

Ringgold County Hospital
Accountants' Report and Financial Statements
June 30, 2009 and 2008



Ringgold County Hospital

June 30, 2009 and 2008

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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, 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 Ringgold 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 October 15, 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 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.

Kansas City, Missouri
October 15, 2009

BKD, LLP

Ringgold 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 Ringgold 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 noncurrent investments decreased in 2009 by \$233,476 or 40% and decreased in 2008 by \$81,636 or 12%, respectively.
- The Hospital's net assets decreased in 2009 by \$453,534 or 6% and \$128,133 or 3%, respectively in 2008.
- The Hospital reported operating losses in 2009 \$(1,343,656), 2008 \$(728,689) and 2007 \$(491,403). The operating loss in 2009 increased by \$614,967 or 84% from the operating loss reported in 2008. The operating loss in 2008 increased by \$237,286 or 48% from the operating loss reported in 2007. The most significant change in the operating loss in 2009 is due to the increase of depreciation expense of \$988,103 on the old hospital facility capital assets that will be disposed of when the Hospital moves to the new hospital facility. If the Hospital did not have to recognize the additional depreciation of \$988,103, the Hospital's operating loss would have been \$355,553, which would have been a decrease in the operating loss of \$373,136 or 51% from 2008.
- The Hospital issued \$14,480,000 in Revenue Bonds and \$8,700,000 in Bond Anticipation Notes to fund the construction of a replacement Critical Access Hospital in October 2008.

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 decreased by \$453,534 or 6% in 2009 over 2008 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

| | 2009 | 2008 | 2007 |
|---|----------------------|---------------------|---------------------|
| Assets | | | |
| Cash | \$ 339,880 | \$ 573,356 | \$ 654,992 |
| Restricted cash and investments | 2,872,996 | - | - |
| Patient accounts receivable, net | 1,370,692 | 1,386,176 | 1,400,764 |
| Other current assets | 1,226,964 | 1,021,685 | 1,026,966 |
| Capital assets, net | 15,544,763 | 3,997,944 | 2,864,478 |
| Other noncurrent assets | 11,139,669 | 314,386 | 316,394 |
| Total assets | \$ 32,494,964 | \$ 7,293,547 | \$ 6,263,594 |
| Liabilities | | | |
| Long-term debt | \$ 23,198,621 | \$ 191,493 | \$ 284,410 |
| Other current and noncurrent liabilities | 5,626,053 | 2,978,230 | 1,983,493 |
| Total liabilities | 28,824,674 | 3,169,723 | 2,267,903 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 1,624,298 | 3,559,483 | 2,415,362 |
| Restricted - expendable for | | | |
| Debt service | 1,193,286 | - | - |
| Land escrow | 83,932 | - | - |
| Unrestricted | 768,774 | 564,341 | 1,580,329 |
| Total net assets | 3,670,290 | 4,123,824 | 3,995,691 |
| Total liabilities and net assets | \$ 32,494,964 | \$ 7,293,547 | \$ 6,263,594 |

The Hospital issued \$14,480,000 in Revenue Bonds and \$8,700,000 in Revenue Bond Anticipation Notes to fund the construction of a replacement Critical Access Hospital in October 2008.

Net capital assets and other noncurrent assets significantly increased due to the financing of the construction project started in October 2008. \$12,491,830 in Construction in Progress was added to Net Capital Assets. \$11,790,681 was held by the trustee at June 30, 2009 to be used for the balance of the construction project. A significant investment was also made in orthopedic surgical equipment to support the new orthopedic surgical service implemented in October 2008.

Long-term debt increased in 2009 by \$23,007,128 over 2008 due to the bond and note issuance. Other current and noncurrent liabilities increased by \$2,647,823 or 89% consisting primarily of \$2,517,465 in accounts payable at year end for the construction project.

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets decreased by \$453,534 or 6%, as shown in Table 2. This decrease is made up of several different components discussed below.

Table 2: Operating Results and Changes in Net Assets

| | 2009 | 2008 | 2007 |
|--|---------------------|-------------------|-------------------|
| Operating Revenues | | | |
| Net patient service revenue, net of 2009 and 2008 provisions for uncollectible accounts of \$426,080 and \$402,990, respectively | \$ 11,138,325 | \$ 9,537,261 | \$ 9,302,275 |
| Other | 266,462 | 124,961 | 85,974 |
| Total operating revenues | 11,404,787 | 9,662,222 | 9,388,249 |
| Operating Expenses | | | |
| Nursing services | 1,926,187 | 1,488,146 | 1,389,229 |
| Other professional services | 6,197,833 | 5,571,167 | 5,131,305 |
| General services | 816,139 | 804,088 | 778,057 |
| Administrative and fiscal services | 2,447,060 | 2,162,267 | 2,174,269 |
| Depreciation | 1,361,224 | 365,243 | 406,792 |
| Total operating expenses | 12,748,443 | 10,390,911 | 9,879,652 |
| Operating Loss | (1,343,656) | (728,689) | (491,403) |
| Nonoperating Revenues (Expenses) | | | |
| County taxes | 817,740 | 821,390 | 654,342 |
| Investment income | 65,363 | 28,761 | 41,754 |
| Interest expense | (17,030) | (24,520) | (27,546) |
| Noncapital gifts | 4,817 | 5,809 | 21,614 |
| Rental income | 19,232 | 25,382 | 28,175 |
| Total Nonoperating Revenues | 890,122 | 856,822 | 718,339 |
| Increase (Decrease) in Net Assets | \$ (453,534) | \$ 128,133 | \$ 226,936 |

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 2009, 2008 and 2007, the Hospital reported an operating loss primarily due to the Hospital's operating expenses increasing \$2,357,532 or 23% over 2008 and \$511,259 or 5% over 2007.

The single largest component of the increase in operating expenses is the result of the additional depreciation being taken on the old hospital facility due to the reconsideration of the capital assets estimated useful lives. The additional depreciation on the old hospital facility assets totaled \$988,103 for the year ended June 30, 2009 and is reflected in depreciation expense in the financial statements. The reconsideration of the old hospital facility capital assets reflect managements plans to discontinue the use of certain old hospital facility capital assets once they move to the new hospital facility.

