

Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2008 and 2007



Madison County Memorial Hospital
June 30, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, 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
November 17, 2008

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

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, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2008 and 2007 by \$626,280 or 79% and increased \$76,607 or 11% in 2007 over 2006.
- The Hospital's net assets increased \$666,824 or 8% in 2008 over 2007 and increased \$345,485 or 4% in 2007 over 2006.
- The Hospital reported operating losses in both 2008 \$(902,607) and 2007 \$(1,180,910). The operating loss in 2008 decreased by \$278,303 or 24% from the operating loss reported in 2007 and the loss in 2007 increased by \$459,167 or 63% from the operating loss reported in 2006.

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 \$666,824 or 8% over 2007 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2008	2007	2006
Assets			
Patient accounts receivable, net	\$ 1,740,585	\$ 1,782,950	\$ 1,835,003
Other current assets	3,772,880	3,316,800	2,878,729
Capital assets, net	7,374,625	7,725,695	5,791,260
Other noncurrent assets	3,074,127	2,460,659	4,735,621
Total assets	<u>\$ 15,962,217</u>	<u>\$ 15,286,104</u>	<u>\$ 15,240,613</u>
Liabilities			
Current liabilities	\$ 3,267,494	\$ 3,031,970	\$ 3,098,885
Long-term debt	3,149,156	3,375,391	3,608,470
Total liabilities	<u>6,416,650</u>	<u>6,407,361</u>	<u>6,707,355</u>
Net Assets			
Invested in capital assets, net of related debt	3,964,806	4,299,266	4,102,657
Restricted expendable	742,925	760,020	1,197,503
Unrestricted	4,837,836	3,819,457	3,233,098
Total net assets	<u>9,545,567</u>	<u>8,878,743</u>	<u>8,533,258</u>
Total liabilities and net assets	<u>\$ 15,962,217</u>	<u>\$ 15,286,104</u>	<u>\$ 15,240,613</u>

In 2008, the significant change in the Hospital's other current assets was due to an increase in cash and operating certificate of deposit totaling over \$626,000 or 79%. The property tax receivable also increased over 2007 by over \$145,000 or 10%. The estimated amounts due from third-party payers was reduced by \$355,828.

Other noncurrent assets increased due to an increase in Plant Fund certificate of deposit of \$850,000, or 53% and a reduction of \$216,000 or 24% in certificate of deposits held for reduction of debt on the building addition and other capital improvements.

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.

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased by \$666,824 or 8% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Operating Revenues			
Net patient service revenue	\$ 12,947,270	\$ 12,378,686	\$ 12,538,207
Other operating revenues	124,067	74,976	152,494
Total operating revenues	<u>13,071,337</u>	<u>12,453,662</u>	<u>12,690,701</u>
Operating Expenses			
Salaries and wages and employee benefits	8,014,407	8,050,610	7,880,192
Medical and professional fees	1,677,371	1,804,784	1,904,439
Depreciation and amortization	778,096	674,803	660,521
Other operating expenses	<u>3,504,070</u>	<u>3,104,375</u>	<u>2,967,292</u>
Total operating expenses	<u>13,973,944</u>	<u>13,634,572</u>	<u>13,412,444</u>
Operating Loss	<u>(902,607)</u>	<u>(1,180,910)</u>	<u>(721,743)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,465,467	1,410,387	1,341,540
Interest expense	(150,462)	(86,835)	(104,247)
Interest income	153,350	140,853	116,899
Rent income	37,048	33,116	27,987
Non-capital grants and contributions	<u>23,288</u>	<u>28,874</u>	<u>43,926</u>
Total nonoperating revenues	<u>1,528,691</u>	<u>1,526,395</u>	<u>1,426,105</u>
Excess of Revenue over Expenses, Before Capital Grants and Contributions	626,084	345,485	704,362
Capital Grants and Contributions	<u>40,740</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	<u>\$ 666,824</u>	<u>\$ 345,485</u>	<u>\$ 704,362</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 2008, 2007 and 2006, 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 2007 to 2008 are as follows:

- Net patient service revenue increased \$568,584 or 5% primarily due to an increase in patient days of 210 or 7% plus the standard patient charge increase.
- A decrease in salaries, wages and employee benefits for the Hospital's employees of \$36,203 or .5%. This change is due to employees receiving a 3% wage increase and hiring a full time CRNA in the Spring of 2008. The Hospital transitioned out of providing Home Care, Mental Health and Substance Abuse services during the year creating a reduction in wages of \$291,000.
- A decrease in medical professional fees of \$127,413 or 7%. This is primarily due to changing CRNA contractors during the year and eventually hiring a CRNA full time.

