

Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Madison County Memorial Hospital
June 30, 2007 and 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Supplementary Information	
Schedules of Patient Service Revenues	26
Schedules of Other Revenues	28
Schedules of Operating Expenses.....	29
Schedules of Patient Receivables and Allowance for Uncollectible Accounts	31
Schedules of Supplies and Prepaid Expense	32
Schedule of Officials—Year Ended June 30, 2007	33
Schedules of Financial and Statistical Data.....	34
Schedule of Insurance Coverage—Year Ended June 30, 2007	35
Schedule of Activity for Assets Limited as to Use for Construction and Capital Loan Note Related Accounts—Year Ended June 30, 2007	36
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	37
Schedule of Findings and Responses	41



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, 2007 and 2006, 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, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, 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
Page 2

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
October 26, 2007

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

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, 2007 and 2006. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2007 and 2006 by \$76,607 or 11% and decreased between 2006 and 2005 by \$238,701 or 25%.
- The Hospital's net assets increased \$345,485 or 4% in 2007 over 2006 and increased \$704,362 or 9% in 2006 over 2005.
- The Hospital reported operating losses in both 2007 \$(1,180,910) and 2006 \$(721,743). The operating loss in 2007 increased by \$480,011 or 64% from the operating loss reported in 2006 and the loss in 2006 decreased by \$103,703 or 13% from the operating loss reported in 2005.
- Net nonoperating revenues increased by \$100,290 or 7% in 2007 compared to 2006 and increased by \$132,662 or 10% in 2006 compared to 2005.

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 \$345,485 or 4% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 1,782,950	\$ 1,835,003	\$ 1,571,650
Other current assets	3,316,800	2,878,729	2,935,872
Capital assets, net	7,725,695	5,791,260	5,536,385
Other noncurrent assets	<u>2,460,659</u>	<u>4,735,621</u>	<u>2,369,075</u>
Total assets	<u>\$ 15,286,104</u>	<u>\$ 15,240,613</u>	<u>\$ 12,412,982</u>
Liabilities			
Current liabilities	\$ 3,031,970	\$ 3,098,885	\$ 2,749,021
Long-term debt	<u>3,375,391</u>	<u>3,608,470</u>	<u>1,835,065</u>
Total liabilities	<u>6,407,361</u>	<u>6,707,355</u>	<u>4,584,086</u>
Net Assets			
Invested in capital assets, net of related	4,299,266	4,102,657	3,558,575
Restricted expendable	760,020	1,197,503	643,123
Unrestricted	<u>3,819,457</u>	<u>3,233,098</u>	<u>3,627,198</u>
Total net assets	<u>8,878,743</u>	<u>8,533,258</u>	<u>7,828,896</u>
Total liabilities and net assets	<u>\$ 15,286,104</u>	<u>\$ 15,240,613</u>	<u>\$ 12,412,982</u>

In 2007, a significant change in the Hospital's capital assets and other noncurrent assets was the result of a building addition started in 2006 to be completed in 2008. The addition provides new space for specialty clinic area for visiting physicians, additional operating room, private same day recovery, medical records and renovation of current administrative space.

In 2006, the Hospital refinanced the Series 2000 Revenue bonds at a lower interest rate and secured new debt for a building addition. The addition was financed through Revenue bonds and current Hospital investments. Net patient service revenue increased \$710,586 or 6%, thus, accounts receivable also increased. The Hospital was able to decrease the average gross days in accounts receivable from 51 in 2005 to 45 in 2006.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$345,485 or 4% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	2005
Operating Revenues			
Net patient service revenue	\$ 12,378,686	\$ 12,538,207	\$ 11,827,621
Other operating revenues	<u>74,976</u>	<u>152,494</u>	<u>162,022</u>
Total operating revenues	<u>12,453,662</u>	<u>12,690,701</u>	<u>11,989,643</u>
Operating Expenses			
Salaries and wages and employee benefits	8,050,610	7,880,192	7,545,009
Medical and professional fees	1,804,784	1,904,439	1,949,877
Depreciation and amortization	674,803	660,521	682,547
Other operating expenses	<u>3,104,375</u>	<u>2,967,292</u>	<u>2,637,656</u>
Total operating expenses	<u>13,634,572</u>	<u>13,412,444</u>	<u>12,815,089</u>
Operating Loss	<u>(1,180,910)</u>	<u>(721,743)</u>	<u>(825,446)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,410,387	1,341,540	1,309,227
Interest expense	(86,835)	(104,247)	(131,025)
Interest income	140,853	116,899	51,604
Rent income	33,116	27,987	29,986
Non-capital grants and gifts	<u>28,874</u>	<u>43,926</u>	<u>33,651</u>
Total nonoperating revenues	<u>1,526,395</u>	<u>1,426,105</u>	<u>1,293,443</u>
Increase in Net Assets	<u>\$ 345,485</u>	<u>\$ 704,362</u>	<u>\$ 467,997</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 2007, 2006 and 2005, 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 primary components of the change in operations from 2006 to 2007 are as follows:

- Net patient service revenue decreased \$159,521 or 1% primarily due to a decrease of 26% or 1,115 in total inpatient days. The most significant decrease was in swing-bed days due to increased local nursing home competition. The associated ancillary revenue decreased secondary to the decline of inpatient days.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$170,418 or 2%. The Hospital salaries increased secondary to market increases in order to remain competitive with hospitals in Des Moines.

The operating loss for 2006 decreased by \$103,703 or 13% as compared to 2005. The primary components of the decrease in the operating loss were:

- Net patient service revenue increased \$710,586 or 6% primarily due to increased inpatient days of 628 or 17%. The Hospital hired a full time Emergency Department Physician to treat patients at night and on weekends. This significantly decreased reliance on residents who were contracted to fill those shifts. The new Emergency Department Physician together with local Medical Staff was instrumental in admitting more inpatients and increasing Emergency Department visits by 359 or 11%.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$335,183 or 4%. The Hospital maintains wages to be competitive with Des Moines area market in order to recruit and retain quality staff, thus, accounting in part for the increases in 2006.
- The average daily census in Hospice increased four patients per day. The expenses related to caring for Hospice patients in the nursing home increased \$135,950 or 90% due to more patients being cared for in the nursing home facilities than at home.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense which, in total, increased by \$100,290 or 7% from 2007 to 2006 and \$132,662 or 10% from 2006 to 2005. The increase in 2007 was due primarily to a \$68,847 or 5% increase in county tax receipts due to higher property tax valuations. The Board of Trustees held the property tax levy steady for a seventh consecutive year in 2007.

Contributions

The Hospital received contributions of \$28,874 from various individuals in 2007, a decrease of \$15,052 or 34% from 2006.

The Hospital received contributions of \$43,926 from various individuals in 2006, an increase of \$10,275 or 31% from 2005.

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 2007, 2006 and 2005, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$7.7 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2007, the Hospital purchased new capital assets costing \$2,601,804 most of which related to the new building addition discussed above.

At the end of 2006, the Hospital had \$5.8 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2006, the Hospital purchased new capital assets costing \$899,551 most of which related to the new building addition discussed above.

Debt

In 2007, the hospital had \$3,614,593 in revenue capital loan notes, loans and capital lease obligations outstanding. The Hospital issued no new debt in 2007.

In 2006, the Hospital refinanced the Series 2000 Revenue Bonds and secured new debt for a building addition. The total of the Series 2005 issue was \$4,000,000. The building addition is anticipated to be complete by the spring of 2007 and includes an additional operating room, private recovery rooms, and specialty clinic exam rooms for visiting physicians and a new area for Medical Records outside of the patient care area.

