

Ringgold County Hospital
Mount Ayr, Iowa

Financial Statements
June 30, 2012 and 2011

Together with Independent Auditor's Report

Ringgold County Hospital

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Ringgold County Hospital

Officials
June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees, Executive Committee:		
Kathi Braby	Chairperson	December 2016
Fred Wilson	Vice-Chairperson	December 2016
Bill Armstrong	Secretary/Treasurer	December 2014
Board of Trustees, Members:		
Greg Jobe	Member	December 2014
Jim Pederson	Member	December 2012
Malcom Eighmy	Member	December 2012
Karleen Stephens	Member	December 2016
Hospital Officials:		
Gordon W. Winkler	Administrator/Chief Executive Officer	Indefinite
Teresa Roberts	Chief Financial Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa:

We have audited the accompanying basic financial statements of Ringgold County Hospital (Hospital) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. 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 the Hospital as of June 30, 2012 and 2011, and the respective change in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 3-7 and page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information in Exhibits 1 – 5, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

SEIM JOHNSON, LLP.

Omaha, Nebraska,
October 15, 2012.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Introduction

This discussion and analysis of Ringgold County Hospital's (the "Hospital") financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2012 and 2011. This discussion and analysis should be read in conjunction with the accompanying financial statements, which begin on page 8.

Financial Highlights

- Cash and cash equivalents and short-term investments increased in 2012 by \$322,520 or 53% and increased in 2011 by \$173,997 or 40%, respectively.
- The Hospital's net assets decreased in 2012 by \$990,592 or 73% and \$947,375 or 41% in 2011.
- The Hospital reported operating losses in 2012 of \$2,281,807 and \$1,980,512 in 2011. The operating loss in 2012 increased by \$301,295 or 15% from the operating loss reported in 2011. The operating loss in 2011 decreased by \$525,702 or 21% from the operating loss reported in 2010.
- In August 2011, the Hospital issued \$1,595,075 in notes payable to purchase an Electronic Health Record information system, as mandated by the Centers for Medicare & Medicaid Services regulations.

Using This Annual Report

The Hospital's financial statements consist of three statements - a balance sheet; a statement of revenue, expenses, and changes in net assets; and a statement of cash flows. These financial statements and related notes 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 Revenue, 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 Revenue, 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. 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. You can think of the Hospital's net assets—the difference between assets and liabilities, as one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one 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 final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing 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 balance during the reporting period.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

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 \$990,592 or 73% in 2012 over 2011 as shown in Table 1.

Table 1: Condensed Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Cash and cash equivalents	\$ 934,015	611,495	437,498
Short-term investments	270,000	270,000	270,000
Assets limited as to use or restricted	414,747	411,227	287,562
Patient accounts receivable, net	1,954,503	1,540,775	1,432,249
Other current assets	1,624,187	1,501,311	1,211,258
Capital assets, net	21,232,046	20,790,868	22,439,890
Other non current assets	<u>2,477,346</u>	<u>2,065,758</u>	<u>2,094,427</u>
Total assets	<u>\$ 28,906,844</u>	<u>27,191,434</u>	<u>28,172,884</u>
Liabilities:			
Long-term debt	\$ 23,874,152	22,857,766	23,116,652
Other current and non-current liabilities	<u>4,668,287</u>	<u>2,978,671</u>	<u>2,753,860</u>
Total liabilities	<u>\$ 28,542,439</u>	<u>25,836,437</u>	<u>25,870,512</u>
Net Assets:			
Net assets	<u>364,405</u>	<u>1,354,997</u>	<u>2,302,372</u>
Total liabilities and net assets	<u>\$ 28,906,844</u>	<u>27,191,434</u>	<u>28,172,884</u>

A significant component of the change in the Hospital's assets is the increase in capital assets, net. Capital assets, net increased in 2012 due to the Hospital purchasing \$2,186,117 in capital assets and recording \$1,744,441 of depreciation expense during the fiscal year.

Cash reserves increased in 2012 by \$322,520 or 53% over 2011 due to improved Medicare interim reimbursement rates. Other noncurrent assets, consisting of assets limited as to use, assets managed by the South Central Iowa Community Foundation and deferred county tax revenues increased by \$411,588 or 20% over 2011.

In addition, the Hospital issued \$1,595,075 in notes payable to purchase an Electronic Health Record information system, as mandated by Centers for Medicare & Medicaid Services regulations. With the implementation of the new system in May 2012, billings were hampered causing an increase in accounts receivable from both third-party payers and patients of \$413,728 or 27% over 2011.

The most significant change in net assets was the results of the operations of the Hospital, as addressed in the next section.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Hospital's net assets decreased by \$990,592 or 73%, as shown in Table 2. This decrease is made up of several different components discussed below.

