

Monroe County Hospital

Accountants' Report and Financial Statements

June 30, 2009 and 2008



Monroe County Hospital
June 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the accompanying balance sheets of Monroe County Hospital as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of 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 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 Monroe County Hospital as of June 30, 2009 and 2008, 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 December 17, 2009, 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 considered in assessing the results of our audit.

The accompanying management's discussion and analysis 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.

Board of Trustees
Monroe County Hospital
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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
December 17, 2009

Monroe County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Introduction

This management's discussion and analysis of the financial performance of Monroe County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2009 and 2008 by \$1,146,269 or 93% and decreased between 2008 and 2007 by \$511,730 or 29%.
- The Hospital's net assets increased \$117,166 or 2% in 2009 and increased \$466,594 or 10% in 2008.
- The Hospital reported operating losses in both 2009 \$(364,614) and 2008 \$(465,117). The operating loss decreased by \$100,503 in 2009.
- Net nonoperating revenues decreased by \$460,383 or 49% in 2009 compared to 2008 and increased by \$555,929 or 148% in 2008 compared to 2007.

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 \$117,166 or 2% in 2009 over 2008 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Patient accounts receivable, net	\$ 1,537,720	\$ 1,644,212	\$ 1,660,376
Other current assets	3,337,432	2,799,846	2,672,987
Capital assets, net	5,735,003	5,763,258	6,314,093
Other noncurrent assets	<u>1,569,809</u>	<u>1,316,295</u>	<u>940,187</u>
Total assets	<u>\$ 12,179,964</u>	<u>\$ 11,523,611</u>	<u>\$ 11,587,643</u>
Liabilities			
Current liabilities	\$ 3,109,556	\$ 2,113,010	\$ 2,195,575
Long-term debt	<u>3,630,206</u>	<u>4,087,565</u>	<u>4,535,626</u>
Total liabilities	<u>6,739,762</u>	<u>6,200,575</u>	<u>6,731,201</u>
Net Assets			
Invested in capital assets, net of related debt	1,464,695	1,431,593	1,464,870
Restricted			
Expendable	715,604	473,338	434,097
Nonexpendable	179,880	179,880	179,880
Unrestricted	<u>3,080,023</u>	<u>3,238,225</u>	<u>2,777,595</u>
Total net assets	<u>5,440,202</u>	<u>5,323,036</u>	<u>4,856,442</u>
Total liabilities and net assets	<u>\$ 12,179,964</u>	<u>\$ 11,523,611</u>	<u>\$ 11,587,643</u>

In 2009, a significant change in the Hospital's assets was the increase in cash and cash equivalents of \$1,146,269. The increase was due to a significant settlement received from Medicare during 2009 related to the filing of the June 30, 2008 Medicare cost report and increased Medicare rates.

In 2009, a significant change in the Hospital's liabilities was the increase in accounts payable of \$330,291. The increase was due to the purchase of two significant capital equipment items at June 30, 2009 including a roof replacement for \$115,649 and computed radiography for \$89,230, which were included in accounts payable at June 30, 2009. The Hospital's liabilities also increased due to estimated payables due to third-party payers in the amount of \$514,000.

In 2008, a significant change in the Hospital's assets was the decrease in capital assets, net of \$550,835. The decrease was due to the Hospital did not have significant purchases of capital assets in 2008 or 2007, while depreciation on the Hospital's computer system purchased in 2005 was completed in 2008.

In 2008, there were no significant changes to the Hospital's liabilities, other than the normal reductions of long-term debt.

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$117,166 or 2% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Net patient service revenue	\$ 12,088,879	\$ 11,377,449	\$ 11,115,034
Other operating revenues	240,906	212,439	176,145
Total operating revenues	<u>12,329,785</u>	<u>11,589,888</u>	<u>11,291,179</u>
Operating Expenses			
Salaries and wages and employee benefits	6,389,947	6,058,677	5,822,347
Medical professional fees	1,780,044	1,297,242	1,198,925
Depreciation	616,246	924,595	992,320
Other operating expenses	3,908,162	3,774,491	3,453,987
Total operating expenses	<u>12,694,399</u>	<u>12,055,005</u>	<u>11,467,579</u>
Operating Loss	<u>(364,614)</u>	<u>(465,117)</u>	<u>(176,400)</u>
Nonoperating Revenues (Expenses)			
Property taxes	620,903	593,751	575,397
Interest expense	(246,528)	(259,645)	(325,048)
Interest income	54,275	76,220	55,835
Non-capital grants and gifts	42,678	521,385	69,598
Total nonoperating revenues	<u>471,328</u>	<u>931,711</u>	<u>375,782</u>
Excess of Revenues Over Expenses, Before Capital Contributions	106,714	466,594	199,382
Capital Contributions	<u>10,452</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	<u>\$ 117,166</u>	<u>\$ 466,594</u>	<u>\$ 199,382</u>