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, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 791,797	\$ 715,190
Assets held under bond indenture agreement	223,728	214,353
Patient accounts receivable, net of allowance; of \$302,500 and \$329,000 in 2007 and 2006	1,782,950	1,835,003
Property taxes receivable	1,491,816	1,430,569
Other receivables	30,128	59,465
Estimated amounts due from third-party payors	210,828	-
Supplies	272,092	279,040
Prepaid expenses	<u>296,411</u>	<u>180,112</u>
Total current assets	<u>5,099,750</u>	<u>4,713,732</u>
Noncurrent Cash and Deposits		
Internally designated	1,599,065	1,544,803
Externally restricted		
Held under bond indenture agreement	896,865	3,177,431
By donors	<u>57,519</u>	<u>67,362</u>
	2,553,449	4,789,596
Less amount required to meet current obligations	<u>223,728</u>	<u>214,353</u>
	<u>2,329,721</u>	<u>4,575,243</u>
Capital Assets, Net of Accumulated Depreciation	<u>7,725,695</u>	<u>5,791,260</u>
Other Assets		
Deferred financing costs (net of amortization; 2007 – \$96,541, 2006 – \$67,101)	<u>130,938</u>	<u>160,378</u>
Total Assets	<u><u>\$ 15,286,104</u></u>	<u><u>\$ 15,240,613</u></u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 239,202	\$ 244,862
Accounts payable	520,082	332,500
Accrued vacation	368,670	366,242
Accrued payroll and related liabilities	388,183	367,409
Estimated self-insurance costs	35,000	30,000
Accrued interest	13,728	14,353
Estimated amounts due to third-party payers	-	335,000
Deferred revenue for property taxes	<u>1,467,105</u>	<u>1,408,519</u>
Total current liabilities	3,031,970	3,098,885
Long-term Debt	<u>3,375,391</u>	<u>3,608,470</u>
Total liabilities	<u>6,407,361</u>	<u>6,707,355</u>
Net Assets		
Invested in capital assets, net of related debt	4,299,266	4,102,657
Restricted-expendable for		
Construction project	-	405,000
Debt service	702,501	725,141
Specific operating activities	57,519	67,362
Unrestricted	<u>3,819,457</u>	<u>3,233,098</u>
Total net assets	<u>8,878,743</u>	<u>8,533,258</u>
Total Liabilities and Net Assets	<u>\$ 15,286,104</u>	<u>\$ 15,240,613</u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 12,990,205	\$ 12,973,983
Provision for uncollectible accounts	<u>(611,519)</u>	<u>(435,776)</u>
Net patient service revenue	12,378,686	12,538,207
Other	<u>74,976</u>	<u>152,494</u>
Total operating revenues	<u>12,453,662</u>	<u>12,690,701</u>
Operating Expenses		
Salaries and wages	6,228,442	6,075,903
Employee benefits	1,822,168	1,804,289
Medical professional fees	1,804,784	1,904,439
Supplies and expenses	1,410,611	1,493,196
General services	506,382	442,367
Administrative services	982,578	870,412
Depreciation and amortization	674,803	660,521
Insurance	<u>204,804</u>	<u>161,317</u>
Total operating expenses	<u>13,634,572</u>	<u>13,412,444</u>
Operating Loss	<u>(1,180,910)</u>	<u>(721,743)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,410,387	1,341,540
Interest expense	(86,835)	(104,247)
Interest income	140,853	116,899
Rent income	33,116	27,987
Noncapital grants and gifts	<u>28,874</u>	<u>43,926</u>
Total nonoperating revenues	<u>1,526,395</u>	<u>1,426,105</u>
Increase in Net Assets	345,485	704,362
Net Assets, Beginning of Year	<u>8,533,258</u>	<u>7,828,896</u>
Net Assets, End of Year	<u><u>\$ 8,878,743</u></u>	<u><u>\$ 8,533,258</u></u>

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Receipts from and on behalf of patients	\$ 11,884,911	\$ 12,494,854
Payments to suppliers and contractors	(4,954,338)	(4,948,713)
Payments to employees	(8,028,033)	(7,866,749)
Other receipts, net	134,601	147,746
Net cash used in operating activities	(962,859)	(172,862)
Noncapital Financing Activities		
Property taxes	1,410,387	1,341,540
Noncapital grants and gifts	28,874	43,926
Other	33,116	27,987
Net cash provided by noncapital financing activities	1,472,377	1,413,453
Capital and Related Financing Activities		
Proceeds from issuance of capital debt	-	4,000,000
Discount on issuance of capital debt	-	(50,000)
Principal paid on capital debt and leases	(244,863)	(257,252)
Refunding of capital debt	-	(1,865,000)
Deferred financing costs	-	(133,983)
Interest paid on capital debt and leases	(86,835)	(104,247)
Proceeds from sale of capital assets	181	499
Purchase of capital assets	(2,478,394)	(870,955)
Net cash provided by (used in) capital and related financing activities	(2,809,911)	719,062
Investing Activities		
Interest on deposits	140,853	116,899
Purchase of deposits	(3,042,712)	(5,019,280)
Proceeds from disposition of deposits	5,163,861	3,022,000
Net cash provided by (used in) investing activities	2,262,002	(1,880,381)
Increase (Decrease) in Cash and Cash Equivalents	(38,391)	79,272
Cash and Cash Equivalents, Beginning of Year	1,063,747	984,475
Cash and Cash Equivalents, End of Year	\$ 1,025,356	\$ 1,063,747

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 791,797	\$ 715,190
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	6,175	1,474
Held under bond agreement	223,865	343,721
Externally restricted by donor	3,519	3,362
	\$ 1,025,356	\$ 1,063,747
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (1,180,910)	\$ (721,743)
Depreciation and amortization	674,803	660,521
Loss on sale of capital assets	27,946	5,035
Changes in operating assets and liabilities		
Patient accounts receivable, net	52,053	(263,353)
Supplies	6,948	(3,740)
Estimated amounts due from and to third-party payers	(545,828)	220,000
Accounts payable and accrued expenses	118,428	(34,949)
Other assets and liabilities	(116,299)	(34,633)
Net cash used in operating activities	\$ (962,859)	\$ (172,862)
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 123,410	\$ 28,596