Table 2: Condensed Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenue:			
Net patient service revenue	\$ 14,461,318	13,976,877	13,000,940
Provision for bad debt	(437,862)	(538,770)	(575,405)
Other operating revenue	<u>104,728</u>	<u>406,591</u>	<u>245,911</u>
Total operating revenue	<u>14,128,184</u>	<u>13,844,698</u>	<u>12,671,446</u>
Operating expenses:			
Salaries and employee benefits	7,553,541	7,282,891	7,367,912
Professional fees and purchased services	2,595,666	2,403,538	2,522,779
Supplies and other	2,306,684	2,230,616	2,104,344
Other operating expenses	818,181	848,977	823,294
Depreciation and amortization	1,794,133	1,778,336	1,800,879
Interest expense	<u>1,341,786</u>	<u>1,280,852</u>	<u>558,452</u>
Total operating expenses	<u>16,409,991</u>	<u>15,825,210</u>	<u>15,177,660</u>
Operating loss	<u>(2,281,807)</u>	<u>(1,980,512)</u>	<u>(2,506,214)</u>
Non-operating revenue:			
County tax revenue	1,030,661	951,863	953,097
Investment income	51,854	39,362	133,231
Other non-operating revenue	<u>85,796</u>	<u>41,912</u>	<u>51,968</u>
Total non-operating revenue	<u>1,168,311</u>	<u>1,033,137</u>	<u>1,138,296</u>
Excess expenses over revenues before capital grants and contributions	(1,113,496)	(947,375)	(1,367,918)
Capital grants and contributions	<u>122,904</u>	<u>--</u>	<u>--</u>
Decrease in net assets	(990,592)	(947,375)	(1,367,918)
Net assets, beginning of year	<u>1,354,997</u>	<u>2,302,372</u>	<u>3,670,290</u>
Net assets, end of year	<u>\$ 364,405</u>	<u>1,354,997</u>	<u>2,302,372</u>

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

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 revenue and the expenses incurred to perform those services. In each of the past 3 years, the Hospital has reported an operating loss. Operating losses in 2012 increased by \$301,295 or 15% higher than the loss reported in 2011. Operating losses in 2011 decreased \$525,702 or 21%.

Increases in volumes in outpatient diagnostic testing and a price increase of 5% resulted in an increase in net patient service revenue of \$484,441 or 3% over 2011, as compared to an increase of \$975,937 or 8% over 2010.

Total operating revenue increased in 2012 by \$283,486 or 2% and \$1,173,252 or 9% in 2011. Property insurance proceeds due to hail and water damage at the old hospital building of \$219,000 are included in other operating revenue in 2011. Significant decreases in inpatient utilization during 2012 were offset by increases in cardiac rehab services, sleep studies, orthopedic surgeries and other outpatient ancillary services to obtain the 2% overall increase in operating revenue.

The need to maintain a current information system as well as pay for costs of the new system during the implementation and testing phase and continuing on after "Go Live" caused information technology services to increase significantly in 2012. The old information system will be taken down in 2013 once all archive information is removed. Interest expense related to the Electronic Health Record system contributed to an increase of \$60,934 or 5% in overall interest costs.

Non-operating Revenue and Expenses

Non-operating revenues and expenses consist primarily of county taxes, grants and investment income. County taxes increased \$78,798 and investment income increased \$12,492 in 2012. Debt Service Reserve funds for Series 2008A & 2008B bonds are invested in U.S. government obligations and improvements in the market in 2012 resulted in net unrealized gains in market value of \$23,207. \$134,725 in grant funds was received from various sources, including the USDA, and enabled the hospital to replace the defibrillators carried on the ambulances as well as purchase information technology equipment to support the new Electronic Health Record.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$21,232,046 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012, the Hospital had new capital asset additions of \$2,186,117 for equipment and improvements.

At the end of 2011, the Hospital had \$20,790,868 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Hospital had new capital asset additions of \$65,402.

Debt

At June 30, 2012 and 2011, the Hospital had \$23,874,152 and \$22,857,766, respectively, in long-term debt outstanding. The notes payable issued to purchase the Electronic Health Record will be partially paid off by incentive payment funds expected to be received in late 2012 once the Hospital has completed its 90-day attestation period

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

proving it is using the system in a "meaningful" way. The federal mandate for the implementation of such a system included incentive payments for those facilities that were able to purchase, install and use the system to the extent required in federal guidelines. In return, the facility would receive funds in reimbursement of the Electronic Health Record costs.

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.

