

# **Madison County Memorial Hospital**

Accountants' Report and Financial Statements

June 30, 2004 and 2003



**Madison County Memorial Hospital**  
**June 30, 2004 and 2003**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Madison County Memorial Hospital  
Winterset, Iowa

We have audited the accompanying balance sheets of Madison County Memorial Hospital as of June 30, 2004 and 2003, 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, Chapter 11 of the Code of Iowa 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 Madison County Memorial Hospital as of June 30, 2004 and 2003, 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.

As discussed in *Note 13*, in 2004 the Hospital changed its method of financial statement presentation and disclosure by retroactively restating the prior year's financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri  
August 26, 2004

# **Madison County Memorial Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2004 and 2003**

#### Introduction

This management's discussion and analysis of the financial performance of Madison County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the year ended June 30, 2004. It should be read in conjunction with the accompanying financial statements of the Hospital. The Hospital adopted GASB Statement No. 34 in 2004 by retroactively restating its 2003 financial statements. This management's discussion and analysis includes information comparing 2004 with 2003, but does not include information comparing 2003 with 2002 because 2002 was not restated to conform to the provisions of GASB Statement No. 34. Information comparing the current year with the prior year and the prior year with the second prior year will be included in management's discussion and analysis in future years.

#### Financial Highlights

- Cash and cash equivalents increased between 2004 and 2003 by \$152,000 or 32%.
- The Hospital's net assets increased \$356,524 or 5% in 2004 over 2003.
- The Hospital reported operating losses in both 2004 (\$888,456) and 2003 (\$1,490,917). The operating loss in 2004 decreased by \$602,461 or 40% over the operating loss reported in 2003.
- Net nonoperating revenues increased by \$9,837 or 1% in 2004 compared to 2003.

#### 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 \$356,524 or 5% in 2004 over 2003 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Patient accounts receivable, net	\$ 2,034,319	\$ 2,126,746
Other current assets	2,532,740	2,418,450
Capital assets, net	5,941,286	6,380,132
Other noncurrent assets	<u>1,954,948</u>	<u>1,580,158</u>
Total assets	<u>\$ 12,463,293</u>	<u>\$ 12,505,486</u>
<b>Liabilities</b>		
Current liabilities	\$ 3,080,078	\$ 3,299,396
Long-term debt	<u>2,022,316</u>	<u>2,201,715</u>
Total liabilities	<u>5,102,394</u>	<u>5,501,111</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,744,479	4,057,637
Restricted expendable	583,517	516,533
Unrestricted	<u>3,032,903</u>	<u>2,430,205</u>
Total net assets	<u>7,360,899</u>	<u>7,004,375</u>
Total liabilities and net assets	<u>\$ 12,463,293</u>	<u>\$ 12,505,486</u>

A significant change in the Hospital's assets is the decrease in patient accounts receivable. Although net patient service revenues increased in 2004 by \$443,004 (4%) as compared to 2003, net patient accounts receivable decreased by \$92,427 (4%) or three days of revenue at June 30, 2004 versus June 30, 2003. The decrease results primarily from the addition of an Insurance Specialist in December 2003 and more efficient use of the HMS computer software that was installed in May 2003.

Cash and deposits increased in 2004 primarily due to expense control measures even in light of increased net revenue. The additional cash allowed the Hospital to increase deposits, pay vendors more timely and decrease accounts payable.

#### Operating Results and Changes in the Hospital's Net Assets

In 2004, the Hospital's net assets increased by \$356,524 or 5% as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2004</b>	<b>2003</b>
<b>Operating Revenues</b>		
Net patient service revenue	\$ 11,376,597	\$ 10,933,593
Other operating revenues	<u>178,988</u>	<u>210,999</u>
Total operating revenues	<u>11,555,585</u>	<u>11,144,592</u>
<b>Operating Expenses</b>		
Salaries and wages and employee benefits	7,222,560	7,180,453
Medical and professional fees	1,959,588	1,932,780
Depreciation and amortization	691,849	647,875
Other operating expenses	<u>2,570,044</u>	<u>2,874,401</u>
Total operating expenses	<u>12,444,041</u>	<u>12,635,509</u>
<b>Operating Loss</b>	<u>(888,456)</u>	<u>(1,490,917)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	1,302,855	1,274,251
Interest expense	(149,807)	(156,075)
Interest income	38,292	53,586
Rent income	32,655	37,499
Non-capital grants and gifts	<u>20,985</u>	<u>25,882</u>
Total nonoperating revenues (expenses)	<u>1,244,980</u>	<u>1,235,143</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 356,524</u>	<u>\$ (255,774)</u>

**Operating Loss**

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2004 and 2003, the Hospital has 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 Madison 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 2004 decreased by \$602,461 or 40% as compared to 2003. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$443,004 or 4%.
- An increase in salaries and wages and employee benefits for the Hospital's employees of \$42,107 or 1%.
- A decrease in medical supply and drug costs of \$314,454 or 7% was due primarily to a reduction in chemotherapy injections and inpatient surgeries.

Net patient service revenue increased because of an increase in patient days of 6% from 2003 to 2004. This increase resulted principally from the stabilization of medical staff. Pediatrician and Family Practice physicians joined the hospital owned physician clinic in August 2003. An increase in referrals was also noted from other physicians in the area.