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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, 2007 and 2006, cash equivalents consisted primarily of money market accounts.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in the both of the years ended June 30, 2007 and 2006, 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 includes 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.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Supplies

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

Capital Assets

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

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2007</u>	<u>2006</u>
Interest costs capitalized (net of interest earnings on project funds of \$57,494 and \$44,978 in 2007 and 2006)	\$ 29,443	\$ (5,621)
Interest costs charged to expense	<u>86,835</u>	<u>104,247</u>
Total interest incurred (net of interest earnings on project funds)	<u>\$ 116,278</u>	<u>\$ 98,626</u>

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.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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.

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 \$267,403 and \$197,063 for 2007 and 2006, 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.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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 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.

Approximately 51% and 55% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, 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, 2007 and 2006. The Hospital's deposits in banks at June 30, 2007 and 2006 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.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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, 2007 and 2006.

Summary of Carrying Values

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

	<u>2007</u>	<u>2006</u>
Carrying value		
Deposits	\$ 3,344,826	\$ 5,504,366
Other	420	420
	<u>\$ 3,345,246</u>	<u>\$ 5,504,786</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 791,797	\$ 715,190
Assets held under bond indenture agreement	896,865	3,177,431
Other noncurrent cash and deposits	<u>1,656,584</u>	<u>1,612,165</u>
	<u>\$ 3,345,246</u>	<u>\$ 5,504,786</u>

Interest Income

Interest income for the years ended June 30, 2007 and 2006, amounted to \$140,853 and \$116,899, 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, 2007 and 2006 consisted of:

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

	2007	2006
Medicare	\$ 618,195	\$ 673,407
Medicaid	67,106	98,389
Other third-party payers	743,612	691,958
Patients	656,537	700,249
	2,085,450	2,164,003
Less allowance for uncollectible accounts	302,500	329,000
	\$ 1,782,950	\$ 1,835,003

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2007					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	590,004		(6,735)		583,269
Buildings and leasehold improvements	4,873,692		(28,780)	23,329	4,868,241
Fixed equipment	3,642,250		(11,681)	7,240	3,637,809
Major movable equipment	2,649,630		(192,703)	253,254	2,710,181
Construction in progress	430,153	2,601,804	(801)	(283,823)	2,747,333
	12,190,775	2,601,804	(240,700)	-	14,551,879
Less accumulated depreciation					
Land improvements	(223,725)	(31,987)	711		(255,001)
Buildings and leasehold improvements	(2,231,734)	(189,679)	27,117		(2,394,296)
Fixed equipment	(2,154,708)	(174,061)	9,756		(2,319,013)
Major movable equipment	(1,789,348)	(243,515)	174,989		(1,857,874)
	(6,399,515)	(639,242)	212,573	-	(6,826,184)
Capital assets, net	\$ 5,791,260	\$ 1,962,562	\$ (28,127)	\$ -	\$ 7,725,695

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2006					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	590,004				590,004
Buildings and leasehold improvements	4,884,992		(12,359)	1,059	4,873,692
Fixed equipment	3,577,993		(39,942)	104,199	3,642,250
Major movable equipment	2,373,593	263,238	(113,585)	126,384	2,649,630
Construction in progress	25,482	636,313		(231,642)	430,153
	<u>11,457,110</u>	<u>899,551</u>	<u>(165,886)</u>	<u>-</u>	<u>12,190,775</u>
Less accumulated depreciation					
Land improvements	(191,400)	(32,325)			(223,725)
Buildings and leasehold improvements	(2,046,335)	(196,470)	11,071		(2,231,734)
Fixed equipment	(2,022,600)	(171,623)	39,515		(2,154,708)
Major movable equipment	(1,660,390)	(238,724)	109,766		(1,789,348)
	<u>(5,920,725)</u>	<u>(639,142)</u>	<u>160,352</u>	<u>-</u>	<u>(6,399,515)</u>
Capital assets, net	<u>\$ 5,536,385</u>	<u>\$ 260,409</u>	<u>\$ (5,534)</u>	<u>\$ -</u>	<u>\$ 5,791,260</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

The Hospital began a construction project to expand the Hospital facility during the year ended June 30, 2006. Total costs expected on the project are \$2,762,000. Total amounts spent as of June 30, 2007 were approximately \$2,725,000 leaving \$37,000 remaining costs to be incurred. The Hospital financed \$1,925,000 of this project with the Series 2005 Hospital Revenue and Refunding Notes (*see Note 8*) and the remainder is to be financed with Hospital funds.

