

Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2005 and 2004



Madison County Memorial Hospital
June 30, 2005 and 2004

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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, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison County Memorial Hospital as of June 30, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Board of Trustees
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 25, 2005

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2005 and 2004

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 years ended June 30, 2005 and 2004. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2005 and 2004 by \$331,000 or 53% and increased between 2004 and 2003 by \$152,000 or 32%.
- The Hospital's net assets increased \$467,997 or 6% in 2005 over 2004 and increased \$356,524 or 5% in 2004 over 2003.
- The Hospital reported operating losses in both 2005 (\$825,446) and 2004 (\$888,456). The operating loss in 2005 decreased by \$63,010 or 7% over the operating loss reported in 2004 and the loss in 2004 decreased by \$602,461 or 40% over the operating loss reported in 2003.
- Net nonoperating revenues increased by \$48,463 or 4% in 2005 compared to 2004 and 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 \$467,997 or 6% in 2005 over 2004 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2005	2004	2003
Assets			
Patient accounts receivable, net	\$ 1,571,650	\$ 2,034,319	\$ 2,126,746
Other current assets	2,935,872	2,532,740	2,418,450
Capital assets, net	5,536,385	5,941,286	6,380,132
Other noncurrent assets	<u>2,369,075</u>	<u>1,954,948</u>	<u>1,580,158</u>
Total assets	<u>\$ 12,412,982</u>	<u>\$ 12,463,293</u>	<u>\$ 12,505,486</u>
Liabilities			
Current liabilities	\$ 2,749,021	\$ 3,080,078	\$ 3,299,396
Long-term debt	<u>1,835,065</u>	<u>2,022,316</u>	<u>2,201,715</u>
Total liabilities	<u>4,584,086</u>	<u>5,102,394</u>	<u>5,501,111</u>
Net Assets			
Invested in capital assets, net of related debt	3,558,575	3,744,479	4,057,637
Restricted expendable	643,123	583,517	516,533
Unrestricted	<u>3,627,198</u>	<u>3,032,903</u>	<u>2,430,205</u>
Total net assets	<u>7,828,896</u>	<u>7,360,899</u>	<u>7,004,375</u>
Total liabilities and net assets	<u>\$ 12,412,982</u>	<u>\$ 12,463,293</u>	<u>\$ 12,505,486</u>

A significant change in the Hospital's assets in 2005 is patient accounts receivable, which decreased \$462,669 secondary to implementation of an Accounts Receivable Plan implemented in July 2004. The Plan provided clear guidance to staff and monthly charts kept the Board informed of progress. The reduction in Accounts Receivable allowed the Hospital to invest the resources and earn more interest income.

In 2004, a significant change in the Hospital's assets was 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 2005, the Hospital's net assets increased by \$467,997 or 6% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2005	2004	2003
Operating Revenues			
Net patient service revenue	\$ 11,827,621	\$ 11,376,597	\$ 10,933,593
Other operating revenues	<u>162,022</u>	<u>178,988</u>	<u>210,999</u>
Total operating revenues	<u>11,989,643</u>	<u>11,555,585</u>	<u>11,144,592</u>
Operating Expenses			
Salaries and wages and employee benefits	7,545,009	7,222,560	7,180,453
Medical and professional fees	1,949,877	1,959,588	1,932,780
Depreciation and amortization	682,547	691,849	647,875
Other operating expenses	<u>2,637,656</u>	<u>2,570,044</u>	<u>2,874,401</u>
Total operating expenses	<u>12,815,089</u>	<u>12,444,041</u>	<u>12,635,509</u>
Operating Loss	<u>(825,446)</u>	<u>(888,456)</u>	<u>(1,490,917)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,309,227	1,302,855	1,274,251
Interest expense	(131,025)	(149,807)	(156,075)
Interest income	51,604	38,292	53,586
Rent income	29,986	32,655	37,499
Non-capital grants and gifts	<u>33,651</u>	<u>20,985</u>	<u>25,882</u>
Total nonoperating revenues	<u>1,293,443</u>	<u>1,244,980</u>	<u>1,235,143</u>
Increase (Decrease) in Net Assets	<u>\$ 467,997</u>	<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 2005, 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 2005 decreased by \$63,010 or 7% as compared to 2004. The primary components of the decreased operating loss are:

- Net patient service revenue increased \$451,054 or 4% over 2004.
- Outpatient revenue was very strong in 2005 and the shift was noted especially in surgery as hospital performed 21 less major surgeries and 19 more minor surgeries than in 2004. Increased outpatient ancillary revenue in laboratory and radiology were apparent.
- Medical and professional fees decreased, partially due to renegotiation of two contracts, including rehabilitation in January 2005 and radiology in July 2004.
- The Public Health and Lifeline programs and staff were transferred to Madison County in July 2004.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$322,449 or 4%. The Hospital did focus on full-time equivalent employees and changes were made as necessary throughout the year, primarily due to attrition.

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 2005 as compared to 2004. The Board of Trustees held the property tax levy steady for a fifth consecutive year in 2005.

Contributions

The Hospital received contributions of \$33,651 from various individuals in 2005, an increase of \$12,666 or 60% from 2004.

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 in 2005 and 2004, 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 2005, the Hospital had \$5.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2005, the Hospital purchased new capital assets costing \$269,626.

In 2004, the Hospital purchased new equipment costing \$280,154. In 2003, \$534,240 was spent to acquire new equipment.

Debt

At June 30, 2005, the Hospital had \$2,022,317 in revenue capital loan notes, loans and capital lease obligations outstanding. The Hospital issued no new debt in 2005 or 2004, and the Hospital initiated capital leases of \$150,850 in 2003.

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, 2005 and 2004

Assets

	<u>2005</u>	<u>2004</u>
Current Assets		
Cash and cash equivalents	\$ 953,891	\$ 622,598
Assets held under bond indenture agreement	149,775	140,872
Patient accounts receivable, net of allowance; 2005 – \$361,403, 2004 – \$385,000	1,571,650	2,034,319
Property taxes receivable	1,364,936	1,327,566
Other receivables	46,491	53,361
Supplies	275,300	259,054
Prepaid expenses	<u>145,479</u>	<u>129,289</u>
Total current assets	<u>4,507,522</u>	<u>4,567,059</u>
Noncurrent Cash and Deposits		
Internally designated	1,821,445	1,448,565
Externally restricted		
Held by trustee under bond indenture agreement for debt service	578,912	523,959
By donors	<u>73,986</u>	<u>69,916</u>
	2,474,343	2,042,440
Less amount required to meet current obligations	<u>149,775</u>	<u>140,872</u>
	<u>2,324,568</u>	<u>1,901,568</u>
Capital Assets, Net of Accumulated Depreciation	<u>5,536,385</u>	<u>5,941,286</u>
Other Assets		
Deferred financing costs (net of amortization; 2005 – \$46,866, 2004 – \$37,993)	<u>44,507</u>	<u>53,380</u>
Total Assets	<u>\$ 12,412,982</u>	<u>\$ 12,463,293</u>

