Monroe County Hospital

Accountants' Report and Financial Statements

June 30, 2011 and 2010

BKD LLP
CPAs & Advisors

Monroe County Hospital

June 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the accompanying balance sheets of Monroe County Hospital as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monroe County Hospital as of June 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

experience BKD

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

Kansas City, Missouri
November 17, 2011

Monroe County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Monroe County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2011 and 2010 by $630,427 or 50% and decreased between 2010 and 2009 by $1,127,990 or 47%.
- The Hospital's net assets increased $365,849 or 7% in 2011 and decreased $212,556 or 4% in 2010.
- The Hospital reported operating losses in both 2011 $(131,170) and 2010 $(701,454). The operating loss decreased by $570,284 in 2011.
- Net nonoperating revenues increased by $7,332 or 2% in 2011 compared to 2010 and increased by $4,919 or 1% in 2010 compared to 2009.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by $365,849 or 7% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	$ 2,081,277	$ 1,768,638	$ 1,537,720
Other current assets	3,126,096	2,472,869	3,337,432
Capital assets, net	5,628,915	5,647,772	5,735,003
Other noncurrent assets	808,131	1,270,007	1,569,809
Total assets	$ 11,644,419	$ 11,159,286	$ 12,179,964
Liabilities			
Current liabilities	$ 2,775,179	$ 2,412,715	$ 3,109,556
Long-term debt	3,275,745	3,518,925	3,630,206
Total liabilities	6,050,924	5,931,640	6,739,762
Net Assets			
Invested in capital assets, net of related debt	2,133,755	1,946,989	1,464,695
Restricted			
Expendable	478,230	470,698	715,604
Nonexpendable	179,880	179,880	179,880
Unrestricted	2,801,630	2,630,079	3,080,023
Total net assets	5,593,495	5,227,646	5,440,202
Total liabilities and net assets	$ 11,644,419	$ 11,159,286	$ 12,179,964

In 2011, a significant change in the Hospital's assets was the increase in net patient accounts receivable of $312,639. The increase was due to a 7% rate increase effective July 1, 2010, and an increase of total Outpatient volume. The Hospital also had a significant increase in cash due to the high volumes and the change in status of a physician clinic to Rural Health Clinic status. The increase in cash totaled $630,555.

In 2011, a significant change in the Hospital's liabilities was the increase in the estimated amount due to third-party payers of $284,000. Medicare and Medicaid rates paid were in excess of cost computed in the year-end cost reports.

In 2010, a significant change in the Hospital's assets was the increase in net patient accounts receivable of $230,918. The increase was due to a 9% rate increase effective July 1, 2009, and an addition of three providers in the physicians clinic. The Hospital also experienced a decrease in cash due to the additional cost in adding the physicians clinic in 2010.

In 2010, a significant change in the Hospital's liabilities was the decrease in accounts payable of $366,688. The decrease was due to the purchase of two significant capital equipment items at June 30, 2009, including a roof replacement for $115,649 and computed radiography for $89,230, which were included in accounts payable at June 30, 2009. The Hospital's liabilities also decreased due to the payoff of the scope system in 2009.

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by $365,849 or 7% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 14,517,686	$ 13,036,404	$ 12,088,879
Other operating revenues	182,562	162,074	240,906
Total operating revenues	14,700,248	13,198,478	12,329,785
Operating Expenses			
Salaries and wages and employee benefits	8,465,457	7,902,515	6,389,947
Medical professional fees	1,892,005	1,738,736	1,780,044
Depreciation	674,534	642,168	616,246
Other operating expenses	3,799,422	3,616,513	3,908,162
Total operating expenses	14,831,418	13,899,932	12,694,399
Operating Loss	(131,170)	(701,454)	(364,614)
Nonoperating Revenues (Expenses)			
Property taxes	652,358	645,954	620,903
Interest expense	(205,016)	(232,670)	(246,528)
Interest income	23,101	35,745	54,275
Non-capital grants and gifts	13,136	27,218	42,678
Total nonoperating revenues	483,579	476,247	471,328
Excess of Revenues and Expenses Before Capital Contributions	352,409	(225,207)	106,714
Capital Contributions	13,440	12,651	10,452
Increase (Decrease) in Net Assets	$ 365,849	$ (212,556)	$ 117,166

