deferred revenue for county taxes	812,486	652,243
	<u>1,983,493</u>	<u>1,856,518</u>
Total current liabilities	1,983,493	1,856,518
Long-term Debt		
	<u>284,410</u>	<u>447,639</u>
Total liabilities	<u>2,267,903</u>	<u>2,304,157</u>
Net Assets		
Invested in capital assets, net of related debt	2,415,362	2,414,653
Unrestricted	1,580,329	1,354,102
	<u>3,995,691</u>	<u>3,768,755</u>
Total net assets	<u>3,995,691</u>	<u>3,768,755</u>
Total liabilities and net assets	<u>\$ 6,263,594</u>	<u>\$ 6,072,912</u>

Ringgold County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Revenues		
Net patient service revenue, net of 2007 and 2006 provisions for uncollectible accounts of \$322,195 and \$360,588, respectively	\$ 9,302,275	\$ 8,726,229
Other	85,974	116,680
Total operating revenues	9,388,249	8,842,909
Operating Expenses		
Nursing services	1,389,229	1,313,868
Other professional services	5,131,305	5,109,698
General services	778,057	754,474
Administrative and fiscal services	2,174,269	1,994,118
Depreciation	406,792	318,781
Total operating expenses	9,879,652	9,490,939
Operating Loss	(491,403)	(648,030)
Nonoperating Revenues (Expenses)		
County taxes	654,342	666,301
Investment income	41,754	24,053
Interest expense	(27,546)	(35,159)
Noncapital gifts	21,614	1,288
Rental income	28,175	31,233
Total nonoperating revenues	718,339	687,716
Increase in Net Assets	226,936	39,686
Net Assets, Beginning of Year	3,768,755	3,729,069
Net Assets, End of Year	\$ 3,995,691	\$ 3,768,755

Ringgold County Hospital
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Receipts from and on behalf of patients	\$ 9,300,318	\$ 8,428,079
Payments to suppliers and contractors	(3,902,841)	(4,673,796)
Payments to employees	(5,554,283)	(4,425,854)
Other receipts, net	87,284	116,981
Net cash used in operating activities	(69,522)	(554,590)
Noncapital Financing Activities		
County taxes supporting operations	658,186	664,098
Noncapital gifts	21,614	1,288
Net cash provided by noncapital financing activities	679,800	665,386
Capital and Related Financing Activities		
Rental income	28,175	31,233
Principal paid on long-term debt	(155,462)	(147,848)
Interest paid on long-term debt	(27,546)	(35,159)
Purchase of capital assets	(239,143)	(167,144)
Net cash used in capital and related financing activities	(393,976)	(318,918)
Investing Activities		
Interest on investments	42,533	23,745
Purchase of investments	(751,865)	(1,020,397)
Proceeds from maturity of investments	896,189	1,140,000
Net cash provided by investing activities	186,857	143,348
Increase (Decrease) in Cash	403,159	(64,774)
Cash, Beginning of Year	251,833	316,607
Cash, End of Year	\$ 654,992	\$ 251,833
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (449,170)	\$ (648,030)
Depreciation	406,792	318,781
Loss on disposition of property and equipment	1,310	301
Changes in operating assets and liabilities		
Patient accounts receivable, net	77,043	(353,150)
Supplies and prepaid expenses	(22,230)	(26,868)
Estimated amounts due from third-party payers	(121,232)	55,000
Accounts payable and accrued expenses	37,965	99,376
Net cash used in operating activities	\$ (69,522)	\$ (554,590)

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Ringgold County Hospital (“Hospital”) is an acute care hospital located in Mount Ayr, Iowa. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa, and primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county tax revenues) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, such as county taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

County Taxes

Annually, during March, the Hospital’s Board of Trustees adopts a budget for the next fiscal year and approves a tax levy based on the valuation of all taxable property of Ringgold County on January 1 of the prior calendar year. After completion of a public hearing on the tax levy, taxes are received in installments the following September and March. Taxes become delinquent after March 31 of the following year. Revenue from county taxes is recognized in the year for which the taxes are levied.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

During each of the years ended June 30, 2007 and 2006, the Hospital received approximately 7% of its financial support from county taxes. Such funds were used exclusively to support operations.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and any claims incurred but not yet reported.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	4 – 10 years

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As a county public hospital, the Hospital is exempt from federal and state income taxes under the Internal Revenue Code and state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Prior to October 1, 2005, inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. On October 1, 2005, the Hospital was designated as a Critical Access Hospital (CAH). Under this designation, the Hospital is paid on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

Approximately 67% and 69% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance and the State of Iowa Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Code of Iowa provides for additional assessments against depositories to ensure there will be no loss of public funds.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

At June 30, 2007 and 2006, the Hospital had bank balances of \$1,144,645 and \$863,211, respectively, and carrying balances of \$955,924 and \$702,230, respectively, none of which were exposed to custodial credit risk.