The operating loss for 2007 increased by \$459,167 or 63% as compared to 2006. The primary components of the decrease in the operating loss were:

- 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.

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 \$2,296 or less than 1% from 2008 to 2007 and 7% from 2007 to 2006. 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 an eighth consecutive year in 2008.

Contributions

The Hospital received contributions of \$23,288 from various individuals in 2008, a decrease of \$5,586 or 19% from 2007. The Hospital also received capital contributions of \$40,740 in 2008.

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

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 2008, 2007 and 2006, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the Hospital had \$7.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008, the Hospital purchased new capital assets costing \$399,374 most of which related to the new building addition discussed above.

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.

Debt

In 2008, the Hospital had \$3,381,156 in revenue capital loan notes and loans outstanding. The Hospital issued no new debt in 2008.

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.

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, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 1,418,077	\$ 791,797
Assets held under bond indenture agreement	233,054	223,728
Patient accounts receivable, net of allowance; \$316,900 and \$302,500 in 2008 and 2007	1,740,585	1,782,950
Property taxes receivable	1,637,145	1,491,816
Other receivables	1,897	30,128
Estimated amounts due from third-party payers	-	210,828
Supplies	290,114	272,092
Prepaid expenses	192,593	296,411
	<u>5,513,465</u>	<u>5,099,750</u>
Noncurrent Cash, Deposits and Other		
Internally designated	2,447,059	1,599,065
Externally restricted		
Held under bond indenture agreement	680,862	896,865
By donors	75,117	57,519
	<u>3,203,038</u>	<u>2,553,449</u>
Less amount required to meet current obligations	233,054	223,728
	<u>2,969,984</u>	<u>2,329,721</u>
	<u>7,374,625</u>	<u>7,725,695</u>
Capital Assets, Net of Accumulated Depreciation		
	<u>7,374,625</u>	<u>7,725,695</u>
Other Assets		
Deferred financing costs (net of amortization; 2008 – \$123,336, 2007 – \$96,541)	104,143	130,938
	<u>104,143</u>	<u>130,938</u>
Total Assets	<u>\$ 15,962,217</u>	<u>\$ 15,286,104</u>

Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
Current Liabilities		
Current maturities of long-term debt	\$ 232,000	\$ 239,202
Accounts payable	426,455	520,082
Accrued vacation	373,118	368,670
Accrued payroll and related liabilities	438,836	388,183
Estimated self-insurance costs	30,000	35,000
Accrued interest	13,054	13,728
Estimated amounts due to third-party payers	145,000	-
Deferred revenue for property taxes	<u>1,609,031</u>	<u>1,467,105</u>
Total current liabilities	3,267,494	3,031,970
Long-term Debt	<u>3,149,156</u>	<u>3,375,391</u>
Total liabilities	<u>6,416,650</u>	<u>6,407,361</u>
Net Assets		
Invested in capital assets, net of related debt	3,964,806	4,299,266
Restricted-expendable for		
Future renovation	22,475	-
Debt service	667,808	702,501
Specific operating activities	52,642	57,519
Unrestricted	<u>4,837,836</u>	<u>3,819,457</u>
Total net assets	<u>9,545,567</u>	<u>8,878,743</u>
Total Liabilities and Net Assets	<u><u>\$ 15,962,217</u></u>	<u><u>\$ 15,286,104</u></u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 13,539,300	\$ 12,990,205
Provision for uncollectible accounts	<u>(592,030)</u>	<u>(611,519)</u>
Net patient service revenue	12,947,270	12,378,686
Other	<u>124,067</u>	<u>74,976</u>
Total operating revenues	<u>13,071,337</u>	<u>12,453,662</u>
Operating Expenses		
Salaries and wages	6,196,851	6,228,442
Employee benefits	1,817,556	1,822,168
Medical professional fees	1,677,371	1,804,784
Supplies and expenses	1,609,815	1,410,611
General services	575,024	506,382
Administrative services	1,081,932	982,578
Depreciation and amortization	778,096	674,803
Insurance	<u>237,299</u>	<u>204,804</u>
Total operating expenses	<u>13,973,944</u>	<u>13,634,572</u>
Operating Loss	<u>(902,607)</u>	<u>(1,180,910)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,465,467	1,410,387
Interest expense	(150,462)	(86,835)
Interest income	153,350	140,853
Rent income	37,048	33,116
Noncapital grants and contributions	<u>23,288</u>	<u>28,874</u>
Total nonoperating revenues	<u>1,528,691</u>	<u>1,526,395</u>
Excess of Revenues over Expenses, Before Capital Grants and Contributions	626,084	345,485
Capital Grants and Contributions	<u>40,740</u>	<u>-</u>
Increase in Net Assets	666,824	345,485
Net Assets, Beginning of Year	<u>8,878,743</u>	<u>8,533,258</u>
Net Assets, End of Year	<u>\$ 9,545,567</u>	<u>\$ 8,878,743</u>