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2011, 2010 and 2009, the Hospital reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2011 decreased by $570,284 or 81% as compared to 2010. The primary components of the change in operations were:

- Net patient service revenue increased $1,481,282 or 11% over 2010 primarily due to an increase in Outpatient volume in both the Hospital and Physicians clinic.
- An increase in salaries, wages and employee benefits for the Hospital's employees of $562,942 or 7%. The increase is due to annual salary adjustments of 4% and an increase in employee health insurance premium expense of 11%.

The operating loss for 2010 increased by $336,840 or 92% as compared to 2009. The primary components of the change in operations were:

- Net patient service revenue increased $947,525 or 8% over 2009 primarily due to an increase in the number of providers in the physicians clinic.
- An increase in salaries, wages and employee benefits for the Hospital's employees of $1,512,568 or 24%. The increase is due to annual salary adjustments of 3% and an increase in employee health insurance premium expense of 5.5%. In addition, wage expense increased due to the employment of three physicians and a nurse practitioner in the clinic.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital grants and gifts. Nonoperating revenues increased by $7,332 or 2% in 2011 compared to 2010. Nonoperating revenues increased by $4,919 or 1% in 2010 compared to 2009. There were no significant changes in 2011 or 2010.

Contributions

- The Hospital received contributions of $26,576 in 2011, a decrease of $13,293 from 2010.
- The Hospital received contributions of $39,869 in 2010, a decrease of $13,261 from 2009.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2011 and 2010, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had $5.6 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011, the Hospital acquired capital assets costing $656,411.

At the end of 2010, the Hospital had $5.6 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2010, the Hospital acquired capital assets costing $554,937.

Debt

At June 30, 2011 and 2010, the Hospital had $3,632,528 and $3,844,227, respectively, in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital issued no new debt in 2011 or 2010 except entering into capital lease obligations for $96,476 and $243,395 in 2011 and 2010, respectively.

Factors Bearing on Monroe County Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future.

- In FY 2012, the possibility of Healthcare Reform could play a major role on the Hospital's financial future. A 1% reduction in reimbursement from Medicare and Medicaid is a possibility, which would have a significant impact on expected revenues and cash.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.932.2134.

Monroe County Hospital

Balance Sheets

June 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 1,847,813	$ 1,217,258
Certificate of deposit	306,635	301,617
Assets held under bond indenture agreement	36,073	36,201
Patient accounts receivable, net of allowance; 2011 - $473,338, 2010 - $536,761	2,081,277	1,768,638
Property taxes receivable	670,003	650,035
Other receivables	12,435	19,517
Supplies	225,865	239,505
Prepaid expenses	27,272	8,736
Total current assets	5,207,373	4,241,507
Noncurrent Cash and Deposits		
Internally designated for capital acquisitions	2,300	396,027
Externally restricted		
Held under bond indenture agreement	443,445	435,785
By donors	179,880	179,880
	625,625	1,011,692
Capital Assets, Net of Accumulated Depreciation	5,628,915	5,647,772
Other Assets		
Deferred financing costs (net of amortization; 2011 - $124,576, 2010 - $103,600	147,186	168,162
Other	35,320	90,153
	182,506	258,315
Total Assets	$ 11,644,419	$ 11,159,286

See Notes to Financial Statements

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 356,783	$ 325,302
Accounts payable	534,560	465,304
Accrued vacation	499,220	471,547
Accrued payroll and related liabilities	279,325	314,155
Accrued expenses - other	-	35,084
Accrued interest	1,288	1,288
Deferred revenue for property taxes	670,003	650,035
Estimated amounts due to third-party payers	434,000	150,000
Total current liabilities	2,775,179	2,412,715
Long-term Debt	3,275,745	3,518,925
Total liabilities	6,050,924	5,931,640
Net Assets		
Invested in capital assets, net of related debt	2,133,755	1,946,989
Restricted – expendable for debt service	478,230	470,698
Restricted – nonexpendable endowment	179,880	179,880
Unrestricted	2,801,630	2,630,079
Total net assets	5,593,495	5,227,646
Total Liabilities and Net Assets	$ 11,644,419	$ 11,159,286

