

Ringgold County Hospital

Accountants' Report and Financial Statements

June 30, 2010 and 2009



Ringgold County Hospital

June 30, 2010 and 2009

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis.....	2
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Assets.....	9
Statements of Cash Flows.....	10
Notes to Financial Statements	12
Supplementary Information	
Patient Accounts Receivable and Allowance for Uncollectible Accounts.....	30
Supplies and Prepaid Expenses	31
Other Revenue	32
Net Patient Service Revenue	33
Operating Expenses	34
Organizational Data	35
Schedule of Expenditures of Federal Awards	36
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 <i>Government Auditing Standards</i>	37
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	41
Schedule of Findings and Questioned Costs	43

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, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of 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, 2010 and 2009, 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 14, 2010, 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, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*, 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.

BKD, LLP

Ringgold County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and noncurrent investments increased in 2010 by \$97,618 or 28% and decreased in 2009 by \$233,476 or 40%, respectively.
- The Hospital's net assets decreased in 2010 by \$1,367,918 or 37% and \$453,534 or 6%, respectively in 2009.
- The Hospital reported operating losses in 2010 \$(1,947,763), 2009 \$(1,343,656) and 2008 \$(728,689). The operating loss in 2010 increased by \$604,107 or 44% from the operating loss reported in 2009. The operating loss in 2009 increased by \$614,967 or 84% from the operating loss reported in 2008. The most significant change in the operating loss in 2010 is due to the increase of depreciation expense of \$700,328 on the old hospital facility capital assets that is held for sale since the Hospital moved to the new hospital facility. If the Hospital did not have to recognize the additional depreciation of \$700,328, the Hospital's operating loss would have been \$1,247,435, which would have been a decrease in the operating loss of \$96,221 or 7% from 2009.
- In November 2009, the Hospital refinanced \$8,700,000 2008C Hospital Revenue Bond Anticipation Notes previously issued to fund the construction of a replacement Critical Access Hospital in October 2008. The refinancing was done to take advantage of lower interest rates.

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 \$1,367,918 or 37% in 2010 over 2009 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2010	2009	2008
Assets			
Cash	\$ 437,498	\$ 339,880	\$ 573,356
Restricted cash and investments	287,562	2,872,996	-
Patient accounts receivable, net	1,432,249	1,370,692	1,386,176
Other current assets	1,211,258	1,226,964	1,021,685
Capital assets, net	22,439,890	15,544,763	3,997,944
Other noncurrent assets	2,364,427	11,139,669	314,386
	<u>\$ 28,172,884</u>	<u>\$ 32,494,964</u>	<u>\$ 7,293,547</u>
Liabilities			
Long-term debt	\$ 23,116,652	\$ 23,198,621	\$ 191,493
Other current and noncurrent liabilities	2,753,860	5,626,053	2,978,230
	<u>25,870,512</u>	<u>28,824,674</u>	<u>3,169,723</u>
Net Assets			
Invested in capital assets, net of related debt	1,224,699	1,624,298	3,559,483
Restricted - expendable for			
Debt service	32,980	1,193,286	-
Land escrow	-	83,932	-
Unrestricted	1,044,693	768,774	564,341
	<u>2,302,372</u>	<u>3,670,290</u>	<u>4,123,824</u>
Total net assets	<u>\$ 28,172,884</u>	<u>\$ 32,494,964</u>	<u>\$ 7,293,547</u>
Total liabilities and net assets	<u>\$ 28,172,884</u>	<u>\$ 32,494,964</u>	<u>\$ 7,293,547</u>

The Hospital refinanced \$8,700,000 in Revenue Bond Anticipation Notes to fund the construction of a replacement Critical Access Hospital in November 2009. This refinancing decreased the interest rate on the notes from 4.625% to 1.50% and saved approximately \$284,200 in interest expenses (before issue costs).

Net capital assets increased due to approximately \$6,622,046 in Construction in Progress being added to Net Capital Assets. Other noncurrent assets decreased due to the use of bond funds for the construction project started in October 2008. All construction funds held by the trustee at June 30, 2009 were used for the balance of the construction project during 2010.

Long-term debt decreased in 2010 by \$18,621 from 2009 due to debt payments on capital leases. Other current and noncurrent liabilities decreased by \$2,935,541 or 52% consisting primarily of \$2,517,465 in accounts payable at June 30, 2009 for the construction project that was paid out during 2010.

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets decreased by \$1,367,918 or 37%, 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

	2010	2009	2008
Operating Revenues			
Net patient service revenue, net of 2010 and 2009 provisions for uncollectible accounts of \$575,405 and \$426,080, respectively	\$ 12,425,535	\$ 11,138,325	\$ 9,537,261
Other	245,911	266,462	124,961
Total operating revenues	12,671,446	11,404,787	9,662,222
Operating Expenses			
Nursing services	2,214,808	1,926,187	1,488,146
Other professional services	6,538,052	6,197,833	5,571,167
General services	995,367	816,139	804,088
Administrative and fiscal services	3,056,516	2,447,060	2,162,267
Depreciation	1,814,466	1,361,224	365,243
Total operating expenses	14,619,209	12,748,443	10,390,911
Operating Loss	(1,947,763)	(1,343,656)	(728,689)
Nonoperating Revenues (Expenses)			
County taxes	953,097	817,740	821,390
Investment income	133,231	65,363	28,761
Interest expense	(558,451)	(17,030)	(24,520)
Noncapital gifts	35,305	4,817	5,809
Rental income	16,663	19,232	25,382
Total Nonoperating Revenues	579,845	890,122	856,822
Increase (Decrease) in Net Assets	\$ (1,367,918)	\$ (453,534)	\$ 128,133

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 2010, 2009 and 2008, the Hospital reported an operating loss primarily due to the Hospital's operating expenses increasing \$1,870,766 or 15% over 2009 and \$2,357,532 or 23% over 2008.