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Activities		
Receipts from and on behalf of patients	\$ 13,345,463	\$ 11,884,911
Payments to suppliers and contractors	(5,198,668)	(4,954,338)
Payments to employees	(7,959,980)	(8,028,033)
Other receipts, net	126,329	134,601
Net cash provided by (used in) operating activities	313,144	(962,859)
Noncapital Financing Activities		
Property taxes	1,465,467	1,410,387
Noncapital grants and gifts	23,288	28,874
Other	37,048	33,116
Net cash provided by noncapital financing activities	1,525,803	1,472,377
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(239,203)	(244,863)
Interest paid on capital debt and leases	(150,462)	(86,835)
Capital grants and contributions	40,740	-
Proceeds from sale of capital assets	-	181
Purchase of capital assets	(389,978)	(2,478,394)
Net cash used in capital and related financing activities	(738,903)	(2,809,911)
Investing Activities		
Interest on deposits	153,350	140,853
Purchase of deposits	(3,579,915)	(3,042,712)
Proceeds from disposition of deposits	2,770,000	5,163,861
Net cash provided by (used in) investing activities	(656,565)	2,262,002
Increase (Decrease) in Cash and Cash Equivalents	443,479	(38,391)
Cash and Cash Equivalents, Beginning of Year	1,025,356	1,063,747
Cash and Cash Equivalents, End of Year	\$ 1,468,835	\$ 1,025,356

Madison County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,418,077	\$ 791,797
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	1,254	6,175
Held under bond agreement	30,862	223,865
Externally restricted by donor	18,642	3,519
	\$ 1,468,835	\$ 1,025,356
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (902,607)	\$ (1,180,910)
Depreciation and amortization	778,096	674,803
Loss on sale of capital assets	4,909	27,946
Changes in operating assets and liabilities		
Patient accounts receivable, net	42,365	52,053
Supplies	(18,022)	6,948
Estimated amounts due from and to third-party payers	355,828	(545,828)
Accounts payable and accrued expenses	(28,768)	118,428
Other assets and liabilities	81,343	(116,299)
Net cash provided by (used in) operating activities	\$ 313,144	\$ (962,859)
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 132,806	\$ 123,410

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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, 2008 and 2007, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in both of the years ended June 30, 2008 and 2007, 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 employee dental, vision, short-term disability claims and partial health insurance deductibles, 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 employee 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, 2008 and 2007

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>2008</u>	<u>2007</u>
Interest costs capitalized (net of interest earnings on project funds of \$2,785 and \$57,494 in 2008 and 2007)	\$ 11,124	\$ 29,443
Interest costs charged to expense	<u>150,462</u>	<u>86,835</u>
Total interest incurred (net of interest earnings on project funds)	<u>\$ 161,586</u>	<u>\$ 116,278</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, 2008 and 2007

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 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 \$380,839 and \$267,403 for 2008 and 2007, 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, 2008 and 2007

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 Administrative Contractor. 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 49% and 51% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2008 and 2007, 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, 2008 and 2007. The Hospital's deposits in banks at June 30, 2008 and 2007 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, 2008 and 2007

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, 2008 and 2007.