Employee salaries and wages and benefits increased in 2004 in connection with the Hospital's retention and recruitment efforts. The Hospital competes directly with the urban wage rates due to close proximity to Des Moines. Also, the Hospital recruited the first Pediatrician to Madison County who began employment in August 2003.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense, all of which remained relatively constant in 2004 as compared to 2003. The Board of Trustees held the property tax levy steady for a fourth consecutive year in 2004.

### ***Contributions***

The Hospital received contributions of \$20,985 from various individuals in 2004, a decrease of \$4,897 or 19% from 2003.

### ***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, discussed earlier, with one exception. The amounts due to third-party payers related to cost report settlements increased \$579,000 in 2004 from 2003.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of 2004, the Hospital had \$5.9 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2004, the Hospital purchased new equipment costing \$280,154. In 2003, \$534,240 was spent to acquire new equipment.

#### **Debt**

At June 30, 2004, the Hospital had \$2,201,714 in revenue capital loan notes, loans and capital lease obligations outstanding. The Hospital initiated capital leases of \$150,850 in 2003. The Hospital issued no new debt in 2004.

### ***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 (515) 462-2373.

**Madison County Memorial Hospital**  
**Balance Sheets**  
**June 30, 2004 and 2003**

**Assets**

	<u>2004</u>	<u>2003</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 622,598	\$ 470,639
Assets held under bond indenture agreement	140,872	135,917
Patient accounts receivable, net of allowance; 2004 - \$385,000, 2003 - \$339,100	2,034,319	2,126,746
Property taxes receivable	1,327,566	1,329,159
Other receivables	53,361	21,314
Estimated amounts due from third-party payers	—	116,000
Supplies	259,054	225,120
Prepaid expenses	<u>129,289</u>	<u>120,301</u>
Total current assets	<u>4,567,059</u>	<u>4,545,196</u>
 <b>Noncurrent Cash and Deposits</b>		
Internally designated	1,448,565	1,125,753
Externally restricted		
Held by trustee under bond indenture agreement for debt service	523,959	462,647
By donors	<u>69,916</u>	<u>64,803</u>
	2,042,440	1,653,203
Less amount required to meet current obligations	<u>140,872</u>	<u>135,917</u>
	<u>1,901,568</u>	<u>1,517,286</u>
 <b>Capital Assets, Net of Accumulated Depreciation</b>	 <u>5,941,286</u>	 <u>6,380,132</u>
 <b>Other Assets</b>		
Deferred financing costs (net of amortization; 2004 - \$37,993, 2003 - \$28,501)	<u>53,380</u>	<u>62,872</u>
 <b>Total Assets</b>	 <u>\$ 12,463,293</u>	 <u>\$ 12,505,486</u>

## Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 179,398	\$ 183,652
Accounts payable	409,454	987,253
Accrued vacation	366,376	352,922
Accrued payroll and related liabilities	316,021	425,670
Estimated self-insurance costs	30,000	30,000
Accrued interest	10,357	10,917
Estimated amounts due to third-party payers	463,000	—
Deferred revenue for property taxes	<u>1,305,472</u>	<u>1,308,982</u>
Total current liabilities	3,080,078	3,299,396
<b>Long-term Debt</b>	<u>2,022,316</u>	<u>2,201,715</u>
Total liabilities	<u>5,102,394</u>	<u>5,501,111</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,744,479	4,057,637
Restricted-expendable for		
Debt service	513,601	451,730
Specific operating activities	69,916	64,803
Unrestricted	<u>3,032,903</u>	<u>2,430,205</u>
Total net assets	<u>7,360,899</u>	<u>7,004,375</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 12,463,293</u>	<u>\$ 12,505,486</u>

**Madison County Memorial Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 11,880,549	\$ 11,326,930
Provision for uncollectible accounts	<u>(503,952)</u>	<u>(393,337)</u>
Net patient service revenue	11,376,597	10,933,593
Other	<u>178,988</u>	<u>210,999</u>
Total operating revenues	<u>11,555,585</u>	<u>11,144,592</u>
<b>Operating Expenses</b>		
Salaries and wages	5,594,047	5,571,801
Employee benefits	1,628,513	1,608,652
Medical professional fees	1,959,588	1,932,780
Supplies and expenses	1,226,233	1,505,513
General services	418,645	403,259
Administrative services	833,739	911,107
Depreciation and amortization	691,849	647,875
Insurance	<u>91,427</u>	<u>54,522</u>
Total operating expenses	<u>12,444,041</u>	<u>12,635,509</u>
<b>Operating Loss</b>	<u>(888,456)</u>	<u>(1,490,917)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	1,302,855	1,274,251
Interest expense	(149,807)	(156,075)
Interest income	38,292	53,586
Rent income	32,655	37,499
Noncapital grants and gifts	<u>20,985</u>	<u>25,882</u>
Total nonoperating revenues (expenses)	<u>1,244,980</u>	<u>1,235,143</u>
<b>Increase (Decrease) in Net Assets</b>	356,524	(255,774)
<b>Net Assets, Beginning of Year</b>	<u>7,004,375</u>	<u>7,260,149</u>
<b>Net Assets, End of Year</b>	<u>\$ 7,360,899</u>	<u>\$ 7,004,375</u>