Investments

The Hospital 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. The Hospital had no investments at June 30, 2007 and 2006.

The carrying value of deposits are included in the balance sheets as follows:

	<u>2007</u>	<u>2006</u>
Cash	\$ 654,992	\$ 251,833
Noncurrent investments	<u>300,932</u>	<u>450,397</u>
	<u>\$ 955,924</u>	<u>\$ 702,230</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2007 and 2006, consisted of:

	<u>2007</u>	<u>2006</u>
Medicare	\$ 529,013	\$ 651,615
Medicaid	76,329	98,176
Other third-party payers	645,320	569,506
Patients	<u>665,102</u>	<u>688,510</u>
	1,915,764	2,007,807
Less allowance for uncollectible accounts	<u>515,000</u>	<u>530,000</u>
	<u>\$ 1,400,764</u>	<u>\$ 1,477,807</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006, were:

	Beginning Balance	2007			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 127,004	\$ -	\$ -	\$ -	\$ 127,004
Land improvements	304,625	-	-	-	304,625
Buildings and improvements	2,724,417	-	-	-	2,724,417
Fixed equipment	1,634,813	-	-	-	1,634,813
Major moveable equipment	2,100,288	238,264	255,700	-	2,082,852
Construction in progress	<u>12,133</u>	<u>7,662</u>	<u>-</u>	<u>-</u>	<u>19,795</u>
	<u>6,903,280</u>	<u>245,926</u>	<u>255,700</u>	<u>-</u>	<u>6,893,506</u>
Less accumulated depreciation					
Land					
improvements	94,625	14,511	-	-	109,136
Buildings and leasehold improvements	1,331,910	133,405	-	-	1,465,315
Fixed equipment	890,376	76,718	-	-	967,094
Major moveable equipment	<u>1,552,933</u>	<u>182,157</u>	<u>247,607</u>	<u>-</u>	<u>1,487,483</u>
	<u>3,869,844</u>	<u>406,791</u>	<u>247,607</u>	<u>-</u>	<u>4,029,028</u>
Capital assets, net	<u>\$ 3,033,436</u>	<u>\$ (160,865)</u>	<u>\$ 8,093</u>	<u>\$ -</u>	<u>\$ 2,864,478</u>

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

	Beginning Balance	2006			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 127,004	\$ -	\$ -	\$ -	\$ 127,004
Land improvements	304,625	-	-	-	304,625
Buildings and improvements	2,724,417	-	-	-	2,724,417
Fixed equipment	1,630,443	4,370	-	-	1,634,813
Major moveable equipment	1,983,223	150,636	33,571	-	2,100,288
Construction in progress	-	12,133	-	-	12,133
	<u>6,769,712</u>	<u>167,139</u>	<u>33,571</u>	<u>-</u>	<u>6,903,280</u>
Less accumulated depreciation					
Land improvements	85,408	9,217	-	-	94,625
Buildings and leasehold improvements	1,292,300	39,610	-	-	1,331,910
Fixed equipment	874,559	15,816	-	-	890,375
Major moveable equipment	1,332,070	254,133	33,270	-	1,552,933
	<u>3,584,337</u>	<u>318,776</u>	<u>33,270</u>	<u>-</u>	<u>3,869,843</u>
Capital assets, net	<u>\$ 3,185,375</u>	<u>\$ (151,637)</u>	<u>\$ 301</u>	<u>\$ -</u>	<u>\$ 3,033,437</u>

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate stop-loss amount. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2007 and 2006 is summarized as follows:

	2007	2006
Balance, beginning of year	\$ 60,511	\$ 40,000
Current year claims incurred and changes in estimates for claims incurred in prior years	451,962	376,666
Claims and expenses paid	(451,962)	(356,155)
Balance, end of year	\$ 60,511	\$ 60,511