Summary of Carrying Values

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

	<u>2008</u>	<u>2007</u>
Carrying value		
Deposits	\$ 4,598,220	\$ 3,344,826
Other	420	420
	<u>\$ 4,598,640</u>	<u>\$ 3,345,246</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,418,077	\$ 791,797
Assets held under bond indenture agreement	680,862	896,865
Noncurrent cash, deposits and other	<u>2,499,701</u>	<u>1,656,584</u>
	<u>\$ 4,598,640</u>	<u>\$ 3,345,246</u>

Interest Income

Interest income for the years ended June 30, 2008 and 2007, amounted to \$153,350 and \$140,853, respectively.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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, 2008 and 2007 consisted of:

	2008	2007
Medicare	\$ 515,722	\$ 618,195
Medicaid	117,728	67,106
Other third-party payers	757,623	743,612
Patients	666,412	656,537
	2,057,485	2,085,450
Less allowance for uncollectible accounts	316,900	302,500
	\$ 1,740,585	\$ 1,782,950

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2008					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	583,269				583,269
Buildings and leasehold improvements	4,868,241		(2,894)	1,707,659	6,573,006
Fixed equipment	3,637,809			1,008,385	4,646,194
Major movable equipment	2,710,181	57,511	(60,996)	263,115	2,969,811
Construction in progress	2,747,333	341,863		(2,979,159)	110,037
	14,551,879	399,374	(63,890)	-	14,887,363
Less accumulated depreciation					
Land improvements	(255,001)	(31,912)			(286,913)
Buildings and leasehold improvements	(2,394,296)	(240,232)	2,894		(2,631,634)
Fixed equipment	(2,319,013)	(221,427)			(2,540,440)
Major movable equipment	(1,857,874)	(251,964)	56,087		(2,053,751)
	(6,826,184)	(745,535)	58,981	-	(7,512,738)
Capital assets, net	\$ 7,725,695	\$ (346,161)	\$ (4,909)	\$ -	\$ 7,374,625

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2008 and 2007

	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
	<u>12,190,775</u>	<u>2,601,804</u>	<u>(240,700)</u>	<u>-</u>	<u>14,551,879</u>
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)
	<u>(6,399,515)</u>	<u>(639,242)</u>	<u>212,573</u>	<u>-</u>	<u>(6,826,184)</u>
Capital assets, net	<u>\$ 5,791,260</u>	<u>\$ 1,962,562</u>	<u>\$ (28,127)</u>	<u>\$ -</u>	<u>\$ 7,725,695</u>

Note 6: Medical Malpractice Insurance

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

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, 2008, the Hospital is unaware of any claims arising from dates of service prior to the physicians' employment.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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, disability benefits and partial health insurance deductibles. Changes in the balance of claims liabilities during 2008 and 2007 are summarized as follows:

	2008	2007
Balance, beginning of year	\$ 35,000	\$ 30,000
Current year claims and changes in estimates	128,209	139,634
Claim payments	(133,209)	(134,634)
Balance, end of year	\$ 30,000	\$ 35,000

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2008 and 2007:

	Beginning Balance	Additions	2008 Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue and refunding notes Series 2005 (A)	\$ 3,590,000	\$ -	\$ (210,000)	\$ 3,380,000	\$ 220,000
Rural economic development loan (B)	48,000	-	(12,000)	36,000	12,000
Capital lease obligations (C)	17,202	-	(17,202)	-	-
Total long-term debt	3,655,202	\$ -	\$ (239,202)	3,416,000	\$ 232,000
Less unamortized discount	(40,609)			(34,844)	
	\$ 3,614,593			\$ 3,381,156	

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2008 and 2007

	Beginning Balance	2007		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Hospital revenue and refunding notes Series 2005 (A)	\$ 3,790,000	\$ -	\$ (200,000)	\$ 3,590,000	\$ 210,000
Rural economic development loan (B)	60,000	-	(12,000)	48,000	12,000
Capital lease obligations (C)	50,065	-	(32,863)	17,202	17,202
Total long-term debt	3,900,065	\$ -	\$ (244,863)	3,655,202	\$ 239,202
Less unamortized discount	(46,733)			(40,609)	
	<u>\$ 3,853,332</u>			<u>\$ 3,614,593</u>	

(A) Hospital Revenue and Refunding Notes, Series 2005, originally aggregating \$4,000,000. Total notes of \$2,150,000 mature serially through 2015 bearing interest at 3.85% 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 payments 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.

(B) Noninterest-bearing loan due September 20, 2010; payable \$12,000 annually; secured by irrevocable letter of credit from Union State Bank.

