

Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2009 and 2008

Madison County Memorial Hospital
June 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

We have audited the accompanying balance sheets of Madison County Memorial Hospital as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison County Memorial Hospital as of June 30, 2009 and 2008, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Board of Trustees
Madison County Memorial Hospital
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ BKD, LLP

Kansas City, Missouri
November 13, 2009

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Introduction

This management's discussion and analysis of the financial performance of Madison County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2009 and 2008 by \$23,642 or 2% and increased \$626,280 or 79% in 2008 and 2007.
- Patient accounts receivable, net of allowances increased \$311,223 or 18% in 2009 and 2008 and decreased \$42,365 or 4% in 2008 compared to 2007.
- The Hospital's net assets increased \$1,677,776 or 18% in 2009 over 2008 and increased \$666,824 or 8% in 2008 over 2007.
- The Hospital reported operating income in 2009 of \$37,731 and an operating loss in 2008 of \$902,607. The operating income in 2009 represents an increase of \$940,338 or 104% from the operating loss reported in 2008. The loss in 2008 decreased by \$278,303 or 24% from the operating loss reported in 2007.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,677,776 or 18% over 2008 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 2,051,808	\$ 1,740,585	\$ 1,782,950
Other current assets	4,184,820	3,772,880	3,316,800
Capital assets, net	7,685,180	7,374,625	7,725,695
Other noncurrent assets	3,280,686	3,074,127	2,460,659
Total assets	\$ 17,202,494	\$ 15,962,217	\$ 15,286,104
Liabilities			
Current liabilities	\$ 3,066,606	\$ 3,267,494	\$ 3,031,970
Long-term debt	2,912,545	3,149,156	3,375,391
Total liabilities	5,979,151	6,416,650	6,407,361
Net Assets			
Invested in capital assets, net of related debt	4,603,248	3,964,806	4,299,266
Restricted expendable	635,069	742,925	760,020
Unrestricted	5,985,026	4,837,836	3,819,457
Total net assets	11,223,343	9,545,567	8,878,743
Total liabilities and net assets	\$ 17,202,494	\$ 15,962,217	\$ 15,286,104

One significant change in the Hospital's current assets in 2009 is the increase in net patient accounts receivable of \$311,223 or 18%. The Emergency Department generated a significant increase in revenue during 2009 creating an overall increase in net patient revenue secondary to implementing a new physician documentation tool.

Other assets increased in 2009 by \$411,940 or 11%. The cash and short term investments increased \$148,842 between 2009 and 2008. The estimated amounts due from third-party payers increased \$166,000 over 2008.

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

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

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$1,677,776 or 18% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues			
Net patient service revenue	\$ 14,996,280	\$ 12,947,270	\$ 12,378,686
Other operating revenues	98,499	124,067	74,976
Total operating revenues	<u>15,094,779</u>	<u>13,071,337</u>	<u>12,453,662</u>
Operating Expenses			
Salaries and wages and employee benefits	8,669,994	8,014,407	8,050,610
Medical and professional fees	1,754,280	1,682,519	1,804,784
Depreciation and amortization	842,064	778,096	674,803
Other operating expenses	3,790,710	3,498,922	3,104,375
Total operating expenses	<u>15,057,048</u>	<u>13,973,944</u>	<u>13,634,572</u>
Operating Income (Loss)	<u>37,731</u>	<u>(902,607)</u>	<u>(1,180,910)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,606,774	1,465,467	1,410,387
Interest expense	(155,926)	(150,462)	(86,835)
Interest income	112,125	153,350	140,853
Rent income	32,905	37,048	33,116
Non-capital grants and contributions	20,948	23,288	28,874
Total nonoperating revenues	<u>1,616,826</u>	<u>1,528,691</u>	<u>1,526,395</u>
Excess of Revenue over Expenses, Before Capital Grants and Contributions	1,654,557	626,084	345,485
Capital Grants and Contributions	<u>23,219</u>	<u>40,740</u>	<u>-</u>
Increase in Net Assets	<u>\$ 1,677,776</u>	<u>\$ 666,824</u>	<u>\$ 345,485</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2009, the Hospital reported a small operating income and in 2008 and 2007, an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Madison County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients. The primary components of the change in operations from 2008 to 2009 are as follows:

- Net patient service revenue increased \$2,049,010 or 16% primarily due to the Emergency Department implementing a new comprehensive physician patient care documentation tool. The Hospital captured more billable services than the prior year when coding from the new documentation tool. The Hospital also began offering Orthopedic Surgeon services in Health Trust Physicians Clinic weekly in January 2009, creating an increase in revenue for the Hospital.
- Salaries, wages, and employee benefits for the Hospital's employees increased \$655,587 or 8%. This change was due to providing salary increases for employees to recruit and retain staff considering the close proximity to Des Moines.
- Operating supplies and other expenses increased \$291,788 or 8%. Included in this amount was increases in supplies and expenses per the statement of operations of \$168,145 or 10%. This increase was due to purchasing minor equipment and supplies necessary for the new Orthopedic Surgeons to provide patient care in the Hospital and Clinic.