**Madison County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 12,048,024	\$ 10,362,813
Payments to suppliers and contractors	(5,198,826)	(4,480,593)
Payments to employees	(7,319,315)	(7,098,832)
Other receipts, net	<u>165,042</u>	<u>292,262</u>
Net cash used in operating activities	<u>(305,075)</u>	<u>(924,350)</u>
<b>Noncapital Financing Activities</b>		
Property taxes	1,302,855	1,274,251
Noncapital grants and gifts	20,985	25,882
Other	<u>32,655</u>	<u>37,499</u>
Net cash provided by noncapital financing activities	<u>1,356,495</u>	<u>1,337,632</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on capital debt and leases	(183,653)	(161,403)
Interest paid on capital debt and leases	(140,315)	(145,989)
Proceeds from sale of capital assets	7,133	3,657
Purchase of capital assets	<u>(231,681)</u>	<u>(383,390)</u>
Net cash used in capital and related financing activities	<u>(548,516)</u>	<u>(687,125)</u>
<b>Investing Activities</b>		
Interest on deposits	38,292	53,586
Purchase of deposits	(2,043,000)	(1,758,768)
Proceeds from disposition of deposits	<u>1,655,141</u>	<u>1,380,099</u>
Net cash used in investing activities	<u>(349,567)</u>	<u>(325,083)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	153,337	(598,926)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>551,195</u>	<u>1,150,121</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 704,532</u>	<u>\$ 551,195</u>

(Continued)

**Madison County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 622,598	\$ 470,639
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	28,098	34,022
Held under bond agreement	38,959	26,730
Externally restricted by donor	14,877	19,804
	\$ 704,532	\$ 551,195
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (888,456)	\$ (1,490,917)
Depreciation and amortization	691,849	647,875
Accrued self-insurance costs	—	5,000
Loss on sale of capital assets	20,018	2,689
Changes in operating assets and liabilities		
Patient accounts receivable, net	92,427	(385,780)
Supplies	(33,934)	(38,043)
Estimated amounts due from and to third-party payers	579,000	(185,000)
Accounts payable and accrued expenses	(723,027)	459,814
Other assets and liabilities	(42,952)	60,012
Net cash used in operating activities	\$ (305,075)	\$ (924,350)
<b>Supplemental Cash Flows Information</b>		
Capital asset acquired through capital lease	\$ —	\$ 150,850
Capital assets acquisitions included in accounts payable	48,473	—

# **Madison County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2004 and 2003**

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

##### ***Nature of Operations***

Madison County Memorial Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Madison County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Madison 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, 2004 and 2003, cash equivalents consisted primarily of money market accounts and certificates of deposit.

# **Madison County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2004 and 2003**

#### ***Property Taxes***

The Hospital received approximately 10% of its financial support from property tax revenues in the years ended June 30, 2004 and 2003, 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 other than those related to dental, vision and short-term disability claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from dental, vision and short-term disability claims. Annual estimated provisions are accrued for the self-insured dental, vision and short-term disability claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

#### ***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.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

***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	10 to 25 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 bonds outstanding method.

***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 whether the employee is expected to realize the benefit as time off or in cash. 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 three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

# Madison County Memorial Hospital

## Notes to Financial Statements

### June 30, 2004 and 2003

#### ***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.

#### ***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 \$51,298 and \$83,187 for 2004 and 2003, respectively.

#### ***Income Taxes***

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

#### ***Reclassifications***

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 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.** Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

# Madison County Memorial Hospital

## Notes to Financial Statements

### June 30, 2004 and 2003

- ◆ **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 50% and 53% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2004 and 2003, respectively.

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

#### **Note 3: Deposits, Investments and Interest Income**

##### ***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of the Code of Iowa. The Code of Iowa provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2004 and 2003.

##### ***Investments***

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; 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, 2004 and 2003.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Summary of Carrying Values**

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

	<b>2004</b>	<b>2003</b>
Carrying value		
Deposits	\$ 2,664,738	\$ 2,123,542
Other	<u>300</u>	<u>300</u>
	<u>\$ 2,665,038</u>	<u>\$ 2,123,842</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 622,598	\$ 470,639
Assets held under bond indenture agreement	523,959	462,647
Other noncurrent cash and deposits	<u>1,518,481</u>	<u>1,190,556</u>
	<u>\$ 2,665,038</u>	<u>\$ 2,123,842</u>

**Interest Income**

Interest income for the years ended June 30, 2004 and 2003, amounted to \$38,292 and \$53,586, 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, 2004 and 2003 consisted of:

	<b>2004</b>	<b>2003</b>
Medicare	\$ 587,720	\$ 694,643
Medicaid	204,099	107,530
Other third-party payers	997,570	1,152,029
Patients	<u>629,930</u>	<u>511,644</u>
	2,419,319	2,465,846
Less allowance for uncollectible accounts	<u>385,000</u>	<u>339,100</u>
	<u>\$ 2,034,319</u>	<u>\$ 2,126,746</u>

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2004 and 2003 follows:

	Beginning Balance	2004			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 5,046	\$ —	\$ —	\$ —	\$ 5,046
Land improvements	583,269	—	—	—	583,269
Buildings and leasehold improvements	4,820,079	—	(67,914)	18,401	4,770,566
Fixed equipment	3,592,404	—	(72,966)	22,146	3,541,584
Major movable equipment	2,338,032	56,433	(235,301)	104,144	2,263,308
Construction in progress	<u>625</u>	<u>223,721</u>	<u>—</u>	<u>(144,691)</u>	<u>79,655</u>
	<u>11,339,455</u>	<u>280,154</u>	<u>(376,181)</u>	<u>0</u>	<u>11,243,428</u>
Less accumulated depreciation					
Land improvements	(125,147)	(34,120)	—		(159,267)
Buildings and leasehold improvements	(1,739,766)	(188,508)	67,914		(1,860,360)
Fixed equipment	(1,743,623)	(190,883)	55,461		(1,879,045)
Major movable equipment	<u>(1,350,787)</u>	<u>(278,338)</u>	<u>225,655</u>		<u>(1,403,470)</u>
	<u>(4,959,323)</u>	<u>(691,849)</u>	<u>349,030</u>		<u>(5,302,142)</u>
Capital assets, net	\$ <u>6,380,132</u>	\$ <u>(411,695)</u>	\$ <u>(27,151)</u>	\$ <u>0</u>	\$ <u>5,941,286</u>