Monroe County Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 15,273,121	$ 13,746,452
Provision for uncollectible accounts	(755,435)	(710,048)
Net patient service revenue	14,517,686	13,036,404
Other	182,562	162,074
Total operating revenues	14,700,248	13,198,478
Operating Expenses		
Salaries and wages	6,730,280	6,236,001
Employee benefits	1,735,177	1,666,514
Medical professional fees	1,892,005	1,738,736
Supplies and expenses	1,747,453	1,688,769
General services	730,795	758,170
Administrative services	1,232,636	1,076,438
Depreciation	674,534	642,168
Insurance	88,538	93,136
Total operating expenses	14,831,418	13,899,932
Operating Loss	(131,170)	(701,454)
Nonoperating Revenues (Expenses)		
Property taxes	652,358	645,954
Interest expense	(205,016)	(232,670)
Interest income	23,101	35,745
Noncapital grants and gifts	13,136	27,218
Total nonoperating revenues	483,579	476,247
Excess of Revenues Over (Under) Expenses, Before Capital Contributions	352,409	(225,207)
Capital Contributions	13,440	12,651
Increase (Decrease) in Net Assets	365,849	(212,556)
Net Assets, Beginning of Year	5,227,646	5,440,202
Net Assets, End of Year	$ 5,593,495	$ 5,227,646

Monroe County Hospital

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 14,489,047	$ 12,441,486
Payments to and on behalf of employees	(8,507,698)	(7,686,520)
Payments to suppliers and contractors	(5,557,036)	(5,497,064)
Other receipts, net	217,713	190,108
Net cash provided by (used in) operating activities	642,026	(551,990)
Noncapital Financing Activities		
Property taxes	652,358	645,954
Noncapital grants and gifts	13,136	27,218
Net cash provided by noncapital financing activities	665,494	673,172
Capital and Related Financing Activities		
Capital contributions	13,440	12,651
Principal paid on capital debt and leases	(315,267)	(503,135)
Interest paid on capital debt and leases	(205,016)	(232,870)
Purchase of capital assets	(574,399)	(649,684)
Net cash used in capital and related financing activities	(1,081,242)	(1,373,038)
Investing Activities		
Interest on deposits	23,101	35,745
Decrease in deposits	381,048	88,121
Net cash provided by investing activities	404,149	123,866
Increase (Decrease) in Cash and Cash Equivalents	630,427	(1,127,990)
Cash and Cash Equivalents, Beginning of Year	1,255,759	2,383,749
Cash and Cash Equivalents, End of Year	$ 1,886,186	$ 1,255,759

Monroe County Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 1,847,813	$ 1,217,258
Assets held under bond indenture agreement	36,073	36,201
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	2,300	2,300
	$ 1,886,186	$ 1,255,759
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (131,170)	$ (701,454)
Depreciation and amortization	702,603	677,619
Changes in operating assets and liabilities		
Patient accounts receivable, net	(312,639)	(230,918)
Supplies	13,640	(38,193)
Estimated amounts due from and to third-party payers	284,000	(364,000)
Accounts payable and accrued expenses	42,213	141,776
Other assets and liabilities	43,379	(36,820)
Net cash provided by (used in) operating activities	$ 642,026	$ (551,990)
Supplemental Cash Flows Information		
Capital assets included in accounts payable	$ 9,519	$ 24,717
Capital assets acquired under capital leases	96,476	243,395

Monroe County Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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

Nature of Operations

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

Basis of Accounting and Presentation

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of savings accounts.