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 934,015	611,495
Short-term investments	270,000	270,000
Assets limited as to use or restricted, current portion	414,747	411,227
Receivables -		
Patients, net of estimated uncollectible accounts of \$872,000 in 2012 and \$900,000 in 2011	1,954,503	1,540,775
Succeeding year property tax	1,296,597	1,042,583
Other	71	39
Inventories	238,094	174,798
Prepaid expenses	89,425	79,398
Estimated third-party payor settlements	--	204,493
	<u>5,197,452</u>	<u>4,334,808</u>
Total current assets		
Assets limited as to use or restricted	<u>1,540,525</u>	<u>1,078,678</u>
Capital assets, net	<u>21,232,046</u>	<u>20,790,868</u>
Other assets:		
Deferred financing costs, net	921,099	970,791
Assets managed by the South Central Iowa Community Foundation	15,722	16,289
	<u>936,821</u>	<u>987,080</u>
Total other assets		
Total assets	<u>\$ 28,906,844</u>	<u>27,191,434</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 600,090	258,552
Accounts payable -		
Trade	877,042	530,958
Capital	113,443	--
Accrued salaries, vacation and benefits payable	1,022,793	877,022
Accrued interest on long-term debt	278,853	281,926
Estimated third-party payor settlements	495,594	--
Deferred revenue for succeeding year property tax receivable	1,280,472	1,030,213
	<u>4,668,287</u>	<u>2,978,671</u>
Total current liabilities		
Long-term debt, net of current portion	<u>23,874,152</u>	<u>22,857,766</u>
Total liabilities	<u>28,542,439</u>	<u>25,836,437</u>
Net assets:		
Invested in capital assets, net of related debt	(938,669)	(371,781)
Restricted	135,894	129,301
Unrestricted	1,167,180	1,597,477
	<u>364,405</u>	<u>1,354,997</u>
Total net assets		
Total liabilities and net assets	<u>\$ 28,906,844</u>	<u>27,191,434</u>

See notes to financial statements

Ringgold County Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 14,461,318	13,976,877
Provision for bad debt	(437,862)	(538,770)
Net patient service revenue	14,023,456	13,438,107
Other operating revenue	104,728	406,591
Total operating revenue	<u>14,128,184</u>	<u>13,844,698</u>
OPERATING EXPENSES:		
Salaries	5,759,286	5,815,673
Employee benefits	1,794,255	1,467,218
Professional fees and purchased services	2,595,666	2,403,538
Supplies and other	2,306,684	2,230,616
Repairs and maintenance	344,441	346,183
Utilities	290,094	331,815
Insurance	183,646	170,979
Depreciation and amortization	1,794,133	1,778,336
Interest expense	1,341,786	1,280,852
Total operating expenses	<u>16,409,991</u>	<u>15,825,210</u>
OPERATING LOSS	<u>(2,281,807)</u>	<u>(1,980,512)</u>
NONOPERATING REVENUE:		
County tax revenue	1,030,661	951,863
Investment income	51,854	39,362
Noncapital gifts	61,344	18,129
Rental income	24,452	23,783
Nonoperating revenue	<u>1,168,311</u>	<u>1,033,137</u>
EXCESS EXPENSES OVER REVENUES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(1,113,496)	(947,375)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>122,904</u>	<u>--</u>
DECREASE IN NET ASSETS	(990,592)	(947,375)
NET ASSETS, Beginning of year	<u>1,354,997</u>	<u>2,302,372</u>
NET ASSETS, End of year	<u>\$ 364,405</u>	<u>1,354,997</u>

See notes to financial statements

Ringgold County Hospital

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 14,309,815	13,120,588
Cash paid to employee salaries and benefits	(7,407,770)	(7,383,916)
Cash paid to suppliers and contractors	(5,447,802)	(5,399,660)
Other receipts and payments, net	<u>105,226</u>	<u>391,725</u>
Net cash provided by operating activities	<u>1,559,469</u>	<u>728,738</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	61,344	18,129
County tax receipts	<u>1,026,906</u>	<u>955,752</u>
Net cash provided by noncapital financing activities	<u>1,088,250</u>	<u>973,881</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(1,976,512)	(48,859)
Principal payments on long-term debt	(258,552)	(8,795,834)
Proceeds from issuance of long-term debt	1,616,476	8,700,000
Interest paid on long-term debt	(1,440,454)	(1,290,376)
Bond issuance costs	--	(139,820)
Rental income	24,452	23,783
Capital grants and contributions	<u>122,904</u>	<u>--</u>
Net cash used in capital and related financing activities	<u>(1,911,686)</u>	<u>(1,551,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	51,854	39,362
Change in investments and assets limited as to use or restricted, net	<u>(465,367)</u>	<u>(16,878)</u>
Net cash provided by (used in) investing activities	<u>(413,513)</u>	<u>22,484</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	322,520	173,997
CASH AND CASH EQUIVALENTS, Beginning of year	<u>611,495</u>	<u>437,498</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 934,015</u>	<u>611,495</u>

