

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

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

YEARS ENDED JUNE 30, 2005 AND 2004

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of June 30, 2005 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of June 30, 2005 and 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2005 on our consideration of Mahaska County Hospital's (d/b/a Mahaska Health Partnership) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

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, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 23 through 38) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gloverwald, Bell, Kyham & Co. P.C.

Atlantic, Iowa
August 17, 2005



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Mahaska Health Partnership Management's Discussion and Analysis

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2005 and 2004. 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 \$536,004 or 2.5 percent increase in 2005 and a \$259,809 or 1.2 percent increase in 2004.

The Hospital reported operating losses in 2005 (\$1,687,121) and 2004 (\$1,527,363). Losses in 2005 increased by \$159,758 or 10.5 percent from the loss reported in 2004. Operating losses in 2004 decreased from 2003 by \$562,003 or 26.9 percent.

Nonoperating revenues increased by \$435,953 or 24.4 percent in 2005 compared to 2004. Nonoperating revenues decreased in 2004 by \$188,967 or 9.6 percent compared to 2003.

Excess revenues over expenses increased by \$276,195 or 106.3% in 2005 compared to 2004, while excess revenues over expenses increased by \$143,144 or 122.7% in 2004 compared to 2003.

USING THIS ANNUAL REPORT

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

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

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

**Mahaska Health Partnership
Management's Discussion and Analysis - Continued**

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

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased in each of the past two years by \$536,004 (2.5 percent) in 2005 and \$259,809 (1.2 percent) in 2004, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 10,970,976	\$ 10,498,359	\$ 7,588,782
Capital assets, net	23,289,497	24,289,272	21,122,943
Other noncurrent assets	<u>2,490,721</u>	<u>2,434,868</u>	<u>7,112,163</u>
Total assets	<u>\$ 36,751,194</u>	<u>\$ 37,222,499</u>	<u>\$ 35,823,888</u>
Liabilities:			
Long-term debt outstanding	\$ 9,801,879	\$ 10,887,057	\$ 9,812,198
Other current and noncurrent Liabilities	<u>5,090,253</u>	<u>5,012,384</u>	<u>4,948,441</u>
Total liabilities	<u>\$ 14,892,132</u>	<u>\$ 15,899,441</u>	<u>\$ 14,760,639</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 11,765,459	\$ 11,650,711	\$ 10,247,637
Restricted expendable net assets	875,000	875,000	883,116
Restricted nonexpendable permanent endowments	6,000	6,000	6,000
Unrestricted	<u>9,212,603</u>	<u>8,791,347</u>	<u>9,926,496</u>
Total net assets	<u>\$ 21,859,062</u>	<u>\$ 21,323,058</u>	<u>\$ 21,063,249</u>

Mahaska Health Partnership
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 \$536,004 or 2.5 percent, as shown in Table 2. This increase is made up of very different components. This represents an increase of 206.3 percent compared with the increase in net assets for 2004 of \$259,809.

Table 2: Operating Results and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net patient service revenues	\$ 23,343,985	\$ 21,322,953	\$ 16,058,331
Other operating revenues	<u>270,723</u>	<u>287,386</u>	<u>251,589</u>
Total operating revenues	23,614,708	21,610,339	16,309,920
Operating Expenses:			
Salaries and benefits	15,414,601	13,506,575	10,527,084
Professional fees	1,064,333	1,448,527	1,568,922
Other operating expenses	6,626,837	6,273,381	5,075,201
Depreciation and amortization	<u>2,196,058</u>	<u>1,909,219</u>	<u>1,228,079</u>
Total operating expenses	<u>25,301,829</u>	<u>23,137,702</u>	<u>18,399,286</u>
Operating loss	(1,687,121)	(1,527,363)	(2,089,366)
Nonoperating Revenues and Expenses:			
Property taxes	1,723,297	1,670,055	1,637,494
Investment income	75,495	70,476	213,646
Noncapital grants and contributions	663,595	321,432	104,655
Other nonoperating revenues and expenses, net	<u>(239,262)</u>	<u>(274,791)</u>	<u>20,344</u>
Total nonoperating revenues (Expenses)	<u>2,223,125</u>	<u>1,787,172</u>	<u>1,976,139</u>
Excess of Revenues over Expenses (Expenses over Revenues) Before Unusual Item	536,004	259,809	(113,227)
Unusual Item	<u>--</u>	<u>--</u>	<u>229,892</u>
Increase in net assets	536,004	259,809	116,665
Net Assets Beginning of Year	<u>21,323,058</u>	<u>21,063,249</u>	<u>20,946,584</u>
Net Assets End of Year	<u>\$ 21,859,062</u>	<u>\$ 21,323,058</u>	<u>\$ 21,063,249</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2005 was prepared on a modified accrual basis. The original budget of expenditures was approved at the meeting of February 23, 2004. Actual expenditures were lower than budget.

