

AUDUBON COUNTY MEMORIAL HOSPITAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2004 AND 2003

**AUDUBON COUNTY MEMORIAL HOSPITAL
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**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULE OF OFFICIALS
YEAR ENDED JUNE 30, 2004**

Name	Title	Term Expires
<u>Board of Trustees</u>		
Jay D. Mendenhall	Chairman	December 31, 2006
Mark Kessler	Vice Chairman	December 31, 2004
Linda Bloome	Secretary	December 31, 2006
Paul Schultz, DDS	Treasurer	December 31, 2004
Wayne Hansen	Member	December 31, 2006
Dan Smith	Member	December 31, 2008
Connie S. Faga	Member	December 31, 2008

Hospital Officials

Tom Smith	CEO/Administrator
Joan Fancher	Assistant Administrator
Karen McGuire	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the accompanying financial statements of Audubon County Memorial Hospital as of June 30, 2004 and 2003, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial statement 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.

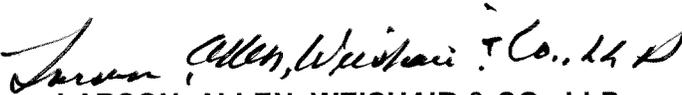
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Audubon County Memorial Hospital as of June 30, 2004 and 2003, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Audubon County Memorial Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year presentation.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004 on our consideration of Audubon County Memorial 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. This 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 management's discussion and analysis on page 3 through page 7 and the budgetary comparison information on page 24 are not a required part of the basic financial statements, but is supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Audubon County Memorial Hospital's basic financial statements. The supplementary information from pages 25-33 is presented for purpose 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 audit 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. The statistical data contained in the schedule of statistics on page 34, has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 9, 2004

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

This section of Audubon County Memorial Hospital's annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 31, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Financial Highlights

- The Hospital's total assets increased by \$933,650 or 8% in 2004 and increased by \$662,024 or 6% in 2003.
- The Hospital's net assets increased in each of the last two years with a \$777,216 or 8% increase in 2004 and a \$987,709 or 11% increase in 2003.
- The Hospital reported positive operating income of \$777,216 in 2004 and \$987,710 in 2003. This represents a decrease in 2004 of \$210,494 and an increase in 2003 of \$45,080.

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

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also, supporting supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenues
- Schedule of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Comparative Statistics

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

There was one change in the Hospital's accounting policies for the year ended June 31, 2004. A policy was established for voiding outstanding checks that are over twelve months old.

Financial Analysis of the Hospital

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Audubon County and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 4,712,889	\$ 3,924,168	\$ 3,077,600
Assets Whose Use is Limited	2,557,016	2,283,686	2,070,496
Capital Assets, Net	5,006,166	5,134,567	5,256,281
Succeeding Yearly Property Tax Receivable	400,001	400,001	676,022
Other Assets	12,000	12,000	12,000
Total Assets	<u>\$ 12,688,072</u>	<u>\$ 11,754,422</u>	<u>\$ 11,092,399</u>
Liabilities:			
Total Current Liabilities	\$ 794,446	\$ 605,012	\$ 618,112
Long-Term Debt (Less Current Maturities)	148,500	181,500	218,065
Deferred Revenue from Succeeding Year	400,001	400,001	676,022
Total Liabilities	<u>1,342,947</u>	<u>1,186,513</u>	<u>1,512,199</u>
Total Net Assets	<u>11,345,125</u>	<u>10,567,909</u>	<u>9,580,200</u>
Total Liabilities and Net Assets	<u>\$ 12,688,072</u>	<u>\$ 11,754,422</u>	<u>\$ 11,092,399</u>

The asset category that changed significantly during 2004 and 2003 was Current Assets, which increased by \$788,721 or 20% in 2004 and increased by \$846,568 or 28% in 2003. Deferred revenue from succeeding year and succeeding yearly property tax receivable decreased by \$276,021 between years 2002 and 2003, which represents a 41% decrease, and remains unchanged between years 2003 and 2004.

The current ratio (current assets divided by current liabilities) for 2004 was 5.94 and 2003 was 6.49. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 7,219,601	\$ 6,951,095	\$ 6,586,390
Operating Expenses	<u>6,567,514</u>	<u>6,120,104</u>	<u>5,747,517</u>
Operating Income	652,087	830,991	838,873
Non-Operating Revenues (Expenses)	<u>125,129</u>	<u>156,718</u>	<u>103,757</u>
Excess of Revenues and Gains over Expenses and Losses	777,216	987,709	942,630
Net Assets, Beginning of Year	<u>10,567,909</u>	<u>9,580,200</u>	<u>8,637,570</u>
Net Assets End of Year	<u><u>\$ 11,345,125</u></u>	<u><u>\$ 10,567,909</u></u>	<u><u>\$ 9,580,200</u></u>

Net patient service revenue made up 93% in 2004 and 89% in 2003 of the Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 8,814,735	\$ 7,966,198	\$ 7,681,526
Adjustments to Patient Revenue:			
Contractual Adjustments	1,914,794	1,598,291	1,668,815
Provision for Bad Debt	<u>198,397</u>	<u>224,534</u>	<u>93,161</u>
Net Patient Service Revenue	<u><u>\$ 6,701,544</u></u>	<u><u>\$ 6,143,373</u></u>	<u><u>\$ 5,919,550</u></u>
Adjustment as a Percent of Revenues	<u><u>23.98%</u></u>	<u><u>22.93%</u></u>	<u><u>22.98%</u></u>

Total operating expenses increased \$447,410 or 7.3% in 2004 and increased \$503,960 or 8.6% in 2003. The operating expenses are broken down by department on the Schedules of Operating Expenses in the fiscal year end Audit Report.

Operating Income (total operating revenue less total operating expenses divided by total operating revenue) was \$652,087 or 9% of total operating revenue in 2004 compared to \$830,991 or 12% in 2003.

Other Operating Revenue decreased by \$286,971 in 2004 and increased by \$143,148 in 2003. Table 4 shows the detail for this line item. The main reason for the drop in operating revenue in 2004 is due to the decrease in county tax asking, and the increase between years 2002 and 2003 is due to the increase in county tax asking.

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Table 4: Other Revenue

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cafeteria	\$ 15,739	\$ 14,823	\$ 14,781
Grant Revenues	9,525	-	-
Fitness Center	4,065	5,639	7,094
Rental Income	31,490	32,115	26,149
Medical Records Transcription/Copy Fee	2,144	3,404	4,786
Clinic Lease Revenue (Dr.'s Cunningham & Shaffer)	29,720	29,720	29,720
Other	10,354	16,482	5,717
County Tax Revenue	415,020	705,539	578,593
Total	<u>\$ 518,057</u>	<u>\$ 807,722</u>	<u>\$ 666,840</u>

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. On December 1, 2001 Audubon County Memorial Hospital became critical access, and began receiving costs for the Medicare patients we serve. Even though the hospital's statistics show a decrease, our revenues have increased due to this factor.

Table 5: Statistical Data

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient Days			
Acute	1,187	1,097	1,273
Swing Bed	456	670	682
Newborn	41	34	49
Total	<u>1,684</u>	<u>1,801</u>	<u>2,004</u>
Admissions			
Acute	<u>355</u>	<u>344</u>	<u>414</u>
Discharges			
Acute	<u>354</u>	<u>344</u>	<u>414</u>
Average Length of Stay, Acute	<u>3.35</u>	<u>3.19</u>	<u>3.07</u>
Beds	<u>25</u>	<u>25</u>	<u>25</u>
Occupancy Percentage	<u>13.01%</u>	<u>12.02%</u>	<u>13.95%</u>

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Capital Assets

At June 31, 2004 the Hospital had \$5,006,166 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$560,372 in asset additions. In 2003 the Hospital expended \$543,268 in asset additions.

Long Term Debt.

The only long term debt that the hospital has is the zero interest loan received from Guthrie County Rural Electric Cooperative. Audubon County Memorial Hospital pays \$33,000 on this loan annually.

Economic Factors

The Hospital continued to improve its financial position during the current year. Some of the realities that may potentially become challenges for the Hospital are as follows:

- Expenses will continue to increase.
- Facilities at the Hospital require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.

The Hospital anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Thomas G. Smith, Administrator at Audubon County Memorial Hospital, 515 Pacific Street, Audubon, IA 50025.

**AUDUBON COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 559,680	\$ 687,551
Certificates of Deposit	2,749,898	2,195,619
Patient Receivables, Less Allowance for Uncollectible Accounts of \$218,939 in 2004 and \$224,345 in 2003	1,142,737	745,195
Accounts Receivable - Other	16,045	13,802
Third-Party Payor Settlement Receivable	-	56,961
Inventories	172,185	169,437
Prepaid Expenses	72,344	55,603
Total Current Assets	<u>4,712,889</u>	<u>3,924,168</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated by Board for Capital Expenditures	2,546,403	2,273,073
Restricted by Contributors and Grantors For Scholarships	613	613
Restricted by Permanent Endowment	10,000	10,000
Total Noncurrent Cash and Investments	<u>2,557,016</u>	<u>2,283,686</u>
SUCCEEDING YEAR PROPERTY		
TAX RECEIVABLE	400,001	400,001
CAPITAL ASSETS, NET		
	5,006,166	5,134,567
OTHER ASSETS		
	<u>12,000</u>	<u>12,000</u>
Total Assets	<u><u>\$ 12,688,072</u></u>	<u><u>\$ 11,754,422</u></u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 33,000	\$ 36,590
Accounts Payable, Trade	268,069	167,728
Accrued Employee Compensation	482,373	400,694
Third-Party Payor Settlement Payable	11,004	-
Total Current Liabilities	<u>794,446</u>	<u>605,012</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	400,001	400,001
LONG-TERM DEBT, Less Current Maturities	<u>148,500</u>	<u>181,500</u>
Total Liabilities	1,342,947	1,186,513
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,824,666	4,916,477
Restricted		
Expendable for Scholarships	613	613
Nonexpendable Permanent Endowment	10,000	10,000
Unrestricted	6,509,846	5,640,819
Total Net Assets	<u>11,345,125</u>	<u>10,567,909</u>
Total Liabilities and Net Assets	<u>\$ 12,688,072</u>	<u>\$ 11,754,422</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenue (net of provision for bad debts of \$198,398 in 2004 and \$224,534 in 2003)	\$ 6,701,544	\$ 6,143,373
Other Revenues	518,057	807,722
Total Revenues	7,219,601	6,951,095
EXPENSES		
Nursing Service	1,381,992	1,266,778
Other Professional Service	2,423,135	2,239,648
General Service	592,631	583,758
Fiscal, Administrative, and Unassigned Expenses	1,495,217	1,362,154
Depreciation	674,539	665,620
Interest	-	2,146
Total Expenses	6,567,514	6,120,104
OPERATING INCOME	652,087	830,991
NON-OPERATING GAINS (LOSSES)		
Investment Income	113,151	125,382
Unrestricted Contributions	22,411	29,071
Gain (Loss) on Sale of Capital Assets	(10,433)	2,265
Non-Operating Gains, Net	125,129	156,718
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	777,216	987,709
Net Assets Beginning of Year	10,567,909	9,580,200
Net Assets End of Year	\$ 11,345,125	\$ 10,567,909

See accompanying Notes to Financial Statements.

**AUDUBON COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 6,371,967	\$ 6,491,763
Cash Paid to Employees	(2,349,597)	(2,204,501)
Cash Paid to Suppliers	(3,383,090)	(3,223,156)
Cash Paid for Interest	-	(2,146)
Other Receipts and Payments, Net	103,037	102,183
Net Cash Provided by Operating Activities	742,317	1,164,143
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax Appropriations	415,020	705,539
Scholarships Awarded	-	(373)
Contributions	22,411	29,071
Net Cash Provided by Non-Capital Financing Activities	437,431	734,237
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(560,372)	(543,268)
Cash Received from Sale of Capital Assets	3,800	2,000
Payments on Long Term Debt	(36,590)	(111,056)
Net Cash Used by Capital and Related Financing Activities	(593,162)	(652,324)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	(273,330)	(213,190)
Interest Income	106,467	115,894
Maturities of Certificates of Deposit	1,987,709	221,190
Purchase of Certificates of Deposit	(2,535,303)	(1,759,655)
Net Cash Used by Investing Activities	(714,457)	(1,635,761)
DECREASE IN CASH AND CASH EQUIVALENTS	(127,871)	(389,705)
Cash and Cash Equivalents - Beginning	687,551	1,077,256
CASH AND CASH EQUIVALENTS - ENDING	\$ 559,680	\$ 687,551

See accompanying Notes to Financial Statements.

**AUDUBON COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	2004	2003
Income from Operations	\$ 652,087	\$ 830,991
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
County Taxes	(415,020)	(705,539)
Depreciation	674,539	665,620
Decrease (Increase) in -		
Patient Receivables	(397,542)	339,584
Third Party Payor Settlements Receivable	67,965	8,806
Other Receivables	(2,243)	(393)
Inventories	(2,748)	(15,630)
Prepaid Expenses	(16,741)	(20,687)
Increase (Decrease) in -		
Accounts Payable	100,341	(48,126)
Accrued Salaries, Wages, Benefits and Other	81,679	109,517
Net Cash Provided by Operating Activities	\$ 742,317	\$ 1,164,143

See accompanying Notes to Financial Statements.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Audubon County Memorial Hospital (the Hospital) is a county public hospital organized under Chapter 347, Code of Iowa. Services are provided primarily to residents of Audubon County and the surrounding area in South Central Iowa. The Hospital grants credit to patients, substantially all of whom are County residents.

A. Reporting Entity

For financial reporting purposes, Audubon County Memorial Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. Audubon County Memorial Hospital has no component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2002. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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

D. Assets, Liabilities, and Net Assets

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Hospital considers checking accounts, petty cash, and Board-designated savings to be cash equivalents.

Patient Receivables – Patient receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts and contractual adjustments from third party payors. The Hospital provides an allowance for bad debts using the allowance method using management's judgment. Services are sold on an unsecured basis. Accounts past due more than 90 days are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of collectibility has occurred. At June 30, 2004 and 2003, the allowance for uncollectible accounts were \$218,939 and \$224,300, respectively.

Inventory – Inventory is valued at cost using a first-in, first-out method.

Capital Assets, Net – Capital assets are stated on the basis of cost. Property and equipment donated for Hospital operations are recorded as additions to the restricted plant replacement and expansion funds at fair value at the date of receipt and as transfers to the general fund balance when the assets are placed in service.

Investments – Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of savings accounts, certificates of deposit with maturities greater than three months, and accrued interest receivable.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by contributors or grantors and restricted by a permanent endowment. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets (Continued)

Property Tax Receivable – 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. Current year delinquent property taxes receivable represents unpaid taxes for the current year. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent 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 revenues is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenues consists of succeeding year property tax receivable.

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

E. Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Operating Revenues and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

H. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

I. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital provided charity care in the amount of \$-0-and \$4,053 in 2004 and 2003, respectively.

J. County Tax Revenue

Taxes levied to finance the current year are included in other operating revenue.

NOTE 2 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Medicare cost reports through November 30, 2001 have been settled.

Medicaid

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. Medicaid cost reports through December 30, 2001 have been settled.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

A summary of patient service revenue and contractual adjustments is as follows:

	June 30,	
	2004	2003
Total Patient Service Revenue	\$ 8,814,736	\$ 7,966,198
Contractual Adjustments		
Medicare	1,704,428	1,357,356
Medicaid	69,772	90,431
Provision for Bad Debt	198,398	224,534
Other	140,594	150,504
Total Contractual Adjustments	2,113,192	1,822,825
Net Patient Service Revenue	\$ 6,701,544	\$ 6,143,373

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Receivable from Patients and Their Insurance Carriers	\$ 687,949	\$ 521,318
Receivable from Medicare	593,435	414,131
Receivable from Medicaid	80,292	34,091
Total Patient Receivables	1,361,676	969,540
Less Allowance for Doubtful Accounts	(218,939)	(224,345)
Patient Receivables, Net	\$ 1,142,737	\$ 745,195

NOTE 4 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2004 and 2003 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.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

The Hospital's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's cash and cash equivalents and investments are all category 1, which means that the cash and cash equivalents and investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

At June 30, 2004 and 2004, the Hospital had bank balances as follows:

	2004	2003
Insured or Collateralized by Iowa Insurance Trust	\$ 6,382,154	\$ 5,192,974
Carrying Amount	\$ 5,866,594	\$ 5,166,856

The carrying amount of deposits shown above are included in the Hospital's balance sheets as follows:

	2003	2002
Deposits	\$ 5,866,594	\$ 5,166,856

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 559,680	\$ 687,551
Certificates of Deposit	2,749,898	2,195,619
Noncurrent Cash and Investments		
Internally Designated by Board for Capital Expenditures	2,546,403	2,273,073
Restricted by Contributors and Grantors For Scholarships	613	613
Restricted by Permanent Endowment	10,000	10,000
	\$ 5,866,594	\$ 5,166,856

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 5 CAPITAL ASSETS

A summary of capital assets for the years ended June 30, 2004 and 2003 are as follows:

Capital Assets	July 1, 2003	Additions	(Retirements)	June 30, 2004
Land	\$ 68,389	\$ -	\$ -	\$ 68,389
Land Improvements	317,819	-	-	317,819
Building	5,630,163	58,012	(2,169)	5,686,006
Fixed Equipment	640,031	2,525	(13,696)	628,860
Movable Equipment	2,498,116	426,951	(262,096)	2,662,971
Construction in Progress	-	298,069	(214,954)	83,115
Totals	9,154,518	785,557	(492,915)	9,447,160
 Accumulated Depreciation				
Land Improvements	128,959	22,686	-	151,645
Building	1,958,147	320,772	(1,518)	2,277,401
Fixed Equipment	359,188	29,524	(12,213)	376,499
Movable Equipment	1,573,657	301,557	(239,765)	1,635,449
Totals	4,019,951	\$ 674,539	\$ (253,496)	4,440,994
	<u>\$ 5,134,567</u>			<u>\$ 5,006,166</u>
Capital Assets	July 1, 2002	Additions	(Retirements)	June 30, 2003
Land	\$ 68,389	\$ -	\$ -	\$ 68,389
Land Improvements	317,819	-	-	317,819
Building	5,377,007	263,639	(10,483)	5,630,163
Fixed Equipment	625,035	22,237	(7,241)	640,031
Movable Equipment	2,299,180	364,450	(165,514)	2,498,116
Construction in Progress	109,744	147,878	(257,622)	-
Totals	8,797,174	798,204	(440,860)	9,154,518
 Accumulated Depreciation				
Land Improvements	106,273	22,686	-	128,959
Building	1,648,117	320,513	(10,483)	1,958,147
Fixed Equipment	335,593	30,835	(7,240)	359,188
Movable Equipment	1,450,910	291,586	(168,839)	1,573,657
Totals	3,540,893	\$ 665,620	\$ (186,562)	4,019,951
	<u>\$ 5,256,281</u>			<u>\$ 5,134,567</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT

A schedule of changes in long-term debt for 2004 and 2004 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Note Payable, Computer System	\$ 3,590	\$ -	\$ (3,590)	\$ -	\$ -
Note Payable, Non-Interest Bearing	214,500	-	(33,000)	181,500	33,000
Total Long-Term Debt	<u>\$ 218,090</u>	<u>\$ -</u>	<u>\$ (36,590)</u>	<u>\$ 181,500</u>	<u>\$ 33,000</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Note Payable, Radiology Equipment	\$ 57,323	\$ -	\$ (57,323)	\$ -	\$ -
Note Payable, Computer System	24,323	-	(20,733)	3,590	3,590
Note Payable, Non-Interest Bearing	247,500	-	(33,000)	214,500	33,000
Total Long-Term Debt	<u>\$ 329,146</u>	<u>\$ -</u>	<u>\$ (111,056)</u>	<u>\$ 218,090</u>	<u>\$ 36,590</u>

The Note Payable, Radiology Equipment dated October 1997, for the purpose of radiology equipment. The note payable calls for repayment through a one-time deposit of \$6,518 and fifty-nine equal monthly installments of \$6,518, commencing May 1998, including interest at 5.694% per annum. This note was paid in full during 2003.

The Note Payable, Computer System dated August 1998, for the purchase of a computer accounting system. The note payable calls for repayment, commencing October 1998 in sixty equal monthly installments of \$1,795, including interest at 5.256% per annum. This note was paid in full during 2004.

The Note Payable, Non-Interest Bearing, a non-interest bearing note payable dated September 1999, for the construction of an in-house physicians clinic and for the construction of a new Clinic in Exira, Iowa. The note payable calls for repayment through September 2009 with quarterly installments of \$8,250.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long Term Debt	
	Principal	Interest
2005	\$ 33,000	\$ -
2006	33,000	-
2007	33,000	-
2008	33,000	-
2009	33,000	-
2010-2014	16,500	-
	<u>\$ 181,500</u>	<u>\$ -</u>

NOTE 7 PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$138,900, \$129,700, and \$117,800, respectively, equal to the required contributions for each year.

NOTE 8 RELATED ORGANIZATION

Management Services

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy Medical Center – Des Moines provides an administrator, management consultation, and other services to Audubon County Memorial Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Audubon County Memorial Hospital. Expenses for the administrative and management services received were \$135,928 and \$129,430 for the years ended June 30, 2004 and 2003, respectively. At June 30, 2004 and 2003, the Hospital had accounts payable to Mercy of approximately \$12,900 and \$13,400, respectively.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 8 RELATED ORGANIZATION (CONTINUED)

Audubon County Hospital Foundation

The Audubon County Hospital Foundation was established to raise funds to support the operations and other activities of the Audubon County Memorial Hospital. The Foundation's funds are distributed to the Hospital in amounts and periods determined by the Foundation's Board of Directors. The distributions by the Foundation to the Hospital for the years ended June 30, 2004 and 2003 were as follows:

	2004	2003
Contributions from Foundation to Finance	\$ 4,260	\$ 25,595
Plant Replacement and Expansion	\$ 4,260	\$ 25,595

NOTE 9 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Self-Funded Employee Health Insurance Plan

The Hospital has elected to self-insure their employee health insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year.

Construction in Progress

Construction in progress at June 30, 2004 consisted of various projects. All are expected to be completed in 2005 and have been financed from the Hospital's reserves and operations. Construction in progress at June 30, 2003, consisted of a remodeling project related to the Hospital's outpatient clinic area. The project was completed during 2004 at a cost of approximately \$257,000. The entire project was financed from the Hospital's reserves and operations.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 10 LEASING ARRANGEMENTS

On January 1, 2000, the Hospital, as lessor, leased an area of the Hospital building and a clinic building in Exira, Iowa, to be used as medical office space under ten-year operating lease agreements. The leases contain provisions to automatically renew for another ten-year period, unless written termination notice is given 90 days prior to renewal. Rental income will be recognized over the term of the leases. Lease payments to be received on a monthly basis total \$2,277. Minimum annual rents to be received each of the next five years is \$27,324 annually.

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**AUDUBON COUNTY MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2004**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital prepares its annual budget on a basis (budget basis) which differs from U.S. generally accepted accounting principles (GAAP basis). The major differences between budget and GAAP bases are that depreciation and bad debts are not recorded as expenditures on the budget basis and capital expenditures are recorded on the budget basis.

The following is a comparison of actual expenditures to the adopted budget for the year ended June 30, 2004:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amounts to be Raised by Taxation	\$ 415,020	\$ -	\$ 415,020	\$ 400,001	\$ 15,019
Estimated Other Revenues/Receipts	6,929,710	(322,028)	6,607,682	6,529,021	78,661
	<u>7,344,730</u>	<u>(322,028)</u>	<u>7,022,702</u>	<u>6,929,022</u>	<u>93,680</u>
Expenses/Disbursements Net	6,567,514	583,059	7,150,573	7,198,054	(47,481)
	<u>777,216</u>	<u>(905,087)</u>	<u>(127,871)</u>	<u>(269,032)</u>	<u>141,161</u>
Transfers	-	-	-	29,586	(29,586)
Balance, Beginning of Year	10,567,909	(9,880,358)	687,551	5,060,942	(4,373,391)
Balance, End of Year	<u>\$ 11,345,125</u>	<u>\$ (10,785,445)</u>	<u>\$ 559,680</u>	<u>\$ 4,821,496</u>	<u>\$ (4,261,816)</u>

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OTHER SUPPLEMENTARY INFORMATION

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	\$ 541,754	\$ 545,542
Coronary Care	19,074	24,200
Obstetric	19,992	16,800
Skilled Nursing Care	129,469	208,361
Nursery	12,546	10,200
Intermediate Nursing Care	398	130
Total	723,233	805,233
OTHER PROFESSIONAL SERVICES		
Operating Room	857,272	740,137
Recovery Room	93,789	80,109
Delivery and Labor Room	15,082	14,751
Anesthesiology	349,722	335,276
Radiology	2,569,985	2,202,624
Blood Service	22,253	74,736
Laboratory	1,321,265	1,199,762
Intravenous Therapy	20,472	18,155
Respiratory Therapy	57,583	58,812
Physical Therapy	301,228	298,386
Speech Therapy	5,943	6,443
Occupational Therapy	7,688	10,495
Electrocardiology	97,038	88,244
Cardiac Rehabilitation	68,951	90,356
Electroencephalography	4,177	2,926
Medical and Surgical Supplies	493,726	475,012
Pharmacy	1,500,464	1,158,115
Emergency	224,350	240,817
Sleep Study	16,786	14,092
Clinic	63,729	55,770
Total	8,091,503	7,165,018
Total Patient Service Revenues	8,814,736	7,970,251
Charity Care	-	(4,053)
Total Gross Patient Service Revenue	8,814,736	7,966,198
Adjustments to Patient Service Revenues	2,113,192	1,822,825
Net Patient Service Revenues	\$ 6,701,544	\$ 6,143,373

INPATIENTS		OUTPATIENTS	
2004	2003	2004	2003
\$ 421,456	\$ 420,321	\$ 120,298	\$ 125,221
19,074	24,200	-	-
19,992	16,800	-	-
129,469	208,361	-	-
12,546	10,200	-	-
398	130	-	-
<u>602,935</u>	<u>680,012</u>	<u>120,298</u>	<u>125,221</u>
55,908	92,606	801,364	647,531
6,416	9,257	87,373	70,852
9,091	8,721	5,991	6,030
35,878	58,303	313,844	276,973
314,914	264,670	2,255,071	1,937,954
8,885	36,513	13,368	38,223
258,638	264,809	1,062,627	934,953
12,943	12,424	7,529	5,731
35,602	35,178	21,981	23,634
45,264	52,591	255,964	245,795
2,929	2,374	3,014	4,069
5,610	6,129	2,078	4,366
36,492	37,154	60,546	51,090
1,488	574	67,463	89,782
597	293	3,580	2,633
140,467	201,677	353,259	273,335
353,018	371,660	1,147,446	786,455
28,781	26,491	195,569	214,326
-	-	16,786	14,092
41	146	63,688	55,624
<u>1,352,962</u>	<u>1,481,570</u>	<u>6,738,541</u>	<u>5,683,448</u>
<u>\$ 1,955,897</u>	<u>\$ 2,161,582</u>	<u>\$ 6,858,839</u>	<u>\$ 5,808,669</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 1,704,428	\$ 1,357,356
Contractual Adjustments - Medicaid	69,772	90,431
Provision for Bad Debt	198,398	224,534
Other Allowances and Adjustments	140,594	150,504
 Total Adjustments	 \$ 2,113,192	 \$ 1,822,825
OTHER REVENUES		
County Taxes	\$ 415,020	\$ 705,539
Cafeteria Meals	15,739	14,823
Space Rental	31,490	32,115
Other	55,808	55,245
 Total Other Revenues	 \$ 518,057	 \$ 807,722

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2003	2002
NURSING SERVICE EXPENSES		
NURSING ADMINISTRATION		
Salaries	\$ 62,042	\$ 59,097
Supplies and Expenses	2,405	1,995
	64,447	61,092
MEDICAL AND SURGICAL		
Salaries	628,828	613,588
Supplies and Expenses	19,267	21,280
	648,095	634,868
OBSTETRIC		
Salaries	6,210	3,887
Supplies and Expenses	78	161
	6,288	4,048
NURSERY		
Salaries	3,240	1,904
Supplies and Expenses	132	253
	3,372	2,157
OPERATING ROOM		
Salaries	72,592	64,926
Supplies and Expenses	96,570	72,269
	169,162	137,195
DELIVERY AND LABOR ROOM		
Salaries	4,415	3,449
Supplies and Expenses	1,144	1,035
	5,559	4,484
CENTRAL SUPPLY		
Salaries	12,252	14,699
Supplies and Expenses	222,391	166,636
	234,643	181,335
INTRAVENOUS THERAPY		
Supplies and Expenses	4,476	4,544
EMERGENCY SERVICE		
Salaries	36,963	39,115
Physician Assistant and Nurse Practitioner	204,226	196,464
Professional Fees	2,018	357
Supplies and Expenses	2,743	1,119
	245,950	237,055
TOTAL NURSING SERVICE EXPENSES	\$ 1,381,992	\$ 1,266,778

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2003	2002
OTHER PROFESSIONAL SERVICE EXPENSES		
LABORATORY		
Salaries	\$ 198,946	\$ 194,417
Professional Fees	2,400	2,400
Supplies and Expenses	226,908	254,853
	428,254	451,670
ELECTROCARDIOLOGY		
Salaries	4,634	4,725
Professional Fees	7,665	7,854
	12,299	12,579
ELECTROENCEPHALOGRAPHY		
Salaries	403	275
Professional Fees	10,806	9,159
	11,209	9,434
CARDIAC REHAB		
Salaries	5,332	15,027
Professional Fees	6,880	4,950
Supplies and Expenses	-	3,197
	12,212	23,174
RADIOLOGY		
Salaries	172,501	156,453
Professional Fees	233,532	21,838
Supplies and Expenses	396,252	622,962
	802,285	801,253
PHARMACY		
Salaries	88,209	91,305
Drugs	470,791	307,794
Supplies and Expenses	7,782	8,892
	566,782	407,991
ANESTHESIOLOGY		
Professional Fees	130,025	113,155
Supplies and Expenses	1,126	16,800
	131,151	129,955
RESPIRATORY THERAPY		
Salaries	29,619	27,917
Supplies and Expenses	5,723	3,940
	35,342	31,857

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2003	2002
OTHER PROFESSIONAL SERVICE EXPENSES		
PHYSICAL THERAPY		
Salaries	42,356	36,457
Professional Fees	98,869	94,371
Supplies and Expenses	8,254	10,759
	149,479	141,587
SPEECH THERAPY		
Professional Fees	3,091	3,006
Supplies and Expense	589	1,104
	3,680	4,110
OCCUPATIONAL THERAPY		
Professional Fees	5,145	8,239
Supplies and Expense	241	-
	5,386	8,239
SPECIALTY CLINICS		
Salaries	139,593	102,949
Supplies and Expense	4,564	3,583
	144,157	106,532
MEDICAL RECORDS		
Salaries	98,912	87,309
Supplies and Expenses	21,987	23,958
	120,899	111,267
TOTAL OTHER PROFESSIONAL SERVICE EXPENSES	\$ 2,423,135	\$ 2,239,648
GENERAL SERVICE EXPENSES		
DIETARY		
Salaries	\$ 115,183	\$ 111,542
Food	45,948	43,702
Supplies and Expenses	24,401	24,836
	185,532	180,080
PLANT OPERATION AND MAINTENANCE		
Salaries	99,164	90,689
Utilities	100,386	109,714
Supplies and Expenses	84,052	85,735
	283,602	286,138
HOUSEKEEPING		
Salaries	76,083	73,360
Supplies and Expenses	15,577	15,475
	91,660	88,835

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2003	2002
LAUNDRY AND LINEN		
Salaries	20,812	18,618
Supplies and Expenses	11,025	10,087
	31,837	28,705
 TOTAL GENERAL SERVICE EXPENSES	\$ 592,631	\$ 583,758
 FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 103,454	\$ 103,809
Management Fees	135,928	129,430
Professional Services	2,688	2,340
Legal Fees	4,017	7,469
Supplies and Expense	85,448	81,236
Finance		
Salaries	59,620	62,639
Professional Services	15,810	19,303
Supplies and Expense	37,061	14,933
Fiscal Services		
Salaries	133,682	128,429
Supplies and Expense	62,211	59,535
Purchasing		
Salaries	12,005	10,969
Supplies and Expense	2,868	3,734
Telemedicine		
Supplies and Expense	3,300	5,524
	658,092	629,350
 UNASSIGNED EXPENSES		
Insurance	45,407	29,268
Employee Benefits	791,718	703,536
	837,125	732,804
 TOTAL FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES	\$ 1,495,217	\$ 1,362,154

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENT AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 858,266	51.32 %	\$ 608,680	53.54 %
31-60 Days	309,695	18.52 %	314,878	27.70 %
61-90 Days	178,269	10.66 %	94,757	8.34 %
91 Days and Over	326,284	19.50 %	118,481	10.42 %
Total Accounts Receivable	<u>1,672,514</u>	<u>100.00 %</u>	<u>1,136,796</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -				
Medicare and Medicaid	310,838		167,256	
Doubtful Accounts	218,939		224,345	
Net Accounts Receivable	<u>\$ 1,142,737</u>		<u>\$ 745,195</u>	

Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 18,904</u>	<u>\$ 17,446</u>
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Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>60</u>	<u>43</u>
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Analysis of Allowance for Doubtful Accounts

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 224,345	3.59%	\$ 187,868	3.13%
Add:				
Provision for Doubtful Accounts	<u>198,398</u>	3.17	<u>224,534</u>	3.74
	422,743		412,402	
Deduct:				
Accounts Written Off	<u>(203,804)</u>	(3.26)	<u>(188,057)</u>	(3.13)
Ending Balance	<u>\$ 218,939</u>		<u>\$ 224,345</u>	

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	June 30,	
	2004	2003
INVENTORIES		
Central Supply	\$ 73,166	\$ 55,478
Pharmacy	81,038	94,838
Laboratory	17,981	19,121
Totals Inventories	\$ 172,185	\$ 169,437
 PREPAID EXPENSES		
Insurance	\$ 46,146	\$ 39,101
Service Contracts	18,950	14,000
Other	7,248	2,502
Totals Prepaid Expenses	\$ 72,344	\$ 55,603

**AUDUBON COUNTY MEMORIAL HOSPITAL
COMPARATIVE STATISTICS
(UNAUDITED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Patient days:		
Acute	1,187	1,097
Swing Bed	456	670
Nursery	<u>41</u>	<u>34</u>
Totals	<u><u>1,684</u></u>	<u><u>1,801</u></u>
Admissions:		
Acute	355	344
Discharges:		
Acute	354	344
Average length of stay:		
Acute	3.35	3.19
Beds	25	25
Occupancy percentage	13.01%	12.02%

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2004, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 9, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Audubon County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Audubon County Memorial 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*.

We also noted certain additional matters that we reported to management of Audubon County Memorial Hospital in a separate letter dated September 9, 2004.

This report is intended solely for the information and use of the Board of Trustees, management, employees, and citizens of Audubon County and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Larson, Allen, Weishair & Co., LLP
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 9, 2004

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

Findings Related to Required Statutory Reporting

04-1 OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 CERTIFIED BUDGET

Based on a comparison of budget basis expenditures with budgeted expenditures, the Hospital cash basis expenditures did not exceed its budget for the year ended June 30, 2004.

04-3 QUESTIONABLE EXPENDITURES

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-4 TRAVEL EXPENSES

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

04-5 BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and Hospital officials and/or employees.

04-6 BOARD MINUTES

Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

04-7 DEPOSITS AND INVESTMENTS

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

04-8 PUBLICATION OF SALE OF PROPERTY

We noted that items of property were sold without proper public notice as required under 347.30 of the Code of Iowa

04-9 PUBLICATION OF BILLS ALLOWED AND SALARIES

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the country as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish schedules of bills allowed and a schedule of salaries paid as required by the Code.