Liabilities and Net Assets

	<u>2005</u>	<u>2004</u>
Current Liabilities		
Current maturities of long-term debt	\$ 187,252	\$ 179,398
Accounts payable	342,513	409,454
Accrued vacation	388,396	366,376
Accrued payroll and related liabilities	336,390	316,021
Estimated self-insurance costs	30,000	30,000
Accrued interest	9,775	10,357
Estimated amounts due to third-party payers	115,000	463,000
Deferred revenue for property taxes	<u>1,339,695</u>	<u>1,305,472</u>
Total current liabilities	2,749,021	3,080,078
Long-term Debt	<u>1,835,065</u>	<u>2,022,316</u>
Total liabilities	<u>4,584,086</u>	<u>5,102,394</u>
Net Assets		
Invested in capital assets, net of related debt	3,558,575	3,744,479
Restricted-expendable for		
Debt service	569,137	513,601
Specific operating activities	73,986	69,916
Unrestricted	<u>3,627,198</u>	<u>3,032,903</u>
Total net assets	<u>7,828,896</u>	<u>7,360,899</u>
Total Liabilities and Net Assets	<u>\$ 12,412,982</u>	<u>\$ 12,463,293</u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 12,334,385	\$ 11,880,549
Provision for uncollectible accounts	<u>(506,764)</u>	<u>(503,952)</u>
Net patient service revenue	11,827,621	11,376,597
Other	<u>162,022</u>	<u>178,988</u>
Total operating revenues	<u>11,989,643</u>	<u>11,555,585</u>
Operating Expenses		
Salaries and wages	5,812,688	5,594,047
Employee benefits	1,732,321	1,628,513
Medical professional fees	1,949,877	1,959,588
Supplies and expenses	1,251,677	1,226,233
General services	434,305	418,645
Administrative services	828,300	833,739
Depreciation and amortization	682,547	691,849
Insurance	<u>123,374</u>	<u>91,427</u>
Total operating expenses	<u>12,815,089</u>	<u>12,444,041</u>
Operating Loss	<u>(825,446)</u>	<u>(888,456)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,309,227	1,302,855
Interest expense	(131,025)	(149,807)
Interest income	51,604	38,292
Rent income	29,986	32,655
Noncapital grants and gifts	<u>33,651</u>	<u>20,985</u>
Total nonoperating revenues	<u>1,293,443</u>	<u>1,244,980</u>
Increase in Net Assets	467,997	356,524
Net Assets, Beginning of Year	<u>7,360,899</u>	<u>7,004,375</u>
Net Assets, End of Year	<u>\$ 7,828,896</u>	<u>\$ 7,360,899</u>

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Activities		
Receipts from and on behalf of patients	\$ 11,942,290	\$ 12,048,024
Payments to suppliers and contractors	(4,686,910)	(5,198,826)
Payments to employees	(7,503,202)	(7,319,315)
Other receipts, net	<u>166,012</u>	<u>165,042</u>
Net cash used in operating activities	<u>(81,810)</u>	<u>(305,075)</u>
Noncapital Financing Activities		
Property taxes	1,309,227	1,302,855
Noncapital grants and gifts	33,651	20,985
Other	<u>29,986</u>	<u>32,655</u>
Net cash provided by noncapital financing activities	<u>1,372,864</u>	<u>1,356,495</u>
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(179,397)	(183,653)
Interest paid on capital debt and leases	(131,025)	(140,315)
Proceeds from sale of capital assets	586	7,133
Purchase of capital assets	<u>(269,626)</u>	<u>(231,681)</u>
Net cash used in capital and related financing activities	<u>(579,462)</u>	<u>(548,516)</u>
Investing Activities		
Interest on deposits	51,604	38,292
Purchase of deposits	(2,419,253)	(2,043,000)
Proceeds from disposition of deposits	<u>1,936,000</u>	<u>1,655,141</u>
Net cash used in investing activities	<u>(431,649)</u>	<u>(349,567)</u>
Increase in Cash and Cash Equivalents	279,943	153,337
Cash and Cash Equivalents, Beginning of Year	<u>704,532</u>	<u>551,195</u>
Cash and Cash Equivalents, End of Year	<u>\$ 984,475</u>	<u>\$ 704,532</u>

(Continued)

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 953,891	\$ 622,598
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	1,686	28,098
Held under bond agreement	18,912	38,959
Externally restricted by donor	9,986	14,877
	\$ 984,475	\$ 704,532
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (825,446)	\$ (888,456)
Depreciation and amortization	682,547	691,849
Loss on sale of capital assets	267	20,018
Changes in operating assets and liabilities		
Patient accounts receivable, net	462,669	92,427
Supplies	(16,246)	(33,934)
Estimated amounts due from and to third-party payers	(348,000)	579,000
Accounts payable and accrued expenses	(21,411)	(723,027)
Other assets and liabilities	(16,190)	(42,952)
Net cash used in operating activities	\$ (81,810)	\$ (305,075)
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ —	\$ 48,473

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2005 and 2004

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, 2005 and 2004, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in the years ended June 30, 2005 and 2004, 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, 2005 and 2004

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, 2005 and 2004

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 \$56,166 and \$51,298 for 2005 and 2004, 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.

