

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION  
COMMENTS AND RECOMMENDATIONS  
YEARS ENDED JUNE 30, 2004 AND 2003

# MONTGOMERY COUNTY MEMORIAL HOSPITAL

## CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	23
ACCOMPANYING INFORMATION:	
Schedules Supporting Balance Sheets:	
Patient receivables	24
Inventory/Prepaid expense	25
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets:	
Patient service revenue	26
Revenue and related adjustments	27
Nursing service expenses	28
Other professional service expenses	31
General service expenses	36
Fiscal and administrative service expenses	37
Comparative Statistics	39
Comparative Balance Sheets	40
Comparative Statements of Revenues and Expenses	41
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	42
Schedule of Findings	44



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the accompanying balance sheets of Montgomery County Memorial Hospital 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 Montgomery County Memorial Hospital 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 on pages 4 through 4d and 23 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  
Montgomery County Memorial Hospital

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 24 through 41) 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 6, 2004 on our consideration of Montgomery County Memorial Hospital's 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 in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Granewald, Bell, Kyhan & P.C.

Atlantic, Iowa  
August 6, 2004



# Montgomery County Memorial Hospital

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## MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial 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 \$52,837 or .3 percent increase in 2004 and a \$1,011,565 or 7.1 percent increase in 2003.

The Hospital reported operating losses in both 2004 (\$1,124,099) and 2003 (\$1,194,165). Operating losses in 2004 decreased by \$70,066 or 5.9 percent. Losses in 2003 increased by \$701,151 or 142 percent over the loss reported in 2002.

Nonoperating revenues decreased in 2004 by \$153,680 or 12.0 percent compared to 2003. Nonoperating revenues increased by \$239,038 or 23.1 percent 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.

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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

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 \$52,837 (.3 percent) in 2004 and \$1,011,565 (7.1 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>
<b>Assets:</b>			
Current assets	\$ 6,866,745	\$ 7,072,778	\$ 6,815,600
Capital assets, net	9,027,837	9,667,532	10,031,894
Other noncurrent assets	<u>6,860,189</u>	<u>6,551,491</u>	<u>5,634,497</u>
Total assets	<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>	<u>\$ 22,481,991</u>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 4,113,868	\$ 4,842,581	\$ 5,267,772
Other current and noncurrent liabilities	<u>3,381,460</u>	<u>3,242,614</u>	<u>3,019,178</u>
Total liabilities	<u>\$ 7,495,328</u>	<u>\$ 8,085,195</u>	<u>\$ 8,286,950</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 4,405,010	\$ 4,399,760	\$ 4,375,146
Restricted expendable net assets	1,078,376	1,249,674	1,185,486
Unrestricted	<u>9,776,057</u>	<u>9,557,172</u>	<u>8,634,409</u>
Total net assets	<u>\$ 15,259,443</u>	<u>\$ 15,206,606</u>	<u>\$ 14,195,041</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2004, the Hospital's net assets increased by \$52,837 or .3 percent, as shown in Table 2. The Hospitals' net assets increased \$1,011,565 (7.1 percent) in 2003. This increase is made up of very different components

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Operating Revenues:</b>			
Net patient service revenues	\$ 15,888,189	\$ 16,446,956	\$ 15,739,959
Other operating revenues	<u>457,592</u>	<u>512,106</u>	<u>627,629</u>
Total operating revenues	16,345,781	16,959,062	16,367,588
<b>Operating Expenses:</b>			
Salaries and wages	8,118,901	8,240,700	7,807,899
Employee benefits	2,079,962	2,261,385	1,991,429
Professional fees	1,047,324	1,172,167	1,071,956
Other operating expenses	5,126,880	5,402,280	4,917,971
Depreciation and amortization	<u>1,096,813</u>	<u>1,076,695</u>	<u>1,071,347</u>
Total operating expenses	<u>17,469,880</u>	<u>18,153,227</u>	<u>16,860,602</u>
Operating loss	( 1,124,099)	( 1,194,165)	( 493,014)
<b>Nonoperating Revenues and Expenses:</b>			
Property taxes	1,230,042	1,226,079	1,056,299
Investment income	92,005	335,814	354,156
Noncapital grants and contributions	73,535	38,363	3,214
Other nonoperating revenues and expenses, net	<u>( 273,646)</u>	<u>( 324,640)</u>	<u>( 377,091)</u>
Total nonoperating revenues (expenses)	<u>1,121,936</u>	<u>1,275,616</u>	<u>1,036,578</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments and Unusual Item	( 2,163)	81,451	543,564
<b>Grants, Contributions, and Endowments</b>			
Unusual item	--	829,114	--
Capital grants and contributions	<u>55,000</u>	<u>101,000</u>	<u>65,000</u>
Increase in net assets	52,837	1,011,565	608,564
Net Assets Beginning of Year	<u>15,206,606</u>	<u>14,195,041</u>	<u>13,586,477</u>
Net Assets End of Year	<u>\$ 15,259,443</u>	<u>\$ 15,206,606</u>	<u>\$ 14,195,041</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

## 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 revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. Losses in 2004 decreased by \$70,066 or 5.9 percent of the loss reported in 2003. Operating losses in 2003 increased by \$701,151 or 142 percent.

The primary components of these operating losses are:

A decrease in patient service revenue of \$736,801 or 2.7 percent in 2004 and an increase in contractual adjustments of \$1,637,220 or 18.9 percent in 2003. The contractual adjustments are 38.0 percent of patient service revenue in 2004, 37.4 percent of patient service revenue in 2003, and 34.8 percent of patient service revenue in 2002.

A decrease in employee benefit costs for the Hospital's employees of \$181,423 or 8.0 percent in 2004 and an increase of \$269,956 or 13.5 percent in 2003.

A decrease in drug costs of \$274,116 or 22.4 percent in 2004 and an increase in drug costs of \$203,536 or 20.0 percent in 2003.

Overall increases in the level of uncompensated care provided. These are services provided for which there is no expectation of payment. The provision for bad debts, which includes accounts written off as charity care, decreased \$50,832 or 8.2 percent in 2004 and increased \$291,890 or 89.3 percent in 2003.

The Hospital's arrangements with third-party payors have a major impact on its operations. The Hospital has recorded significant increases in contractual adjustments for Medicare outpatients, Swing Bed patients, and Wellmark (Blue Cross) patients. Medicare's prospective payment system for outpatients began August 1, 2000. A new prospective payment system was implemented for Medicare Swing Bed patients on July 1, 2002. This system uses clinical assessments to determine per diem payment rates. Wellmark's universal contract went into effect in 1999.

The Hospital has had considerable increases in the cost of employee health benefits over the past several years.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs are expenses for prescription drugs. In 2004, prescription drug costs totaled \$946,738, and in 2003, they totaled \$1,220,854. Some of the major factors contributing to the increased drug costs include the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix, and new, expensive oncology medications. In 2004, a new contract with the primary oncology group shifted the cost and the reimbursement for a large group of drugs to the physician group.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note 13 of Note A to the financial statements.

THE HOSPITAL'S CASH FLOWS

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

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2004 was prepared on a modified accrual basis. Hospital expenditures during 2004 and 2003 did not exceed amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2004, the Hospital had \$9,027,837 invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In 2004, the Hospital purchased new property and equipment costing \$584,949. \$850,490 was spent to acquire new property and equipment in 2003. In 2002, the Hospital spent \$1,343,270 for new property and equipment.

Debt:

At year-end, the Hospital had \$5,272,416 in bonds payable, notes payable, and capital lease obligations outstanding as detailed in Note H (\$5,934,160 at June 30, 2003). The Hospital issued \$5,075,000 of 2003 Series Hospital Revenue Refunding Capital Loan notes in December 2003. The 1993 Series notes were defeased.

OTHER ECONOMIC FACTORS

There is nothing significant to note.

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 Chief Financial Officer or Controller at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Balance Sheets  
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
<b>Current Assets:</b>		
Cash	\$ 1,357,807	\$ 1,071,955
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,273,000 in 2004, \$1,296,000 in 2003)	3,062,647	2,809,063
Other receivables	126,312	133,618
Inventory	346,879	337,803
Prepaid expense	107,108	87,541
Estimated third-party payor settlements	--	755,000
Succeeding year property tax receivable	1,151,000	1,155,000
Internally designated assets	<u>714,992</u>	<u>722,798</u>
Total current assets	6,866,745	7,072,778
<b>Designated and Restricted Assets:</b>		
Internally designated assets	5,997,659	5,605,090
Restricted assets	<u>1,078,376</u>	<u>1,249,674</u>
	7,076,035	6,854,764
Less amounts required to meet current liabilities	<u>714,992</u>	<u>722,798</u>
	6,361,043	6,131,966
<b>Capital Assets:</b>		
Depreciable capital assets, net	8,859,310	9,495,509
Non-depreciable capital assets	<u>168,527</u>	<u>172,023</u>
	9,027,837	9,667,532
<b>Other Assets:</b>		
Deferred rent	35,186	42,223
Notes receivable	82,059	125,554
Computer equipment deposit	80,270	33,452
Other	<u>301,631</u>	<u>218,296</u>
	499,146	419,525
Total assets	<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 508,959	\$ 425,191
Accounts payable	434,777	472,365
Accrued salaries and wages	295,565	261,062
Accrued other employee compensation	461,293	498,920
Accrued interest payable	14,854	28,261
Accrued fees	15,850	13,650
Payroll taxes withheld and accrued	212,062	208,492
Other current liabilities	161,100	179,673
Estimated third-party payor settlements	126,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,151,000</u>	<u>1,155,000</u>
Total current liabilities	3,381,460	3,242,614
<b>Long-Term Debt:</b>		
Capitalized lease obligations, less current maturities	116,667	205,408
Notes payable, less unamortized discount and current maturities	3,811,071	4,410,164
Note payable, less current maturities	<u>186,130</u>	<u>227,009</u>
Total long-term debt	<u>4,113,868</u>	<u>4,842,581</u>
Total liabilities	7,495,328	8,085,195
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	4,405,010	4,399,760
Restricted - expendable	1,078,376	1,249,674
Unrestricted	<u>9,776,057</u>	<u>9,557,172</u>
Total net assets	<u>15,259,443</u>	<u>15,206,606</u>
Total liabilities and net assets	<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Statements of Revenues, Expenses and Changes in Net Assets  
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Revenue:		
Net patient service revenue	\$ 15,888,189	\$ 16,446,956
Other revenue	<u>457,592</u>	<u>512,106</u>
Total revenue	16,345,781	16,959,062
Expenses:		
Nursing service	4,860,904	5,143,512
Other professional service	7,223,662	7,553,300
General service	1,768,806	1,840,444
Fiscal and administrative service	2,519,695	2,539,276
Provision for depreciation	<u>1,096,813</u>	<u>1,076,695</u>
Total expenses	<u>17,469,880</u>	<u>18,153,227</u>
Operating Loss	( 1,124,099)	( 1,194,165)
Non-Operating Revenue (Expenses):		
County taxes	1,230,042	1,226,079
Investment income	92,005	335,814
Noncapital grants and contributions	73,535	38,363
Rental income, net	78,568	132,825
Gain on disposal of assets	5,208	751
Interest expense	<u>( 357,422)</u>	<u>( 458,216)</u>
Non-operating revenue, net	<u>1,121,936</u>	<u>1,275,616</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Unusual Item	( 2,163)	81,451
Capital Grants and Contributions	55,000	101,000
Unusual Item (Note N)	<u>--</u>	<u>829,114</u>
Excess of Revenues Over Expenses and Increase in Net Assets	52,837	1,011,565
Net Assets - Beginning of Year	<u>15,206,606</u>	<u>14,195,041</u>
Net Assets - End of Year	<u>\$ 15,259,443</u>	<u>\$ 15,206,606</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Statements of Cash Flows  
 Year ended June 30,

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 16,522,911	\$ 16,909,549
Cash paid to suppliers	( 8,234,832)	( 8,785,950)
Cash paid to employees	( 8,122,025)	( 8,181,492)
Other revenue received	<u>457,592</u>	<u>512,106</u>
Net cash provided by operating activities	623,646	454,213
Cash flows from non-capital financing activities:		
County tax received	1,230,042	1,226,079
Noncapital grants and contributions	<u>73,535</u>	<u>38,363</u>
Net cash provided by non-capital financing activities	1,303,577	1,264,442
Cash flows from capital and related financing activities:		
Construction in progress expenditures	( 117,557)	( 173,028)
Purchase of property and equipment	( 530,072)	( 594,480)
Computer equipment deposit	( 46,818)	--
Principal paid on long-term debt	( 661,744)	( 500,612)
Debt issue costs paid	( 95,625)	--
Interest paid	( 271,923)	( 366,245)
Capital grants and contributions	55,000	101,000
Proceeds from the sale of assets, net of selling costs	<u>17,970</u>	<u>751</u>
Net cash used in capital and related financing activities	( 1,650,769)	( 1,532,614)
Cash flows from investing activities:		
Investment income received	282,315	242,260
Increase in internally designated assets	( 581,170)	( 974,806)
Decrease in notes receivable, net	9,715	5,520
Office building rental income, net	212,284	283,218
Increase in other assets	<u>( 83,335)</u>	<u>( 53,403)</u>
Net cash used in investing activities	( 160,191)	( 497,211)
Net increase (decrease) in cash and cash equivalents	116,263	( 311,170)
Cash and cash equivalents at beginning of year	<u>1,480,766</u>	<u>1,791,936</u>
Cash and cash equivalents at end of year	<u>\$ 1,597,029</u>	<u>\$ 1,480,766</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Statements of Cash Flows - Continued  
 Year ended June 30,

	2004	2003
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,357,807	\$ 1,071,955
Cash and cash equivalents in internally designated assets	239,222	408,811
	\$ 1,597,029	\$ 1,480,766
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 1,124,099)	\$( 1,194,165)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,096,813	1,076,695
Provision for bad debts	567,993	618,825
Amortization of notes receivable	33,780	46,280
Unusual item	--	829,114
Changes in assets and liabilities		
Accounts receivable	( 814,271)	( 491,346)
Inventory	( 9,076)	( 521)
Prepaid expense	( 19,567)	( 47,006)
Estimated third-party payor settlements	881,000	( 494,000)
Accounts payable, trade	27,000	( 85,043)
Accrued salaries and wages	34,503	28,025
Accrued other employee compensation	( 37,627)	31,183
Accrued fees	2,200	700
Payroll taxes withheld and accrued	3,570	61,913
Other current liabilities	( 18,573)	73,559
Total adjustments	1,747,745	1,648,378
Net cash provided by operating activities	\$ 623,646	\$ 454,213

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is an acute care county hospital with related ancillary, outpatient, and home health 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 a maturity of three months or less, including designated and restricted assets.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

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

5. Inventory Valuation

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

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. None of the Hospital's interest cost was capitalized in either 2004 or 2003.

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Any excess over 528 hours accumulated at any pay period 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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
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. Currently, the Hospital has no endowment funds.

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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

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

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 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.

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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2004	2003
Long-term debt	\$ 1,078,376	\$ 1,249,674

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2004 or 2003.

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	\$ 55,000	\$ 101,000

NOTE D - DESIGNATED NET ASSETS

Of the \$9,776,057 (\$9,557,172 as of June 30, 2003) of unrestricted net assets as of June 30, 2004, \$5,997,659 (\$5,605,090 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	\$ 5,570,067	\$ 5,181,896
Employee health insurance	427,592	423,194
	\$ 5,997,659	\$ 5,605,090

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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE E - 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 composition of designated and restricted assets is as follows:

	2004	2003
Internally Designated Assets:		
Cash and cash equivalents	\$ 40,664	\$ 40,528
Certificates of deposit	2,229,390	1,811,591
U.S. government agencies	3,716,880	3,725,033
Interest receivable	10,725	27,938
	\$ 5,997,659	\$ 5,605,090
Restricted Assets:		
Cash and cash equivalents	\$ 198,558	\$ 368,283
Certificates of deposit	270,916	269,616
U.S. government agencies	608,029	610,203
Accrued interest	873	1,572
	\$ 1,078,376	\$ 1,249,674

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE F - 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	\$ 1,004,309	\$ 5,674	\$ --	\$ 1,009,983
Buildings	6,884,792	108,513	--	6,993,305
Building Components	1,775,538	31,671	--	1,807,209
Building Service Equipment	4,711,577	8,366	--	4,719,943
Fixed Equipment	549,463	5,873	--	555,336
Major Movable Equipment	<u>8,638,638</u>	<u>424,852</u>	<u>86,734</u>	<u>8,976,756</u>
	23,564,317	584,949	86,734	24,062,532
 <u>Depreciation</u>				
Land Improvements	737,252	52,445	--	789,697
Buildings	1,823,210	186,402	--	2,009,612
Building Components	1,028,586	81,184	--	1,109,770
Building Service Equipment	3,186,870	229,927	--	3,416,797
Fixed Equipment	493,755	31,285	--	525,040
Major Movable Equipment	<u>6,799,135</u>	<u>627,143</u>	<u>73,972</u>	<u>7,352,306</u>
Total Depreciation	<u>14,068,808</u>	<u>1,208,386</u>	<u>73,972</u>	<u>15,203,222</u>
Depreciable Capital Assets, Net	<u>\$ 9,495,509</u>	<u>\$( 623,437)</u>	<u>\$ 12,762</u>	<u>\$ 8,859,310</u>
Construction in Progress	\$ 68,683	\$ 114,228	\$ 117,724	\$ 65,187
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 172,023</u>	<u>\$ 114,228</u>	<u>\$ 117,724</u>	<u>\$ 168,527</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Land Improvements	\$ 918,700	\$ 85,609	\$ --	\$ 1,004,309
Buildings	6,788,320	96,472	--	6,884,792
Building Components	1,735,556	39,982	--	1,775,538
Building Service Equipment	4,664,499	47,078	--	4,711,577
Fixed Equipment	548,826	637	--	549,463
Major Movable Equipment	<u>8,060,776</u>	<u>580,712</u>	<u>2,850</u>	<u>8,638,638</u>
	22,716,677	850,490	2,850	23,564,317
 <u>Depreciation</u>				
Land Improvements	688,131	49,121	--	737,252
Buildings	1,642,668	180,542	--	1,823,210
Building Components	949,521	79,065	--	1,028,586
Building Service Equipment	2,954,726	232,144	--	3,186,870
Fixed Equipment	462,766	30,989	--	493,755
Major Movable Equipment	<u>6,173,161</u>	<u>628,824</u>	<u>2,850</u>	<u>6,799,135</u>
Total Depreciation	<u>12,870,973</u>	<u>1,200,685</u>	<u>2,850</u>	<u>14,068,808</u>
Depreciable Capital Assets, Net	<u>\$ 9,845,704</u>	<u>\$ ( 350,195)</u>	<u>\$ --</u>	<u>\$ 9,495,509</u>
Construction in Progress	\$ 82,850	\$ 152,575	\$ 166,742	\$ 68,683
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 186,190</u>	<u>\$ 152,575</u>	<u>\$ 166,742</u>	<u>\$ 172,023</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,261,936, of which a major portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,208,386 for the year ended June 30, 2004 (\$1,200,685 in 2003), of which \$111,573 (\$123,990 in 2003) is related to the space occupied by the physicians and is included in the net rental income under non-operating revenue.

NOTE G - DEFERRED RENT

The Hospital owned a physician clinic building located adjacent to the old Hospital site. The Hospital gave the clinic building to Montgomery County in return for free use of part of the building for a period of fifteen years ending June 30, 2009. The book value of the clinic building is being recognized as rent expense on a straight-line basis over the fifteen year period.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE G - DEFERRED RENT - Continued

The cost of the new office building is included with the assets of the Hospital (see Note F) and the net rental income is recorded as non-operating revenue.

The remaining balance of deferred rent on the old physician clinic building at June 30 follows:

	2004	2003
Deferred Rent	\$ 35,186	\$ 42,223

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2004 and 2003 follows:

	Balance 2003	Additions	Reductions	Balance 2004	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 263,900	\$ --	\$ 36,892	\$ 227,008	\$ 40,878
Series 1993 bonds	5,380,000	--	5,380,000	--	--
Series 2003 notes	--	5,075,000	235,000	4,840,000	490,000
Less unamortized discount and debt issue costs	<u>( 666,388)</u>	<u>( 95,625)</u>	<u>( 112,424)</u>	<u>( 649,589)</u>	<u>( 110,660)</u>
	4,977,512	4,979,375	5,539,468	4,417,419	420,218
Capital Lease Obligations	<u>290,260</u>	<u>--</u>	<u>84,852</u>	<u>205,408</u>	<u>88,741</u>
Total Long-Term Debt	<u>\$5,267,772</u>	<u>\$4,979,375</u>	<u>\$5,624,320</u>	<u>\$4,622,827</u>	<u>\$ 508,959</u>
	Balance 2002	Additions	Reductions	Balance 2003	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 298,379	\$ --	\$ 34,479	\$ 263,900	\$ 36,891
Series 1993 bonds	5,765,000	--	385,000	5,380,000	410,000
Less unamortized discount and debt issue costs	<u>( 778,024)</u>	<u>--</u>	<u>( 111,636)</u>	<u>( 666,388)</u>	<u>( 106,552)</u>
	5,285,355	--	307,843	4,977,512	340,339
Capital Lease Obligations	<u>371,393</u>	<u>--</u>	<u>81,133</u>	<u>290,260</u>	<u>84,852</u>
Total Long-Term Debt	<u>\$5,656,748</u>	<u>\$ --</u>	<u>\$ 388,976</u>	<u>\$5,267,772</u>	<u>\$ 425,191</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE H - NON-CURRENT LIABILITIES - Continued

The Series 1992 County Public Hospital Revenue Capital Loan note was issued in December, 1992. The note is payable from the revenues of the Hospital and matures in annual installments starting December 15, 1994 through December 15, 2008. The note has an interest rate of 5.25%.

The Series 1993 County Public Hospital Capital Loan Refunding Revenue bonds were issued in August, 1993, with varying interest rates ranging from 2.75% to 6.20%. The bonds were scheduled to mature in annual installments through December, 2012 and were collateralized by the Hospital's net revenues. In December, 2003, the bonds were defeased with the issuance of \$5,075,000 of Hospital Revenue Refunding Capital Loan Notes, Series 2003 (see Note I).

The Series 2003 Hospital Revenue Refunding Capital Loan Notes were issued in December, 2003, with varying interest rates ranging from 1.50% to 4.60%. The notes were issued to defease the Series 1993 bonds. The notes mature in semi-annual installments through June, 2013 and are collateralized by the Hospital's net revenues.

Under the terms of the revenue notes indenture, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Long-Term Debt		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 530,878	\$ 174,626	\$ 88,741	\$ 7,411
2006	548,024	162,630	92,808	3,344
2007	565,283	147,869	23,859	179
2008	572,660	130,415	--	--
2009	585,163	110,501	--	--
2010-13	<u>2,265,000</u>	<u>224,277</u>	<u>--</u>	<u>--</u>
	<u>\$ 5,067,008</u>	<u>\$ 950,318</u>	<u>\$ 205,408</u>	<u>\$ 10,934</u>

Total interest expense for the year ended June 30, 2004 was \$370,940 (\$475,840 in 2003). Interest of \$13,518 (\$17,624 in 2003) is related to the rental space portion of the office building and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE I - DEFEASANCE OF DEBT

In December, 2003, the Hospital issued \$5,075,000 of 2003 Series Hospital Revenue Refunding Capital Loan notes, with varying interest rates ranging from 1.50% to 4.60% (effective interest rate of 4.13%). These notes were used to current refund \$4,970,000 of outstanding 1993 Series bonds, with varying interest rates ranging from 2.75% to 6.20%. As a result, the 1993 Series bonds are considered defeased and the related liability has been removed from the balance sheet. The Hospital, in effect, decreased its aggregate debt service payments by approximately \$153,016 over the next five years and incurred an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$48,571.

NOTE J - 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 \$461,700, \$459,200, and \$426,600, respectively, equal to the required contributions for each year.

NOTE K - 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 human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping 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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE K - DEFERRED COMPENSATION PLAN - Continued

The market value of the exclusive benefit plan assets at June 30, 2004, was approximately \$745,550, (\$462,380 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 L - RELATED ORGANIZATION

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Shelby County Myrtue Memorial Hospital of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2004</u>	<u>2003</u>
Services purchased from HPSI	<u>\$ 152,037</u>	<u>\$ 149,007</u>
Services and supplies provided to HPSI	<u>\$ 11,913</u>	<u>\$ 14,884</u>
Amount due to HPSI	<u>\$ 22,682</u>	<u>\$ 27,422</u>
Member share of net assets	<u>\$ 241,981</u>	<u>\$ 208,717</u>

The member share of net assets is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the office of the State Auditor.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE M - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2004, the Hospital has designated funds in excess of actual claims paid of \$427,592 (\$423,194 at June 30, 2003). This amount of funds, shown under restricted assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2004 is \$128,192 (\$155,178 at June 30, 2003), which is included in other current liabilities.

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. Montgomery County Memorial 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.

Construction in Progress

As of June 30, 2004, the Hospital incurred fees of \$65,187 for long-term site development planning. The project is being financed through the use of internally generated funds.

NOTE N - UNUSUAL ITEM

As a result of a special Medicare regulation, the Hospital qualified for an additional payment of \$829,114 for the cost report period ended June 30, 2000, 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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE O - 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	\$ 869,573	\$ 816,161
Medicare	1,932,953	1,688,570
Medicaid	273,875	236,896
Blue Cross	436,395	452,113
Other commercial insurance carriers	733,742	828,070
Others	<u>89,109</u>	<u>83,253</u>
	4,335,647	4,105,063
Less allowances for doubtful accounts and contractual adjustments	<u>1,198,000</u>	<u>1,296,000</u>
	<u>\$ 3,137,647</u>	<u>\$ 2,809,063</u>

NOTE P - NON-CASH TRANSACTIONS

The cash transactions of the Hospital are presented on the statements of cash flows. The Hospital also recorded the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities.

	<u>2004</u>	<u>2003</u>
Increase in unrealized gains (losses)	<u>\$ ( 190,310)</u>	<u>\$ 93,554</u>

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Budgetary Comparison Schedule  
 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 following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 1,230,042	\$ --	\$ 1,230,042	
Other revenues	16,237,675	55,000	16,292,675	
Transfers in (out)	<u>226,298</u>	<u>( 226,298)</u>	<u>--</u>	
	17,694,015	( 171,298)	17,522,717	
Expenses	<u>17,469,880</u>	<u>--</u>	<u>17,469,880</u>	
Net	224,135	( 171,298)	52,837	
Balance beginning of year	<u>13,956,932</u>	<u>1,249,674</u>	<u>15,206,606</u>	
Balance end of year	<u>\$ 14,181,067</u>	<u>\$ 1,078,376</u>	<u>\$ 15,259,443</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 1,230,042	\$ --	\$ 1,230,042	\$ 1,154,766
Other revenues	<u>16,292,675</u>	<u>370,940</u>	<u>16,663,615</u>	<u>23,316,513</u>
	17,522,717	370,940	17,893,657	24,471,279
Expenses	<u>17,469,880</u>	<u>1,804,924</u>	<u>19,274,804</u>	<u>23,654,459</u>
Net	52,837	( 1,433,984)	( 1,381,147)	816,820
Balance beginning of year	<u>15,206,606</u>	<u>( 5,594,032)</u>	<u>9,612,574</u>	<u>9,612,574</u>
Balance end of year	<u>\$ 15,259,443</u>	<u>\$( 7,028,016)</u>	<u>\$ 8,231,427</u>	<u>\$ 10,429,394</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
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>
0 - 30	\$ 801,884	18.5%	\$ 901,811	22.0%
31 - 90	1,328,951	30.7	1,040,141	25.3
91 - 180	417,381	9.6	389,731	9.5
181 - 360	231,956	5.4	236,023	5.8
361 and over	<u>166,206</u>	<u>3.8</u>	<u>226,872</u>	<u>5.5</u>
	2,946,378	68.0	2,794,578	68.1
In hospital and unbilled	<u>1,389,269</u>	<u>32.0</u>	<u>1,310,485</u>	<u>31.9</u>
	<u>4,335,647</u>	<u>100.0%</u>	<u>4,105,063</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	326,000		375,000	
Allowance for contractual adjustments	<u>947,000</u>		<u>921,000</u>	
	<u>\$ 3,062,647</u>		<u>\$ 2,809,063</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 375,000	\$ 404,000
Provision for bad debts	567,993	618,825
Recoveries of accounts previously written off	<u>171,476</u>	<u>140,108</u>
	1,114,469	1,162,933
Accounts written off	<u>788,469</u>	<u>787,933</u>
Balance, ending	<u>\$ 326,000</u>	<u>\$ 375,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	<u>2004</u>	<u>2003</u>
<u>Inventory</u>		
General stores	\$ 178,736	\$ 167,209
Pharmacy	141,997	144,452
Dietary	9,766	9,762
Operating room	<u>16,380</u>	<u>16,380</u>
	<u>\$ 346,879</u>	<u>\$ 337,803</u>
 <u>Prepaid Expense</u>		
Dues	\$ 12,908	\$ 12,690
General insurance	79,242	66,330
Service contracts	<u>14,958</u>	<u>8,521</u>
	<u>\$ 107,108</u>	<u>\$ 87,541</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	2004	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,072,450	\$ 65,187
Coronary care	1,054,850	--
Nursery	79,516	--
	2,206,816	65,187
Other Nursing Services:		
Operating room	222,882	1,267,235
Recovery room	14,367	156,867
Labor and delivery rooms	66,010	16,786
Medical supplies	668,645	800,353
Intravenous therapy	751,523	229,712
Emergency service	300,163	1,101,986
Outpatient clinics	2,049	165,944
	2,025,639	3,738,883
Other Professional Services:		
Emergency room physicians	95,690	456,393
Laboratory	909,242	1,318,891
Electrocardiology	205,971	335,521
Electroencephalography	5,590	14,620
Radiology	252,623	1,163,260
Ultrasound	77,327	551,974
CT scan	263,605	1,050,298
Mammography	72	137,035
MRI	51,981	799,862
Nuclear medicine	37,285	175,808
Pharmacy	1,230,154	2,033,923
Anesthesiology	162,238	558,712
Inhalation therapy	745,500	151,176
Physical therapy	50,671	820,156
Speech therapy	2,621	53,755
Occupational therapy	8,967	238,975
Cardiopulmonary rehabilitation	70	100,878
Oncology	815	96,976
Home health	--	419,030
Hospice	26,480	154,008
Durable medical equipment	--	507,635
Business health	--	113,225
Women's health	83,163	319,509
Sleep study	1,579	122,022
	4,211,644	11,693,642
	\$ 8,444,099	\$ 15,497,712

See Independent Auditor's Report.

2004		2003
Swing Bed	Total	Total
\$ 448,335	\$ 1,585,972	\$ 1,881,051
--	1,054,850	1,215,690
--	79,516	73,114
<u>448,335</u>	<u>2,720,338</u>	<u>3,169,855</u>
--	1,490,117	1,387,555
--	171,234	179,113
--	82,796	67,062
185,082	1,654,080	1,638,977
317,342	1,298,577	1,392,182
--	1,402,149	1,125,019
<u>1,070</u>	<u>169,063</u>	<u>151,993</u>
503,494	6,268,016	5,941,901
--	552,083	506,909
181,347	2,409,480	2,468,443
17,239	558,731	675,427
860	21,070	19,918
45,955	1,461,838	1,522,101
8,619	637,920	659,762
1,859	1,315,762	1,272,601
--	137,107	122,872
--	851,843	771,540
10,835	223,928	184,833
673,238	3,937,315	4,603,731
600	721,550	650,327
641,228	1,537,904	1,452,290
150,516	1,021,343	1,199,095
4,748	61,124	51,807
40,229	288,171	295,824
--	100,948	154,629
--	97,791	142,162
--	419,030	394,638
--	180,488	217,535
--	507,635	407,970
--	113,225	76,054
--	402,672	360,772
--	123,601	84,718
<u>1,777,273</u>	<u>17,682,559</u>	<u>18,295,958</u>
<u>\$ 2,729,102</u>	<u>\$ 26,670,913</u>	<u>\$ 27,407,714</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
<b>Net Patient Service Revenue:</b>		
Patient service revenue	\$ 26,670,913	\$ 27,407,714
Contractual adjustments	( 10,125,535)	( 10,265,015)
Discounts and allowances	( 89,196)	( 76,918)
Provision for bad debts	<u>( 567,993)</u>	<u>( 618,825)</u>
	<u>\$ 15,888,189</u>	<u>\$ 16,446,956</u>
 <b>Other Operating Revenue:</b>		
Meals sold	\$ 71,106	\$ 69,179
Prisoner meals	34,804	42,824
Meals on wheels	33,939	37,846
Lifeline	47,929	44,279
Medical record transcripts	3,246	4,831
Case management	57,191	61,091
Wellness	20,348	39,982
Contracted services	136,894	160,588
Certified training classes	163	162
Miscellaneous	<u>51,972</u>	<u>51,324</u>
	<u>\$ 457,592</u>	<u>\$ 512,106</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	2004	2003
Administrative:		
Salaries and wages	\$ 111,777	\$ 117,651
Employee benefits	31,842	36,061
Supplies and other expense	31,639	37,630
	175,258	191,342
Quality Assurance:		
Salaries and wages	49,118	46,446
Employee benefits	8,924	9,471
Supplies and other expense	3,641	5,073
	61,683	60,990
Inservice:		
Salaries and wages	50,125	56,133
Employee benefits	15,134	17,093
Supplies and other expense	12,137	17,425
	77,396	90,651
Medical and Surgical:		
Salaries and wages	1,217,804	1,385,996
Employee benefits	290,141	356,218
Supplies and other expense	97,069	83,242
	1,605,014	1,825,456
Coronary Care:		
Salaries and wages	580,835	614,326
Employee benefits	159,604	188,019
Supplies and other expense	24,357	26,615
	764,796	828,960
Obstetric:		
Salaries and wages	45,572	45,123
Employee benefits	6,106	6,047
Supplies and other expense	2,361	850
	54,039	52,020

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	2004	2003
Nursery:		
Salaries and wages	\$ 43,439	\$ 41,478
Employee benefits	5,821	5,558
Supplies and other expense	4,811	2,377
	54,071	49,413
Operating Room:		
Salaries and wages	361,372	333,664
Employee benefits	82,045	78,408
Supplies and other expense	94,630	104,007
	538,047	516,079
Labor and Delivery:		
Salaries and wages	18,782	16,891
Employee benefits	2,517	2,263
Supplies and other expense	5,103	7,070
	26,402	26,224
Central Services and Supply:		
Salaries and wages	130,521	134,455
Employee benefits	39,213	53,171
Supplies sold to patients	486,567	513,139
Supplies and other expense	6,553	5,266
	662,854	706,031
Intravenous Therapy:		
Solutions	27,708	30,700
Emergency Services:		
Salaries and wages	374,777	378,477
Employee benefits	72,200	79,150
Supplies and other expense	21,766	18,829
	468,743	476,456
Outpatient Clinics:		
Salaries and wages	255,089	217,769
Employee benefits	57,372	49,330
Supplies and other expense	32,432	22,091
	344,893	289,190
	\$ 4,860,904	\$ 5,143,512

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 3,239,211	\$ 3,388,409
Employee benefits	770,919	880,789
Other expense	<u>850,774</u>	<u>874,314</u>
	<u>\$ 4,860,904</u>	<u>\$ 5,143,512</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Emergency Room Physicians:		
Salaries and wages	\$ 26,310	\$ --
Employee benefits	4,284	--
Professional fees	324,581	379,480
Supplies and other expense	<u>518</u>	<u>--</u>
	355,693	379,480
Laboratory:		
Salaries and wages	323,238	311,265
Employee benefits	83,830	93,040
Professional fees	97,922	90,676
Supplies and other expense	<u>329,397</u>	<u>329,740</u>
	834,387	824,721
Blood Bank:		
Cost of blood	96,402	108,797
Electrocardiology:		
Salaries and wages	17,679	31,891
Employee benefits	2,369	4,274
Purchased services	111,595	148,554
Supplies and other expense	<u>3,065</u>	<u>2,003</u>
	134,708	186,722
Electroencephalography:		
Salaries and wages	1,798	2,282
Employee benefits	241	306
Supplies and other expense	<u>10,025</u>	<u>9,111</u>
	12,064	11,699
Radiology:		
Salaries and wages	344,029	306,072
Employee benefits	73,650	69,616
Cost of film	7,078	8,008
Supplies and other expense	<u>88,028</u>	<u>94,462</u>
	512,785	478,158
Ultrasound:		
Salaries and wages	48,626	62,236
Employee benefits	6,498	8,429
Supplies and other expense	<u>19,594</u>	<u>21,502</u>
	74,718	92,167

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
CT Scan:		
Salaries and wages	\$ 40,282	\$ 40,732
Employee benefits	5,409	5,552
Professional fees	24,043	35,950
Supplies and other expense	<u>23,472</u>	<u>29,529</u>
	93,206	111,763
Mammography:		
Purchased services	8,150	600
Supplies and other expense	<u>10,166</u>	<u>14,672</u>
	18,316	15,272
MRI:		
Purchased services	194,434	194,150
Supplies and other expense	<u>18,567</u>	<u>17,327</u>
	213,001	211,477
Nuclear Medicine:		
Purchased services	94,565	54,698
Pharmacy:		
Salaries and wages	240,700	244,404
Employee benefits	47,123	54,960
Purchased services	89,551	77,414
Drugs	946,738	1,220,854
Supplies and other expense	<u>8,259</u>	<u>13,482</u>
	1,332,371	1,611,114
Anesthesiology:		
Salaries and wages	440,597	389,322
Employee benefits	56,123	48,036
Professional fees	12,267	--
Supplies and other expense	<u>22,741</u>	<u>14,937</u>
	531,728	452,295
Inhalation Therapy:		
Salaries and wages	234,361	220,049
Employee benefits	47,713	50,077
Professional fees	175	191
Supplies and other expense	<u>217,644</u>	<u>182,144</u>
	499,893	452,461

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Physical Therapy:		
Professional fees	\$ 389,729	\$ 456,292
Supplies and other expense	<u>6,089</u>	<u>6,338</u>
	395,818	462,630
Speech Therapy:		
Professional fees	23,655	20,048
Occupational Therapy:		
Professional fees	111,198	112,104
Supplies and other expense	<u>569</u>	<u>231</u>
	111,767	112,335
Cardiopulmonary Rehabilitation:		
Salaries and wages	92,763	102,842
Employee benefits	12,919	13,972
Supplies and other expense	<u>6,823</u>	<u>8,412</u>
	112,505	125,226
Home Health:		
Salaries and wages	249,507	248,663
Employee benefits	63,044	66,188
Purchased services	79,515	55,436
Supplies and other expense	<u>23,271</u>	<u>23,044</u>
	415,337	393,331
Hospice:		
Salaries and wages	68,922	67,688
Employee benefits	9,213	8,731
Purchased services	19,897	44,286
Supplies and other expense	<u>29,522</u>	<u>35,640</u>
	127,554	156,345
Social Services:		
Salaries and wages	71,665	71,081
Employee benefits	18,171	29,130
Supplies and other expense	<u>1,982</u>	<u>2,673</u>
	91,818	102,884
Lifeline:		
Supplies and other expense	48,269	38,122

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Other Professional Service Expenses - Continued  
 Year ended June 30,

	2004	2003
Medical Records:		
Salaries and wages	\$ 229,566	\$ 236,354
Employee benefits	56,612	67,933
Supplies and other expense	58,120	56,361
	344,298	360,648
Wellness:		
Supplies and other expense	--	2,429
Case Management:		
Salaries and wages	35,682	28,592
Employee benefits	4,675	4,210
Supplies and other expense	1,482	1,302
	41,839	34,104
Sleep Study:		
Salaries and wages	3,904	--
Employee benefits	523	--
Professional fees	27,410	32,604
Supplies and other expense	13,121	197
	44,958	32,801
Women's Health:		
Salaries and wages	311,878	327,386
Employee benefits	92,455	91,855
Supplies and other expense	19,388	17,183
	423,721	436,424
Business Health:		
Salaries and wages	82,222	115,939
Employee benefits	21,654	30,349
Supplies and other expense	24,904	28,463
	128,780	174,751

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Other Professional Service Expenses - Continued  
 Year ended June 30,

	2004	2003
Diabetes Program:		
Salaries and wages	\$ 85,891	\$ 83,956
Employee benefits	20,585	22,534
Supplies and other expense	3,030	3,908
	109,506	110,398
	\$ 7,223,662	\$ 7,553,300

SUMMARY

Salaries and wages	\$ 2,949,620	\$ 2,890,754
Employee benefits	627,091	669,192
Professional fees	1,010,980	1,127,345
Other expense	2,635,971	2,866,009
	\$ 7,223,662	\$ 7,553,300

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	2004	2003
Dietary:		
Salaries and wages	\$ 331,348	\$ 341,469
Employee benefits	120,911	147,626
Food	173,169	174,263
Supplies and other expense	41,955	46,130
	667,383	709,488
Housekeeping:		
Salaries and wages	257,168	284,892
Employee benefits	70,340	88,410
Purchased services	11,059	11,224
Supplies and other expense	62,387	64,207
	400,954	448,733
Laundry and Linen:		
Purchased services	93,110	94,504
Supplies and other expense	2,155	2,021
	95,265	96,525
Plant Engineering:		
Salaries and wages	146,492	144,576
Employee benefits	33,033	37,262
Utilities	337,219	276,933
Purchased services	--	30,089
Supplies and other expense	88,460	96,838
	605,204	585,698
	\$ 1,768,806	\$ 1,840,444

SUMMARY

Salaries and wages	\$ 735,008	\$ 770,937
Employee benefits	224,284	273,298
Other expense	809,514	796,209
	\$ 1,768,806	\$ 1,840,444

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Administrative:		
Salaries and wages	\$ 161,204	\$ 166,286
Employee benefits	182,794	145,256
Professional fees	36,344	44,822
Dues and subscriptions	44,550	35,741
Purchased services	9,007	16,408
Collection fees	53,392	42,189
Telephone	48,070	50,286
YMCA pledge and vocational building	10,000	30,000
Supplies and other expense	<u>157,624</u>	<u>172,855</u>
	702,985	703,843
Accounting:		
Salaries and wages	146,734	144,419
Employee benefits	37,947	42,054
Supplies and other expense	<u>8,510</u>	<u>16,936</u>
	193,191	203,409
Admissions/Business Office:		
Salaries and wages	165,470	161,465
Employee benefits	44,267	52,017
Supplies and other expense	<u>22,223</u>	<u>24,401</u>
	231,960	237,883
Insurance Office:		
Salaries and wages	156,016	166,408
Employee benefits	36,408	32,731
Supplies and other expense	<u>37,069</u>	<u>33,656</u>
	229,493	232,795
Data Processing:		
Salaries and wages	107,752	111,512
Employee benefits	40,932	47,504
Purchased services	--	237
Supplies and other expense	<u>7,985</u>	<u>10,717</u>
	156,669	169,970
Information Systems:		
Salaries and wages	273,532	237,847
Employee benefits	70,091	62,811
Purchased services and maintenance	169,415	191,624
Supplies and other expense	<u>17,341</u>	<u>16,862</u>
	530,379	509,144

