# MAHASKA COUNTY HOSPITAL
# (d/b/a MAHASKA HEALTH PARTNERSHIP)

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2008 AND 2007

MAHASKA HEALTH PARTNERSHIP

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MAHASKA HEALTH PARTNERSHIP
Officials
June 30, 2008

| Board of Trustees: | Address | Term Expires |
|---|---|---|
| Becky Siefering, Chairman | Oskaloosa, Iowa | 2012 |
| Mike Grim, Vice-Chairman | Eddyville, Iowa | 2008 |
| Paul Swenson, Secretary | Oskaloosa, Iowa | 2008 |
| Jon Sullivan, Treasurer | Oskaloosa, Iowa | 2010 |
| Lawrence Everett | New Sharon, Iowa | 2010 |
| Mary Sexton | Rose Hill, Iowa | 2008 |
| Jim Hansen | Oskaloosa, Iowa | 2008 |

| Chief Executive Officer: | |
|---|---|
| Jay Christensen | Oskaloosa, Iowa |

| Chief Financial Officer: | |
|---|---|
| Joe Hohenberger<br>(Resigned September, 2007) | Oskaloosa, Iowa |
| Susan Horras<br>(Hired January, 2008) | West Des Moines, Iowa |

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID A. GINTHER


## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mahaska Health Partnership
Oskaloosa, Iowa

We have audited the accompanying consolidated balance sheets of Mahaska Health Partnership as of June 30, 2008 and 2007, and the related consolidated 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 and provisions 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 Mahaska Health Partnership as of June 30, 2008 and 2007, and the results of its operations, changes in net assets, 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 16, 2008 on our consideration of Mahaska Health Partnership'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.

To the Board of Trustees
Mahaska Health Partnership

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 22 are not a required part of the basic financial statements, but are 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 23 through 40) 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 our 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.

Gronewald, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
October 16, 2008

MAHASKA
HEALTH PARTNERSHIP
1229 C Avenue East ■ Oskaloosa, Iowa 52577 ■ 641-672-3132 ■ Fax 641-672-3336

Mahaska Health Partnership
Management's Discussion and Analysis

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2008, 2007, and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

Please note that the Foundations' activities have been consolidated with the Hospital this Fiscal Year.

## FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a $2,054,605 or 8.3 percent increase in 2008 and a $1,930,825 or 8.5 percent increase in 2007.

The Hospital reported operating losses in 2008 ($645,411) and 2007 ($187,085). Losses in 2008 increased by $458,326 from the loss reported in 2007. Operating losses in 2007 decreased from 2006 by $871,080 or 82.3 percent.

Nonoperating revenues increased by $361,106 or 17.1 percent in 2008 compared to 2007. Nonoperating revenues increased in 2007 by $72,796 or 3.6 percent compared to 2006.

Excess revenues over expenses before capital grants and contributions decreased by $97,220 or 5% in 2008 compared to 2007, while excess revenues over expenses increased by $943,876 or 95.6% in 2007 compared to 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 financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

## THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

## THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance 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 on page 5. The Hospitals' net assets increased in each of the past two years by $2,054,605 (8.3 percent) in 2008 and $1,930,825 (8.5 percent) in 2007, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 10,719,966 | $ 13,701,790 | $ 11,350,651 |
| Capital assets, net | 19,986,111 | 20,936,862 | 22,469,617 |
| Other noncurrent assets | 7,630,948 | 2,654,661 | 2,678,107 |
| Total assets | $ 38,337,025 | $ 37,293,313 | $ 36,498,375 |
| Liabilities: | | | |
| Long-term debt outstanding | $ 6,878,589 | $ 7,520,416 | $ 8,746,717 |
| Other current and noncurrent Liabilities | 4,626,995 | 4,996,061 | 4,905,647 |
| Total liabilities | $ 11,505,584 | $ 12,516,477 | $ 13,652,364 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | $ 12,067,652 | $ 11,723,376 | $ 12,003,135 |
| Restricted expendable net assets | 1,489,535 | 964,716 | 917,101 |
| Restricted nonexpendable permanent endowments | 6,000 | 6,000 | 6,000 |
| Unrestricted | 13,268,254 | 12,082,744 | 9,919,775 |
| Total net assets | $ 26,831,441 | $ 24,776,836 | $ 22,846,011 |

## OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2008, the Hospital's net assets increased by $2,054,605 or 8.3 percent, as shown in Table 2. This increase is made up of very different components. This represents an increase of 5.0 percent compared with the increase in net assets for 2007 of $1,930,825.

Table 2: Operating Results and Changes in Net Assets

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Operating Revenues: | | | |
| Net patient service revenues | $ 28,112,640 | $ 26,952,147 | $ 24,309,899 |
| Other operating revenues | 216,870 | 206,684 | 233,201 |
| Total operating revenues | 28,329,510 | 27,158,831 | 24,543,100 |
| Operating Expenses: | | | |
| Salaries and benefits | 18,162,409 | 17,135,409 | 15,652,837 |
| Professional fees | 761,883 | 778,946 | 804,132 |
| Other operating expenses | 7,767,717 | 7,106,948 | 6,842,699 |
| Depreciation and amortization | 2,282,912 | 2,324,613 | 2,301,597 |
| Total operating expenses | 28,974,921 | 27,345,916 | 25,601,265 |
| Operating loss | ( 645,411) | ( 187,085) | ( 1,058,165) |
| Nonoperating Revenues and Expenses: | | | |
| Property taxes | 1,912,025 | 1,863,912 | 1,789,140 |
| Investment income | 284,245 | 218,927 | 155,824 |
| Noncapital grants and contributions | 295,562 | 10,900 | 298,266 |
| Other nonoperating revenues and expenses, net | ( 12,816) | 24,171 | ( 198,116) |
| Total nonoperating revenues (Expenses) | 2,479,016 | 2,117,910 | 2,045,114 |
| Excess of Revenues over Expenses and Increase in Net Assets | 1,833,605 | 1,930,825 | 986,949 |
| Capital Grants and Contributions | 221,000 | -- | -- |
| Excess of Revenues Over Expenses and Increase in Net Assets | 2,054,605 | 1,930,825 | 986,949 |
| Net Assets Beginning of Year | 24,776,836 | 22,846,011 | 21,859,062 |
| Net Assets End of Year | $ 26,831,441 | $ 24,776,836 | $ 22,846,011 |

## BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2008 was prepared on a modified accrual basis. The original budget of expenditures was approved at the meeting of February 26, 2007. Actual expenditures were lower than budget.

## OPERATING LOSSES

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2008 increased by $458,326 compared to the loss reported in 2007. Operating losses in 2007 decreased by $871,080 compared to the loss reported in 2006.

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue, investment earnings and contributions. Investment income went from $218,927 in 2007 to $284,245 in 2008. There was also an increase in contributions of $284,662 in 2008. The increase in noncapital grants and contributions was the result of the consolidation of the Hospital and Foundations financial statements.

## GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A to the financial statements. Capital grants received in 2008 relate to the Foundations.

## THE HOSPITAL'S CASH FLOWS

The Hospital's Statement of Cash Flows is an analytical tool useful in determining the short-term viability of the organization. The statement includes only cash inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments (i.e., depreciation, bad debt write-offs). Total cash and cash equivalents in 2008 was $7,248,901 compared to $5,802,813 in 2007.

## CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2008, the Hospital had $20 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. The Hospital had additions of new equipment and construction in progress in 2008 of $1,410,252, and $774,465 in 2007.

Debt:

At year-end, the Hospital had $7.9 million in revenue notes and bonds, and promissory notes outstanding. A detail of long term debt is provided in Note H to the financial statements.