# Madison County Memorial Hospital

## Notes to Financial Statements

June 30, 2004 and 2003

	Beginning Balance	2003			Ending Balance
		Additions	Disposals	Transfers	
Land	\$ 5,046	\$ —	\$ —	\$ —	\$ 5,046
Land improvements	574,013	13,056	(3,800)	—	583,269
Buildings and leasehold im- provements	4,786,180	6,215	(2,297)	29,981	4,820,079
Fixed equipment	3,598,984	31,197	(40,002)	2,225	3,592,404
Major movable equipment	1,989,943	187,771	(130,569)	290,887	2,338,032
Construction in progress	<u>27,717</u>	<u>296,001</u>	<u>—</u>	<u>(323,093)</u>	<u>625</u>
	<u>10,981,883</u>	<u>534,240</u>	<u>(176,668)</u>	<u>0</u>	<u>11,339,455</u>
Less accumulated depreciation					
Land improvements	(92,989)	(35,958)	3,800		(125,147)
Buildings and leasehold improvements	(1,550,487)	(191,577)	2,298		(1,739,766)
Fixed equipment	(1,589,136)	(192,542)	38,055		(1,743,623)
Major movable equipment	<u>(1,249,158)</u>	<u>(227,798)</u>	<u>126,169</u>		<u>(1,350,787)</u>
	<u>(4,481,770)</u>	<u>(647,875)</u>	<u>170,322</u>		<u>(4,959,323)</u>
Capital assets, net	\$ <u>6,500,113</u>	\$ <u>(113,635)</u>	\$ <u>(6,346)</u>	\$ <u>0</u>	\$ <u>6,380,132</u>

### 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.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 7: Risk Management**

Liabilities include an accrual for claims that have been incurred but not reported for self-insured employee benefits. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital is self-insured for dental, vision and disability benefits. Changes in the balance of claims liabilities during 2004 and 2003 are summarized as follows:

	<b>2004</b>	<b>2003</b>
Balance, beginning of year	\$ 30,000	\$ 25,000
Current year claims and changes in estimates	65,352	140,124
Claim payments	(65,352)	(135,124)
Balance, end of year	\$ 30,000	\$ 30,000

**Note 8: Long-term Obligations**

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2004 and 2003:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>2004 Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Hospital revenue capital loan notes Series 2000 (A)	\$ 2,120,000	\$ —	\$ 125,000	\$ 1,995,000	\$ 130,000
Rural economic development loan (B)	96,000		12,000	84,000	12,000
Capital lease obligations (C)	169,367	—	46,653	122,714	37,398
Total long-term debt	\$ 2,385,367	\$ 0	\$ 183,653	\$ 2,201,714	\$ 179,398

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

	Beginning Balance	2003		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Hospital revenue capital loan notes Series 2000 (A)	\$ 2,235,000	\$ —	\$ 115,000	\$ 2,120,000	\$ 125,000
Rural economic development loan (B)	108,000	—	12,000	96,000	12,000
Capital lease obligations (C)	<u>52,920</u>	<u>150,850</u>	<u>34,403</u>	<u>169,367</u>	<u>46,652</u>
Total long-term debt	\$ <u>2,395,920</u>	\$ <u>150,850</u>	\$ <u>161,403</u>	\$ <u>2,385,367</u>	\$ <u>183,652</u>

- (A) Hospital Revenue Capital Loan Notes, Series 2000, originally aggregating \$2,500,000, were issued by the Hospital to finance building improvements. The bonds consist of \$130,000 term bonds bearing interest at 5.375% due June 1, 2005, \$785,000 term bonds bearing interest at 6.00% due June 1, 2010 and \$1,080,000 term bonds bearing interest at 6.50% due June 1, 2015. The bonds are subject to mandatory redemption prior to maturity serially through June 1, 2015 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital.
- (B) Noninterest-bearing loan due September 20, 2010; payable \$12,000 annually; secured by irrevocable letter of credit from Union State Bank.
- (C) At varying rates of imputed interest from 6.6% to 15.8% maturing through 2008 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	2004	2003
Equipment	\$ 185,879	\$ 250,679
Less accumulated depreciation	<u>69,775</u>	<u>69,050</u>
	\$ <u>116,104</u>	\$ <u>181,629</u>

The Series 2000 Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount of 10% of the proceeds of the capital loan notes (\$250,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$250,000 at both June 30, 2004 and 2003.