See notes to financial statements

Ringgold County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (2,281,807)	(1,980,512)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,794,133	1,778,336
(Gain) loss on sale of capital asset	498	(14,866)
Interest expense included in operating expenses	1,341,786	1,280,852
(Increase) decrease in current assets -		
Receivables -		
Patients	(413,728)	(108,526)
Other	(32)	196
Inventories	(63,296)	(9,040)
Prepaid expenses	(10,027)	(12,379)
Estimated third-party payor settlements	204,493	(204,493)
Increase (decrease) in current liabilities -		
Accounts payable - trade	346,084	104,694
Accrued salaries, vacation and benefits payable	145,771	(101,025)
Estimated third-party payor settlements	495,594	(4,500)
Net cash provided by operating activities	\$ <u>1,559,469</u>	<u>728,738</u>

See notes to financial statements

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Ringgold County Hospital (Hospital). These policies are in accordance with U.S. generally accepted accounting principles. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa which is governed by a seven member board of trustees elected for terms of six years.

A. *Reporting Entity*

The Hospital is a Critical Access Hospital, operating with 16 acute-care beds. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

Restricted net assets – This component of net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use under debt agreements.

G. Patient Receivables, Net

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

H. Property Tax Receivable

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 year 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.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets held by trustees under indenture or loan agreements. These funds are reserve funds held as security for the Series 2008A, 2008B and 2010 bonds. These funds are used for the payment of principal and interest on the Series 2008A, 2008B and 2010 bonds when insufficient funds are available in the sinking fund. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet at June 30, 2012 and 2011.

K. Investments

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.

L. Capital Assets

Capital asset acquisitions are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment	4 to 10 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as capital grants and contributions.

M. Deferred Financing Costs

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt under the bonds outstanding method. Amortization expense of \$49,692 and \$65,588 for 2012 and 2011, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

N. Compensated Absences

Hospital policies permit most employees to accumulate paid time off 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.

O. Group Health Insurance Costs

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of revenue, expenses, and change in net assets is a provision for premiums for excess coverage and payments for claims including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end.

P. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Ringgold, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Q. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

R. Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included in nonoperating revenue and peripheral or incidental transactions are reported as nonoperating revenue and expenses.

S. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

T. Grants and Contributions

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

U. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

V. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

W. Management

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Medical Center-Des Moines. Administration and support services fees of \$381,856 and \$383,671 were incurred for the years ended June 30, 2012 and 2011, respectively.

X. Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 reporting format.

Y. Subsequent Events

The Hospital considered events occurring through October 15, 2012 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash, Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2012 and 2011 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.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

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, 2012 and 2011 consisted of cash, money market mutual funds, and U.S. government obligations as follows:

Type	Fair Value	2012 Maturities in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Cash and Cash Equivalents	\$ 368,580	368,580	--	--	--
U.S. Treasury Money Market Mutual Funds	\$ 827,414	827,414	--	--	--
U.S. Government Agency Obligations	759,278	--	423,553	335,726	--
	\$ <u>1,955,272</u>	<u>1,195,994</u>	<u>423,553</u>	<u>335,726</u>	<u>--</u>

Type	Fair Value	2011 Maturities in Years			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasury Money Market Mutual Funds	\$ 600,660	600,660	--	--	--
U.S. Government Agency Obligations	889,245	145,285	428,524	315,436	--
	\$ <u>1,489,905</u>	<u>745,945</u>	<u>428,524</u>	<u>315,436</u>	<u>--</u>

The Hospital manages the following risks in accordance with their formal investment policy:

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012 the Hospital's investments in U.S. Government agency obligations not directly guaranteed by the U.S. government were rated AA+ by Standards & Poor's and its investments in U.S. Treasury money market mutual funds were rated AA+ by Standard & Poor's.

Interest Rate Risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy does not address how investments are to be held.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

The composition of investments and assets limited as to use or restricted as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Short-term investments, Certificates of deposit	\$ <u>270,000</u>	<u>270,000</u>
Assets limited as to use or restricted:		
By bond agreements –		
Cash and cash equivalents	368,580	--
U.S. government agency obligations	759,278	889,245
U.S. treasury money market funds	<u>827,414</u>	<u>600,660</u>
Total assets limited as to use or restricted	1,955,272	1,489,905
Less amounts required to meet current obligations	<u>414,747</u>	<u>411,227</u>
Long-term portion	\$ <u>1,540,525</u>	<u>1,078,678</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 28,647	36,370
Change in unrealized gains and losses, net	<u>23,207</u>	<u>2,992</u>
Total investment return	\$ <u>51,854</u>	<u>39,362</u>

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. Physician services related to Medicare beneficiaries are paid based on fee schedule amounts. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2010.