Property Taxes

The Hospital received approximately 4% and 5% of its financial support from property tax revenues in the years ended June 30, 2011 and 2010, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

Deferred Financing Costs

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

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

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

Net Patient Service Revenue

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

Contributions

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were $53,853 and $51,893 for 2011 and 2010, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

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.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare Program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

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

Approximately 58% and 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2011 and 2010, 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 Interest Income

Deposits

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

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2011 and 2010. The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2011 and 2010.

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	$ 2,816,146	$ 2,566,768
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,847,813	$ 1,217,258
Certificate of deposit	306,635	301,617
Assets held under bond indenture agreement	36,073	36,201
Noncurrent cash and deposits	625,625	1,011,692
	$ 2,816,146	$ 2,566,768

Interest Income

Interest income for the years ended June 30, 2011 and 2010, amounted to $23,101 and $35,748, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2011 and 2010 consisted of:

	2011	2010
Medicare	$ 680,397	$ 428,475
Medicaid	87,543	83,074
Other third-party payers	958,997	897,223
Patients	827,678	896,627
	2,554,615	2,305,399
Less allowance for uncollectible accounts	473,338	536,761
	$ 2,081,277	$ 1,768,638

Note 5: Capital Assets

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

2011	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 62,600	$ -	$ -	$ -	$ 62,600
Land improvements	729,979	22,569	6,818	-	745,730
Buildings and leasehold improvements	7,017,299	-	577,873	41,581	6,481,007
Fixed equipment	4,698,010	36,646	104,407	(43)	4,630,206
Major movable equipment	6,626,769	570,695	1,385,043	66,797	5,879,218
Construction in progress	60,111	26,501	-	(31,850)	54,762
	19,194,768	656,411	2,074,141	76,485	17,853,523
Less accumulated depreciation					
Land improvements	625,173	22,424	6,818	-	640,779
Buildings and leasehold improvements	3,749,260	190,311	577,873	12,726	3,374,424
Fixed equipment	3,623,300	142,370	104,407	-	3,661,263
Major movable equipment	5,549,263	319,429	1,385,043	64,493	4,548,142
	13,546,996	674,534	2,074,141	77,219	12,224,608
Capital assets, net	$ 5,647,772	$ (18,123)	$ -	$ (734)	$ 5,628,915

2010	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 62,600	$ -	$ -	$ -	$ 62,600
Land improvements	706,622	23,357	-	-	729,979
Buildings and leasehold improvements	7,017,299	-	-	-	7,017,299
Fixed equipment	4,695,317	2,693	-	-	4,698,010
Major movable equipment	6,120,393	506,376	-	-	6,626,769
Construction in progress	37,599	22,511	-	-	60,110
	18,639,830	554,937	-	-	19,194,767
Less accumulated depreciation					
Land improvements	602,725	22,447	-	-	625,172
Buildings and leasehold improvements	3,555,889	193,372	-	-	3,749,261
Fixed equipment	3,481,447	141,853	-	-	3,623,300
Major movable equipment	5,264,766	284,496	-	-	5,549,262
	12,904,827	642,168	-	-	13,546,995
Capital assets, net	$ 5,735,003	$ (87,231)	$ -	$ -	$ 5,647,772

Note 6: Medical Malpractice Insurance

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

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue refunding bonds, Series 2007 (A)	$ 3,665,000	$ -	$ (265,000)	$ 3,400,000	$ 275,000
Capital lease obligations (B)	221,416	96,476	(50,267)	267,624	81,783
Less unamortized bond discount	(42,189)	-	7,093	(35,096)	-
Total long-term debt	$ 3,844,227	$ 96,476	$ (308,174)	$ 3,632,528	$ 356,783

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue refunding bonds, Series 2007 (A)	$ 3,920,000	$ -	$ (255,000)	$ 3,665,000	$ 265,000
Capital lease obligations (B)	226,156	243,395	(248,135)	221,416	60,302
Less unamortized bond discount	(49,284)	-	7,095	(42,189)	-
Total long-term debt	$ 4,096,872	$ 243,395	$ (496,040)	$ 3,844,227	$ 325,302

(A) Hospital Revenue Refunding Bonds, Series 2007, originally aggregating $4,410,000, were issued by the Hospital to refund the remaining 2001 and 1993 Series Notes. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.30% to 4.85%, on June 1 and December 1 each year until 2021. Series 2007 Bonds maturing on or after June 1, 2016 are subject to redemption by the Hospital, prior to the stated maturity, at any time on or after June 1, 2015, in whole or in part at a redemption price equal to 100% of principal plus accrued interest. Bonds are collateralized by net revenues of the Hospital.

