

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2004 and 2003**

Together with Independent Auditor's Report

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

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GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

OFFICIALS

June 30, 2004

<u>Board of Trustees</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Jerry Bakker	Chairman	Grundy Center, IA	April 2006
Wayne Bracy	Vice-Chairman	Conrad, IA	April 2007
Jane Dodd	Secretary	Reinbeck, IA	April 2005
Marty Rouse	Treasurer	Grundy Center, IA	April 2006
Janet Eberline	Member	Grundy Center, IA	April 2007
Evie Haupt	Member	Wellsburg, IA	April 2007
Dan Robertson	Member	Reinbeck, IA	April 2005

<u>Hospital Officials</u>	<u>Title</u>
Pam Delagardelle	Administrator
Lisa Zinkula	Chief Financial Officer

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Roger E. Thompson, CPA
Tom H. Schnack, CPA
Daniel L. Hassel, CPA
Dennis K. Grindle, CPA
Dennis R. Hein, CPA
Brent T. Friehtauf, CPA
Barbara J. Fajen, CPA
Brian D. Green, CPA

Independent Auditor's Report

To the Board of Trustees of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the accompanying balance sheets of GRUNDY COUNTY MEMORIAL HOSPITAL (Hospital), as of and for the year ended June 30, 2004, 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 audit. The financial statements of the Hospital for the year ended June 30, 2003 were audited by other auditors whose report, dated September 5, 2003, expressed an unqualified opinion on those statements.

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. 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 audit provides 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 Grundy County Memorial Hospital as of June 30, 2004, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1 to the financial statements, during the year ended June 30, 2004, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2004, on our consideration of the Hospital's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 4 through 11 and page 28 are not required parts of the basic financial statements, but are supplementary information required by the Government 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. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
September 2, 2004.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis **June 30, 2004 and 2003**

Our discussion and analysis of Grundy County Memorial Hospital's (Hospital's) financial performance provides an overview of the Hospital and its financial activities 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 11.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the Hospital and its basic financial statements while providing an analytical overview of the Hospital's financial activities.
- The Hospital's financial statements consist of three statements - Balance Sheets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements 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.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

General Information

The Hospital

The Hospital is a 25-bed critical access hospital located in Grundy Center, Iowa. The Hospital also has a 55-bed long-term care unit. Grundy County Memorial Hospital is the only hospital in Grundy County and serves a population base of over 12,000 residents. The Hospital is an affiliate of Allen Health System of Waterloo, Iowa.

History

The Hospital was a private hospital operated in a home at 1209 6th Street in Grundy Center from about 1900 to 1905, under the direction of Drs. McAlvin, Thielen and McDowell. After discontinuance as a hospital, the house moved to 708 7th Street for a residence and was razed in 1965.

From 1921 to 1927, Dr. Locke H. Carpenter supplied hospital beds in connection with his office over the Corner Drug Store from 1929 to 1935.

Through the efforts of Dr. Mol and community leaders, the present Grundy County Memorial Hospital opened July 1, 1952, at its current location at 201 East J Avenue in Grundy Center as a 38-bed full service facility.

By 1967, the technical facilities were fast becoming obsolete. Moreover, the long term care of elderly people had become a need in the community. Expansion and adjustment of the original space was necessary. A bond issue for \$750,000 to match identical federal funds went before voters of the county. The vote passed, and the design, funding, construction, furnishing, and move occurred over nearly two and a half years. When finished, the 89-bed facility contained the most modern supportive amenities. Fifty-five patients could be cared for in the long-term care unit, a number that remains the same today. An open house and formal dedication in 1971 introduced the renovated hospital to the county.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis June 30, 2004 and 2003

Twenty-five years ago the newly constructed hospital stood alone on the east edge of town. Today, a new neighborhood has completely grown up around it.

Financial and Operations History

From 1983-2000 the Hospital continued to provide care despite struggling with the harsh economics that became part of rural healthcare. In 1993 the County Board of Supervisors believed maintaining a hospital in the county was critical to the medical and economic health of the area. They provided a subsidy and approved a bond referendum to pay the hospital's debt. The county has continued to subsidize the Hospital since that time.

A combination of factors helped heal the Hospital's finances. In 2000 Grundy County Memorial Hospital affiliated with Allen Hospital in Waterloo and reduced costs through joint purchasing and resource sharing. The independent Grundy County Memorial Hospital Board of Trustees exercises joint authority for financial and long term planning, while Allen provides day-to-day operational management services. In addition, Medicare Rural Hospital Flexibility Program allowed the Hospital to apply for critical access status in order to receive full Medicare reimbursement for services. As a result, the Hospital began operating in the black, independent of the county subsidy.

With finances stabilized, the Hospital is adding and enhancing services to meet the most common and most critical local needs.

A Strong Partner for Grundy County

The Hospital is a vital part of Grundy County. With a staff of 130, it is one of the county's largest employers, with an estimated economic impact of \$12 million for the county each year. The Hospital also strives to be a good community partner. Grundy County Memorial Hospital takes health education classes, health fairs and wellness opportunities out into the county. The Hospital also offers immunization clinics, occupational health services, education and drug-screenings throughout the county, thereby touching many lives.

Financial Highlights

- The Hospital's assets limited as to use or restricted increased \$3,436,122 and the Hospital's long-term debt increased \$3,948,201 from 2003 to 2004 due to the issuance of Hospital Revenue Bonds for the modernization project that began March 1, 2004.
- The Hospital's net assets increased \$308,300, 9.8% from June 30, 2003 to June 30, 2004.
- Net patient and service revenue increased \$224,905, 4.2% from 2003 to 2004.
- Operating expenses increased \$366,453, 7.0% from the year ending June 30, 2003 to June 30, 2004.

