Madison County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2011 and 2010

BKD LLP
CPAs & Advisors

Madison County Memorial Hospital

June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, 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.

experience BKD

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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements taken as a whole. 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 17, 2011

Madison County Memorial Hospital
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

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, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2011 and 2010 by $273,178 or 17% and increased $134,913 or 9% between 2010 and 2009.
- Patient accounts receivable, net of allowances decreased $93,151 or 4% in 2011 compared to 2010 and increased $158,272 or 8% in 2010 compared to 2009.
- The Hospital's net assets increased $1,624,871 or 13% in 2011 over 2010 and increased $1,284,175 or 11% in 2010 over 2009.
- The Hospital reported an operating loss in 2011 and 2010 of $479,338 and $418,269, respectively. The operating loss in 2011 represents an increase of $61,069 from the operating loss reported in 2010. The loss in 2010 represents a decrease of $456,000 from the operating income reported in 2009.

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 $1,624,871 or 13% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	$ 2,116,929	$ 2,210,080	$ 2,051,808
Other current assets	4,133,068	4,272,537	4,184,820
Capital assets, net	15,524,794	8,496,794	7,685,180
Other noncurrent assets	12,632,336	3,535,002	3,280,686
Total assets	$ 34,407,127	$ 18,514,413	$ 17,202,494
Liabilities			
Current liabilities	$ 4,537,334	$ 3,336,353	$ 3,066,606
Long-term debt	15,737,404	2,670,542	2,912,545
Total liabilities	20,274,738	6,006,895	5,979,151
Net Assets			
Invested in capital assets, net of related debt	6,640,667	5,793,002	4,603,248
Restricted expendable	1,530,837	581,010	635,069
Unrestricted	5,960,885	6,133,506	5,985,026
Total net assets	14,132,389	12,507,518	11,223,343
Total liabilities and net assets	$ 34,407,127	$ 18,514,413	$ 17,202,494

In 2011, the increase in capital assets is due to increases in the construction in progress account for the building addition and renovation project that started in November 2010. The Hospital also purchased electronic medical record software and associated hardware for the physician clinics during FYE 2011.

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.

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by $1,624,871 or 13% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 15,426,070	$ 15,097,540	$ 14,996,280
Other operating revenues	113,743	134,813	98,499
Total operating revenues	15,539,813	15,232,353	15,094,779
Operating Expenses			
Salaries and wages and employee benefits	9,168,291	8,969,218	8,669,994
Medical and professional fees	1,978,767	2,038,590	1,754,280
Depreciation and amortization	1,131,258	1,005,452	842,064
Other operating expenses	3,740,835	3,637,362	3,790,710
Total operating expenses	16,019,151	15,650,622	15,057,048
Operating Income (Loss)	(479,338)	(418,269)	37,731
Nonoperating Revenues (Expenses)			
Property taxes	1,750,532	1,690,089	1,606,774
Interest expense	(137,832)	(147,184)	(155,926)
Interest income	76,109	76,177	112,125
Rent income	29,367	27,804	32,905
Non-capital grants and contributions	35,464	29,268	20,948
Total nonoperating revenues	1,753,640	1,676,154	1,616,826
Excess of Revenue over Expenses, Before Capital Grants and Contributions	1,274,302	1,257,885	1,654,557
Capital Grants and Contributions	350,569	26,290	23,219
Increase in Net Assets	$ 1,624,871	$ 1,284,175	$ 1,677,776

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 2011 and 2010, the Hospital reported an operating loss and in 2009 a small operating income. 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 2010 to 2011 are as follows:

In 2011, the operating loss increased by $61,069 as compared to 2010. Some of the factors contributing to the increased operating loss were:

- The Hospital received a $247,500 federal appropriation to establish a redundant disaster recovery environment to replicate electronic data to an off-site location. The importance of the redundancy increased since the Hospital began using electronic medical record software in the physician clinics in April 2011 and implemented electronic health records for the inpatient unit in June 2011. The appropriation was recognized as a capital grant on the Statement of Revenues, Expenses and Changes in Net Assets.

- The Hospital continued to see a shift from acute inpatient to outpatient observation level of care. A total of 9,254 hours of observation care were provided in 2011 compared to 6,174 in 2010. Minor surgery and procedures increased in 2011 as compared to 2010 by 53 procedures or 15%. The Orthopedic surgical procedures increased from 38 in 2010 to 58 in 2011. The Hospital also added a pain clinic to the complement of health services, which also contributed to the increased minor procedures.

The operating income for 2010 decreased by $456,000 as compared to 2009. The primary components of the decrease in the operating income were:

- 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 deceasing 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 six 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 HTPC 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 FTEs by .60.