(B) At rates of imputed interest of 5.0%, maturing through 2015 and collateralized by leased equipment. Equipment under capital leases is as follows:

	2011	2010
Equipment	$ 351,275	$ 331,819
Less accumulated depreciation	61,135	83,677
	$ 290,140	$ 248,142

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

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

The debt service requirements for the Hospital revenue bonds Series 2007 as of June 30, 2011, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	$ 432,880	$ 275,000	$ 157,880
2013	435,780	290,000	145,780
2014	432,875	300,000	132,875
2015	434,375	315,000	119,375
2016	435,043	330,000	105,043
2017-2021	2,169,797	1,890,000	279,797
	$ 4,340,750	$ 3,400,000	$ 940,750

The following is a schedule by year of future minimum lease payments under the capital lease including interest, together with the present value of the future minimum lease payments as of June 30, 2011:

Year Ending	Amount
2012	$ 92,473
2013	95,868
2014	79,906
2015	19,219
Total minimum lease payments	287,466
Less amount representing interest	19,842
Present value of future minimum lease payments	$ 267,624

Note 8: Restricted Net Assets

At June 30, 2011 and 2010, restricted expendable net assets of $478,230 and $470,698, respectively, were available for debt service reserve and sinking funds related to indenture agreements.

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

Note 9: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Management records an estimate of the amount of ultimate expected loss, if any, for each. No such amounts were recorded at June 30, 2011 or 2010. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 10: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 4.5% and 4.3% of their annual covered salaries and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2011, 2010 and 2009 were $451,815, $412,150 and $318,066, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.95% of annual covered salary for 2011.

Note 11: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization for network administration and support services. Administration and support services fees of $455,375 and $403,441 were incurred for the years ended June 30, 2011 and 2010, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2011:

	Actual	Accrual Adjustments	Cash Basis	Amended Budget
Amount to be raised by taxation	$ 652,358	$ -	$ 652,358	$ 650,035
Other revenues/receipts	14,749,925	(28,639)	14,721,286	14,233,359
Total revenues/receipts	15,402,283	(28,639)	15,373,644	14,883,394
Expenses/disbursements	15,036,434	(55,853)	14,980,581	19,000,000
Change in net assets	365,849	27,214	393,063	(4,116,606)
Balance, beginning of year	5,227,646	(599,018)	4,628,628	4,628,628
Balance, end of year	$ 5,593,495	$ (571,804)	$ 5,021,691	$ 512,022

Note 13: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2014. Future minimum lease payments at June 30, 2011 were:

2012	$ 138,084
2013	138,084
2014	21,324
Future minimum lease payments	$ 297,492

Rent expense for the material operating leases was $138,084 for the years ended June 30, 2011 and 2010.

Note 14: 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.

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, resulting in future adjustments in allowances for accounts receivable that could impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 15: Subsequent Events

Subsequent events have been evaluated through November 17, 2011, which is the date the financial statements were available to be issued.