Medicaid – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue:		
Inpatient services	\$ 3,461,878	3,479,995
Outpatient	13,864,924	12,212,791
Swing bed	289,026	428,155
Dialysis	1,052,710	703,909
Clinic	2,966,782	3,308,273
	<u>21,635,320</u>	<u>20,133,123</u>
Deductions from patient service revenue:		
Medicare	3,963,797	3,754,235
Medicaid	542,486	641,095
Other payors	2,483,144	1,719,020
Charity care	184,575	41,896
	<u>7,174,002</u>	<u>6,156,246</u>
Total deductions from patient service revenue		
	<u>7,174,002</u>	<u>6,156,246</u>
Net patient service revenue before provision for bad debt	<u>\$ 14,461,318</u>	<u>13,976,877</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 57% and 6%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012 compared to 57% for Medicare and 5% for Medicaid in 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Patient accounts	\$ 3,646,503	3,081,775
Less estimated third-party contractual adjustments	(820,000)	(641,000)
Less allowance for doubtful accounts	(872,000)	(900,000)
	<u>\$ 1,954,503</u>	<u>1,540,775</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

The Hospital is located in Mount Ayr, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	38%	26%
Medicaid	7	4
Commercial	28	31
Private pay	27	39
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 were as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated,				
Land	\$ 368,364	--	--	368,364
Construction in progress	--	1,982,375	(1,788,386)	193,989
Total capital assets, not being depreciated	<u>368,364</u>	<u>1,982,375</u>	<u>(1,788,386)</u>	<u>562,353</u>
Capital assets, being depreciated:				
Land improvements	1,360,466	141,888	--	1,502,354
Hospital buildings	9,468,113	--	--	9,468,113
Fixed equipment	7,769,077	--	--	7,769,077
Major moveable equipment	5,604,434	1,850,240	(135,887)	7,318,787
Total capital assets, being depreciated	<u>24,202,090</u>	<u>1,992,128</u>	<u>(135,887)</u>	<u>26,058,331</u>
Less accumulated depreciation:				
Land improvements	133,893	88,947	--	222,840
Hospital buildings	778,540	519,123	--	1,297,663
Fixed equipment	800,204	451,937	--	1,252,141
Major moveable equipment	2,066,949	684,434	(135,389)	2,615,994
Total accumulated depreciation	<u>3,779,586</u>	<u>1,744,441</u>	<u>(135,389)</u>	<u>5,388,638</u>
Total capital assets, being depreciated, net	<u>20,422,504</u>	<u>247,687</u>	<u>(498)</u>	<u>20,669,693</u>
Total capital assets, net	<u>\$ 20,790,868</u>	<u>2,230,062</u>	<u>(1,788,884)</u>	<u>21,232,046</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 368,364	--	--	368,364
Capital assets, being depreciated:				
Land improvements	1,360,466	--	--	1,360,466
Hospital buildings	9,468,113	--	--	9,468,113
Fixed equipment	7,769,077	--	--	7,769,077
Major moveable equipment	5,545,316	65,402	(6,284)	5,604,434
Total capital assets, being depreciated	<u>24,142,972</u>	<u>65,402</u>	<u>(6,284)</u>	<u>24,202,090</u>
Less accumulated depreciation:				
Land improvements	44,631	89,262	--	133,893
Hospital buildings	259,417	519,123	--	778,540
Fixed equipment	344,564	455,640	--	800,204
Major moveable equipment	1,422,834	648,722	(4,607)	2,066,949
Total accumulated depreciation	<u>2,071,446</u>	<u>1,712,747</u>	<u>(4,607)</u>	<u>3,779,586</u>
Total capital assets, being depreciated, net	<u>22,071,526</u>	<u>(1,647,345)</u>	<u>(1,677)</u>	<u>20,422,504</u>
Total capital assets, net	<u>\$ 22,439,890</u>	<u>(1,647,345)</u>	<u>(1,677)</u>	<u>20,790,868</u>

(6) Long-Term Debt

Long-term debt activity of the Hospital for the years ended June 30, 2012 and 2011 consisted of the following:

	June 30, 2011	Borrowings	Payments	June 30, 2012	Due Within One Year
Hospital Revenue Bond, Series 2008A (A)	13,030,000	--	150,000	12,880,000	160,000
Hospital Revenue Bond, Series 2008B (B)	1,450,000	--	10,000	1,440,000	10,000
Hospital Revenue Bond, Series 2010 (D)	8,636,318	--	98,552	8,537,766	102,312
Note payable (F)	--	1,616,476	--	1,616,476	327,778
\$	<u>23,116,318</u>	<u>1,616,476</u>	<u>258,552</u>	<u>24,474,242</u>	<u>600,090</u>
	June 30, 2010	Borrowings	Payments	June 30, 2011	Due Within One Year
Lease purchase agreements (E)	\$ 19,131	--	19,131	--	--
Hospital Revenue Bond, Series 2008A (A)	13,030,000	--	--	13,030,000	150,000
Hospital Revenue Bond, Series 2008B (B)	1,450,000	--	--	1,450,000	10,000
Hospital Revenue Bond, Series 2009 (C)	8,713,021	--	8,713,021	--	--
Hospital Revenue Bond, Series 2010 (D)	--	8,700,000	63,682	8,636,318	98,552
\$	<u>23,212,152</u>	<u>8,700,000</u>	<u>8,795,834</u>	<u>23,116,318</u>	<u>258,552</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