Financial Statements

The Balance Sheets and Statements of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Hospital finances begins on page 11. The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. 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.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2004 and 2003

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 Statements of Cash Flows

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

Changes in The Hospital's Net Assets and Operating Results

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 11. The Hospital's net assets increased \$308,300, 9.8% from June 30, 2003 to June 30, 2004. (Refer to Table 1).

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>Change from Prior Year</u>	<u>% Change</u>
Assets:				
Current assets	\$ 2,266,850	1,987,599	279,251	14.0%
Capital assets, net	2,309,616	1,387,105	922,511	66.5%
Other noncurrent assets	4,075,264	796,442	3,278,822	411.7%
Total assets	<u>8,651,730</u>	<u>4,171,146</u>	<u>4,480,584</u>	<u>107.4%</u>
Liabilities:				
Long-term debt outstanding	3,948,201	--	3,948,201	100.0%
Other current and noncurrent liabilities	1,248,357	1,024,274	224,083	21.9%
Total liabilities	<u>5,196,558</u>	<u>1,024,274</u>	<u>4,172,284</u>	<u>407.3%</u>
Net assets:				
Invested in capital assets, net of related debt	1,513,076	1,387,105	125,971	9.1%
Restricted for debt service	469,969	--	469,969	100.0%
Unrestricted	1,472,127	1,759,768	(287,641)	(16.3%)
Total net assets	<u>\$ 3,455,172</u>	<u>3,146,872</u>	<u>308,300</u>	<u>9.8%</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2004 and 2003

Assets limited as to use or restricted increased \$3,436,122 and the Hospital's long-term debt increased \$3,948,201 from June 30, 2003 to June 30, 2004, due to the issuance of Hospital Revenue Bonds for the modernization project. The revenue bond proceeds of \$4,025,000 will be used for the \$6,000,000 modernization project that began March 1, 2004.

Operating Results

In 2004, the Hospital's net assets increased by \$308,300, 9.8%. (Refer to **Table 2**). This increase includes an excess of revenues over expenses before capital grants and contributions of \$154,673 for June 30, 2004 compared to June 30, 2003 of \$320,084.

Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Operating Revenue:				
Net patient service revenue	\$ 5,537,316	5,312,411	224,905	4.2%
Other operating revenues	57,742	52,192	5,550	10.6%
Total operating revenue	5,595,058	5,364,603	230,455	4.3%
Operating Expenses:				
Salaries and benefits	3,329,477	3,004,553	324,924	10.8%
Purchased services and other	1,969,308	1,960,893	8,415	.4%
Provision for bad debt	89,189	75,053	14,136	18.8%
Depreciation and amortization	211,163	187,438	23,725	12.6%
Interest	--	4,747	(4,747)	(100.0%)
Total operating expenses	5,599,137	5,232,684	366,453	7.0%
Operating income (loss)	(4,079)	131,919	(135,998)	(103.1%)
Nonoperating Revenues and Expenses				
County subsidy	163,000	163,000	--	--
Investment income	29,384	48,159	(18,775)	(39.0%)
Noncapital grants and contributions	21,947	8,098	13,849	171.0%
Other nonoperating revenues and expenses, net	(55,579)	(31,092)	(24,487)	78.8%
Total nonoperating revenues (expenses), net	158,752	188,165	(29,413)	(15.6%)
Excess of revenue over expenses before capital grants and contributions	154,673	320,084	(165,411)	(51.7%)
Capital grants and contributions	153,627	142,640	10,987	7.7%
Increase in net assets	\$ 308,300	462,724	(154,424)	(33.4%)

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2004 and 2003

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss) - the difference between net patient service revenues and the expenses incurred to perform those services. For the year ending June 30, 2003, the Hospital reported an operating income of \$131,919 vs. for the year ending June 30, 2004, the Hospital reported an operating loss of \$4,079.

The primary components of the operating loss of \$4,079 are:

- Inpatient revenue increased \$178,543, 14.6% from June 30, 2003 to June 30, 2004 due to a change in the mix of patient days. Acute days increased 1.7%, Skilled days increased 4.3%, and Hospitality days decreased 2.8%. The increase in Acute and Skilled days resulted in an increase in Therapy, Radiology, Lab and Pharmacy revenue. During this time period, inpatient Emergency Room visits also increased 23.9%.
- Outpatient revenue increased \$526,331, 17.1% from 2003 to 2004. This increase is primarily due to:
 - Surgery volume increased from 130 procedures to 193, an increase of 63 procedures, 48.5%.
 - Outpatient Emergency Room volume increased 137 visits, 13.6%.
 - Lab procedures increased from 67,730 for the year ending June 30, 2003 to 71,174 procedures for June 30, 2004, a 5.1% increase.
 - Radiology volume increased 166 visits, 4.5% from 2003 to 2004.
 - Therapy had an increase in outpatient volume of 444 visits, 10.6%.
 - The GCMH Clinic saw 800 patients during the year ending June 30, 2004.
- Long-Term Care revenue increased \$107,589, 5.9% due to an increase in days of 301, 1.6% and an increase in rates effective July 1, 2003.
- Net patient revenue increased \$224,905, 4.2% from 2003 to 2004. This increase is not as large as the gross patient revenue increase due to an increase in the deductions. As a Critical Access Hospital, the Hospital is reimbursed reasonable cost for most inpatient and outpatient services by Medicare and Medicaid, while a majority of the other Insurance plans reimburse a percentage of charges. The Hospital's percentage of Medicare and Medicaid revenue to total revenue has increase slightly. The Hospital has also seen expenses not increased as fast as revenue causing the cost to charge ratio to decrease.
- Increases in salary and benefit costs for the Hospital's employees of \$324,924, 10.8%.
- Purchased services and professional fees decreased \$70,501, 6.9% from 2003 to 2004. This decrease is primarily due to the use of local physicians to cover the Emergency Room vs. using an outside agency.
- Increases in supplies and other expenses of \$48,885, 6.3%. This increase is a result of the increase in outpatient volume and surgical procedures.
- Depreciation expense increased \$23,725, 12.6%. This increase is due to the purchase of equipment.
- There is also an increase in the level of uncompensated care provided. These are services provided for which there is no expectation of payment.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis June 30, 2004 and 2003

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of the county subsidy, investment income, noncapital grants and contributions, fundraising expenses and the gain (loss) on disposal of capital assets. Fundraising expenses have increased \$38,216, 156.7% from 2003 to 2004 due to the capital campaign for the modernization project that picked up momentum in 2004.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2004, the Hospital had \$2,309,616 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2004, the Hospital purchased new equipment costing \$265,666. This is a significant increase from the year ending June 30, 2003, \$128,712 and June 30, 2002, \$129,553. This increase is due to the purchase of equipment for new services (bone density machine and arthroscopy equipment), replacement of outdated items (anesthesia machine, dining room tables, and office furniture) and the replacement of some items relating to the mechanical system as a part of the modernization project (condensation tank and water softener). Construction in progress also saw a significant increase between 2003 and 2004 due to the start of the modernization project.

Debt

On March 1, 2004, the Hospital closed on the financing of \$4,025,000 in revenue bonds, "Series 2004 Bonds" pursuant to the authority contained in Chapter 347 of the Code of Iowa. Based on this code the Hospital's formal debt issuances, revenue bonds, cannot be issued without approval of the Grundy County Memorial Hospital Board of Trustees by adoption of a resolution approving and authorizing the issuance of hospital revenue bonds. The Board of Trustees approved this resolution and indicated that it was necessary and advisable for the Hospital to move forward with the revenue bond issuance for the purpose of (i) paying the cost of improvements to and renovation, construction, expansion, equipping and furnishing of an addition to and the existing space within the Hospital, (ii) funding a debt service reserve fund and (iii) paying the costs of issuance of the Bonds and costs related thereto. The payment of the Series 2004 Bonds is payable solely from the revenues of the Hospital.

Other Economic Factors

The year ending June 30, 2004 provided the Hospital substantial challenges due to a slumping economy, reduction in reimbursement from Medicare and Medicaid, and the sudden and unexpected death of a prominent primary care physician in Grundy Center.

Grundy County Memorial Hospital continues to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Hospital officials. Potential challenges include:

- Expenses are expected to continue to increase.
- Aged Hospital facility will require constant maintenance and upkeep.
- Technology continues to expand. The Hospital's current technology is outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.

Grundy County Memorial Hospital continues to recruit physicians to the area. The Hospital also has a strategic initiative to achieve greater market penetration in the surrounding communities (Eldora, Reinbeck, Conrad and Parkersburg).

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2004 and 2003

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 demonstrate the Hospital's accountability. If you have questions about this report or need additional financial information, contact the Hospital Administration Office, at 201 East J Avenue, Grundy Center, IA 50638.

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Balance Sheets
 June 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents	\$ 871,097	918,495
Assets limited as to use or restricted	195,779	--
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$107,324 in 2004 and \$94,500 in 2003	845,147	682,441
Succeeding year County subsidy receivable	163,000	162,500
Other	18,740	35,523
Inventories	126,822	122,554
Prepaid expenses	<u>46,265</u>	<u>66,086</u>
Total current assets	<u>2,266,850</u>	<u>1,987,599</u>
Assets limited as to use or restricted:		
By Board for capital improvements	610,934	796,442
Under Hospital Revenue Bonds	<u>3,425,851</u>	<u>--</u>
	<u>4,036,785</u>	<u>796,442</u>
Capital assets, net	<u>2,309,616</u>	<u>1,387,105</u>
Other assets, net	<u>38,479</u>	<u>--</u>
Total assets	<u>\$ 8,651,730</u>	<u>4,171,146</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	354,190	336,982
Accrued expenses -		
Accrued salaries, wages and vacation payable	309,518	232,307
Payroll taxes	21,174	4,485
Interest	54,338	--
Deferred revenue for succeeding year County subsidy receivable	163,000	162,500
Estimated third-party payor settlements	<u>346,137</u>	<u>288,000</u>
Total current liabilities	1,248,357	1,024,274
Long-term debt, net of discount	<u>3,948,201</u>	<u>--</u>
Total liabilities	<u>5,196,558</u>	<u>1,024,274</u>
Net assets:		
Invested in capital assets, net of related debt	1,513,076	1,387,105
Restricted for debt service	469,969	--
Unrestricted	<u>1,472,127</u>	<u>1,759,767</u>
Total net assets	<u>3,455,172</u>	<u>3,146,872</u>
Total liabilities and net assets	<u>\$ 8,651,730</u>	<u>4,171,146</u>

See notes to the financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2004 and 2003

	2004	2003
OPERATING REVENUE:		
Net patient and service revenue	\$ 5,537,316	5,312,411
Other revenue	57,742	52,192
Total operating revenue	5,595,058	5,364,603
OPERATING EXPENSES:		
Salaries	2,697,445	2,363,575
Employee benefits	632,032	640,978
Purchased services and professional fees	944,624	1,015,125
Utilities	139,330	119,949
Supplies and other expenses	828,941	780,056
Depreciation	211,163	187,438
Insurance	56,413	45,763
Interest	--	4,747
Provision for bad debts	89,189	75,053
Total operating expenses	5,599,137	5,232,684
OPERATING INCOME (LOSS)	(4,079)	131,919
NONOPERATING REVENUES (EXPENSES), NET:		
Investment income	29,384	48,159
County subsidy	163,000	163,000
Noncapital grants and contributions	21,947	8,098
Fundraising expenses	(62,601)	(24,385)
Gain (loss) on disposal of capital assets	7,022	(6,707)
Nonoperating revenues, net	158,752	188,165
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	154,673	320,084
CAPITAL GRANTS AND CONTRIBUTIONS	153,627	142,640
INCREASE IN NET ASSETS	\$ 308,300	462,724

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 5,343,560	5,469,128
Cash paid to employees for salaries and benefits	(3,235,577)	(3,035,157)
Cash paid to suppliers and contractors	(1,919,766)	(1,925,690)
Other receipts and payments, net	57,742	52,192
Net cash provided by operating activities	245,959	560,473
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	163,000	163,000
Noncapital grants and contributions	21,947	8,098
Net cash provided by noncapital financing activities	184,947	171,098
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(1,066,759)	(308,228)
Capital grants and contributions	153,627	142,640
Fundraising costs	(62,601)	(24,385)
Proceeds from issuance of long term debt	3,944,500	--
Bond issuance costs	(40,333)	--
Principal paid on debt	--	(255,553)
Interest paid on debt	--	(4,747)
Net cash provided by (used in) capital and related financing activities	2,928,434	(450,273)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(3,436,122)	(528,648)
Investment income	29,384	48,159
Net cash used in investing activities	(3,406,738)	(480,489)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(47,398)	(199,191)
CASH AND CASH EQUIVALENTS - Beginning of year	918,495	1,117,686
CASH AND CASH EQUIVALENTS - End of year	\$ 871,097	918,495

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Statements of Cash Flows (Continued)
 For the Years Ended June 30, 2004 and 2003

	2004	2003
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (4,079)	131,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	211,163	187,438
Interest expense included in operating expenses	--	4,747
(Increase) decrease in current assets -		
Accounts receivable -		
Patient and resident	(162,706)	43,770
Other	16,783	44,330
Inventories	(4,268)	(12,365)
Prepaid expenses	19,821	(32,286)
Increase (decrease) in current liabilities -		
Accounts payable	17,208	(25,684)
Accrued salaries, wages and vacation payable	77,211	29,743
Payroll taxes	16,689	861
Estimated third-party payor settlements - Medicare and Medicaid	58,137	188,000
Net cash provided by operating activities	\$ 245,959	560,473

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Notes to Financial Statements

June 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies

The Hospital is a 25-bed public hospital with an attached 55-bed nursing home located in Grundy Center, Iowa, organized under Chapter 37 of the Iowa Code and governed by a seven member Board of Trustees elected for alternating terms of three years.

The following is a summary of significant accounting policies of Grundy County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Grundy County Memorial Hospital has included all the funds of the Hospital and Nursing Home, specifically all assets, liabilities, revenues, and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Grundy County Memorial Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

Effective July 1, 2003, the Hospital implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. The adoption of these pronouncements had no financial impact on the Hospital.

GASB Statement No. 34, as amended by GASB Statement No. 37, establishes new financial reporting standards for state and local governments, which include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows. GASB Statement No. 38 requires certain note disclosures when GASB Statement No. 34 is implemented.

The Balance Sheets display the Hospital’s assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two precede categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital’s policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

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

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

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

E. *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.

F. *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

G. *Patient and Resident Receivables*

Patient and resident receivables are uncollateralized customer and third-party payor obligations. Unpaid patient and resident receivables are not assessed interest.

Payments of patient and resident receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *County Subsidy Receivable*

County subsidy receivable is recognized on the budget approval date, which is the date that the budget is certified by the County Board of Supervisors. The succeeding year county subsidy receivable represents subsidies certified by the Board of Supervisors to be granted in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year county subsidy receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is granted.

I. *Assets Limited as to Use or Restricted*

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Under Hospital Revenue Bonds - These funds are used for the payment of principal and interest on the bonds and to provide funds for the construction of additions to and remodeling of the existing Hospital facilities.

J. *Capital Assets*

Capital asset acquisitions in excess of \$1,500 are capitalized and recorded at cost. Capital assets donated for Hospital operations are recorded at their estimated fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

K. *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 these assets.

L. *Deferred Debt Financing Costs*

Deferred bond issuance costs are being amortized over the life of the related bonds on a straight-line basis. Amortization expense applicable to these bonds amounted to \$1,855 for the year ended June 30, 2004. These amounts are included in depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets.

M. *Compensated Absences*

Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004 and 2003.

N. *Deferred Revenue*

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

O. *Statements of Revenues, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. County subsidies granted to finance the current year is included in non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

P. *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, reimbursed costs and discounted charges. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, 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.

Q. *Grants and Contributions*

From time to time, the Hospital receives contributions from Grundy County Memorial Hospital Foundation, as well as grants and contributions from individuals and private organizations. 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

R. *Operating Income (Loss)*

Operating income (loss) includes transactions deemed by management to be ongoing, major or central to the provision of medical services provided by the Hospital. Revenue and expenses to provide these services are reported as operating income (loss) for the reporting period. Operating revenues result from exchange transactions associated with the provision of 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 nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

S. *Charity Care*

To fulfill its mission of community service, the Hospital provides care to patients and residents 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 and residents is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

T. *Investment Income*

Investment income consists of entirely of interest on cash and deposits and is included in nonoperating revenue and expenses.

U. *County Subsidy*

Subsidies granted to finance the current year are included in nonoperating revenue when received and distributed by the County Treasurer.

V. *Reclassifications*

Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 reporting format.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2004 and 2003 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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.

(3) Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Long-term care services are reimbursed at a prospectively determined rate per day of care. These rates vary accordingly to a patient classification system. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

A summary of net patient and resident service revenue and contractual adjustments for the years ended June 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 998,949	923,893
Outpatient	3,598,429	3,072,098
Swingbed	404,344	300,857
Nursing Home	1,940,465	1,832,876
Clinic	<u>77,079</u>	<u>13,374</u>
	7,019,266	6,143,098
Contractual adjustments:		
Medicare	(1,221,652)	(590,314)
Medicaid	(41,392)	(46,011)
Other	(203,389)	(184,573)
Charity care services	<u>(15,517)</u>	<u>(9,789)</u>
Total contractual adjustments	<u>(1,481,950)</u>	<u>(830,687)</u>
Net patient and resident service revenue	<u>\$ 5,537,316</u>	<u>5,312,411</u>

(4) Assets Limited as to Use or Restricted

By Board

Cash deposits and investments designated by the Board for future capital improvements, as of June 30, 2004 and 2003, are summarized as follows:

	<u>2004</u>	<u>2003</u>
Money market accounts	\$ 404,925	400,844
Certificates of deposit	<u>206,009</u>	<u>395,598</u>
	<u>\$ 610,934</u>	<u>796,442</u>

Hospital Revenue Bonds

In connection with the issuance of Grundy County Memorial Hospital, Hospital Revenue Bonds, Series 2004, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment. There are no annual principal payments required by the Hospital Revenue Bonds.

Debt Service Reserve Fund – Established for the deposit of the amount of the Series Reserve Fund Requirement on the date of issuance of the Series 2004 Bonds.

Project Fund – Established from the proceeds of the Hospital Revenue Bonds, Series 2004, to provide funds for the construction of additions to and remodeling of the existing Hospital facilities.

The amounts segregated as of June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Sinking Fund, cash and money market accounts	\$ 67,469	--
Debt Service Reserve Fund, certificates of deposit	\$ 402,500	--
Project Fund -		
Certificate of deposits	\$ 2,661,912	--
Money market accounts	489,749	--
	<u>3,151,661</u>	<u>--</u>
	3,621,630	--
Less amounts required for current obligations	<u>(195,779)</u>	<u>--</u>
	<u>\$ 3,425,851</u>	<u>--</u>

(5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Patient and resident accounts	\$ 1,189,391	926,941
Less estimated third-party contractual adjustments	(236,920)	(150,000)
Less allowance for doubtful accounts	<u>(107,324)</u>	<u>(94,500)</u>
	<u>\$ 845,147</u>	<u>682,441</u>

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	49%	47%
Medicaid	9	6
Commercial insurance	29	32
Patients and residents	<u>13</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

Capital assets and the related accumulated depreciation is summarized as follows:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 10,850	--	--	10,850
Construction in progress	108,927	833,328	--	942,255
Total capital assets, not being depreciated	<u>119,777</u>	<u>833,328</u>	<u>--</u>	<u>953,105</u>
Capital assets, being depreciated:				
Land improvements	80,500	7,863	--	88,363
Buildings	2,736,604	26,448	--	2,763,052
Equipment	1,353,978	265,666	16,679	1,602,965
Total capital assets, being depreciated	<u>4,171,082</u>	<u>299,977</u>	<u>16,679</u>	<u>4,454,380</u>
Less accumulated depreciation:				
Land improvements	63,755	2,142	--	65,897
Buildings	1,961,100	74,744	--	2,035,844
Fixed equipment	878,899	132,423	15,194	996,128
Total accumulated depreciation	<u>2,903,754</u>	<u>209,309</u>	<u>15,194</u>	<u>3,097,869</u>
Total capital assets, being depreciated, net	<u>1,267,328</u>	<u>90,668</u>	<u>1,485</u>	<u>1,356,511</u>
Total capital assets, net	<u>\$ 1,387,105</u>	<u>923,996</u>	<u>1,485</u>	<u>2,309,616</u>
	<u>June 30, 2002</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 10,850	--	--	10,850
Construction in progress	267,443	105,526	264,042	108,927
	<u>278,293</u>	<u>105,526</u>	<u>264,042</u>	<u>119,777</u>
Capital assets, being depreciated:				
Land improvements	80,500	--	--	80,500
Buildings	2,417,749	357,179	38,324	2,736,604
Equipment	1,283,410	128,712	58,144	1,353,978
Total capital assets, being depreciated	<u>3,781,659</u>	<u>485,891</u>	<u>96,468</u>	<u>4,171,082</u>
Less accumulated depreciation:				
Land improvements	61,588	2,167	--	63,755
Buildings	1,918,166	66,678	23,744	1,961,100
Equipment	807,176	118,593	46,870	878,899
Total accumulated depreciation	<u>2,786,930</u>	<u>187,438</u>	<u>70,614</u>	<u>2,903,754</u>
Total capital assets, being depreciated, net	<u>994,729</u>	<u>298,453</u>	<u>25,854</u>	<u>1,267,328</u>
Total capital assets, net	<u>\$ 1,273,022</u>	<u>403,979</u>	<u>289,896</u>	<u>1,387,105</u>

Construction in progress at June 30, 2004, represents costs incurred for a facility's master plan. This project will consist of mechanical systems upgrade and renovation and expansion of the existing Hospital facilities. The estimated total cost of the project is \$6,000,000 and will be financed with Hospital Revenue Bonds and assets limited as to use or restricted. The Project is estimated to be completed in July 2005.

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2004 and 2003 consisted of the following:

	<u>June 30, 2003</u>	<u>Borrowings</u>	<u>Payments / Amortization</u>	<u>June 30, 2004</u>	<u>Due Within One Year</u>
Hospital Revenue Bonds (B)	\$ --	4,025,000	--	4,025,000	--
Discount on Hospital Revenue Bonds (B)	--	(80,500)	3,701	(76,799)	--
Net	<u>\$ --</u>	<u>3,944,500</u>	<u>3,701</u>	<u>3,948,201</u>	<u>--</u>
	<u>June 30, 2002</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2003</u>	<u>Due Within One Year</u>
Note payable (A)	\$ 255,553	--	255,553	--	--

(A) 6% note payable, payable in monthly installments of \$2,844 to May 2012, paid in full in 2003.

(B) On March 1, 2004, \$4,025,000 Hospital Revenue Bonds, Series 2004, were issued pursuant to the authority contained in Chapter 347 of the Code of Iowa and in conformity with a resolution of the Grundy County Memorial Hospital Board of Trustees. The proceeds of the Bonds, net of discount of \$80,500, will be used to provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the Bonds is 4.05%.

Annual debt service requirements (net of discounts) related to the Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ --	203,766	203,766
2006	--	163,013	163,013
2007	--	163,013	163,013
2008	--	163,013	163,013
2009	--	163,013	163,013
2010 - 2011	4,025,000	326,023	4,351,023
	<u>\$ 4,025,000</u>	<u>1,181,841</u>	<u>5,206,841</u>

Under the terms of the Hospital Revenue Bonds, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

A summary of interest expense and investment income on borrowed funds during the years ended June 30, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Interest cost:		
Capitalized	\$ 54,338	--
Expensed	<u> --</u>	<u>4,747</u>
	<u>\$ 54,338</u>	<u>4,747</u>
Investment income:		
Capitalized	<u>\$ 9,241</u>	<u> --</u>

(8) Pension and Retirement Benefits

The Hospital's employees are leased employees of Allen Health System. As a result, the employees participate in Allen Health System's defined contribution pension plan. Participants may make pre-tax contributions from 1% to 20% of eligible salaries. The Hospital contributes 2% of participants' eligible salaries and matches up to 50% of the first 4% of participants' contributions. Pension plan expense for the years ended June 30, 2004 and 2003 was \$125,321 and \$116,990, respectively.

(9) Operating Subsidy

Effective January 1, 1998, the Hospital entered into an operating agreement with Iowa Health System (Allen Health System). Under this agreement, the Board of Commissioners of Grundy County Memorial Hospital (Hospital Commission) and Allen Health System will jointly exercise certain powers of the Hospital Commission to operate the Hospital and share in the risk and benefits of operation. Included in expenses as a result of this agreement are amounts due from (to) Allen Health System as of June 30, 2004 and 2003 of \$4,078 and (\$138,373), respectively.

(10) Hospital Risk Management

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

The Hospital's leased employees participate in Allen Health System's Self-Funded Health Plan (Plan). The Plan's members include all employees of Allen Health System. The Hospital contributes monthly to the Plan. The Hospital's contributions to the Plan during the years ended June 30, 2004 and 2003 were \$283,727 and \$324,374, respectively. Stop-loss coverage is provided through a commercial insurance company.

The Hospital also participates in Allen Health System's Self-Funded Worker's Compensation Plan. The Worker's Compensation Plan also has stop-loss coverage through a commercial insurance company.

(11) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(13) Foundation

Grundy County Memorial Hospital Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors.

A summary of the Foundation's assets, liabilities and fund balance, based on a modified cash basis, as of June 30, 2004 and 2003 follows:

	<u>(Unaudited)</u>	
	<u>2004</u>	<u>2003</u>
Assets	\$ <u>695,171</u>	<u>158,817</u>
Fund balance	\$ <u>695,171</u>	<u>158,817</u>

The Hospital received \$43,655 and \$15,971 from the Foundation during the years ended June 30, 2004 and 2003, respectively, for the purchase of property and equipment. The Hospital also received \$6,992 and \$44 from the Foundation for operating purposes during the years ended June 30, 2004 and 2003. As of June 30, 2004, the Foundation has approximately \$378,000 of pledges receivable related to the Hospital's Project.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)

Required Supplementary Information

June 30, 2004 and 2003

	<u>Accrual Basis</u>			<u>Budget</u>	Variance Favorable (Unfavorable)
	<u>General</u>	Accrual <u>Adjustments</u>	Cash <u>Basis</u>		
Estimated amount to be raised by taxation \$	163,000	-	163,000	162,500	500
Estimated other revenues / receipts	<u>5,807,038</u>	<u>3,743,722</u>	<u>9,550,760</u>	<u>6,380,817</u>	<u>3,169,943</u>
	5,970,038	3,743,722	9,713,760	6,543,317	3,170,443
Expenses / Disbursements	<u>5,661,738</u>	<u>663,298</u>	<u>6,325,036</u>	<u>6,249,215</u>	<u>(75,821)</u>
Net	308,300	3,080,424	3,388,724	294,102	<u>\$ 3,094,622</u>
Balance beginning of year	<u>3,146,872</u>	<u>(1,431,935)</u>	<u>1,714,937</u>	<u>3,372,102</u>	
Balance end of year	<u>\$ 3,455,172</u>	<u>1,648,489</u>	<u>5,103,661</u>	<u>3,666,204</u>	

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedules of Net Patient and Resident Service Revenue
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 1,940,465	--	--	1,940,465	1,832,876	--	--	1,832,876
Swing bed	490,916	20,402	--	511,318	447,293	48,166	--	495,459
Adult and pediatric	220,098	--	--	220,098	208,086	--	--	208,086
Hospitality	62,156	--	--	62,156	61,258	--	--	61,258
Observation	4,449	33,111	--	37,560	4,027	43,120	--	47,147
	<u>2,718,084</u>	<u>53,513</u>	<u>--</u>	<u>2,771,597</u>	<u>2,553,540</u>	<u>91,286</u>	<u>-</u>	<u>2,644,826</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	52,609	877,035	25,983	955,627	43,280	718,607	15,366	777,253
Pharmacy	73,932	451,637	154,392	679,961	82,888	447,829	126,766	657,483
Physical therapy	4,065	534,943	121,077	660,085	986	448,899	110,854	560,739
Emergency and outpatient service	25,847	474,677	349	500,873	20,204	406,152	121	426,477
Operating and recovery rooms	2,918	414,656	--	417,574	--	252,091	--	252,091
Radiology	13,271	384,288	5,534	403,093	12,792	339,643	5,258	357,693
Mobile services	960	191,541	2,690	195,191	3,797	178,324	--	182,121
GCMH Clinic	77,079	--	--	77,079	13,374	--	--	13,374
Respiratory therapy	32,940	4,457	39,380	76,777	23,907	4,325	14,985	43,217
Occupational therapy	331	33,259	41,561	75,151	--	22,741	11,765	34,506
Electrocardiology	8,990	51,915	1,595	62,500	9,108	56,378	966	66,452
Cardiac rehab	--	58,555	--	58,555	--	52,270	--	52,270
Central services and supply	5,407	37,188	8,814	51,409	5,728	29,358	9,834	44,920
Anesthesiology	60	16,592	--	16,652	--	8,169	--	8,169
Ambulance	--	9,328	--	9,328	539	6,770	1,258	8,567
Speech therapy	--	4,845	2,969	7,814	--	9,256	3,684	12,940
	<u>298,409</u>	<u>3,544,916</u>	<u>404,344</u>	<u>4,247,669</u>	<u>216,603</u>	<u>2,980,812</u>	<u>300,857</u>	<u>3,498,272</u>
GROSS PATIENT SERVICE REVENUE	\$ 3,016,493	3,598,429	404,344	7,019,266	2,770,143	3,072,098	300,857	6,143,098
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(1,466,433)				(820,898)
Charity care services and other discounts, based on charges forgone				(15,517)				(9,789)
NET PATIENT SERVICE REVENUE				\$ 5,537,316				5,312,411

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Other Operating Revenue
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cafeteria	\$ 22,105	22,423
Rental income	20,528	23,539
Clinic	8,119	660
Medical records transcriptions	2,520	370
Senior Life	903	2,602
Other	<u>3,567</u>	<u>2,598</u>
	<u>\$ 57,742</u>	<u>52,192</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Departmental Expenses
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Long term care	\$ 667,632	3,410	30,165	701,207	643,918	2,910	21,372	668,200
Adult and pediatric	163,921	19,584	8,326	191,831	181,146	12,474	11,639	205,259
Swing bed	158,743	948	4,986	164,677	157,752	1,736	1,106	160,594
Hospitality	81,754	--	148	81,902	78,538	--	154	78,692
	<u>1,072,050</u>	<u>23,942</u>	<u>43,625</u>	<u>1,139,617</u>	<u>1,061,354</u>	<u>17,120</u>	<u>34,271</u>	<u>1,112,745</u>
OTHER PROFESSIONAL SERVICES:								
Emergency room	105,738	231,063	8,239	345,040	78,322	284,840	7,802	370,964
Laboratory	147,000	56,104	108,312	311,416	112,694	38,847	111,152	262,693
Physical therapy	53,075	173,259	12,901	239,235	53,118	133,092	7,092	193,302
Radiology	118,393	82,157	15,208	215,758	109,846	81,336	16,940	208,122
Pharmacy	10,199	17,274	183,861	211,334	8,340	9,419	191,372	209,131
GCMH Clinic	97,707	39,139	18,305	155,151	17,267	21,652	19,841	58,760
Operating and recovery room	72,161	26,522	45,610	144,293	37,487	5,867	12,913	56,267
Medical records	29,951	12,281	18,360	60,592	29,575	15,397	16,331	61,303
Cardiac rehab	29,062	16,272	1,944	47,278	25,771	1,362	2,185	29,318
Central services and supply	22,329	32	15,631	37,992	20,786	--	9,364	30,150
Social services	30,800	--	237	31,037	28,134	--	277	28,411
Anesthesiology	--	14,242	5,904	20,146	--	32,880	2,063	34,943
Specialty clinic	2,624	999	16,018	19,641	--	--	--	--
Electrocardiology	4,091	3,351	289	7,731	5,099	4,086	345	9,530
Respiratory therapy	--	--	7,200	7,200	--	--	6,887	6,887
Senior life	6,024	--	470	6,494	8,572	--	680	9,252
Speech therapy	--	4,225	--	4,225	--	8,818	--	8,818
Ambulance	2,382	--	--	2,382	2,934	--	--	2,934
Healthology	--	330	1,141	1,471	--	--	--	--
	<u>731,536</u>	<u>677,250</u>	<u>459,630</u>	<u>1,868,416</u>	<u>537,945</u>	<u>637,596</u>	<u>405,244</u>	<u>1,580,785</u>
GENERAL SERVICES:								
Dietary	226,046	7,155	117,799	351,000	218,924	6,675	115,303	340,902
Plant operation and maintenance	107,609	11,379	184,687	303,675	103,476	5,311	175,395	284,182
Housekeeping	104,553	2,507	17,150	124,210	109,358	1,155	14,130	124,643
Laundry and linen	27,204	85,539	1,416	114,159	25,132	88,323	4,605	118,060
	<u>465,412</u>	<u>106,580</u>	<u>321,052</u>	<u>893,044</u>	<u>456,890</u>	<u>101,464</u>	<u>309,433</u>	<u>867,787</u>
ADMINISTRATIVE SERVICES	<u>428,447</u>	<u>137,779</u>	<u>143,037</u>	<u>709,263</u>	<u>307,386</u>	<u>258,945</u>	<u>151,056</u>	<u>717,387</u>
NONDEPARTMENTAL								
Interest	--	--	--	--	--	--	4,747	4,747
Employee benefits	--	--	632,032	632,032	--	--	640,979	640,979
Depreciation and amortization	--	--	211,163	211,163	--	--	187,438	187,438
Provision for bad debts	--	--	89,189	89,189	--	--	75,053	75,053
Insurance	--	--	56,413	56,413	--	--	45,763	45,763
	<u>--</u>	<u>--</u>	<u>988,797</u>	<u>988,797</u>	<u>--</u>	<u>--</u>	<u>953,980</u>	<u>953,980</u>
TOTAL EXPENSES	<u>\$ 2,697,445</u>	<u>945,551</u>	<u>1,956,141</u>	<u>5,599,137</u>	<u>2,363,575</u>	<u>1,015,125</u>	<u>1,853,984</u>	<u>5,232,684</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2004 and 2003

