

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

## CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Consolidated Balance Sheets	5
Consolidated Statements of Revenues, Expenses and Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	22
ACCOMPANYING INFORMATION:	
Consolidating Schedules:	
Consolidating balance sheets	23
Consolidating statements of revenues, expenses and changes in net assets	24
Schedules Supporting Balance Sheets:	
Patient receivables	25
Inventory/Prepaid expense	26
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets:	
Patient service revenue	27
Revenue and related adjustments	28
Nursing service expenses	29
Other professional service expenses	31
General service expenses	35
Fiscal and administrative service expenses	36
Comparative Statistics	38
Comparative Balance Sheets	39
Comparative Statements of Revenues and Expenses	40
COMMENTS AND RECOMMENDATIONS:	
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	41
Schedule of Findings	43

MAHASKA HEALTH PARTNERSHIP  
Officials  
June 30, 2008

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
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 Oskaloosa, Iowa  
(Resigned September, 2007)

Susan Horras West Des Moines, Iowa  
(Hired January, 2008)

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
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.

*Glover, Beh, Kyhan & W.P.C.*

Atlantic, Iowa  
October 16, 2008



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.

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Assets:</b>			
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	<u>7,630,948</u>	<u>2,654,661</u>	<u>2,678,107</u>
Total assets	<u>\$ 38,337,025</u>	<u>\$ 37,293,313</u>	<u>\$ 36,498,375</u>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 6,878,589	\$ 7,520,416	\$ 8,746,717
Other current and noncurrent Liabilities	<u>4,626,995</u>	<u>4,996,061</u>	<u>4,905,647</u>
Total liabilities	<u>\$ 11,505,584</u>	<u>\$ 12,516,477</u>	<u>\$ 13,652,364</u>
<b>Net Assets:</b>			
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	<u>13,268,254</u>	<u>12,082,744</u>	<u>9,919,775</u>
Total net assets	<u>\$ 26,831,441</u>	<u>\$ 24,776,836</u>	<u>\$ 22,846,011</u>

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues:			
Net patient service revenues	\$ 28,112,640	\$ 26,952,147	\$ 24,309,899
Other operating revenues	<u>216,870</u>	<u>206,684</u>	<u>233,201</u>
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	<u>2,282,912</u>	<u>2,324,613</u>	<u>2,301,597</u>
Total operating expenses	<u>28,974,921</u>	<u>27,345,916</u>	<u>25,601,265</u>
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	<u>( 12,816)</u>	<u>24,171</u>	<u>( 198,116)</u>
Total nonoperating revenues (Expenses)	<u>2,479,016</u>	<u>2,117,910</u>	<u>2,045,114</u>
Excess of Revenues over Expenses and Increase in Net Assets	1,833,605	1,930,825	986,949
Capital Grants and Contributions	<u>221,000</u>	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses and Increase in Net Assets	2,054,605	1,930,825	986,949
Net Assets Beginning of Year	<u>24,776,836</u>	<u>22,846,011</u>	<u>21,859,062</u>
Net Assets End of Year	<u>\$ 26,831,441</u>	<u>\$ 24,776,836</u>	<u>\$ 22,846,011</u>

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

**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.

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

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
<b>Current Assets:</b>		
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
<b>Designated and Restricted Assets:</b>		
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
<b>Capital Assets:</b>		
Depreciable capital assets	19,485,277	20,472,461
Non-depreciable capital assets	500,834	464,401
	19,986,111	20,936,862
<b>Other Assets:</b>		
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

	<u>2008</u>	<u>2007</u>
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	<u>1,780,000</u>	<u>1,800,000</u>
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	<u>6,878,589</u>	<u>7,520,416</u>
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	<u>13,268,254</u>	<u>12,082,744</u>
Total net assets	26,831,441	24,776,836
Total liabilities and net assets	<u>\$ 38,337,025</u>	<u>\$ 37,293,313</u>

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Long-term debt	\$ 991,917	\$ 964,716
Capital acquisitions	96,392	--
Hospice	<u>401,226</u>	<u>--</u>
	<u>\$ 1,489,535</u>	<u>\$ 964,716</u>

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:

	<u>2008</u>	<u>2007</u>
Purchase of capital assets	<u>\$ 6,000</u>	<u>\$ 6,000</u>

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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
<b>Internally Designated Assets:</b>		
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
<b>Restricted Assets:</b>		
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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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:

	<u>2008</u>	<u>2007</u>
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	<u>225,540</u>	<u>115,966</u>
	7,581,019	6,566,981
Less allowances for doubtful accounts and contractual adjustments	<u>2,378,324</u>	<u>2,084,729</u>
	<u>\$ 5,202,695</u>	<u>\$ 4,482,252</u>

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
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	<u>21,895</u>	<u>--</u>	<u>--</u>	<u>21,895</u>
	40,725,364	1,277,855	( 373)	42,002,846
<u>Depreciation</u>				
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	<u>21,895</u>	<u>--</u>	<u>--</u>	<u>21,895</u>
Total Depreciation	<u>20,252,903</u>	<u>2,265,003</u>	<u>( 337)</u>	<u>22,517,569</u>
Depreciable Capital Assets, Net	<u>\$ 20,472,461</u>	<u>\$ ( 987,148)</u>	<u>\$ ( 36)</u>	<u>\$ 19,485,277</u>
Construction in Progress	\$ 150,925	\$ 132,397	\$ ( 95,964)	\$ 187,358
Land	<u>313,476</u>	<u>--</u>	<u>--</u>	<u>313,476</u>
Total Non-depreciable Capital Assets	<u>\$ 464,401</u>	<u>\$ 132,397</u>	<u>\$ ( 95,964)</u>	<u>\$ 500,834</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
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
	<u>40,066,034</u>	<u>659,330</u>	<u>--</u>	<u>40,725,364</u>
<u>Depreciation</u>				
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
	<u>17,945,683</u>	<u>2,307,220</u>	<u>--</u>	<u>20,252,903</u>
Depreciable Capital Assets, Net	<u>\$ 22,120,351</u>	<u>\$( 1,647,890)</u>	<u>\$ --</u>	<u>\$ 20,472,461</u>
Construction in Progress	\$ 35,790	\$ 115,135	\$ --	\$ 150,925
Land	313,476	--	--	313,476
	<u>349,266</u>	<u>115,135</u>	<u>--</u>	<u>464,401</u>
Total Non-depreciable Capital Assets	<u>\$ 349,266</u>	<u>\$ 115,135</u>	<u>\$ --</u>	<u>\$ 464,401</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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:

	<u>Balance</u> 2007	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 2008	<u>Current</u> <u>Portion</u>
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	<u>\$ 8,748,512</u>	<u>\$ --</u>	<u>\$1,227,912</u>	<u>\$ 7,520,600</u>	<u>\$ 642,011</u>
	<u>Balance</u> 2006	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 2007	<u>Current</u> <u>Portion</u>
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	<u>\$ 9,933,498</u>	<u>\$ --</u>	<u>\$1,184,986</u>	<u>\$ 8,748,512</u>	<u>\$1,228,096</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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	<u>3,745,000</u>	<u>424,392</u>	<u>4,169,392</u>
	<u>\$ 7,918,459</u>	<u>\$ 1,967,744</u>	<u>\$ 9,886,203</u>

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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.

MAHASKA HEALTH PARTNERSHIP  
Notes to Consolidated Financial Statements  
June 30, 2008 and 2007

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	<u>28,592,072</u>	<u>525,429</u>	<u>29,117,501</u>	
	30,504,097	525,429	31,029,526	
Expenses	<u>28,974,311</u>	<u>610</u>	<u>28,974,921</u>	
Net	1,529,786	524,819	2,054,605	
Balance beginning of year	<u>23,806,120</u>	<u>970,716</u>	<u>24,776,836</u>	
Balance end of year	<u>\$ 25,335,906</u>	<u>\$ 1,495,535</u>	<u>\$ 26,831,441</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Budget</u>
Amount raised by taxation	\$ 1,912,025	\$ --	\$ 1,912,025	\$ 1,795,878
Other revenues	<u>29,117,501</u>	<u>( 20,465)</u>	<u>29,097,036</u>	<u>28,060,327</u>
	31,029,526	( 20,465)	31,009,061	29,856,205
Expenses	<u>28,974,921</u>	<u>( 440,703)</u>	<u>28,534,218</u>	<u>32,057,155</u>
Net	2,054,605	420,238	2,474,843	( 2,200,950)
Balance beginning of year	<u>24,776,836</u>	<u>( 2,120,186)</u>	<u>22,656,650</u>	<u>22,656,650</u>
Balance end of year	<u>\$ 26,831,441</u>	<u>\$( 1,699,948)</u>	<u>\$ 25,131,493</u>	<u>\$ 20,455,700</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MAHASKA HEALTH PARTNERSHIP  
Consolidating Balance Sheets  
June 30, 2008