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.

The Hospital is required under agreement to provide tail coverage to certain employed physicians practicing at the Hospital. The Hospital is liable for any medical liability claims prior to the physician's employment dates, for which it is self-insured. As of June 30, 2007, the Hospital is unaware of any claims arising from dates of service prior to the physicians' employment.

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 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 30,000	\$ 30,000
Current year claims and changes in estimates	139,634	130,867
Claim payments	<u>(134,634)</u>	<u>(130,867)</u>
Balance, end of year	<u>\$ 35,000</u>	<u>\$ 30,000</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

- (A) Hospital Revenue Capital Loan Notes, Series 2000, originally aggregating \$2,500,000, were issued by the Hospital to finance building improvements. The bonds consisted 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.

The Hospital issued Hospital Revenue and Refunding Notes, Series 2005, and refunded its outstanding 2000 notes in the total principal amount of \$1,865,000. Proceeds from the notes were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the refunded notes. This advance refunding transaction resulted in an extinguishment of debt since the Hospital was legally released from its obligation on the 2000 notes at the time of the refunding. Accordingly, the 2000 notes, aggregating \$1,725,000 at June 30, 2007 remain outstanding, but are excluded from the Hospital's balance sheets.

- (B) Hospital Revenue and Refunding Notes, Series 2005, originally aggregating \$4,000,000, were issued by the Hospital to finance building improvements and refund the remaining 2000 Series Notes. Total notes of \$2,150,000 mature serially through 2015 bearing interest at 3.75% to 4.65%. The remaining notes consist of \$1,640,000 term notes bearing interest at 5.00% due June 1, 2020. The term notes are subject to mandatory sinking fund redemption prior to maturing serially through June 1, 2020 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital.
- (C) Noninterest-bearing loan due September 20, 2010; payable \$12,000 annually; secured by irrevocable letter of credit from Union State Bank.
- (D) At an imputed interest of 7.3% maturing through 2008 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	2007	2006
Equipment	\$ 150,850	\$ 150,850
Less accumulated depreciation	135,765	105,595
	\$ 15,085	\$ 45,255

The Series 2005 Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$370,000). The Debt Service Reserve, included in non-current cash and deposits, amounted to \$370,000 at June 30, 2007.

The Note Resolution 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 \$346,229 and \$369,493 at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, deposits in the Sinking Fund were in excess of required amounts of \$315,001 and \$338,474, respectively.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

The debt service requirements for the Hospital Revenue and Refunding Notes Series 2005 as of June 30, 2007, are as follows:

Year Ending June 30,	Total to be		
	Paid	Principal	Interest
2008	\$ 374,735	\$ 210,000	\$ 164,735
2009	376,650	220,000	156,650
2010	377,960	230,000	147,960
2011	373,645	235,000	138,645
2012	373,893	245,000	128,893
2013 – 2017	1,884,920	1,415,000	469,920
2018 – 2020	<u>1,140,000</u>	<u>1,035,000</u>	<u>105,000</u>
	<u>\$ 4,901,803</u>	<u>\$ 3,590,000</u>	<u>\$ 1,311,803</u>

The debt service requirements as of June 30, 2007 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	
	Principal	Interest
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>\$ 48,000</u>	<u>\$ 48,000</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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, 2007:

Year Ending June 30,	Amount
2008	\$ 17,512
Total minimum lease payments	17,512
Less amount representing interest	310
Present value of future minimum lease payments	\$ 17,202

Note 9: Restricted and Designated Net Assets

At June 30, 2007 and 2006, restricted expendable net assets were available for the following purposes:

	2007	2006
Construction project	\$ -	\$ 405,000
Debt service	702,501	725,141
Specific operating activities:		
Hospice	46,149	62,742
Other	11,370	4,620
Total restricted expendable net assets	\$ 760,020	\$ 1,197,503

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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 2007 and 2006. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$353,577, \$331,033 and \$326,666, 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 administration and support services. Administration and support services fees of \$204,408 and \$177,512 were incurred for the years ended June 30, 2007 and 2006, respectively.

Note 12: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2011.