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 \$700,328 for the year ended June 30, 2010 and is reflected in depreciation expense in the financial statements. The reconsideration of the old hospital facility capital assets reflects management's plans to sell the old hospital facility and capital assets now that they have moved to the new hospital facility.

The Hospital added Orthopedic and Cardiology services during 2009. These services continued to grow during 2010, allowing the Hospital to broaden the array of services provided to its patient base and increase patient revenues.

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 \$1,287,210 or 2% over 2009, as compared to an increase of \$1,601,064, or 17% over 2008.

Other operating revenue decreased \$20,551 or 8% from 2009 and increased \$141,501, or 113%, over 2008. 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 during 2010 and 2009 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. If the Hospital did not have to recognize the additional depreciation of \$700,328 and \$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 \$1,247,435 and \$355,553 at June 30, 2010 and 2009, respectively. Operating expenses also included all of the minor equipment, purchased services and moving expenses related to the new facility, as well as interest and depreciation expense on the new facility. The growth in Orthopedic services also increased supply costs as orthopedic joints and implants are costly.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county taxes, investment income and interest expense, of which county taxes increased \$135,357, investment income increased \$67,868 and interest expense increased \$541,421 in 2010 over 2009, respectively. Investment earnings on the project note are the major component of the increase in earnings in 2010. Idle funds were 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 2010, the Hospital had \$22,439,890 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2010, the Hospital had new capital asset additions of \$8,639,789, of which \$6,622,046 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 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 had new capital asset additions of \$12,908,043, of which \$468,876 was for operating assets and the balance was for construction costs.

Debt

At June 30, 2010 and 2009, the Hospital had \$23,116,652 and \$23,198,621, respectively, in long-term debt outstanding. The Hospital refinanced the \$8,700,000 2008C Hospital Revenue Bond Anticipation Notes during November 2009 into Hospital Revenue Bonds Series 2009, but did not issue any additional debt in 2010.

Subsequent to year end, the Hospital refinanced the Hospital Revenue Bonds Series 2009 and acquired permanent financing through the USDA Rural Development with Taxable Hospital Revenue Bonds, Series 2010 at 3.75%. Monthly principal and interest payments at \$35,061 are due commencing November 1, 2010 through October 1, 2050.

Construction Project and Financing

Beginning in October 2008, the Hospital began a replacement hospital project (the Project), which consisted of constructing a 61,000 square foot hospital facility. The Project was constructed on a site 1.8 miles from the existing facility. Construction was completed and the staff, patients and equipment moved in December 2009, with the opening date on December 20, 2009.

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 protracted economic decline continues to present hospitals with difficult 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, 2010 and 2009

Assets

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 437,498	\$ 339,880
Restricted cash and investments – current	287,562	2,872,996
Patient accounts receivable, net of allowance; 2010 – \$772,000, 2009 – \$653,000	1,432,249	1,370,692
County taxes receivable	978,246	979,841
Other receivables	235	16,998
Supplies	165,758	178,465
Prepaid expenses	67,019	51,660
Total current assets	3,368,567	5,810,532
Noncurrent Cash and Investments		
Internally designated	270,000	300,932
Held by trustee for debt service	963,916	920,577
Restricted cash – held by trustee for capital acquisitions	509,111	11,808,341
	1,743,027	13,029,850
Less amount required to meet current obligations	(287,562)	(2,872,996)
Total noncurrent cash and investments	1,455,465	10,156,854
Capital Assets, Net	22,439,890	15,544,763
Other Assets		
Deferred financing costs, net of accumulated amortization; 2010 – \$190,585, 2009 – \$61,636	896,560	971,666
Assets managed by the South Central Iowa Community Foundation	12,402	11,149
	908,962	982,815
Total assets	\$ 28,172,884	\$ 32,494,964

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 95,500	\$ 178,352
Accounts payable	426,264	466,550
Accounts payable – capital assets	-	2,517,465
Accrued salaries and payroll taxes	406,941	508,656
Estimated self-insurance costs	134,674	97,286
Accrued compensated absences	436,432	396,605
Accrued interest on long-term debt	287,562	355,531
Estimated amounts due to third-party payers	4,500	151,000
Deferred revenue for county taxes	961,987	954,608
	<u>2,753,860</u>	<u>5,626,053</u>
Total current liabilities		
	2,753,860	5,626,053
Long-term Debt		
	<u>23,116,652</u>	<u>23,198,621</u>
Total liabilities		
	<u>25,870,512</u>	<u>28,824,674</u>
Net Assets		
Invested in capital assets, net of related debt	1,224,699	1,624,298
Restricted – expendable for		
Debt service	32,980	1,193,286
Land escrow	-	83,932
Unrestricted	1,044,693	768,774
	<u>2,302,372</u>	<u>3,670,290</u>
Total net assets		
	2,302,372	3,670,290
Total liabilities and net assets	<u>\$ 28,172,884</u>	<u>\$ 32,494,964</u>