Supplementary Information

Monroe County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Acute nursing care	$ 1,427,770	$ 1,427,770		$ 1,110,955	$ 1,110,955	
Extended care	138,123	138,123		145,545	145,545	
Skilled care	311,741	311,741		339,660	339,660	
	1,877,634	1,877,634		1,596,160	1,596,160	
Nursing Services						
Operating room	1,576,942	205,645	$ 1,371,297	1,415,134	183,970	$ 1,231,164
Recovery room	65,575	13,409	52,166	50,952	14,007	36,945
Emergency room	2,262,207	65,650	2,196,557	2,262,212	154,038	2,108,174
	3,904,724	284,704	3,620,020	3,728,298	352,015	3,376,283
Other Professional Services						
Central services and supplies	13,958	78	13,880	5,191	4,064	1,127
Hospice	1,024,891		1,024,891	655,753		655,753
Home health				1,170		1,170
Ambulance	1,079,565	28,334	1,051,231	873,387	7,502	865,885
Laboratory	3,416,370	389,377	3,026,993	2,951,405	298,884	2,652,521
Radiology	967,849	52,462	915,387	535,303	40,409	494,894
Electrocardiology	216,777	16,184	200,593	192,552	14,101	178,451
Respiratory therapy	386,539	315,752	70,787	443,152	382,744	60,408
Pharmacy	2,855,955	1,043,772	1,812,183	2,739,688	1,031,278	1,708,410
Anesthesiology	333,828	49,726	284,102	334,613	52,825	281,788
Physical therapy	749,955	104,831	645,124	624,778	93,441	531,337
Speech therapy	9,672	4,410	5,262	11,215	559	10,656
CT scan and MRI	3,037,045	313,201	2,723,844	2,472,880	276,764	2,196,116
Cardiac rehab	132,847		132,847	121,713		121,713
Occupational therapy	58,676	36,470	22,206	51,235	41,777	9,458
Outpatient clinic	399,221		399,221	246,627	412	246,215
Physician clinic	2,951,523		2,951,523	2,459,984		2,459,984
	17,634,671	2,354,597	15,280,074	14,720,646	2,244,760	12,475,886
Gross Patient Service Revenue	23,417,029	$ 4,516,935	$ 18,900,094	20,045,104	$ 4,192,935	$ 15,852,169
Contractual Adjustments	(8,143,908)			(6,298,652)		
Net Patient Service Revenue before Provision for Uncollectible Accounts	15,273,121			13,746,452		
Provision for Uncollectible Accounts	(755,435)			(710,048)		
Net Patient Service Revenue	$ 14,517,686			$ 13,036,404		

See Independent Accountants' Report

Monroe County Hospital

Schedules of Other Revenues

Years Ended June 30, 2011 and 2010

	2011	2010
Cafeteria	$ 50,625	$ 41,703
Medical records	2,854	3,360
Rent	45,217	43,198
Other	83,866	73,813
	$ 182,562	$ 162,074

Monroe County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	$ 1,236,931	$ 1,124,258	$ 112,673	$ 1,279,069	$ 1,133,637	$ 145,432
Emergency room	1,051,852	527,925	523,927	1,083,828	503,814	580,014
Operating and recovery rooms	532,688	275,385	257,303	393,866	264,057	129,809
Nursing administration	94,257	88,645	5,612	86,633	82,150	4,483
	2,915,728	2,016,213	899,515	2,843,396	1,983,658	859,738
Other Professional Services						
Laboratory	623,252	245,565	377,687	590,037	245,762	344,275
Radiology	363,950	301,569	62,381	375,476	313,824	61,652
Respiratory therapy	98,315	71,298	27,017	112,676	75,167	37,509
Pharmacy	743,226	121,757	621,469	662,678	121,918	540,760
Anesthesiology	132,855		132,855	137,284		137,284
Physical therapy	355,548		355,548	301,194		301,194
Speech pathology	6,287		6,287	7,290		7,290
CT scan	240,332		240,332	177,068		177,068
Ultrasound	90,179	55,936	34,243	96,612	54,553	42,059
Mammography	11,954		11,954	10,323		10,323
MRI	73,289		73,289	72,345		72,345
Nuclear scanning	29,465		29,465	19,720		19,720
Cardiac rehab	57,715	54,827	2,888	57,767	50,968	6,799
Occupational therapy	34,991		34,991	31,460		31,460
Medical records	179,709	129,490	50,219	189,981	141,420	48,561
Outpatient clinic	218,077	35,259	182,818	192,184	63,656	128,528
Physician clinic	2,174,513	1,847,033	327,480	1,957,749	1,500,915	456,834
Infection control	9,594		9,594	3,788		3,788
Hospice	324,946	218,767	106,179	289,159	186,614	102,545
Ambulance	305,722	252,475	53,247	253,946	216,173	37,773
	6,073,919	3,333,976	2,739,943	5,538,737	2,970,970	2,567,767
General Services						
Operation of plant	589,588	145,721	443,867	618,539	147,541	470,998
Dietary	418,332	221,149	197,183	412,483	215,710	196,773
Environmental services	188,616	137,965	50,651	190,881	129,550	61,331
Housekeeping	99,557	60,463	39,094	87,624	58,556	29,068
	1,296,093	565,298	730,795	1,309,527	551,357	758,170
Administrative Services	2,047,429	814,793	1,232,636	1,806,454	730,016	1,076,438
Employee Benefits	1,735,177		1,735,177	1,666,514		1,666,514
Depreciation	674,534		674,534	642,168		642,168
Insurance	88,538		88,538	93,136		93,136
	$ 14,831,418	$ 6,730,280	$ 8,101,138	$ 13,899,932	$ 6,236,001	$ 7,663,931