(C) At an imputed interest of 7.3% maturing through 2008 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	2008	2007
Equipment	\$ 150,850	\$ 150,850
Less accumulated depreciation	150,850	135,765
	<u>\$ -</u>	<u>\$ 15,085</u>

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, 2008.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 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 \$310,862 and \$346,229 at June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, deposits in the Sinking Fund were in excess of required amounts of \$279,475 and \$315,001, respectively.

The debt service requirements for the Hospital Revenue and Refunding Notes Series 2005 as of June 30, 2008, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	378,480	260,000	118,480
2014 – 2018	1,888,190	1,485,000	403,190
2019 – 2020	<u>758,250</u>	<u>705,000</u>	<u>53,250</u>
	<u>\$ 4,527,068</u>	<u>\$ 3,380,000</u>	<u>\$ 1,147,068</u>

The debt service requirements as of June 30, 2008 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2009	\$ 12,000	\$ 12,000
2010	12,000	12,000
2011	<u>12,000</u>	<u>12,000</u>
	<u>\$ 36,000</u>	<u>\$ 36,000</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

Note 9: Restricted and Designated Net Assets

At June 30, 2008 and 2007, restricted expendable net assets were available for the following purposes:

	<u>2008</u>	<u>2007</u>
Debt service	\$ 667,808	\$ 702,501
Future renovation	22,475	-
Specific operating activities:		
Hospice	51,130	46,149
Other	<u>1,512</u>	<u>11,370</u>
Total restricted expendable net assets	<u>\$ 742,925</u>	<u>\$ 760,020</u>

The Hospital has recorded a \$22,475 receivable in noncurrent cash, deposits and other, externally restricted by donor from an unrelated Foundation for contributions received by the Foundation for the Hospital.

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 3.9% and 3.7% of their annual covered salaries and the Hospital is required to contribute 6.05% and 5.75% of annual covered payroll for 2008 and 2007, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were \$392,873, \$353,577 and \$331,033, respectively, which equaled the required contributions for each year.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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 \$217,622 and \$204,408 were incurred for the years ended June 30, 2008 and 2007, respectively.

Note 12: Operating Leases

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

Future minimum lease payments at June 30, 2008 were:

2009	\$	202,365
2010		185,313
2011		<u>46,328</u>
Future minimum lease payments	\$	<u>434,006</u>

Rental expense for all operating leases was \$275,442 and \$165,022 for the years ended June 30, 2008 and 2007, respectively.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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, 2008:

	<u>Actual</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>
Amount to be raised by taxation	\$ 1,465,467	\$ -	\$ 1,465,467	\$ 1,467,105
Other revenues/receipts	<u>13,325,763</u>	<u>398,193</u>	<u>13,723,956</u>	<u>13,674,207</u>
	14,791,230	398,193	15,189,423	15,141,312
Expenses/disbursements	<u>14,124,406</u>	<u>14,725</u>	<u>14,139,131</u>	<u>15,561,446</u>
	666,824	383,468	1,050,292	(420,134)
Balance, beginning of year	<u>8,878,743</u>	<u>(2,547,734)</u>	<u>6,331,009</u>	<u>6,331,009</u>
Balance, end of year	<u><u>\$ 9,545,567</u></u>	<u><u>\$ (2,164,266)</u></u>	<u><u>\$ 7,381,301</u></u>	<u><u>\$ 5,910,875</u></u>

Note 14: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ in the near term.

Note 15: Subsequent Commitment

Subsequent to June 30, 2008, the Hospital Board has committed to a \$500,000 capital project, which includes implementing an electronic medical record system, including additional information system infrastructure to run the new system. The project will be paid for with existing Hospital funds.

Supplementary Information

Madison County Memorial Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2008 and 2007