The loan agreement also requires that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$273,959 and \$212,647 at June 30, 2004 and 2003, respectively. At June 30, 2004 and 2003, deposits in the Sinking Fund were in excess of required amounts of \$252,768 and \$191,313, respectively.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

The debt service requirements for the Hospital revenue capital loan notes Series 2000 as of June 30, 2004, are as follows:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2005	\$ 254,288	\$ 130,000	\$ 124,288
2006	257,300	140,000	117,300
2007	258,900	150,000	108,900
2008	254,900	155,000	99,900
2009	255,600	165,000	90,600
2010 – 2014	1,294,475	1,010,000	284,475
2015	<u>260,925</u>	<u>245,000</u>	<u>15,925</u>
	<u>\$ 2,836,388</u>	<u>\$ 1,995,000</u>	<u>\$ 841,388</u>

The debt service requirements as of June 30, 2004 are as follows for the Rural Economic Development Loan:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>
2005	\$ 12,000	\$ 12,000
2006	12,000	12,000
2007	12,000	12,000
2008	12,000	12,000
2009	12,000	12,000
2010 – 2011	<u>24,000</u>	<u>24,000</u>
	<u>\$ 84,000</u>	<u>\$ 84,000</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest together with the present value of the future minimum lease payments as of June 30, 2004:

<b>Year Ending June 30,</b>	<b>Amount</b>
2005	\$ 45,631
2006	40,220
2007	35,685
2008	<u>17,502</u>
Total minimum lease payments	139,038
Less amount representing interest	<u>16,324</u>
Present value of future minimum lease payments	<u>\$ 122,714</u>

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**Note 9: Restricted and Designated Net Assets**

At June 30, 2004 and 2003, restricted expendable net assets were available for the following purposes:

	<b>2004</b>	<b>2003</b>
Debt service	\$ 513,601	\$ 451,730
Specific operating activities:		
Hospice	67,523	63,309
Other	2,393	1,494
Total restricted expendable net assets	\$ 583,517	\$ 516,533

**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 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2004 and 2003. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2004, 2003 and 2002 were \$314,426, \$299,313 and \$284,186, respectively, which equaled the required contributions for each year.

**Note 11: Network Administration and Support Services Agreement**

The Hospital has entered into an agreement with another health care organization to provide computer network administration and support services. Administration and support services fees of \$155,792 and \$136,309 were incurred for the years ended June 30, 2004 and 2003, respectively.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

**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, 2004:

	<b>Actual</b>	<b>Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 1,302,855	\$ —	\$ 1,302,855	\$ 1,308,981
Other revenues/receipts	<u>11,647,517</u>	<u>671,427</u>	<u>12,318,944</u>	<u>12,336,450</u>
	12,950,372	671,427	13,621,799	13,645,431
Expenses/disbursements	<u>12,593,848</u>	<u>799,913</u>	<u>13,393,761</u>	<u>13,506,313</u>
	356,524	(128,486)	228,038	139,118
Balance, beginning of year	<u>7,004,375</u>	<u>(1,075,273)</u>	<u>5,929,102</u>	<u>5,929,102</u>
Balance, end of year	<u>\$ 7,360,899</u>	<u>\$(1,203,759)</u>	<u>\$ 6,157,140</u>	<u>\$ 6,068,220</u>

**Note 13: Changes in Accounting Principles**

During 2004, the Hospital retroactively changed its method of financial statement presentation and disclosure by adopting the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended. The changes in financial statement presentation provide a comprehensive look at the total governmental entity and include a narrative Management’s Discussion and Analysis of the Hospital’s financial activities. The retroactive application of the new method had no effect on net assets at the beginning of 2003.

In 2004, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, by retroactively restating prior year’s financial statements. This new standard revises the existing requirements regarding disclosure of custodial credit risk and adds other disclosures. Adoption of GASBS 40 had no effect on net assets and change in net assets in the prior year or current year.

## **Supplementary Information**

**Madison County Memorial Hospital**  
**Schedules of Patient Service Revenues**  
**Years Ended June 30, 2004 and 2003**