OPERATING LOSSES

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2005 increased by \$159,758 or 10.5 percent higher than the loss reported in 2004. Operating losses in 2004 decreased by \$562,003 or 26.9 percent.

The primary component of the increased operating loss is:

During 2005, salaries and related expenses for the Medical Specialty Center (Physician's Clinic) increased \$771,527 or 47.1%. The hospital added the services of a new urologist and pediatrician. Much of the new revenue generated by those additional services has been realized in fiscal 2005.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings and contributions. A dramatic increase in contributions related to the Capital Campaign for the renovation of the old Family Medical Center was the primary cause for the favorable increase.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A to the financial statements. Capital and operating grants received in 2005 did not change materially from capital and operating grants received in 2004.

THE HOSPITAL'S CASH FLOWS

The Hospital's cash flows changed due to the increase of third-party payments and increase in contributions and grants.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2005, the Hospital had \$23.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. The Hospital spent \$1.18 million for the purchase of new equipment and construction costs in 2005, and \$5.06 million in 2004.

Debt:

At year-end, the Hospital had \$11.52 million in revenue notes and bonds, and a promissory note outstanding.

OTHER ECONOMIC FACTORS

The hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid to the hospital. Medicare represents approximately 50.3% of hospital revenues and presently reimburses the hospital approximately 44.1% of billed charges. Increases in payments from these payers were lower than the expense increases realized by the hospital. Much of the future cost increase will be covered by increased volume from the new physicians recruited in the past two years, as referenced above.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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

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

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash	\$ 1,783,416	\$ 1,023,405
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,080,000 in 2005, \$2,539,000 in 2004)	4,843,304	4,949,499
Other receivables	303,420	258,927
Inventory	878,658	963,833
Prepaid expense	40,857	36,058
Estimated third-party payor settlements	17,000	231,000
Succeeding year property tax receivable	1,675,000	1,599,000
Internally designated assets	<u>1,429,321</u>	<u>1,436,637</u>
Total current assets	10,970,976	10,498,359
Designated and Restricted Assets:		
Internally designated assets	2,824,943	2,690,406
Restricted assets	<u>881,000</u>	<u>881,000</u>
	3,705,943	3,571,406
Less amounts required to meet current liabilities	<u>1,429,321</u>	<u>1,436,637</u>
	2,276,622	2,134,769
Capital Assets:		
Depreciable capital assets	22,337,332	23,940,006
Non-depreciable capital assets	<u>952,165</u>	<u>349,266</u>
	23,289,497	24,289,272
Other Assets:		
Notes receivable	162,238	236,555
Other	<u>51,861</u>	<u>63,544</u>
	<u>214,099</u>	<u>300,099</u>
Total assets	<u>\$ 36,751,194</u>	<u>\$ 37,222,499</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 1,121,507	\$ 1,083,702
Accounts payable	634,006	838,743
Accrued employee compensation	1,287,500	1,096,868
Accrued payroll taxes and withholding	53,974	72,446
Accrued health insurance claims	135,098	140,000
Accrued interest payable	183,168	181,625
Deferred revenue for succeeding year property tax receivable	<u>1,675,000</u>	<u>1,599,000</u>
Total current liabilities	5,090,253	5,012,384
Long-Term Debt:		
Revenue bonds and note payable, less unamortized discount, debt issue costs, and current maturities	<u>9,801,879</u>	<u>10,887,057</u>
Total liabilities	14,892,132	15,899,441
Net Assets:		
Invested in capital assets, net of related debt	11,765,459	11,650,711
Restricted - expendable	875,000	875,000
Non-expendable permanent endowments	6,000	6,000
Unrestricted	<u>9,212,603</u>	<u>8,791,347</u>
Total net assets	<u>21,859,062</u>	<u>21,323,058</u>
Total liabilities and net assets	<u>\$ 36,751,194</u>	<u>\$ 37,222,499</u>

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

	<u>2005</u>	<u>2004</u>
Revenue:		
Net patient service revenue	\$ 23,343,985	\$ 21,322,953
Other revenue	<u>270,723</u>	<u>287,386</u>
Total revenue	23,614,708	21,610,339
Expenses:		
Nursing service	6,089,313	5,301,670
Other professional service	11,552,909	10,601,072
General service	1,767,633	1,732,962
Fiscal and administrative service	3,695,916	3,592,779
Provision for depreciation	2,179,525	1,892,944
Amortization	16,533	16,275
Total expenses	<u>25,301,829</u>	<u>23,137,702</u>
Operating Loss	(1,687,121)	(1,527,363)
Non-Operating Revenue (Expenses):		
County taxes	1,723,297	1,670,055
County subsidy - New Directions	76,618	64,968
Investment income	75,495	70,476
Noncapital grants and contributions	663,595	321,432
Rental income	284,699	233,685
Interest expense	<u>(600,579)</u>	<u>(573,444)</u>
Non-operating revenue, net	<u>2,223,125</u>	<u>1,787,172</u>
Excess of Revenues Over Expenses and Increase in Net Assets	536,004	259,809
Net Assets Beginning of Year	<u>21,323,058</u>	<u>21,063,249</u>
Net Assets End of Year	<u>\$ 21,859,062</u>	<u>\$ 21,323,058</u>

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 23,619,687	\$ 19,311,594
Cash paid to suppliers	(10,496,408)	(10,670,124)
Cash paid to employees	(12,366,688)	(10,662,074)
Other revenue	270,723	287,386
Net cash provided by (used in) operating activities	1,027,314	(1,733,218)
Cash flows from non-capital financing activities:		
County tax revenue and subsidy	1,799,915	1,735,023
Noncapital grants and contributions	663,595	321,432
Net cash provided by non-capital financing activities	2,463,510	2,056,455
Cash flows from capital and related financing activities:		
Capital expenditures	(1,285,211)	(5,343,439)
Proceeds received on debt issuance	--	2,300,000
Principal paid on long-term debt	(1,114,523)	(1,271,439)
Change in other assets	11,683	(12,846)
Interest paid	(548,419)	(486,504)
Net cash used in capital and related financing activities	(2,936,470)	(4,814,228)
Cash flows from investing activities:		
Investment income	75,495	70,476
Change in designated and restricted assets	(17,369)	4,272,287
Loans granted for physician recruitment	(20,000)	(182,000)
Rental income	284,699	233,685
Net cash provided by investing activities	322,825	4,394,448
Net increase (decrease) in cash and cash equivalents	877,179	(96,543)
Cash and cash equivalents at beginning of year	1,209,246	1,305,789
Cash and cash equivalents at end of year	\$ 2,086,425	\$ 1,209,246
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,783,416	\$ 1,023,405
Cash and cash equivalents in designated and restricted assets	303,009	185,841
Total cash and cash equivalents	\$ 2,086,425	\$ 1,209,246

(continued next page)