	2008			2007				
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	\$ 2,123,906	\$ 2,055,422	\$ 68,484	\$ 761,463	\$ 1,886,402	\$ 1,787,895	\$ 98,507	\$ 710,590
Swing-bed	761,463			761,463	710,590			710,590
	<u>2,885,369</u>	<u>2,055,422</u>	<u>68,484</u>	<u>761,463</u>	<u>2,596,992</u>	<u>1,787,895</u>	<u>98,507</u>	<u>710,590</u>
Nursing Services								
Operating and recovery rooms	878,437	66,094	810,860	1,483	744,048	73,914	668,877	1,257
Emergency room	1,772,050	116,866	1,655,062	122	1,250,471	80,384	1,169,806	281
	<u>2,650,487</u>	<u>182,960</u>	<u>2,465,922</u>	<u>1,605</u>	<u>1,994,519</u>	<u>154,298</u>	<u>1,838,683</u>	<u>1,538</u>
Other Professional Services								
Laboratory	3,038,371	415,189	2,572,831	50,351	2,799,085	380,066	2,371,343	47,676
Central services and supplies	545,390	139,710	392,818	12,862	432,625	131,240	273,786	27,599
Blood administration	88,165	22,224	65,941		63,896	27,990	35,906	
Electrocardiology	82,006	15,851	65,893	262	78,994	14,097	64,389	508
Echocardiology/Vascular	178,205	15,574	161,675	956	201,199	18,966	177,984	4,249
Stress Test	41,002	607	40,395		39,597	459	39,138	
Radiology	1,894,192	171,329	1,712,528	10,335	1,772,173	151,256	1,601,185	19,732
MRI	340,689	16,719	323,970		281,856		272,684	
Mammography	120,522		120,522		122,735		115,856	
CT	1,519,179	262,484	1,252,937	3,758	1,303,763	233,584	1,053,590	16,589
Chronic disease management	258,162		257,886	276	148,500		148,500	
Nuclear medicine	306,109	16,543	288,207	1,359	296,742	13,824	279,115	3,803
Mental health	203,353	364	202,625	364	282,789	569	282,220	
Pharmacy	2,169,953	852,291	1,041,622	276,040	1,922,703	599,792	1,063,372	259,539
Intravenous therapy	442,026	307,392	114,696	19,938	389,922	240,989	121,342	27,591
Madison County Home Care	23		23		343,274		343,274	
Anesthesiology	147,723	14,523	132,378	822	307,302	33,869	269,625	3,808
Respiratory therapy	254,448	213,624	3,240	37,584	227,460	177,480	1,020	48,960
Physical therapy	493,612	30,335	346,341	116,936	471,505	35,114	322,087	114,304
Occupational therapy	169,643	9,537	103,377	56,729	201,258	16,850	108,598	75,810
Speech therapy	30,607	8,143	16,659	5,805	75,517	10,072	53,545	11,900
Substance abuse	82,877	1,755	81,122		99,164	1,278	97,886	

See Independent Accounts' Report

Madison County Memorial Hospital

Schedules of Patient Service Revenues (Continued)

Years Ended June 30, 2008 and 2007

	2008			2007			
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient	Swing-Bed
Health Trust Physicians Clinic	\$ 2,433,221	\$ 189,272	\$ 2,224,578	\$ 2,265,827	\$ 191,805	\$ 2,059,484	\$ 14,538
Earlham Medical Clinic	260,474		260,474	216,677		216,677	
Outpatient Clinic	98,280	347	97,933	131,036	359	130,677	
Chemotherapy	12,418		12,418	15,833		15,833	
Sleep study	84,940		82,372	72,225		72,225	
Dietitian patient revenue	2,454		2,454	1,696		1,696	
Middle River Hospice	1,056,940		1,056,940	988,718		988,718	
	<u>16,354,984</u>	<u>2,703,813</u>	<u>13,034,855</u>	<u>15,554,071</u>	<u>2,288,831</u>	<u>12,581,755</u>	<u>683,485</u>
Gross Patient Service Revenue	21,890,840	\$ 4,942,195	\$ 15,569,261	\$ 20,145,582	\$ 4,231,024	\$ 14,518,945	\$ 1,395,613
Contractual Adjustments	<u>(8,351,540)</u>			<u>(7,155,377)</u>			
Net Patient Service Revenue before Provision for Uncollectible Accounts	13,539,300			12,990,205			
Provision for Uncollectible Accounts	<u>(592,030)</u>			<u>(611,519)</u>			
Net Patient Service Revenue	<u>\$ 12,947,270</u>			<u>\$ 12,378,686</u>			

Madison County Memorial Hospital

Schedules of Other Revenues

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cafeteria	\$ 29,622	\$ 31,009
Medical records	9,064	7,228
Other	62,270	64,685
Loss on disposal of property and equipment	(4,909)	(27,946)
Health Trust Physician Clinic other revenue	28,020	-
	<u>\$ 124,067</u>	<u>\$ 74,976</u>