The Hospital was successful in recruiting an employed Internist, as well as contracting with an Orthopedic surgeon and a Cardiology group during 2009. With the addition of these physicians, the Hospital was able to broaden the array of services provided to its patient base.

Startup costs, including equipment and supplies, for the orthopedic service were significant. However, these costs were shared with two other county hospitals via a State of Iowa 28E Sharing Agreement.

Significant increases in volume, as well as the addition of the new services referred to earlier, resulted in an increase in net patient service revenue of \$1,601,064 or 17% over 2008, as compared to an increase of \$234,986, or 3% over 2007.

Other operating revenue increased \$141,501 or 113% over 2008 and \$38,987, or 45%, in 2007. The 2009 increase consisted primarily of an increase in grant revenue of \$127,135 primarily due to the receipt of the teleradiology grant.

Overall, the increase in operating expenses was primarily due to the additional depreciation taken on the old hospital capital assets due to the reconsideration of their estimated lives as a result of building a new hospital facility and adding new patient services such as the orthopedic surgeon and cardiology clinic. The increases in expenses were partially offset by the increase in Hospital revenues during 2009. If the Hospital did not have to recognize the additional depreciation of \$988,103 for the reconsideration of the estimated useful lives of the old hospital facility capital assets, the Hospital's operating loss would have been \$355,553, which would have been a decrease in the operating loss of \$373,136 or 51% from 2008.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county taxes, investment income and interest expense, of which county taxes decreased \$3,650 and investment income increased \$36,602 in 2009 over 2008, respectively, while interest expense decreased \$7,490 or 31% from 2008. With nonoperating funds invested in certificates of deposit, the Hospital's investment income increased during 2009 and decreased in 2008 due to fluctuating interest rates. Investment earnings on the project note are the major component of the increase in earnings in 2009. Idle funds are invested in short-term investments during the construction process.

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 2009, the Hospital had \$15,544,763 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2009, the Hospital purchased new capital assets costing \$12,908,044, of which \$12,491,830 of the assets purchased were for the construction costs associated with the replacement hospital project. This project is part of a long-term strategic plan that was put in place during 2006.

At the end of 2008, the Hospital had \$3,997,944 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2008, the Hospital purchased new capital assets costing \$1,498,709.

Debt

At June 30, 2009 and 2008, the Hospital had \$23,198,621 and \$191,493, respectively, in long-term debt outstanding. The Hospital issued \$23,180,000 debt related to the construction project in 2009 and no new debt in 2008.

Construction Project and Financing

Beginning in October 2008, the Hospital began a replacement hospital project (the Project), which consists of constructing a 61,000 square foot hospital facility. The Project is being constructed on a site, which has been acquired in the northern portion of Mount Ayr, Iowa, approximately 1.5 miles from the existing facility. The Hospital's administration anticipates that construction is to be completed in December 2009.

The estimated total cost of the Project is approximately \$24,655,000, including approximately \$21,176,000 in new construction, equipment and land acquisition costs, \$1,454,000 in capitalized interest payments, \$921,000 to be deposited into a bond reserve fund at closing and \$1,104,000 for debt issue costs. The primary source of funding is a \$23,180,000 USDA loan package along with an approximate \$1,475,000 equity contribution from the Hospital from its existing cash and investment reserves. Responsibility for payment of debt service on the loans is solely that of the Hospital.

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 percentage of Medicare and Medicaid patients, thus, increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

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 rising insurance rates and increasing out-of-pocket costs, have made it difficult for certain of the Hospital's 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 federal regulations on the Medicare program may have an adverse effect on cash flows related to the Medicare program.

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

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 telephoning 641.464.3226.

Ringgold County Hospital
Balance Sheets
June 30, 2009 and 2008

Assets

| | 2009 | 2008 |
|--|---------------|--------------|
| Current Assets | | |
| Cash | \$ 339,880 | \$ 573,356 |
| Restricted cash and investments - current | 2,872,996 | - |
| Patient accounts receivable, net of allowance; 2009 – \$653,000, 2008 – \$585,000 | 1,370,692 | 1,386,176 |
| County taxes receivable | 979,841 | 829,786 |
| Other receivables | 16,998 | 761 |
| Supplies | 178,465 | 144,630 |
| Prepaid expenses | 51,660 | 46,508 |
| Total current assets | 5,810,532 | 2,981,217 |
| Noncurrent Cash and Investments | | |
| Internally designated | 318,592 | 300,932 |
| Held by trustee for debt service | 920,577 | - |
| Restricted cash - held by trustee for capital acquisitions | 11,790,681 | - |
| | 13,029,850 | 300,932 |
| Less amount required to meet current obligations | (2,872,996) | - |
| Total noncurrent cash and investments | 10,156,854 | 300,932 |
| Capital Assets, Net | 15,544,763 | 3,997,944 |
| Other Assets | | |
| Deferred financing costs | 971,666 | - |
| Assets managed by the South Central Iowa Community Foundation | 11,149 | 13,454 |
| | 982,815 | 13,454 |
| Total assets | \$ 32,494,964 | \$ 7,293,547 |

Liabilities and Net Assets

| | <u>2009</u> | <u>2008</u> |
|---|---------------|--------------|
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 178,352 | \$ 246,968 |
| Accounts payable | 466,550 | 215,496 |
| Accounts payable - capital assets | 2,517,465 | 404,816 |
| Accrued salaries and payroll taxes | 508,656 | 381,173 |
| Estimated self-insurance costs | 97,286 | 60,511 |
| Accrued compensated absences | 396,605 | 358,101 |
| Accrued interest on long-term debt | 355,531 | 4,323 |
| Estimated amounts due to third-party payers | 151,000 | 503,000 |
| Deferred revenue for county taxes | 954,608 | 803,842 |
| | <hr/> | <hr/> |
| Total current liabilities | 5,626,053 | 2,978,230 |
| | <hr/> | <hr/> |
| Long-term Debt | 23,198,621 | 191,493 |
| | <hr/> | <hr/> |
| Total liabilities | 28,824,674 | 3,169,723 |
| | <hr/> | <hr/> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 1,624,298 | 3,559,483 |
| Restricted - expendable for | | |
| Debt service | 1,193,286 | - |
| Land escrow | 83,932 | - |
| Unrestricted | 768,774 | 564,341 |
| | <hr/> | <hr/> |
| Total net assets | 3,670,290 | 4,123,824 |
| | <hr/> | <hr/> |
| Total liabilities and net assets | \$ 32,494,964 | \$ 7,293,547 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