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.
- ◆ **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.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Approximately 52% and 50% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2005 and 2004, 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 risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2005 and 2004. The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2005 and 2004.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2005 and 2004

Summary of Carrying Values

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

	<u>2005</u>	<u>2004</u>
Carrying value		
Deposits	\$ 3,427,814	\$ 2,664,738
Other	<u>420</u>	<u>300</u>
	<u>\$ 3,428,234</u>	<u>\$ 2,665,038</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 953,891	\$ 622,598
Assets held under bond indenture agreement	578,912	523,959
Other noncurrent cash and deposits	<u>1,895,431</u>	<u>1,518,481</u>
	<u>\$ 3,428,234</u>	<u>\$ 2,665,038</u>

Interest Income

Interest income for the years ended June 30, 2005 and 2004, amounted to \$51,604 and \$38,292, 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, 2005 and 2004 consisted of:

	<u>2005</u>	<u>2004</u>
Medicare	\$ 441,476	\$ 587,720
Medicaid	63,855	204,099
Other third-party payers	775,002	997,570
Patients	<u>652,720</u>	<u>629,930</u>
	1,933,053	2,419,319
Less allowance for uncollectible accounts	<u>361,403</u>	<u>385,000</u>
	<u>\$ 1,571,650</u>	<u>\$ 2,034,319</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2005 and 2004

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2005 and 2004 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2005					
Land	\$ 5,046	\$ —	\$ —	\$ —	\$ 5,046
Land improvements	583,269	—	—	6,735	590,004
Buildings and leasehold improvements	4,770,566	—	(9,492)	123,918	4,884,992
Fixed equipment	3,541,584	—	(32,620)	69,029	3,577,993
Major movable equipment	2,263,308	61,644	(13,832)	62,473	2,373,593
Construction in progress	<u>79,655</u>	<u>207,982</u>	<u>—</u>	<u>(262,155)</u>	<u>25,482</u>
	<u>11,243,428</u>	<u>269,626</u>	<u>(55,944)</u>	<u>0</u>	<u>11,457,110</u>
Less accumulated depreciation					
Land improvements	(159,267)	(32,137)	—	4	(191,400)
Buildings and leasehold im- provements	(1,860,360)	(192,642)	8,639	(1,972)	(2,046,335)
Fixed equipment	(1,879,045)	(176,786)	32,620	611	(2,022,600)
Major movable equipment	<u>(1,403,470)</u>	<u>(272,109)</u>	<u>13,832</u>	<u>1,357</u>	<u>(1,660,390)</u>
	<u>(5,302,142)</u>	<u>(673,674)</u>	<u>55,091</u>	<u>0</u>	<u>(5,920,725)</u>
Capital assets, net	<u>\$ 5,941,286</u>	<u>\$ (404,048)</u>	<u>\$ (853)</u>	<u>\$ 0</u>	<u>\$ 5,536,385</u>
2004					
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 im- provements	(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, 2005 and 2004

Note 6: Medical Malpractice Insurance

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

Note 7: 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 2005 and 2004 are summarized as follows:

	2005	2004
Balance, beginning of year	\$ 30,000	\$ 30,000
Current year claims and changes in estimates	126,097	135,624
Claim payments	(126,097)	(135,624)
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, 2005 and 2004:

	Beginning Balance	Additions	2005 Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue capital loan notes Series 2000 (A)	\$ 1,995,000	\$ —	\$ (130,000)	\$ 1,865,000	\$ 140,000
Rural economic development loan (B)	84,000	—	(12,000)	72,000	12,000
Capital lease obligations (C)	122,714	—	(37,397)	85,317	35,252
Total long-term debt	\$ 2,201,714	\$ 0	\$ (179,397)	\$ 2,022,317	\$ 187,252

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2005 and 2004

	Beginning Balance	Additions	2004		Ending Balance	Current Portion
			Deductions			
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)	<u>169,367</u>	<u>—</u>	<u>46,653</u>		<u>122,714</u>	<u>37,398</u>
Total long-term debt	\$ <u>2,385,367</u>	\$ <u>0</u>	\$ <u>183,653</u>		\$ <u>2,201,714</u>	\$ <u>179,398</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 \$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:

	<u>2005</u>	<u>2004</u>
Equipment	\$ 179,043	\$ 185,879
Less accumulated depreciation	<u>102,022</u>	<u>69,775</u>
	<u>\$ 77,021</u>	<u>\$ 116,104</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, 2005 and 2004.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2005 and 2004

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 \$328,912 and \$273,959 at June 30, 2005 and 2004, respectively. At June 30, 2005 and 2004, deposits in the Sinking Fund were in excess of required amounts of \$307,470 and \$252,768, respectively.