Madison County Memorial Hospital

Schedules of Operating Expenses

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,169,614	\$ 1,001,725	\$ 167,889	\$ 1,178,991	\$ 1,037,413	\$ 141,578
Emergency room	764,930	454,568	310,362	724,391	454,562	269,829
Operating and recovery rooms	283,028	215,246	67,782	258,614	199,460	59,154
Nursing administration	79,815	77,266	2,549	76,682	73,810	2,872
	<u>2,297,387</u>	<u>1,748,805</u>	<u>548,582</u>	<u>2,238,678</u>	<u>1,765,245</u>	<u>473,433</u>
Other Professional Services						
Laboratory	593,441	253,597	339,844	552,967	236,857	316,110
Central services and supplies	187,086	64,615	122,471	168,411	62,117	106,294
Blood administration	57,009		57,009	31,728		31,728
Electrocardiology	3,436	2,096	1,340	2,903	868	2,035
Echocardiography/Vascular	71,037		71,037	75,210		75,210
Stress Test	9,023	7,596	1,427	9,696	8,009	1,687
Radiology	558,953	200,606	358,347	496,184	192,620	303,564
MRI	55,014	899	54,115	66,885	907	65,978
Mammography	25,560	16,380	9,180	24,467	16,079	8,388
CT	246,367	12,918	233,449	210,284	16,735	193,549
Chronic disease management	95,544	83,400	12,144	101,569	82,965	18,604
Nuclear medicine	75,620	904	74,716	90,231	1,061	89,170
Mental health	143,018	85,694	57,324	209,993	124,329	85,664
Pharmacy	590,700	33,177	557,523	558,709	34,989	523,720
Intravenous solutions	14,173		14,173	11,904		11,904
Madison County Home Care	254	(346)	600	327,790	291,403	36,387
Anesthesiology	117,801	84,043	33,758	169,924		169,924
Respiratory therapy	20,711		20,711	21,175		21,175
Physical therapy	242,303	1,019	241,284	251,689	156	251,533
Occupational therapy	57,976		57,976	72,787		72,787
Speech therapy	13,540		13,540	19,101		19,101
Substance abuse	69,215	53,531	15,684	85,602	54,656	30,946
Health Trust Physicians Clinic	1,588,708	1,512,733	75,975	1,471,171	1,398,213	72,958
Earlham Medical Clinic	211,893	191,170	20,723	203,515	183,704	19,811
Outpatient Clinic	96,091	90,623	5,468	91,972	91,278	694
Chemotherapy	1,460	1,667	(207)	2,766	2,495	271

Madison County Memorial Hospital

Schedules of Operating Expenses (Continued)

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	\$ 28,525	\$ 325	\$ 28,200	\$ 20,265	\$ 365	\$ 19,900
Middle River Hospice	492,363	284,061	208,302	448,003	268,512	179,491
Medical records	275,532	223,403	52,129	230,753	217,993	12,760
Social services	24,098	23,736	362	34,394	33,775	619
Observation care	3,861	3,861		5,746	5,746	
	<u>5,970,312</u>	<u>3,231,708</u>	<u>2,738,604</u>	<u>6,067,794</u>	<u>3,325,832</u>	<u>2,741,962</u>
General Services						
Operation of plant	561,029	136,840	424,189	470,132	117,543	352,589
Dietary	288,501	176,116	112,385	299,457	191,041	108,416
Housekeeping	140,658	102,208	38,450	157,426	112,049	45,377
	<u>990,188</u>	<u>415,164</u>	<u>575,024</u>	<u>927,015</u>	<u>420,633</u>	<u>506,382</u>
Administrative Services						
Employee Benefits	1,883,106	801,174	1,081,932	1,699,310	716,732	982,578
Depreciation	1,817,556		1,817,556	1,822,168		1,822,168
Insurance	778,096		778,096	674,803		674,803
	<u>237,299</u>		<u>237,299</u>	<u>204,804</u>		<u>204,804</u>
	<u>\$ 13,973,944</u>	<u>\$ 6,196,851</u>	<u>\$ 7,777,093</u>	<u>\$ 13,634,572</u>	<u>\$ 6,228,442</u>	<u>\$ 7,406,130</u>

Madison County Memorial Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts

Years Ended June 30, 2008 and 2007

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2008	2007	2008	2007
Days Since Discharge				
0 – 60	\$ 2,066,894	\$ 2,169,115	73%	75%
61 – 120	344,716	327,277	12%	11%
121 – 180	226,819	223,589	8%	8%
181 – 365	131,350	142,004	5%	5%
366 and over	52,106	35,765	2%	1%
	2,821,885	2,897,750	100%	100%
Contractual allowances	764,400	812,300		
Allowance for uncollectible accounts	316,900	302,500		
	1,081,300	1,114,800		
	\$ 1,740,585	\$ 1,782,950		