## OTHER ECONOMIC FACTORS

The hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid to the hospital. Medicare represents nearly 44% of hospital revenues and presently reimburses the hospital approximately 55% of billed charges. Future cost increases will be covered by increased volume from physician recruitment plus cost reimbursement as a Critical Access Hospital.

## 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. If you have questions about this report or need additional financial information, contact the Hospital Administrator, at Mahaska Health Partnership, Oskaloosa, Iowa 52577.

MAHASKA HEALTH PARTNERSHIP
Consolidated Balance Sheets
June 30,

## ASSETS

| | 2008 | 2007 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 1,217,657 | $ 4,137,686 |
| Patient receivables, less allowances for doubtful accounts and for contractual adjustments ($2,378,324 in 2008, $2,084,729 in 2007) | 5,202,695 | 4,482,252 |
| Other receivables | 50,584 | 70,236 |
| Inventory | 1,318,708 | 1,311,082 |
| Prepaid expense | 179,436 | 156,855 |
| Estimated third-party payor settlements | 22,000 | 152,000 |
| Succeeding year property tax receivable | 1,780,000 | 1,800,000 |
| Internally designated assets | 948,886 | 1,591,679 |
| Total current assets | 10,719,966 | 13,701,790 |
| Designated and Restricted Assets: | | |
| Internally designated assets | 6,957,741 | 3,208,982 |
| Restricted assets | 1,495,535 | 970,716 |
| | 8,453,276 | 4,179,698 |
| Less amounts required to meet current liabilities | 948,886 | 1,591,679 |
| | 7,504,390 | 2,588,019 |
| Capital Assets: | | |
| Depreciable capital assets | 19,485,277 | 20,472,461 |
| Non-depreciable capital assets | 500,834 | 464,401 |
| | 19,986,111 | 20,936,862 |
| Other Assets: | | |
| Notes receivable | 95,000 | 46,750 |
| Other | 31,558 | 19,892 |
| | 126,558 | 66,642 |
| Total assets | $ 38,337,025 | $ 37,293,313 |

The accompanying notes are an integral part of these statements.

## LIABILITIES AND NET ASSETS

| | 2008 | 2007 |
|---|---|---|
| Current Liabilities: | | |
| Current maturities of long-term debt | $ 642,011 | $ 1,228,096 |
| Accounts payable | 679,142 | 654,029 |
| Accrued employee compensation | 1,102,780 | 925,114 |
| Accrued payroll taxes and withholding | 79,068 | 49,763 |
| Accrued health insurance claims | 183,000 | 170,000 |
| Accrued interest payable | 160,994 | 169,059 |
| Deferred revenue for succeeding year property tax receivable | 1,780,000 | 1,800,000 |
| Total current liabilities | 4,626,995 | 4,996,061 |
| Long-Term Debt: | | |
| Revenue bonds and notes payable, less unamortized debt issue and refunding costs, and current maturities | 6,878,589 | 7,520,416 |
| Total liabilities | 11,505,584 | 12,516,477 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 12,067,652 | 11,723,376 |
| Restricted | 1,495,535 | 970,716 |
| Unrestricted | 13,268,254 | 12,082,744 |
| Total net assets | 26,831,441 | 24,776,836 |
| Total liabilities and net assets | $ 38,337,025 | $ 37,293,313 |

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Revenue: | | |
| Net patient service revenue | $ 28,112,640 | $ 26,952,147 |
| Other revenue | 216,870 | 206,684 |
| Total revenue | 28,329,510 | 27,158,831 |
| Expenses: | | |
| Nursing service | 6,968,836 | 5,989,875 |
| Other professional service | 12,224,777 | 12,314,023 |
| General service | 2,547,254 | 2,178,325 |
| Fiscal and administrative service | 4,951,142 | 4,539,080 |
| Provision for depreciation | 2,265,003 | 2,307,220 |
| Amortization | 17,909 | 17,393 |
| Total expenses | 28,974,921 | 27,345,916 |
| Operating Loss | ( 645,411) | ( 187,085) |
| Non-Operating Revenue (Expenses): | | |
| County taxes | 1,912,025 | 1,863,912 |
| County subsidy - New Directions | 179,652 | 265,880 |
| Investment income | 284,245 | 218,927 |
| Noncapital grants and contributions | 295,562 | 10,900 |
| Rental income | 285,008 | 284,611 |
| Interest expense | ( 477,763) | ( 526,320) |
| Gain on disposal of assets | 287 | -- |
| Non-operating revenue, net | 2,479,016 | 2,117,910 |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions | 1,833,605 | 1,930,825 |
| Capital Grants and Contributions | 221,000 | -- |
| Excess of Revenues Over Expenses and Increase in Net Assets | 2,054,605 | 1,930,825 |
| Net Assets Beginning of Year | 24,776,836 | 22,846,011 |
| Net Assets End of Year | $ 26,831,441 | $ 24,776,836 |

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Cash Flows
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | $ 27,541,849 | $ 26,851,883 |
| Cash paid to suppliers | ( 12,027,490) | ( 11,675,659) |
| Cash paid to employees | ( 14,415,033) | ( 13,737,682) |
| Other revenue | 216,870 | 206,684 |
| Net cash provided by operating activities | 1,316,196 | 1,645,226 |
| Cash flows from non-capital financing activities: | | |
| County tax revenue and subsidy | 2,091,677 | 2,129,792 |
| Noncapital grants and contributions | 295,562 | 10,900 |
| Net cash provided by non-capital financing activities | 2,387,239 | 2,140,692 |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | ( 1,347,147) | ( 706,105) |
| Change in other assets | ( 11,666) | 29,992 |
| Capital grants and contributions | 221,000 | -- |
| Interest paid | ( 436,622) | ( 483,296) |
| Principal paid on long-term debt | ( 1,295,027) | ( 1,252,996) |
| Proceeds on sale of assets | 323 | -- |
| Net cash used in capital and related financing activities | ( 2,869,139) | ( 2,412,405) |
| Cash flows from investing activities: | | |
| Investment income | 321,291 | 218,927 |
| Change in designated and restricted assets | 55,493 | 959,082 |
| Loans granted for physician recruitment | ( 90,000) | ( 80,000) |
| Physician recruitment loan repayment | 40,000 | -- |
| Rental income | 285,008 | 284,611 |
| Net cash provided by investing activities | 611,792 | 1,382,620 |
| Net increase in cash and cash equivalents | 1,446,088 | 2,756,133 |
| Cash and cash equivalents at beginning of year | 5,802,813 | 3,046,680 |
| Cash and cash equivalents at end of year | $ 7,248,901 | $ 5,802,813 |
| Reconciliation of cash and cash equivalents to the balance sheets: | | |
| Cash in current assets | $ 1,217,657 | $ 4,137,686 |
| Cash and cash equivalents in designated and restricted assets | 6,031,244 | 1,665,127 |
| Total cash and cash equivalents | $ 7,248,901 | $ 5,802,813 |

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Consolidated Statements of Cash Flows - Continued
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | $( 645,411) | $( 187,085) |
| Adjustments to reconcile operating loss to net cash provided by operating activities | | |
| Provision for depreciation | 2,265,003 | 2,307,220 |
| Amortization | 19,659 | 88,143 |
| Changes in assets and liabilities | | |
| Accounts receivable | ( 700,791) | ( 36,264) |
| Inventory | ( 7,626) | ( 373,312) |
| Prepaid expense | ( 22,581) | ( 27,808) |
| Accounts payable, trade | 57,972 | ( 118,674) |
| Accrued employee compensation | 177,666 | 37,565 |
| Accrued payroll taxes and withholding | 29,305 | ( 29,983) |
| Accrued health insurance claims | 13,000 | 49,424 |
| Estimated third-party payor settlements | 130,000 | ( 64,000) |
| Total adjustments | 1,961,607 | 1,832,311 |
| Net cash provided by operating activities | $ 1,316,196 | $ 1,645,226 |

The accompanying notes are an integral part of these statements.

## NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Reporting Entity

The organization is a critical access county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has identified two component units for 2008: Mahaska Health Partnership Foundation and Mahaska Health Partnership Hospice Foundation (the Foundations). Substantially all of the economic resources of the Foundations are designated for the direct benefit of the Hospital. Accordingly, the assets, liabilities, and activities of the Foundations have been consolidated with those of the Hospital in these financial statements. The Foundations are not-for-profit corporations exempt from income tax under Section 501 of the Internal Revenue Code. There were no component units for 2007.

### 2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

### 3. 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.

### 4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of $5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest cost capitalized in 2008 or 2007.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 360 hours. Any excess over 360 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for 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. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

## NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. 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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted.*

17. Charity Care

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

## NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2006. The Hospital's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through October 31, 2005. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has 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 C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

| | 2008 | 2007 |
|---|---|---|
| Long-term debt | $ 991,917 | $ 964,716 |
| Capital acquisitions | 96,392 | -- |
| Hospice | 401,226 | -- |
| | $ 1,489,535 | $ 964,716 |

Unless the contributor provides specific instructions, law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees has chosen to spend the investment income and appreciation on the endowment fund while maintaining adequate amounts of earnings to maintain the principal original value. Any decreases in principal value will be replaced by retaining income in future years to return the principal to its original value.

Restricted nonexpendable net assets as of June 30, 2008 and 2007 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

| | 2008 | 2007 |
|---|---|---|
| Purchase of capital assets | $ 6,000 | $ 6,000 |

## NOTE D - DESIGNATED NET ASSETS

Of the $13,268,254 ($12,082,744 as of June 30, 2007) of unrestricted net assets as of June 30, 2008, $6,957,741 ($3,208,982 for 2007) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

NOTE D - DESIGNATED NET ASSETS - Continued

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

| | 2008 | 2007 |
|---|---|---|
| Operations | $ 4,206,719 | $ -- |
| Capital acquisitions | 2,601,049 | 3,059,009 |
| Employee health insurance | 149,973 | 149,973 |
| | $ 6,957,741 | $ 3,208,982 |

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2008 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 ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

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 composition of designated and restricted assets is as follows:

| | 2008 | 2007 |
|---|---|---|
| Internally Designated Assets: | | |
| Cash and cash equivalents | $ 5,931,001 | $ 1,665,127 |
| Certificates of deposit | 1,013,611 | 1,524,207 |
| Interest receivable | 13,129 | 19,648 |
| | $ 6,957,741 | $ 3,208,982 |
| Restricted Assets: | | |
| Cash and cash equivalents | $ 100,243 | $ -- |
| Certificate of deposit | 1,178,561 | 956,072 |
| U.S. treasury obligations | 6,000 | 6,000 |
| Interest receivable | 9,201 | 8,644 |
| Equity securities | 201,530 | -- |
| | $ 1,495,535 | $ 970,716 |

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

## NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2008 and 2007, was as follows:

| | 2008 | 2007 |
|---|---|---|
| Receivable from: | | |
| Patients | $ 1,766,262 | $ 1,869,284 |
| Medicare | 2,573,845 | 1,969,950 |
| Medicaid | 436,671 | 615,357 |
| Blue Cross | 1,450,080 | 888,620 |
| Other commercial insurance carriers | 1,128,621 | 1,107,804 |
| Others | 225,540 | 115,966 |
| | 7,581,019 | 6,566,981 |
| Less allowances for doubtful accounts and contractual adjustments | 2,378,324 | 2,084,729 |
| | $ 5,202,695 | $ 4,482,252 |

## NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

| Cost | Balance 2007 | Additions | Disposals | Balance 2008 |
|---|---|---|---|---|
| Land Improvements | $ 878,582 | $ -- | $ -- | $ 878,582 |
| Buildings | 26,438,841 | 178,420 | -- | 26,617,261 |
| Major Movable Equipment | 13,386,046 | 1,099,435 | ( 373) | 14,485,108 |
| Clinic Equipment | 21,895 | -- | -- | 21,895 |
| | 40,725,364 | 1,277,855 | ( 373) | 42,002,846 |
| Depreciation | | | | |
| Land Improvements | 503,273 | 51,972 | -- | 555,245 |
| Buildings | 9,600,238 | 1,029,068 | -- | 10,629,306 |
| Major Movable Equipment | 10,127,497 | 1,183,963 | ( 337) | 11,311,123 |
| Clinic Equipment | 21,895 | -- | -- | 21,895 |
| Total Depreciation | 20,252,903 | 2,265,003 | ( 337) | 22,517,569 |
| Depreciable Capital Assets, Net | $ 20,472,461 | $( 987,148) | $( 36) | $ 19,485,277 |
| Construction in Progress | $ 150,925 | $ 132,397 | $( 95,964) | $ 187,358 |
| Land | 313,476 | -- | -- | 313,476 |
| Total Non-depreciable Capital Assets | $ 464,401 | $ 132,397 | $( 95,964) | $ 500,834 |

NOTE G - CAPITAL ASSETS - Continued

| Cost | Balance 2006 | Additions | Disposals | Balance 2007 |
|---|---|---|---|---|
| Land Improvements | $ 878,582 | $ -- | $ -- | $ 878,582 |
| Buildings | 26,372,308 | 66,533 | -- | 26,438,841 |
| Major Movable Equipment | 12,793,249 | 592,797 | -- | 13,386,046 |
| Clinic Equipment | 21,895 | -- | -- | 21,895 |
| | 40,066,034 | 659,330 | -- | 40,725,364 |
| Depreciation | | | | |
| Land Improvements | 451,061 | 52,212 | -- | 503,273 |
| Buildings | 8,586,990 | 1,013,248 | -- | 9,600,238 |
| Major Movable Equipment | 8,885,737 | 1,241,760 | -- | 10,127,497 |
| Clinic Equipment | 21,895 | -- | -- | 21,895 |
| Total Depreciation | 17,945,683 | 2,307,220 | -- | 20,252,903 |
| Depreciable Capital Assets, Net | $ 22,120,351 | $( 1,647,890) | $ -- | $ 20,472,461 |
| Construction in Progress | $ 35,790 | $ 115,135 | $ -- | $ 150,925 |
| Land | 313,476 | -- | -- | 313,476 |
| Total Non-depreciable Capital Assets | $ 349,266 | $ 115,135 | $ -- | $ 464,401 |

NOTE H - LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2008 and 2007 follows:

| | Balance 2007 | Additions | Reductions | Balance 2008 | Current Portion |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Series 2001 bonds | $ 7,735,000 | $ -- | $ 265,000 | $ 7,470,000 | $ 275,000 |
| Series 2003 notes | 515,000 | -- | 515,000 | -- | -- |
| Note payable, bank(1) | 861,161 | -- | 483,948 | 377,213 | 377,213 |
| Note payable, bank(2) | 102,325 | -- | 31,079 | 71,246 | 33,065 |
| Debt issue and refunding costs | ( 464,974) | -- | ( 67,115) | ( 397,859) | ( 43,267) |
| Total Long-Term Debt | $ 8,748,512 | $ -- | $1,227,912 | $ 7,520,600 | $ 642,011 |

| | Balance 2006 | Additions | Reductions | Balance 2007 | Current Portion |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Series 2001 bonds | $ 7,990,000 | $ -- | $ 255,000 | $ 7,735,000 | $ 265,000 |
| Series 2003 notes | 1,020,000 | -- | 505,000 | 515,000 | 515,000 |
| Note payable, bank(1) | 1,324,863 | -- | 463,702 | 861,161 | 484,107 |
| Note payable, bank(2) | 131,619 | -- | 29,294 | 102,325 | 31,105 |
| Debt issue and refunding costs | ( 532,984) | -- | ( 68,010) | ( 464,974) | ( 67,116) |
| Total Long-Term Debt | $ 9,933,498 | $ -- | $1,184,986 | $ 8,748,512 | $1,228,096 |

NOTE H - LONG-TERM DEBT - Continued

Series 2001 Bonds
The bonds are in the name of the County of Mahaska, Iowa through Bankers' Trust, Des Moines office to early refund previously issued Series 1997 bonds, and finance a portion of the costs of a medical office building. However, the Hospital is responsible for all loan principal and interest payments, therefore, the bonds have been recorded as a liability of the Hospital. Under terms of the Series 2001 bonds, combined principal and interest payments of approximately $651,000-$1,177,000 annually are due in two installments with an interest rate of 3.50%-5.10% (interest only in February and interest and principal due in August). The final payment is due in August, 2016. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the bonds.