| | 2009 | 2008 |
|--|---------------|--------------|
| Operating Revenues | | |
| Net patient service revenue, net of 2009 and 2008 provisions for uncollectible accounts of \$426,080 and \$402,990, respectively | \$ 11,138,325 | \$ 9,537,261 |
| Other | 266,462 | 124,961 |
| | 11,404,787 | 9,662,222 |
| Operating Expenses | | |
| Nursing services | 1,926,187 | 1,488,146 |
| Other professional services | 6,197,833 | 5,571,167 |
| General services | 816,139 | 804,088 |
| Administrative and fiscal services | 2,447,060 | 2,162,267 |
| Depreciation | 1,361,224 | 365,243 |
| | 12,748,443 | 10,390,911 |
| Operating Loss | (1,343,656) | (728,689) |
| Nonoperating Revenues (Expenses) | | |
| County taxes | 817,740 | 821,390 |
| Investment income | 65,363 | 28,761 |
| Interest expense | (17,030) | (24,520) |
| Noncapital gifts | 4,817 | 5,809 |
| Rental income | 19,232 | 25,382 |
| | 890,122 | 856,822 |
| Increase (Decrease) in Net Assets | (453,534) | 128,133 |
| Net Assets, Beginning of Year | 4,123,824 | 3,995,691 |
| Net Assets, End of Year | \$ 3,670,290 | \$ 4,123,824 |

Ringgold 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 | \$ 10,801,809 | \$ 10,028,849 |
| Payments to suppliers and contractors | (3,684,225) | (4,216,582) |
| Payments to employees | (6,936,955) | (5,760,369) |
| Other receipts, net | <u>266,462</u> | <u>122,822</u> |
| Net cash provided by operating activities | <u>447,091</u> | <u>174,720</u> |
| Noncapital Financing Activities | | |
| County taxes supporting operations | 818,451 | 803,541 |
| Noncapital gifts | <u>4,817</u> | <u>5,809</u> |
| Net cash provided by noncapital financing activities | <u>823,268</u> | <u>809,350</u> |
| Capital and Related Financing Activities | | |
| Rental income | 19,232 | 25,382 |
| Principal paid on long-term debt | (241,488) | (246,913) |
| Interest paid on long-term debt | (17,030) | (24,520) |
| Proceeds from issuance of long-term debt | 23,180,000 | - |
| Payment of deferred financing costs | (971,666) | - |
| Purchase of capital assets | <u>(10,795,395)</u> | <u>(851,151)</u> |
| Net cash provided by (used in) capital and related financing activities | <u>11,173,653</u> | <u>(1,097,202)</u> |
| Investing Activities | | |
| Interest on investments | 33,770 | 31,496 |
| Purchase of investments | (1,445,531) | (601,865) |
| Proceeds from maturity of investments | <u>601,865</u> | <u>601,865</u> |
| Net cash provided by (used in) investing activities | <u>(809,896)</u> | <u>31,496</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 11,634,116 | (81,636) |
| Cash and Cash Equivalents, Beginning of Year | <u>573,356</u> | <u>654,992</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 12,207,472</u> | <u>\$ 573,356</u> |

Ringgold County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

| | | |
|---|----------------------|-------------------|
| Cash | \$ 339,880 | \$ 573,356 |
| Restricted cash and investments - current | 2,872,996 | - |
| Cash in noncurrent cash and investments | 8,994,596 | - |
| | <u>\$ 12,207,472</u> | <u>\$ 573,356</u> |

Supplemental Cash Flows Information

| | | |
|---|--------------|------------|
| Property and equipment purchases included in accounts payable | \$ 2,517,465 | \$ 404,816 |
|---|--------------|------------|

Reconciliation of Net Operating Loss to Net Cash

Provided by Operating Activities

| | | |
|--|-------------------|-------------------|
| Operating loss | \$ (1,343,656) | \$ (728,689) |
| Depreciation | 1,361,225 | 365,243 |
| (Gain) loss on disposition of property and equipment | - | (2,139) |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | 15,484 | 14,588 |
| Supplies and prepaid expenses | (38,987) | 8,907 |
| Estimated amounts due from third-party payers | (352,000) | 477,000 |
| Accounts payable and accrued expenses | 805,025 | 39,810 |
| | <u>\$ 447,091</u> | <u>\$ 174,720</u> |
| Net cash provided by operating activities | | |

Ringgold 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 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.

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 money market accounts.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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.

During each of the years ended June 30, 2009 and 2008, the Hospital received approximately 7% and 8%, respectively, 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 U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. 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.

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

The Hospital capitalizes interest costs as a component of construction in progress, based on interest cost of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. The interest capitalized and incurred was:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|------------------|
| Total interest expense incurred on borrowings for the project | \$ 1,054,222 | \$ - |
| Interest income from investment of proceeds of borrowing for project | <u>(23,394)</u> | <u>-</u> |
| Net interest cost capitalized | <u>\$ 1,030,828</u> | <u>\$ -</u> |
| Interest capitalized | \$ 1,030,828 | \$ - |
| Interest charges to expense | <u>17,030</u> | <u>24,520</u> |
| Total interest incurred | <u>\$ 1,047,858</u> | <u>\$ 24,520</u> |

Long-Lived Asset Accelerated Depreciation

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

At June 30, 2009, the capital assets associated with the Hospital's old facility were considered for impairment. Although the capital assets related to the old facility were not considered impaired, the capital assets remaining estimated useful lives and salvage values were reconsidered. Upon reconsideration, the capital assets of the old facility were determined to have a useful life through the end of the construction period and no salvage value due to the Hospital's plans not to use the old facility upon completion of the construction of the new hospital facility. Additional depreciation of \$988,103 was recognized for the old facility capital assets for the year ended June 30, 2009.

The total estimated additional depreciation to be recognized at October 1, 2008, was approximately \$1,860,000, which is being recognized over the fifteen month period from acceptance of the project to estimated completion. The accelerated depreciation is included in depreciation expense in the accompanying statement of revenues, expenses and changes in net assets.

Deferred Financing Costs

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

Compensated Absences and Post-retirement Benefits

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.

The Hospital has adopted provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Hospital evaluated GASB 45 and determined it did not have a material effect on the financial statements.

Net Assets

Net assets of the Hospital are classified in three 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, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. 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.

Ringgold 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 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.

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 and defined capital cost 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 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 64% and 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2009 and 2008, 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.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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.

At June 30, 2009 and 2008, the Hospital had bank balances of \$828,584 and \$996,072, 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's investments at June 30, 2009 and 2008 consisted of certificates of deposits, guaranteed investment contracts and U.S. Government Obligations.

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

| Type | Fair Value | Maturities in Years | | | |
|--------------------------------|---------------|---------------------|------------|------------|--------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Money Market Mutual Funds | \$ 228,074 | \$ 228,074 | | | |
| Guaranteed Investment Contract | 11,574,236 | 11,574,236 | \$ - | \$ - | \$ - |
| U.S. Government Obligations | 843,666 | - | 302,579 | 541,087 | - |
| | \$ 12,645,976 | \$ 11,802,310 | \$ 302,579 | \$ 541,087 | \$ - |

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009 and 2008, the Hospital’s investments in U.S. Government obligations not directly guaranteed by the U.S. government were rated AAA by Standards & Poor’s and its investments in money market mutual funds were rated AAA by Standard & Poor’s and Aaa by Moody’s Investors Service.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital’s investment policy does not address how securities in guaranteed investment contracts are to be held.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2009, the Hospital’s investment in Guaranteed Investment Contracts with Aegon totaled \$11,574,236 which represented 92% of its total investments. In addition, the Hospital held investments totaling \$692,775 of Federal Farm Credit Bank investments, which represented 82% of the investments in U.S. Government Obligations and 5% of total investments.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Summary of Carrying Values

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

| | 2009 | 2008 |
|--|---------------|-------------|
| Carrying value | | |
| Deposits | \$ 339,880 | \$ 573,356 |
| Certificates of deposits | 383,867 | 300,932 |
| Investments | 12,645,983 | - |
| | \$ 13,369,730 | \$ 874,288 |
| Included in the following balance sheet captions | | |
| Cash | \$ 339,880 | \$ 573,356 |
| Internally designated | 318,592 | 300,932 |
| Restricted cash and investment - current | 2,872,996 | - |
| Noncurrent cash and investments - | | |
| Held for capital acquisitions | 8,917,685 | - |
| Noncurrent cash investments - | | |
| Held by trustee for debt service | 920,577 | - |
| | \$ 13,369,730 | \$ 874,288 |

Interest Income

Interest income for the years ended June 30, 2009 and 2008, amounted to \$65,363 and \$28,761, 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:

| | 2009 | 2008 |
|---|--------------|--------------|
| Medicare | \$ 457,145 | \$ 662,863 |
| Medicaid | 108,449 | 44,856 |
| Other third-party payers | 598,397 | 542,272 |
| Patients | 859,701 | 721,185 |
| | 2,023,692 | 1,971,176 |
| Less allowance for uncollectible accounts | 653,000 | 585,000 |
| | \$ 1,370,692 | \$ 1,386,176 |

Ringgold 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, were:

| | Beginning Balance | 2009 | | | Ending Balance |
|--|----------------------|---------------------|---------------|-------------|---------------------|
| | | Additions | Disposals | Transfers | |
| Land | \$ 368,364 | \$ - | \$ - | \$ - | \$ 368,364 |
| Land improvements | 304,625 | - | - | - | 304,625 |
| Buildings and improvements | 2,724,417 | - | - | - | 2,724,417 |
| Fixed equipment | 1,634,813 | 518 | - | - | 1,635,331 |
| Major moveable equipment | 2,112,252 | 415,696 | 36,820 | - | 2,491,128 |
| Construction in progress | <u>1,220,332</u> | <u>12,491,830</u> | <u>-</u> | <u>-</u> | <u>13,712,162</u> |
| | <u>8,364,803</u> | <u>12,908,044</u> | <u>36,820</u> | <u>-</u> | <u>21,236,027</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 122,343 | 108,130 | - | - | 230,473 |
| Buildings and leasehold improvements | 1,549,186 | 696,464 | - | - | 2,245,650 |
| Fixed equipment | 1,045,991 | 337,930 | - | - | 1,383,921 |
| Major moveable equipment | <u>1,649,339</u> | <u>218,701</u> | <u>36,820</u> | <u>-</u> | <u>1,831,220</u> |
| | <u>4,366,859</u> | <u>1,361,225</u> | <u>36,820</u> | <u>-</u> | <u>5,691,264</u> |
| Capital assets, net | <u>\$ 3,997,944</u> | <u>\$11,546,819</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$15,544,763</u> |

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

| | Beginning Balance | 2008 | | | Ending Balance |
|--|----------------------|---------------------|---------------|-------------|---------------------|
| | | Additions | Disposals | Transfers | |
| Land | \$ 127,004 | \$ 241,360 | \$ - | \$ - | \$ 368,364 |
| 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 | 2,082,852 | 56,812 | 27,412 | - | 2,112,252 |
| Construction in progress | 19,795 | 1,200,537 | - | - | 1,220,332 |
| | <u>6,893,506</u> | <u>1,498,709</u> | <u>27,412</u> | <u>-</u> | <u>8,364,803</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 109,136 | 13,207 | - | - | 122,343 |
| Buildings and leasehold improvements | 1,465,315 | 83,871 | - | - | 1,549,186 |
| Fixed equipment | 967,094 | 78,897 | - | - | 1,045,991 |
| Major moveable equipment | 1,487,483 | 189,268 | 27,412 | - | 1,649,339 |
| | <u>4,029,028</u> | <u>365,243</u> | <u>27,412</u> | <u>-</u> | <u>4,366,859</u> |
| Capital assets, net | <u>\$ 2,864,478</u> | <u>\$ 1,133,466</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,997,944</u> |

Beginning in October 2008, the Hospital began a replacement hospital project (the Project), which consists of constructing a 61,000 square foot hospital facility. The Project is being constructed on a site, which has been acquired in the northern portion of Mount Ayr, Iowa, approximately 1.5 miles from the existing facility. The Hospital's administration anticipates that construction is to be completed in December 2009.

The estimated total cost of the Project is approximately \$24,655,000, including approximately \$21,176,000 in new construction, equipment, and land acquisition costs, \$1,454,000 in capitalized interest payments, \$921,000 deposited into a bond reserve fund and \$1,104,000 for debt issue costs. The primary source of funding is \$23,180,000 in revenue bonds and USDA loans along with approximately \$1,475,000 equity contribution from the Hospital from its existing cash and investment reserves. Responsibility for payment of debt service on the loans is solely that of the Hospital.

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

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.

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 2009 and 2008 is summarized as follows:

| | 2009 | 2008 |
|---|-------------|-------------|
| Balance, beginning of year | \$ 60,511 | \$ 60,511 |
| Current year claims incurred and changes in estimates | | |
| for claims incurred in prior years | 490,482 | 343,250 |
| Claims and expenses paid | (453,707) | (343,250) |
| Balance, end of year | \$ 97,286 | \$ 60,511 |

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

- (B) Series 2008B Hospital Revenue Bonds; \$1,450,000 maturing serially at varying amounts through 2038, semiannual interest payments at 10.12%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

- (C) Series 2008C Hospital Revenue Bond Anticipation Notes; \$8,700,000 maturing 2010, with semiannual interest payments at 4.625%. The Hospital was approved for a loan through USDA Rural Development for a total of \$8,700,000 which will be used to refinance the principal of this Bond at its maturity date.

The debt service requirements as of June 30, 2009, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|-------------------------|----------------------|----------------------|----------------------|
| 2010 | \$ 1,422,125 | \$ - | \$ 1,422,125 |
| 2011 | 9,920,938 | 8,700,000 | 1,220,938 |
| 2012 | 1,174,219 | 160,000 | 1,014,219 |
| 2013 | 1,172,822 | 170,000 | 1,002,822 |
| 2014 | 1,170,755 | 180,000 | 990,755 |
| 2015-2019 | 5,850,247 | 1,110,000 | 4,740,247 |
| 2020-2024 | 5,933,705 | 1,670,000 | 4,263,705 |
| 2025-2029 | 5,888,783 | 2,315,000 | 3,573,783 |
| 2030-2034 | 5,825,490 | 3,215,000 | 2,610,490 |
| 2035-2039 | 6,878,632 | 5,660,000 | 1,218,632 |
| | <u>\$ 45,237,716</u> | <u>\$ 23,180,000</u> | <u>\$ 22,057,716</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.

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

The debt service requirements as of June 30, 2009, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|-------------------------|---------------------|-----------|----------|
| 2010 | \$ 52,542 | \$ 51,796 | \$ 746 |

Notes Payable

The Hospital has two notes payable outstanding as of June 30, 2008. The first is due October 2009, with principal payable in quarterly installments of \$3,750. This note is non-interest bearing and is secured by a loan guaranty from Mercy Hospital Medical Center.

The second note is due January 2010, with principal and interest at 6%, payable in annual installments of \$83,391. The note is secured by Hospital accounts receivable and deposit accounts.

The combined debt service requirements of these notes as of June 30, 2009, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|-------------------------|---------------------|-----------|----------|
| 2010 | \$ 87,141 | \$ 87,141 | - |

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, 2009 and 2008, totaled \$74,000 and \$111,000, respectively, net of accumulated depreciation of \$208,000 and \$171,000, respectively. The agreements are secured by equipment. The debt service requirements at June 30, 2009, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|-------------------------|---------------------|------------------|-----------------|
| 2010 | \$ 42,106 | \$ 39,415 | \$ 2,691 |
| 2011 | 19,005 | 18,621 | 384 |
| | <u>\$ 61,111</u> | <u>\$ 58,036</u> | <u>\$ 3,075</u> |

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

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 \$15,500 a month.

Future minimum lease payments at June 30, 2009, were:

| | |
|-------------------------------|--------------------------|
| 2010 | \$ 186,000 |
| 2011 | 186,000 |
| 2012 | 186,000 |
| 2013 | <u>186,000</u> |
| Future minimum lease payments | <u><u>\$ 744,000</u></u> |

Rental expense for all operating leases consisted of:

| | <u>2009</u> | <u>2008</u> |
|--------------------|--------------------------|--------------------------|
| Minimum rentals | \$ 48,055 | \$ 49,651 |
| Contingent rentals | <u>186,000</u> | <u>194,886</u> |
| | <u><u>\$ 234,055</u></u> | <u><u>\$ 244,537</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.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Funding Policy

Plan members are required to contribute 4.10% and 3.90% of their annual covered salary 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 IPERS for the years ended June 30, 2009, 2008 and 2007, were \$243,460, \$275,057 and \$241,256, respectively, which equaled the required contributions for each year.

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 \$352,061 and \$335,124 for the years ended June 30, 2009 and 2008, 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 2009 or 2008.

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

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:

| | Accrual Basis | Accrual Adjustments | Cash Basis | Budget | Budget to Cash Basis Variance |
|------------------------------------|----------------------------|--------------------------------|-----------------------------|-----------------------------|--|
| Amount to be raised by taxation | \$ 817,740 | \$ - | \$ 817,740 | \$ 829,786 | \$ (12,046) |
| Other revenues/receipts | <u>11,494,199</u> | <u>22,843,484</u> | <u>34,337,683</u> | <u>34,426,910</u> | <u>(89,227)</u> |
| | 12,311,939 | 22,843,484 | 35,155,423 | 35,256,696 | (101,273) |
| Expenses/disbursements | <u>12,765,473</u> | <u>10,029,357</u> | <u>22,794,830</u> | <u>25,276,234</u> | <u>(2,481,404)</u> |
| | (453,534) | 12,814,127 | 12,360,593 | 9,980,462 | 2,380,131 |
| Balance, beginning of year | <u>4,123,824</u> | <u>(703,199)</u> | <u>3,420,625</u> | <u>4,134,750</u> | <u>(714,125)</u> |
| Balance, end of year | <u><u>\$ 3,670,290</u></u> | <u><u>\$ 12,110,928</u></u> | <u><u>\$ 15,781,218</u></u> | <u><u>\$ 14,115,212</u></u> | <u><u>\$ 1,666,006</u></u> |

Note 13: 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 and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