Operating Loss

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 2009, 2008 and 2007, the Hospital reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2009 decreased by \$100,503 or 22% as compared to 2008. The primary components of the change in operations were:

- Net patient service revenue increased \$711,430 or 6% over 2008 primarily due to an increase in rates of 9.5% effective July 1, 2008.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$331,270 or 5%. The increase is due to annual salary adjustments of 5% and an increase in employee health insurance premium expense of 6%. In addition, wage expense increased due to the employment of a third physician.
- An increase in Medical and professional fees of \$482,802 or 37%. The increase was due to additional emergency department physician coverage due to medical staff turnover.
- A decrease in depreciation and amortization of \$308,349 or 33%. The decrease was due to the final depreciation taken on a few large equipment items, including the Hospital computer system in 2008 and 2009.

The operating loss for 2008 increased by \$288,717 or 164% as compared to 2007. The primary components of the change in operations were:

- Net patient service revenue increased \$262,415 or 2% over 2007 primarily due to an increase in rates of 9% effective July 1, 2007.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$236,330 or 4%. The increase is due to annual salary adjustments of 4.5% and increased investments in employee education and employee satisfaction programs.
- An increase in Medical and professional fees of \$98,317 or 8%. The increase was due to additional Emergency department physician coverage due to turnover in medical staff.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital grants and gifts. Nonoperating revenues decreased by \$460,383 or 49% in 2009 compared to 2008. Nonoperating revenues decreased by \$555,929 or 148% in 2008 compared to 2007. The primary component for the decrease in nonoperating revenues in 2009 was the sizable gift received by the Hospital in 2008. There were no gifts of this size given to the Hospital in 2009. The primary component for the increase in nonoperating revenues in 2008 was the increase in noncapital grants and gifts in 2008 to \$521,385 as compared to \$69,598 in 2007. This is largely attributable to a sizable gift received by the Hospital in 2008.

Contributions

The Hospital received contributions of \$53,130 in 2009, a decrease of \$468,255 from 2008.

The Hospital received contributions of \$521,385 in 2008, an increase of \$451,787 from 2007.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2009 and 2008, discussed earlier. Except in 2008, the net amounts due from third-party payers related to cost report settlements increased \$570,000.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the Hospital had \$5.7 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2009, the Hospital acquired capital assets costing \$579,053.

In 2008, the Hospital acquired capital assets costing \$373,760.

Debt

At June 30, 2009, the Hospital had \$4,096,872 in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital issued no new debt in 2009. The Hospital had revenue capital loan notes, bonds and capital lease obligations outstanding of \$4,544,314 in 2008.

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 Administration by calling 641.932.2134.

Monroe County Hospital
Balance Sheets
June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 2,381,449	\$ 1,235,180
Assets held under bond indenture agreement	58,544	39,041
Patient accounts receivable, net of allowance; 2009 – \$462,563, 2008 – \$361,004	1,537,720	1,644,212
Property taxes receivable	644,946	617,459
Estimated amounts due from third-party payers	-	653,000
Other receivables	12,100	9,903
Supplies	201,312	204,949
Prepaid expenses	39,081	40,314
	<u>4,875,152</u>	<u>4,444,058</u>
Noncurrent Cash and Deposits		
Internally designated for capital acquisitions	504,458	487,981
Externally restricted		
Held under bond indenture agreement	658,548	435,785
By donors	179,880	179,880
	<u>1,342,886</u>	<u>1,103,646</u>
Capital Assets, Net of Accumulated Depreciation	<u>5,735,003</u>	<u>5,763,258</u>
Other Assets		
Deferred financing costs (net of amortization; 2009 – \$82,339, 2008 – \$59,113)	189,423	212,649
Other	37,500	-
	<u>226,923</u>	<u>212,649</u>
Total Assets	<u>\$ 12,179,964</u>	<u>\$ 11,523,611</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Current maturities of long-term debt	\$ 466,666	\$ 456,749
Accounts payable	865,320	535,029
Accrued vacation	375,340	338,750
Accrued payroll and related liabilities	241,796	163,535
Accrued interest	1,488	1,488
Deferred revenue for property taxes	644,946	617,459
Estimated amounts due to third-party payers	514,000	-
	<hr/>	<hr/>
Total current liabilities	3,109,556	2,113,010
Long-term Debt	<hr/>	<hr/>
	3,630,206	4,087,565
	<hr/>	<hr/>
Total liabilities	6,739,762	6,200,575
Net Assets		
Invested in capital assets, net of related debt	1,464,695	1,431,593
Restricted – expendable for debt service	715,604	473,338
Restricted – nonexpendable endowment	179,880	179,880
Unrestricted	3,080,023	3,238,225
	<hr/>	<hr/>
Total net assets	5,440,202	5,323,036
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 12,179,964</u>	<u>\$ 11,523,611</u>