The debt service requirements for the Hospital revenue capital loan notes Series 2000 as of June 30, 2005, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	255,700	175,000	80,700
2011 – 2015	<u>1,299,700</u>	<u>1,080,000</u>	<u>219,700</u>
	<u>\$ 2,582,100</u>	<u>\$ 1,865,000</u>	<u>\$ 717,100</u>

The debt service requirements as of June 30, 2005 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2006	\$ 12,000	\$ 12,000
2007	12,000	12,000
2008	12,000	12,000
2009	12,000	12,000
2010	12,000	12,000
2011	<u>12,000</u>	<u>12,000</u>
	<u>\$ 72,000</u>	<u>\$ 72,000</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2005 and 2004

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, 2005:

Year Ending June 30,	Amount
2006	\$ 40,270
2007	35,685
2008	<u>17,452</u>
Total minimum lease payments	93,407
Less amount representing interest	<u>8,090</u>
 Present value of future minimum lease payments	 \$ <u>85,317</u>

Note 9: Restricted and Designated Net Assets

At June 30, 2005 and 2004, restricted expendable net assets were available for the following purposes:

	2005	2004
Debt service	\$ 569,137	\$ 513,601
Specific operating activities:		
Hospice	73,624	67,523
Other	<u>362</u>	<u>2,393</u>
 Total restricted expendable net assets	 \$ <u>643,123</u>	 \$ <u>583,517</u>

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.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2005 and 2004

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 2005 and 2004. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2005, 2004 and 2003 were \$326,666, \$314,426 and \$299,313, 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 \$160,052 and \$155,792 were incurred for the years ended June 30, 2005 and 2004, respectively.

Note 12: Budget and Budgetary Accounting

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2005:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,309,227	\$ —	\$ 1,309,227	\$ 1,305,472
Other revenues/receipts	<u>12,104,884</u>	<u>114,669</u>	<u>12,219,553</u>	<u>12,828,705</u>
	13,414,111	114,669	13,528,780	14,134,177
Expenses/disbursements	<u>12,946,114</u>	<u>53,847</u>	<u>12,999,961</u>	<u>13,978,526</u>
	467,997	60,822	528,819	155,651
Balance, beginning of year	<u>7,360,899</u>	<u>(2,208,381)</u>	<u>5,152,518</u>	<u>5,152,518</u>
Balance, end of year	<u>\$ 7,828,896</u>	<u>\$(2,147,559)</u>	<u>\$ 5,681,337</u>	<u>\$ 5,308,169</u>

Supplementary Information

Madison County Memorial Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2005 and 2004