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 $77,486 or 5% from 2010 to 2011 and $59,328 or 4% from 2009 to 2010. The increase in 2011 was primarily due to an increase in property taxes of $60,443. 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.

Contributions

The Hospital received contributions of $35,464 from various individuals in 2011, an increase of $6,196 or 21% from 2010. The Hospital also received capital contributions of $350,569 in 2011.

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's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2011, 2010 and 2009, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had $15,500,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Hospital purchased new capital assets costing $8,178,203. Construction in progress includes $8,383,000 for the building addition and renovation project.

At the end of 2010, the Hospital had $8,500,000 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 $1,100,000 for the upcoming building addition and renovation project.

Debt

In 2011, the Hospital had $16,018,404 in revenue notes and bonds and loans outstanding . The Hospital issued revenue bonds in the amount of $13,140,000 and borrowed an additional $360,000 through a no interest loan.

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

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 relies heavily on the continuance of the Critical Access Hospital program and the associated cost reimbursement for Medicare and Medicaid patients. The Hospital is closely monitoring cost cutting measures at the Congressional level and will continue grass roots efforts to educate Congressional leaders about the detrimental impact significant changes to the Critical Access Hospital program would mean to the Hospital.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. 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, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 1,303,454	$ 1,576,632
Assets held under bond indenture agreement	318,865	246,554
Patient accounts receivable, net of allowance; $726,658 and $563,800 in 2011 and 2010, respectively	2,116,929	2,210,080
Property taxes receivable	1,857,526	1,771,096
Other receivables	47,232	3,338
Estimated amounts due from third-party payers	-	141,000
Supplies	331,147	302,458
Prepaid expenses	274,844	231,459
Total current assets	6,249,997	6,482,617
Noncurrent Cash, Deposits, Investments and Other		
Internally designated	4,970,287	3,129,857
Externally restricted		
Held under bond indenture agreement	7,694,776	532,885
By donors	41,119	59,679
	12,706,182	3,722,421
Less amount required to meet current obligations	318,865	246,554
	12,387,317	3,475,867
Capital Assets, Net of Accumulated Depreciation	15,524,794	8,496,794
Other Assets		
Deferred financing costs (net of amortization; 2011 – $195,169, 2010 – $168,343)	245,019	59,135
Total Assets	$ 34,407,127	$ 18,514,413

See Notes to Financial Statements

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 281,000	$ 247,000
Accounts payable	1,476,586	510,637
Accrued vacation	374,233	352,427
Accrued payroll and related liabilities	471,521	460,895
Estimated self-insurance costs	-	8,100
Accrued interest	73,865	11,554
Estimated amounts due to third-party payers	28,000	-
Deferred revenue for property taxes	1,832,129	1,745,740
Total current liabilities	4,537,334	3,336,353
Long-term Debt	15,737,404	2,670,542
Total liabilities	20,274,738	6,006,895
Net Assets		
Invested in capital assets, net of related debt	6,640,667	5,793,002
Restricted-expendable for		
Future renovation	-	25,744
Debt service	1,489,718	521,331
Specific operating activities	41,119	33,935
Unrestricted	5,960,885	6,133,506
Total net assets	14,132,389	12,507,518
Total Liabilities and Net Assets	$ 34,407,127	$ 18,514,413

Madison County Memorial Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 16,320,240	$ 15,948,144
Provision for uncollectible accounts	(894,170)	(850,604)
Net patient service revenue	15,426,070	15,097,540
Other	113,743	134,813
Total operating revenues	15,539,813	15,232,353
Operating Expenses		
Salaries and wages	7,171,447	7,003,659
Employee benefits	1,996,844	1,965,559
Medical professional fees	1,978,767	2,038,590
Supplies and expenses	1,771,910	1,695,814
General services	593,165	560,851
Administrative services	1,159,464	1,138,399
Depreciation and amortization	1,131,258	1,005,452
Insurance	216,296	242,298
Total operating expenses	16,019,151	15,650,622
Operating Loss	(479,338)	(418,269)
Nonoperating Revenues (Expenses)		
Property taxes	1,750,532	1,690,089
Interest expense	(137,832)	(147,184)
Interest income	76,109	76,177
Rent income	29,367	27,804
Noncapital grants and contributions	35,464	29,268
Total nonoperating revenues	1,753,640	1,676,154
Excess of Revenues over Expenses, Before Capital Grants and Contributions	1,274,302	1,257,885
Capital Grants and Contributions	350,569	26,290
Increase in Net Assets	1,624,871	1,284,175
Net Assets, Beginning of Year	12,507,518	11,223,343
Net Assets, End of Year	$ 14,132,389	$ 12,507,518

Madison County Memorial Hospital

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 15,688,221	$ 14,819,268
Payments to suppliers and contractors	(5,473,071)	(5,426,395)
Payments to employees	(9,135,859)	(9,033,796)
Other receipts, net	135,324	114,017
Net cash provided by operating activities	1,214,615	473,094
Noncapital Financing Activities		
Property taxes	1,750,532	1,690,089
Noncapital grants and gifts	35,464	29,268
Other	29,367	27,804
Net cash provided by noncapital financing activities	1,815,363	1,747,161
Capital and Related Financing Activities		
Proceeds from issuance of capital debt	13,335,750	-
Principal paid on capital debt and leases	(247,000)	(242,000)
Deferred financing costs	(212,710)	-
Interest paid on capital debt and leases	(75,521)	(147,960)
Capital grants and contributions	350,569	26,290
Proceeds from sale of capital assets	11,657	900
Purchase of capital assets	(7,558,249)	(1,644,390)
Net cash provided by (used in) capital and related financing activities	5,604,496	(2,007,160)
Investing Activities		
Interest on deposits and investments	76,109	76,177
Purchase of deposits and investments	(25,884,601)	(5,598,179)
Proceeds from disposition of deposits and investments	16,897,437	5,465,410
Net cash used in investing activities	(8,911,055)	(56,592)
Increase (Decrease) in Cash and Cash Equivalents	(276,581)	156,503
Cash and Cash Equivalents, Beginning of Year	1,644,879	1,488,376
Cash and Cash Equivalents, End of Year	$ 1,368,298	$ 1,644,879

Madison County Memorial Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 1,303,454	$ 1,576,632
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	1,746	6,427
Held under bond indenture agreement	51,134	27,885
Externally restricted by donor	11,964	33,935
	$ 1,368,298	$ 1,644,879
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	$ (479,338)	$ (418,269)
Depreciation and amortization	1,131,258	1,005,452
(Gain) loss on sale of capital assets	29,722	(488)
Changes in operating assets and liabilities		
Receivables, net	49,257	(6,379)
Supplies	(28,689)	(16,055)
Estimated amounts due from and to third-party payers	169,000	(120,000)
Accounts payable and accrued expenses	386,790	64,406
Other assets and liabilities	(43,385)	(35,573)
Net cash provided by operating activities	$ 1,214,615	$ 473,094
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	$ 758,065	$ 154,615
Interest paid included in purchase of capital assets	361,912	-
Noncash Investing Activity		
Change in unrealized investment gains and losses	$ 31,542	$ -

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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, 2011 and 2010, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 10% of its financial support from property tax revenues in both of the years ended June 30, 2011 and 2010, 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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Beginning January 1, 2011, the Hospital purchased commercial insurance for its employee health claims partial deductibles that was previously self-insured. Prior to this, the Hospital was self-insured for a portion of its exposure to risk of loss from partial deductibles for employee health claims. Annual estimated provisions were accrued for the self-insured portion of the health claims and included an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Investments and Investment Income

All investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income and the realized gains and losses on investments carried at fair value.

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.

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 interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2011	2010
Total interest expense incurred on borrowings for project	$ 425,036	$ -
Interest income and earnings from investment of proceeds of borrowings for project	17,138	-
Net interest cost capitalized	$ 407,898	$ -
Interest capitalized	$ 407,898	$ -
Interest costs charged to expense	137,832	147,184
Total interest incurred	$ 545,730	$ 147,184

The Hospital is completing a building and renovation project not to exceed $13,600,000 in construction costs. The project is being paid for through borrowings of a $360,000 no interest loan and $13,140,000 issuance of revenue bonds and existing funds. The Hospital has $8,383,000 in construction-in-progress at June 30, 2011.

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.

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 $570,591 and $378,205 for 2011 and 2010, 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.

Subsequent Events

Subsequent events have been evaluated through November 17, 2011, which is the date the financial statements were available to be issued.

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 are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Administrative Contractor.

Approximately 50% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2011 and 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 Investment 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, 2011 and 2010. The Hospital's deposits in banks at June 30, 2011 and 2010 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.

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, 2011, the Hospital had the following investments and maturities:

	June 30, 2011	Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Agency obligations	$ 5,172,870	$ 5,172,870	$ -	$ -	$ -
Money market funds	1,540,773	1,540,773	-	-	-
	$ 6,713,643	$ 6,713,643	$ -	$ -	$ -

At June 30, 2010, the Hospital had no investments.

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. The government obligations are presented in their respective category based on final maturity date.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011, some of the Hospital's investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated AA by Standard & Poor's, while some are not rated. The Hospital's investments in money market funds were rated AAA by Standard & Poor's.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2011 and 2010, the Hospital's investments not directly guaranteed by the U.S. government that constituted more than 5% of its total investments are as follows:

	2011	2010
Federal Home Loan Mortgage obligations	33%	-
Federal Home Loan Bank obligations	25%	-
Federal National Mortgage Association obligations	11%	-

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	$ 7,295,553	$ 5,298,633
Investments	6,713,643	-
Other	440	420
	$ 14,009,636	$ 5,299,053
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,303,454	$ 1,576,632
Assets held under bond indenture agreement	318,865	246,554
Noncurrent cash, deposits, investments and other	12,387,317	3,475,867
	$ 14,009,636	$ 5,299,053

Investment Income

Investment income for the years ended June 30 consisted of:

	2011	2010
Interest income	$ 76,109	$ 76,177
Net decrease in fair value of investments included in construction in progress	(31,542)	-
	$ 44,567	$ 76,177

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, 2011 and 2010 consisted of:

	2011	2010
Medicare	$ 738,525	$ 701,775
Medicaid	157,398	190,593
Other third-party payers	848,324	937,548
Patients	1,099,340	943,964
	2,843,587	2,773,880
Less allowance for uncollectible accounts	726,658	563,800
	$ 2,116,929	$ 2,210,080

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 follows:

2011	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 5,046	$ -	$ -	$ -	$ 5,046
Land improvements	679,435		(75,280)		604,155
Buildings and leasehold improvements	6,605,046		(91,181)	54,000	6,567,865
Fixed equipment	4,500,364		(156,224)	218,155	4,562,295
Major movable equipment	4,469,875		(577,576)	654,668	4,546,967
Construction in progress	1,148,199	8,161,701		(926,823)	8,383,077
	17,407,965	8,161,701	(900,261)	-	24,669,405
Less accumulated depreciation					
Land improvements	(360,212)	(36,316)	70,399		(326,129)
Buildings and leasehold improvements	(3,120,244)	(230,899)	88,898		(3,262,245)
Fixed equipment	(2,705,397)	(230,826)	124,663		(2,811,560)
Major movable equipment	(2,725,318)	(594,279)	574,920		(2,744,677)
	(8,911,171)	(1,092,320)	858,880	-	(9,144,611)
Capital assets, net	$ 8,496,794	$ 7,069,381	$ (41,381)	$ -	$ 15,524,794

2010	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 5,046	$ -	$ -	$ -	$ 5,046
Land improvements	679,435				679,435
Buildings and leasehold				6,001	
improvements	6,599,045				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
	15,847,520	1,791,464	(231,019)	-	17,407,965
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)
	(8,162,340)	(979,438)	230,607	-	(8,911,171)
Capital assets, net	$ 7,685,180	$ 812,026	$ (412)	$ -	$ 8,496,794

At June 30, 2011, certain capital assets associated with the Hospital's facility were considered for impairment due to the current construction project. Although the capital assets related to the facility were not considered impaired, the capital assets remaining estimated useful lives and salvage values were reconsidered. Additional depreciation of $18,849 was recognized for capital assets for the year ended June 30, 2011 based on assets that would be abandoned or otherwise not make the transition into the new area or renovated part of facility. The loss results from a reduction in the estimated useful life of these assets and the related acceleration of depreciation expense. The total estimated loss at June 30, 2011 is $42,650, which is being recognized over the eighteen-month period from acceptance of the project to estimated completion. The loss is included in depreciation and amortization expense in the accompanying statement of revenue, expenses and changes in net assets.

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. It is reasonably possible that this estimate could change materially in the near term.

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, 2011, there is no claim exposure to the Hospital due to no physician contracts being terminated.

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. Beginning January 1, 2011, the Hospital purchased commercial insurance for the partial health insurance deductibles and is no longer self-insured. In 2010, the Hospital is self-insured for partial health insurance deductibles. Changes in the balance of claims liabilities during 2011 and 2010 are summarized as follows:

	2011	2010
Balance, beginning of year	$ 8,100	$ 30,000
Current year claims and changes in estimates	7,000	17,667
Claim payments	(15,100)	(39,567)
Balance, end of year	$ -	$ 8,100

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue and refunding notes Series 2005 (A)	$ 2,930,000	$ -	$ (235,000)	$ 2,695,000	$ 245,000
Rural economic development loan (B)	12,000	360,000	(12,000)	360,000	36,000
Hospital revenue bonds Series 2010A (C)	-	7,565,000	-	7,565,000	-
Taxable hospital revenue bonds Series 2010B (D)	-	5,575,000	-	5,575,000	-
Total long-term debt	2,942,000	$ 13,500,000	$ (247,000)	16,195,000	$ 281,000
Less unamortized discount	(24,458)			(176,596)	
	$ 2,917,542			$16,018,404	

	2010				
	Beginning Balance	Additions	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	

(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) As of June 30, 2011: Noninterest-bearing loan due December 16, 2020; payable $36,000 annually, collateralized by net revenues of the Hospital. As of June 30, 2010: Noninterest-bearing loan due September 20, 2010; payable $12,000 annually; secured by irrevocable letter of credit from Union State Bank.

(C) Hospital Revenue Bonds, Series 2010A, originally aggregating $7,565,000. Total notes mature serially through 2026 bearing interest at 1.55% to 5.10%, collateralized by net revenues of the Hospital.

(D) Taxable hospital Revenue Bonds, Series 2010B (Recovery Zone Economic Development Bonds – Direct Payout), originally aggregating $5,575,000. Total notes mature serially starting in 2027 through 2031 bearing interest at 7.15% to 8.25%. The Hospital is eligible for subsidy payments of 45% of the amount of interest payments. Collateralized by net revenues of the Hospital.

Revenue Notes Payable - Series 2005

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, 2011 and 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 $111,134 and $162,885 at June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, deposits in the Sinking Fund were in excess of required amounts of $79,976 and $131,746, respectively.

Revenue Bonds Payable - Series 2010

The Series 2010 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of ($800,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to $800,056 and $0 at June 30, 2011 and 2010, respectively. The Hospital is also required to establish sinking funds and meet certain other covenants.

The debt service requirements for the Hospital Revenue Notes and Bonds Series 2005 and Series 2010 as of June 30, 2011, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	$ 1,131,383	$ 245,000	$ 886,383
2013	1,403,878	530,000	873,878
2014	1,407,885	550,000	857,885
2015	1,404,796	565,000	839,796
2016	1,404,368	585,000	819,368
2017-2021	7,030,345	3,340,000	3,690,345
2022-2026	7,209,365	4,445,000	2,764,365
2027-2031	6,736,531	5,575,000	1,161,531
	$ 27,728,551	$ 15,835,000	$ 11,893,551

The debt service requirements as of June 30, 2011 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2012	$ 36,000	$ 36,000
2013	36,000	36,000
2014	36,000	36,000
2015	36,000	36,000
2016	36,000	36,000
2017-2021	180,000	180,000
	$ 360,000	$ 360,000

Note 9: Restricted and Designated Net Assets

At June 30, 2011 and 2010, restricted expendable net assets were available for the following purposes:

	2011	2010
Debt service	$ 1,489,718	$ 521,331
Future renovation	-	25,744
Specific operating activities:		
Hospice	39,124	29,930
Other	1,995	4,005
Total restricted expendable net assets	$ 1,530,837	$ 581,010

In 2010, the Hospital recorded a $25,744 in receivable in noncurrent cash, deposits and other, externally restricted by donor from an unrelated Foundation for contributions received by the Foundation for the Hospital. The funds were received and expended in 2011.

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 4.5% and 4.3% of their annual covered salaries and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2011, 2010 and 2009 were $494,833, $457,758 and $416,915, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.95% of annual covered salary for 2011.

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 $389,432 and $360,529 were incurred for the years ended June 30, 2011 and 2010, respectively.

Note 12: Operating Leases

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

Future minimum lease payments at June 30, 2011 were:

2012	$	140,100
2013		140,100
2014		116,750
Future minimum lease payments	$	396,950

Rental expense for all operating leases was $334,865 and $337,415 for the years ended June 30, 2011 and 2010, 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.

The following is reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2011:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 1,750,532	$ -	$ 1,750,532	$ 1,745,740
Other revenues/receipts	16,031,322	218,257	16,249,579	16,662,988
	17,781,854	218,257	18,000,111	18,408,728
Expenses/disbursements	16,156,983	314,716	16,471,699	27,526,336
	1,624,871	(96,459)	1,528,412	(9,117,608)
Balance, beginning of year	12,507,518	(3,174,818)	9,332,700	9,332,700
Balance, end of year	$ 14,132,389	$ (3,271,277)	$ 10,861,112	$ 215,092

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 materially in the near term.

Note 15: Risks and Uncertainties

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.

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

Subsequent to year end, the Hospital Board of Trustees approved additional expense for mechanical upgrades to the 1977 Wing and Health Trust Physicians Clinic Suite A, totaling approximately $414,000. The Hospital plans to finance the project with existing Hospital funds.

Supplementary Information

Madison County Memorial Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2011 and 2010

	2011				2010			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	$ 2,181,793	$ 1,747,391	$ 434,402	$ -	$ 2,368,615	$ 2,090,785	$ 277,830	$ -
Swing-bed	798,690	-	-	798,690	694,340	-	-	694,340
	2,980,483	1,747,391	434,402	798,690	3,062,955	2,090,785	277,830	694,340
Nursing Services								
Operating and recovery rooms	1,214,484	85,317	1,128,645	522	937,525	84,502	853,023	-
Emergency room	3,150,844	125,931	3,024,913	-	2,983,517	160,516	2,822,614	387
	4,365,328	211,248	4,153,558	522	3,921,042	245,018	3,675,637	387
Other Professional Services								
Laboratory	3,967,106	421,886	3,445,191	100,029	3,583,945	467,547	3,050,744	65,654
Central services and supplies	1,037,837	210,563	818,647	8,627	810,859	192,321	606,237	12,301
Blood administration	86,898	31,984	50,086	4,828	55,503	20,735	32,902	1,866
Electrocardiology	132,541	11,546	120,017	978	118,844	14,927	103,455	462
Echocardio/Vascular	256,962	22,071	232,588	2,303	269,721	26,485	243,236	-
Stress test	61,612	-	61,612	-	43,414	-	43,414	-
Radiology	2,798,048	169,430	2,610,560	18,058	2,544,638	226,050	2,298,980	19,608
MRI	739,964	7,871	732,093	-	449,573	25,485	424,088	-
Mammography	170,065	-	160,047	10,018	118,094	-	107,688	10,406
CT	2,254,173	254,371	1,991,957	7,845	2,053,246	304,044	1,734,058	15,144
Chronic disease management	299,043	-	298,699	344	267,767	-	267,767	-
Nuclear medicine	281,717	5,594	274,702	1,421	315,596	10,765	304,831	-
Pharmacy	2,850,472	618,709	1,734,804	496,959	2,898,248	891,986	1,750,396	255,866
Intravenous therapy	395,656	182,349	187,522	25,785	443,498	254,412	180,009	9,077
Anesthesiology	351,716	30,779	320,219	718	356,949	40,880	315,573	496
Respiratory therapy	305,519	220,442	5,081	79,996	339,477	249,053	2,540	87,884
Physical therapy	584,469	27,965	420,622	135,882	488,488	36,266	344,022	108,200
Occupational therapy	196,486	10,091	124,825	61,570	199,644	19,420	119,196	61,028
Speech therapy	12,091	4,265	4,081	3,745	13,801	4,447	5,990	3,364
Social services	7,116	6,271	682	163	6,520	6,031	489	-

See Independent Accountants' Report

Madison County Memorial Hospital

Schedules of Patient Service Revenues (Continued)

Years Ended June 30, 2011 and 2010

	2011				2010			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Health Trust Physicians Clinic	$ 3,224,101	$ 181,407	$ 3,024,188	$ 18,506	$ 3,025,867	$ 214,444	$ 2,794,904	$ 16,519
Earlham Medical Clinic	346,913	-	346,913	-	331,485	-	331,485	-
Outpatient Clinic	190,134	448	189,686	-	129,671	184	129,487	-
Chemotherapy	44,698	640	44,058	-	53,357	-	53,357	-
Sleep study	109,944	-	109,944	-	61,446	-	61,446	-
Dietitian patient revenue	1,789	-	1,789	-	2,588	-	2,588	-
Middle River Hospice	1,869,888	-	1,869,888	-	1,840,494	-	1,840,494	-
	22,576,958	2,418,682	19,180,501	977,775	20,822,733	3,005,482	17,149,376	667,875
Gross Patient Service Revenue	29,922,769	$ 4,377,321	$ 23,768,461	$ 1,776,987	27,806,730	$ 5,341,285	$ 21,102,843	$ 1,362,602
Contractual Adjustments	(13,602,529)				(11,858,586)			
Net Patient Service Revenue before Provision for Uncollectible Accounts	16,320,240				15,948,144			
Provision for Uncollectible Accounts	(894,170)				(850,604)			
Net Patient Service Revenue	$ 15,426,070				$ 15,097,540			

See Independent Accountants' Report

Madison County Memorial Hospital

Schedules of Other Revenues

Years Ended June 30, 2011 and 2010

	2011	2010
Cafeteria	$ 40,987	$ 37,700
Medical records	9,168	8,890
Other	37,222	38,168
Gain (loss) on disposal of property and equipment	(29,722)	488
Health Trust Physician Clinic other revenue	56,088	49,567
	$ 113,743	$ 134,813

Madison County Memorial Hospital

Schedules of Operating Expenses

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	$ 1,179,871	$ 1,030,753	$ 149,118	$ 1,226,594	$ 1,063,661	$ 162,933
Emergency room	918,019	432,391	485,628	901,122	408,116	493,006
Operating and recovery rooms	328,801	253,972	74,829	314,649	240,397	74,252
Nursing administration	88,410	86,721	1,689	87,114	84,661	2,453
	2,515,101	1,803,837	711,264	2,529,479	1,796,835	732,644
Other Professional Services						
Laboratory	613,591	276,252	337,339	637,442	263,575	373,867
Central services and supplies	205,869	109,043	96,826	202,443	100,634	101,809
Blood administration	41,711	-	41,711	33,020	-	33,020
Electrocardiology	3,786	3,495	291	4,312	3,375	937
Echocardio/Vascular	74,268	-	74,268	93,484	-	93,484
Stress test	11,545	11,029	516	7,376	6,736	640
Radiology	509,159	234,299	274,860	508,040	229,949	278,091
MRI	77,772	456	77,316	58,089	628	57,461
Mammography	24,317	17,390	6,927	23,484	16,770	6,714
CT	215,410	19,006	196,404	253,163	15,028	238,135
Chronic disease management	116,033	100,779	15,254	110,069	96,747	13,322
Nuclear medicine	64,776	460	64,316	72,654	750	71,904
Pharmacy	794,862	34,998	759,864	730,362	33,810	696,552
Intravenous solutions	21,188	-	21,188	19,765		19,765
Anesthesiology	270,034	245,249	24,785	296,918	269,890	27,028
Respiratory therapy	28,982	-	28,982	27,709	-	27,709
Physical therapy	228,504	2,011	226,493	203,431	159	203,272
Occupational therapy	70,788	-	70,788	64,849	-	64,849
Speech therapy	6,262	-	6,262	10,322	-	10,322
Health Trust Physicians Clinic	2,147,856	1,823,185	324,671	2,052,868	1,729,739	323,129
Earlham Medical Clinic	247,745	215,676	32,069	231,467	206,187	25,280
Outpatient Clinic	117,980	106,259	11,721	108,351	105,391	2,960
Chemotherapy	5,157	3,494	1,663	5,396	4,988	408

See Independent Accountants' Report

Madison County Memorial Hospital

Schedules of Operating Expenses (Continued)

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	$ 29,769	$ 469	$ 29,300	$ 17,707	$ 357	$ 17,350
Middle River Hospice	540,098	285,314	254,784	527,953	299,738	228,215
Medical records	236,129	175,381	60,748	301,197	215,961	85,236
Social services	19,909	19,842	67	33,659	33,358	301
Observation care	80,761	80,761	-	25,010	25,010	-
	6,804,261	3,764,848	3,039,413	6,660,540	3,658,780	3,001,760
General Services						
Operation of plant	591,349	167,118	424,231	556,475	156,348	400,127
Dietary	319,203	193,756	125,447	316,532	193,830	122,702
Housekeeping	170,273	126,786	43,487	167,634	129,612	38,022
	1,080,825	487,660	593,165	1,040,641	479,790	560,851
Administrative Services	2,274,566	1,115,102	1,159,464	2,206,653	1,068,254	1,138,399
Employee Benefits	1,996,844		1,996,844	1,965,559		1,965,559
Depreciation	1,131,258		1,131,258	1,005,452		1,005,452
Insurance	216,296		216,296	242,298		242,298
	$ 16,019,151	$ 7,171,447	$ 8,847,704	$ 15,650,622	$ 7,003,659	$ 8,646,963

See Independent Accountants' Report

Madison County Memorial Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts Years Ended June 30, 2011 and 2010

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2011	2010	2011	2010
Days Since Discharge				
0 – 60	$ 2,845,221	$ 3,034,291	67%	76%
61 – 120	520,640	444,551	12%	11%
121 – 180	327,389	220,688	8%	6%
181 – 365	466,096	211,463	11%	5%
366 and over	113,300	97,987	2%	2%
	4,272,646	4,008,980	100%	100%
Contractual allowances	1,429,059	1,235,100		
Allowance for uncollectible accounts	726,658	563,800		
	2,155,717	1,798,900		
	$ 2,116,929	$ 2,210,080		

Allowance for Uncollectible Accounts

	2011	2010
Balance, beginning of year	$ 563,800	$ 452,300
Provision for year	894,170	850,604
Recoveries of accounts previously written off	166,503	128,762
	1,624,473	1,431,666
Less accounts written off	897,815	867,866
Balance, end of year	$ 726,658	$ 563,800

Madison County Memorial Hospital

Schedules of Supplies and Prepaid Expense

Years Ended June 30, 2011 and 2010

Supplies

	2011	2010
General	$ 186,371	$ 186,076
Pharmacy	137,190	109,229
Other	7,586	7,153
	$ 331,147	$ 302,458

Prepaid Expense

	2011	2010
Insurance	$ 72,877	$ 74,676
Maintenance and other	201,967	156,783
	$ 274,844	$ 231,459

Madison County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2011

Name	Title	Term Expires
	Board of Trustees	
Mary Corkrean	Chairwoman	2014
Tom Collins	Vice Chairman	2016
Beverlee Bell	Secretary/Treasurer	2016
Patty Weeks	Member	2012
John Mills	Member	2014
Cathy Simon	Member	2014
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, 2011 and 2010

	2011	2010
Patient Days (Exclusive of Swing-bed)		
Medicare	1,078	1,371
Medicaid	57	95
Private and other	384	476
	1,519	1,942
Medicare and Medicaid Percent	74.7%	75.5%
Percent of Occupancy (Acute)	17%	21%
Discharges (Exclusive of Swing-bed)		
Medicare	269	340
Medicaid	20	33
Private and other	146	167
	435	540
Average Length of Stay in Days	3.5	3.6

Madison County Memorial Hospital

Schedule of Insurance Coverage

Year Ended June 30, 2011

Chubb – Federal Insurance Company		
Policy No. 3538-81-95, expiring January 1, 2012		
Blanket building and contents	$	24,451,424
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, 2012		
Comprehensive automobile liability		
Liability		1,000,000
Hired and non-owned auto physical damage		25,000
ProAssurance		
Comprehensive hospital liability, expiring January 1, 2012		
Hospital professional liability, Policy No. MP74673		1,000,000/3,000,000
General liability, Policy No. MP74673		1,000,000/3,000,000
Employee benefits, Policy No. MP74673		1,000,000/3,000,000
Excess liability, expiring January 1, 2012		
Excess medical liability, Policy No. CH333		3,000,000/3,000,000
Umbrella liability, Policy No. CH333		3,000,000/3,000,000
Chubb – Federal Insurance Company		
Policy No. 6802-0186, expiring January 1, 2012		
Directors' and officers' liability		4,000,000/4,000,000
Chubb – Federal Insurance Company		
Policy No. 8223-2759, expiring January 1, 2012		
Cyber liability		1,000,000

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, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Held under capital loan note agreements				
Sinking Fund (2005)	$ 162,885	$ 324,644	$ 376,395	$ 111,134
Debt Service Reserve Fund (2005)	370,000	370,000	370,000	370,000
Bond Reserve Fund (2010)	-	800,056	-	800,056
Proceeds 2010A Bond	-	6,993,703	1,139,060	5,854,643
Proceeds 2010B Bond	-	5,150,741	5,150,733	8
Capitalized Interest 2010A Bond	-	471,564	152,746	318,818
Capitalized Interest 2010B Bond	-	355,158	115,041	240,117
	$ 532,885	$ 14,465,866	$ 7,303,975	$ 7,694,776

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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, 2011, and have issued our report thereon dated November 17, 2011. 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*.

experience BKD

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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, 2011 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, 2011. 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, 2011.

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, 2011 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, management and the State of Iowa, and is not intended to be, and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
November 17, 2011

Madison County Memorial Hospital

Schedule of Findings and Responses

Year Ended June 30, 2011

Reference Number	Finding
	None

BKD LLP
CPAs & Advisors

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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, 2011, 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.

Accounts Receivable

During the audit, we noted the accounts receivable balances greater than 121 days increased over $375,000. We recommend management continue to monitor the accounts receivable aging to ensure receivables are collected timely.

Charity Care Disclosures

Health care organizations currently report services to qualified charity patients in the notes to the financial statements. The disclosures generally report the amount of charity based on charges or the cost of providing the services. Effective for fiscal years beginning after December 15, 2010, ASU 2010-23 will require that all disclosures for charity care be based on the cost of providing those services. While this standard is not specifically for governmental entities, we recommend the Hospital consider adopting it to be consistent with the health care industry for 2012.

Medicare and Medicaid Reimbursement

The Federal government is currently evaluating ways to cut expenses due to the current economic conditions. Medicare and Medicaid programs are all being evaluated in this progress. The Hospital should continue to monitor the status of the proposed reimbursement cuts.

Conversion to ICD-10

Beginning on October 1, 2013, the Centers for Medicare and Medicaid Services (CMS) is converting coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after this date cannot be paid. The conversion will improve the information reported regarding a patient's medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to the providers will be related to the loss of productivity through error rates and reworking of claims filed, in addition to the loss of cash flows through the initial increase in the length of time necessary to process claims. CMS estimates that it may take up to six months for error rates and accounts receivable to decrease back to pre-conversion levels.

Providers should begin developing an implementation strategy that includes an assessment of the impact on your hospital. Check with your billing services, clearinghouse or practice management software vendor about their compliance plans. Training of personnel and physicians will be necessary to prevent significant delays in processing of claims or loss of reimbursement.

Current Economic Environment

The current protracted economic decline continues to present difficult circumstances and challenges for health care organizations. As a result, health care organizations are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values that could negatively impact the Hospital's ability to 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, including:

- Review and monitor allowances for uncollectible accounts
- Evaluate financing needs and liquidity plans

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 17, 2011