Note Payable, Bank (1)
The note is in the name of the Mahaska Health Partnership through Midwest One Bank, Oskaloosa, Iowa office for the purchase of equipment. Under terms of the note, principal and interest payments of $42,646 monthly are due with an interest rate of 4.25%. The final payment is due in March, 2009. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the note.

Note Payable, Bank (2)
The note is in the name of the Mahaska Health Partnership through Midwest One Bank, Oskaloosa, Iowa office for the purchase of equipment. Under terms of the note, principal and interest payments of $3,041 monthly are due with an interest rate of 6.0%. The final payment is due in July, 2010. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the note.

The annual debt service on the bonds and notes is expected to require less than 36% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately $1,732,000 and $4,815,000, respectively.

NOTE H - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

| Year Ending June 30, | Long-Term Debt Principal | Interest | Total |
|---|---|---|---|
| 2009 | $ 685,278 | $ 389,950 | $ 1,075,228 |
| 2010 | 860,133 | 351,887 | 1,212,020 |
| 2011 | 868,048 | 310,400 | 1,178,448 |
| 2012 | 910,000 | 267,330 | 1,177,330 |
| 2013 | 850,000 | 223,785 | 1,073,785 |
| 2014-2017 | 3,745,000 | 424,392 | 4,169,392 |
| | $ 7,918,459 | $ 1,967,744 | $ 9,886,203 |

Under the terms of the debt resolutions, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The debt resolutions also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the debt is outstanding.

NOTE I - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% (4.10% July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were approximately $824,000, $746,000, and $686,000, respectively, equal to the required contributions for each year.

## NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's personnel department is responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2008 was $433,394 ($412,841 at June 30, 2007). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

## NOTE K - COMMITMENTS AND CONTINGENCIES

Notes Receivable
The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management
The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

Construction in progress at June 30, 2008 of $187,358 consists of costs of various capital projects, primarily related to construction and renovation of the existing facility. This project is in the planning stages and is estimated to cost $8.9 million, which will be financed through the use of existing Hospital internally designated funds and issuance of debt. To date no construction commitments have been made on the project.

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2008, the Hospital has accumulated funds in excess of actual claims paid of $149,973 ($149,973 at June 30, 2007). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2008 is $183,000 ($170,000 at June 30, 2007), which is reported under current liabilities.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP
Budgetary Comparison Schedule
Year ended June 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for interest, capital purchases, depreciation, and net assets differently for financial statement and budget purposes.

| | Per Financial Statements | | |
|---|---|---|---|
| | Unrestricted Fund | Restricted Fund | Total |
| Amount raised by taxation | $ 1,912,025 | $ -- | $ 1,912,025 |
| Other revenues | 28,592,072 | 525,429 | 29,117,501 |
| | 30,504,097 | 525,429 | 31,029,526 |
| Expenses | 28,974,311 | 610 | 28,974,921 |
| Net | 1,529,786 | 524,819 | 2,054,605 |
| Balance beginning of year | 23,806,120 | 970,716 | 24,776,836 |
| Balance end of year | $ 25,335,906 | $ 1,495,535 | $ 26,831,441 |

| | Total Per Financial Statements | Budget Adjustments | Budget Basis | Budget |
|---|---|---|---|---|
| Amount raised by taxation | $ 1,912,025 | $ -- | $ 1,912,025 | $ 1,795,878 |
| Other revenues | 29,117,501 | ( 20,465) | 29,097,036 | 28,060,327 |
| | 31,029,526 | ( 20,465) | 31,009,061 | 29,856,205 |
| Expenses | 28,974,921 | ( 440,703) | 28,534,218 | 32,057,155 |
| Net | 2,054,605 | 420,238 | 2,474,843 | ( 2,200,950) |
| Balance beginning of year | 24,776,836 | ( 2,120,186) | 22,656,650 | 22,656,650 |
| Balance end of year | $ 26,831,441 | $( 1,699,948) | $ 25,131,493 | $ 20,455,700 |

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MAHASKA HEALTH PARTNERSHIP
Consolidating Balance Sheets
June 30, 2008

## ASSETS

| | Hospital | Foundations | Total |
|---|---|---|---|
| Current Assets: | | | |
| Cash | $ 1,217,657 | $ -- | $ 1,217,657 |
| Patient receivables, net | 5,202,695 | -- | 5,202,695 |
| Other receivables | 50,584 | -- | 50,584 |
| Inventory | 1,318,708 | -- | 1,318,708 |
| Prepaid expense | 179,436 | -- | 179,436 |
| Estimated third-party payor settlements | 22,000 | -- | 22,000 |
| Succeeding year property tax receivable | 1,780,000 | -- | 1,780,000 |
| Internally designated assets | 948,886 | -- | 948,886 |
| Total current assets | 10,719,966 | -- | 10,719,966 |
| Designated and Restricted Assets: | | | |
| Internally designated assets | 6,957,741 | -- | 6,957,741 |
| Restricted assets | 997,917 | 497,618 | 1,495,535 |
| Current portion | ( 948,886) | -- | ( 948,886) |
| | 7,006,772 | 497,618 | 7,504,390 |
| Depreciable Capital Assets, Net | 19,485,277 | -- | 19,485,277 |
| Non-depreciable Capital Assets | 500,834 | -- | 500,834 |
| Notes Receivable | 95,000 | -- | 95,000 |
| Other | 31,558 | -- | 31,558 |
| Total assets | $ 37,839,407 | $ 497,618 | $ 38,337,025 |

See Independent Auditor's Report.

## LIABILITIES AND NET ASSETS

| | Hospital | Foundations | Total |
|---|---|---|---|
| Current Liabilities: | | | |
| Current maturities of long-term debt | $ 642,011 | $ -- | $ 642,011 |
| Accounts payable | 679,142 | -- | 679,142 |
| Accrued employee compensation | 1,102,780 | -- | 1,102,780 |
| Accrued payroll taxes and withholding | 79,068 | -- | 79,068 |
| Accrued health insurance claims | 183,000 | -- | 183,000 |
| Accrued interest payable | 160,994 | -- | 160,994 |
| Deferred revenue for succeeding year property tax receivable | 1,780,000 | -- | 1,780,000 |
| Total current liabilities | 4,626,995 | -- | 4,626,995 |
| Long-Term Debt: | | | |
| Revenue bonds and notes payable, less unamortized debt issue and refunding costs, and current maturities | 6,878,589 | -- | 6,878,589 |
| Total liabilities | 11,505,584 | -- | 11,505,584 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 12,067,652 | -- | 12,067,652 |
| Restricted | 997,917 | 497,618 | 1,495,535 |
| Unrestricted | 13,268,254 | -- | 13,268,254 |
| Total net assets | 26,333,823 | 497,618 | 26,831,441 |
| Total liabilities and net assets | $ 37,839,407 | $ 497,618 | $ 38,337,025 |