ASSETS

	<u>Hospital</u>	<u>Foundations</u>	<u>Total</u>
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	<u>948,886</u>	<u>--</u>	<u>948,886</u>
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	<u>( 948,886)</u>	<u>--</u>	<u>( 948,886)</u>
	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	<u>31,558</u>	<u>--</u>	<u>31,558</u>
Total assets	<u>\$ 37,839,407</u>	<u>\$ 497,618</u>	<u>\$ 38,337,025</u>

See Independent Auditor's Report.

LIABILITIES AND NET ASSETS

	<u>Hospital</u>	<u>Foundations</u>	<u>Total</u>
<b>Current Liabilities:</b>			
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	<u>1,780,000</u>	<u>--</u>	<u>1,780,000</u>
Total current liabilities	4,626,995	--	4,626,995
<b>Long-Term Debt:</b>			
Revenue bonds and notes payable, less unamortized debt issue and refunding costs, and current maturities	<u>6,878,589</u>	<u>--</u>	<u>6,878,589</u>
Total liabilities	11,505,584	--	11,505,584
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	12,067,652	--	12,067,652
Restricted	997,917	497,618	1,495,535
Unrestricted	<u>13,268,254</u>	<u>--</u>	<u>13,268,254</u>
Total net assets	<u>26,333,823</u>	<u>497,618</u>	<u>26,831,441</u>
Total liabilities and net assets	<u>\$ 37,839,407</u>	<u>\$ 497,618</u>	<u>\$ 38,337,025</u>

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

	<u>Hospital</u>	<u>Foundations</u>	<u>Total</u>
Revenue:			
Net patient service revenue	\$ 28,112,640	\$ --	\$ 28,112,640
Other revenue	<u>216,870</u>	<u>--</u>	<u>216,870</u>
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	<u>17,909</u>	<u>--</u>	<u>17,909</u>
Total expenses	<u>28,974,311</u>	<u>610</u>	<u>28,974,921</u>
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	<u>287</u>	<u>--</u>	<u>287</u>
Non-operating revenue, net	<u>2,201,788</u>	<u>277,228</u>	<u>2,479,016</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,556,987	276,618	1,833,605
Capital Grants and Contributions	<u>--</u>	<u>221,000</u>	<u>221,000</u>
Excess of Revenues Over Expenses and Increase in Net Assets	1,556,987	497,618	2,054,605
Net Assets Beginning of Year	<u>24,776,836</u>	<u>--</u>	<u>24,776,836</u>
Net Assets End of Year	<u>\$ 26,333,823</u>	<u>\$ 497,618</u>	<u>\$ 26,831,441</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
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
	<u>6,645,176</u>	<u>87.7</u>	<u>5,697,151</u>	<u>86.8</u>
Community Health and Hospice	245,416	3.2	415,759	6.3
Physician clinic	690,427	9.1	454,071	6.9
	<u>7,581,019</u>	<u>100.0%</u>	<u>6,566,981</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	621,324		579,729	
Allowance for contractual adjustments	<u>1,757,000</u>		<u>1,505,000</u>	
	<u>\$ 5,202,695</u>		<u>\$ 4,482,252</u>	

Allowance for Doubtful Accounts:

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

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Inventory/Prepaid Expense  
June 30,