	2004				2003			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
<b>Daily Patient Services</b>								
Medical and surgical	\$ 1,912,406	\$ 1,912,406			\$ 1,622,893	\$ 1,622,893		
Swing bed	<u>749,963</u>			\$ 749,963	<u>569,390</u>			\$ 569,390
	<u>2,662,369</u>	<u>1,912,406</u>		<u>749,963</u>	<u>2,192,283</u>	<u>1,622,893</u>		<u>569,390</u>
<b>Nursing Services</b>								
Operating and recovery rooms	737,969	71,373	\$ 663,694	2,902	841,627	126,457	\$ 710,186	4,984
Emergency room	<u>989,696</u>	<u>97,643</u>	<u>892,053</u>		<u>864,039</u>	<u>168,978</u>	<u>694,637</u>	<u>424</u>
	<u>1,727,665</u>	<u>169,016</u>	<u>1,555,747</u>	<u>2,902</u>	<u>1,705,666</u>	<u>295,435</u>	<u>1,404,823</u>	<u>5,408</u>
<b>Other Professional Services</b>								
Laboratory	2,184,157	399,897	1,740,814	43,446	1,571,966	490,111	1,047,183	34,672
Central services and supplies	326,100	85,470	227,772	12,858	337,186	119,332	212,245	5,609
Blood administration	42,464	28,294	13,568	602	25,088	15,668	9,081	339
Electrocardiology	63,774	20,265	42,855	654	204,377	49,918	151,171	3,288
Echocardiio/Vascular	158,141	9,969	145,005	3,167	29,320	5,300	23,420	600
Stress Test	49,890	1,176	48,322	392	37,632	360	37,272	
Radiology	1,358,225	139,894	1,206,958	11,373	1,179,902	147,140	1,025,798	6,964
MRI	248,850	16,136	232,714		14,530		14,530	
Mammography	96,472	141	93,061	3,270	117,861		117,861	
CT	912,591	134,281	775,721	2,589	844,732	188,660	651,039	5,033
Cardiac rehabilitation	116,873	603	114,345	1,925	140,507	556	139,951	
Nuclear medicine	305,362	17,788	282,324	5,250	327,676	17,116	305,499	5,061
Mental health	336,190	1,482	334,631	77	447,292	3,792	443,500	
Pharmacy	1,250,837	564,927	512,910	173,000	1,214,129	491,669	573,564	148,896
Intravenous therapy	362,368	256,611	77,842	27,915	99,404	70,317	20,586	8,501
Madison County home care	297,022		297,022		335,186		335,186	
Anesthesiology	451,233	50,096	399,619	1,518	496,057	80,894	413,084	2,079
Respiratory therapy	206,538	159,182	3,508	43,848	145,568	129,856	2,312	13,400
Physical therapy	683,543	69,371	402,719	211,453	640,937	70,666	408,100	162,171
Occupational therapy	160,207	12,094	94,450	53,663	153,819	7,805	102,092	43,922
Speech therapy	30,658	3,533	16,820	10,305	19,560	7,090	6,596	5,874
Substance abuse	237,286	12,521	224,765		200,411	14,072	186,339	
Health Trust physicians clinic	1,836,364	234,420	1,581,179	20,765	2,219,690		2,219,690	
Earlham Home Care	299,284		299,284		237,115		237,115	
Earlham Medical Clinic	162,469		162,469		173,246		173,246	
Specialty clinics	28,232		28,232		43,709	487	43,222	
Chemotherapy	11,217		11,217		2,924		2,924	
Sleep study	84,693		84,693		8,400		8,400	
Dietitian patient revenue	2,134		2,134					
Middle River Hospice	769,445		769,445		774,094		774,094	
	<u>13,072,619</u>	<u>2,218,151</u>	<u>10,226,398</u>	<u>628,070</u>	<u>12,042,318</u>	<u>1,910,809</u>	<u>9,685,100</u>	<u>446,409</u>
<b>Gross Patient Service Revenue</b>	17,462,653	\$ 4,299,573	\$ 11,782,145	\$ 1,380,935	15,940,267	\$ 3,829,137	\$ 11,089,923	\$ 1,021,207
<b>Contractual Adjustments</b>	<u>5,582,104</u>				<u>4,613,337</u>			
<b>Net Patient Service Revenue before</b>	11,880,549				11,326,930			
<b>Provision for Uncollectible Accounts</b>								
<b>Provision for Uncollectible Accounts</b>	<u>(503,952)</u>				<u>(393,337)</u>			
<b>Net Patient Service Revenue</b>	<u>\$ 11,376,597</u>				<u>\$ 10,933,593</u>			

**Madison County Memorial Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Cafeteria	\$ 21,095	\$ 16,642
Lifeline	40,710	39,551
Medical records	5,053	5,765
Other	129,401	48,613
Loss on disposal of property and equipment	(20,018)	(2,689)
Returned deposits from Generations		38,424
Health Trust physician clinic other revenue	<u>2,747</u>	<u>64,693</u>
	<u>\$ 178,988</u>	<u>\$ 210,999</u>