MAHASKA HEALTH PARTNERSHIP
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2008

| | Hospital | Foundations | Total |
|---|---|---|---|
| Revenue: | | | |
| Net patient service revenue | $ 28,112,640 | $ -- | $ 28,112,640 |
| Other revenue | 216,870 | -- | 216,870 |
| Total revenue | 28,329,510 | -- | 28,329,510 |
| Expenses: | | | |
| Nursing service | 6,968,836 | -- | 6,968,836 |
| Other professional service | 12,224,777 | -- | 12,224,777 |
| General service | 2,547,254 | -- | 2,547,254 |
| Fiscal and administrative service | 4,950,532 | 610 | 4,951,142 |
| Provision for depreciation | 2,265,003 | -- | 2,265,003 |
| Amortization | 17,909 | -- | 17,909 |
| Total expenses | 28,974,311 | 610 | 28,974,921 |
| Operating Loss | ( 644,801) | ( 610) | ( 645,411) |
| Non-Operating Revenue (Expenses): | | | |
| County taxes | 1,912,025 | -- | 1,912,025 |
| County subsidy - New Directions | 179,652 | -- | 179,652 |
| Investment income | 298,986 | ( 14,741) | 284,245 |
| Noncapital grants and contributions | 3,593 | 291,969 | 295,562 |
| Rental income | 285,008 | -- | 285,008 |
| Interest expense | ( 477,763) | -- | ( 477,763) |
| Gain on disposal of assets | 287 | -- | 287 |
| Non-operating revenue, net | 2,201,788 | 277,228 | 2,479,016 |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions | 1,556,987 | 276,618 | 1,833,605 |
| Capital Grants and Contributions | -- | 221,000 | 221,000 |
| Excess of Revenues Over Expenses and Increase in Net Assets | 1,556,987 | 497,618 | 2,054,605 |
| Net Assets Beginning of Year | 24,776,836 | -- | 24,776,836 |
| Net Assets End of Year | $ 26,333,823 | $ 497,618 | $ 26,831,441 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Patient Receivables
June 30,

Analysis of Aging:

| Days Since Discharge | 2008 Amount | 2008 Percent to Total | 2007 Amount | 2007 Percent to Total |
|---|---|---|---|---|
| Hospital | | | | |
| 0 - 30 | $ 3,326,848 | 43.9% | $ 3,041,846 | 46.4% |
| 31 - 60 | 1,499,060 | 19.8 | 823,141 | 12.5 |
| 61 - 90 | 407,319 | 5.4 | 401,601 | 6.1 |
| 91 - 180 | 653,020 | 8.6 | 694,430 | 10.6 |
| Over 181 | 758,929 | 10.0 | 736,133 | 11.2 |
| | 6,645,176 | 87.7 | 5,697,151 | 86.8 |
| Community Health and Hospice | 245,416 | 3.2 | 415,759 | 6.3 |
| Physician clinic | 690,427 | 9.1 | 454,071 | 6.9 |
| | 7,581,019 | 100.0% | 6,566,981 | 100.0% |
| Less: | | | | |
| Allowance for doubtful accounts | 621,324 | | 579,729 | |
| Allowance for contractual adjustments | 1,757,000 | | 1,505,000 | |
| | $ 5,202,695 | | $ 4,482,252 | |

Allowance for Doubtful Accounts:

| | Year Ended June 30, 2008 | 2007 |
|---|---|---|
| Balance, beginning | $ 579,729 | $ 515,439 |
| Provision for bad debts | 1,597,874 | 1,239,893 |
| Recoveries of accounts previously written off | 139,459 | 184,067 |
| | 2,317,062 | 1,939,399 |
| Accounts written off | 1,695,738 | 1,359,670 |
| Balance, ending | $ 621,324 | $ 579,729 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Inventory/Prepaid Expense
June 30,

| | 2008 | 2007 |
|---|---|---|
| Inventory | | |
| Store room | $ 124,798 | $ 118,710 |
| Dietary | 11,815 | 12,354 |
| Pharmacy | 170,197 | 204,965 |
| Laboratory | 79,580 | 85,481 |
| Operating room | 927,148 | 877,844 |
| Radiology | 5,170 | 11,728 |
| | $ 1,318,708 | $ 1,311,082 |
| Prepaid Expense | | |
| Insurance | $ 56,044 | $ 43,115 |
| Dues and contracts | 123,392 | 113,740 |
| | $ 179,436 | $ 156,855 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Patient Service Revenue
Year ended June 30,

| | 2008 | |
|---|---|---|
| | Inpatient | Outpatient |
| Daily Patient Services: | | |
| Medical and surgical | $ 2,681,929 | $ 881,778 |
| Coronary care | 213,554 | -- |
| Nursery | 302,784 | -- |
| Obstetrics | 426,250 | 19,461 |
| Swing bed | -- | -- |
| Vision Quest | 1,698,239 | -- |
| | 5,322,756 | 901,239 |
| Other Nursing Services: | | |
| Operating and recovery rooms | 868,192 | 3,945,081 |
| Delivery and labor rooms | 408,053 | 84,977 |
| Central services and supply | 1,123,760 | 846,107 |
| Wound/ostomy care | 4,484 | 52,195 |
| Emergency services | 138,136 | 2,481,176 |
| Cardiac rehabilitation and stress test | -- | 333,853 |
| | 2,542,625 | 7,743,389 |
| Other Professional Services: | | |
| Emergency room physicians | 49,834 | 1,563,957 |
| Laboratory | 752,366 | 2,017,046 |
| Electrocardiology | -- | 15,796 |
| Electroencephalography | 2,337 | 22,202 |
| Radiology | 104,143 | 1,357,580 |
| Ultrasound | 45,756 | 450,465 |
| Nuclear scanning | 4,438 | 77,436 |
| MRI scanning | 74,344 | 1,814,911 |
| CT scanning | 287,226 | 2,621,395 |
| Outsourced services | 111,759 | 745,657 |
| Pharmacy | 1,594,795 | 2,042,784 |
| Oncology | 80 | 259,930 |
| Anesthesiology | 383,775 | 786,225 |
| Respiratory therapy | 794,537 | 636,740 |
| Physical therapy | 85,292 | 791,614 |
| Occupational therapy | 46,321 | 138,596 |
| Speech therapy | 3,788 | 48,039 |
| Massage therapy | -- | 27,349 |
| Ambulance | 199,294 | 1,592,241 |
| Community health | -- | 1,467,862 |
| Hospice | -- | 739,089 |
| Occupational health | -- | 165,193 |
| New Directions | 67,185 | 898,031 |
| Physician clinic | -- | 1,955,201 |
| | 4,607,270 | 22,235,339 |
| | $ 12,472,651 | $ 30,879,967 |

See Independent Auditor's Report.