	2008	2007
<u>Inventory</u>		
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
 <u>Prepaid Expense</u>		
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	
	<u>Inpatient</u>	<u>Outpatient</u>
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	--
	<u>5,322,756</u>	<u>901,239</u>
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
	<u>2,542,625</u>	<u>7,743,389</u>
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
	<u>4,607,270</u>	<u>22,235,339</u>
	<u>\$ 12,472,651</u>	<u>\$ 30,879,967</u>

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	
	<u>800,966</u>	<u>7,024,961</u>	<u>6,886,955</u>	
	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	
	<u>61,298</u>	<u>10,347,312</u>	<u>9,073,108</u>	
	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	
	<u>1,050,178</u>	<u>27,892,787</u>	<u>26,363,854</u>	
\$	<u>1,912,442</u>	<u>\$ 45,265,060</u>	<u>\$ 42,323,917</u>	

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

	2008	2007
<u>Net Patient Service Revenue</u>		
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)
	<u>\$ 28,112,640</u>	<u>\$ 26,952,147</u>
 <u>Other Revenue</u>		
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
	<u>\$ 216,870</u>	<u>\$ 206,684</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Nursing Service Expenses  
Year ended June 30,

	<u>2008</u>	<u>2007</u>
Administrative:		
Salaries and wages	\$ 136,948	\$ 152,108
Employee benefits	22,523	22,172
Supplies and other expense	<u>14,461</u>	<u>23,259</u>
	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	<u>201,738</u>	<u>177,123</u>
	2,417,664	2,046,468
Obstetrics:		
Salaries and wages	290,489	244,242
Employee benefits	44,009	31,036
Supplies and other expense	<u>59,202</u>	<u>48,855</u>
	393,700	324,133
Nursery:		
Salaries and wages	125,593	120,055
Employee benefits	15,967	13,469
Supplies and other expense	<u>8,288</u>	<u>6,053</u>
	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	<u>25,565</u>	<u>29,739</u>
	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	<u>384,497</u>	<u>423,066</u>
	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	<u>2,504</u>	<u>1,518</u>
	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,

	<u>2008</u>	<u>2007</u>
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
	<u>1,018,643</u>	<u>953,160</u>
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
	<u>1,018,709</u>	<u>855,858</u>
Electroencephalography and Electrocardiology:		
Salaries and wages	799	918
Employee benefits	59	66
Purchased services	2,304	--
	<u>3,162</u>	<u>984</u>
Oncology:		
Salaries and wages	84,775	85,766
Employee benefits	11,614	10,416
Supplies and other expense	14,214	11,209
	<u>110,603</u>	<u>107,391</u>
Radiology and Ultrasound:		
Salaries and wages	457,896	418,059
Employee benefits	64,736	52,436
Supplies and other expense	585,351	531,676
	<u>1,107,983</u>	<u>1,002,171</u>
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,

	<u>2008</u>	<u>2007</u>
Pharmacy:		
Salaries and wages	\$ 269,372	\$ 212,994
Employee benefits	46,264	16,052
Drugs and other expense	885,631	1,072,192
	<u>1,201,267</u>	<u>1,301,238</u>
 Anesthesiology:		
Salaries and wages	202,108	166,147
Employee benefits	20,991	22,068
Supplies and other expense	52,756	48,294
	<u>275,855</u>	<u>236,509</u>
 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
	<u>468,984</u>	<u>441,058</u>
 Physical Therapy:		
Professional fees	510,674	549,559
Supplies and other expense	19,629	19,459
	<u>530,303</u>	<u>569,018</u>
 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
	<u>33,576</u>	<u>63,592</u>
 Occupational Therapy:		
Professional fees	147,555	122,050
Supplies and other expense	4,957	2,973
	<u>152,512</u>	<u>125,023</u>
 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
	<u>182,396</u>	<u>302,975</u>

(continued next page)