# Madison County Memorial Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2004 and 2003

	2004			2003		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Medical and surgical	\$ 1,085,628	\$ 929,273	\$ 156,355	\$ 1,056,939	\$ 869,097	\$ 187,842
Emergency room	617,357	281,395	335,962	609,785	283,687	326,098
Operating and recovery rooms	266,562	199,294	67,268	302,985	227,468	75,517
Nursing administration	59,883	56,894	2,989	99,812	97,394	2,418
	<u>2,029,430</u>	<u>1,466,856</u>	<u>562,574</u>	<u>2,069,521</u>	<u>1,477,646</u>	<u>591,875</u>
<b>Other Professional Services</b>						
Laboratory	554,818	248,464	306,354	486,937	243,139	243,798
Central services and supplies	119,839	52,870	66,969	139,200	54,190	85,010
Blood administration	19,401		19,401	20,597		20,597
Electrocardiology	486	36	450	5,978	5,481	497
Echocardiogram/Vascular	73,917	61	73,856	69,765	57	69,708
Stress Test/Sleep lab	13,459	11,860	1,599	1,116		1,116
Radiology	461,208	162,389	298,819	495,032	145,884	349,148
MRI	74,400	1,150	73,250	88,563		88,563
Mammography	21,242	15,989	5,253	15,804	10,268	5,536
CT	194,515	11,292	183,223	180,465	9,401	171,064
Cardiac rehabilitation	81,459	68,933	12,526	83,616	67,898	15,718
Nuclear medicine	104,525	962	103,563	83,419	1,433	81,986
Mental health	238,398	179,608	58,790	226,771	172,516	54,255
Pharmacy	410,339	25,386	384,953	411,276	23,383	387,893
Intravenous solutions	9,484		9,484	8,342		8,342
Madison County home care	274,222	239,348	34,874	301,270	256,409	44,861
Anesthesiology	159,231		159,231	185,527		185,527
Respiratory therapy	21,725		21,725	23,747	4,560	19,187
Physical therapy	345,226		345,226	324,662	438	324,224
Occupational therapy	79,985		79,985	76,477		76,477
Speech therapy	15,067		15,067	9,614		9,614
Substance abuse	100,756	96,422	4,334	108,301	101,095	7,206
Health Trust Physicians clinic	1,372,842	1,321,955	50,887	1,569,011	1,256,171	312,840
Earlham Home Care	202,501	164,038	38,463	199,586	172,970	26,616
Earlham Medical Clinic	153,335	127,812	25,523	160,382	131,132	29,250
Specialty clinics	62,925	61,598	1,327	64,801	62,114	2,687
Chemotherapy	2,904	2,548	356	535	535	
Sleep study	28,900		28,900	2,950		2,950
Middle River Hospice	322,147	172,389	149,758	330,446	167,700	162,746
Medical care evaluation	19	15	4	43,801	43,127	674
Medical records	261,500	220,911	40,589	271,479	240,688	30,791
Social services	26,198	25,519	679	19,192	18,694	498
Observation care	9,156	9,156				
Lifeline	29,526	1,697	27,829	28,181	1,142	27,039
	<u>5,845,655</u>	<u>3,222,408</u>	<u>2,623,247</u>	<u>6,036,843</u>	<u>3,190,425</u>	<u>2,846,418</u>
<b>General Services</b>						
Operation of plant	408,857	94,223	314,634	401,060	103,359	297,701
Dietary	225,854	157,124	68,730	228,809	159,279	69,530
Housekeeping	127,236	91,955	35,281	135,916	99,888	36,028
	<u>761,947</u>	<u>343,302</u>	<u>418,645</u>	<u>765,785</u>	<u>362,526</u>	<u>403,259</u>
<b>Administrative Services</b>	1,395,220	561,481	833,739	1,452,311	541,204	911,107
<b>Employee Benefits</b>	1,628,513		1,628,513	1,608,652		1,608,652
<b>Depreciation</b>	691,849		691,849	647,875		647,875
<b>Insurance</b>	91,427		91,427	54,522		54,522
	<u>\$ 12,444,041</u>	<u>\$ 5,594,047</u>	<u>\$ 6,849,994</u>	<u>\$ 12,635,509</u>	<u>\$ 5,571,801</u>	<u>\$ 7,063,708</u>

**Madison County Memorial Hospital**  
**Schedules of Patient Receivables and**  
**Allowance for Uncollectible Accounts**  
**Years Ended June 30, 2004 and 2003**

**Schedules of Patient Receivables**

	Amounts		Percent to Total	
	2004	2003	2004	2003
Days Since Discharge				
0 – 60	\$ 1,747,106	\$ 2,320,210	61.2%	75.1%
61 – 120	433,881	315,698	15.2	10.2
121 – 180	247,814	215,729	8.7	7.0
181 – 365	238,536	164,979	8.4	5.3
366 and over	<u>186,575</u>	<u>71,230</u>	<u>6.5</u>	<u>2.4</u>
	<u>2,853,912</u>	<u>3,087,846</u>	<u>100.0%</u>	<u>100.0%</u>
Contractual allowances	434,593	622,000		
Allowance for uncollectible accounts	<u>385,000</u>	<u>339,100</u>		
	<u>819,593</u>	<u>961,100</u>		
	<u>\$ 2,034,319</u>	<u>\$ 2,126,746</u>		

**Allowance for Uncollectible Accounts**

	2004	2003
Balance, beginning of year	\$ 339,100	\$ 302,000
Provision for year	503,952	393,337
Recoveries of accounts previously written off	<u>112,323</u>	<u>89,562</u>
	955,375	784,899
Less accounts written off	<u>570,375</u>	<u>445,799</u>
Balance, end of year	<u>\$ 385,000</u>	<u>\$ 339,100</u>

**Madison County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expense**  
**Years Ended June 30, 2004 and 2003**

**Supplies**

	<b>2004</b>	<b>2003</b>
General	\$ 170,792	\$ 132,193
Pharmacy	79,177	87,314
Dietary	<u>9,085</u>	<u>5,613</u>
	<u>\$ 259,054</u>	<u>\$ 225,120</u>

**Prepaid Expense**

	<b>2004</b>	<b>2003</b>
Insurance	\$ 120,804	\$ 111,792
Maintenance and other	<u>8,485</u>	<u>8,509</u>
	<u>\$ 129,289</u>	<u>\$ 120,301</u>

**Madison County Memorial Hospital**  
**Schedule of Officials**  
**Year Ended June 30, 2004**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Eldon Cole	Chairman	2004
Mary Corkrean	Vice Chairwoman	2009
Jeffrey Nolan	Secretary/Treasurer	2006
Deb Hillard	Member	2004
Amy McDonald	Member	2009
Kevin Mankin	Member	2006
Randy Wheeler	Member	2009
<b>Hospital Officials</b>		
Marcia Harris	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

**Madison County Memorial Hospital**  
**Schedules of Financial and Statistical Data**  
**Years Ended June 30, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
<b>Patient Days (Exclusive of swing bed)</b>		
Medicare	1,799	1,682
Medicaid	68	44
Private and other	532	667
	2,399	2,393
<b>Medicare and Medicaid Percent</b>	77.8%	70.3%
<b>Percent of Occupancy (Acute)</b>	26.3%	26.2%
<b>Discharges (Exclusive of swing bed)</b>		
Medicare	452	443
Medicaid	24	20
Private and other	189	201
	665	664
<b>Average Length of Stay in Days</b>	3.6	3.6