Ringgold County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue, net of provisions for uncollectible accounts of \$575,405 and \$426,080 in 2010 and 2009, respectively	\$ 12,425,535	\$ 11,138,325
Other	245,911	266,462
Total operating revenues	12,671,446	11,404,787
Operating Expenses		
Nursing services	2,214,808	1,926,187
Other professional services	6,538,052	6,197,833
General services	995,367	816,139
Administrative and fiscal services	3,056,516	2,447,060
Depreciation and amortization	1,814,466	1,361,224
Total operating expenses	14,619,209	12,748,443
Operating Loss	(1,947,763)	(1,343,656)
Nonoperating Revenues (Expenses)		
County taxes	953,097	817,740
Investment income	133,231	65,363
Interest expense	(558,451)	(17,030)
Noncapital gifts	35,305	4,817
Rental income	16,663	19,232
Total nonoperating revenues	579,845	890,122
Decrease in Net Assets	(1,367,918)	(453,534)
Net Assets, Beginning of Year	3,670,290	4,123,824
Net Assets, End of Year	\$ 2,302,372	\$ 3,670,290

Ringgold County Hospital
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 12,217,478	\$ 10,801,809
Payments to suppliers and contractors	(5,600,453)	(3,684,225)
Payments to employees	(7,346,797)	(6,936,955)
Other receipts, net	<u>245,911</u>	<u>266,462</u>
Net cash provided by (used in) operating activities	<u>(483,861)</u>	<u>447,091</u>
Noncapital Financing Activities		
County taxes supporting operations	962,071	818,451
Noncapital gifts	<u>35,305</u>	<u>4,817</u>
Net cash provided by noncapital financing activities	<u>997,376</u>	<u>823,268</u>
Capital and Related Financing Activities		
Rental income	16,663	19,232
Principal paid on long-term debt	(177,842)	(241,488)
Interest paid on long-term debt	(545,430)	(17,030)
Proceeds from issuance of long-term debt	-	23,180,000
Payment of deferred financing costs	-	(971,666)
Purchase of capital assets	<u>(11,157,254)</u>	<u>(10,795,395)</u>
Net cash provided by (used in) capital and related financing activities	<u>(11,863,863)</u>	<u>11,173,653</u>
Investing Activities		
Interest on investments	149,994	33,770
Purchase of investments	(594,774)	(1,445,531)
Proceeds from maturity of investments	<u>604,884</u>	<u>601,865</u>
Net cash provided by (used in) investing activities	<u>160,104</u>	<u>(809,896)</u>
Increase (Decrease) in Cash and Cash Equivalents	(11,190,244)	11,634,116
Cash and Cash Equivalents, Beginning of Year	<u>12,207,472</u>	<u>573,356</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,017,228</u>	<u>\$ 12,207,472</u>

Ringgold County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash	\$ 437,498	\$ 339,880
Restricted cash and investments – current	287,562	2,872,996
Cash in noncurrent cash and investments	292,168	8,994,596
	\$ 1,017,228	\$ 12,207,472
Supplemental Cash Flows Information		
Property and equipment purchases included in accounts payable	\$ (2,517,465)	\$ 2,517,465
Refunding of Hospital Revenue Bonds Series 2008C	(8,700,000)	-
Issuance of Hospital Revenue Bonds Series 2009	8,700,000	-
Reconciliation of Net Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (1,947,763)	\$ (1,343,656)
Depreciation	1,814,466	1,361,225
Changes in operating assets and liabilities		
Patient accounts receivable, net	(61,557)	15,484
Supplies and prepaid expenses	(9,752)	(38,987)
Estimated amounts due from third-party payers	(146,500)	(352,000)
Accounts payable and accrued expenses	(132,755)	805,025
Net cash provided by (used in) operating activities	\$ (483,861)	\$ 447,091

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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 critical access 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, 2010 and 2009, cash equivalents consisted primarily of money market accounts.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009, the Hospital received approximately 8% and 7%, 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, 2010 and 2009

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>2010</u>	<u>2009</u>
Total interest expense incurred on borrowings for the project	\$ 873,010	\$ 1,054,222
Interest income from investment of proceeds of borrowing for project	<u>(22,954)</u>	<u>(23,394)</u>
Net interest cost capitalized	<u>\$ 850,056</u>	<u>\$ 1,030,828</u>
Interest capitalized	\$ 850,056	\$ 1,030,828
Interest charged to expense	<u>558,451</u>	<u>17,030</u>
Total interest incurred	<u>\$ 1,408,507</u>	<u>\$ 1,047,858</u>

Long-Lived Asset Accelerated Depreciation

The Hospital evaluates the recoverability of the carrying value of long-live 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, 2010 and 2009

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 \$700,328 and \$988,103 was recognized for the old facility capital assets for the years ended June 30, 2010 and 2009, respectively.