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	2004	2003
Human Resources:		
Salaries and wages	\$ 51,189	\$ 71,277
Employee benefits	15,414	18,403
Purchased services	691	691
Supplies and other expense	21,535	32,356
	88,829	122,727
Public Relations:		
Salaries and wages	55,500	55,786
Employee benefits	11,573	17,183
Supplies and other expense	67,694	66,630
	134,767	139,599
DRG/Utilization Review:		
Salaries and wages	77,665	75,600
Employee benefits	18,242	20,147
Purchased services	6,433	11,418
Supplies and other expense	6,780	2,100
	109,120	109,265
Insurance:		
Liability and property insurance	142,302	110,641
	\$ 2,519,695	\$ 2,539,276

SUMMARY

Salaries and wages	\$ 1,195,062	\$ 1,190,600
Employee benefits	457,668	438,106
Professional fees	36,344	44,822
Other expense	830,621	865,748
	\$ 2,519,695	\$ 2,539,276

SUMMARY OF EXPENSES

Salaries and wages	\$ 8,118,901	\$ 8,240,700
Employee benefits	2,079,962	2,261,385
Professional fees	1,047,324	1,172,167
Other expense	5,126,880	5,402,280
	\$ 16,373,067	\$ 17,076,532

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Admissions	1,232	1,395	1,419	1,450	1,362
Discharges	1,234	1,399	1,431	1,446	1,359
Average Length of Stay	3.26	3.79	4.12	4.29	4.32
Acute Patient Days	4,017	5,307	5,901	6,199	5,877
Average Occupied Beds	11.0	14.5	16.2	17.0	16.1
Swing Bed Days	3,311	3,309	3,489	3,202	2,716
Combined Average Occupied Beds	20.0	23.6	25.7	25.8	23.5
Beds Available	40	40	40	40	40
Nursery Days	203	201	178	152	129
Outpatient Occasions of Service	36,979	39,810	40,065	36,804	37,369

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	2004	2003
<b>Current Assets:</b>		
Cash	\$ 1,357,807	\$ 1,071,955
Receivables, net	3,188,959	2,942,681
Inventory	346,879	337,803
Prepaid expense	107,108	87,541
Estimated third-party payor settlements	--	755,000
Succeeding year property tax receivable	1,151,000	1,155,000
Internally designated assets	714,992	722,798
Total current assets	6,866,745	7,072,778
 <b>Other Assets:</b>		
Internally designated and restricted assets	6,361,043	6,131,966
Capital assets, net	9,027,837	9,667,532
Other non-current assets	499,146	419,525
Total other assets	15,888,026	16,219,023
	\$ 22,754,771	\$ 23,291,801
 <b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 508,959	\$ 425,191
Accounts payable	434,777	472,365
Estimated third-party payor settlements	126,000	--
Accrued expenses	1,160,724	1,190,058
Deferred revenue for succeeding year property tax receivable	1,151,000	1,155,000
Total current liabilities	3,381,460	3,242,614
 Long-Term Debt, Net	4,113,868	4,842,581
 Net Assets	15,259,443	15,206,606
	\$ 22,754,771	\$ 23,291,801

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 1,401,570	\$ 1,112,253	\$ 714,018
3,070,160	3,107,639	3,099,700
337,282	290,553	289,675
40,535	92,787	77,347
261,000	295,000	--
1,127,000	986,000	933,000
<u>578,053</u>	<u>686,221</u>	<u>466,343</u>
6,815,600	6,570,453	5,580,083
5,189,906	4,797,910	4,841,548
10,031,894	9,903,835	10,431,381
<u>444,591</u>	<u>412,294</u>	<u>353,912</u>
<u>15,666,391</u>	<u>15,114,039</u>	<u>15,626,841</u>
<u>\$ 22,481,991</u>	<u>\$ 21,684,492</u>	<u>\$ 21,206,924</u>
\$ 388,976	\$ 291,103	\$ 318,464
506,483	599,931	314,280
--	--	53,000
996,719	935,626	854,649
<u>1,127,000</u>	<u>986,000</u>	<u>933,000</u>
3,019,178	2,812,660	2,473,393
5,267,772	5,285,355	5,576,459
<u>14,195,041</u>	<u>13,586,477</u>	<u>13,157,072</u>
<u>\$ 22,481,991</u>	<u>\$ 21,684,492</u>	<u>\$ 21,206,924</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Patient Service Revenue	\$ 26,670,913	\$ 27,407,714
Adjustments to Patient Service Revenue	<u>( 10,782,724)</u>	<u>( 10,960,758)</u>
Net Patient Service Revenue	15,888,189	16,446,956
Other Revenue	<u>457,592</u>	<u>512,106</u>
Total Revenue	16,345,781	16,959,062
Expenses	<u>17,469,880</u>	<u>18,153,227</u>
Operating Loss	( 1,124,099)	( 1,194,165)
Non-Operating Revenue, Net	<u>1,121,936</u>	<u>1,275,616</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Unusual Item	( 2,163)	81,451
Capital Grants and Contributions	55,000	101,000
Unusual Item	<u>--</u>	<u>829,114</u>
Excess of Revenues Over Expenses	<u>\$ 52,837</u>	<u>\$ 1,011,565</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>
\$ 24,775,662	\$ 22,199,400	\$ 20,195,155
<u>( 9,035,703)</u>	<u>( 7,357,145)</u>	<u>( 6,832,458)</u>
15,739,959	14,842,255	13,362,697
<u>627,629</u>	<u>1,542,626</u>	<u>1,440,888</u>
16,367,588	16,384,881	14,803,585
<u>16,860,602</u>	<u>16,579,321</u>	<u>15,096,967</u>
( 493,014)	( 194,440)	( 293,382)
<u>1,036,578</u>	<u>623,845</u>	<u>530,147</u>
543,564	429,405	236,765
65,000	--	--
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 608,564</u>	<u>\$ 429,405</u>	<u>\$ 236,765</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  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 6, 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 Montgomery County Memorial Hospital's 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.

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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery 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. 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 Montgomery County Memorial Hospital's 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.

To the Board of Trustees  
Montgomery County Memorial Hospital

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 Montgomery County Memorial Hospital 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 6, 2004

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
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.

\* \* \*

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 stated were noted.

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

04-II-C Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

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: During our audit, we noted no business transactions between the Hospital and Hospital officials.

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.

\* \* \*