**Madison County Memorial Hospital**  
**Schedule of Insurance Coverage**  
**Year Ended June 30, 2004**

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2005

Blanket building and contents	\$	14,914,400
Loss of income and extra expense		6,875,062
Personal property in-transit		50,000
Personal property at a temporary storage site		50,000
Nuclear hazard		5,000,000
Valuable papers		1,000,000
Accounts receivable		400,000
EDP Media/Software		500,000
Flood		5,000,000
Earthquake		5,000,000
Employee dishonesty		250,000
Depositors forgery		250,000

Policy No. 7324-54-55, expiring January 1, 2005

Comprehensive automobile liability		
Liability		1,000,000
Hired and non-owned auto physical damage		25,000

Midwest Medical Insurance Company

Comprehensive hospital liability, expiring January 1, 2005

Hospital professional liability, Policy No. MHP000026	1,000,000/3,000,000
General liability, Policy No. MHP000026	1,000,000/3,000,000
Employee benefits, Policy No. MHP000026	1,000,000/3,000,000

Excess liability, expiring January 1, 2005

Excess medical liability, Policy No. MHP000026	3,000,000/3,000,000
Umbrella liability, Policy No. MHP000026	3,000,000/3,000,000

Fireman's Fund Insurance Company

Policy No. NDP 000-9678-1745, expiring January 1, 2005

Directors' and officers' liability	4,000,000/4,000,000
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**Madison County Memorial Hospital**  
**Schedule of Activity for Assets Limited**  
**As to Use for Construction and**  
**Capital Loan Note Related Accounts**  
**Year Ended June 30, 2004**

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
Held under capital loan note agreements				
Sinking Fund	\$ 212,647	\$ 317,318	\$ 256,006	\$ 273,959
Debt Service Reserve Fund	<u>250,000</u>	<u>                    </u>	<u>                    </u>	<u>250,000</u>
	<u>\$ 462,647</u>	<u>\$ 317,318</u>	<u>\$ 256,006</u>	<u>\$ 523,959</u>



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

Board of Trustees  
Madison County Memorial Hospital  
Winterset, Iowa

We have audited the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004, which contained an explanatory paragraph regarding a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Solutions  
for  
Success**

### ***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, 2004 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, 2004. 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, 2004.

### ***Certified County Budget***

Hospital expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

### ***Entertainment Expense***

We did not note any expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds 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.

\* \* \* \* \*

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

/s/ **BKD, LLP**

Kansas City, Missouri  
August 26, 2004

**Madison County Memorial Hospital**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2004**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
None		

**Madison County Memorial Hospital**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2004**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
03-1	The Hospital has certain individuals in the purchases and payroll functions who perform duties that are not fully segregated from an internal control perspective. Hospital management is in the process of reviewing these duties to determine if further segregation of duties is warranted.	Resolved



Board of Trustees  
Madison County Memorial Hospital  
Winterset, Iowa

As part of our audit of the financial statements of Madison County Memorial Hospital for the year ended June 30, 2004, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2003 audit engagement in a letter dated August 14, 2003.

### ***Accounts Receivable***

We noted the Hospital's accounts receivable aging deteriorated over the prior year as there is an increase in the accounts receivable with discharge dates over 120 days before year-end of approximately \$221,000. There was also an increase in self-pay accounts receivable over the prior year of \$139,000 or 28%. Total gross accounts receivable is down \$234,000 over the prior year. We recommend reviewing all procedures related to collection of efforts to ensure accounts are worked on a regular basis and slow paying accounts are turned to collections as soon as possible. We understand management presented an action plan for past due accounts receivable to the Board of Trustees on July 22, 2004.

### ***Arbitrage Calculation***

We noted the Hospital may be required to have an arbitrage calculation related to the revenue capital loan notes Series 2000 prior to September 2005. The Internal Revenue Code imposes a requirement through Section 148 for a rebate to the federal government of earnings in excess of defined amounts on investments of funds created with the proceeds from issuance of tax-exempt debt. Compliance with this requirement involves detailed, highly technical arbitrage calculations that must be performed at least every five years after the date the debt was issued and at final retirement of the debt and may be required or requested more often. We recommend the Hospital consult with bond counsel on this calculation as to the specific requirements related to your debt.

### ***Health Insurance Portability and Accountability Act***

Industry associations continue to focus attention on compliance with the Health Insurance Portability and Accountability Act (HIPAA). HIPAA's far reaching provisions impact hospital information systems, operating policies and procedures and strategic planning. As regulations for HIPAA's components continue to be released and clarified, organizations often have a relatively short period to comply. While compliance with the privacy and transaction and code set regulations of HIPAA's administrative provisions has previously been the main focus of many organizations, another HIPAA area that will be receiving increased attention in the upcoming year revolves around the security standards.

The primary focus of the security rule is the safeguarding of information and systems that store, process and transmit that information. The major provisions of the rule involve administrative, physical and technical safeguards. Compliance with these provisions is required by April 21, 2005. Maintaining compliance will be an ongoing effort as systems are upgraded and new systems are added.

The security rule requires you to perform risk assessments. We understand the Hospital has formed some committees to work on the process. We recommend the Hospital continue its efforts in this area. As with the other HIPAA provisions, documentation of decisions and good-faith efforts will help you defend possible complaints.

\* \* \* \* \*

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

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

/s/ **BKD, LLP**

Kansas City, Missouri  
August 26, 2004