| 2008 | | 2007 |
|---|---|---|
| Swing Bed | Total | Total |
| $ -- | $ 3,563,707 | $ 3,484,985 |
| -- | 213,554 | 182,297 |
| -- | 302,784 | 303,396 |
| -- | 445,711 | 467,064 |
| 800,966 | 800,966 | 620,076 |
| -- | 1,698,239 | 1,829,137 |
| 800,966 | 7,024,961 | 6,886,955 |
| | | |
| 12,419 | 4,825,692 | 3,559,636 |
| -- | 493,030 | 332,327 |
| 17,936 | 1,987,803 | 2,072,519 |
| 30,595 | 87,274 | 73,860 |
| -- | 2,619,312 | 2,610,620 |
| 348 | 334,201 | 424,146 |
| 61,298 | 10,347,312 | 9,073,108 |
| | | |
| 169 | 1,613,960 | 1,481,039 |
| 93,608 | 2,863,020 | 2,559,687 |
| -- | 15,796 | 17,388 |
| 584 | 25,123 | 33,887 |
| 11,517 | 1,473,240 | 1,105,653 |
| 2,899 | 499,120 | 377,416 |
| 865 | 82,739 | 83,118 |
| 6,640 | 1,895,895 | 1,858,917 |
| -- | 2,908,621 | 3,021,873 |
| 15,857 | 873,273 | 581,176 |
| 320,744 | 3,958,323 | 3,866,798 |
| -- | 260,010 | 235,631 |
| 4,938 | 1,174,938 | 1,078,810 |
| 281,694 | 1,712,971 | 1,610,346 |
| 168,763 | 1,045,669 | 1,201,658 |
| 114,967 | 299,884 | 266,824 |
| 11,938 | 63,765 | 136,247 |
| -- | 27,349 | 43,926 |
| 14,995 | 1,806,530 | 1,352,858 |
| -- | 1,467,862 | 1,489,810 |
| -- | 739,089 | 760,041 |
| -- | 165,193 | 189,238 |
| -- | 965,216 | 1,107,116 |
| -- | 1,955,201 | 1,904,397 |
| 1,050,178 | 27,892,787 | 26,363,854 |
| | | |
| $ 1,912,442 | $ 45,265,060 | $ 42,323,917 |

MAHASKA HEALTH PARTNERSHIP
Revenue and Related Adjustments
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Net Patient Service Revenue | | |
| Patient service revenue | $ 45,265,060 | $ 42,323,917 |
| Contractual adjustments | ( 15,554,546) | ( 14,131,877) |
| Provision for bad debts | ( 1,597,874) | ( 1,239,893) |
| | $ 28,112,640 | $ 26,952,147 |
| Other Revenue | | |
| Cafeteria | $ 101,876 | $ 94,336 |
| Catering | 39,436 | 29,352 |
| Medical record transcripts | 321 | 233 |
| Non-patient supplies | 120 | 1,590 |
| Outpatient clinics | 59,760 | 59,477 |
| Dietary services | 10,750 | 19,296 |
| Miscellaneous | 4,607 | 2,400 |
| | $ 216,870 | $ 206,684 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Nursing Service Expenses
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Administrative: | | |
| Salaries and wages | $ 136,948 | $ 152,108 |
| Employee benefits | 22,523 | 22,172 |
| Supplies and other expense | 14,461 | 23,259 |
| | 173,932 | 197,539 |
| Medical and Surgical: | | |
| Salaries and wages | 1,935,285 | 1,631,216 |
| Employee benefits | 280,641 | 238,129 |
| Supplies and other expense | 201,738 | 177,123 |
| | 2,417,664 | 2,046,468 |
| Obstetrics: | | |
| Salaries and wages | 290,489 | 244,242 |
| Employee benefits | 44,009 | 31,036 |
| Supplies and other expense | 59,202 | 48,855 |
| | 393,700 | 324,133 |
| Nursery: | | |
| Salaries and wages | 125,593 | 120,055 |
| Employee benefits | 15,967 | 13,469 |
| Supplies and other expense | 8,288 | 6,053 |
| | 149,848 | 139,577 |
| Vision Quest: | | |
| Salaries and wages | 675,359 | 656,714 |
| Employee benefits | 86,233 | 83,749 |
| Purchased services | 79,406 | 20,625 |
| Supplies and other expense | 25,565 | 29,739 |
| | 866,563 | 790,827 |
| Operating and Recovery Rooms: | | |
| Salaries and wages | 706,490 | 677,121 |
| Employee benefits | 106,570 | 92,929 |
| Supplies and other expense | 384,497 | 423,066 |
| | 1,197,557 | 1,193,116 |
| Delivery and Labor Rooms: | | |
| Salaries and wages | 125,630 | 113,334 |
| Employee benefits | 18,780 | 14,673 |
| Supplies and other expense | 2,504 | 1,518 |
| | 146,914 | 129,525 |

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Nursing Service Expenses - Continued
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Central Services and Supply: | | |
| Supplies and other expense | $ 468,879 | $ 295,903 |
| Wound/Ostomy Care: | | |
| Salaries and wages | 22,033 | 18,777 |
| Employee benefits | 3,966 | 3,116 |
| Supplies and other expense | 13,182 | 7,494 |
| | 39,181 | 29,387 |
| Emergency Services: | | |
| Salaries and wages | 808,336 | 574,435 |
| Employee benefits | 114,367 | 93,277 |
| Supplies and other expense | 106,415 | 85,987 |
| | 1,029,118 | 753,699 |
| Cardiac Rehabilitation: | | |
| Salaries and wages | 42,132 | 46,677 |
| Employee benefits | 5,342 | 4,491 |
| Supplies and other expense | 38,006 | 38,533 |
| | 85,480 | 89,701 |
| | $ 6,968,836 | $ 5,989,875 |

SUMMARY

| | | |
|---|---|---|
| Salaries and wages | $ 4,868,295 | $ 4,234,679 |
| Employee benefits | 698,398 | 597,041 |
| Supplies and other expense | 1,402,143 | 1,158,155 |
| | $ 6,968,836 | $ 5,989,875 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Emergency Room Physicians: | | |
| Salaries and wages | $ 902,829 | $ 847,190 |
| Employee benefits | 90,396 | 77,082 |
| Professional fees | 13,705 | 6,036 |
| Supplies and other expense | 11,713 | 22,852 |
| | 1,018,643 | 953,160 |
| Laboratory: | | |
| Salaries and wages | 347,910 | 324,501 |
| Employee benefits | 47,161 | 39,628 |
| Purchased services | 271,810 | 213,423 |
| Supplies and other expense | 351,828 | 278,306 |
| | 1,018,709 | 855,858 |
| Electroencephalography and Electrocardiology: | | |
| Salaries and wages | 799 | 918 |
| Employee benefits | 59 | 66 |
| Purchased services | 2,304 | -- |
| | 3,162 | 984 |
| Oncology: | | |
| Salaries and wages | 84,775 | 85,766 |
| Employee benefits | 11,614 | 10,416 |
| Supplies and other expense | 14,214 | 11,209 |
| | 110,603 | 107,391 |
| Radiology and Ultrasound: | | |
| Salaries and wages | 457,896 | 418,059 |
| Employee benefits | 64,736 | 52,436 |
| Supplies and other expense | 585,351 | 531,676 |
| | 1,107,983 | 1,002,171 |
| Nuclear Scanning: | | |
| Purchased services | -- | 44,871 |
| Outsourced Services: | | |
| Purchased services | 264,548 | 243,294 |

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Pharmacy: | | |
| Salaries and wages | $ 269,372 | $ 212,994 |
| Employee benefits | 46,264 | 16,052 |
| Drugs and other expense | 885,631 | 1,072,192 |
| | 1,201,267 | 1,301,238 |
| Anesthesiology: | | |
| Salaries and wages | 202,108 | 166,147 |
| Employee benefits | 20,991 | 22,068 |
| Supplies and other expense | 52,756 | 48,294 |
| | 275,855 | 236,509 |
| Respiratory Therapy: | | |
| Salaries and wages | 345,027 | 329,970 |
| Employee benefits | 47,883 | 42,643 |
| Professional fees | 5,350 | 13,004 |
| Supplies and other expense | 70,724 | 55,441 |
| | 468,984 | 441,058 |
| Physical Therapy: | | |
| Professional fees | 510,674 | 549,559 |
| Supplies and other expense | 19,629 | 19,459 |
| | 530,303 | 569,018 |
| Speech Therapy: | | |
| Salaries and wages | 25,493 | 51,687 |
| Employee benefits | 1,372 | 7,128 |
| Professional fees | 3,109 | 70 |
| Supplies and other expense | 3,602 | 4,707 |
| | 33,576 | 63,592 |
| Occupational Therapy: | | |
| Professional fees | 147,555 | 122,050 |
| Supplies and other expense | 4,957 | 2,973 |
| | 152,512 | 125,023 |
| Ambulance: | | |
| Salaries and wages | 129,827 | 247,884 |
| Employee benefits | 12,145 | 16,942 |
| Purchased services | 1,098 | 1,583 |
| Supplies and other expense | 39,326 | 36,566 |
| | 182,396 | 302,975 |