- (A) Series 2008A Hospital Revenue Bonds; issued in the original amount of \$13,030,000, maturing serially at varying amounts through 2038, semiannual interest payments at 6.70%; collateralized by the Hospital's net revenue. The USDA-RD has issued to ArborOne ACA (the Servicer) a conditional commitment for guarantee, whereby, subject to certain conditions, to guarantee payment of principal and interest on the Series 2008A Bonds.
- (B) Series 2008B Hospital Revenue Bonds; issued in the original amount of \$1,450,000, maturing serially at varying amounts through 2038, semiannual interest payments at 10.12%; collateralized by the Hospital's net revenue.
- (C) Refinancing of Series 2008C Hospital Revenue Bond Anticipation with the Hospital Revenue bonds Series 2009, issued in the original amount of \$8,700,000, with semiannual interest payments at 1.50%, matured in 2011 and refinanced with proceeds from (D).
- (D) In October 2010, the Hospital refinanced the Hospital Revenue Bonds Series 2009 and acquired permanent financing through the USDA Rural Development with 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.
- (E) The Hospital was obligated under lease purchase agreements for equipment, due in monthly installments, including interest of 5.25% to 6.85%, paid in full during 2011.
- (F) In August 2011, the Hospital entered into a note payable with Med One Capital Funding, LLC in the amount of \$1,595,075 at 7.66% interest rate with monthly interest only payments of \$7,975 through July 2012, and principal and interest payments of \$39,072 beginning in August 2013 through July 2016. The loan was entered for the purpose of paying the costs of acquiring a hospital information system necessary to meet the adoption of meaningful use health information technology and qualified electronic health records under the Medicare and Medicaid programs.

In conjunction with the issuance of the Hospital Revenue Bonds, the Hospital has agreed to comply with certain covenants as described in the bond indentures which 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.

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

A summary of the Hospital's future principal and interest payments as of June 30, 2012 is as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$	600,090	1,431,231	2,031,321
2014		672,432	1,387,919	2,060,351
2015		721,131	1,341,315	2,062,446
2016		772,261	1,291,191	2,063,452
2017		377,674	1,248,013	1,625,687
2018-2022		2,085,781	5,916,145	8,001,926
2023-2027		2,832,850	5,178,280	8,011,130
2028-2032		3,788,139	4,170,458	7,958,597
2033-2037		5,092,457	2,792,565	7,885,022
2038-2042		4,557,811	965,026	5,522,837
2043-2047		1,697,648	406,012	2,103,660
2048-2051		1,275,968	80,847	1,356,815
	\$	<u>24,474,242</u>	<u>26,209,002</u>	<u>50,683,244</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

A summary of interest expense on borrowed funds during the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Interest cost		
Capitalized	\$ 96,162	--
Expensed	<u>1,245,624</u>	<u>1,280,852</u>
	<u>\$ 1,341,786</u>	<u>1,280,852</u>

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2012 and 2011, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(8) Pension Plan

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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% and 4.50% of their annual covered salary and the Hospital is required to contribute 8.07% and 6.95% of annual covered payroll for 2012 and 2011, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010, were \$430,050, \$379,318 and \$372,702, respectively, which equaled the required contributions for each year.

(9) Self-Funded Health Insurance

The Hospital has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Hospital's contributions are deposited into a separate benefit account. Under the self-insured plan, the Hospital pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Hospital incurred health insurance expenses of \$989,633 and \$680,809 as of June 30, 2012 and 2011, respectively.

Ringgold County Hospital

Notes to Financial Statements June 30, 2012 and 2011

(10) Commitments and Contingencies

Commitments

The Hospital leases certain equipment under various three to five year noncancellable operating leases. The rental expense for the operating leases was \$302,216 and \$301,452 for the years ended June 30, 2012 and 2011, respectively. The following is a schedule by year of future minimum rental payments required under noncancellable operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2012:

2013	\$	301,452
2014		43,982
2015		<u>14,124</u>
	\$	<u>359,558</u>

(11) Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Ringgold County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Cash Basis) June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,030,661	(3,755)	1,026,906	996,599	30,307
Add: Other revenues / receipts	14,388,738	286,857	14,675,595	16,590,275	(1,914,680)
Less: Expenses / disbursements	<u>16,409,991</u>	<u>(1,030,011)</u>	<u>15,379,980</u>	<u>17,586,718</u>	<u>2,206,738</u>
Net	(990,592)	1,313,113	322,521	156	<u>322,365</u>
Balance beginning of year	<u>1,354,997</u>	<u>(743,502)</u>	<u>611,495</u>	<u>2,023,386</u>	
Balance end of year	<u>\$ 364,405</u>	<u>569,611</u>	<u>934,016</u>	<u>2,023,542</u>	

Patient Service Revenue
For the Years Ended June 30, 2012 and 2011

	2012			2011		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical and surgical	\$ 704,829	--	704,829	755,582	--	755,582
Swing bed	69,384	--	69,384	98,951	--	98,951
	<u>774,213</u>	<u>--</u>	<u>774,213</u>	<u>854,533</u>	<u>--</u>	<u>854,533</u>
NURSING SERVICES:						
Central Services	1,116,561	276,012	1,392,573	1,034,787	216,627	1,251,414
Operating room	203,218	1,116,544	1,319,762	210,146	911,871	1,122,017
Emergency	31,210	1,189,452	1,220,662	21,868	858,776	880,644
CRNA	47,794	275,954	323,748	70,332	290,066	360,398
Intravenous therapy	86,634	150,532	237,166	95,642	132,828	228,470
Recovery room	11,286	210,836	222,122	17,264	199,412	216,676
	<u>1,496,703</u>	<u>3,219,330</u>	<u>4,716,033</u>	<u>1,450,039</u>	<u>2,609,580</u>	<u>4,059,619</u>
OTHER PROFESSIONAL SERVICES:						
Clinic	183,165	3,585,030	3,768,195	210,996	3,917,301	4,128,297
Radiology	295,659	3,372,419	3,668,078	280,788	3,138,194	3,418,982
Laboratory	313,997	2,856,321	3,170,318	343,261	2,500,117	2,843,378
Pharmacy	411,824	1,407,991	1,819,815	515,671	1,154,010	1,669,681
Dialysis	--	1,000,346	1,000,346	--	703,909	703,909
Physical, occupational, and speech therapy	152,203	725,538	877,741	125,257	593,587	718,844
Emergency room physicians	--	615,835	615,835	--	480,575	480,575
Ambulance service	4,366	414,617	418,983	5,693	437,265	442,958
Respiratory therapy	194,704	188,867	383,571	229,772	244,369	474,141
Cardiology	17,930	291,307	309,237	16,895	221,247	238,142
Transfusion service	13,780	89,733	103,513	22,062	65,691	87,753
Anesthesiology	1,299	8,143	9,442	870	11,440	12,310
	<u>1,588,927</u>	<u>14,556,147</u>	<u>16,145,074</u>	<u>1,751,265</u>	<u>13,467,705</u>	<u>15,218,970</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>3,859,843</u>	<u>17,775,477</u>	<u>21,635,320</u>	<u>4,055,837</u>	<u>16,077,285</u>	<u>20,133,122</u>
LESS:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(6,989,427)			(6,114,349)
Charity care services and other discounts, based on charges forgone			(184,575)			(41,896)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			14,461,318			13,976,877
PROVISION FOR BAD DEBT			(437,862)			(538,770)
NET PATIENT SERVICE REVENUE			<u>14,023,456</u>			<u>13,438,107</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Grant revenue	\$ 11,821	43,339
Meals sold to employees and guests	38,706	38,154
Contract laundry services	105	870
Gain (loss) on sale of capital assets	(498)	14,866
Insurance proceeds, old building	--	209,000
Lifeline rental	29,225	34,910
Other	<u>25,369</u>	<u>65,452</u>
	<u>\$ 104,728</u>	<u>406,591</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2012 and 2011**

	2012			2011		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Operating room	\$ 313,734	570,401	884,135	322,671	542,523	865,194
Medical and surgical	786,725	78,479	865,204	817,939	61,491	879,430
Nursing Administration	84,463	146,016	230,479	80,778	152,905	233,683
Emergency services	84,903	7,938	92,841	70,709	15,109	85,818
Central services and supply	56,322	2,783	59,105	58,138	3,660	61,798
	<u>1,326,147</u>	<u>805,617</u>	<u>2,131,764</u>	<u>1,350,235</u>	<u>775,688</u>	<u>2,125,923</u>
OTHER PROFESSIONAL SERVICES:						
Clinics	1,867,556	371,990	2,239,546	1,916,499	392,900	2,309,399
Radiology	203,081	935,755	1,138,836	216,776	879,289	1,096,065
Pharmacy	159,705	588,201	747,906	146,193	578,124	724,317
Laboratory	294,281	421,164	715,445	284,946	399,715	684,661
Dialysis	195,705	250,911	446,616	182,926	186,362	369,288
Emergency room physicians	161,285	176,562	337,847	160,389	128,067	288,456
Physical, occupational, and speech therapy	181,330	142,997	324,327	198,293	74,215	272,508
Ambulance service	199,771	46,871	246,642	221,617	31,671	253,288
Anesthesiology	--	196,240	196,240	--	219,718	219,718
Medical records	115,731	62,244	177,975	133,572	48,805	182,377
Respiratory therapy	113,767	57,868	171,635	117,908	74,643	192,551
Transfusion service	--	45,614	45,614	--	46,557	46,557
Physician private offices	18,341	9,988	28,329	16,026	9,768	25,794
Cardiology	19,632	7,372	27,004	13,993	10,960	24,953
	<u>3,530,185</u>	<u>3,313,777</u>	<u>6,843,962</u>	<u>3,609,138</u>	<u>3,080,794</u>	<u>6,689,932</u>
GENERAL SERVICES:						
Plant operation and maintenance	140,845	362,262	503,107	159,624	459,093	618,717
Dietary	165,865	72,702	238,567	163,973	75,581	239,554
Housekeeping	131,611	23,688	155,299	100,897	21,042	121,939
Laundry	18,818	10,044	28,862	18,178	15,996	34,174
	<u>457,139</u>	<u>468,696</u>	<u>925,835</u>	<u>442,672</u>	<u>571,712</u>	<u>1,014,384</u>
ADMINISTRATIVE AND FISCAL SERVICES						
Employee benefits	--	1,794,255	1,794,255	--	1,467,218	1,467,218
Administrative	445,815	1,132,441	1,578,256	413,628	1,054,937	1,468,565
	<u>445,815</u>	<u>2,926,696</u>	<u>3,372,511</u>	<u>413,628</u>	<u>2,522,155</u>	<u>2,935,783</u>
NONDEPARTMENTAL:						
Depreciation and Amortization	--	1,794,133	1,794,133	--	1,778,336	1,778,336
Interest	--	1,341,786	1,341,786	--	1,280,852	1,280,852
	<u>--</u>	<u>3,135,919</u>	<u>3,135,919</u>	<u>--</u>	<u>3,059,188</u>	<u>3,059,188</u>
TOTAL EXPENSES	\$ 5,759,286	10,650,705	16,409,991	5,815,673	10,009,537	15,825,210

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2012 and 2011**

Age of Accounts	2012		2011	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,738,447	47.68 %	1,510,890	49.02 %
31 - 60	686,838	18.84	344,207	11.17
61 - 90	191,212	5.24	232,567	7.55
91 - 120	196,971	5.40	126,706	4.11
121 and over	833,035	22.84	867,405	28.15
	<u>3,646,503</u>	<u>100.00 %</u>	<u>3,081,775</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(872,000)		(900,000)	
Allowance for contractual adjustments	<u>(820,000)</u>		<u>(641,000)</u>	
	<u>\$ 1,954,503</u>		<u>1,540,775</u>	

	2012	2011
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 900,000	772,000
Provision of uncollectible accounts	437,862	538,770
Accounts written off	<u>(465,862)</u>	<u>(410,770)</u>
Balance, end of year	<u>\$ 872,000</u>	<u>900,000</u>

See accompanying independent auditor's report

**Inventory/Prepaid Expenses
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
SUPPLIES:		
Medical supplies	146,854	59,751
Pharmacy	84,239	115,047
Information technology	<u>7,001</u>	<u>--</u>
	<u>\$ 238,094</u>	<u>174,798</u>
PREPAID EXPENSES:		
Insurance	\$ 38,083	40,346
Maintenance contracts	<u>51,342</u>	<u>39,052</u>
	<u>\$ 89,425</u>	<u>79,398</u>

See accompanying independent auditor's report

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

To the Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa:

We have audited the financial statements of Ringgold County Hospital (Hospital) as of and for the year ended June 30, 2012, and have issued our report thereon, dated October 15, 2012. 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

The management of the Hospital is responsible for establishing and maintaining effective 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 was not designed to 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.

Compliance and Other Matters

As part of obtaining reasonable assurance that 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to who the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

SEIM JOHNSON, LLP.

Omaha, Nebraska,
October 15, 2012.

Ringgold County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-12

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-12

Official Depositories: 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, 2012.

III-B-12

Certified Budget: Hospital disbursements during the year ended June 30, 2012 did not exceed amounts budgeted

III-C-12

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-12

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-12

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-12

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

Ringgold County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

III-G-12

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

III-H-12

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Ringgold County Hospital

**Audit Staff
For the Year Ended June 30, 2012**

This audit was performed by:

Marty J. Dubas, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Vanessa L. Paswaters, Staff Auditor