Allowance for Uncollectible Accounts

	2008	2007
Balance, beginning of year	\$ 302,500	\$ 329,000
Provision for year	592,030	611,519
Recoveries of accounts previously written off	132,473	163,007
	1,027,003	1,103,526
Less accounts written off	710,103	801,026
Balance, end of year	\$ 316,900	\$ 302,500

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2008 and 2007

Supplies

	2008	2007
General	\$ 179,040	\$ 171,117
Pharmacy	104,090	93,665
Dietary	6,984	7,310
	\$ 290,114	\$ 272,092

Prepaid Expense

	2008	2007
Insurance	\$ 80,170	\$ 160,809
Maintenance and other	112,423	135,602
	\$ 192,593	\$ 296,411

Madison County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2008

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, 2008 and 2007

	2008	2007
Patient Days (Exclusive of Swing-bed)		
Medicare	1,482	1,380
Medicaid	74	68
Private and other	607	555
	2,163	2,003
Medicare and Medicaid Percent	71.9%	72.3%
Percent of Occupancy (Acute)	24%	22%
Discharges (Exclusive of Swing-bed)		
Medicare	394	390
Medicaid	27	22
Private and other	205	187
	626	599
Average Length of Stay in Days	3.5	3.3

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2008

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2009

Blanket building and contents	\$	22,116,000
Loss of income and extra expense		9,470,000
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, 2009

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, 2009

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, 2009

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, 2009

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, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Held under capital loan note agreements				
Sinking Fund	\$ 346,229	\$ 339,368	\$ 374,735	\$ 310,862
Project Funds	180,636	25,785	206,421	-
Debt Service Reserve Fund	370,000	-	-	370,000
	<u>\$ 896,865</u>	<u>\$ 365,153</u>	<u>\$ 581,156</u>	<u>\$ 680,862</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, 2008, and have issued our report thereon dated November 17, 2008. 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, 2008 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, 2008. 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, 2008.

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, 2008 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.

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Board of Trustees
Madison County Memorial Hospital
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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
November 17, 2008

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2008

Reference Number	Finding
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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, 2008, we observed the following matters and offer these comments. These matters discussed herein are not considered a material weakness, significant deficiency or other control deficiency in internal control over financial reporting.

Recovery Audit Contractor Program

The Medicare Recovery Audit Contractor (RAC) program was authorized by Congress to identify improper Medicare payments. The RAC program began as a demonstration program in three states. During fiscal year 2007, RACs collected over \$357 million in overpayments from the three state demonstration program, with over 90 percent of these overpayments coming from hospitals. In the *Tax Relief and Health Care Act of 2006*, Congress authorized the expansion of the RAC program to all 50 states by 2010.

Under these audits, the RACs will be able to review claims that are up to three years old, but in no case may they review claims with a paid date prior to October 1, 2007. RACs use automated proprietary software programs to identify potential payment errors. They also perform more complex reviews, including requests for medical records, to review admissions and documentation to identify services that are not covered by Medicare or are miscoded. Some of the areas identified by the RAC during the demonstration program included short stay claims, outpatient versus inpatient surgeries, transfer patients and medically unnecessary admissions.

We recommend management proactively plan for the RAC audits. Management should consider forming an inter-disciplinary RAC team and develop a work plan to minimize the risk of RAC denials. Some of the key steps in the work plan to consider are conducting a self-assessment of RAC risk, performing physician education on RAC risk, reviewing utilization review and case management protocols, monitoring the results from the RAC demonstration program and developing a monitoring tool to track internal RAC results once the Hospital is subjected to RAC audits.

Information Technology Disaster Recovery

Policies and procedures for disaster recovery of information systems have not been developed. While backups of data are performed regularly, no policy or procedure exists for a catastrophic failure. We recommend expanding upon procedures in place and developing a comprehensive disaster recovery policy to protect the Hospital should a significant loss of information occur.

Daily backups of information systems are performed and maintained. However, these backups are not periodically tested as to the effectiveness of the backup data or the quality of the backup files. We recommend periodically testing the effectiveness of restoration and the quality of backup files in the event the files would be needed to restore lost data.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
November 17, 2008