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2007 and 2006:

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue capital loan notes	\$ 360,456	\$ -	\$ 97,556	\$ 262,900	\$ 103,462
Note payable	48,750	-	15,000	33,750	15,000
Lease purchase agreements	195,350	-	42,906	152,444	46,222
Total long-term debt	\$ 604,556	\$ -	\$ 155,462	\$ 449,094	\$ 164,684

Ringgold County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

	2006				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Long-term debt					
Revenue capital loan notes	\$ 453,033	\$ -	\$ 92,577	\$ 360,456	\$ 98,685
Note payable	63,750	-	15,000	48,750	15,000
Lease purchase agreements	235,621	-	40,271	195,350	43,232
Total long-term debt	<u>\$ 752,404</u>	<u>\$ -</u>	<u>\$ 147,848</u>	<u>\$ 604,556</u>	<u>\$ 156,917</u>

Revenue Capital Loan Notes

The revenue capital loan notes consist of Hospital Revenue Capital Loan Notes, Series 2000 (Notes), in the original amount of \$700,000 dated August 1, 1999, which bear interest at 5.25%. The Notes are payable in monthly installments of \$9,472 through December 2009. The Hospital is required to make monthly deposits to the debt service fund. The Notes are secured by the net revenues of the Hospital and a \$100,000 certificate of deposit.

The debt service requirements as of June 30, 2007, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2008	\$ 10,207	\$ -	\$ 10,207
2009	113,669	107,865	5,804
2010	52,320	51,573	747
	<u>\$ 176,196</u>	<u>\$ 159,438</u>	<u>\$ 16,758</u>

Ringgold County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note Payable

The note payable is due October 2009, with principal payable in quarterly installments of \$3,750. The note is noninterest bearing. The note is secured by a loan guaranty from Mercy Hospital Medical Center. The debt service requirements as of June 30, 2007, are as follows:

Year Ending June 30,	Total to be Paid	Principal
2008	\$ 15,000	\$ 15,000
2009	15,000	15,000
2010	<u>3,750</u>	<u>3,750</u>
	<u>\$ 33,750</u>	<u>\$ 33,750</u>

Lease Purchase Obligations

The Hospital is obligated under lease purchase agreements for equipment, due in monthly installments, including interest of 5.25% to 6.85%, through December 2011. Assets under capital leases at June 30, 2007 and 2006, totaled \$134,500 and \$157,194, respectively, net of accumulated depreciation of \$147,500 and \$124,806, respectively. The agreements are secured by equipment. The debt service requirements at June 30, 2007, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2008	\$ 54,338	\$ 46,222	\$ 8,116
2009	54,338	48,709	5,629
2010	41,582	38,891	2,691
2011	<u>19,333</u>	<u>18,622</u>	<u>711</u>
	<u>\$ 169,591</u>	<u>\$ 152,444</u>	<u>\$ 17,147</u>

Note 9: Operating Leases

The Hospital has a noncancellable operating lease for a computerized tomography (CT) scanner that expires in 2013. Prior to June 1, 2007, the lease required contingent rental payments based on the number of CT scans performed each month with a maximum monthly rental of \$10,140. Subsequent to June 1, 2007, the lease was renegotiated to eliminate the contingent rental payments based on the number of CT scans performed and change the required lease payment to a flat rate of \$14,900 a month.

Ringgold County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Future minimum lease payments at June 30, 2007, were:

2008	\$ 178,800
2009	178,800
2010	178,800
2011	178,800
2012	178,800
2013	<u>89,400</u>
Future minimum lease payments	<u><u>\$ 983,400</u></u>

Rental expense for all operating leases consisted of:

	<u>2007</u>	<u>2006</u>
Minimum rentals	\$ 68,164	\$ 72,832
Contingent rentals	<u>113,800</u>	<u>118,521</u>
	<u><u>\$ 181,964</u></u>	<u><u>\$ 191,353</u></u>

Note 10: Pension Plan

Plan Description

The Hospital 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. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their 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.