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Community Health: | | |
| Salaries and wages | $ 909,185 | $ 844,557 |
| Employee benefits | 110,798 | 117,928 |
| Purchased services | 143,309 | 152,155 |
| Supplies and other expense | 119,498 | 113,239 |
| | 1,282,790 | 1,227,879 |
| Hospice: | | |
| Salaries and wages | 471,991 | 429,637 |
| Employee benefits | 69,700 | 56,334 |
| Supplies and other expense | 143,981 | 155,282 |
| | 685,672 | 641,253 |
| Medical Records: | | |
| Salaries and wages | 308,755 | 297,668 |
| Employee benefits | 41,804 | 39,733 |
| Supplies and other expense | 87,310 | 53,573 |
| | 437,869 | 390,974 |
| Physician Clinic: | | |
| Salaries and wages | 1,793,462 | 2,042,293 |
| Employee benefits | 156,933 | 146,087 |
| Supplies and other expense | 219,081 | 273,105 |
| | 2,169,476 | 2,461,485 |
| Outpatient Clinics: | | |
| Salaries and wages | 4,119 | 626 |
| Employee benefits | 315 | 6 |
| Purchased services | 1,159 | -- |
| Supplies and other expense | 345 | -- |
| | 5,938 | 632 |
| Dietician Services: | | |
| Salaries and wages | 3,858 | 37,970 |
| Employee benefits | 527 | 2,593 |
| Supplies and other expense | 47,272 | 2,725 |
| | 51,657 | 43,288 |
| New Directions: | | |
| Salaries and wages | 728,234 | 781,715 |
| Employee benefits | 85,217 | 90,178 |
| Purchased services | 40,544 | 38,957 |
| Supplies and other expense | 42,935 | 50,236 |
| | 896,930 | 961,086 |

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Occupational Health: | | |
| Salaries and wages | $ 114,533 | $ 112,862 |
| Employee benefits | 19,571 | 12,445 |
| Purchased services | 2,469 | 2,825 |
| Supplies and other expense | 24,432 | 23,924 |
| | 161,005 | 152,056 |
| Employee Health: | | |
| Salaries and wages | 42,485 | 28,079 |
| Employee benefits | 3,005 | 1,958 |
| Supplies and other expense | 9,461 | 7,168 |
| | 54,951 | 37,205 |
| Mahaska Med Spa: | | |
| Salaries and wages | 30,868 | 61,269 |
| Employee benefits | 4,292 | 7,350 |
| Supplies and other expense | 46,262 | 40,302 |
| | 81,422 | 108,921 |
| Massage Therapy: | | |
| Salaries and wages | 25,157 | 36,640 |
| Employee benefits | 2,696 | 3,866 |
| Purchased services | -- | 971 |
| Supplies and other expense | 673 | 625 |
| | 28,526 | 42,102 |
| | $ 12,224,777 | $ 12,314,023 |

SUMMARY

| | | |
|---|---|---|
| Salaries and wages | $ 7,198,683 | $ 7,358,432 |
| Employee benefits | 837,479 | 762,939 |
| Professional fees | 680,393 | 690,719 |
| Supplies and other expense | 3,508,222 | 3,501,933 |
| | $ 12,224,777 | $ 12,314,023 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
General Service Expenses
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Dietary: | | |
| Salaries and wages | $ 234,206 | $ 223,348 |
| Employee benefits | 30,196 | 21,708 |
| Food | 166,868 | 132,987 |
| Supplies and other expense | 197,206 | 145,925 |
| | 628,476 | 523,968 |
| Operation of Plant: | | |
| Salaries and wages | 199,531 | 210,882 |
| Employee benefits | 27,759 | 24,134 |
| Utilities | 484,425 | 447,658 |
| Supplies and other expense | 652,308 | 440,699 |
| | 1,364,023 | 1,123,373 |
| Environmental Services: | | |
| Salaries and wages | 299,595 | 294,707 |
| Employee benefits | 38,227 | 39,945 |
| Supplies and other expense | 48,221 | 46,445 |
| | 386,043 | 381,097 |
| Laundry and Linen: | | |
| Salaries and wages | 117,779 | 115,196 |
| Employee benefits | 17,172 | 15,900 |
| Supplies and other expense | 33,761 | 18,791 |
| | 168,712 | 149,887 |
| | $ 2,547,254 | $ 2,178,325 |

SUMMARY

| | | |
|---|---|---|
| Salaries and wages | $ 851,111 | $ 844,133 |
| Employee benefits | 113,354 | 101,687 |
| Supplies and other expense | 1,582,789 | 1,232,505 |
| | $ 2,547,254 | $ 2,178,325 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Fiscal and Administrative Service Expenses
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Administrative: | | |
| Salaries and wages | $ 935,253 | $ 863,789 |
| Employee benefits | 119,905 | 109,255 |
| Professional fees | 81,490 | 88,227 |
| Supplies and other expense | 356,415 | 301,919 |
| Purchased services | 77,860 | 77,668 |
| Travel and education | 23,505 | 15,288 |
| Telephone | 2,250 | 3,055 |
| Dues, subscriptions and licenses | 60,856 | 70,883 |
| Collection fees | 108,636 | 92,650 |
| | 1,766,170 | 1,622,734 |
| Information Systems: | | |
| Salaries and wages | 190,936 | 110,311 |
| Employee benefits | 17,219 | 16,039 |
| Purchased services | 116,977 | 128,562 |
| Supplies and other expense | 78,374 | 14,475 |
| | 403,506 | 269,387 |
| Purchasing: | | |
| Salaries and wages | 118,738 | 81,501 |
| Employee benefits | 18,043 | 5,942 |
| Supplies and other expense | 17,292 | 19,450 |
| | 154,073 | 106,893 |
| Public Relations: | | |
| Salaries and wages | 97,253 | 99,078 |
| Employee benefits | 13,356 | 14,577 |
| Supplies and other expense | 86,996 | 86,167 |
| | 197,605 | 199,822 |
| Human Resources: | | |
| Salaries and wages | 160,770 | 148,881 |
| Employee benefits | 25,908 | 20,166 |
| Purchased services | 5,105 | 16,088 |
| Supplies and other expense | 40,128 | 33,900 |
| | 231,911 | 219,035 |

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Quality Management: | | |
| Salaries and wages | $ 67,489 | $ 34,443 |
| Employee benefits | 10,854 | 4,420 |
| Supplies and other expense | 7,885 | 13,519 |
| | 86,228 | 52,382 |
| Support Services: | | |
| Salaries and wages | 104,171 | -- |
| Employee benefits | 15,390 | 4,091 |
| Supplies and other expense | 4,338 | 81 |
| | 123,899 | 4,172 |
| Employee Welfare: | | |
| Unemployment tax | 34,727 | 5,317 |
| Group health and life insurance | 1,499,313 | 1,543,475 |
| Workers' compensation insurance | 165,764 | 175,213 |
| | 1,699,804 | 1,724,005 |
| Insurance: | | |
| Insurance and bonding expense | 287,336 | 340,650 |
| Foundations: | | |
| Supplies and other expense | 610 | -- |
| | $ 4,951,142 | $ 4,539,080 |

SUMMARY

| | | |
|---|---|---|
| Salaries and wages | $ 1,674,610 | $ 1,338,003 |
| Employee benefits | 1,920,479 | 1,898,495 |
| Professional fees | 81,490 | 88,227 |
| Supplies and other expense | 1,274,563 | 1,214,355 |
| | $ 4,951,142 | $ 4,539,080 |