See Independent Accountants' Report

Monroe County Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts Years Ended June 30, 2011 and 2010

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2011	2010	2011	2010
Days Since Discharge or date of service				
0 – 30	$ 1,729,184	$ 1,462,843	52%	52%
31 – 60	802,061	551,382	24%	19%
61 – 90	232,026	191,041	7%	7%
91 – 120	137,016	104,511	4%	4%
121 and over	430,239	526,803	13%	18%
	3,330,526	2,836,580	100%	100%
Contractual allowances	775,911	531,181		
Allowance for uncollectible accounts	473,338	536,761		
	1,249,249	1,067,942		
	$ 2,081,277	$ 1,768,638		

Allowance for Uncollectible Accounts

	2011	2010
Balance, beginning of year	$ 536,761	$ 462,563
Provision for year	755,435	710,048
Recoveries of accounts previously written off	199,245	90,400
	1,491,441	1,263,011
Less accounts written off	1,018,103	726,250
Balance, end of year	$ 473,338	$ 536,761

Monroe County Hospital

Schedules of Supplies and Prepaid Expenses

Years Ended June 30, 2011 and 2010

Supplies

	2011	2010
General	$ 111,519	$ 114,567
Pharmacy	114,346	124,938
	$ 225,865	$ 239,505

Prepaid Expenses

	2011	2010
Insurance	$ 27,272	$ 8,736

Monroe County Hospital
Schedule of Officials
June 30, 2011

Name	Title	Term Expires December 31
	Board of Trustees	
Marilee Scieszinski	Chair	2014
Lorraine Starcevic	Vice Chair	2016
Debbie Judge	Secretary	2016 *
Tim Shehan	Member	2016
Lana Kaldenberg	Member	2014
Jason Summers	Member	2012
Alan Ammons	Member	2012
	Hospital Officials	
Greg Paris	Administrator	
Heather Cain	Chief Financial Officer	

* Resigned after June 30, 2011

Monroe County Hospital

Schedules of Financial and Statistical Data

Years Ended June 30, 2011 and 2010

	2011	2010
Patient Days (Exclusive of Swing-bed)		
Medicare	752	746
Medicaid	53	56
Private and other	255	198
	1,060	1,000
Medicare and Medicaid Percent	75.9%	80.2%
Percent of Occupancy (Acute)	11.6%	11.0%
Discharges (Exclusive of Swing-bed)		
Medicare	250	230
Medicaid	15	23
Private and other	90	76
	355	329
Average Length of Stay in Days	3.0	3.0

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

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the financial statements of Monroe County Hospital as of and for the year ended
June 30, 2011, and have issued our report thereon dated November 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as items 11-1 and 11-2 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We also noted certain matters that we reported to the Hospital's management in a separate letter dated November 17, 2011.