ANALYSIS OF AGING:

Days Since Discharge	2004		2003	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 524,766	44.12 %	411,260	44.37
31 - 60	284,665	23.93	225,860	24.37
61 - 90	140,566	11.82	67,425	7.27
91 - 120	52,497	4.41	43,411	4.68
120 - 365	146,560	12.32	88,917	9.58
> 1 year	40,337	3.40	90,068	9.73
	<u>1,189,391</u>	<u>100.00 %</u>	<u>926,941</u>	<u>100.00</u>
Less:				
Allowance for doubtful accounts	(107,324)		(94,500)	
Allowance for contractual adjustments	<u>(236,920)</u>		<u>(150,000)</u>	
	<u>\$ 845,147</u>		<u>\$ 682,441</u>	

	2004	2003
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	56.02 days	46.89 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 94,500	70,000
Provision of uncollectible accounts	89,189	75,053
Recoveries of accounts previously written off	20,850	18,190
Accounts written off	<u>(97,215)</u>	<u>(68,743)</u>
Balance, end of year	<u>\$ 107,324</u>	<u>94,500</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
INVENTORY:		
Pharmacy	\$ 58,602	50,826
Central supply	39,121	44,567
Radiology	2,315	1,583
Laboratory	20,664	18,990
Dietary	6,120	6,588
	<u>\$ 126,822</u>	<u>122,554</u>
PREPAID EXPENSES:		
Insurance	\$ 13,631	9,722
Maintenance contracts	26,539	24,368
Other	6,095	31,996
	<u>\$ 46,265</u>	<u>66,086</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Insurance Coverage
For the Years Ended June 30, 2004 and 2003

Company	Property Covered	Amount of Coverage	Expiration Date
PIC Wisconsin	General Liability		12/15/04
	Each Occurrence - Bodily Injury and Property Damage	1,000,000	
	Aggregate	3,000,000	
	Fire Damage Limit (any one fire)	1,000,000	
	Products and Completed Operations	1,000,000	
	Personal and Advertising Injury	1,000,000	
	Medical Expense	10,000	
PIC Wisconsin	Hospital Professional Liability (claims made basis)		
	Per Professional Health Care Incident	1,000,000	12/15/04
	Aggregate	3,000,000	
	Legal Expense (not Defense Costs)	10,000	
PIC Wisconsin	Commercial Umbrella	1,000,000	12/15/04
PIC Wisconsin	Excess Professional Liability (Umbrella)	3,000,000	12/15/04
Federal Insurance Company	Commercial Property		
	Building	8,983,094	01/01/05
	Personal Property	1,646,687	
	Business Income with Extra Expense	3,039,306	
	EDP Equipment	157,094	
	Various Other Property Coverage	1,232,335	
	Newly Acquired or Constructed Property		
	Building	2,000,000	
	Personal Property	1,000,000	
EDP and various other coverages	1,320,000		
Federal Insurance Company	Auto Bodily Injury & Property Damage Liability	1,000,000	01/01/05
	Medical Payments	5,000	
	Un/Underinsured Motorist	1,000,000	
	Hired Auto	Actual Cash Value	
Fireman's Fund Insurance Company	Directors & Officers Liability	1,000,000	07/05/04
Allen Health System	Worker's Compensation Liability (self-insured)	500,000	--
	Stop/loss coverage through commercial insurance carrier		

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Financial Statistical Highlights
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	284	233
All other	128	172
Swing bed - skilled	1,147	1,100
Hospitality	<u>589</u>	<u>607</u>
	<u>2,148</u>	<u>2,112</u>
 Nursing Home	 <u>19,070</u>	 <u>18,769</u>
 Discharges:		
Hospital adult and pediatric -		
Medicare	92	83
All other	<u>32</u>	<u>55</u>
	<u>124</u>	<u>138</u>
 Average length of stay:		
Hospital adult and pediatric -		
Medicare	3.09 days	2.81 days
All other	4.00 days	3.13 days
 Observation equivalent days	55	73
 Surgical procedures	193	130
 Emergency Room visits	1,205	1,057
 Full-time equivalents personnel	84.93	83.50



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Independent Auditor's Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the accompanying balance sheets of GRUNDY COUNTY MEMORIAL HOSPITAL (Hospital), as of June 30, 2004, and the related statement of revenues and expenses, changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 2, 2004. We have 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 the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

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 comment, item II-B-03, has not been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion 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 a reportable condition. 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 the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II in the accompanying schedule of findings and question costs.

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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Grundy County Memorial Hospital, and other parties to whom Grundy County Memorial Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
September 2, 2004.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedule of Findings and Questioned Costs

June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The reportable condition is considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation: Due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this reportable condition and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

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

Certified Budget: Hospital disbursements during the year ended June 30, 2004, exceeded budgeted amounts.

Recommendation: The Hospital remodeling and expansion project funding sources and uses were not reflected in the budget. We recommend that the Hospital consider all sources of receipts and disbursements of funds in budgeted amounts.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedule of Findings and Questioned Costs

June 30, 2004

Response: We will ensure that the budgeted receipts and disbursements are sufficient when preparing the budget in accordance with Chapter 24 of the Code of Iowa.

Conclusion: Response accepted.

Questionable Expenditures: We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

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

Deposits and Investments: 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 were noted.

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. The Hospital has no employees as all employees are leased from Iowa Health System (Allen Health System), who jointly exercises certain powers of the Hospital commission to operate the Hospital. Therefore, the salaries of Iowa Health System employees were not published.