Future minimum lease payments at June 30, 2007 were:

2008	\$ 214,545
2009	202,365
2010	185,313
2011	46,328
	<hr/>
Future minimum lease payments	\$ 648,551
	<hr/>

Rental expense for all operating leases was \$165,022 and \$95,224 for the years ended June 30, 2007 and 2006, respectively.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 13: 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 reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2007:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,410,387	\$ -	\$ 1,410,387	\$ 1,408,519
Other revenues/receipts	12,656,505	(493,775)	12,162,730	13,585,631
	14,066,892	(493,775)	13,573,117	14,994,150
Expenses/disbursements	13,721,407	(22,602)	13,698,805	16,979,977
	345,485	(471,173)	(125,688)	(1,985,827)
Balance, beginning of year	8,533,258	(2,338,685)	6,194,573	6,194,573
Balance, end of year	\$ 8,878,743	\$ (2,809,858)	\$ 6,068,885	\$ 4,208,746

Supplementary Information

Madison County Memorial Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2007 and 2006

	2007				2006			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
Daily Patient Services								
Medical and surgical	\$ 1,886,402	\$ 1,787,895	\$ 98,507		\$ 2,086,894	\$ 2,007,890	\$ 79,004	
Swing bed	710,590			\$ 710,590	1,095,600			\$ 1,095,600
	2,596,992	1,787,895	98,507	710,590	3,182,494	2,007,890	79,004	1,095,600
Nursing Services								
Operating and recovery rooms	744,048	73,914	668,877	1,257	783,401	91,933	690,482	986
Emergency room	1,250,471	80,384	1,169,806	281	1,115,160	56,648	1,058,304	208
	1,994,519	154,298	1,838,683	1,538	1,898,561	148,581	1,748,786	1,194
Other Professional Services								
Laboratory	2,799,085	380,066	2,371,343	47,676	2,612,984	438,197	2,102,348	72,439
Central services and supplies	432,625	131,240	273,786	27,599	434,360	131,108	275,791	27,461
Blood administration	63,896	27,990	35,906		91,026	42,010	46,692	2,324
Electrocardiology	78,994	14,097	64,389	508	79,404	15,120	63,840	444
Echocardio/Vascular	201,199	18,966	177,984	4,249	207,951	12,459	187,487	8,005
Stress Test	39,597	459	39,138		54,972	433	54,539	
Radiology	1,772,173	151,256	1,601,185	19,732	1,688,806	142,008	1,529,544	17,254
MRI	281,856	9,172	272,684		227,391	4,326	223,065	
Mammography	122,735		115,856	6,879	107,878		104,212	3,666
CT	1,303,763	233,584	1,053,590	16,589	1,313,952	210,919	1,084,347	18,686
Chronic disease management	148,500		148,500		130,884		130,095	789
Nuclear medicine	296,742	13,824	279,115	3,803	349,334	14,604	332,213	2,517
Mental health	282,789	569	282,220		225,580	334	225,165	81
Pharmacy	1,922,703	599,792	1,063,372	259,539	1,760,049	665,105	751,599	343,345
Intravenous therapy	389,922	240,989	121,342	27,591	413,194	275,702	98,405	39,087
Madison County Home Care	343,274		343,274		336,738		336,738	
Anesthesiology	307,302	33,869	269,625	3,808	340,100	53,713	285,055	1,332
Respiratory therapy	227,460	177,480	1,020	48,960	265,920	211,584	5,568	48,768
Physical therapy	471,505	35,114	322,087	114,304	576,382	39,011	364,724	172,647
Occupational therapy	201,258	16,850	108,598	75,810	285,220	18,596	156,898	109,726
Speech therapy	75,517	10,072	53,545	11,900	59,202	16,446	13,888	28,868
Substance abuse	99,164	1,278	97,886		131,222	4,836	126,386	

Madison County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2007 and 2006

	<u>2007</u>				<u>2006</u>			
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Health Trust Physicians Clinic	\$ 2,265,827	\$ 191,805	\$ 2,059,484	\$ 14,538	\$ 2,163,557	\$ 236,876	\$ 1,906,910	\$ 19,771
Earlham Medical Clinic	216,677		216,677		185,425		185,425	
Outpatient clinic	131,036	359	130,677		72,840		72,840	
Chemotherapy	15,833		15,833		6,657		6,657	
Sleep study	72,225		72,225		68,148		68,148	
Dietitian patient revenue	1,696		1,696		1,716		1,716	
Middle River Hospice	988,718		988,718		1,399,602		1,399,602	
	<u>15,554,071</u>	<u>2,288,831</u>	<u>12,581,755</u>	<u>683,485</u>	<u>15,590,494</u>	<u>2,533,387</u>	<u>12,139,897</u>	<u>917,210</u>
Gross Patient Service Revenue	20,145,582	\$ 4,231,024	\$ 14,518,945	\$ 1,395,613	20,671,549	\$ 4,689,858	\$ 13,967,687	\$ 2,014,004
Contractual Adjustments	<u>7,155,377</u>				<u>7,697,566</u>			
Net Patient Service Revenue before Provision for Uncollectible Accounts	12,990,205				12,973,983			
Provision for Uncollectible Accounts	<u>(611,519)</u>				<u>(435,776)</u>			
Net Patient Service Revenue	<u>\$ 12,378,686</u>				<u>\$ 12,538,207</u>			