Monroe County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 12,652,370	\$ 11,796,688
Provision for uncollectible accounts	(563,491)	(419,239)
Net patient service revenue	<u>12,088,879</u>	<u>11,377,449</u>
Other	<u>240,906</u>	<u>212,439</u>
Total operating revenues	<u>12,329,785</u>	<u>11,589,888</u>
Operating Expenses		
Salaries and wages	5,041,571	4,804,214
Employee benefits	1,348,376	1,254,463
Medical professional fees	1,780,044	1,297,242
Supplies and expenses	2,066,946	2,068,072
General services	676,018	672,566
Administrative services	1,078,697	938,507
Depreciation	616,246	924,595
Insurance	<u>86,501</u>	<u>95,346</u>
Total operating expenses	<u>12,694,399</u>	<u>12,055,005</u>
Operating Loss	<u>(364,614)</u>	<u>(465,117)</u>
Nonoperating Revenues (Expenses)		
Property taxes	620,903	593,751
Interest expense	(246,528)	(259,645)
Interest income	54,275	76,220
Noncapital grants and gifts	<u>42,678</u>	<u>521,385</u>
Total nonoperating revenues	<u>471,328</u>	<u>931,711</u>
Excess of Revenue Over Expenses, Before Capital Contributions	106,714	466,594
Capital Contributions	<u>10,452</u>	<u>-</u>
Increase in Net Assets	117,166	466,594
Net Assets, Beginning of Year	<u>5,323,036</u>	<u>4,856,442</u>
Net Assets, End of Year	<u>\$ 5,440,202</u>	<u>\$ 5,323,036</u>

Monroe County Hospital
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 13,362,371	\$ 10,823,613
Payments to and on behalf of employees	(6,275,096)	(6,072,003)
Payments to suppliers and contractors	(5,690,130)	(5,013,871)
Other receipts, net	<u>270,113</u>	<u>262,128</u>
Net cash provided by (used in) operating activities	<u>1,667,258</u>	<u>(133)</u>
Noncapital Financing Activities		
Property taxes	620,903	593,751
Noncapital grants and gifts	<u>42,678</u>	<u>521,385</u>
Net cash provided by noncapital financing activities	<u>663,581</u>	<u>1,115,136</u>
Capital and Related Financing Activities		
Capital contributions	10,452	-
Principal paid on capital debt and leases	(455,620)	(540,571)
Interest paid on capital debt and leases	(246,528)	(259,845)
Deferred financing costs	-	(9,315)
Purchase of capital assets	<u>(250,906)</u>	<u>(463,748)</u>
Net cash used in capital and related financing activities	<u>(942,602)</u>	<u>(1,273,479)</u>
Investing Activities		
Interest on deposits	54,275	76,220
Increase in deposits	<u>(296,243)</u>	<u>(429,474)</u>
Net cash used in investing activities	<u>(241,968)</u>	<u>(353,254)</u>
Increase (Decrease) in Cash and Cash Equivalents	1,146,269	(511,730)
Cash and Cash Equivalents, Beginning of Year	<u>1,237,480</u>	<u>1,749,210</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,383,749</u>	<u>\$ 1,237,480</u>

(Continued)

Monroe County Hospital
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Cash and Cash		
Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 2,381,449	\$ 1,235,180
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	<u>2,300</u>	<u>2,300</u>
	<u>\$ 2,383,749</u>	<u>\$ 1,237,480</u>
Reconciliation of Operating Loss to		
Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (364,614)	\$ (465,117)
Depreciation and amortization	647,650	956,923
Changes in operating assets and liabilities		
Patient accounts receivable, net	106,492	16,164
Supplies	3,637	148
Estimated amounts due from and to third-party payers	1,167,000	(570,000)
Accounts payable and accrued expenses	108,057	66,605
Other assets and liabilities	<u>(964)</u>	<u>(4,856)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,667,258</u>	<u>\$ (133)</u>
Supplemental Cash Flows Information		
Capital assets included in accounts payable	<u>\$ 362,859</u>	<u>\$ 25,774</u>

Monroe County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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

Nature of Operations

Monroe County Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Monroe County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Monroe 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 county appropriations) 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 appropriations), property 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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of savings accounts.

Monroe County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Property Taxes

The Hospital received approximately 5% of its financial support from property tax revenues in the years ended June 30, 2009 and 2008, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the county as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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 property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

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, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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.

Monroe County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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	2 to 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off. 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.

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As the Hospital does not provide such benefits, the new standard had no impact on the accompanying financial statements.

Net Assets

Net assets of the Hospital are classified in four 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. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that must be set aside specified by a donor external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable net assets.

Monroe County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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 include 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.

Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted are reported as nonoperating revenues. Amounts that are restricted to a specific operating purpose are reported as other operating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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. Charges excluded from revenue under the Hospital's charity care policy were \$69,334 and \$37,750 for 2009 and 2008, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through December 17, 2009, which is the date the financial statements were available to be issued.

Monroe County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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.** Inpatient and outpatient services related to Medicare beneficiaries are paid based 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 Administrative Contractor. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were 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 55% and 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2009 and 2008, respectively.

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 Interest 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 risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2009 and 2008. The Hospital's deposits in banks at June 30, 2009 and 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 and 2008.

Summary of Carrying Values

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

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 3,782,879	\$ 2,377,867
	<u> </u>	<u> </u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,381,449	\$ 1,235,180
Assets held under bond indenture agreement	58,544	39,041
Noncurrent cash and deposits	1,342,886	1,103,646
	<u> </u>	<u> </u>
	<u>\$ 3,782,879</u>	<u>\$ 2,377,867</u>

Interest Income

Interest income for the years ended June 30, 2009 and 2008, amounted to \$54,275 and \$76,220, respectively.

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, 2009 and 2008 consisted of:

	<u>2009</u>	<u>2008</u>
Medicare	\$ 422,178	\$ 631,479
Medicaid	66,884	72,813
Other third-party payers	760,179	703,289
Patients	751,042	597,635
	<u>2,000,283</u>	<u>2,005,216</u>
Less allowance for uncollectible accounts	462,563	361,004
	<u> </u>	<u> </u>
	<u>\$ 1,537,720</u>	<u>\$ 1,644,212</u>

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2009					
Land	\$ 62,600	\$ -	\$ -	\$ -	\$ 62,600
Land improvements	706,622	-	-	-	706,622
Buildings and leasehold improvements	6,876,417	144,003	3,121	-	7,017,299
Fixed equipment	4,663,723	31,594	-	-	4,695,317
Major movable equipment	5,858,214	385,844	123,665	-	6,120,393
Construction in progress	19,987	17,612	-	-	37,599
	<u>18,187,563</u>	<u>579,053</u>	<u>126,786</u>	<u>-</u>	<u>18,639,830</u>
Less accumulated depreciation					
Land improvements	581,187	21,538	-	-	602,725
Buildings and leasehold improvements	3,403,580	192,890	40,581	-	3,555,889
Fixed equipment	3,340,036	141,412	1	-	3,481,447
Major movable equipment	5,099,502	260,406	95,142	-	5,264,766
	<u>12,424,305</u>	<u>616,246</u>	<u>135,724</u>	<u>-</u>	<u>12,904,827</u>
Capital assets, net	<u>\$ 5,763,258</u>	<u>\$ (37,193)</u>	<u>\$ (8,938)</u>	<u>\$ -</u>	<u>\$ 5,735,003</u>
2008					
Land	\$ 62,600	\$ -	\$ -	\$ -	\$ 62,600
Land improvements	706,622	-	-	-	706,622
Buildings and leasehold improvements	6,796,804	64,379	-	15,234	6,876,417
Fixed equipment	4,663,723	-	-	-	4,663,723
Major movable equipment	5,461,792	248,072	-	148,350	5,858,214
Construction in Progress	122,263	61,309	-	(163,584)	19,988
	<u>17,813,804</u>	<u>373,760</u>	<u>-</u>	<u>-</u>	<u>18,187,564</u>
Less accumulated depreciation					
Land improvements	558,265	22,922	-	-	581,187
Buildings and leasehold improvements	3,172,494	231,086	-	-	3,403,580
Fixed equipment	3,196,576	143,460	-	-	3,340,036
Major movable equipment	4,572,376	527,127	-	-	5,099,503
	<u>11,499,711</u>	<u>924,595</u>	<u>-</u>	<u>-</u>	<u>12,424,306</u>
Capital assets, net	<u>\$ 6,314,093</u>	<u>\$ (550,835)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,763,258</u>

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 6: Medical Malpractice Insurance

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.

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2009 and 2008:

	Beginning Balance	Additions	2009		Ending Balance	Current Portion
			Deductions			
Long-term debt						
Hospital revenue refunding bonds, Series 2007 (A)	\$ 4,165,000	\$ -	\$ (245,000)		\$ 3,920,000	\$ 255,000
Capital lease obligations (B)	436,776	-	(210,620)		226,156	211,666
Less unamortized bond discount	(57,462)	-	8,178		(49,284)	-
Total long-term debt	<u>\$ 4,544,314</u>	<u>\$ -</u>	<u>\$ (447,442)</u>		<u>\$ 4,096,872</u>	<u>\$ 466,666</u>
	Beginning Balance	Additions	2008		Ending Balance	Current Portion
			Deductions			
Long-term debt						
Hospital revenue refunding bonds, Series 2007 (A)	\$ 4,410,000	\$ -	\$ (245,000)		\$ 4,165,000	\$ 245,000
Capital lease obligations (B)	732,348	-	(295,572)		436,776	211,749
Less unamortized bond discount	(66,150)	-	8,688		(57,462)	-
Total long-term debt	<u>\$ 5,076,198</u>	<u>\$ -</u>	<u>\$ (531,884)</u>		<u>\$ 4,544,314</u>	<u>\$ 456,749</u>

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

- (A) Hospital Revenue Refunding Bonds, Series 2007, originally aggregating \$4,410,000, were issued by the Hospital to refund the remaining 2001 and 1993 Series Notes. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.25% to 4.85%, on June 1 and December 1 each year until 2021. Series 2007 Bonds maturing on or after June 1, 2016 are subject to redemption by the Hospital, prior to the stated maturity, at any time on or after June 1, 2015, in whole or in part at a redemption price equal to 100% of principal plus accrued interest. Bonds are collateralized by net revenues of the Hospital.
- (B) At varying rates of imputed interest from 6.9% to 7.2% maturing through 2011 and collateralized by leased equipment. Equipment under capital leases is as follows:

	2009	2008
Equipment	\$ 1,010,504	\$ 1,010,504
Less accumulated depreciation	966,328	930,061
	\$ 44,176	\$ 80,443

The Series 2007 Revenue Bonds provide that a Debt Service Reserve Fund be maintained in the amount of the final reserve requirement of \$435,785.

The Series 2007 indenture agreement also requires certain funds be established for semiannual interest and annual principal payments to be funded monthly. These funds and the Debt Service Reserve Fund are included in noncurrent cash and deposits except for amounts required to meet current obligations in the coming year. The indenture agreements also require the Hospital to comply with certain restrictive covenants, including minimum insurance coverage and restrictions on occurrence of additional debt.

The Hospital has excess funds above required amounts in the reserve funds of \$245,000 at June 30, 2009.

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

The debt service requirements for the Hospital revenue bonds Series 2007 as of June 30, 2009, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2010	\$ 435,373	\$ 255,000	\$ 180,373
2011	434,408	265,000	169,408
2012	432,880	275,000	157,880
2013	435,780	290,000	145,780
2014	432,875	300,000	132,875
2015-2019	2,170,000	1,725,000	445,000
2020-2021	869,215	810,000	59,215
	<u>\$ 5,210,531</u>	<u>\$ 3,920,000</u>	<u>\$ 1,290,531</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest, together with the present value of the future minimum lease payments as of June 30, 2009:

Year Ending	Amount
2010	\$ 219,626
2011	14,884
Total minimum lease payments	<u>234,510</u>
Less amount representing interest	<u>8,354</u>
Present value of future minimum lease payments	<u>\$ 226,156</u>

Subsequent to year end, the Hospital began making payments on a new capital lease for equipment with monthly payments of \$5,610 for 60 months.

Note 8: Designated Net Assets

At June 30, 2009 and 2008, restricted expendable net assets of \$715,604 and \$473,338, respectively, were available for debt service reserve and sinking funds related to indenture agreements.

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 9: Restricted Net Assets

The Hospital was named as a recipient of future investment income from a perpetual endowment fund created under the last will and testament of Denzil F. and Alice E. Patton. The will stipulated that the corpus is to be held for fifty years under the administration of a trustee and the net investment income is to be distributed each year to the Hospital. After the time restriction is met, the principal balance may be used for the operations of the Hospital. The time restriction expires January 2051. Assets of this trust are included in the accompanying financial statements as externally restricted by donors. Trust income received is reported as other income.

Note 10: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), 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. The plan provides retirement and death benefits, which are established by state statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 4.1% and 3.9% of their annual covered salaries and the Hospital is required to contribute 6.35% and 6.05% of annual covered payroll for 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$318,066, \$283,525 and \$259,887, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.35% of annual covered salary for 2009.

Note 11: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization for network administration and support services. Administration and support services fees of \$404,380 and \$368,144 were incurred for the years ended June 30, 2009 and 2008, respectively.

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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 following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2009:

	<u>Actual</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Amended Budget</u>
Amount to be raised by taxation	\$ 620,903	\$ -	\$ 620,903	\$ 617,460
Other revenues/receipts	<u>12,437,190</u>	<u>1,273,492</u>	<u>13,710,682</u>	<u>13,789,632</u>
Total revenues/receipts	13,058,093	1,273,492	14,331,585	14,407,092
Expenses/disbursements	<u>12,940,927</u>	<u>(111,694)</u>	<u>12,829,233</u>	<u>13,588,694</u>
Increase in net assets	117,166	1,385,186	1,502,352	818,398
Balance, beginning of year	<u>5,323,036</u>	<u>(860,576)</u>	<u>4,081,495</u>	<u>4,081,495</u>
Balance, end of year	<u>\$ 5,440,202</u>	<u>\$ 524,610</u>	<u>\$ 5,583,847</u>	<u>\$ 4,899,893</u>

Note 13: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2014. Future minimum lease payments at June 30, 2009, were:

2010	\$ 139,284
2011	139,284
2012	139,284
2013	139,284
2014	<u>21,324</u>
Future minimum lease payments	<u>\$ 578,460</u>

Monroe County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 14: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

Supplementary Information

Monroe County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Acute nursing care	\$ 1,049,697	\$ 1,049,697		\$ 991,875	\$ 991,875	
Extended care	184,669	184,669		252,744	252,744	
Skilled care	342,975	342,975		212,692	212,692	
	<u>1,577,341</u>	<u>1,577,341</u>		<u>1,457,311</u>	<u>1,457,311</u>	
Nursing Services						
Operating room	1,285,183	162,192	\$ 1,122,991	988,696	143,489	\$ 845,207
Recovery room	50,012	15,964	34,048	31,601	13,672	17,929
Emergency room	2,160,887	135,278	2,025,609	1,794,890	177,418	1,617,472
	<u>3,496,082</u>	<u>313,434</u>	<u>3,182,648</u>	<u>2,815,187</u>	<u>334,579</u>	<u>2,480,608</u>
Other Professional Services						
Central services and supplies	16,870	12,262	4,608	18,684	14,595	4,089
Hospice	451,713		451,713	458,001	1,668	456,333
Home health				1,482		1,482
Ambulance	810,476	20,147	790,329	746,458	20,903	725,555
Laboratory	2,686,696	247,679	2,439,017	2,480,494	237,054	2,243,440
Radiology	548,863	37,959	510,904	540,839	34,012	506,827
Electrocardiology	168,620	11,716	156,904	158,658	12,604	146,054
Respiratory therapy	319,529	282,501	37,028	301,985	246,198	55,787
Pharmacy	2,492,317	895,375	1,596,942	2,558,735	777,212	1,781,523
Anesthesiology	306,437	36,669	269,768	202,315	36,446	165,869
Physical therapy	550,593	88,928	461,665	447,999	60,429	387,570
Speech therapy	13,957	4,186	9,771	12,654	2,115	10,539
CT scan and MRI	2,333,883	192,663	2,141,220	1,955,255	210,226	1,745,029
Cardiac rehab	99,486		99,486	82,812		82,812
Occupational therapy	64,137	49,937	14,200	114,583	35,313	79,270
Outpatient clinic	76,499	262	76,237			
Physician clinic	1,132,683		1,132,683	1,168,532		1,168,532
	<u>12,072,759</u>	<u>1,880,284</u>	<u>10,192,475</u>	<u>11,249,486</u>	<u>1,688,775</u>	<u>9,560,711</u>
Gross Patient Service Revenue	17,146,182	\$ 3,771,059	\$ 13,375,123	15,521,984	\$ 3,480,665	\$ 12,041,319
Contractual Adjustments	<u>(4,493,812)</u>			<u>(3,725,296)</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	12,652,370			11,796,688		
Provision for Uncollectible Accounts	<u>(563,491)</u>			<u>(419,239)</u>		
Net Patient Service Revenue	<u>\$ 12,088,879</u>			<u>\$ 11,377,449</u>		

See Independent Accountants' Report

Monroe County Hospital
Schedules of Other Revenues
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 39,333	\$ 40,950
Medical records	4,786	3,576
Rent	110,482	103,924
Other	<u>86,305</u>	<u>63,989</u>
	<u>\$ 240,906</u>	<u>\$ 212,439</u>

Monroe County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,116,876	\$ 952,438	\$ 164,438	\$ 994,284	\$ 881,192	\$ 113,092
Extended care	224,818	219,446	5,372	288,985	284,039	4,946
Emergency room	1,170,442	456,706	713,736	946,269	410,172	536,097
Operating and recovery rooms	386,631	256,860	129,771	372,698	254,148	118,550
Nursing administration	64,840	55,813	9,027	88,205	86,652	1,553
	<u>2,963,607</u>	<u>1,941,263</u>	<u>1,022,344</u>	<u>2,690,441</u>	<u>1,916,203</u>	<u>774,238</u>
Other Professional Services						
Laboratory	576,787	247,605	329,182	535,695	233,039	302,656
Radiology	377,578	325,244	52,334	400,438	329,710	70,728
Respiratory therapy	101,053	69,359	31,694	91,779	63,053	28,726
Pharmacy	671,718	115,153	556,565	652,555	112,047	540,508
Anesthesiology	136,054		136,054	95,484		95,484
Physical therapy	267,043		267,043	215,508		215,508
Speech pathology	8,918		8,918	8,225		8,225
CT scan	138,611		138,611	53,311		53,311
Ultrasound	69,715	31,778	37,937	59,512	21,869	37,643
Mammography	9,310		9,310	8,609		8,609
MRI	86,355		86,355	74,401		74,401
Nuclear scanning	13,354		13,354	11,728		11,728
Cardiac rehab	55,174	47,274	7,900	44,100	38,395	5,705
Occupational therapy	37,820		37,820	68,191		68,191
Medical records	181,242	151,158	30,084	173,841	148,613	25,228
Outpatient clinic	124,681	62,190	62,491	67,862	63,310	4,552
Physician clinic	1,368,213	452,539	915,674	1,217,121	301,044	916,077
Infection control	8,310		8,310	5,939		5,939
Hospice	233,060	183,567	49,493	272,273	188,776	83,497
Home health				1,373		1,373
Ambulance	251,878	206,361	45,517	242,376	209,389	32,987
	<u>4,716,874</u>	<u>1,892,228</u>	<u>2,824,646</u>	<u>4,300,321</u>	<u>1,709,245</u>	<u>2,591,076</u>
General Services						
Operation of plant	535,670	132,565	403,105	546,591	128,992	417,599
Dietary	408,201	212,751	195,450	383,415	204,497	178,918
Environmental services	182,467	126,152	56,315	174,369	117,429	56,940
Housekeeping	77,251	56,103	21,148	72,866	53,757	19,109
	<u>1,203,589</u>	<u>527,571</u>	<u>676,018</u>	<u>1,177,241</u>	<u>504,675</u>	<u>672,566</u>
Administrative Services	<u>1,759,206</u>	<u>680,509</u>	<u>1,078,697</u>	<u>1,612,598</u>	<u>674,091</u>	<u>938,507</u>
Employee Benefits	<u>1,348,376</u>		<u>1,348,376</u>	<u>1,254,463</u>		<u>1,254,463</u>
Depreciation	<u>616,246</u>		<u>616,246</u>	<u>924,595</u>		<u>924,595</u>
Insurance	<u>86,501</u>		<u>86,501</u>	<u>95,346</u>		<u>95,346</u>
	<u>\$ 12,694,399</u>	<u>\$ 5,041,571</u>	<u>\$ 7,652,828</u>	<u>\$ 12,055,005</u>	<u>\$ 4,804,214</u>	<u>\$ 7,250,791</u>

Monroe County Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2009 and 2008

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2009	2008	2009	2008
Days Since Discharge or date of service				
0 – 30	\$ 1,270,386	\$ 1,118,080	53%	43%
31 – 60	343,674	503,585	14%	19%
61 – 90	159,550	277,494	7%	11%
91 – 120	135,311	188,364	5%	7%
121 and over	499,396	510,056	21%	20%
	<u>2,408,317</u>	<u>2,597,579</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	408,034	592,363		
Allowance for uncollectible accounts	<u>462,563</u>	<u>361,004</u>		
	<u>870,597</u>	<u>953,367</u>		
	<u>\$ 1,537,720</u>	<u>\$ 1,644,212</u>		

Allowance for Uncollectible Accounts

	2009	2008
Balance, beginning of year	\$ 361,004	\$ 356,602
Provision for year	563,491	419,329
Recoveries of accounts previously written off	67,693	287,461
	<u>992,188</u>	<u>1,063,392</u>
Less accounts written off	<u>529,625</u>	<u>702,388</u>
Balance, end of year	<u>\$ 462,563</u>	<u>\$ 361,004</u>

Monroe County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2009 and 2008

Supplies

	2009	2008
General	\$ 107,668	\$ 105,447
Pharmacy	93,644	99,502
	\$ 201,312	\$ 204,949