Ringgold County Hospital
Patient Accounts Receivable and
Allowance for Uncollectible Accounts
June 30, 2009 and 2008

Patient Accounts Receivable

| | 2009 | | 2008 | |
|---------------------------------------|---------------------|--------------|---------------------|--------------|
| | Amount | Percent | Amount | Percent |
| Age of Accounts | | | | |
| 0 – 30 days | \$ 1,367,691 | 52.4% | \$ 1,215,736 | 45.3% |
| 31 – 60 days | 327,975 | 12.6% | 461,424 | 17.2% |
| 61 – 90 days | 163,515 | 6.3% | 220,977 | 8.2% |
| 91 – 120 days | 94,086 | 3.6% | 139,792 | 5.2% |
| Over 120 days | <u>655,425</u> | <u>25.1%</u> | <u>648,247</u> | <u>24.1%</u> |
| | 2,608,692 | 100.0% | 2,686,176 | 100.0% |
| Allowance for contractual adjustments | <u>585,000</u> | | <u>715,000</u> | |
| | 2,023,692 | | 1,971,176 | |
| Less | | | | |
| Allowance for uncollectible accounts | <u>653,000</u> | | <u>585,000</u> | |
| | <u>\$ 1,370,692</u> | | <u>\$ 1,386,176</u> | |

Allowance for Uncollectible Accounts

| | <u>2009</u> | <u>2008</u> |
|--------------------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 585,000 | \$ 515,000 |
| Provision for uncollectible accounts | 426,080 | 402,990 |
| Accounts written off | <u>(358,080)</u> | <u>(332,990)</u> |
| Balance, end of year | <u>\$ 653,000</u> | <u>\$ 585,000</u> |

Ringgold County Hospital
Supplies and Prepaid Expenses
June 30, 2009 and 2008

| | 2009 | 2008 |
|-----------------------------|-------------|-------------|
| Supplies | | |
| Medical supplies | \$ 69,016 | \$ 52,096 |
| Pharmacy | 109,449 | 92,534 |
| | \$ 178,465 | \$ 144,630 |
| Prepaid Expenses | | |
| Insurance | \$ 30,140 | \$ 29,779 |
| Other | 21,520 | 16,729 |
| | \$ 51,660 | \$ 46,508 |

Ringgold County Hospital
Other Revenue
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-------------------|-------------------|
| Grant revenue | \$ 180,119 | \$ 52,984 |
| Meals sold to employees and guests | 29,262 | 30,074 |
| Contract laundry services | 1,071 | 872 |
| Gain on disposition of capital assets | 11,715 | 2,139 |
| Purchase discounts | 18 | - |
| Other | <u>44,277</u> | <u>38,892</u> |
| | <u>\$ 266,462</u> | <u>\$ 124,961</u> |

Ringgold County Hospital
Net Patient Service Revenue
Years Ended June 30, 2009 and 2008

| | Inpatient | 2009 Outpatient | Total |
|---|---------------------|----------------------|----------------------|
| Daily Patient Services | | | |
| Medical and surgical | \$ 645,602 | \$ - | \$ 645,602 |
| Swing bed | 69,500 | - | 69,500 |
| | <u>715,102</u> | <u>-</u> | <u>715,102</u> |
| Other Nursing Services | | | |
| Operating room | 153,422 | 995,643 | 1,149,065 |
| Recovery room | 15,244 | 227,488 | 242,732 |
| Central services and supply | 463,352 | 254,781 | 718,133 |
| Intravenous therapy | 101,145 | 132,840 | 233,985 |
| Emergency services | 26,619 | 953,779 | 980,398 |
| | <u>759,782</u> | <u>2,564,531</u> | <u>3,324,313</u> |
| Other Professional Services | | | |
| Laboratory | 442,689 | 2,034,645 | 2,477,334 |
| Transfusion service | 26,367 | 27,053 | 53,420 |
| Cardiology | 23,920 | 139,721 | 163,641 |
| Radiology | 373,082 | 2,626,360 | 2,999,442 |
| Pharmacy | 616,244 | 617,762 | 1,234,006 |
| Respiratory therapy | 242,108 | 190,017 | 432,125 |
| Physical therapy | 166,013 | 452,689 | 618,702 |
| Anesthesiology | 1,006 | 22,557 | 23,563 |
| Ambulance service | 9,937 | 338,311 | 348,248 |
| Dialysis | - | 809,072 | 809,072 |
| Emergency room physicians | - | 489,271 | 489,271 |
| Clinics | 299,884 | 3,505,113 | 3,804,997 |
| | <u>2,201,250</u> | <u>11,252,571</u> | <u>13,453,821</u> |
| Gross Patient Service Revenue | <u>\$ 3,676,134</u> | <u>\$ 13,817,102</u> | <u>17,493,236</u> |
| Less Allowances and Provision for Uncollectible Accounts | | | |
| Medicare contractual allowances | | | 3,830,427 |
| Medicaid contractual allowances | | | 410,962 |
| Other contractual allowances | | | 1,687,442 |
| Provision for uncollectible accounts | | | 426,080 |
| | | | <u>6,354,911</u> |
| Net Patient Service Revenue | | | <u>\$ 11,138,325</u> |

| | 2008 | | |
|---------------------|----------------------|---------------------|--|
| Inpatient | Outpatient | Total | |
| \$ 611,021 | \$ - | \$ 611,021 | |
| 60,493 | - | 60,493 | |
| <u>671,514</u> | <u>-</u> | <u>671,514</u> | |
| 132,435 | 768,264 | 900,699 | |
| 12,288 | 123,052 | 135,340 | |
| 81,853 | 285,941 | 367,794 | |
| 93,099 | 101,825 | 194,924 | |
| 17,814 | 703,808 | 721,622 | |
| <u>337,489</u> | <u>1,982,890</u> | <u>2,320,379</u> | |
| 379,277 | 1,882,480 | 2,261,757 | |
| 21,806 | 23,538 | 45,344 | |
| 22,048 | 114,525 | 136,573 | |
| 342,359 | 2,118,276 | 2,460,635 | |
| 522,168 | 630,388 | 1,152,556 | |
| 227,625 | 178,840 | 406,465 | |
| 98,728 | 306,937 | 405,665 | |
| 7,937 | 28,883 | 36,820 | |
| 8,437 | 396,480 | 404,917 | |
| 1,261 | 946,933 | 948,194 | |
| - | 458,670 | 458,670 | |
| 290,759 | 2,947,188 | 3,237,947 | |
| <u>1,922,405</u> | <u>10,033,138</u> | <u>11,955,543</u> | |
| <u>\$ 2,931,408</u> | <u>\$ 12,016,028</u> | <u>14,947,436</u> | |
| | | 3,426,279 | |
| | | 327,612 | |
| | | 1,253,294 | |
| | | 402,990 | |
| | | <u>5,410,175</u> | |
| | | <u>\$ 9,537,261</u> | |