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, 2010 and 2009

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.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Approximately 66% and 64% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At June 30, 2010 and 2009, the Hospital had bank balances of \$1,043,270 and \$828,584, 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, 2010 and 2009 consisted of guaranteed investment contracts and U.S. Government Obligations.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Type	Fair Value	2010 Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money Market Mutual Funds	\$ 579,730	\$ 579,730	\$ -	\$ -	\$ -
Guaranteed Investment Contract	-	-	-	-	-
U.S. Government Obligations	893,297	-	312,095	581,203	-
	<u>\$ 1,473,027</u>	<u>\$ 579,730</u>	<u>\$ 312,095</u>	<u>\$ 581,203</u>	<u>\$ -</u>

Type	Fair Value	2009 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	-
	<u>\$ 12,645,976</u>	<u>\$ 11,802,310</u>	<u>\$ 302,579</u>	<u>\$ 541,087</u>	<u>\$ -</u>

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010 and 2009, 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.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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. The Hospital held investments totaling \$735,422 of Federal Farm Credit Bank investments, which represented 82% of the investments in U.S. Government Obligations and 49% of total investments.

Summary of Carrying Values

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

	<u>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 437,498	\$ 339,880
Certificates of deposits	270,000	383,867
Investments	<u>1,473,027</u>	<u>12,645,983</u>
	<u>\$ 2,180,525</u>	<u>\$ 13,369,730</u>
Included in the following balance sheet captions		
Cash	\$ 437,498	\$ 339,880
Internally designated	270,000	300,932
Restricted cash and investment – current	287,562	2,872,996
Noncurrent cash and investments –		
Held for capital acquisitions	221,549	8,935,345
Noncurrent cash investments –		
Held by trustee for debt service	<u>963,916</u>	<u>920,577</u>
	<u>\$ 2,180,525</u>	<u>\$ 13,369,730</u>

Interest Income

Interest income for the years ended June 30, 2010 and 2009, amounted to \$133,231 and \$65,363, respectively.

Ringgold County Hospital
Notes to Financial Statements
June 30, 2010 and 2009

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, 2010 and 2009, consisted of:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 682,052	\$ 457,145
Medicaid	27,333	108,449
Other third-party payers	570,437	598,397
Patients	<u>924,427</u>	<u>859,701</u>
	2,204,249	2,023,692
Less allowance for uncollectible accounts	<u>772,000</u>	<u>653,000</u>
	<u>\$ 1,432,249</u>	<u>\$ 1,370,692</u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009, were:

	<u>Beginning Balance</u>	<u>2010</u>			<u>Ending Balance</u>
	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u>
Land	\$ 368,364	\$ -	\$ -	\$ -	\$ 368,364
Land improvements	304,625	50,251	304,625	1,310,215	1,360,466
Buildings and improvements	2,724,418	116,074	2,724,418	9,352,039	9,468,113
Fixed equipment	1,635,330	264,536	1,469,477	7,338,688	7,769,077
Major moveable equipment	2,491,128	1,646,388	865,960	2,273,760	5,545,316
Construction in progress	<u>13,712,162</u>	<u>6,562,540</u>	<u>-</u>	<u>(20,274,702)</u>	<u>-</u>
	<u>21,236,027</u>	<u>8,639,789</u>	<u>5,364,480</u>	<u>-</u>	<u>24,511,336</u>
Less accumulated depreciation					
Land improvements	230,473	51,152	236,994	-	44,631
Buildings and leasehold improvements	2,245,650	300,848	2,287,081	-	259,417
Fixed equipment	1,383,921	267,610	1,306,967	-	344,564
Major moveable equipment	<u>1,831,220</u>	<u>424,870</u>	<u>833,256</u>	<u>-</u>	<u>1,422,834</u>
	<u>5,691,264</u>	<u>1,044,480</u>	<u>4,664,298</u>	<u>-</u>	<u>2,071,446</u>
Capital assets, net	<u>\$15,544,763</u>	<u>\$ 7,595,309</u>	<u>\$ 700,182</u>	<u>\$ -</u>	<u>\$22,439,890</u>

Ringgold County Hospital
Notes to Financial Statements
June 30, 2010 and 2009

	Beginning Balance	2009			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 368,364	\$ -	\$ -	\$ -	\$ 368,364
Land improvements	304,625	-	-	-	304,625
Buildings and improvements	2,724,418	-	-	-	2,724,418
Fixed equipment	1,634,813	517	-	-	1,635,330
Major moveable equipment	2,112,252	415,696	36,820	-	2,491,128
Construction in progress	1,220,332	12,491,830	-	-	13,712,162
	<u>8,364,804</u>	<u>12,908,043</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	1,549,187	696,463	-	-	2,245,650
Fixed equipment	1,045,990	337,931	-	-	1,383,921
Major moveable equipment	1,649,340	218,700	36,820	-	1,831,220
	<u>4,366,860</u>	<u>1,361,224</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>

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 was 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 Project was completed in December 2009.

The total cost of the Project was \$25,074,657, including \$20,471,742 in new construction, equipment and land acquisition costs, \$2,397,276 in capitalized interest payments, \$941,169 deposited into a bond reserve fund at closing and \$1,264,470 for debt issue costs. The sources of funding were a \$14,480,000 in USDA guaranteed loans with ArborOne, \$8,700,000 in USDA direct loans, \$1,592,939 in equity contribution from the Hospital from its existing cash and investment reserves, \$126,430 in investment earnings on idle construction funds and \$177,630 in net interest savings from refinancing the interim project note. Responsibility for payment of debt service on the loans is solely that of the Hospital from its net revenues.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 97,286	\$ 60,511
Current year claims incurred and changes in estimates		
for claims incurred in prior years	684,662	490,482
Claims and expenses paid	<u>(647,274)</u>	<u>(453,707)</u>
Balance, end of year	<u>\$ 134,674</u>	<u>\$ 97,286</u>

Ringgold County Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Hospital Revenue Bonds

- (A) Series 2008A Hospital Revenue Bonds; \$13,030,000 maturing serially at varying amounts through 2038, semiannual interest payments at 6.7%; 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.