Funding Policy

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005, were \$241,256, \$255,409 and \$225,850, respectively, which equaled the required contributions for each year.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 11: Related Party Transactions

The Hospital contracts with Mercy Medical Center (Medical Center) to provide certain management services including the administrator who is responsible for daily operating decisions. Other activities contracted with the Medical Center include the purchase of social service, dietician consulting and human resource services.

Payments to the Medical Center totaled \$247,630 and \$211,924 for the years ended June 30, 2007 and 2006, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The annual budget was not amended during 2007 or 2006.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the year ended June 30, 2007:

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Budget to Cash Basis Variance
Amount to be raised by taxation	\$ 654,342	\$ -	\$ 654,342	\$ 652,243	\$ 2,099
Other revenues/receipts	<u>9,479,792</u>	<u>(1,958)</u>	<u>9,477,834</u>	<u>9,935,098</u>	<u>(457,264)</u>
	10,134,134	(1,958)	10,132,176	10,587,341	(455,165)
Expenses/disbursements	<u>9,907,198</u>	<u>(15,735)</u>	<u>9,891,463</u>	<u>10,088,368</u>	<u>(196,905)</u>
	226,936	13,777	240,713	498,973	(258,260)
Balance, beginning of year	<u>3,768,755</u>	<u>(716,976)</u>	<u>3,051,779</u>	<u>3,196,991</u>	<u>(145,212)</u>
Balance, end of year	<u><u>\$ 3,995,691</u></u>	<u><u>\$ (703,199)</u></u>	<u><u>\$ 3,292,492</u></u>	<u><u>\$ 3,695,964</u></u>	<u><u>\$ (403,472)</u></u>

Supplementary Information

Ringgold County Hospital
Patient Accounts Receivable and
Allowance for Uncollectible Accounts
June 30, 2007 and 2006

Patient Accounts Receivable

	2007		2006	
	Amount	Percent	Amount	Percent
Age of Accounts				
0 – 30 days	\$ 1,305,869	50.6%	\$ 1,150,248	47.3%
31 – 60 days	347,384	13.5%	361,890	14.9%
61 – 90 days	185,371	7.2%	203,358	8.4%
91 – 120 days	164,986	6.4%	209,856	8.6%
Over 120 days	<u>577,154</u>	<u>22.3%</u>	<u>507,455</u>	<u>20.8%</u>
	2,580,764	<u>100.00%</u>	2,432,807	<u>100.00%</u>
Allowance for contractual adjustments	<u>665,000</u>		<u>425,000</u>	
	1,915,764		2,007,807	
Less				
Allowance for uncollectible accounts	<u>515,000</u>		<u>530,000</u>	
	<u>\$ 1,400,764</u>		<u>\$ 1,477,807</u>	

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 530,000	\$ 338,101
Provision for uncollectible accounts	322,195	360,588
Accounts written off	<u>(337,195)</u>	<u>(168,689)</u>
Balance, end of year	<u>\$ 515,000</u>	<u>\$ 530,000</u>

Ringgold County Hospital
Supplies and Prepaid Expenses
June 30, 2007 and 2006

	2007	2006
Supplies		
Medical supplies	\$ 58,725	\$ 52,133
Pharmacy	96,768	78,503
	\$ 155,493	\$ 130,636
 Prepaid Expenses		
Insurance	\$ 31,775	\$ 35,419
Other	12,777	11,761
	\$ 44,552	\$ 47,180

Ringgold County Hospital
Other Revenue
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Grant revenue	\$ 18,490	\$ 36,405
Meals sold to employees and guests	29,980	29,474
Contract laundry services	723	1,447
Loss on disposition of capital assets	(1,310)	(301)
Purchase discounts	161	11,571
Other	<u>37,930</u>	<u>38,084</u>
	<u>\$ 85,974</u>	<u>\$ 116,680</u>

Ringgold County Hospital
Net Patient Service Revenue
Years Ended June 30, 2007 and 2006