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

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, 2011, 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, 2011. 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, 2011.

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, 2011 did not exceed amounts budgeted.

Questionable Expenditures

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

Travel Expense

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

We noted the Hospital was in compliance with the annual reporting of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa.

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

Publication of Bills Allowed

Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed..." We noted no instances where Hospital management failed to publish the quarterly bills allowed paid as required by the Code of Iowa.

This report is intended solely for the information and use of the governing body, management, the State of Iowa 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
November 17, 2011

Monroe County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
11-1	Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements. Condition—Property and equipment records are not accurately reporting accumulated depreciation and additional reconciliations were needed. Context—Management has not been able to correct reports to ensure proper detection of misstatements in the financial statements can be made. Effect—Misstatements in the financial statements occurred or could occur and not be prevented or detected in a timely manner. Cause—Reports from software packages are not properly reporting certain amounts. Recommendation—Management should work with the software vendor to ensure reports are working properly and detail records can be reconciled to the general ledger monthly. Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.

Monroe County Hospital

Schedule of Findings and Responses (Continued)

Year Ended June 30, 2011

Reference Number	Finding
11-2	Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements. Condition—Significant audit adjustments were proposed to management related to cash, accounts receivable and accounts receivable allowances. Context—Management's financial statement preparation procedures were not sufficient such that misstatements were not identified in the financial statements. Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner. Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements. Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles. Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.

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Board of Trustees and Management
Monroe County Hospital
Albia, Iowa

In planning and performing our audit of the financial statements of Monroe County Hospital as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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 and significant deficiencies.

Significant Deficiencies

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

Deficiencies

Segregation of Duties

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

Payroll

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

Revenues and Cash Receipts

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

Audit Journal Entries

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements affecting the Hospital's payroll accruals, revenue cutoff, accounts payable, amortization of physician's contract expenses, capital leases and property taxes. These items were not previously identified by management's internal controls.

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 accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Medicare and Medicaid Reimbursement

The Federal government is currently evaluating ways to cut expenses due to the current economic conditions. Medicare and Medicaid programs are all being evaluated in this process. The Hospital should continue to monitor the status of the proposed reimbursement cuts and take steps to ensure the Hospital can meet debt covenants in the event of reduced reimbursements.

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.

Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

Charity Care Disclosures

Health care organizations currently report services to qualified charity patients in the notes to the financial statements. The disclosures generally report the amount of charity based on charges or the cost of providing the services. Effective for fiscal years beginning after December 15, 2010, ASU 2010-23 will require that all disclosures for charity care be based on the cost of providing those services. While this standard is not specifically for governmental entities, we recommend the Hospital consider adopting this disclosure to be consistent with the health care industry for 2012.

Conversion to ICD-10

Beginning on October 1, 2013, the Centers for Medicare and Medicaid Services (CMS) is converting coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after this date cannot be paid. The conversion will improve the information reported regarding a patients' medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to the providers will be related to the loss of productivity through error rates and reworking of claims filed, in addition to the loss of cash flows through the initial increase in the length of time necessary to process claims. CMS estimates that it may take up to six months for error rates and accounts receivable to decrease back to pre-conversion levels.

Providers should begin developing an implementation strategy that includes an assessment of the impact on your hospital. Check with your billing services, clearinghouse or practice management software vendor about their compliance plans. Training of personnel and physicians will be necessary to prevent significant delays in processing of claims or loss of reimbursement.

Foundation

The Hospital and related Foundation appear to meet the criteria that would require the Foundation to be consolidated in the Hospital's financial statements. The Foundation was deemed to not be material for 2011. The Hospital will need to re-evaluate this in 2012.

Capital Asset Records Update

Although the Hospital has made progress in the current year, we recommend the Hospital review the capital asset records in 2012, remove any items no longer in use at the Hospital and continue to adjust any unreconciled differences.

Documentation of Accounting Policies

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

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, resulting in future adjustments to asset values, the allowance for accounts receivable, etc. that could impact the Hospital's ability to maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

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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
November 17, 2011