Madison County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 31,009	\$ 28,942
Medical records	7,228	8,612
Other	64,685	118,475
Loss on disposal of property and equipment	(27,946)	(5,035)
Health Trust physician clinic other revenue	<u>-</u>	<u>1,500</u>
	<u>\$ 74,976</u>	<u>\$ 152,494</u>

Madison County Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,178,991	\$ 1,037,413	\$ 141,578	\$ 1,196,321	\$ 1,029,639	\$ 166,682
Emergency room	724,391	454,562	269,829	690,991	400,835	290,156
Operating and recovery rooms	258,614	199,460	59,154	279,114	206,977	72,137
Nursing administration	76,682	73,810	2,872	72,168	70,394	1,774
	2,238,678	1,765,245	473,433	2,238,594	1,707,845	530,749
Other Professional Services						
Laboratory	552,967	236,857	316,110	584,869	266,266	318,603
Central services and supplies	168,411	62,117	106,294	156,089	59,467	96,622
Blood administration	31,728		31,728	38,161		38,161
Electrocardiology	2,903	868	2,035	3,046	1,022	2,024
Echocardiio/Vascular	75,210		75,210	85,307		85,307
Stress Test	9,696	8,009	1,687	12,762	11,066	1,696
Radiology	496,184	192,620	303,564	493,868	185,722	308,146
MRI	66,885	907	65,978	53,949	1,034	52,915
Mammography	24,467	16,079	8,388	22,698	17,408	5,290
CT	210,284	16,735	193,549	220,187	14,187	206,000
Chronic disease management	101,569	82,965	18,604	79,506	69,985	9,521
Nuclear medicine	90,231	1,061	89,170	107,733	1,143	106,590
Mental health	209,993	124,329	85,664	180,972	110,860	70,112
Pharmacy	558,709	34,989	523,720	507,975	31,764	476,211
Intravenous solutions	11,904		11,904	12,722		12,722
Madison County Home Care	327,790	291,403	36,387	328,109	289,925	38,184
Anesthesiology	169,924		169,924	196,143		196,143
Respiratory therapy	21,175		21,175	20,513		20,513
Physical therapy	251,689	156	251,533	241,040		241,040
Occupational therapy	72,787		72,787	78,417		78,417
Speech therapy	19,101		19,101	27,794		27,794
Substance abuse	85,602	54,656	30,946	87,818	64,813	23,005
Health Trust Physicians Clinic	1,471,171	1,398,213	72,958	1,462,526	1,388,198	74,328
Earlham Medical Clinic	203,515	183,704	19,811	175,800	157,276	18,524
Outpatient clinic	91,972	91,278	694	87,420	86,577	843
Chemotherapy	2,766	2,495	271	1,456	1,071	385

Madison County Memorial Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	\$ 20,265	\$ 365	\$ 19,900	\$ 21,172	\$ 472	\$ 20,700
Middle River Hospice	448,003	268,512	179,491	542,474	257,806	284,668
Medical records	230,753	217,993	12,760	266,751	215,304	51,447
Social services	34,394	33,775	619	27,931	26,956	975
Observation care	5,746	5,746		3,564	3,564	
	<u>6,067,794</u>	<u>3,325,832</u>	<u>2,741,962</u>	<u>6,128,772</u>	<u>3,261,886</u>	<u>2,866,886</u>
General Services						
Operation of plant	470,132	117,543	352,589	447,811	124,156	323,655
Dietary	299,457	191,041	108,416	276,904	196,423	80,481
Housekeeping	157,426	112,049	45,377	144,291	106,060	38,231
	<u>927,015</u>	<u>420,633</u>	<u>506,382</u>	<u>869,006</u>	<u>426,639</u>	<u>442,367</u>
Administrative Services	<u>1,699,310</u>	<u>716,732</u>	<u>982,578</u>	<u>1,549,945</u>	<u>679,533</u>	<u>870,412</u>
Employee Benefits	<u>1,822,168</u>		<u>1,822,168</u>	<u>1,804,289</u>		<u>1,804,289</u>
Depreciation	<u>674,803</u>		<u>674,803</u>	<u>660,521</u>		<u>660,521</u>
Insurance	<u>204,804</u>		<u>204,804</u>	<u>161,317</u>		<u>161,317</u>
	<u>\$ 13,634,572</u>	<u>\$ 6,228,442</u>	<u>\$ 7,406,130</u>	<u>\$ 13,412,444</u>	<u>\$ 6,075,903</u>	<u>\$ 7,336,541</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2007 and 2006