Ringgold County Hospital
Operating Expenses
Years Ended June 30, 2009 and 2008

| | Salaries | 2009 Supplies and Expense | Total |
|---|---------------------|--|----------------------|
| Nursing Services | | | |
| Nursing administration | \$ 36,743 | \$ 138,414 | \$ 175,157 |
| Medical and surgical | 882,095 | 72,591 | 954,686 |
| Operating room | 297,184 | 430,640 | 727,824 |
| Central services and supply | - | (4,558) | (4,558) |
| Emergency services | 56,021 | 17,057 | 73,078 |
| | <u>1,272,043</u> | <u>654,144</u> | <u>1,926,187</u> |
| Other Professional Services | | | |
| Laboratory | 241,855 | 385,753 | 627,608 |
| Transfusion service | - | 33,101 | 33,101 |
| Cardiology | 8,683 | 9,394 | 18,077 |
| Radiology | 202,582 | 846,233 | 1,048,815 |
| Pharmacy | 136,362 | 290,347 | 426,709 |
| Respiratory therapy | 117,793 | 70,299 | 188,092 |
| Physical therapy | 176,469 | 59,458 | 235,927 |
| Medical records | 149,277 | 46,698 | 195,975 |
| Ambulance service | 206,771 | 40,800 | 247,571 |
| Dialysis | 191,166 | 211,944 | 403,110 |
| Emergency room physicians | 156,900 | 171,288 | 328,188 |
| Clinics | 1,957,097 | 487,563 | 2,444,660 |
| | <u>3,544,955</u> | <u>2,652,878</u> | <u>6,197,833</u> |
| General Services | | | |
| Dietary | 152,100 | 72,358 | 224,458 |
| Plant operation and maintenance | 105,926 | 347,717 | 453,643 |
| Housekeeping | 100,409 | 19,129 | 119,538 |
| Laundry and linen | 9,221 | 9,279 | 18,500 |
| | <u>367,656</u> | <u>448,483</u> | <u>816,139</u> |
| Administrative and Fiscal Services | | | |
| Administrative | 440,118 | 810,393 | 1,250,511 |
| Employee benefits | - | 1,196,549 | 1,196,549 |
| | <u>440,118</u> | <u>2,006,942</u> | <u>2,447,060</u> |
| Depreciation | | | |
| | - | 1,361,224 | 1,361,224 |
| | <u>\$ 5,624,772</u> | <u>\$ 7,123,671</u> | <u>\$ 12,748,443</u> |

See Independent Accountants' Report

| 2008 | | |
|---------------------|---------------------------------|----------------------|
| Salaries | Supplies and Expense | Total |
| \$ 26,401 | \$ 122,265 | \$ 148,666 |
| 778,563 | 69,422 | 847,985 |
| 264,162 | 174,682 | 438,844 |
| - | (13,221) | (13,221) |
| 42,467 | 23,405 | 65,872 |
| <u>1,111,593</u> | <u>376,553</u> | <u>1,488,146</u> |
| 249,870 | 395,203 | 645,073 |
| - | 36,831 | 36,831 |
| 5,892 | 4,588 | 10,480 |
| 162,333 | 796,365 | 958,698 |
| 132,234 | 361,472 | 493,706 |
| 110,189 | 72,454 | 182,643 |
| 167,085 | 63,860 | 230,945 |
| 122,311 | 49,227 | 171,538 |
| 199,439 | 49,145 | 248,584 |
| 192,103 | 246,228 | 438,331 |
| 125,755 | 191,353 | 317,108 |
| <u>1,536,855</u> | <u>300,375</u> | <u>1,837,230</u> |
| <u>3,004,066</u> | <u>2,567,101</u> | <u>5,571,167</u> |
| 147,914 | 71,298 | 219,212 |
| 97,071 | 349,402 | 446,473 |
| 97,420 | 25,386 | 122,806 |
| 8,149 | 7,448 | 15,597 |
| <u>350,554</u> | <u>453,534</u> | <u>804,088</u> |
| 419,058 | 821,031 | 1,240,089 |
| - | 922,179 | 922,179 |
| <u>419,058</u> | <u>1,743,210</u> | <u>2,162,268</u> |
| - | 365,242 | 365,242 |
| <u>\$ 4,885,271</u> | <u>\$ 5,505,640</u> | <u>\$ 10,390,911</u> |

Ringgold County Hospital

Organizational Data

June 30, 2009

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 2014

Board of Trustees, Members

Greg Jobe, Ellston, Iowa, term expires 2014
Larry Teply, Mount Ayr, Iowa; term expires 2012
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, 2009, and have issued our report thereon dated October 15, 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.

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, 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 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 was not in excess of the IRS allowable limits and was approved by the Board.

Business Transactions

We noted no transactions between the 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 and Salaries

In accordance with Chapters 347.13(14) of the Code of Iowa, we noted the Hospital 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 published annually in such newspapers the schedule of salaries paid.

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

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated October 15, 2009.

* * * * *

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

BKD, LLP

Kansas City, Missouri
October 15, 2009

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

| Reference Number | Finding | Questioned Costs |
|-----------------------------|----------------|-----------------------------|
|-----------------------------|----------------|-----------------------------|

None

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

In planning and performing our audit of the financial statements of Ringgold 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 October 16, 2008.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

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. We noted the following incompatible duties by individuals in the Hospital's accounting department:

Purchases and Accounts Payable Cycle

- Chief Financial Officer has the access or ability to issue a purchase order, authorize payments, sign checks, record journal entries, reconcile accounts payable and review bank reconciliations.
- Accounts Payable Clerk has the access or ability to generate payments, access the mechanical signature device and checks after signature and before mailing, record accounts payable, checks issued and electronic funds transfers, as well as record journal entries for inventory, expenses and cash in the general ledger.

Patient Revenues and Cash Receipts Cycle

- Accounts Receivable Clerks have the access or ability to authorize initial and subsequent changes to patient payer class, perform daily patient census, receive and be custodian of payments from patients, make computer entries to record discounts and adjustments, prepare the cash receipts journal of receipts, make computer entries to credit patient accounts for payments received and record journal entries for bad debt write-offs.

In addition, the Accounts Receivable Clerks are responsible for reconciling the census to the billing records, cash receipts journal to bank deposit records, recorded contractual adjustments to remittance advices and issue statements to patients or third-party payers. The Accounts Receivable Clerks also have a secondary responsibility to reconcile the patient account balances to the general ledger.

- The Biller has the access or ability to authorize initial and subsequent changes to patient payer class, make computer entries to generate a bill and change patient billing file and reconciles the bank balances to the general ledger.

In addition, the Biller has secondary responsibilities to receive payments from patients and make changes to the master files affecting billings, discounts and adjustments of charges.

Year-End Adjustments

During the course of performing the audit, we observed a number of balance sheet accounts where balances were not accurately stated, resulting in audit adjustments. We proposed adjustments to management based on our testing related to the following accounts, accounts receivable contractual allowance, accounts payable, construction in progress, interest income, capitalized interest, unrealized gain, and self insurance claims payable. Management agreed with all of the proposed adjustments and they were recorded as part of our audit.

We recommend management review the areas in which adjustments were proposed and evaluate if procedures can be implemented, to reduce the number of journal entries in future audits.

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 an 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.

Independent Assessment of Corporate Compliance Program

In the Office of the Inspector General's (OIG) *Supplemental Compliance Program Guidance for Hospitals* of January 31, 2005, the OIG recommends, "Hospitals should regularly review the implementation and execution of their compliance program elements. This review should be conducted at least annually and should include an assessment of each of the basic elements individually, as well as the overall success of the program." Furthermore, the OIG recommends that the review be conducted by individuals "independent of management."

Although the Hospital is performing several functions related to its corporate compliance program based upon their responses to inquiries, we noted the Hospital has not conducted an independent review of its corporate compliance program, has not monitored its compliance Workplan or updated it during the year and feels the billing personnel need more specific training. We recommend the Hospital consider conducting an independent review of its corporate compliance program as suggested by the OIG and implement procedures to monitor and update its Workplan during the year and provide specific training for the billing personnel.

Impairment of Capital Assets

The Hospital is building a replacement facility for its operations. It is anticipated that the Hospital will move into the new facility building in December 2009, at which time they will vacate the old building and discontinue its use as well as some fixed and moveable equipment. The old building and the fixed and moveable equipment was evaluated for impairment during 2009 and an impairment loss is being recognized over the period of 15 months, which is the time period between the date the decision was made to build a new replacement facility and the estimated date of the move. Although a large portion of the impairment was recognized during 2009 in operating expenses, approximately \$795,000 will be recognized during the Hospital's year end June 30, 2010.

Electronic Health Record Funding

The American Recovery and Reinvestment Act of 2009 includes potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Beyond the normal reasonable cost reimbursement available to a critical access hospital, EHR funding will be enhanced for depreciable costs of certified EHR technology. This enhancement will be based on the percentage of patient days attributable to Medicare Part A and Part C patients, plus 20%, multiplied by the depreciable costs of certified EHR technology purchased during the first eligible year plus the remaining book value of such technology purchased in previous years. The Centers for Medicare & Medicaid Services will define by regulations what constitutes meaningful use and depreciable costs of certified EHR technology. Additional Medicare funding is available for services provided by physicians and other professionals in non-hospital settings. Medicaid funding may also be available for hospital and clinic services.

The enhanced funding is only available for certified EHR technology purchased and implemented prior to 2016. Normal Medicare payments to critical access hospitals and physicians will be reduced slightly beginning in 2015, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should also establish a workplan to guide its implementation efforts related to certified EHR technology.

Current Economic Environment

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 and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, the allowance for accounts and contributions receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or 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, including:

- Challenge the quality and values of investments, especially hard-to-value investments
- Review and monitor allowances for uncollectible accounts
- Evaluate financing needs and liquidity plans

* * * * *

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.

BKD, LLP

Kansas City, Missouri
October 15, 2009

AFFIDAVIT OF PUBLICATION

COPY OF PUBLICATION

STATE OF IOWA, Ringgold County, ss.

Hospital shows deficit for year with depreciation

Ringgold County Hospital's latest audit shows the hospital had \$453,534 more in expenses than income for the fiscal year which ended June 30, 2009.

According to the audit report by BKD LLP, the hospital had revenues totaling \$12,311,939 for the year, a four percent increase.

The revenues included \$11,338,325 in net patient revenue, \$266,462 in other operating revenues, \$4,817 from gifts and grants and \$65,363 in investment income.

Expenses for the year totaled \$12,765,473, a 22 percent increase from the prior year. The big difference in expenses was the \$988,033 in additional depreciation on the old hospital facility that will be disposed of when the hospital moves to its new facility.

The expenses included \$6,821,324 in wages and employee benefits, a total of \$1,361,224 for depreciation, \$1,565,898 for other operating expenses and \$170,800 in interest expense.

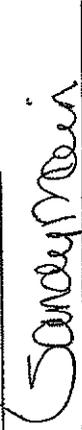
A copy of the audit report is available for review in the hospital administrator's office, the office of the auditor of state and on the auditor of state's website at <http://auditor.iowa.gov/reports/reports.htm>.

I, H. Alan Smith, on oath certify that I am publisher of the Mount Ayr Record-News, a weekly newspaper printed and published in Mount Ayr, Ringgold County, Iowa, and having a general circulation throughout said county; that the annexed printed notice was published in said newspaper one times as follows:

- First insertion Thursday, October 29, 2009
- Second insertion _____
- Third insertion _____
- Fourth insertion _____



Subscribed and sworn to by H. Alan Smith this 29th day of October, 2009



Notary Public

Printer's fee \$ No Charge



SANDY MAIN
Commission #195709
My Comm. Exp. 1-27-10