The operating loss for 2008 decreased by \$278,303 or 24% as compared to 2007. The primary components of the decrease in the operating loss were:

- Net patient service revenue increased \$568,584 or 5% primarily due to an increase in patient days of 210 or 7% plus the standard patient charge increase.
- A decrease in salaries, wages and employee benefits for the Hospital's employees of \$36,203 or .5%. This change is due to employees receiving a 3% wage increase and hiring a full time CRNA in the Spring of 2008. The Hospital transitioned out of providing Home Care, Mental Health and Substance Abuse services during the year creating a reduction in wages of \$291,000.
- A decrease in medical professional fees of \$122,265 or 7%. This is primarily due to changing CRNA contractors during the year and eventually hiring a CRNA full time.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense which, in total, increased by \$88,135 or 6% from 2009 to 2008 and less than 1% from 2008 to 2007. The increase in 2009 was due primarily to a \$141,307 increase in property taxes and a decrease of \$41,225 of interest income secondary to lower interest rates received during the economic decline this past year.

Contributions

The Hospital received contributions of \$20,948 from various individuals in 2009, a decrease of \$2,340 or 10% from 2008. The Hospital also received capital contributions of \$23,219 in 2009.

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

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2009, 2008 and 2007, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the Hospital had \$7.7 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2009, the Hospital purchased new capital assets costing \$1,158,561.

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

Debt

In 2009, the Hospital had \$3,154,545 in revenue capital loan notes and loans outstanding. The Hospital issued no new debt in 2009.

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

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 515.462.2373.

Madison County Memorial Hospital

Balance Sheets

June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 1,441,719	\$ 1,418,077
Short term investments	125,200	-
Assets held under bond indenture agreement	242,330	233,054
Patient accounts receivable, net of allowance; \$452,300 and \$316,900 in 2009 and 2008	2,051,808	1,740,585
Property taxes receivable	1,717,051	1,637,145
Other receivables	155,231	1,897
Estimated amounts due from third-party payers	21,000	-
Supplies	286,403	290,114
Prepaid expenses	195,886	192,593
	<u>6,236,628</u>	<u>5,513,465</u>
Noncurrent Cash, Deposits and Other		
Internally designated	2,795,463	2,447,059
Externally restricted		
Held under bond indenture agreement	594,339	680,862
By donors	53,060	75,117
	<u>3,442,862</u>	<u>3,203,038</u>
Less amount required to meet current obligations	<u>242,330</u>	<u>233,054</u>
	<u>3,200,532</u>	<u>2,969,984</u>
Capital Assets, Net of Accumulated Depreciation	<u>7,685,180</u>	<u>7,374,625</u>
Other Assets		
Deferred financing costs (net of amortization; 2009 – \$147,325, 2008 – \$123,336)	<u>80,154</u>	<u>104,143</u>
Total Assets	<u>\$ 17,202,494</u>	<u>\$ 15,962,217</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Current maturities of long-term debt	\$ 242,000	\$ 232,000
Accounts payable	262,951	426,455
Accrued vacation	357,182	373,118
Accrued payroll and related liabilities	472,038	438,836
Estimated self-insurance costs	30,000	30,000
Accrued interest	12,330	13,054
Estimated amounts due to third-party payers	-	145,000
Deferred revenue for property taxes	1,690,105	1,609,031
	<u>3,066,606</u>	<u>3,267,494</u>
Total current liabilities	3,066,606	3,267,494
Long-term Debt	<u>2,912,545</u>	<u>3,149,156</u>
	<u>5,979,151</u>	<u>6,416,650</u>
Total liabilities	5,979,151	6,416,650
Net Assets		
Invested in capital assets, net of related debt	4,603,248	3,964,806
Restricted-expendable for		
Future renovation	38,206	22,475
Debt service	582,009	667,808
Specific operating activities	14,854	52,642
Unrestricted	5,985,026	4,837,836
	<u>11,223,343</u>	<u>9,545,567</u>
Total net assets	11,223,343	9,545,567
Total Liabilities and Net Assets	<u>\$ 17,202,494</u>	<u>\$ 15,962,217</u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 15,704,934	\$ 13,539,300
Provision for uncollectible accounts	<u>(708,654)</u>	<u>(592,030)</u>
Net patient service revenue	14,996,280	12,947,270
Other	<u>98,499</u>	<u>124,067</u>
 Total operating revenues	 <u>15,094,779</u>	 <u>13,071,337</u>
 Operating Expenses		
Salaries and wages	6,753,607	6,196,851
Employee benefits	1,916,387	1,817,556
Medical professional fees	1,754,280	1,682,519
Supplies and expenses	1,772,812	1,604,667
General services	635,799	575,024
Administrative services	1,132,267	1,081,932
Depreciation and amortization	842,064	778,096
Insurance	<u>249,832</u>	<u>237,299</u>
 Total operating expenses	 <u>15,057,048</u>	 <u>13,973,944</u>
 Operating Gain (Loss)	 <u>37,731</u>	 <u>(902,607)</u>
 Nonoperating Revenues (Expenses)		
Property taxes	1,606,774	1,465,467
Interest expense	(155,926)	(150,462)
Interest income	112,125	153,350
Rent income	32,905	37,048
Noncapital grants and contributions	<u>20,948</u>	<u>23,288</u>
 Total nonoperating revenues	 <u>1,616,826</u>	 <u>1,528,691</u>
 Excess of Revenues over Expenses, Before Capital Grants and Contributions	 <u>1,654,557</u>	 <u>626,084</u>
 Capital Grants and Contributions	 <u>23,219</u>	 <u>40,740</u>
 Increase in Net Assets	 <u>1,677,776</u>	 <u>666,824</u>
 Net Assets, Beginning of Year	 <u>9,545,567</u>	 <u>8,878,743</u>
 Net Assets, End of Year	 <u><u>\$ 11,223,343</u></u>	 <u><u>\$ 9,545,567</u></u>

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 14,519,057	\$ 13,345,463
Payments to suppliers and contractors	(5,736,145)	(5,170,437)
Payments to employees	(8,652,728)	(7,959,306)
Other receipts, net	<u>120,774</u>	<u>98,098</u>
Net cash provided by operating activities	<u>250,958</u>	<u>313,818</u>
Noncapital Financing Activities		
Property taxes	1,606,774	1,465,467
Noncapital grants and gifts	20,948	23,288
Other	<u>32,905</u>	<u>37,048</u>
Net cash provided by noncapital financing activities	<u>1,660,627</u>	<u>1,525,803</u>
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(232,000)	(239,203)
Interest paid on capital debt and leases	(156,650)	(151,136)
Capital grants and contributions	23,219	40,740
Proceeds from sale of capital assets	1,288	-
Purchase of capital assets	<u>(1,283,826)</u>	<u>(389,978)</u>
Net cash used in capital and related financing activities	<u>(1,647,969)</u>	<u>(739,577)</u>
Investing Activities		
Interest on deposits	112,125	153,350
Purchase of deposits	(4,301,200)	(3,579,915)
Proceeds from disposition of deposits	<u>3,945,000</u>	<u>2,770,000</u>
Net cash used in investing activities	<u>(244,075)</u>	<u>(656,565)</u>
Increase in Cash and Cash Equivalents	19,541	443,479
Cash and Cash Equivalents, Beginning of Year	<u>1,468,835</u>	<u>1,025,356</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,488,376</u></u>	<u><u>\$ 1,468,835</u></u>

Madison County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,441,719	\$ 1,418,077
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	2,464	1,254
Held under bond agreement	29,339	30,862
Externally restricted by donor	14,854	18,642
	\$ 1,488,376	\$ 1,468,835
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating gain (loss)	\$ 37,731	\$ (902,607)
Depreciation and amortization	842,063	778,096
Loss on sale of capital assets	34,033	4,909
Changes in operating assets and liabilities		
Receivables, net	(464,557)	70,596
Supplies	3,711	(18,022)
Estimated amounts due from and to third-party payers	(166,000)	355,828
Accounts payable and accrued expenses	(19,805)	(56,325)
Other assets and liabilities	(16,218)	81,343
Net cash provided by operating activities	\$ 250,958	\$ 313,818
 Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 7,541	\$ 132,806

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Madison County Memorial Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Madison County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Madison County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in both of the years ended June 30, 2009 and 2008, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee dental, vision, short-term disability claims and partial health insurance deductibles, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee dental, vision and short-term disability claims. Annual estimated provisions are accrued for the self-insured dental, vision and short-term disability claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Supplies

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

Capital Assets

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

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

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

	2009	2008
Interest costs capitalized (net of interest earnings on project funds of \$2,785 in 2008)	\$ -	\$ 11,124
Interest costs charged to expense	155,926	150,462
Total interest incurred (net of interest earnings on project funds)	\$ 155,926	\$ 161,586

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the bonds outstanding method.

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

The Hospital has adopted the provisions of Governmental Accounting Standards No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As the Hospital does not provide such benefits, the new standard had no impact on the accompanying financial statements.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$330,570 and \$380,839 for 2009 and 2008, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through November 13, 2009 which is the date the financial statements were available to be issued.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 51% and 49% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2009 and 2008, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Interest Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2009 and 2008. The Hospital's deposits in banks at June 30, 2009 and 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 insure there will be no loss of public funds.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2009, the Hospital had the following investments and maturities:

Type	June 30, 2009				
	Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Money market funds	\$ 125,200	\$ 125,200	\$ -	\$ -	\$ -

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital’s investment policy limits investments to maturities consistent with the needs and uses of the Hospital. The money market funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009, the Hospital’s money market funds are not rated.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2009, the Hospital’s investment in Money Market Funds constituted 100% of its total investments.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Summary of Carrying Values

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

	2009	2008
Carrying value		
Deposits	\$ 4,845,955	\$ 4,598,220
Investments	125,200	-
Other	420	420
	<u>\$ 4,971,575</u>	<u>\$ 4,598,640</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,441,719	\$ 1,418,077
Short-term investments	125,200	-
Assets held under bond indenture agreement	594,339	680,862
Noncurrent cash, deposits and other	<u>2,810,317</u>	<u>2,499,701</u>
	<u>\$ 4,971,575</u>	<u>\$ 4,598,640</u>

Interest Income

Interest income for the years ended June 30, 2009 and 2008, amounted to \$112,125 and \$153,350, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2009 and 2008 consisted of:

	2009	2008
Medicare	\$ 678,953	\$ 515,722
Medicaid	78,030	117,728
Other third-party payers	913,434	757,623
Patients	833,691	666,412
	<u>2,504,108</u>	<u>2,057,485</u>
Less allowance for uncollectible accounts	<u>452,300</u>	<u>316,900</u>
	<u>\$ 2,051,808</u>	<u>\$ 1,740,585</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2009					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	583,269			96,166	679,435
Buildings and leasehold improvements	6,573,007			26,038	6,599,045
Fixed equipment	4,646,194		(145,949)	180,577	4,680,822
Major movable equipment	2,969,811	9,857	(52,456)	702,582	3,629,794
Construction in progress	110,037	1,148,704		(1,005,363)	253,378
	<u>14,887,364</u>	<u>1,158,561</u>	<u>(198,405)</u>	<u>-</u>	<u>15,847,520</u>
Less accumulated depreciation					
Land improvements	(286,913)	(36,588)			(323,501)
Buildings and leasehold improvements	(2,631,634)	(246,351)			(2,877,985)
Fixed equipment	(2,540,440)	(226,578)	110,627		(2,656,391)
Major movable equipment	(2,053,751)	(303,168)	52,456		(2,304,463)
	<u>(7,512,738)</u>	<u>(812,685)</u>	<u>163,083</u>	<u>-</u>	<u>(8,162,340)</u>
Capital assets, net	<u>\$ 7,374,626</u>	<u>\$ 345,876</u>	<u>\$ (35,322)</u>	<u>\$ -</u>	<u>\$ 7,685,180</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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

Note 6: Medical Malpractice Insurance

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

The Hospital is required under agreement to provide tail coverage to certain employed physicians practicing at the Hospital. The Hospital is liable for any medical liability claims prior to the physician's employment dates, for which it is self-insured. As of June 30, 2009, the Hospital is unaware of any claims arising from dates of service prior to the physicians' employment.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 7: Risk Management

Liabilities include an accrual for claims that have been incurred but not reported for self-insured employee benefits. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital is self-insured for dental, vision, disability benefits and partial health insurance deductibles. Changes in the balance of claims liabilities during 2009 and 2008 are summarized as follows:

	2009	2008
Balance, beginning of year	\$ 30,000	\$ 35,000
Current year claims and changes in estimates	128,817	128,209
Claim payments	(128,817)	(133,209)
Balance, end of year	\$ 30,000	\$ 30,000

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2009 and 2008:

	Beginning Balance	Additions	2009 Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue and refunding notes Series 2005 (A)	\$ 3,380,000	\$ -	\$ (220,000)	\$ 3,160,000	\$ 230,000
Rural economic development loan (B)	36,000	-	(12,000)	24,000	12,000
Total long-term debt	3,416,000	\$ -	\$ (232,000)	3,184,000	\$ 242,000
Less unamortized discount	(34,844)			(29,455)	
	\$ 3,381,156			\$ 3,154,545	

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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

- (A) Hospital Revenue and Refunding Notes, Series 2005, originally aggregating \$4,000,000. Total notes of \$2,150,000 mature serially through 2015 bearing interest at 3.85% to 4.65%. The remaining notes consist of \$1,640,000 term notes bearing interest at 5.00% due June 1, 2020. The term notes are subject to mandatory sinking fund payments prior to maturing serially through June 1, 2020 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital.
- (B) Noninterest-bearing loan due September 20, 2010; payable \$12,000 annually; secured by irrevocable letter of credit from Union State Bank.
- (C) At an imputed interest of 7.3% maturing through 2008 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	<u>2008</u>
Equipment	\$ 150,850
Less accumulated depreciation	150,850
	<u>\$ -</u>

The Series 2005 Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$370,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$370,000 at June 30, 2009.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

The Note Resolution also requires that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$224,339 and \$310,862 at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, deposits in the Sinking Fund were in excess of required amounts of \$192,842 and \$279,475, respectively.

The debt service requirements for the Hospital Revenue and Refunding Notes Series 2005 as of June 30, 2009, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2010	\$ 377,960	\$ 230,000	\$ 147,960
2011	373,645	235,000	138,645
2012	373,893	245,000	128,893
2013	378,480	260,000	118,480
2014	377,170	270,000	107,170
2015 – 2019	1,891,270	1,560,000	331,270
2020	378,000	360,000	18,000
	<u>\$ 4,150,418</u>	<u>\$ 3,160,000</u>	<u>\$ 990,418</u>

The debt service requirements as of June 30, 2009 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2010	\$ 12,000	\$ 12,000
2011	12,000	12,000
	<u>\$ 24,000</u>	<u>\$ 24,000</u>

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 9: Restricted and Designated Net Assets

At June 30, 2009 and 2008, restricted expendable net assets were available for the following purposes:

	<u>2009</u>	<u>2008</u>
Debt service	\$ 582,009	\$ 667,808
Future renovation	38,206	22,475
Specific operating activities:		
Hospice	13,849	51,130
Other	1,005	1,512
	<u> </u>	<u> </u>
Total restricted expendable net assets	<u>\$ 635,069</u>	<u>\$ 742,925</u>

The Hospital has recorded a \$38,206 receivable in noncurrent cash, deposits and other, externally restricted by donor from an unrelated Foundation for contributions received by the Foundation for the Hospital.

Note 10: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 4.1% and 3.9% of their annual covered salaries and the Hospital is required to contribute 6.35% and 6.05% of annual covered payroll for 2009 and 2008, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$416,915, \$392,873 and \$353,577, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.35% of annual covered salary for 2009.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 11: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$255,184 and \$217,622 were incurred for the years ended June 30, 2009 and 2008, respectively.

Note 12: Operating Leases

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

Future minimum lease payments at June 30, 2009 were:

2010	\$ 185,313
2011	<u>46,328</u>
Future minimum lease payments	<u>\$ 231,641</u>

Rental expense for all operating leases was \$261,310 and \$275,442 for the years ended June 30, 2009 and 2008, respectively.

Note 13: Budget and Budgetary Accounting

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

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

The following is reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2009:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,606,774	\$ -	\$ 1,606,774	\$ 1,609,031
Other revenues/receipts	<u>15,283,976</u>	<u>(630,557)</u>	<u>14,653,419</u>	<u>14,347,877</u>
	16,890,750	(630,557)	16,260,193	15,956,908
Expenses/disbursements	<u>15,212,974</u>	<u>(34,204)</u>	<u>15,178,770</u>	<u>15,828,983</u>
	1,677,776	(596,353)	1,081,423	127,925
Balance, beginning of year	<u>9,545,567</u>	<u>(2,435,871)</u>	<u>7,109,696</u>	<u>7,109,696</u>
Balance, end of year	<u>\$ 11,223,343</u>	<u>\$ (3,032,224)</u>	<u>\$ 8,191,119</u>	<u>\$ 7,237,621</u>

Note 14: Contingencies

Litigation

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

Note 15: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 16: Subsequent Event

Subsequent to June 30, 2009, the Hospital Board of Trustees approved a building addition and renovation project not to exceed \$8.8 million in construction costs. The Hospital plans to finance the project with revenue bonds and existing funds.

Supplementary Information

Madison County Memorial Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2009 and 2008

	2009				2008			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	\$ 2,178,674	\$ 2,078,914	\$ 99,760		\$ 2,123,906	\$ 2,055,422	\$ 68,484	
Swing-bed	959,440			\$ 959,440	761,463			\$ 761,463
	<u>3,138,114</u>	<u>2,078,914</u>	<u>99,760</u>	<u>959,440</u>	<u>2,885,369</u>	<u>2,055,422</u>	<u>68,484</u>	<u>761,463</u>
Nursing Services								
Operating and recovery rooms	934,005	84,701	849,304		878,437	66,094	810,860	1,483
Emergency room	2,847,797	176,256	2,670,856	685	1,772,050	116,866	1,655,062	122
	<u>3,781,802</u>	<u>260,957</u>	<u>3,520,160</u>	<u>685</u>	<u>2,650,487</u>	<u>182,960</u>	<u>2,465,922</u>	<u>1,605</u>
Other Professional Services								
Laboratory	3,428,364	443,355	2,925,236	59,773	3,038,371	415,189	2,572,831	50,351
Central services and supplies	623,807	143,916	466,189	13,702	545,390	139,710	392,818	12,862
Blood administration	62,005	20,410	39,663	1,932	88,165	22,224	65,941	
Electrocardiology	89,637	18,876	69,617	1,144	82,006	15,851	65,893	262
Echocardio/Vascular	242,945	23,928	215,556	3,461	178,205	15,574	161,675	956
Stress test	53,710	1,591	52,119		41,002	607	40,395	
Radiology	2,064,124	185,830	1,862,579	15,715	1,894,192	171,329	1,712,528	10,335
MRI	490,472	30,488	459,984		340,689	16,719	323,970	
Mammography	135,625	217	135,408		120,522		120,522	
CT	1,836,125	316,553	1,506,801	12,771	1,519,179	262,484	1,252,937	3,758
Chronic disease management	324,815	331	324,484		258,162		257,886	276
Nuclear medicine	394,130	14,540	378,400	1,190	306,109	16,543	288,207	1,359
Mental health					203,353	364	202,625	364
Pharmacy	2,572,870	890,268	1,326,000	356,602	2,169,953	852,291	1,041,622	276,040
Intravenous therapy	489,702	281,112	149,910	58,680	442,026	307,392	114,696	19,938
Madison County Home Care					23		23	
Anesthesiology	366,362	42,938	323,424		147,723	14,523	132,378	822
Respiratory therapy	242,990	191,760	2,115	49,115	254,448	213,624	3,240	37,584
Physical therapy	521,973	31,284	357,780	132,909	493,612	30,335	346,341	116,936
Occupational therapy	182,854	14,557	104,092	64,205	169,643	9,537	103,377	56,729
Speech therapy	37,756	7,893	22,402	7,461	30,607	8,143	16,659	5,805
Substance abuse	1,510	1,510			82,877	1,755	81,122	

See Independent Accounts' Report

Madison County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2009 and 2008

	2009				2008			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Health Trust Physicians Clinic	\$ 2,579,514	\$ 186,429	\$ 2,376,028	\$ 17,057	\$ 2,433,221	\$ 189,272	\$ 2,224,578	\$ 19,371
Earlham Medical Clinic	293,577		293,577		260,474		260,474	
Outpatient Clinic	89,792	1,310	88,482		98,280	347	97,933	
Chemotherapy	37,401	2,759	34,642		12,418		12,418	
Sleep study	102,058		102,058		84,940		82,372	2,568
Dietitian patient revenue	2,414		2,414		2,454		2,454	
Middle River Hospice	1,702,851		1,702,851		1,056,940		1,056,940	
	<u>18,969,383</u>	<u>2,851,855</u>	<u>15,321,811</u>	<u>795,717</u>	<u>16,354,984</u>	<u>2,703,813</u>	<u>13,034,855</u>	<u>616,316</u>
Gross Patient Service Revenue	25,889,299	<u>\$ 5,191,726</u>	<u>\$ 18,941,731</u>	<u>\$ 1,755,842</u>	21,890,840	<u>\$ 4,942,195</u>	<u>\$ 15,569,261</u>	<u>\$ 1,379,384</u>
Contractual Adjustments	<u>(10,184,365)</u>				<u>(8,351,540)</u>			
Net Patient Service Revenue								
before Provision for								
Uncollectible Accounts	15,704,934				13,539,300			
Provision for Uncollectible Accounts	<u>(708,654)</u>				<u>(592,030)</u>			
Net Patient Service Revenue	<u>\$ 14,996,280</u>				<u>\$ 12,947,270</u>			

Madison County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 35,640	\$ 29,622
Medical records	9,542	9,064
Other	53,100	62,270
Loss on disposal of property and equipment	(34,033)	(4,909)
Health Trust Physician Clinic other revenue	<u>34,250</u>	<u>28,020</u>
	<u>\$ 98,499</u>	<u>\$ 124,067</u>

Madison County Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,216,076	\$ 1,066,049	\$ 150,027	\$ 1,169,614	\$ 1,001,725	\$ 167,889
Emergency room	833,657	500,980	332,677	764,930	454,568	310,362
Operating and recovery rooms	339,978	240,345	99,633	283,028	215,246	67,782
Nursing administration	89,946	89,171	775	79,815	77,266	2,549
	<u>2,479,657</u>	<u>1,896,545</u>	<u>583,112</u>	<u>2,297,387</u>	<u>1,748,805</u>	<u>548,582</u>
Other Professional Services						
Laboratory	614,753	288,408	326,345	593,441	253,597	339,844
Central services and supplies	198,969	68,059	130,910	187,086	64,615	122,471
Blood administration	42,446		42,446	57,009		57,009
Electrocardiology	4,395	3,364	1,031	3,436	2,096	1,340
Echocardio/Vascular	90,879		90,879	71,037		71,037
Stress test	9,916	9,199	717	9,023	7,596	1,427
Radiology	539,751	222,786	316,965	558,953	200,606	358,347
MRI	70,607	866	69,741	55,014	899	54,115
Mammography	27,044	18,103	8,941	25,560	16,380	9,180
CT	248,731	14,764	233,967	246,367	12,918	233,449
Chronic disease management	104,291	91,068	13,223	95,544	83,400	12,144
Nuclear medicine	88,764	778	87,986	75,620	904	74,716
Mental health				143,018	85,694	57,324
Pharmacy	677,110	32,383	644,727	590,700	33,177	557,523
Intravenous solutions	23,037		23,037	14,173		14,173
Madison County Home Care				254	(346)	600
Anesthesiology	255,657	227,238	28,419	117,801	84,043	33,758
Respiratory therapy	25,906		25,906	20,711		20,711
Physical therapy	237,512		237,512	242,303	1,019	241,284
Occupational therapy	64,893		64,893	57,976		57,976
Speech therapy	19,266		19,266	13,540		13,540
Substance abuse				69,215	53,531	15,684
Health Trust Physicians Clinic	1,788,106	1,593,018	195,088	1,588,708	1,512,733	75,975
Earlham Medical Clinic	226,160	197,472	28,688	211,893	191,170	20,723
Outpatient Clinic	100,493	98,983	1,510	96,091	90,623	5,468
Chemotherapy	6,516	5,866	650	1,460	1,667	(207)

Madison County Memorial Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	\$ 31,261	\$ 361	\$ 30,900	\$ 28,525	\$ 325	\$ 28,200
Middle River Hospice	514,256	288,978	225,278	492,363	284,061	208,302
Medical records	327,553	233,343	94,210	275,532	223,403	52,129
Social services	26,640	25,895	745	24,098	23,736	362
Observation care	4,607	4,607		3,861	3,861	
	<u>6,369,519</u>	<u>3,425,539</u>	<u>2,943,980</u>	<u>5,970,312</u>	<u>3,231,708</u>	<u>2,738,604</u>
General Services						
Operation of plant	615,673	149,150	466,523	561,029	136,840	424,189
Dietary	312,099	186,753	125,346	288,501	176,116	112,385
Housekeeping	162,994	119,064	43,930	140,658	102,208	38,450
	<u>1,090,766</u>	<u>454,967</u>	<u>635,799</u>	<u>990,188</u>	<u>415,164</u>	<u>575,024</u>
Administrative Services	<u>2,108,823</u>	<u>976,556</u>	<u>1,132,267</u>	<u>1,883,106</u>	<u>801,174</u>	<u>1,081,932</u>
Employee Benefits	<u>1,916,387</u>		<u>1,916,387</u>	<u>1,817,556</u>		<u>1,817,556</u>
Depreciation	<u>842,064</u>		<u>842,064</u>	<u>778,096</u>		<u>778,096</u>
Insurance	<u>249,832</u>		<u>249,832</u>	<u>237,299</u>		<u>237,299</u>
	<u>\$ 15,057,048</u>	<u>\$ 6,753,607</u>	<u>\$ 8,303,441</u>	<u>\$ 13,973,944</u>	<u>\$ 6,196,851</u>	<u>\$ 7,777,093</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2009 and 2008

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2009	2008	2009	2008
Days Since Discharge				
0 – 60	\$ 2,701,237	\$ 2,066,894	75%	73%
61 – 120	406,530	344,716	11%	12%
121 – 180	207,005	226,819	6%	8%
181 – 365	233,275	131,350	7%	5%
366 and over	45,061	52,106	1%	2%
	<u>3,593,108</u>	<u>2,821,885</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	1,089,000	764,400		
Allowance for uncollectible accounts	<u>452,300</u>	<u>316,900</u>		
	<u>1,541,300</u>	<u>1,081,300</u>		
	<u>\$ 2,051,808</u>	<u>\$ 1,740,585</u>		

Allowance for Uncollectible Accounts

	2009	2008
Balance, beginning of year	\$ 316,900	\$ 302,500
Provision for year	708,654	592,030
Recoveries of accounts previously written off	<u>144,232</u>	<u>132,473</u>
	1,169,786	1,027,003
Less accounts written off	<u>717,486</u>	<u>710,103</u>
Balance, end of year	<u>\$ 452,300</u>	<u>\$ 316,900</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2009 and 2008

Supplies

	<u>2009</u>	<u>2008</u>
General	\$ 168,635	\$ 179,040
Pharmacy	109,730	104,090
Dietary	<u>8,038</u>	<u>6,984</u>
	<u>\$ 286,403</u>	<u>\$ 290,114</u>

Prepaid Expense

	<u>2009</u>	<u>2008</u>
Insurance	\$ 81,589	\$ 80,170
Maintenance and other	<u>114,297</u>	<u>112,423</u>
	<u>\$ 195,886</u>	<u>\$ 192,593</u>

Madison County Memorial Hospital

Schedule of Officials Year Ended June 30, 2009

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2014
Tom Collins	Vice Chairman	2010
Lizabeth Price	Secretary/Treasurer	2014
Patty Weeks	Member	2011
John Mills	Member	2014
Beverlee Bell	Member	2010
Dick Weidman	Member	2011
Hospital Officials		
Marcia Harris	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

Madison County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Patient Days (Exclusive of Swing-bed)		
Medicare	1,418	1,482
Medicaid	53	74
Private and other	547	607
	<u>2,018</u>	<u>2,163</u>
Medicare and Medicaid Percent	<u>72.9%</u>	<u>71.9%</u>
Percent of Occupancy (Acute)	<u>22%</u>	<u>24%</u>
Discharges (Exclusive of Swing-bed)		
Medicare	379	394
Medicaid	25	27
Private and other	189	205
	<u>593</u>	<u>626</u>
Average Length of Stay in Days	<u>3.4</u>	<u>3.5</u>

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2009

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2010

Blanket building and contents	\$	22,969,200
Loss of income and extra expense		9,470,000
Personal property in-transit		250,000
Personal property at a temporary storage site		250,000
Nuclear hazard		5,000,000
Valuable papers		1,000,000
Accounts receivable		412,000
EDP Media/Software		515,000
Earthquake		5,000,000
Employee dishonesty		250,000
Depositors forgery		250,000

Policy No. 7324-54-55, expiring January 1, 2010

Comprehensive automobile liability		
Liability		1,000,000
Hired and non-owned auto physical damage		25,000

Midwest Medical Insurance Company

Comprehensive hospital liability, expiring January 1, 2010

Hospital professional liability, Policy No. MHP000026	1,000,000/3,000,000
General liability, Policy No. MHP000026	1,000,000/3,000,000
Employee benefits, Policy No. MHP000026	1,000,000/3,000,000
Excess liability, expiring January 1, 2010	
Excess medical liability, Policy No. MHP000026	3,000,000/3,000,000
Umbrella liability, Policy No. MHP000026	3,000,000/3,000,000

Executive Risk Indemnity, Inc.

Policy No. 6802-0186, expiring January 1, 2010

Directors' and officers' liability	4,000,000/4,000,000
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Madison County Memorial Hospital
Schedule of Activity for Assets Limited
As to Use for Construction and
Capital Loan Note Related Accounts
Year Ended June 30, 2009

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
Held under capital loan note agreements				
Sinking Fund	\$ 310,862	\$ 290,851	\$ 377,374	\$ 224,339
Debt Service Reserve Fund	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>
	<u>\$ 680,862</u>	<u>\$ 660,851</u>	<u>\$ 747,374</u>	<u>\$ 594,339</u>

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

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

We have audited the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2009, and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2009. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2009.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2009 did not exceed amounts budgeted.

Questionable Expenditures

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

Travel Expense

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

Business Transactions

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

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes but were not. However, we noted the following item regarding documentation of a closed session:

Criteria or Specific Requirement—Management is responsible for documenting in the minutes, certain procedures are followed for any closed sessions of monthly Trustee meetings.

Condition—The Hospital’s minutes did not contain documentation of the required procedures according to Chapter 21.5 of the Code of Iowa.

Context—The Hospital’s Board of Trustees’ minutes did not contain documentation that required procedures were followed.

Effect—Requirements were not met under Chapter 21.5 of the Code of Iowa.

Cause—Required documentation of closed session procedures was not included in the Trustee minutes.

Recommendation—Management should document all required procedures relating to closed sessions in the Trustee minutes.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will ensure required documentation is included in the Trustees’ minutes.

Deposits and Investments

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

Unclaimed Property

The Hospital filed the annual unclaimed property report with the state treasurer in accordance with Chapter 556.11.

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

The Hospital's responses to the findings identified in our audit are described above. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

* * * * *

This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be, and should not be used by anyone other than these specified parties.

/s/ BKD, LLP

Kansas City, Missouri
November 13, 2009

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2009

Reference Number	Finding
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None

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

During our audit of the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2009, we observed the following matter and offer these comments and suggestions. The matter discussed herein is not considered to be a material weakness, significant deficiency or other control deficiency in internal control over financial reporting.

Current Economic Environment

The current economic environment has created unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change, resulting in future adjustments to the allowance for accounts receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

We appreciate the opportunity to present these comments and suggestions. We can discuss this matter further at your convenience.

* * * * *

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

/s/ BKD, LLP

November 13, 2009