- (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.

- (D) Refinancing of Series 2008C Hospital Revenue Bond Anticipation Notes with a loan through the USDA Rural Development; Hospital Revenue Bonds Series 2009, \$8,700,000 maturing 2010, with semiannual interest payments at 1.50%, including premium on issuance of \$39,063 which is amortized over the life of the bonds. Premium amortization of \$26,042 was recognized as an offset to interest expense in 2010, leaving a balance of \$13,021.

Subsequent to year end, the Hospital refinanced the Hospital Revenue Bonds Series 2009 and acquired permanent financing through the USDA Rural Development with Taxable Hospital Revenue Bonds, Series 2010 at 3.75%. Monthly principal and interest payments at \$35,061 are due commencing November 1, 2010 through October 1, 2050.

In addition, the Hospital is required to make monthly payments of \$3,506 into a debt service reserve account for ten years.

Ringgold County Hospital
Notes to Financial Statements
June 30, 2010 and 2009

The debt service requirements on the bonds as of June 30, 2010, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2011	\$ 1,501,096	\$ 63,348	\$ 1,437,748
2012	1,594,456	258,036	1,336,420
2013	1,593,059	271,776	1,321,283
2014	1,590,992	285,659	1,305,333
2015	1,593,087	304,690	1,288,397
2016-2020	7,966,316	1,819,511	6,146,805
2021-2025	8,029,446	2,526,025	5,503,421
2026-2030	7,977,318	3,363,585	4,613,733
2031-2035	7,912,101	4,512,554	3,399,547
2036-2040	7,824,754	6,179,399	1,645,355
2041-2045	2,101,186	1,566,916	534,270
2046-2050	2,101,186	1,889,509	211,677
2051-2055	140,117	138,992	1,125
	<u>\$ 51,925,114</u>	<u>\$ 23,180,000</u>	<u>\$ 28,745,114</u>

Revenue Capital Loan Notes

The revenue capital loan notes consisted of Hospital Revenue Capital Loan Notes, Series 1999 (Notes), in the original amount of \$700,000 dated August 1, 1999, which bore interest at 5.25%. The Notes were payable in monthly installments of \$9,472 through December 2009. The Notes were secured by the net revenues of the Hospital and a \$100,000 certificate of deposit.

There were no debt service requirements as of June 30, 2010 as the Notes were paid off during the year.

Notes Payable

The Hospital paid off two notes payable as of June 30, 2010. The first was due October 2009, with principal payable in quarterly installments of \$3,750. This note was non-interest bearing and was secured by a loan guaranty from Mercy Hospital Medical Center.

The second note was due January 2010, with principal and interest at 6%, payable in annual installments of \$83,391. Funds to pay off this note were placed in escrow as part of the issuance of the series 20087A and B Hospital Revenue Bonds.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

There were no debt service requirements for these notes as of June 30, 2010 as they were paid off during the year.

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, 2010 and 2009, totaled \$37,000 and \$74,000, respectively, net of accumulated depreciation of \$245,000 and \$208,000, respectively. The agreements are secured by equipment. The debt service requirements at June 30, 2010, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2011	\$ 19,515	\$ 19,131	\$ 384

Note 9: Operating Leases

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

During 2010, the Hospital entered into an operating lease for a Digital Mammography and Pulmonary Function Machine. The monthly lease payment is \$7,867, expiring in 2014.

The Hospital also entered into an operating lease for Pyxis machines. The monthly lease payment is \$2,354, expiring in 2015.

Future minimum lease payments at June 30, 2010, were:

2011	\$ 301,452
2012	301,452
2013	301,452
2014	43,982
2015	14,124
Future minimum lease payments	\$ 962,462

Ringgold County Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Rental expense for all operating leases consisted of:

	2010	2009
Minimum rentals	\$ 297,243	\$ 234,055

Note 10: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 4.30% and 4.10% of their annual covered salary and the Hospital is required to contribute 6.65% and 6.35% of annual covered payroll for 2010 and 2009, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008, were \$314,323, \$243,460 and \$275,057, 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 \$367,653 and \$352,061 for the years ended June 30, 2010 and 2009, respectively.

Ringgold County Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget 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 2010 or 2009.

The following is a comparison of reported amounts to the Hospital's budget for the year ended June 30, 2010:

	Accrual Basis	Budget	Budget to Cash Basis Variance
Amount to be raised by taxation	\$ 953,097	\$ 954,607	\$ (1,510)
Other revenues/receipts	<u>12,856,645</u>	<u>13,910,057</u>	<u>(1,222,406)</u>
	13,809,742	14,864,664	(1,223,916)
Expenses/disbursements	<u>15,177,660</u>	<u>14,786,610</u>	<u>533,557</u>
	(1,367,918)	78,054	(1,757,473)
Balance, beginning of year	<u>3,670,290</u>	<u>1,754,619</u>	<u>1,666,006</u>
Balance, end of year	<u><u>\$ 2,302,372</u></u>	<u><u>\$ 1,832,673</u></u>	<u><u>\$ (91,467)</u></u>

Note 13: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated 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.