	Inpatient	2007 Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 575,450	\$ -	\$ 575,450
Swing bed	82,458	-	82,458
	<u>657,908</u>	<u>-</u>	<u>657,908</u>
Other Nursing Services			
Operating room	104,759	796,958	901,717
Recovery room	9,272	121,024	130,296
Central services and supply	82,479	343,611	426,090
Intravenous therapy	100,740	112,690	213,430
Emergency services	12,507	586,533	599,040
	<u>309,757</u>	<u>1,960,816</u>	<u>2,270,573</u>
Other Professional Services			
Laboratory	361,349	1,819,311	2,180,660
Transfusion service	17,611	15,928	33,539
Cardiology	25,080	106,846	131,926
Radiology	335,864	2,147,227	2,483,091
Pharmacy	566,405	566,249	1,132,654
Respiratory therapy	98,661	162,071	260,732
Physical therapy	121,321	261,265	382,586
Anesthesiology	9,195	46,153	55,348
Ambulance service	8,825	409,721	418,546
Dialysis	-	859,314	859,314
Emergency room physicians	-	416,609	416,609
Clinics	-	3,068,649	3,068,649
	<u>1,544,311</u>	<u>9,879,343</u>	<u>11,423,654</u>
Gross Patient Service Revenue	<u>\$ 2,511,976</u>	<u>\$ 11,840,159</u>	<u>14,352,135</u>
Less Allowances and Provision for Uncollectible Accounts			
Medicare contractual allowances			3,439,129
Medicaid contractual allowances			361,605
Other contractual allowances			926,931
Provision for uncollectible accounts			322,195
			<u>5,049,860</u>
Net Patient Service Revenue			<u>\$ 9,302,275</u>

	2006		
Inpatient	Outpatient	Total	
\$ 411,848	\$ -	\$ 411,848	
85,880	-	85,880	
<u>497,728</u>	<u>-</u>	<u>497,728</u>	
100,541	1,038,288	1,138,829	
9,152	122,365	131,517	
93,038	351,354	444,392	
83,660	127,537	211,197	
12,986	580,257	593,243	
<u>299,377</u>	<u>2,219,801</u>	<u>2,519,178</u>	
257,657	1,853,193	2,110,850	
21,606	14,082	35,688	
16,528	205,668	222,196	
228,810	2,198,525	2,427,335	
434,549	557,187	991,736	
85,500	178,501	264,001	
77,061	420,985	498,046	
6,983	47,886	54,869	
3,508	357,673	361,181	
-	739,210	739,210	
-	278,924	278,924	
-	2,655,475	2,655,475	
<u>1,132,202</u>	<u>9,507,309</u>	<u>10,639,511</u>	
<u>\$ 1,929,307</u>	<u>\$ 11,727,110</u>	<u>13,656,417</u>	
		3,826,028	
		313,952	
		429,620	
		<u>360,588</u>	
		<u>4,930,188</u>	
		<u>\$ 8,726,229</u>	

Ringgold County Hospital
Operating Expenses
Years Ended June 30, 2007 and 2006

	Salaries	2007 Supplies and Expense	Total
Nursing Services			
Nursing administration	\$ 67,735	\$ 34,227	\$ 101,962
Medical and surgical	707,088	75,880	782,968
Operating room	244,312	177,209	421,521
Recovery room	-	-	-
Central services and supply	17,160	6,270	23,430
Emergency services	41,530	17,818	59,348
	<u>1,077,825</u>	<u>311,404</u>	<u>1,389,229</u>
Other Professional Services			
Laboratory	222,704	372,299	595,003
Transfusion service	-	21,136	21,136
Cardiology	5,734	7,807	13,541
Radiology	150,668	658,960	809,628
Ultrasound	-	-	-
Pharmacy	123,725	317,984	441,709
Respiratory therapy	106,949	62,357.00	169,306
Physical therapy	114,326	75,561	189,887
Medical records	114,078	53,722	167,800
Ambulance service	175,642	47,528	223,170
Dialysis	184,950	216,924	401,874
Emergency room physicians	117,844	177,496	295,340
Clinics	1,483,590	319,321	1,802,911
	<u>2,800,210</u>	<u>2,331,095</u>	<u>5,131,305</u>
General Services			
Dietary	136,152	69,176	205,328
Plant operation and maintenance	89,739	354,135	443,874
Housekeeping	87,824	21,254	109,078
Laundry and linen	10,400	9,377	19,777
	<u>324,115</u>	<u>453,942</u>	<u>778,057</u>
Administrative and Fiscal Services			
Administrative	369,464	757,996	1,127,460
Employee benefits	-	1,046,809	1,046,809
	<u>369,464</u>	<u>1,804,805</u>	<u>2,174,269</u>
Depreciation			
	<u>-</u>	<u>406,792</u>	<u>406,792</u>
	<u>\$ 4,571,614</u>	<u>\$ 5,308,038</u>	<u>\$ 9,879,652</u>

