

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2004 AND 2003

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)

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MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Officials
June 30, 2004

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Mary Sexton, Chairman	Rose Hill, Iowa	2008
Julie Fisher, Vice-Chairman	Oskaloosa, Iowa	2006
Becky Sieferring, Secretary	Oskaloosa, Iowa	2006
Mike Grim, Treasurer	Eddyville, Iowa	2008
Paul Swenson	Oskaloosa, Iowa	2008
Lawrence Everett	New Sharon, Iowa	2004
Jon Sullivan	Oskaloosa, Iowa	2004

Administrator/CEO:

Jay Christensen Oskaloosa, Iowa

Chief Financial Officer:

Joe Hohenberger Oskaloosa, Iowa

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)
Oskaloosa, Iowa

We have audited the accompanying balance sheets of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of June 30, 2004 and 2003, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of June 30, 2004 and 2003, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 22 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 23 through 38) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2004 on our consideration of Mahaska County Hospital's (d/b/a Mahaska Health Partnership) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Gronwald, Bell, Kuhn & Co. P.C.

Atlantic, Iowa
August 25, 2004

Mahaska Health Partnership
Management's Discussion and Analysis

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$259,809 or 1.2 percent increase in 2004 and a \$116,665 or .6 percent increase in 2003.

The Hospital reported operating losses in 2004 (\$1,527,363) and 2003 (\$2,089,366). Losses in 2004 decreased by \$562,003 or 26.9 percent from the loss reported in 2003. Operating losses in 2003 increased from 2002 by \$1,556,136 or 291.8 percent.

Nonoperating revenues decreased by \$188,967 or 9.6 percent in 2004 compared to 2003. Nonoperating revenues decreased in 2003 by \$221,223 or 10.1 percent compared to 2002.

Excess revenues over expenses increased by \$143,144 or 122.7% in 2004 compared to 2003, while excess revenues over expenses decreased by \$1,547,467 or 92.9% in 2003 compared to 2002.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased in each of the past two years by \$259,809 (1.2 percent) in 2004 and \$116,665 (.6 percent) in 2003, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 10,498,359	\$ 7,588,782	\$ 8,407,716
Capital assets, net	24,289,272	21,122,943	16,113,581
Other noncurrent assets	<u>2,434,868</u>	<u>7,112,163</u>	<u>12,699,832</u>
Total assets	<u>\$ 37,222,499</u>	<u>\$ 35,823,888</u>	<u>\$ 37,221,129</u>
Liabilities:			
Long-term debt outstanding	\$ 10,887,057	\$ 9,812,198	\$ 10,871,224
Other current and noncurrent Liabilities	<u>5,012,384</u>	<u>4,948,441</u>	<u>5,403,321</u>
Total liabilities	<u>\$ 15,899,441</u>	<u>\$ 14,760,639</u>	<u>\$ 16,274,545</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 12,318,513	\$ 10,247,637	\$ 4,887,845
Restricted expendable net assets	875,000	883,116	1,973,541
Restricted nonexpendable permanent endowments	6,000	6,000	6,000
Unrestricted	<u>8,123,545</u>	<u>9,926,496</u>	<u>14,079,198</u>
Total net assets	<u>\$ 21,323,058</u>	<u>\$ 21,063,249</u>	<u>\$ 20,946,584</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

A significant component of the change in the Hospital's assets is the decrease in Designated and Restricted Assets. The primary reason for the decreases in restricted assets was the completion of the construction of a new Medical Office Building and related departments. Designated and restricted assets decreased \$ 4,841,732 in 2004 and \$ 5,995,955 in 2003, after an increase of \$1,778,718 in 2002. The hospital also incurred \$2,300,000 of additional long-term debt and paid down long term debt by \$1,271,439 in 2004 and \$400,000 in 2003.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2004, the Hospital's net assets increased by \$259,809 or 1.2 percent, as shown in Table 2. This increase is made up of very different components. This represents an increase of 122.7 percent compared with the increase in net assets for 2003 of \$116,665.

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Net patient service revenues	\$ 21,322,953	\$ 16,058,331	\$ 15,022,428
Other operating revenues	<u>287,386</u>	<u>251,589</u>	<u>307,523</u>
Total operating revenues	21,610,339	16,309,920	15,329,951
Operating Expenses:			
Salaries and benefits	13,506,575	10,527,084	8,935,894
Professional fees	1,448,527	1,568,922	1,572,018
Other operating expenses	6,273,381	5,075,201	4,271,247
Depreciation and amortization	<u>1,909,219</u>	<u>1,228,079</u>	<u>1,084,022</u>
Total operating expenses	<u>23,137,702</u>	<u>18,399,286</u>	<u>15,863,181</u>
Operating loss	(1,527,363)	(2,089,366)	(533,230)
Nonoperating Revenues and Expenses:			
Property taxes	1,670,055	1,637,494	1,599,783
Investment income	70,476	213,646	465,486
Noncapital grants and contributions	95,415	104,655	139,291
Other nonoperating revenues and expenses, net	<u>(48,774)</u>	<u>20,344</u>	<u>(7,198)</u>
Total nonoperating revenues (Expenses)	<u>1,787,172</u>	<u>1,976,139</u>	<u>2,197,362</u>
Excess of Revenues over Expenses (Expenses over Revenues) Before Unusual Item	259,809	(113,227)	1,664,132
Unusual Item (Note L)	<u>--</u>	<u>229,892</u>	<u>--</u>
Increase in net assets	259,809	116,665	1,664,132
Net Assets Beginning of Year	<u>21,063,249</u>	<u>20,946,584</u>	<u>19,282,452</u>
Net Assets End of Year	<u>\$ 21,323,058</u>	<u>\$ 21,063,249</u>	<u>\$ 20,946,584</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2004 was prepared on a modified accrual basis. The original budget of expenditures was increased \$ 7.98 million through an amendment adopted in May, 2004.

Actual expenditures were lower than the amended budget by approximately \$ 1.08 million due to lower than anticipated operating and capital expenditures. Actual revenues were lower than budgeted by approximately \$ 6.4 million as a result of less volume and larger than anticipated contractual adjustments related to Medicare, Medicaid, and Blue Cross patients.

OPERATING LOSSES

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2004 decreased by \$562,003 or 26.9 percent lower than the loss reported in 2003. Operating losses in 2003 increased by \$1,556,136 or 29.8 percent.

The primary component of the decreased operating loss is:

Increased revenue due to the addition of in-house MRI and CT, inpatient geriatric psychiatric unit and new services provided through the Medical Specialty Center.

During 2003, the hospital expended resources to recruit a new orthopedic surgeon, and the new orthopedist began his practice in Oskaloosa in August 2003. In addition, the hospital has been recruiting other physicians aggressively during the past three years. Since 2001, a psychiatrist, general surgeon, OB/GYN and two orthopedic surgeons have been recruited to Oskaloosa. Much of the new revenue generated by those additional services has been realized in fiscal 2004.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. A dramatic decrease in investment income impacted the hospital, partially related to the lower interest rates in the existing environment and capital used in the building project.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A to the financial statements. Capital and operating grants received in 2004 did not change materially from capital and operating grants received in 2003.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2004, the Hospital had \$24.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. The Hospital spent \$5.34 million for the purchase of new equipment and construction costs in 2004, and \$7.58 million in 2003.

Debt:

At year-end, the Hospital had \$11.97 million in revenue notes and bonds, and a promissory note outstanding. The hospital incurred \$2.3 million of additional long-term debt for the purchase of equipment during 2004. In 2003, the hospital refinanced \$2.48 million of debt to obtain a more favorable interest rate.

OTHER ECONOMIC FACTORS

The hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid the hospital. Medicare represents nearly 46% of hospital revenues and presently reimburses the hospital less than 45% of billed charges. Increases in payments from these payers were lower than the expense increases realized by the hospital. Much of the future cost increase will be covered by increased volume from the new physicians recruited in the past two years, as referenced above.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrator, at Mahaska Health Partnership, Oskaloosa, Iowa 52577.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Balance Sheets
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 1,023,405	\$ 558,619
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,539,000 in 2004, \$1,429,000 in 2003)	4,949,499	3,339,510
Other receivables	258,927	61,557
Inventory	963,833	509,144
Prepaid expense	36,058	35,486
Estimated third-party payor settlements	231,000	27,000
Succeeding year property tax receivable	1,599,000	1,562,000
Internally designated assets	<u>1,436,637</u>	<u>1,495,466</u>
Total current assets	10,498,359	7,588,782
Designated and Restricted Assets:		
Internally designated assets	2,690,406	7,524,022
Restricted assets	<u>881,000</u>	<u>889,116</u>
	3,571,406	8,413,138
Less amounts required to meet current liabilities	<u>1,436,637</u>	<u>1,495,466</u>
	2,134,769	6,917,672
Capital Assets:		
Depreciable capital assets	23,940,006	11,867,834
Non-depreciable capital assets	<u>349,266</u>	<u>9,255,109</u>
	24,289,272	21,122,943
Other Assets:		
Notes receivable	236,555	143,793
Other	<u>63,544</u>	<u>50,698</u>
	300,099	194,491
Total assets	<u>\$ 37,222,499</u>	<u>\$ 35,823,888</u>

The accompanying notes are an integral part of these statements.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Revenue:		
Net patient service revenue	\$ 21,322,953	\$ 16,058,331
Other revenue	<u>287,386</u>	<u>251,589</u>
Total revenue	21,610,339	16,309,920
Expenses:		
Nursing service	5,301,670	3,828,391
Other professional service	10,601,072	8,779,669
General service	1,732,962	1,436,029
Fiscal and administrative service	3,592,779	3,127,118
Provision for depreciation	1,892,944	1,218,657
Amortization	<u>16,275</u>	<u>9,422</u>
Total expenses	<u>23,137,702</u>	<u>18,399,286</u>
Operating Loss	(1,527,363)	(2,089,366)
Non-Operating Revenue (Expenses):		
County taxes	1,670,055	1,637,494
County subsidy - New Directions	290,985	384,539
Investment income	70,476	213,646
Noncapital grants and contributions	95,415	104,655
Rental income	233,685	8,656
Interest expense	<u>(573,444)</u>	<u>(372,851)</u>
Non-operating revenue, net	<u>1,787,172</u>	<u>1,976,139</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	259,809	(113,227)
Unusual Item (Note L)	<u>--</u>	<u>229,892</u>
Excess of Revenues Over Expenses and Increase in Net Assets	259,809	116,665
Net Assets Beginning of Year	<u>21,063,249</u>	<u>20,946,584</u>
Net Assets End of Year	<u>\$ 21,323,058</u>	<u>\$ 21,063,249</u>

The accompanying notes are an integral part of these statements.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Statements of Cash Flows
Year ended June 30,

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 19,311,594	\$ 16,669,989
Cash paid to suppliers	(10,670,124)	(8,666,550)
Cash paid to employees	(10,662,074)	(8,308,782)
Other revenue	<u>287,386</u>	<u>251,589</u>
Net cash used in operating activities	(1,733,218)	(53,754)
Cash flows from non-capital financing activities:		
County tax revenue and subsidy	1,961,040	2,022,033
Noncapital grants and contributions	<u>95,415</u>	<u>104,655</u>
Net cash provided by non-capital financing activities	2,056,455	2,126,688
Cash flows from capital and related financing activities:		
Capital expenditures	(5,343,439)	(7,582,112)
Debt issue costs paid	--	(12,993)
Proceeds received on debt issuance	2,300,000	16,220
Principal paid on long-term debt	(1,271,439)	(400,000)
Change in other assets	(12,846)	7,173
Interest paid	<u>(486,504)</u>	<u>(262,753)</u>
Net cash used in capital and related financing activities	(4,814,228)	(8,234,465)
Cash flows from investing activities:		
Investment income	70,476	213,646
Change in designated and restricted assets	4,272,287	5,298,422
Loans granted for physician recruitment	(182,000)	(94,000)
Rental income	<u>233,685</u>	<u>8,656</u>
Net cash provided by investing activities	<u>4,394,448</u>	<u>5,426,724</u>
Net decrease in cash and cash equivalents	(96,543)	(734,807)
Cash and cash equivalents at beginning of year	<u>1,305,789</u>	<u>2,040,596</u>
Cash and cash equivalents at end of year	<u>\$ 1,209,246</u>	<u>\$ 1,305,789</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,023,405	\$ 558,619
Cash and cash equivalents in designated and restricted assets	<u>185,841</u>	<u>747,170</u>
Total cash and cash equivalents	<u>\$ 1,209,246</u>	<u>\$ 1,305,789</u>

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(1,527,363)	\$(2,089,366)
Adjustments to reconcile operating loss to net cash used in operating activities		
Provision for depreciation	1,892,944	1,218,657
Provision for bad debts	791,323	760,912
Amortization	105,513	223,734
Loss on disposal of assets	60	--
Unusual item	--	229,892
Changes in assets and liabilities		
Accounts receivable	(2,598,682)	(642,146)
Inventory	(454,689)	(112,116)
Prepaid expense	(572)	(3,761)
Accounts payable, trade	(75,553)	(111,040)
Accrued employee compensation	286,025	130,988
Accrued payroll taxes and withholding	10,257	10,555
Accrued health insurance claims	41,519	66,937
Estimated third-party payor settlements	(204,000)	263,000
Total adjustments	<u>(205,855)</u>	<u>2,035,612</u>
Net cash used in operating activities	<u>\$(1,733,218)</u>	<u>\$(53,754)</u>

The accompanying notes are an integral part of these statements.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has no component units.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

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

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives.

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest cost capitalized in 2004 (\$260,814 in 2003).

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 360 hours. Any excess over 360 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

16. Net Assets

Net assets of the Hospital are classified in four 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, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note H. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Outpatient services provided to Medicare beneficiaries are paid at prospectively determined rates with a hold-harmless transition period based on the Hospital's reimbursable costs. The hold-harmless transition period is scheduled to end December 31, 2005.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS - Continued

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

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2004	2003
Purchase of property and equipment	\$ --	\$ 8,116
Long-term debt	875,000	875,000
Total expendable restricted net assets	\$ 875,000	\$ 883,116

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	2004	2003
Purchase of property and equipment	\$ 8,116	\$ 1,090,425

Unless the contributor provides specific instructions, law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees has chosen to spend the investment income and appreciation on the endowment fund while maintaining adequate amounts of earnings to maintain the principal original value. Any decreases in principal value will be replaced by retaining income in future years to return the principal to its original value.

Restricted nonexpendable net assets as of June 30, 2004 and 2003 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	2004	2003
Purchase of capital assets	\$ 6,000	\$ 6,000

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE D - DESIGNATED NET ASSETS

Of the \$8,123,545 (\$9,926,496 as of June 30, 2003) of unrestricted net assets as of June 30, 2004, \$2,690,406 (\$7,524,022 for 2003) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	2004	2003
Capital acquisitions	\$ 2,615,131	\$ 7,485,723
Employee health insurance	75,275	38,299
	\$ 2,690,406	\$ 7,524,022

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

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

The composition of designated and restricted assets is as follows:

	2004	2003
Internally Designated Assets:		
Cash and cash equivalents	\$ 185,841	\$ 747,170
Certificates of deposit	2,500,000	6,750,000
Interest receivable	4,565	26,852
	\$ 2,690,406	\$ 7,524,022
Restricted Assets:		
Certificate of deposit	\$ 875,000	\$ 875,000
U.S. treasury obligations	6,000	6,000
Due from unrestricted assets	--	8,116
	\$ 881,000	\$ 889,116

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2004 and 2003, was as follows:

	<u>2004</u>	<u>2003</u>
Receivable from:		
Patients	\$ 1,435,497	\$ 1,231,258
Medicare	2,962,852	1,567,160
Medicaid	691,622	539,250
Blue Cross	1,089,383	699,322
Other commercial insurance carriers	1,180,741	548,172
Others	<u>128,404</u>	<u>183,348</u>
	7,488,499	4,768,510
Less allowances for doubtful accounts and contractual adjustments	<u>2,539,000</u>	<u>1,429,000</u>
	<u>\$ 4,949,499</u>	<u>\$ 3,339,510</u>

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2004 and 2003 were as follows:

<u>Cost</u>	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Land Improvements	\$ 458,659	\$ 409,480	\$ --	\$ 868,139
Buildings	14,989,858	10,382,378	--	25,372,236
Major Movable Equipment	8,915,371	3,173,318	920,892	11,167,797
Clinic Equipment	<u>21,895</u>	<u>--</u>	<u>--</u>	<u>21,895</u>
	24,385,783	13,965,176	920,892	37,430,067
<u>Depreciation</u>				
Land Improvements	293,061	54,108	--	347,169
Buildings	5,637,629	964,205	--	6,601,834
Major Movable Equipment	6,565,364	874,631	920,832	6,519,163
Clinic Equipment	<u>21,895</u>	<u>--</u>	<u>--</u>	<u>21,895</u>
Total Depreciation	<u>12,517,949</u>	<u>1,892,944</u>	<u>920,832</u>	<u>13,490,061</u>
Depreciable Capital Assets, Net	<u>\$ 11,867,834</u>	<u>\$ 12,072,232</u>	<u>\$ 60</u>	<u>\$ 23,940,006</u>
Construction in Progress	\$ 8,941,633	\$ 5,036,140	\$ 13,941,983	\$ 35,790
Land	<u>313,476</u>	<u>--</u>	<u>--</u>	<u>313,476</u>
Total Non-depreciable Capital Assets	<u>\$ 9,255,109</u>	<u>\$ 5,036,140</u>	<u>\$ 13,941,983</u>	<u>\$ 349,266</u>

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Land Improvements	\$ 458,659	\$ --	\$ --	\$ 458,659
Buildings	13,572,969	1,416,889	--	14,989,858
Major Movable Equipment	8,393,687	521,684	--	8,915,371
Clinic Equipment	<u>21,895</u>	<u>--</u>	<u>--</u>	<u>21,895</u>
	22,447,210	1,938,573	--	24,385,783
<u>Depreciation</u>				
Land Improvements	265,533	27,528	--	293,061
Buildings	5,124,211	513,418	--	5,637,629
Major Movable Equipment	5,888,053	677,311	--	6,565,364
Clinic Equipment	<u>21,495</u>	<u>400</u>	<u>--</u>	<u>21,895</u>
Total Depreciation	<u>11,299,292</u>	<u>1,218,657</u>	<u>--</u>	<u>12,517,949</u>
Depreciable Capital Assets, Net	<u>\$ 11,147,918</u>	<u>\$ 719,916</u>	<u>\$ --</u>	<u>\$ 11,867,834</u>
Construction in Progress	\$ 4,652,187	\$5,694,246	\$1,404,800	\$ 8,941,633
Land	<u>313,476</u>	<u>--</u>	<u>--</u>	<u>313,476</u>
Total Non-depreciable Capital Assets	<u>\$ 4,965,663</u>	<u>\$5,694,246</u>	<u>\$1,404,800</u>	<u>\$ 9,255,109</u>

Total rental expense for operating leases in 2004 was approximately \$294,993 (\$204,236 in 2003).

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE H - LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2004 and 2003 follows:

	<u>Balance</u> 2003	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 2004	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Series 1993 notes	\$ 415,000	\$ --	\$ 415,000	\$ --	\$ --
Series 2001 bonds	8,715,000	--	235,000	8,480,000	240,000
Series 2003 notes	2,480,000	--	480,000	2,000,000	485,000
Note payable, bank	--	2,300,000	141,439	2,158,561	425,852
Less unamortized discount and debt issue costs	<u>(734,694)</u>	<u>--</u>	<u>(66,892)</u>	<u>(667,802)</u>	<u>(67,150)</u>
Total Long-Term Debt	<u>\$ 10,875,306</u>	<u>\$2,300,000</u>	<u>\$1,204,547</u>	<u>\$ 11,970,759</u>	<u>\$1,083,702</u>
	<u>Balance</u> 2002	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 2003	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Series 1993 notes	\$ 3,250,000	\$ --	\$2,835,000	\$ 415,000	\$ 415,000
Series 2001 bonds	8,715,000	--	--	8,715,000	235,000
Series 2003 notes	--	2,480,000	--	2,480,000	480,000
Less unamortized discount and debt issue costs	<u>(739,264)</u>	<u>(127,855)</u>	<u>(132,425)</u>	<u>(734,694)</u>	<u>(66,892)</u>
Total Long-Term Debt	<u>\$ 11,225,736</u>	<u>\$2,352,145</u>	<u>\$2,702,575</u>	<u>\$ 10,875,306</u>	<u>\$1,063,108</u>

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE H - LONG-TERM DEBT - Continued

Series 1993 Notes

The County of Mahaska, Iowa issued \$5,610,000 of General Obligation Hospital notes, Series 1993, to finance a portion of the costs of a building and renovation project of the Hospital. The notes were payable primarily from revenues of the Hospital. However, the notes were ultimately general obligations of the County, payable from its General Fund, and were secured by a pledge of the County's General Fund and the faith, credit, revenues and resources and all of the real and personal property of the County. On May 7, 2003, \$2,435,000 of the notes were defeased with the issuance of \$2,480,000 of General Obligation Hospital Refunding notes, Series 2003. The remaining \$415,000 was paid August 1, 2003.

Series 2001 Bonds

The County of Mahaska, Iowa issued \$8,715,000 of Hospital Revenue Bonds, Series 2001, to early refund previously issued Series 1997 bonds, and finance a portion of the costs of a medical office building and renovation project of the Hospital. The bonds are payable from revenues of the Hospital. The bonds mature in annual installments starting August 1, 2003 through August 1, 2016, with varying interest rates ranging from 3.5% to 5.1%.

Series 2003 Notes

The County of Mahaska, Iowa issued \$2,480,000 of General Obligation Refunding Hospital notes, Series 2003, to early refund the Series 1993 notes. The notes are payable primarily from revenues of the Hospital. However, the notes are ultimately general obligations of the County, payable from its General Fund, and are secured by a pledge of the County's General Fund and the faith, credit, revenues and resources and all of the real and personal property of the County. The notes mature in annual installments starting June 1, 2004 through June 1, 2008, with varying interest rates ranging from 1.50% to 2.85%.

Note Payable, Bank

The Hospital entered into a five year promissory note payable with a bank dated March 9, 2004 for the purchase of equipment. The note is payable in monthly installments of \$42,646 including interest at a rate of 4.25%. The note matures in March, 2009 and is collateralized by the equipment purchased.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE H - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2005	\$ 1,150,852	\$ 554,734
2006	1,190,771	515,972
2007	1,225,378	474,426
2008	1,265,847	429,312
2009	610,713	381,765
2010-14	4,310,000	1,332,637
2015-17	<u>2,885,000</u>	<u>243,788</u>
	<u>\$ 12,638,561</u>	<u>\$ 3,932,634</u>

Under the terms of the bond resolutions, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bond resolutions also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

During the year ended June 30, 2004, total interest incurred on all debt of the Hospital was \$573,444 (\$633,665 in 2003) of which \$ - 0 - (\$260,814 in 2003) was capitalized and recorded as an addition to construction in progress.

During the year ended June 30, 2004, the Hospital earned \$ - 0 - of interest income on the construction funds, which was recorded as an offset to capitalized interest expense (\$2,605 in 2003).

NOTE I - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% 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 approximately \$605,000, \$479,000, and \$419,000, respectively, equal to the required contributions for each year.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's personnel department is responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2004 was \$418,256 (\$393,993 at June 30, 2003). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Information System

The Hospital has committed to additional components for its information system over the next year. The estimated total cost is \$115,000, which will be financed through the use of existing Hospital internally designated reserves. As of June 30, 2004, the funds expended for the system totaled \$35,790.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2004 and 2003

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Geriatric Behavioral Health Unit

The Hospital has contracted with Sunstone Behavioral Health (SBH) to obtain management services for its new Geriatric Behavioral Health Unit. The agreement begins July 1, 2003 and runs through December 31, 2005. It is renewable for successive one year periods thereafter. Under the terms of the agreement, the Hospital has agreed to pay to SBH a monthly fee of \$23,167. In exchange for this fee, SBH will provide a program director, a medical director, other contracted professional personnel, staff training, and will participate in marketing efforts.

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program effective January, 2001. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2004, the Hospital has accumulated funds in excess of actual claims paid of \$75,275 (\$38,299 at June 30, 2003). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2004 is \$140,000 (\$98,481 at June 30, 2003), which is reported under current liabilities.

Building and Equipment Purchase

The Hospital has committed to purchase various equipment items. The estimated cost of the equipment is \$171,000, which will be financed through the use of existing internally designated assets.

NOTE L - UNUSUAL ITEM

As a result of a special Medicare regulation, the Hospital qualified for an additional payment of \$229,892 for the cost report period ended June 30, 1999, which was recorded during the year ended June 30, 2003. The Hospital was eligible for this additional reimbursement because it experienced more than a five percent decrease in inpatient discharges from the previous year and because it met several other special requirements.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Budgetary Comparison Schedule
Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the 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 a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for bad debts, interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 1,670,055	\$ --	\$ 1,670,055	
Other revenues	<u>21,727,456</u> 23,397,511	<u>--</u> --	<u>21,727,456</u> 23,397,511	
Expenses	<u>23,129,586</u>	<u>8,116</u>	<u>23,137,702</u>	
Net	267,925	(8,116)	259,809	
Balance beginning of year	<u>20,174,133</u>	<u>889,116</u>	<u>21,063,249</u>	
Balance end of year	<u>\$ 20,442,058</u>	<u>\$ 881,000</u>	<u>\$ 21,323,058</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Amended Budget</u>
Amount raised by taxation	\$ 1,670,055	\$ --	\$ 1,670,055	\$ 1,562,300
Other revenues	<u>21,727,456</u> 23,397,511	<u>573,444</u> 573,444	<u>22,300,900</u> 23,970,955	<u>28,810,763</u> 30,373,063
Expenses	<u>23,137,702</u>	<u>5,295,378</u>	<u>28,433,080</u>	<u>29,517,000</u>
Net	259,809	(4,721,934)	(4,462,125)	856,063
Balance beginning of year	<u>21,063,249</u>	<u>(11,279,137)</u>	<u>9,784,112</u>	<u>9,784,112</u>
Balance end of year	<u>\$ 21,323,058</u>	<u>\$(16,001,071)</u>	<u>\$ 5,321,987</u>	<u>\$ 10,640,175</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
Hospital				
0 - 30	\$ 2,936,547	39.2%	\$ 1,907,470	40.0%
31 - 60	1,469,398	19.6	896,318	18.8
61 - 90	716,287	9.6	301,607	6.3
91 - 180	735,068	9.8	518,865	10.9
Over 181	798,394	10.7	571,089	12.0
	<u>6,655,694</u>	<u>88.9</u>	<u>4,195,349</u>	<u>88.0</u>
Community Health and Hospice	312,679	4.2	435,143	9.1
Physician clinic	391,722	5.2	64,528	1.4
Occupational health	128,404	1.7	73,490	1.5
	<u>7,488,499</u>	<u>100.0%</u>	<u>4,768,510</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	504,000		425,000	
Allowance for contractual adjustments	<u>2,035,000</u>		<u>1,004,000</u>	
	<u>\$ 4,949,499</u>		<u>\$ 3,339,510</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 425,000	\$ 425,000
Provision for bad debts	791,323	760,912
Recoveries of accounts previously written off	<u>245,813</u>	<u>210,027</u>
	1,462,136	1,395,939
Accounts written off	<u>958,136</u>	<u>970,939</u>
Balance, ending	<u>\$ 504,000</u>	<u>\$ 425,000</u>

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
 (d/b/a MAHASKA HEALTH PARTNERSHIP)
 Inventory/Prepaid Expense
 June 30,

	2004	2003
<u>Inventory</u>		
Store room	\$ 157,894	\$ 117,825
Dietary	8,772	8,205
Pharmacy	171,607	88,354
Laboratory	78,677	81,077
Operating room	530,900	197,888
Radiology	15,983	11,372
Respiratory therapy	--	4,423
	\$ 963,833	\$ 509,144
 <u>Prepaid Expense</u>		
Insurance	\$ 36,058	\$ 27,175
Other	--	8,311
	\$ 36,058	\$ 35,486

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Patient Service Revenue
Year ended June 30,

	2004	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical and surgical	\$ 2,584,077	\$ 339,052
Coronary care	311,867	2,125
Nursery	260,200	--
Obstetrics	383,113	10,057
Swing bed	--	--
Vision Quest	1,151,100	--
	<u>4,690,357</u>	<u>351,234</u>
Other Nursing Services:		
Operating and recovery rooms	1,975,117	3,967,870
Delivery and labor rooms	224,668	67,937
Central services and supply	181,568	62,014
Wound/ostomy care	142	4,444
Emergency services	395,013	1,580,087
Cardiac rehabilitation and stress test	1,128	266,334
	<u>2,777,636</u>	<u>5,948,686</u>
Other Professional Services:		
Emergency room physicians	132,036	847,606
Laboratory	853,420	1,530,048
Electrocardiology	--	23,657
Electroencephalography	3,300	20,350
Radiology	129,488	761,850
Ultrasound	22,434	202,424
Nuclear scanning	5,596	55,502
MRI scanning	50,391	1,303,996
CT scanning	383,082	1,447,469
Outsourced services	46,619	247,906
Pharmacy	1,251,074	527,351
Oncology	2,258	317,555
Anesthesiology	216,000	468,025
Respiratory therapy	836,747	377,997
Physical therapy	103,654	963,329
Occupational therapy	36,429	156,963
Speech therapy	12,335	56,990
Ambulance	273,074	698,460
Community health	--	1,608,129
Hospice	--	688,332
Occupational health	--	360,384
New Directions	--	1,069,037
Physician clinic	5,331	1,447,588
	<u>4,363,268</u>	<u>15,180,948</u>
	<u>\$ 11,831,261</u>	<u>\$ 21,480,868</u>

See Independent Auditor's Report.

<u>2004</u>		<u>2003</u>
<u>Swing Bed</u>	<u>Total</u>	<u>Total</u>
\$ --	\$ 2,923,129	\$ 2,128,335
--	313,992	203,817
--	260,200	138,125
--	393,170	271,150
592,769	592,769	554,675
--	<u>1,151,100</u>	--
<u>592,769</u>	<u>5,634,360</u>	<u>3,296,102</u>
13,710	5,956,697	4,323,361
--	292,605	229,763
15,403	258,985	203,726
--	4,586	--
888	1,975,988	1,534,091
--	<u>267,462</u>	<u>241,722</u>
<u>30,001</u>	<u>8,756,323</u>	<u>6,532,663</u>
291	979,933	862,090
50,101	2,433,569	1,790,052
--	23,657	16,689
--	23,650	7,750
7,090	898,428	780,864
1,454	226,312	196,948
856	61,954	60,783
2,702	1,357,089	639,578
--	1,830,551	1,158,412
3,583	298,108	286,458
188,212	1,966,637	1,437,033
--	319,813	347,982
2,063	686,088	529,876
220,977	1,435,721	838,423
148,669	1,215,652	1,112,615
75,963	269,355	229,643
8,765	78,090	29,827
10,562	982,096	827,914
--	1,608,129	1,390,014
--	688,332	599,352
--	360,384	281,580
--	1,069,037	1,114,253
--	<u>1,452,919</u>	<u>484,336</u>
<u>721,288</u>	<u>20,265,504</u>	<u>15,022,472</u>
<u>\$ 1,344,058</u>	<u>\$ 34,656,187</u>	<u>\$ 24,851,237</u>

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Revenue and Related Adjustments
Year ended June 30,

	<u>2004</u>	<u>2003</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 34,656,187	\$ 24,851,237
Contractual adjustments	(12,541,911)	(8,031,994)
Provision for bad debts	(791,323)	(760,912)
	<u>\$ 21,322,953</u>	<u>\$ 16,058,331</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 106,206	\$ 106,416
Catering	28,921	25,657
Medical record transcripts	1,220	1,359
Non-patient supplies	793	2,097
Outpatient clinics	63,237	47,254
Dietary services	20,103	24,238
Medical Alert	80	--
Miscellaneous	<u>66,826</u>	<u>44,568</u>
	<u>\$ 287,386</u>	<u>\$ 251,589</u>

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Nursing Service Expenses
Year ended June 30,

	2004	2003
Administrative:		
Salaries and wages	\$ 356,106	\$ 388,934
Employee benefits	40,452	53,321
Supplies and other expense	21,043	28,063
	417,601	470,318
Medical and Surgical:		
Salaries and wages	1,315,046	1,158,870
Employee benefits	172,035	169,600
Supplies and other expense	93,784	86,607
	1,580,865	1,415,077
Obstetrics:		
Salaries and wages	140,048	156,320
Employee benefits	20,100	7,711
Supplies and other expense	43,418	34,745
	203,566	198,776
Nursery:		
Salaries and wages	120,117	111,245
Employee benefits	15,384	14,066
Supplies and other expense	1,914	2,119
	137,415	127,430
Vision Quest:		
Salaries and wages	412,102	--
Employee benefits	72,968	--
Supplies and other expense	303,842	8,486
	788,912	8,486
Operating and Recovery Rooms:		
Salaries and wages	549,215	436,360
Employee benefits	69,956	60,780
Supplies and other expense	736,112	384,896
	1,355,283	882,036
Delivery and Labor Rooms:		
Salaries and wages	131,152	75,338
Employee benefits	20,416	22,988
Supplies and other expense	1,939	601
	153,507	98,927

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MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Central Services and Supply:		
Supplies and other expense	\$ 162,855	\$ 177,085
Wound/Ostomy Care:		
Supplies and other expense	1,420	--
Emergency Services:		
Salaries and wages	257,899	213,330
Employee benefits	71,888	33,453
Supplies and other expense	<u>65,936</u>	<u>82,832</u>
	395,723	329,615
Cardiac Rehabilitation:		
Salaries and wages	52,611	57,325
Employee benefits	7,830	4,204
Supplies and other expense	<u>44,082</u>	<u>59,112</u>
	<u>104,523</u>	<u>120,641</u>
	<u>\$ 5,301,670</u>	<u>\$ 3,828,391</u>

SUMMARY

Salaries and wages	\$ 3,334,296	\$ 2,597,722
Employee benefits	491,029	366,123
Supplies and other expense	<u>1,476,345</u>	<u>864,546</u>
	<u>\$ 5,301,670</u>	<u>\$ 3,828,391</u>

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Emergency Room Physicians:		
Salaries and wages	\$ 297,942	\$ --
Employee benefits	25,925	--
Professional fees	<u>412,683</u>	<u>646,279</u>
	736,550	646,279
Laboratory:		
Salaries and wages	283,663	268,877
Employee benefits	41,740	37,105
Professional fees	207,693	163,442
Supplies and other expense	<u>279,883</u>	<u>257,869</u>
	812,979	727,293
Electroencephalography and Electrocardiology:		
Salaries and wages	225	752
Employee benefits	17	57
Purchased services	<u>4,224</u>	<u>3,264</u>
	4,466	4,073
Oncology:		
Salaries and wages	72,037	45,380
Employee benefits	11,015	5,704
Supplies and other expense	<u>121,741</u>	<u>146,612</u>
	204,793	197,696
Radiology and Ultrasound:		
Salaries and wages	352,313	269,691
Employee benefits	50,337	32,573
Supplies and other expense	<u>207,480</u>	<u>197,261</u>
	610,130	499,525
MRI Scanning:		
Purchased services	204,625	228,200
Nuclear Scanning:		
Purchased services	51,490	37,976
CT Scanning:		
Purchased services	292,112	195,000
Outsourced Services:		
Purchased services	234,573	203,495
Supplies and other expense	<u>480</u>	<u>719</u>
	235,053	204,214

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MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Pharmacy:		
Salaries and wages	\$ 228,995	\$ 186,386
Employee benefits	28,121	29,442
Drugs and other expense	<u>451,908</u>	<u>363,039</u>
	709,024	578,867
 Anesthesiology:		
Supplies and other expense	60,166	45,266
 Respiratory Therapy:		
Salaries and wages	202,854	213,901
Employee benefits	31,501	31,106
Professional fees	48,324	48,643
Supplies and other expense	<u>50,356</u>	<u>49,368</u>
	333,035	343,018
 Physical Therapy:		
Professional fees	584,170	527,252
Supplies and other expense	<u>18,101</u>	<u>16,480</u>
	602,271	543,732
 Speech Therapy:		
Salaries and wages	37,680	4,431
Employee benefits	6,537	--
Professional fees	4,130	8,489
Supplies and other expense	<u>6,389</u>	<u>2,965</u>
	54,736	15,885
 Occupational Therapy:		
Professional fees	129,031	109,971
Supplies and other expense	<u>2,746</u>	<u>5,100</u>
	131,777	115,071
 Ambulance:		
Salaries and wages	387,428	359,997
Employee benefits	50,874	51,072
Purchased services	489	408
Supplies and other expense	<u>34,235</u>	<u>23,241</u>
	473,026	434,718

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MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Community Health:		
Salaries and wages	\$ 757,265	\$ 813,369
Employee benefits	89,612	102,400
Purchased services	148,791	120,771
Supplies and other expense	<u>111,930</u>	<u>131,813</u>
	1,107,598	1,168,353
Hospice:		
Salaries and wages	410,841	398,281
Employee benefits	54,185	55,884
Supplies and other expense	<u>204,014</u>	<u>194,573</u>
	669,040	648,738
Medical Records:		
Salaries and wages	255,533	233,695
Employee benefits	36,571	31,185
Supplies and other expense	<u>59,650</u>	<u>56,287</u>
	351,754	321,167
Physician Clinic:		
Salaries and wages	1,361,119	439,849
Employee benefits	149,961	56,305
Supplies and other expense	<u>128,121</u>	<u>187,009</u>
	1,639,201	683,163
Outpatient Clinics:		
Salaries and wages	23,302	26,389
Employee benefits	2,800	4,592
Supplies and other expense	<u>229</u>	<u>95</u>
	26,331	31,076
Dietician Services:		
Salaries and wages	48,347	51,484
Employee benefits	5,917	5,105
Supplies and other expense	<u>4,689</u>	<u>6,458</u>
	58,953	63,047
New Directions:		
Salaries and wages	773,610	654,533
Employee benefits	92,164	86,417
Purchased services	42,579	40,184
Supplies and other expense	<u>55,033</u>	<u>46,001</u>
	963,386	827,135

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MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Occupational Health:		
Salaries and wages	\$ 109,017	\$ 99,704
Employee benefits	21,949	16,230
Purchased services	111,209	87,083
Supplies and other expense	<u>26,401</u>	<u>17,160</u>
	<u>268,576</u>	<u>220,177</u>
	<u>\$ 10,601,072</u>	<u>\$ 8,779,669</u>

SUMMARY

Salaries and wages	\$ 5,602,171	\$ 4,066,719
Employee benefits	699,226	545,177
Professional fees	1,386,031	1,504,076
Supplies and other expense	<u>2,913,644</u>	<u>2,663,697</u>
	<u>\$ 10,601,072</u>	<u>\$ 8,779,669</u>

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
General Service Expenses
Year ended June 30,

	2004	2003
Dietary:		
Salaries and wages	\$ 220,746	\$ 210,972
Employee benefits	31,978	29,752
Food	117,402	106,952
Supplies and other expense	23,311	23,132
	393,437	370,808
Operation of Plant:		
Salaries and wages	204,099	152,697
Employee benefits	32,042	16,594
Utilities	360,140	307,057
Supplies and other expense	251,120	167,851
	847,401	644,199
Environmental Services:		
Salaries and wages	275,760	232,929
Employee benefits	40,125	31,026
Supplies and other expense	39,417	32,183
	355,302	296,138
Laundry and Linen:		
Salaries and wages	99,391	95,757
Employee benefits	14,627	13,366
Supplies and other expense	22,804	15,761
	136,822	124,884
	\$ 1,732,962	\$ 1,436,029

SUMMARY

Salaries and wages	\$ 799,996	\$ 692,355
Employee benefits	118,772	90,738
Supplies and other expense	814,194	652,936
	\$ 1,732,962	\$ 1,436,029

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Administrative:		
Salaries and wages	\$ 850,072	\$ 788,951
Employee benefits	102,956	113,770
Professional fees	62,496	64,846
Supplies and other expense	366,865	353,676
Purchased services	83,619	71,029
Travel and education	33,255	48,480
Telephone	1,690	4,605
Equipment rent	--	1,313
Dues, subscriptions and licenses	34,380	35,268
Collection fees	<u>99,665</u>	<u>95,154</u>
	1,634,998	1,577,092
Information Systems:		
Salaries and wages	117,174	107,900
Employee benefits	17,841	13,278
Purchased services	837	--
Supplies and other expense	<u>101,794</u>	<u>65,830</u>
	237,646	187,008
Purchasing:		
Salaries and wages	89,797	81,485
Employee benefits	14,657	12,837
Supplies and other expense	<u>15,431</u>	<u>18,769</u>
	119,885	113,091
Public Relations:		
Salaries and wages	44,092	36,893
Employee benefits	6,435	4,839
Supplies and other expense	<u>86,546</u>	<u>50,089</u>
	137,073	91,821
Human Resources:		
Salaries and wages	69,228	67,745
Employee benefits	13,278	19,615
Purchased services	5,753	5,686
Supplies and other expense	<u>24,855</u>	<u>7,180</u>
	113,114	100,226

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MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	2004	2003
Quality Management:		
Salaries and wages	\$ 41,273	\$ --
Employee benefits	5,615	--
Supplies and other expense	5,577	--
	52,465	--
Employee Welfare:		
Unemployment tax	149	7,654
Group health and life insurance	988,017	842,875
Workers' compensation insurance	100,501	70,408
	1,088,667	920,937
Insurance:		
Insurance and bonding expense	208,931	136,943
	\$ 3,592,779	\$ 3,127,118

SUMMARY

Salaries and wages	\$ 1,211,636	\$ 1,082,974
Employee benefits	1,249,449	1,085,276
Professional fees	62,496	64,846
Supplies and other expense	1,069,198	894,022
	\$ 3,592,779	\$ 3,127,118

SUMMARY OF EXPENSES

Salaries and wages	\$ 10,948,099	\$ 8,439,770
Employee benefits	2,558,476	2,087,314
Professional fees	1,448,527	1,568,922
Supplies and other expense	6,273,381	5,075,201
	\$ 21,228,483	\$ 17,171,207

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Comparative Statistics
Year ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Acute Care:					
Admissions	1,255	1,077	1,053	1,149	1,235
Discharges	1,260	1,076	1,061	1,147	1,238
Patient days	4,360	3,502	3,321	3,478	3,439
Average length of stay	3.46	3.25	3.13	3.03	2.78
Average occupied beds	11.9	9.6	9.1	9.5	9.4
Vision Quest:					
Admissions	114	--	--	--	--
Discharges	110	--	--	--	--
Patient days	1,279	--	--	--	--
Average length of stay	11.63	--	--	--	--
Average occupied beds	3.5	--	--	--	--
Swing Bed:					
Admissions	242	183	284	330	306
Discharges	241	181	282	333	302
SNF days	1,463	1,351	1,987	2,629	2,311
ICF days	29	62	141	184	87
Combined Average Occupied Beds	19.5	13.5	14.9	17.2	15.9
Nursery Days	540	423	398	423	350
Home Health Visits	20,235	18,235	16,886	16,297	16,614
Outpatient Occasions of Service	78,536	72,142	69,497	67,371	62,780

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Comparative Balance Sheets
June 30,

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 1,023,405	\$ 558,619
Receivables	5,208,426	3,401,067
Inventory	963,833	509,144
Prepaid expense	36,058	35,486
Estimated third-party payor settlements	231,000	27,000
Succeeding year property tax receivable	1,599,000	1,562,000
Internally designated assets	<u>1,436,637</u>	<u>1,495,466</u>
Total current assets	10,498,359	7,588,782
Other Assets:		
Designated and restricted assets, net	2,134,769	6,917,672
Capital assets, net	24,289,272	21,122,943
Other assets	<u>300,099</u>	<u>194,491</u>
Total other assets	<u>26,724,140</u>	<u>28,235,106</u>
	<u>\$ 37,222,499</u>	<u>\$ 35,823,888</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 1,083,702	\$ 1,063,108
Accounts payable	838,743	1,089,729
Accrued expenses	1,490,939	1,225,488
Due to restricted assets	--	8,116
Estimated third-party payor settlements	--	--
Deferred revenue for succeeding year property tax receivable	<u>1,599,000</u>	<u>1,562,000</u>
Total current liabilities	5,012,384	4,948,441
Long-Term Debt, Net	10,887,057	9,812,198
Net Assets	<u>21,323,058</u>	<u>21,063,249</u>
	<u>\$ 37,222,499</u>	<u>\$ 35,823,888</u>

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 595,893	\$ 402,139	\$ 405,128
3,519,833	2,462,544	3,197,249
397,028	346,553	361,575
31,725	23,427	74,619
290,000	280,000	--
1,542,000	1,502,000	1,263,000
<u>2,031,237</u>	<u>844,786</u>	<u>779,760</u>
8,407,716	5,861,449	6,081,331
12,377,856	11,785,589	10,778,035
16,113,581	11,593,575	11,866,414
<u>321,976</u>	<u>169,884</u>	<u>134,809</u>
<u>28,813,413</u>	<u>23,549,048</u>	<u>22,779,258</u>
<u>\$ 37,221,129</u>	<u>\$ 29,410,497</u>	<u>\$ 28,860,589</u>
\$ 354,512	\$ 475,217	\$ 455,822
2,482,414	774,802	719,587
1,016,279	812,847	707,616
8,116	8,116	8,116
--	--	130,000
<u>1,542,000</u>	<u>1,502,000</u>	<u>1,263,000</u>
5,403,321	3,572,982	3,284,141
10,871,224	6,555,063	7,030,280
<u>20,946,584</u>	<u>19,282,452</u>	<u>18,546,168</u>
<u>\$ 37,221,129</u>	<u>\$ 29,410,497</u>	<u>\$ 28,860,589</u>

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Patient Service Revenue	\$ 34,656,187	\$ 24,851,237
Adjustments to Patient Service Revenue	<u>(13,333,234)</u>	<u>(8,792,906)</u>
Net Patient Service Revenue	21,322,953	16,058,331
Other Revenue	<u>287,386</u>	<u>251,589</u>
Total Revenue	21,610,339	16,309,920
Expenses	<u>23,137,702</u>	<u>18,399,286</u>
Operating Income (Loss)	(1,527,363)	(2,089,366)
Non-Operating Income	<u>1,787,172</u>	<u>1,976,139</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	259,809	(113,227)
Unusual Item	<u> --</u>	<u>229,892</u>
Excess of Revenues Over Expenses	<u>\$ 259,809</u>	<u>\$ 116,665</u>

* Amounts have not been reclassified to show the effects of Government Accounting Standards Board statements No. 34, 37, and 38.

See Independent Auditor's Report.

<u>2002</u>	<u>2001*</u>	<u>2000*</u>
\$ 22,125,218	\$ 18,410,454	\$ 16,545,807
<u>(7,102,790)</u>	<u>(4,794,516)</u>	<u>(3,871,062)</u>
15,022,428	13,615,938	12,674,745
<u>307,523</u>	<u>1,538,680</u>	<u>1,488,026</u>
15,329,951	15,154,618	14,162,771
<u>15,863,181</u>	<u>15,323,700</u>	<u>14,095,903</u>
(533,230)	(169,082)	66,868
<u>2,197,362</u>	<u>905,366</u>	<u>898,487</u>
1,664,132	736,284	965,355
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 1,664,132</u>	<u>\$ 736,284</u>	<u>\$ 965,355</u>

COMMENTS AND RECOMMENDATIONS

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)
Oskaloosa, Iowa

We have audited the financial statements of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mahaska County Hospital's (d/b/a Mahaska Health Partnership) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item 04-II-C.

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahaska County Hospital's (d/b/a Mahaska Health Partnership) 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mahaska County Hospital's (d/b/a Mahaska Health Partnership) ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of Mahaska County Hospital (d/b/a Mahaska Health Partnership) 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.

Gronwald, Bell, Kuhn & Co. P.C.

Atlantic, Iowa
August 25, 2004

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings
Year ended June 30, 2004

PART I - REPORTABLE CONDITIONS

04-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

04-I-B Reconciliation of Cash: During the audit we noted that the Hospital's operating cash account had not been reconciled for the last several months of the fiscal year. Because of the susceptibility to loss, reconciliation of the cash accounts is of higher importance than other general ledger accounts. The subsequent reconciliation of the account resulted in a significant adjustment to the general ledger.

Recommendation: We recommend that the general ledger activity of all cash accounts be reconciled to the bank statements on a monthly basis in a timely manner. This will improve current internal controls and improve the accuracy of the interim financial statements.

Response: We will reconcile the cash accounts monthly and in a timely manner.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

04-II-A Official Depositories: A resolution naming official depositories has been adopted by the Board. During the audit, no deposits in excess of the limits were noted.

04-II-B Certified Budget: Hospital expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings - Continued
Year ended June 30, 2004

PART II - REQUIRED STATUTORY REPORTING - Continued

04-II-C Questionable Expenditures: During the audit, we noted a certain expenditure that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated March 12, 1975. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
The Peppertree	Employee recognition banquet	\$ 1,558

Recommendation: We recommend that the Board continue to document in the Board minutes the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

04-II-D Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

04-II-E Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted.

04-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

04-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

04-II-H Equipment Loan Collateral: The Hospital incurred \$2.3 million additional long term debt from a local bank to finance the purchase of several pieces of equipment. As part of the promissory note with the bank, a commercial security agreement was executed listing the equipment as collateral on the loan. Chapter 347.14(16) of the Code of Iowa states that money may be borrowed for the purposes of improvement, maintenance, or replacement of the hospital or for hospital equipment, secured solely by hospital revenues.

Recommendation: We recommend that the promissory note with the bank be revised to be in compliance with Chapter 347.14(16) of the Code of Iowa.

Response: We will review the promissory note with the bank.

Conclusion: Response accepted.

* * *

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings - Continued
Year ended June 30, 2004

PART III - OTHER COMMENTS AND RECOMMENDATIONS

04-III-A Reconciliation of General Ledger Accounts: In preparation for the year end audit and in conjunction with the audit testing, several accounts needed to be reconciled and adjusted to their proper balances. As a result of these year end reconciliations, several significant adjusting entries were required. These general ledger accounts included hospital and community health patient accounts receivable, investments, prepaid expenses, property and equipment, notes payable and accrued liabilities.

Recommendation: We recommend that the general ledger accounts be reconciled and adjusted on a monthly basis to improve the accuracy of the interim financial statements.

Response: The general ledger accounts will be reconciled and adjusted on a monthly basis.

Conclusion: Response accepted.

04-III-B Reconciliation of the Depreciation Schedule: In July, 2003, the medical clinic building was completed and put into service, including the related equipment and furnishings. These items, totaling approximately \$9 million, were not added to the depreciation schedule during the year, resulting in the depreciation expense to be understated by approximately \$380,000.

Recommendation: We recommend that all property and equipment placed into service during the year be added to the depreciation schedule on a quarterly basis, and the depreciation schedule reconciled to the general ledger. Computations of depreciation expense can be made quarterly to test the adequacy of the interim depreciation expense estimates, and improve the accuracy of the interim financial statements.

Response: The depreciation schedule will be maintained and reconciled to the general ledger in a timely manner in the future.

Conclusion: Response accepted.

04-III-C Forgivable Loan Agreement: As part of the recruitment and hiring of the Chief Financial Officer, the CFO was given a \$5,000 forgivable loan. However, there is not a written document identifying the terms of the agreement.

Recommendation: We recommend that a forgivable loan agreement be written to document the terms of the oral agreement and protect both parties involved from potential future disputes.

Response: An agreement will be written.

Conclusion: Response accepted.

* * *