SUMMARY OF EXPENSES

| | | |
|---|---|---|
| Salaries and wages | $ 14,592,699 | $ 13,775,247 |
| Employee benefits | 3,569,710 | 3,360,162 |
| Professional fees | 761,883 | 778,946 |
| Supplies and other expense | 7,767,717 | 7,106,948 |
| | $ 26,692,009 | $ 25,021,303 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Comparative Statistics
Year ended June 30,

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Acute Care: | | | | | |
| Admissions | 1,321 | 1,260 | 1,273 | 1,417 | 1,255 |
| Discharges | 1,324 | 1,260 | 1,271 | 1,421 | 1,260 |
| Patient days | 3,906 | 4,012 | 3,847 | 4,589 | 4,360 |
| Average length of stay | 2.95 | 3.18 | 3.03 | 3.23 | 3.46 |
| Average occupied beds | 10.7 | 11.0 | 10.5 | 12.6 | 11.9 |
| Vision Quest: | | | | | |
| Admissions | 128 | 129 | 164 | 143 | 114 |
| Discharges | 132 | 129 | 163 | 142 | 110 |
| Patient days | 1,642 | 1,849 | 1,834 | 1,436 | 1,279 |
| Average length of stay | 12.44 | 14.33 | 11.25 | 10.11 | 11.63 |
| Average occupied beds | 4.5 | 5.1 | 5.0 | 3.9 | 3.5 |
| Swing Bed: | | | | | |
| Admissions | 238 | 205 | 241 | 321 | 242 |
| Discharges | 238 | 208 | 244 | 318 | 241 |
| SNF days | 1,699 | 1,399 | 1,375 | 2,065 | 1,463 |
| ICF days | 6 | 7 | 4 | 50 | 29 |
| Combined Average Occupied Beds | 19.8 | 19.9 | 19.3 | 22.3 | 19.5 |
| Nursery Days | 499 | 524 | 495 | 505 | 540 |
| Home Health Visits | 17,985 | 20,390 | 19,783 | 20,326 | 20,235 |
| Outpatient Occasions of Service | 91,431 | 89,780 | 90,368 | 89,488 | 78,536 |

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Comparative Balance Sheets
June 30,

| | 2008 | 2007 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 1,217,657 | $ 4,137,686 |
| Receivables | 5,253,279 | 4,552,488 |
| Inventory | 1,318,708 | 1,311,082 |
| Prepaid expense | 179,436 | 156,855 |
| Estimated third-party payor settlements | 22,000 | 152,000 |
| Succeeding year property tax receivable | 1,780,000 | 1,800,000 |
| Internally designated assets | 948,886 | 1,591,679 |
| Total current assets | 10,719,966 | 13,701,790 |
| Other Assets: | | |
| Designated and restricted assets, net | 7,504,390 | 2,588,019 |
| Capital assets, net | 19,986,111 | 20,936,862 |
| Other assets | 126,558 | 66,642 |
| Total other assets | 27,617,059 | 23,591,523 |
| | $ 38,337,025 | $ 37,293,313 |
| Current Liabilities: | | |
| Current maturities of long-term debt | $ 642,011 | $ 1,228,096 |
| Accounts payable | 679,142 | 654,029 |
| Accrued expenses | 1,525,842 | 1,313,936 |
| Deferred revenue for succeeding year property tax receivable | 1,780,000 | 1,800,000 |
| Total current liabilities | 4,626,995 | 4,996,061 |
| Long-Term Debt, Net | 6,878,589 | 7,520,416 |
| Net Assets | 26,831,441 | 24,776,836 |
| | $ 38,337,025 | $ 37,293,313 |

See Independent Auditor's Report.

| 2006 | 2005 | 2004 |
|---|---|---|
| $ 2,476,109 | $ 1,783,416 | $ 1,023,405 |
| 4,516,224 | 5,061,201 | 5,208,426 |
| 937,770 | 878,658 | 963,833 |
| 129,047 | 126,380 | 36,058 |
| 88,000 | 17,000 | 231,000 |
| 1,750,000 | 1,675,000 | 1,599,000 |
| 1,453,501 | 1,429,321 | 1,436,637 |
| 11,350,651 | 10,970,976 | 10,498,359 |
| | | |
| 2,590,723 | 2,276,622 | 2,134,769 |
| 22,469,617 | 23,289,497 | 24,289,272 |
| 87,384 | 214,099 | 300,099 |
| 25,147,724 | 25,780,218 | 26,724,140 |
| | | |
| $ 36,498,375 | $ 36,751,194 | $ 37,222,499 |
| | | |
| $ 1,186,781 | $ 1,121,507 | $ 1,083,702 |
| 704,343 | 634,006 | 838,743 |
| 1,264,523 | 1,659,740 | 1,490,939 |
| | | |
| 1,750,000 | 1,675,000 | 1,599,000 |
| 4,905,647 | 5,090,253 | 5,012,384 |
| | | |
| 8,746,717 | 9,801,879 | 10,887,057 |
| | | |
| 22,846,011 | 21,859,062 | 21,323,058 |
| | | |
| $ 36,498,375 | $ 36,751,194 | $ 37,222,499 |

MAHASKA HEALTH PARTNERSHIP
Comparative Statements of Revenues and Expenses
Year ended June 30,

| | 2008 | 2007 |
|---|---|---|
| Patient Service Revenue | $ 45,265,060 | $ 42,323,917 |
| Adjustments to Patient Service Revenue | ( 17,152,420) | ( 15,371,770) |
| Net Patient Service Revenue | 28,112,640 | 26,952,147 |
| Other Revenue | 216,870 | 206,684 |
| Total Revenue | 28,329,510 | 27,158,831 |
| Expenses | 28,974,921 | 27,345,916 |
| Operating Loss | ( 645,411) | ( 187,085) |
| Non-Operating Income | 2,479,016 | 2,117,910 |
| Capital Grants and Contributions | 221,000 | -- |
| Excess of Revenues Over Expenses | $ 2,054,605 | $ 1,930,825 |

See Independent Auditor's Report.

| 2006 | 2005 | 2004 |
|---|---|---|
| $ 39,812,657 | $ 39,310,797 | $ 34,656,187 |
| ( 15,502,758) | ( 15,966,812) | ( 13,333,234) |
| 24,309,899 | 23,343,985 | 21,322,953 |
| 233,201 | 270,723 | 287,386 |
| 24,543,100 | 23,614,708 | 21,610,339 |
| 25,601,265 | 25,301,829 | 23,137,702 |
| ( 1,058,165) | ( 1,687,121) | ( 1,527,363) |
| 2,045,114 | 2,223,125 | 1,787,172 |
| -- | -- | -- |
| $ 986,949 | $ 536,004 | $ 259,809 |

# COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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

To the Board of Trustees
Mahaska Health Partnership
Oskaloosa, Iowa

We have audited the financial statements of Mahaska Health Partnership as of and for the year ended June 30, 2008, and have issued our report thereon dated October 16, 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 Mahaska Health Partnership'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 our opinion on the effectiveness of Mahaska Health Partnership'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the 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 accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Hospital's financial statements, that is more than inconsequential, will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
Mahaska Health Partnership

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

Our consideration of the 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 the 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 Mahaska Health Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mahaska Health Partnership's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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

Gronewald, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
October 16, 2008

MAHASKA HEALTH PARTNERSHIP
Schedule of Findings
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

08-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2008 did not exceed amounts budgeted.

08-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

| Paid to | Purpose | Amount |
|---|---|---|
| Cassie Riley, K.D. Amusement, Grate Expectations, Nelson Pioneer Farm | Employee recognition banquet | $ 6,239 |

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING - Continued

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

08-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

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

08-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *