

Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2010 and 2009



Madison County Memorial Hospital
June 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 4, 2010, 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.

BKD, LLP

Kansas City, Missouri
November 4, 2010

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2010 and 2009 by \$134,913 or 9% and increased \$23,642 or 2% in 2009 and 2008.
- Patient accounts receivable, net of allowances increased \$158,272 or 8% in 2010 and 2009 and increased \$311,223 or 18% in 2009 compared to 2008.
- The Hospital's net assets increased \$1,284,175 or 11% in 2010 over 2009 and increased \$1,677,776 or 18% in 2009 over 2008.
- The Hospital reported operating loss in 2010 of \$418,269 and an operating income in 2009 of \$37,731. The operating loss in 2010 represents a decrease of \$456,000 from the operating income reported in 2009. The income in 2009 increased by \$940,338 or 104% from the operating loss reported in 2008.

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 \$1,284,175 or 11% over 2009 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2010	2009	2008
Assets			
Patient accounts receivable, net	\$ 2,210,080	\$ 2,051,808	\$ 1,740,585
Other current assets	4,272,537	4,184,820	3,772,880
Capital assets, net	8,496,794	7,685,180	7,374,625
Other noncurrent assets	3,535,002	3,280,686	3,074,127
Total assets	<u>\$ 18,514,413</u>	<u>\$ 17,202,494</u>	<u>\$ 15,962,217</u>
Liabilities			
Current liabilities	\$ 3,336,353	\$ 3,066,606	\$ 3,267,494
Long-term debt	2,670,542	2,912,545	3,149,156
Total liabilities	<u>6,006,895</u>	<u>5,979,151</u>	<u>6,416,650</u>
Net Assets			
Invested in capital assets, net of related debt	5,793,002	4,603,248	3,964,806
Restricted expendable	581,010	635,069	742,925
Unrestricted	6,133,506	5,985,026	4,837,836
Total net assets	<u>12,507,518</u>	<u>11,223,343</u>	<u>9,545,567</u>
Total liabilities and net assets	<u>\$ 18,514,413</u>	<u>\$ 17,202,494</u>	<u>\$ 15,962,217</u>

In 2010, the overall increase in total assets of \$1,311,919 or 8% is primarily due to the increase in capital assets of \$811,614 or 11%. The increase in capital assets is due to increases in construction in progress for the upcoming building and renovation project. In November 2009, the Hospital purchased HMS software and associated hardware, which also accounts for the increase in capital assets.

One significant change in the Hospital's current assets in 2009 was 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 2010.

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets increased by \$1,284,175 or 11% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2010	2009	2008
Operating Revenues			
Net patient service revenue	\$ 15,097,540	\$ 14,996,280	\$ 12,947,270
Other operating revenues	134,813	98,499	124,067
Total operating revenues	<u>15,232,353</u>	<u>15,094,779</u>	<u>13,071,337</u>
Operating Expenses			
Salaries and wages and employee benefits	8,969,218	8,669,994	8,014,407
Medical and professional fees	2,038,590	1,754,280	1,682,519
Depreciation and amortization	1,005,452	842,064	778,096
Other operating expenses	<u>3,637,362</u>	<u>3,790,710</u>	<u>3,498,922</u>
Total operating expenses	<u>15,650,622</u>	<u>15,057,048</u>	<u>13,973,944</u>
Operating Income (Loss)	<u>(418,269)</u>	<u>37,731</u>	<u>(902,607)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,690,089	1,606,774	1,465,467
Interest expense	(147,184)	(155,926)	(150,462)
Interest income	76,177	112,125	153,350
Rent income	27,804	32,905	37,048
Non-capital grants and contributions	<u>29,268</u>	<u>20,948</u>	<u>23,288</u>
Total nonoperating revenues	<u>1,676,154</u>	<u>1,616,826</u>	<u>1,528,691</u>
Excess of Revenue over Expenses, Before Capital Grants and Contributions	1,257,885	1,654,557	626,084
Capital Grants and Contributions	<u>26,290</u>	<u>23,219</u>	<u>40,740</u>
Increase in Net Assets	<u>\$ 1,284,175</u>	<u>\$ 1,677,776</u>	<u>\$ 666,824</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 2010, the Hospital reported an operating loss, in 2009 a small operating income, and in 2008 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 2009 to 2010 are as follows:

- Net patient service revenue increased \$101,260 or less than 1%. The Hospital's overall patient volumes throughout the facility were down from 2009, with patient days decreasing from 3,373 in 2009 to 2,922 in 2010. However, the Hospital experienced a shift from Acute to Observation patients with 2,320 observation hours in 2009 compared to 6,174 hours in 2010. Additionally, the Hospital had a full 12 months in Health Trust Physicians Clinic (HTPC) of Orthopedic and Cardiology specialists seeing patients, as opposed to 6 months in 2009. The Orthopedic physicians also performed surgeries. The Hospital experienced a decrease in total surgeries from 487 in 2009 to 432 in 2010. The Hospital notes specifically plastic surgeries have declined, which the Hospital feels is due to increased deductibles for patients and that these surgeries are more elective in nature.
- Salaries, wages, and employee benefits increased \$299,224 or 3%. In December 2009, the Hospital added a full time Family Practice physician in Health Trust Physicians Clinic and shifted a half time Physicians Assistant to Earlham Medical Clinic full time. Additionally, the Hospital began outsourcing the self pay accounts to a pre-collect company in January 2010, therefore, allowing the Hospital to re-allocate duties within the Patient Accounts department and decrease FTE's by .60.

The operating income for 2009 increased by \$940,338 as compared to 2008. The primary components of the increase in the operating income were:

- 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.

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 \$59,328 or 4% from 2010 to 2009 and \$88,135 or 6% from 2009 to 2008. The increase in 2010 was primarily due to an increase in property taxes of \$83,315. The Hospital had a decrease in interest income in 2010 of \$35,948 due to lower interest rates. 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 \$29,268 from various individuals in 2010, an increase of \$8,320 or 40% from 2009. The Hospital also received capital contributions of \$26,290 in 2010.

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's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2010, 2009 and 2008, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2010, the Hospital had \$8.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets costing \$1,791,464. Construction in progress includes \$1.1 million for the upcoming building addition and renovation project.

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.

Debt

In 2010, the Hospital had \$2,917,542 in revenue capital loan notes and loans outstanding. The Hospital issued no new debt in 2010.

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

Factors Bearing on Madison County Memorial Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future.

- The Hospital is in the process of issuing revenue bonds in the amount of \$13.5 million to complete a building addition and renovation project.

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, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 1,576,632	\$ 1,441,719
Short term investments	-	125,200
Assets held under bond indenture agreement	246,554	242,330
Patient accounts receivable, net of allowance; \$563,800 and \$452,300 in 2010 and 2009, respectively	2,210,080	2,051,808
Property taxes receivable	1,771,096	1,717,051
Other receivables	3,338	155,231
Estimated amounts due from third-party payers	141,000	21,000
Supplies	302,458	286,403
Prepaid expenses	231,459	195,886
	<u>6,482,617</u>	<u>6,236,628</u>
Noncurrent Cash, Deposits and Other		
Internally designated	3,129,857	2,795,463
Externally restricted		
Held under bond indenture agreement	532,885	594,339
By donors	59,679	53,060
	<u>3,722,421</u>	<u>3,442,862</u>
Less amount required to meet current obligations	246,554	242,330
	<u>3,475,867</u>	<u>3,200,532</u>
Capital Assets, Net of Accumulated Depreciation	<u>8,496,794</u>	<u>7,685,180</u>
Other Assets		
Deferred financing costs (net of amortization; 2010 – \$168,343, 2009 – \$147,325)	59,135	80,154
	<u>59,135</u>	<u>80,154</u>
Total Assets	<u>\$ 18,514,413</u>	<u>\$ 17,202,494</u>

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 247,000	\$ 242,000
Accounts payable	510,637	214,271
Accrued vacation	352,427	357,182
Accrued payroll and related liabilities	460,895	520,718
Estimated self-insurance costs	8,100	30,000
Accrued interest	11,554	12,330
Deferred revenue for property taxes	<u>1,745,740</u>	<u>1,690,105</u>
Total current liabilities	3,336,353	3,066,606
Long-term Debt	<u>2,670,542</u>	<u>2,912,545</u>
Total liabilities	<u>6,006,895</u>	<u>5,979,151</u>
Net Assets		
Invested in capital assets, net of related debt	5,793,002	4,603,248
Restricted-expendable for		
Future renovation	25,744	38,206
Debt service	521,331	582,009
Specific operating activities	33,935	14,854
Unrestricted	<u>6,133,506</u>	<u>5,985,026</u>
Total net assets	<u>12,507,518</u>	<u>11,223,343</u>
Total Liabilities and Net Assets	<u><u>\$ 18,514,413</u></u>	<u><u>\$ 17,202,494</u></u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 15,948,144	\$ 15,704,934
Provision for uncollectible accounts	(850,604)	(708,654)
Net patient service revenue	15,097,540	14,996,280
Other	134,813	98,499
Total operating revenues	15,232,353	15,094,779
Operating Expenses		
Salaries and wages	7,003,659	6,753,607
Employee benefits	1,965,559	1,916,387
Medical professional fees	2,038,590	1,754,280
Supplies and expenses	1,695,814	1,772,812
General services	560,851	635,799
Administrative services	1,138,399	1,132,267
Depreciation and amortization	1,005,452	842,064
Insurance	242,298	249,832
Total operating expenses	15,650,622	15,057,048
Operating Income (Loss)	(418,269)	37,731
Nonoperating Revenues (Expenses)		
Property taxes	1,690,089	1,606,774
Interest expense	(147,184)	(155,926)
Interest income	76,177	112,125
Rent income	27,804	32,905
Noncapital grants and contributions	29,268	20,948
Total nonoperating revenues	1,676,154	1,616,826
Excess of Revenues over Expenses, Before Capital Grants and Contributions	1,257,885	1,654,557
Capital Grants and Contributions	26,290	23,219
Increase in Net Assets	1,284,175	1,677,776
Net Assets, Beginning of Year	11,223,343	9,545,567
Net Assets, End of Year	\$ 12,507,518	\$ 11,223,343

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Receipts from and on behalf of patients	\$ 14,819,268	\$ 14,519,057
Payments to suppliers and contractors	(5,426,395)	(5,736,145)
Payments to employees	(9,033,796)	(8,652,728)
Other receipts, net	114,017	120,774
Net cash provided by operating activities	473,094	250,958
Noncapital Financing Activities		
Property taxes	1,690,089	1,606,774
Noncapital grants and gifts	29,268	20,948
Other	27,804	32,905
Net cash provided by noncapital financing activities	1,747,161	1,660,627
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(242,000)	(232,000)
Interest paid on capital debt and leases	(147,960)	(156,650)
Capital grants and contributions	26,290	23,219
Proceeds from sale of capital assets	900	1,288
Purchase of capital assets	(1,644,390)	(1,283,826)
Net cash used in capital and related financing activities	(2,007,160)	(1,647,969)
Investing Activities		
Interest on deposits	76,177	112,125
Purchase of deposits	(5,598,179)	(4,301,200)
Proceeds from disposition of deposits	5,465,410	3,945,000
Net cash used in investing activities	(56,592)	(244,075)
Increase in Cash and Cash Equivalents	156,503	19,541
Cash and Cash Equivalents, Beginning of Year	1,488,376	1,468,835
Cash and Cash Equivalents, End of Year	\$ 1,644,879	\$ 1,488,376

Madison County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,576,632	\$ 1,441,719
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	6,427	2,464
Held under bond agreement	27,885	29,339
Externally restricted by donor	33,935	14,854
	\$ 1,644,879	\$ 1,488,376
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating gain (loss)	\$ (418,269)	\$ 37,731
Depreciation and amortization	1,005,452	842,063
(Gain) loss on sale of capital assets	(488)	34,033
Changes in operating assets and liabilities		
Receivables, net	(6,379)	(464,557)
Supplies	(16,055)	3,711
Estimated amounts due from and to third-party payers	(120,000)	(166,000)
Accounts payable and accrued expenses	64,406	(19,805)
Other assets and liabilities	(35,573)	(16,218)
Net cash provided by operating activities	\$ 473,094	\$ 250,958
 Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 154,615	\$ 7,541

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in both of the years ended June 30, 2010 and 2009, 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 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 partial deductibles for employee health claims. Annual estimated provisions are accrued for the self-insured portion of the health claims and include 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, 2010 and 2009

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

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.

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.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

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 \$378,205 and \$330,570 for 2010 and 2009, 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 4, 2010 which is the date the financial statements were available to be issued.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.
- **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 50% and 51% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2010 and 2009, 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, 2010 and 2009. The Hospital's deposits in banks at June 30, 2010 and 2009 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, 2010 and 2009

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, 2010, the Hospital had no investments.

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 were 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, 2010 and 2009

Summary of Carrying Values

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

	2010	2009
Carrying value		
Deposits	\$ 5,272,889	\$ 4,845,955
Investments	-	125,200
Other	420	420
	<u>\$ 5,273,309</u>	<u>\$ 4,971,575</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,576,632	\$ 1,441,719
Short-term investments	-	125,200
Assets held under bond indenture agreement	532,885	594,339
Noncurrent cash, deposits and other	3,163,792	2,810,317
	<u>\$ 5,273,309</u>	<u>\$ 4,971,575</u>

Interest Income

Interest income for the years ended June 30, 2010 and 2009, amounted to \$76,177 and \$112,125, 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, 2010 and 2009 consisted of:

	2010	2009
Medicare	\$ 701,775	\$ 678,953
Medicaid	190,593	78,030
Other third-party payers	937,548	913,434
Patients	943,964	833,691
	<u>2,773,880</u>	<u>2,504,108</u>
Less allowance for uncollectible accounts	563,800	452,300
	<u>\$ 2,210,080</u>	<u>\$ 2,051,808</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2010					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	679,435				679,435
Buildings and leasehold improvements	6,599,045			6,001	6,605,046
Fixed equipment	4,680,822		(180,458)		4,500,364
Major movable equipment	3,629,794	149,334	(50,561)	741,308	4,469,875
Construction in progress	253,378	1,642,130		(747,309)	1,148,199
	<u>15,847,520</u>	<u>1,791,464</u>	<u>(231,019)</u>	<u>-</u>	<u>17,407,965</u>
Less accumulated depreciation					
Land improvements	(323,501)	(36,711)			(360,212)
Buildings and leasehold improvements	(2,877,985)	(242,259)			(3,120,244)
Fixed equipment	(2,656,391)	(229,464)	180,458		(2,705,397)
Major movable equipment	(2,304,463)	(471,004)	50,149		(2,725,318)
	<u>(8,162,340)</u>	<u>(979,438)</u>	<u>230,607</u>	<u>-</u>	<u>(8,911,171)</u>
Capital assets, net	<u>\$ 7,685,180</u>	<u>\$ 812,026</u>	<u>\$ (412)</u>	<u>\$ -</u>	<u>\$ 8,496,794</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

	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>

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 provides tail coverage to certain employed physicians practicing at the Hospital upon termination of the physician's contract. The Hospital is liable for any medical liability claims as of the effective date of the physician's contract, for which it is self-insured. As of June 30, 2010, there is no claim exposure to the Hospital due to no physician contracts being terminated.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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. In 2010, the Hospital is self-insured for partial health insurance deductibles. In 2009, the Hospital was self-insured for dental, vision, disability benefits and partial health insurance deductibles. Changes in the balance of claims liabilities during 2010 and 2009 are summarized as follows:

	2010	2009
Balance, beginning of year	\$ 30,000	\$ 30,000
Current year claims and changes in estimates	17,667	128,817
Claim payments	(39,567)	(128,817)
Balance, end of year	\$ 8,100	\$ 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, 2010 and 2009:

	Beginning Balance	Additions	2010 Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue and refunding notes Series 2005 (A)	\$ 3,160,000	\$ -	\$ (230,000)	\$ 2,930,000	\$ 235,000
Rural economic development loan (B)	24,000	-	(12,000)	12,000	12,000
Total long-term debt	3,184,000	\$ -	\$ (242,000)	2,942,000	\$ 247,000
Less unamortized discount	(29,455)			(24,458)	
	\$ 3,154,545			\$ 2,917,542	

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

	Beginning Balance		2009		Ending Balance	Current Portion
		Additions	Deductions			
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)	
	<u>\$ 3,381,156</u>				<u>\$ 3,154,545</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.

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, 2010.

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 \$162,885 and \$224,339 at June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, deposits in the Sinking Fund were in excess of required amounts of \$131,746 and \$192,842, respectively.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

The debt service requirements for the Hospital Revenue and Refunding Notes Series 2005 as of June 30, 2010, are as follows:

Year Ending June 30,	Total to be		
	Paid	Principal	Interest
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	375,020	280,000	95,020
2016-2020	<u>1,894,250</u>	<u>1,640,000</u>	<u>254,250</u>
	<u>\$ 3,772,458</u>	<u>\$ 2,930,000</u>	<u>\$ 842,458</u>

The debt service requirements as of June 30, 2010 are as follows for the Rural Economic Development Loan:

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

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

Note 9: Restricted and Designated Net Assets

At June 30, 2010 and 2009, restricted expendable net assets were available for the following purposes:

	2010	2009
Debt service	\$ 521,331	\$ 582,009
Future renovation	25,744	38,206
Specific operating activities:		
Hospice	29,930	13,849
Other	4,005	1,005
Total restricted expendable net assets	\$ 581,010	\$ 635,069

The Hospital has recorded a \$25,744 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 4.3% and 4.1% of their annual covered salaries and the Hospital is required to contribute 6.65% and 6.35% of annual covered payroll for 2010 and 2009, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2010, 2009 and 2008 were \$457,758, \$416,915 and \$392,873, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.65% of annual covered salary for 2010.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2010 and 2009

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 \$229,532 and \$255,184 were incurred for the years ended June 30, 2010 and 2009, respectively.

Note 12: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2014.

Future minimum lease payments at June 30, 2010 were:

2011	\$ 151,394
2012	140,088
2013	140,088
2014	<u>128,414</u>
Future minimum lease payments	<u><u>\$ 559,984</u></u>

Rental expense for all operating leases was \$258,877 and \$269,983 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009

The following is reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2010:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,690,089	\$ -	\$ 1,690,089	\$ 1,690,105
Other revenues/receipts	<u>15,391,892</u>	<u>(126,379)</u>	<u>15,265,513</u>	<u>20,519,432</u>
	17,081,981	(126,379)	16,955,602	22,209,537
Expenses/disbursements	<u>15,797,806</u>	<u>12,778</u>	<u>15,810,584</u>	<u>22,152,186</u>
	1,284,175	(139,157)	1,145,018	57,351
Balance, beginning of year	<u>11,223,343</u>	<u>(3,271,878)</u>	<u>7,951,465</u>	<u>7,951,465</u>
Balance, end of year	<u><u>\$ 12,507,518</u></u>	<u><u>\$ (3,411,035)</u></u>	<u><u>\$ 9,096,483</u></u>	<u><u>\$ 8,008,816</u></u>

Note 14: Contingencies

Litigation

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

Note 15: 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 the fair value of investments and other assets, 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, 2010 and 2009

Current economic conditions, including the rising unemployment rate, have made it difficult for certain 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 investment values and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 16: Subsequent Event

In 2010, the Hospital Board of Trustees approved a building addition and renovation project not to exceed \$13.6 million in construction costs and issuance of revenue bonds not to exceed \$11 million. Subsequent to year end, the Hospital Board of Trustees approved additional borrowings of \$360,000 and \$2.5 million issuance of revenue bonds. The Hospital plans to finance the project with revenue bonds and existing funds. The Hospital has \$1.1 million in construction in progress at June 30, 2010.

Supplementary Information

Madison County Memorial Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2010 and 2009

	2010				2009			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	\$ 2,368,615	\$ 2,090,785	\$ 277,830	\$ -	\$ 2,178,674	\$ 2,078,914	\$ 99,760	\$ -
Swing-bed	694,340	-	-	694,340	959,440	-	-	959,440
	<u>3,062,955</u>	<u>2,090,785</u>	<u>277,830</u>	<u>694,340</u>	<u>3,138,114</u>	<u>2,078,914</u>	<u>99,760</u>	<u>959,440</u>
Nursing Services								
Operating and recovery rooms	937,525	84,502	853,023	-	934,005	84,701	849,304	-
Emergency room	2,983,517	160,516	2,822,614	387	2,847,797	176,256	2,670,856	685
	<u>3,921,042</u>	<u>245,018</u>	<u>3,675,637</u>	<u>387</u>	<u>3,781,802</u>	<u>260,957</u>	<u>3,520,160</u>	<u>685</u>
Other Professional Services								
Laboratory	3,583,945	467,547	3,050,744	65,654	3,428,364	443,355	2,925,236	59,773
Central services and supplies	810,859	192,321	606,237	12,301	623,807	143,916	466,189	13,702
Blood administration	55,503	20,735	32,902	1,866	62,005	20,410	39,663	1,932
Electrocardiology	118,844	14,927	103,455	462	89,637	18,876	69,617	1,144
Echocardio/Vascular	269,721	26,485	243,236	-	242,945	23,928	215,556	3,461
Stress test	43,414	-	43,414	-	53,710	1,591	52,119	-
Radiology	2,544,638	226,050	2,298,980	19,608	2,064,124	185,830	1,862,579	15,715
MRI	449,573	25,485	424,088	-	490,472	30,488	459,984	-
Mammography	118,094	-	107,688	10,406	135,625	217	135,408	-
CT	2,053,246	304,044	1,734,058	15,144	1,836,125	316,553	1,506,801	12,771
Chronic disease management	267,767	-	267,767	-	324,815	331	324,484	-
Nuclear medicine	315,596	10,765	304,831	-	394,130	14,540	378,400	1,190
Pharmacy	2,898,248	891,986	1,750,396	255,866	2,572,870	890,268	1,326,000	356,602
Intravenous therapy	443,498	254,412	180,009	9,077	489,702	281,112	149,910	58,680
Anesthesiology	356,949	40,880	315,573	496	366,362	42,938	323,424	-
Respiratory therapy	339,477	249,053	2,540	87,884	242,990	191,760	2,115	49,115
Physical therapy	488,488	36,266	344,022	108,200	521,973	31,284	357,780	132,909
Occupational therapy	199,644	19,420	119,196	61,028	182,854	14,557	104,092	64,205
Speech therapy	13,801	4,447	5,990	3,364	37,756	7,893	22,402	7,461
Social services	6,520	6,031	489	-	1,510	1,510	-	-

Madison County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2010 and 2009

	2010				2009			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Health Trust Physicians Clinic	\$ 3,025,867	\$ 214,444	\$ 2,794,904	\$ 16,519	\$ 2,579,514	\$ 186,429	\$ 2,376,028	\$ 17,057
Earlham Medical Clinic	331,485	-	331,485	-	293,577	-	293,577	-
Outpatient Clinic	129,671	184	129,487	-	89,792	1,310	88,482	-
Chemotherapy	53,357	-	53,357	-	37,401	2,759	34,642	-
Sleep study	61,446	-	61,446	-	102,058	-	102,058	-
Dietitian patient revenue	2,588	-	2,588	-	2,414	-	2,414	-
Middle River Hospice	1,840,494	-	1,840,494	-	1,702,851	-	1,702,851	-
	<u>20,822,733</u>	<u>3,005,482</u>	<u>17,149,376</u>	<u>667,875</u>	<u>18,969,383</u>	<u>2,851,855</u>	<u>15,321,811</u>	<u>795,717</u>
Gross Patient Service Revenue	27,806,730	\$ 5,341,285	\$ 21,102,843	\$ 1,362,602	25,889,299	\$ 5,191,726	\$ 18,941,731	\$ 1,755,842
Contractual Adjustments	(11,858,586)				(10,184,365)			
Net Patient Service Revenue								
before Provision for								
Uncollectible Accounts	15,948,144				15,704,934			
Provision for Uncollectible Accounts	(850,604)				(708,654)			
Net Patient Service Revenue	<u>\$ 15,097,540</u>				<u>\$ 14,996,280</u>			

Madison County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cafeteria	\$ 37,700	\$ 35,640
Medical records	8,890	9,542
Other	38,168	53,100
Gain (loss) on disposal of property and equipment	488	(34,033)
Health Trust Physician Clinic other revenue	<u>49,567</u>	<u>34,250</u>
	<u>\$ 134,813</u>	<u>\$ 98,499</u>

Madison County Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2010 and 2009

	2010			2009		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,226,594	\$ 1,063,661	\$ 162,933	\$ 1,216,076	\$ 1,066,049	\$ 150,027
Emergency room	901,122	408,116	493,006	833,657	500,980	332,677
Operating and recovery rooms	314,649	240,397	74,252	339,978	240,345	99,633
Nursing administration	87,114	84,661	2,453	89,946	89,171	775
	2,529,479	1,796,835	732,644	2,479,657	1,896,545	583,112
Other Professional Services						
Laboratory	637,442	263,575	373,867	614,753	288,408	326,345
Central services and supplies	202,443	100,634	101,809	198,969	68,059	130,910
Blood administration	33,020	-	33,020	42,446	-	42,446
Electrocardiology	4,312	3,375	937	4,395	3,364	1,031
Echocardiio/Vascular	93,484	-	93,484	90,879	-	90,879
Stress test	7,376	6,736	640	9,916	9,199	717
Radiology	508,040	229,949	278,091	539,751	222,786	316,965
MRI	58,089	628	57,461	70,607	866	69,741
Mammography	23,484	16,770	6,714	27,044	18,103	8,941
CT	253,163	15,028	238,135	248,731	14,764	233,967
Chronic disease management	110,069	96,747	13,322	104,291	91,068	13,223
Nuclear medicine	72,654	750	71,904	88,764	778	87,986
Pharmacy	730,362	33,810	696,552	677,110	32,383	644,727
Intravenous solutions	19,765	-	19,765	23,037	-	23,037
Anesthesiology	296,918	269,890	27,028	255,657	227,238	28,419
Respiratory therapy	27,709	-	27,709	25,906	-	25,906
Physical therapy	203,431	159	203,272	237,512	-	237,512
Occupational therapy	64,849	-	64,849	64,893	-	64,893
Speech therapy	10,322	-	10,322	19,266	-	19,266
Health Trust Physicians Clinic	2,052,868	1,729,739	323,129	1,788,106	1,593,018	195,088
Earlham Medical Clinic	231,467	206,187	25,280	226,160	197,472	28,688
Outpatient Clinic	108,351	105,391	2,960	100,493	98,983	1,510
Chemotherapy	5,396	4,988	408	6,516	5,866	650

Madison County Memorial Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2010 and 2009

	2010			2009		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	\$ 17,707	\$ 357	\$ 17,350	\$ 31,261	\$ 361	\$ 30,900
Middle River Hospice	527,953	299,738	228,215	514,256	288,978	225,278
Medical records	301,197	215,961	85,236	327,553	233,343	94,210
Social services	33,659	33,358	301	26,640	25,895	745
Observation care	25,010	25,010	-	4,607	4,607	-
	<u>6,660,540</u>	<u>3,658,780</u>	<u>3,001,760</u>	<u>6,369,519</u>	<u>3,425,539</u>	<u>2,943,980</u>
General Services						
Operation of plant	556,475	156,348	400,127	615,673	149,150	466,523
Dietary	316,532	193,830	122,702	312,099	186,753	125,346
Housekeeping	167,634	129,612	38,022	162,994	119,064	43,930
	<u>1,040,641</u>	<u>479,790</u>	<u>560,851</u>	<u>1,090,766</u>	<u>454,967</u>	<u>635,799</u>
Administrative Services	<u>2,206,653</u>	<u>1,068,254</u>	<u>1,138,399</u>	<u>2,108,823</u>	<u>976,556</u>	<u>1,132,267</u>
Employee Benefits	<u>1,965,559</u>		<u>1,965,559</u>	<u>1,916,387</u>		<u>1,916,387</u>
Depreciation	<u>1,005,452</u>		<u>1,005,452</u>	<u>842,064</u>		<u>842,064</u>
Insurance	<u>242,298</u>		<u>242,298</u>	<u>249,832</u>		<u>249,832</u>
	<u>\$ 15,650,622</u>	<u>\$ 7,003,659</u>	<u>\$ 8,646,963</u>	<u>\$ 15,057,048</u>	<u>\$ 6,753,607</u>	<u>\$ 8,303,441</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2010 and 2009

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2010	2009	2010	2009
Days Since Discharge				
0 – 60	\$ 3,034,291	\$ 2,701,237	76%	75%
61 – 120	444,551	406,530	11%	11%
121 – 180	220,688	207,005	6%	6%
181 – 365	211,463	233,275	5%	7%
366 and over	97,987	45,061	2%	1%
	<u>4,008,980</u>	<u>3,593,108</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	1,235,100	1,089,000		
Allowance for uncollectible accounts	<u>563,800</u>	<u>452,300</u>		
	<u>1,798,900</u>	<u>1,541,300</u>		
	<u>\$ 2,210,080</u>	<u>\$ 2,051,808</u>		

Allowance for Uncollectible Accounts

	2010	2009
Balance, beginning of year	\$ 452,300	\$ 316,900
Provision for year	850,604	708,654
Recoveries of accounts previously written off	<u>128,762</u>	<u>144,232</u>
	1,431,666	1,169,786
Less accounts written off	<u>867,866</u>	<u>717,486</u>
Balance, end of year	<u>\$ 563,800</u>	<u>\$ 452,300</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2010 and 2009

Supplies

	2010	2009
General	\$ 186,076	\$ 168,635
Pharmacy	109,229	109,730
Dietary	7,153	8,038
	\$ 302,458	\$ 286,403

Prepaid Expense

	2010	2009
Insurance	\$ 74,676	\$ 81,589
Maintenance and other	156,783	114,297
	\$ 231,459	\$ 195,886

Madison County Memorial Hospital
Schedule of Officials
Year Ended June 30, 2010

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2014
Tom Collins	Vice Chairman	2010
Lizabeth Price	Secretary/Treasurer	2014
Patty Weeks	Member	2012
John Mills	Member	2014
Beverlee Bell	Member	2010
Dick Weidman	Member	2012
Hospital Officials		
Marcia Hendricks	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

Madison County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2010 and 2009

	2010	2009
Patient Days (Exclusive of Swing-bed)		
Medicare	1,371	1,418
Medicaid	95	53
Private and other	476	547
	1,942	2,018
Medicare and Medicaid Percent	75.5%	72.9%
Percent of Occupancy (Acute)	21%	22%
Discharges (Exclusive of Swing-bed)		
Medicare	340	379
Medicaid	33	25
Private and other	167	189
	540	593
Average Length of Stay in Days	3.6	3.4

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2010

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2011

Blanket building and contents	\$ 22,831,100
Loss of income and extra expense	9,641,981
Personal property in-transit	250,000
Personal property at a temporary storage site	250,000
Nuclear hazard	5,000,000
Valuable papers	1,030,000
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, 2011

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, 2011

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, 2011

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, 2011

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, 2010

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Held under capital loan note agreements				
Sinking Fund	\$ 224,339	\$ 556,906	\$ 618,360	\$ 162,885
Debt Service Reserve Fund	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>	<u>370,000</u>
	<u>\$ 594,339</u>	<u>\$ 926,906</u>	<u>\$ 988,360</u>	<u>\$ 532,885</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, 2010, and have issued our report thereon dated November 4, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

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 deficiencies, 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, 2010 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, 2010. 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, 2010.

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, 2010 did not exceed amounts budgeted.

Questionable Expenditures

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

Travel Expense

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

Business Transactions

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

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes but were not.

Deposits and Investments

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

Unclaimed Property

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

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

* * * * *

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.p

BKD, LLP

Kansas City, Missouri
November 4, 2010

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2010

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, 2010, we observed the following matters and offer these comments and suggestions. The matters discussed herein are not considered to be material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting.

Electronic Health Records

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Variables that determine the total funding available to a hospital include total discharges, the percentage of patient days attributable to Medicare Part A and Part C patients and the percentage of charges attributable to charity care. Implementing regulations to be issued by the Centers for Medicare & Medicaid Services (CMS) will determine how these variables are measured and what constitutes meaningful users of certified EHR technology.

Available funding will decrease significantly if the Hospital does not become a meaningful user of certified EHR technology until 2013 or later. Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, similar to reductions for failing to report quality measures, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

Health Care Reform

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system. While your Hospital may not be affected by reductions in payments, it could be affected by the economic environment in your community, including whether employers in your community continue to provide health insurance coverage for employees. The overall impact on the Hospital of the health care reform is not presently determinable.

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 these matters 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.

BKD, LLP

Kansas City, Missouri
November 4, 2010