Prepaid Expenses

	2009	2008
Insurance	\$ 20,984	\$ 22,217
Lease	18,097	18,097
	\$ 39,081	\$ 40,314

Monroe County Hospital
Schedule of Officials
June 30, 2009

Name	Title	Term Expires December 31
Board of Trustees		
Dan Stocker	Chair	2012
Debbie Judge	Vice Chair	2010
Lorraine Starcevic	Secretary	2010
Tim Shehan	Member	2010
Marilee Scieszinski	Member	2014
Lana Kaldenberg	Member	2014
Alan Ammons	Member	2012
Hospital Officials		
Greg Paris	Administrator	
Heather Cain	Chief Financial Officer	

Monroe County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2009 and 2008

	2009	2008
Patient Days (Exclusive of Swing-bed)		
Medicare	736	709
Medicaid	28	28
Private and other	254	295
	1,018	1,032
Medicare and Medicaid Percent	75.0%	71.4%
Percent of Occupancy (Acute)	11.0%	11.0%
Discharges (Exclusive of Swing-bed)		
Medicare	211	250
Medicaid	12	15
Private and other	102	98
	325	363
Average Length of Stay in Days	3.1	2.8

**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
Monroe County Hospital
Albia, Iowa

We have audited the financial statements of Monroe County Hospital as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 09-1 to be a significant deficiency in internal control over financial reporting.

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. However, we believe the significant deficiency described above is not a material weakness.

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*.

We also noted certain additional matters that are reported below or we reported to the Hospital management a separate letter dated December 17, 2009.

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, 2009, 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, 2009. 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, 2009.

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, 2009 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

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

We noted the Hospital filed an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of 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

Chapter 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...” We noted no instances where Hospital management failed to publish the quarterly bills allowed paid as required by the Code of Iowa.

The Hospital’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital’s responses and, accordingly, we express no opinion on them.

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
December 17, 2009

Monroe County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2009

Reference Number	Finding
09-1	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Property and equipment records are not accurately reporting accumulated depreciation and additional reconciliations were needed.</p> <p>Context—Management has not been able to correct reports to ensure proper detection of misstatements in the financial statements can be made.</p> <p>Effect—Misstatements in the financial statements occurred or could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Reports from software packages are not properly reporting certain amounts.</p> <p>Recommendation—Management should work with the software vendor to ensure reports are working properly and detail records can be reconciled to the general ledger monthly.</p> <p>Views of Responsible Officials and Planned Corrective Actions— Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>

Board of Trustees
Monroe County Hospital
Albia, Iowa

In planning and performing our audit of the financial statements of Monroe County Hospital as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal controls would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or 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 controls.

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 Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2008 audit engagement in a letter dated December 15, 2008.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Refer to the 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*.

Other Control Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. Segregation of duties issues were noted in the following areas:

Payroll

- The Accounts Payable Clerk has the ability to handle signed payroll checks, adjust the expense accounts and reconcile bank balances to the general ledger.

Revenues and Cash Receipts

- The Business Office Manager, Cash Receipts Clerk and Billing Clerk have the ability to receive cash, adjust patient accounts for payments received and change the patient billing files.

Audit Journal Entries

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements affecting the Hospital's payroll accruals, amortization of issuance cost, contractual allowances and bad debt allowances. These items were not previously identified by management's internal controls. The impact of these adjustments decreased reported changes in net assets by approximately \$151,000.

Cash Reconciliations

We noted a \$7,913 unreconciled item in cash. We recommend the Hospital investigate the item and record appropriately.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Documentation of Accounting Policies

The Hospital has no formal documentation of standard accounting procedures. We recommend documenting accounting procedures, such as general ledger maintenance, payroll processing, cash disbursement processing, and so forth, should an unforeseen emergency occur with accounting personnel. This would enable the accounting function to continue with a minimum of interruption to daily activities.

Foundation

The Hospital and related Foundation appear to meet the criteria that would require the Foundation to be consolidated in the Hospital's financial statements. The Foundation was deemed to not be material for 2009. The Hospital will need to re-evaluate this in 2010.

Capital Asset Records

During the course of performing the audit, we noted several old and fully depreciated assets on the detailed asset records. We recommend management review the capital asset records in 2010 and remove any items no longer in use at the Hospital.

Current Economic Conditions

The current economic environment has created unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets recorded in the financial statements could change, resulting in material future adjustments to the allowance for accounts receivable, etc., that could negatively impact the Hospital's ability to maintain sufficient liquidity. Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

* * * * *

This communication is intended solely for the information and use of management, the Board of Trustees and others within the Hospital, and is not intended to be, and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
December 17, 2009