2006		
Salaries	Supplies and Expense	Total
\$ 48,424	\$ 34,855	\$ 83,279
679,261	77,291	756,552
228,689	157,663	386,352
-	37	37
14,109	36,146	50,255
27,172	10,221	37,393
<u>997,655</u>	<u>316,213</u>	<u>1,313,868</u>
219,008	347,198	566,206
-	25,758	25,758
11,278	6,859	18,137
156,956	749,415	906,371
-	-	-
113,133	255,023	368,156
102,242	74,627	176,869
140,975	77,266	218,241
85,134	44,992	130,126
169,064	45,044	214,108
179,194	208,138	387,332
141,133	129,323	270,456
1,486,476	341,462	1,827,938
<u>2,804,593</u>	<u>2,305,105</u>	<u>5,109,698</u>
134,452	64,654	199,106
91,109	339,292	430,401
81,365	18,099	99,464
16,433	9,070	25,503
<u>323,359</u>	<u>431,115</u>	<u>754,474</u>
326,372	646,099	972,471
-	1,021,647	1,021,647
<u>326,372</u>	<u>1,667,746</u>	<u>1,994,118</u>
-	318,781	318,781
<u>\$ 4,451,979</u>	<u>\$ 5,038,960</u>	<u>\$ 9,490,939</u>

Ringgold County Hospital

Organizational Data

June 30, 2007

Type of Organization

County Public Hospital organized under Chapter 347 of the Code of Iowa, not subject to taxes on income or property.

Board of Trustees, Executive Committee

Kathi Braby, Chairperson, Blockton, Iowa; term expires 2010
Mike Kemery, Vice Chairperson, Clearfield, Iowa; term expires 2010
Bill Armstrong, Secretary, Mount Ayr, Iowa; term expires 2008

Board of Trustees, Members

Larry Tepley, Mount Ayr, Iowa; term expires 2012
Randy Gregg, Mount Ayr, Iowa; term expires 2008
Jim Pederson, Mount Ayr, Iowa; term expires 2012
Fred Wilson, Clearfield, Iowa; term expires 2010

Administrator and Chief Executive Officer

Gordon W. Winkler, Mount Ayr, Iowa

Chief Financial Officer

Teresa Roberts, Mount Ayr, Iowa



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

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

We have audited the financial statements of Ringgold County Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated November 7, 2007. 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 the Hospital'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 an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2007. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2007.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.

Questionable Expenditure

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted.

The mileage reimbursement rate for employees, which should not be in excess of the IRS allowable limits, was approved by the Board.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes, but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

Prior to November 1, 2005, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2007 for the year ended June 30, 2006.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Publication of Bills Allowed and Salaries

Chapters 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” We noted the schedule of salaries paid by job classification and category and two of the four quarterly schedules of bills allowed were published.

Criteria or Specific Requirement – Hospital management is responsible for publishing quarterly the schedule of bills allowed and annually the schedule of salaries paid by job classification and category.

Condition – The Hospital did not publish two quarterly schedules of bills allowed schedule of salaries paid by category but did publish quarterly the schedule of bills allowed.

Context – Two publishings did not occur.

Effect – Requirements were not met under Chapter 347.13(14) of the Code of Iowa.

Cause – Two publishings did not occur.

Recommendation – Management should publish quarterly the schedule of bills allowed.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to conform to this requirement.

* * * * *

This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
November 7, 2007

Ringgold County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2007

Reference Number	Finding	Questioned Costs
None		

NEWS RELEASE

Contact: Teresa Roberts

BKD, LLP released an audit report on Ringgold County Hospital in Mount Ayr, Iowa.

The Hospital's revenues totaled \$10,134,134 for the year ended June 30, 2007, a six percent increase from the prior year. The revenues included \$9,302,275 in net patient revenue, \$85,974 of other operating revenue, \$21,614 from gifts and grants and \$41,754 in investment income.

Expenses for the year totaled \$9,907,198, a four percent increase from the prior year and included \$4,571,614 for wages and employee benefits, \$434,338 for depreciation and interest and \$4,901,246 for other operating expenses.

A copy of the audit report is available for review in the Hospital Administrator's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.