	2005				2004			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
Daily Patient Services								
Medical and surgical	\$ 1,724,127	\$ 1,615,225	\$ 108,902		\$ 1,912,406	\$ 1,773,900	\$ 138,506	
Swing bed	877,763			\$ 877,763	749,963			\$ 749,963
	<u>2,601,890</u>	<u>1,615,225</u>	<u>108,902</u>	<u>877,763</u>	<u>2,662,369</u>	<u>1,773,900</u>	<u>138,506</u>	<u>749,963</u>
Nursing Services								
Operating and recovery rooms	813,516	61,279	749,971	2,266	737,969	71,373	663,694	2,902
Emergency room	1,025,088	38,272	986,816		989,696	97,643	892,053	
	<u>1,838,604</u>	<u>99,551</u>	<u>1,736,787</u>	<u>2,266</u>	<u>1,727,665</u>	<u>169,016</u>	<u>1,555,747</u>	<u>2,902</u>
Other Professional Services								
Laboratory	2,374,081	356,922	1,962,725	54,434	2,184,157	399,897	1,740,814	43,446
Central services and supplies	403,055	91,556	284,221	27,278	326,100	85,470	227,772	12,858
Blood administration	74,227	23,954	49,001	1,272	42,464	28,294	13,568	602
Electrocardiology	88,775	20,125	67,730	920	63,774	20,265	42,855	654
Echocardio/Vascular	160,281	10,809	146,525	2,947	158,141	9,969	145,005	3,167
Stress Test	64,016	1,656	62,360		49,890	1,176	48,322	392
Radiology	1,507,028	98,874	1,393,435	14,719	1,358,225	139,894	1,206,958	11,373
MRI	233,168	3,450	229,718		248,850	16,136	232,714	
Mammography	91,468		91,468		96,472	141	93,061	3,270
CT	1,097,532	156,847	925,937	14,748	912,591	134,281	775,721	2,589
Chronic disease management	135,133		134,785	348	116,873	603	114,345	1,925
Nuclear medicine	395,043	14,805	375,627	4,611	305,362	17,788	282,324	5,250
Mental health	312,262	3,212	308,716	334	336,190	1,482	334,631	77
Pharmacy	1,348,716	483,272	632,263	233,181	1,250,837	564,927	512,910	173,000
Intravenous therapy	316,349	196,601	88,278	31,470	362,368	256,611	77,842	27,915
Madison County Home Care	388,554		388,554		596,306		596,306	
Anesthesiology	410,768	35,403	373,321	2,044	451,233	50,096	399,619	1,518
Respiratory therapy	237,418	184,368	8,890	44,160	206,538	159,182	3,508	43,848
Physical therapy	611,519	44,391	377,847	189,281	683,543	69,371	402,719	211,453
Occupational therapy	201,011	9,111	117,293	74,607	160,207	12,094	94,450	53,663
Speech therapy	32,838	6,326	14,082	12,430	30,658	3,533	16,820	10,305
Substance abuse	211,064	10,214	200,526	324	237,286	12,521	224,765	
Health Trust Physicians Clinic	1,970,973	212,095	1,739,359	19,519	1,836,364	234,420	1,581,179	20,765
Earlham Medical Clinic	205,923		205,923		162,469		162,469	
Outpatient clinic	51,777		51,777		28,232		28,232	
Chemotherapy	9,896		9,896		11,217		11,217	
Sleep study	113,505		113,505		84,693		84,693	
Dietitian patient revenue	1,781		1,781		2,134		2,134	
Social Services	1,916		1,916					
Middle River Hospice	816,547		816,547		769,445		769,445	
	<u>13,866,624</u>	<u>1,963,991</u>	<u>11,174,006</u>	<u>728,627</u>	<u>13,072,619</u>	<u>2,218,151</u>	<u>10,226,398</u>	<u>628,070</u>
Gross Patient Service Revenue	18,307,118	\$ <u>3,678,767</u>	\$ <u>13,019,695</u>	\$ <u>1,608,656</u>	17,462,653	\$ <u>4,161,067</u>	\$ <u>11,920,651</u>	\$ <u>1,380,935</u>
Contractual Adjustments	5,972,733				5,582,104			
Net Patient Service Revenue before Provision for Uncollectible Accounts	12,334,385				11,880,549			
Provision for Uncollectible Accounts	(506,764)				(503,952)			
Net Patient Service Revenue	<u>\$ 11,827,621</u>				<u>\$ 11,376,597</u>			

Madison County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cafeteria	\$ 25,475	\$ 21,095
Lifeline	175	40,710
Medical records	7,550	5,053
Other	128,089	129,401
Loss on disposal of property and equipment	(267)	(20,018)
Health Trust physician clinic other revenue	<u>1,000</u>	<u>2,747</u>
	<u>\$ 162,022</u>	<u>\$ 178,988</u>