Ringgold County Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Current economic conditions, including the rising unemployment rate, have made it difficult for certain 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, 2010 and 2009

Patient Accounts Receivable

	<u>2010</u>		<u>2009</u>	
	Amount	Percent	Amount	Percent
Age of Accounts				
0 – 30 days	\$ 1,587,546	50.8%	\$ 1,367,691	52.4%
31 – 60 days	382,107	12.2%	327,975	12.6%
61 – 90 days	220,500	7.1%	163,515	6.3%
91 – 120 days	162,414	5.2%	94,086	3.6%
Over 120 days	<u>773,682</u>	<u>24.7%</u>	<u>655,425</u>	<u>25.1%</u>
	3,126,249	<u>100.0%</u>	2,608,692	<u>100.0%</u>
Allowance for contractual adjustments	<u>922,000</u>		<u>585,000</u>	
	2,204,249		2,023,692	
Less				
Allowance for uncollectible accounts	<u>772,000</u>		<u>653,000</u>	
	<u>\$ 1,432,249</u>		<u>\$ 1,370,692</u>	

Allowance for Uncollectible Accounts

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 653,000	\$ 585,000
Provision for uncollectible accounts	575,457	426,080
Accounts written off	<u>(456,457)</u>	<u>(358,080)</u>
Balance, end of year	<u>\$ 772,000</u>	<u>\$ 653,000</u>

Ringgold County Hospital
Supplies and Prepaid Expenses
June 30, 2010 and 2009

	2010	2009
Supplies		
Medical supplies	\$ 55,732	\$ 69,016
Pharmacy	110,026	109,449
	\$ 165,758	\$ 178,465
 Prepaid Expenses		
Insurance	\$ 35,084	\$ 30,140
Other	31,935	21,520
	\$ 67,019	\$ 51,660

Ringgold County Hospital
Other Revenue
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Grant revenue	\$ 123,618	\$ 180,119
Meals sold to employees and guests	33,552	29,262
Contract laundry services	812	1,071
Gain on disposition of capital assets	-	11,715
Purchase discounts	-	18
Other	<u>87,929</u>	<u>44,277</u>
	<u>\$ 245,911</u>	<u>\$ 266,462</u>

Ringgold County Hospital
Net Patient Service Revenue
Years Ended June 30, 2010 and 2009

	Inpatient	2010 Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 700,747	\$ -	\$ 700,747
Swing bed	97,635	-	97,635
	<u>798,382</u>	<u>-</u>	<u>798,382</u>
Other Nursing Services			
Operating room	220,464	1,119,036	1,339,500
Recovery room	18,360	240,690	259,050
Central services and supply	1,075,976	283,826	1,359,802
Intravenous therapy	114,916	147,478	262,394
Emergency services	20,366	880,083	900,449
CRNA	21,379	80,151	101,530
	<u>1,471,461</u>	<u>2,751,264</u>	<u>4,222,725</u>
Other Professional Services			
Laboratory	365,846	2,292,418	2,658,264
Transfusion service	32,340	36,598	68,938
Cardiology	19,000	209,980	228,980
Radiology	296,017	3,160,679	3,456,696
Pharmacy	626,682	1,101,013	1,727,695
Respiratory therapy	238,109	272,336	510,445
Physical therapy	166,960	619,550	786,510
Anesthesiology	1,325	17,442	18,767
Ambulance service	19,687	410,157	429,844
Dialysis	-	973,841	973,841
Emergency room physicians	-	490,553	490,553
Clinics	227,769	4,028,626	4,256,395
	<u>1,993,735</u>	<u>13,613,193</u>	<u>15,606,928</u>
Gross Patient Service Revenue	<u>\$ 4,263,578</u>	<u>\$ 16,364,457</u>	<u>20,628,035</u>
Less Allowances and Provision for Uncollectible Accounts			
Medicare contractual allowances			5,034,617
Medicaid contractual allowances			617,330
Other contractual allowances			1,975,148
Provision for uncollectible accounts			575,405
			<u>8,202,500</u>
Net Patient Service Revenue			<u>\$ 12,425,535</u>

	2009		
Inpatient	Outpatient	Total	
\$ 645,602	\$ -	\$ 645,602	
69,500	-	69,500	
<u>715,102</u>	<u>-</u>	<u>715,102</u>	
153,422	995,643	1,149,065	
15,244	227,488	242,732	
463,352	254,781	718,133	
101,145	132,840	233,985	
26,619	953,779	980,398	
-	-	-	
<u>759,782</u>	<u>2,564,531</u>	<u>3,324,313</u>	
442,689	2,034,645	2,477,334	
26,367	27,053	53,420	
23,920	139,721	163,641	
373,082	2,626,360	2,999,442	
616,244	617,762	1,234,006	
242,108	190,017	432,125	
166,013	452,689	618,702	
1,006	22,557	23,563	
9,937	338,311	348,248	
-	809,072	809,072	
-	489,271	489,271	
299,884	3,505,113	3,804,997	
<u>2,201,250</u>	<u>11,252,571</u>	<u>13,453,821</u>	
<u>\$ 3,676,134</u>	<u>\$ 13,817,102</u>	<u>17,493,236</u>	

3,830,427
410,962
1,687,442
426,080
<u>6,354,911</u>
<u>\$ 11,138,325</u>

Ringgold County Hospital
Operating Expenses
Years Ended June 30, 2010 and 2009

	Salaries	2010 Supplies and Expense	Total
Nursing Services			
Nursing administration	\$ 85,334	\$ 141,730	\$ 227,064
Medical and surgical	808,314	86,487	894,801
Operating room	363,480	652,180	1,015,660
Central services and supply	-	230	230
Emergency services	53,725	23,328	77,053
	<u>1,310,853</u>	<u>903,955</u>	<u>2,214,808</u>
Other Professional Services			
Laboratory	257,202	383,828	641,030
Transfusion service	-	48,298	48,298
Cardiology	11,838	9,353	21,191
Radiology	220,736	865,138	1,085,874
Pharmacy	140,572	367,337	507,909
Respiratory therapy	121,805	101,794	223,599
Physical therapy	207,810	106,986	314,796
Medical records	148,926	44,810	193,736
Ambulance service	210,956	37,720	248,676
Dialysis	201,764	247,296	449,060
Emergency room physicians	171,821	102,960	274,781
Clinics	1,888,064	570,398	2,458,462
Anesthesiology	-	70,640	70,640
	<u>3,581,494</u>	<u>2,956,558</u>	<u>6,538,052</u>
General Services			
Dietary	159,540	77,611	237,151
Plant operation and maintenance	178,414	407,662	586,076
Housekeeping	103,465	40,464	143,929
Laundry and linen	13,721	14,490	28,211
	<u>455,140</u>	<u>540,227</u>	<u>995,367</u>
Administrative and Fiscal Services			
Administrative	456,261	1,119,094	1,575,355
Employee benefits	-	1,481,161	1,481,161
	<u>456,261</u>	<u>2,600,255</u>	<u>3,056,516</u>
Depreciation and Amortization			
	<u>-</u>	<u>1,814,466</u>	<u>1,814,466</u>
	<u>\$ 5,803,748</u>	<u>\$ 8,815,461</u>	<u>\$ 14,619,209</u>

See Independent Accountants' Report

2009		
Salaries	Supplies and Expense	Total
\$ 36,743	\$ 138,414	\$ 175,157
882,095	72,591	954,686
297,184	430,640	727,824
-	(4,558)	(4,558)
<u>56,021</u>	<u>17,057</u>	<u>73,078</u>
<u>1,272,043</u>	<u>654,144</u>	<u>1,926,187</u>
241,855	385,753	627,608
-	33,101	33,101
8,683	9,394	18,077
202,582	846,233	1,048,815
136,362	290,347	426,709
117,793	70,299	188,092
176,469	59,458	235,927
149,277	46,698	195,975
206,771	40,800	247,571
191,166	211,944	403,110
156,900	171,288	328,188
1,957,097	487,563	2,444,660
<u>-</u>	<u>-</u>	<u>-</u>
<u>3,544,955</u>	<u>2,652,878</u>	<u>6,197,833</u>
152,100	72,358	224,458
105,926	347,717	453,643
100,409	19,129	119,538
<u>9,221</u>	<u>9,279</u>	<u>18,500</u>
<u>367,656</u>	<u>448,483</u>	<u>816,139</u>
440,118	810,394	1,250,512
<u>-</u>	<u>1,196,549</u>	<u>1,196,549</u>
<u>440,118</u>	<u>2,006,943</u>	<u>2,447,061</u>
<u>-</u>	<u>1,361,223</u>	<u>1,361,223</u>
<u>\$ 5,624,772</u>	<u>\$ 7,123,671</u>	<u>\$ 12,748,443</u>

Ringgold County Hospital

Organizational Data

June 30, 2010

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
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

Ringgold County Hospital
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
Community Facilities Loans and Grants	U.S. Department of Agriculture	10.766		\$ <u>10,225,372</u>

Note to Schedule

1. This schedule includes the federal awards activity of Ringgold County Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**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, 2010, and have issued our report thereon dated October 14, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material 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, 2010 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, 2010. 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, 2010.

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, 2010 did 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 14, 2010.

* * * * *

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 14, 2010

Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

Compliance

We have audited the compliance of Ringgold County Hospital with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the compliance of Ringgold County Hospital based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, Ringgold County Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Ringgold County Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

* * * * *

This report is intended solely for the information and use of the governing body, management, others within the Hospital, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 14, 2010

Ringgold County Hospital
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The Organization's major program was:

Cluster/Program	CFDA Number
United States Department of Agriculture/Rural Development – Community Facilities Loan	10.766

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$306,761.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Ringgold County Hospital
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

Reference Number	Finding	Questioned Costs
None		

Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa

As part of our audit of the financial statements and compliance of Ringgold County Hospital as of and for the year ended June 30, 2010, we wish to communicate the following to you.

Audit Scope and Results

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Nonprofit Organizations

An audit performed 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements and compliance does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Hospital's significant accounting policies are described in Note 1 of the audited financial statements. With respect to unusual accounting policies or accounting methods used by the Hospital for unusual transactions, we noted no matters that are reportable.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies. We noted no matters that are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Contractual allowances for accounts receivable
- Allowances for uncollectible accounts receivable
- Estimated amounts due to/from third-party payers
- Property tax receivable
- Depreciation
- Self-insurance accrual for claims incurred prior to June 30, 2010

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Construction of new hospital facility and related bond issuance
- Asset impairment on old hospital building and fixed and movable equipment that was abandoned when the move to the new hospital facility was completed.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Allowance for contractual allowances in accounts receivable
- Amounts due to/from third-party payers
- Self-insurance claims payable

Proposed Audit Adjustments Not Recorded

- None

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Hospital's application of accounting principles:

No matters are reportable.

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

No matters are reportable.

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

No matters are reportable.

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

No matters are reportable.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter (attached)
- Management letter

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Ringgold County Hospital as of and for the year ended June 30, 2010, 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, 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.

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

A 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 and correct misstatements of the Hospital's financial statements on a timely basis. A 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 would not be met. A 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 competence to perform the control effectively.

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

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, 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, expense 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 proposed adjustments to management based on our testing related to the following accounts: the contractual allowance 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 more accurately estimate these balances and reduce the number of journal entries in future audits.

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving 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.

Electronic Health Records

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Variables that determine the total funding available to a hospital include total discharges, the percentage of patient days attributable to Medicare Part A and Part C patients and the percentage of charges attributable to charity care. Implementing regulations to be issued by the Centers for Medicare & Medicaid Services (CMS) will determine how these variables are measured and what constitutes meaningful users of certified EHR technology.

Available funding will decrease significantly if the Hospital does not become a meaningful user of certified EHR technology until 2013 or later. Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, similar to reductions for failing to report quality measures, 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 continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

Health Care Reform

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system. While your Hospital may not be affected by reductions in payments, it could be affected by the economic environment in your community, including whether employers in your community continue to provide health insurance coverage for employees. The overall impact on the Hospital of the health care reform is not presently determinable.

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 "Hospital 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.

Current Economic Environment

The current protracted economic decline continues to present difficult 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 Directors vigilantly monitor and aggressively manage all of these matters.

* * * * *

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

BKD, LLP

Kansas City, Missouri
October 14, 2010

Ringgold County Hospital
504 North Cleveland
Mount Ayr, Iowa 50854

_____, 2010

BKD, LLP

Certified Public Accountants
1201 Walnut Street, Suite 1700
Kansas City, Missouri 64106-2246

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2010 and 2009 and your audit of our compliance with requirements applicable to each of our major federal awards programs as of and for the year ended June 30, 2010. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
3. We have made available to you:
 - (a) All financial records and related data.
 - (b) All minutes of Board of Trustees' meetings held through the date of this letter.
 - (c) All significant contracts and grants.

- (d) All peer review organizations, fiscal intermediary and third-party payer reports and information.
4. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Hospital procedures with respect to:
- (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets or liabilities.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any known or suspected:
- (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.
8. Except as reflected in the financial statements, there are no:
- (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date requiring adjustment or disclosure in the financial statements.
 - (e) Related party transactions, balances, arrangements, or guarantees.
 - (f) Agreements to purchase assets previously sold.

- (g) Violations of law, regulations or requirements of regulatory agencies for which losses should be accrued or matters disclosed in the financial statements.
 - (h) Unasserted claims or assessments that our attorneys have advised us are probable of assertion.
 - (i) Restrictions on cash balances or compensating balance agreements.
 - (j) Guarantees, whether written or oral, under which the Hospital is contingently liable.
9. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.
10. Adequate provisions and allowances have been accrued for any material losses from:
- (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Reducing obsolete or excess inventories to estimated net realizable value.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
11. Except as disclosed in the financial statements, the Hospital has:
- (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
12. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:
- (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer.

- (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.
- 13. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.
- 14. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and preparation of Medicare and Medicaid cost reports:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
- 15. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
- 16. We are an organization exempt from income tax under Section 115 of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

17. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
18. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
19. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
20. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
21. We have a process to track the status of audit findings and recommendations.
22. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
23. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
24. With regard to federal awards programs:
 - (a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.
 - (b) We have identified the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement and suspension and debarment; program income; real property acquisition and relocation assistance;

reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations.

- (c) We are responsible to understand and comply with the requirements of laws, regulations, contracts and grants applicable to each of our federal awards programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any instances of noncompliance we have disclosed to you, we believe the Hospital has complied with all applicable compliance requirements.
- (d) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards programs in compliance with requirements of laws, regulations, contracts and grants applicable to those programs.
- (e) We have made available to you all contracts and grant agreements, including any amendments, and any other correspondence or documentation relevant to each of our federal awards programs and to our compliance with applicable requirements of those programs.
- (f) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.
- (g) Amounts claimed or used for matching were determined in accordance with the applicable OMB Circular regarding cost principles.
- (h) We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, including any communications received from the end of the period of your audit through the date of this letter.
- (i) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance audit, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.
- (j) We are responsible for taking corrective action on any audit findings.

25. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis has been prepared and is presented in conformity with the applicable GASB pronouncements. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. There has been no change from the preceding period in the methods of measurement and presentation.
26. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
27. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
28. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
29. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
30. With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

- (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
31. We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts and contributions receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Hospital's financial statements. Further, management and the Board are solely responsible for all aspects of managing the Hospital, including questioning the quality and valuation of investments and other assets, evaluating assumptions regarding defined benefit pension plan obligations, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

Gordon W. Winkler, Administrator

Teresa Roberts, Chief Financial Officer