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2007	2006	2007	2006
Days Since Discharge				
0 – 60	\$ 2,169,115	\$ 1,992,967	75%	69%
61 – 120	327,277	340,829	11%	12%
121 – 180	223,589	322,823	8%	11%
181 – 365	142,004	162,995	5%	6%
366 and over	35,765	48,389	1%	2%
	<u>2,897,750</u>	<u>2,868,003</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	812,300	704,000		
Allowance for uncollectible accounts	<u>302,500</u>	<u>329,000</u>		
	<u>1,114,800</u>	<u>1,033,000</u>		
	<u>\$ 1,782,950</u>	<u>\$ 1,835,003</u>		

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 329,000	\$ 361,403
Provision for year	611,519	435,776
Recoveries of accounts previously written off	163,007	197,747
	<u>1,103,526</u>	<u>994,926</u>
Less accounts written off	<u>801,026</u>	<u>665,926</u>
Balance, end of year	<u>\$ 302,500</u>	<u>\$ 329,000</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2007 and 2006

Supplies

	2007	2006
General	\$ 171,117	\$ 181,154
Pharmacy	93,665	90,568
Dietary	7,310	7,318
	\$ 272,092	\$ 279,040

Prepaid Expense

	2007	2006
Insurance	\$ 160,809	\$ 153,047
Maintenance and other	135,602	27,065
	\$ 296,411	\$ 180,112

Madison County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2007

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2008
Amy McDonald	Vice Chairwoman	2008
Trena Walker	Secretary/Treasurer	2010
Randy Wheeler	Member	2008
Tom Collins	Member	2010
Patty Weeks	Member	2011
Dick Weidman	Member	2011
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, 2007 and 2006

	2007	2006
Patient Days (Exclusive of Swing-bed)		
Medicare	1,380	1,748
Medicaid	68	83
Private and other	555	544
	2,003	2,375
Medicare and Medicaid Percent	72.3%	77.1%
Percent of Occupancy (Acute)	22%	26%
Discharges (Exclusive of Swing-bed)		
Medicare	390	458
Medicaid	22	34
Private and other	187	195
	599	687
Average Length of Stay in Days	3.3	3.5

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2007

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2008

Blanket building and contents	\$	21,586,000
Loss of income and extra expense		8,276,888
Personal property in-transit		250,000
Personal property at a temporary storage site		250,000
Nuclear hazard		5,000,000
Valuable papers		1,000,000
Accounts receivable		412,000
EDP Media/Software		515,000
Flood		5,000,000
Earthquake		5,000,000
Employee dishonesty		250,000
Depositors forgery		250,000

Policy No. 7324-54-55, expiring January 1, 2008

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, 2008

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, 2008

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, 2008

Directors' and officers' liability	4,000,000/4,000,000
------------------------------------	---------------------

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, 2007

	Balance			Balance
	June 30, 2006	Additions	Deductions	June 30, 2007
Held under capital loan note agreements				
Sinking Fund	\$ 369,493	\$ 349,171	\$ 372,435	\$ 346,229
Project Funds	2,437,938	61,480	2,318,782	180,636
Debt Service Reserve Fund	<u>370,000</u>	<u>-</u>	<u>-</u>	<u>370,000</u>
	<u>\$ 3,177,431</u>	<u>\$ 410,651</u>	<u>\$ 2,691,217</u>	<u>\$ 896,865</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, 2007, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal controls.

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

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2007 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, 2007. 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, 2007.

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, 2007 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

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.

* * * * *

Board of Trustees
Madison County Memorial Hospital
Page 4

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
October 26, 2007

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2007

Reference Number	Finding
-------------------------	----------------

None	
------	--



Board of Trustees and Management
Madison County Memorial Hospital
Winterset, Iowa

During our audit of the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2007, we observed the following matter and offer this comment related to new audit standards. This matter discussed herein is not considered a material weakness, significant deficiency or other control deficiency in internal control over financial reporting.

Risk Assessment Audit Standards

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards Numbers 104 through 111). These Statements establish standards, provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit, and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the Hospital and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the Hospital is doing to mitigate the risks. These Standards are effective for fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit for the year ending June 30, 2008. We will provide additional information about these Standards as part of the audit planning process in 2008.

We appreciate the opportunity to present this comment. We can discuss this matter further at your convenience and may provide implementation assistance for changes or improvements if you require.

* * * * *

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

/s/ **BKD, LLP**

Kansas City, Missouri
October 26, 2007