Madison County Memorial Hospital

Schedules of Operating Expenses

Years Ended June 30, 2005 and 2004

	2005			2004		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,098,218	\$ 942,208	\$ 156,010	\$ 1,085,628	\$ 929,273	\$ 156,355
Emergency room	649,000	292,436	356,564	617,357	281,395	335,962
Operating and recovery rooms	265,689	204,154	61,535	266,562	199,294	67,268
Nursing administration	81,109	77,506	3,603	59,883	56,894	2,989
	<u>2,094,016</u>	<u>1,516,304</u>	<u>577,712</u>	<u>2,029,430</u>	<u>1,466,856</u>	<u>562,574</u>
Other Professional Services						
Laboratory	585,935	272,664	313,271	554,818	248,464	306,354
Central services and supplies	156,976	59,051	97,925	119,839	52,870	66,969
Blood administration	33,438		33,438	19,401		19,401
Electrocardiology	1,348	344	1,004	486	36	450
Echocardio/Vascular	72,130		72,130	73,917	61	73,856
Stress Test	13,427	11,497	1,930	13,459	11,860	1,599
Radiology	436,106	153,981	282,125	461,208	162,389	298,819
MRI	63,223	1,041	62,182	74,400	1,150	73,250
Mammography	20,219	16,772	3,447	21,242	15,989	5,253
CT	203,046	12,415	190,631	194,515	11,292	183,223
Chronic disease management	69,586	60,247	9,339	81,459	68,933	12,526
Nuclear medicine	115,361	932	114,429	104,525	962	103,563
Mental health	213,276	156,004	57,272	238,398	179,608	58,790
Pharmacy	458,512	30,953	427,559	410,339	25,386	384,953
Intravenous solutions	10,445		10,445	9,484		9,484
Madison County Home Care	351,218	310,254	40,964	476,723	403,386	73,337
Anesthesiology	196,461		196,461	159,231		159,231
Respiratory therapy	18,009		18,009	21,725		21,725
Physical therapy	289,382		289,382	345,226		345,226
Occupational therapy	66,387		66,387	79,985		79,985
Speech therapy	16,524		16,524	15,067		15,067
Substance abuse	106,941	102,046	4,895	100,756	96,422	4,334
Health Trust Physicians Clinic	1,538,833	1,469,053	69,780	1,372,842	1,321,955	50,887
Earlham Medical Clinic	184,857	158,819	26,038	153,335	127,812	25,523
Outpatient clinic	72,074	70,842	1,232	62,925	61,598	1,327
Chemotherapy	3,796	3,738	58	2,904	2,548	356
Sleep study	39,857	257	39,600	28,900		28,900
Middle River Hospice	352,450	202,849	149,601	322,147	172,389	149,758
Medical care evaluation				19	15	4
Medical records	238,919	211,615	27,304	261,500	220,911	40,589
Social services	24,038	23,558	480	26,198	25,519	679
Observation care	5,972	5,972		9,156	9,156	
Lifeline	(158)	(158)		29,526	1,697	27,829
	<u>5,958,588</u>	<u>3,334,746</u>	<u>2,623,842</u>	<u>5,845,655</u>	<u>3,222,408</u>	<u>2,623,247</u>
General Services						
Operation of plant	437,151	108,725	328,426	408,857	94,223	314,634
Dietary	244,684	171,037	73,647	225,854	157,124	68,730
Housekeeping	125,132	92,900	32,232	127,236	91,955	35,281
	<u>806,967</u>	<u>372,662</u>	<u>434,305</u>	<u>761,947</u>	<u>343,302</u>	<u>418,645</u>
Administrative Services	<u>1,417,276</u>	<u>588,976</u>	<u>828,300</u>	<u>1,395,220</u>	<u>561,481</u>	<u>833,739</u>
Employee Benefits	<u>1,732,321</u>		<u>1,732,321</u>	<u>1,628,513</u>		<u>1,628,513</u>
Depreciation	<u>682,547</u>		<u>682,547</u>	<u>691,849</u>		<u>691,849</u>
Insurance	<u>123,374</u>		<u>123,374</u>	<u>91,427</u>		<u>91,427</u>
	<u>\$ 12,815,089</u>	<u>\$ 5,812,688</u>	<u>\$ 7,002,401</u>	<u>\$ 12,444,041</u>	<u>\$ 5,594,047</u>	<u>\$ 6,849,994</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2005 and 2004