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

	<u>2008</u>	<u>2007</u>
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
	<u>1,282,790</u>	<u>1,227,879</u>
Hospice:		
Salaries and wages	471,991	429,637
Employee benefits	69,700	56,334
Supplies and other expense	143,981	155,282
	<u>685,672</u>	<u>641,253</u>
Medical Records:		
Salaries and wages	308,755	297,668
Employee benefits	41,804	39,733
Supplies and other expense	87,310	53,573
	<u>437,869</u>	<u>390,974</u>
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
	<u>2,169,476</u>	<u>2,461,485</u>
Outpatient Clinics:		
Salaries and wages	4,119	626
Employee benefits	315	6
Purchased services	1,159	--
Supplies and other expense	345	--
	<u>5,938</u>	<u>632</u>
Dietician Services:		
Salaries and wages	3,858	37,970
Employee benefits	527	2,593
Supplies and other expense	47,272	2,725
	<u>51,657</u>	<u>43,288</u>
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
	<u>896,930</u>	<u>961,086</u>

(continued next page)

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

	<u>2008</u>	<u>2007</u>
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	<u>24,432</u>	<u>23,924</u>
	161,005	152,056
Employee Health:		
Salaries and wages	42,485	28,079
Employee benefits	3,005	1,958
Supplies and other expense	<u>9,461</u>	<u>7,168</u>
	54,951	37,205
Mahaska Med Spa:		
Salaries and wages	30,868	61,269
Employee benefits	4,292	7,350
Supplies and other expense	<u>46,262</u>	<u>40,302</u>
	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	<u>673</u>	<u>625</u>
	<u>28,526</u>	<u>42,102</u>
	<u>\$ 12,224,777</u>	<u>\$ 12,314,023</u>

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	<u>3,508,222</u>	<u>3,501,933</u>
	<u>\$ 12,224,777</u>	<u>\$ 12,314,023</u>

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,

	<u>2008</u>	<u>2007</u>
<b>Administrative:</b>		
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
	<u>1,766,170</u>	<u>1,622,734</u>
<b>Information Systems:</b>		
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
	<u>403,506</u>	<u>269,387</u>
<b>Purchasing:</b>		
Salaries and wages	118,738	81,501
Employee benefits	18,043	5,942
Supplies and other expense	17,292	19,450
	<u>154,073</u>	<u>106,893</u>
<b>Public Relations:</b>		
Salaries and wages	97,253	99,078
Employee benefits	13,356	14,577
Supplies and other expense	86,996	86,167
	<u>197,605</u>	<u>199,822</u>
<b>Human Resources:</b>		
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
	<u>231,911</u>	<u>219,035</u>

(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,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
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
<b>Current Assets:</b>		
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
<b>Other Assets:</b>		
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
<b>Current Liabilities:</b>		
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.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 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
<u>1,453,501</u>	<u>1,429,321</u>	<u>1,436,637</u>
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
<u>25,147,724</u>	<u>25,780,218</u>	<u>26,724,140</u>
<u>\$ 36,498,375</u>	<u>\$ 36,751,194</u>	<u>\$ 37,222,499</u>
\$ 1,186,781	\$ 1,121,507	\$ 1,083,702
704,343	634,006	838,743
1,264,523	1,659,740	1,490,939
<u>1,750,000</u>	<u>1,675,000</u>	<u>1,599,000</u>
4,905,647	5,090,253	5,012,384
8,746,717	9,801,879	10,887,057
<u>22,846,011</u>	<u>21,859,062</u>	<u>21,323,058</u>
<u>\$ 36,498,375</u>	<u>\$ 36,751,194</u>	<u>\$ 37,222,499</u>

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

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

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 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
<u>233,201</u>	<u>270,723</u>	<u>287,386</u>
24,543,100	23,614,708	21,610,339
<u>25,601,265</u>	<u>25,301,829</u>	<u>23,137,702</u>
( 1,058,165)	( 1,687,121)	( 1,527,363)
2,045,114	2,223,125	1,787,172
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 986,949</u>	<u>\$ 536,004</u>	<u>\$ 259,809</u>

## COMMENTS AND RECOMMENDATIONS

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

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.

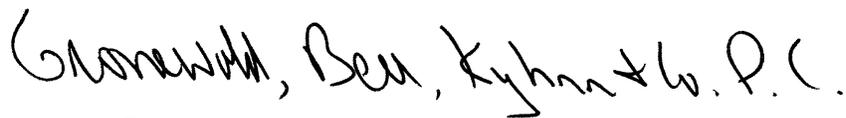
#### Compliance and Other Matters

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.



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:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
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.

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

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.

\* \* \*