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2005	2004	2005	2004
Days Since Discharge				
0 – 60	\$ 1,547,187	\$ 1,747,106	68%	61%
61 – 120	341,661	433,881	15	15
121 – 180	237,300	247,814	10	9
181 – 365	92,555	238,536	4	8
366 and over	<u>49,350</u>	<u>186,575</u>	<u>3</u>	<u>7</u>
	<u>2,268,053</u>	<u>2,853,912</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	335,000	434,593		
Allowance for uncollectible accounts	<u>361,403</u>	<u>385,000</u>		
	<u>696,403</u>	<u>819,593</u>		
	<u>\$ 1,571,650</u>	<u>\$ 2,034,319</u>		

Allowance for Uncollectible Accounts

	2005	2004
Balance, beginning of year	\$ 385,000	\$ 339,100
Provision for year	506,764	503,952
Recoveries of accounts previously written off	<u>166,059</u>	<u>112,323</u>
	1,057,823	955,375
Less accounts written off	<u>696,420</u>	<u>570,375</u>
Balance, end of year	<u>\$ 361,403</u>	<u>\$ 385,000</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2005 and 2004

Supplies

	2005	2004
General	\$ 175,673	\$ 170,792
Pharmacy	93,468	79,177
Dietary	6,159	9,085
	\$ 275,300	\$ 259,054

Prepaid Expense

	2005	2004
Insurance	\$ 131,474	\$ 120,804
Maintenance and other	14,005	8,485
	\$ 145,479	\$ 129,289

Madison County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2005

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2008
Amy McDonald	Vice Chairwoman	2008
Jeffrey Nolan	Secretary/Treasurer	2006
Kevin Mankin	Member	2006
Randy Wheeler	Member	2008
Tom Collins	Member	2010
Trena Walker	Member	2010
Hospital Officials		
Marcia Harris	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

Madison County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2005 and 2004

	2005	2004
Patient Days (Exclusive of swing bed)		
Medicare	1,484	1,799
Medicaid	100	68
Private and other	409	532
	1,993	2,399
Medicare and Medicaid Percent	79.5%	77.8%
Percent of Occupancy (Acute)	21.8%	26.3%
Discharges (Exclusive of swing bed)		
Medicare	426	452
Medicaid	27	24
Private and other	178	189
	631	665
Average Length of Stay in Days	3.2	3.6

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2005

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2006

Blanket building and contents	\$	14,943,000
Loss of income and extra expense		8,276,888
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, 2006

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, 2006

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, 2006

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

Executive Risk Indemnity, Inc.

Policy No. 6802-0186, expiring January 1, 2006

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, 2005

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Held under capital loan note agreements				
Sinking Fund	\$ 273,959	\$ 309,240	\$ 254,287	\$ 328,912
Debt Service Reserve Fund	<u>250,000</u>	<u>—</u>	<u>—</u>	<u>250,000</u>
	<u>\$ 523,959</u>	<u>\$ 309,240</u>	<u>\$ 254,287</u>	<u>\$ 578,912</u>



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

Board of Trustees
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, 2005, and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2005 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, 2005. 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, 2005.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2005 did not exceed amounts budgeted.

Questionable Expenditures

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

Travel Expense

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

Prior to November 1, 2004, the Hospital filed the annual unclaimed property report with the state treasurer in accordance with Chapter 556.11.

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

* * * * *

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 25, 2005

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2005

Reference Number	Finding
	None



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, 2005, 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 opportunities for improvement. We observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2004 audit engagement in a letter dated August 26, 2004.

Approval of Expenses

We noted the Administrative Assistant signed off approval for the Chief Financial Officer's expense reimbursements and the Chief Financial Officer signed off approval for the Chief Executive Officer's reimbursement. We recommend the Treasurer of the Board of Trustees approve the Chief Executive Officer's expense reimbursement and the Chief Executive Officer approve the Chief Financial Officer's expense reimbursements in order to improve controls over these types of reimbursements.

Contractual and Bad Debt Allowance Analysis

As part of our audit procedures, we utilize a report provided by management to determine actual cash collections on net accounts receivable from the previous year. While this report showed the allowances used by management for contractual and bad debt allowances were within a reasonable range, we noted the difference between actual collections and what was recorded as net accounts receivable increased from 2003 to 2004. We recommend management review actual write-off and contractual percentages as compared to estimated percentages used to determine if changes should be made to the estimates of bad debt and contractual allowances on a periodic basis.

* * * * *

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**

August 25, 2005