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

	2005	2004
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(1,687,121)	\$(1,527,363)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for depreciation	2,179,525	1,892,944
Provision for bad debts	1,153,286	791,323
Amortization	110,850	105,513
Loss on disposal of assets	--	60
Changes in assets and liabilities		
Accounts receivable	(1,091,584)	(2,598,682)
Inventory	85,175	(454,689)
Prepaid expense	(4,799)	(572)
Accounts payable, trade	(99,276)	(75,553)
Accrued employee compensation	190,632	286,025
Accrued payroll taxes and withholding	(18,472)	10,257
Accrued health insurance claims	(4,902)	41,519
Estimated third-party payor settlements	214,000	(204,000)
Total adjustments	2,714,435	(205,855)
Net cash provided by (used in) operating activities	\$ 1,027,314	\$(1,733,218)

The accompanying notes are an integral part of these statements.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

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

2. Enterprise Fund Accounting

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

3. Use of Estimates

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

4. Cash and Cash Equivalents

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

5. Inventory Valuation

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

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

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

6. Investments

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

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of five years and cost in excess of \$500 are capitalized. These 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 (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest cost capitalized in 2005 or 2004.

9. Compensated Absences

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

10. Operating Revenues and Expenses

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

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

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

11. Net Patient Service Revenue

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

12. Property Tax Levy

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

13. Grants and Contributions

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

14. Endowments

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

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.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

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 period based on the Hospital's reimbursable costs. The hold-harmless transition period is scheduled to end December 31, 2005.

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

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.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2005	2004
Long-term debt	\$ 875,000	\$ 875,000

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

	2005	2004
Purchase of property and equipment	\$ --	\$ 8,116

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

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

Restricted nonexpendable net assets as of June 30, 2005 and 2004 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	2005	2004
Purchase of capital assets	\$ 6,000	\$ 6,000

NOTE D - DESIGNATED NET ASSETS

Of the \$9,212,603 (\$8,791,347 as of June 30, 2004) of unrestricted net assets as of June 30, 2005, \$2,824,943 (\$2,690,406 for 2004) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE D - DESIGNATED NET ASSETS - Continued

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

	2005	2004
Capital acquisitions	\$ 2,674,970	\$ 2,615,131
Employee health insurance	149,973	75,275
	\$ 2,824,943	\$ 2,690,406

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2005 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. Investments are stated as indicated in Note A.

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

The composition of designated and restricted assets is as follows:

	2005	2004
Internally Designated Assets:		
Cash and cash equivalents	\$ 303,009	\$ 185,841
Certificates of deposit	2,510,496	2,500,000
Interest receivable	11,438	4,565
	\$ 2,824,943	\$ 2,690,406
Restricted Assets:		
Certificate of deposit	\$ 875,000	\$ 875,000
U.S. treasury obligations	6,000	6,000
	\$ 881,000	\$ 881,000

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2005 and 2004, was as follows:

	2005	2004
Receivable from:		
Patients	\$ 1,734,626	\$ 1,435,497
Medicare	2,402,971	2,962,852
Medicaid	502,260	691,622
Blue Cross	1,141,838	1,089,383
Other commercial insurance carriers	983,995	1,180,741
Others	157,614	128,404
	6,923,304	7,488,499
Less allowances for doubtful accounts and contractual adjustments	2,080,000	2,539,000
	\$ 4,843,304	\$ 4,949,499

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2005 and 2004 were as follows:

Cost	Balance 2004	Additions	Disposals	Balance 2005
Land Improvements	\$ 868,139	\$ --	\$ --	\$ 868,139
Buildings	25,372,236	103,579	--	25,475,815
Major Movable Equipment	11,167,797	473,272	--	11,641,069
Clinic Equipment	21,895	--	--	21,895
	37,430,067	576,851	--	38,006,918
<u>Depreciation</u>				
Land Improvements	347,169	52,638	--	399,807
Buildings	6,601,834	986,737	--	7,588,571
Major Movable Equipment	6,519,163	1,140,150	--	7,659,313
Clinic Equipment	21,895	--	--	21,895
Total Depreciation	13,490,061	2,179,525	--	15,669,586
Depreciable Capital Assets, Net	\$ 23,940,006	\$(1,602,674)	\$ --	\$ 22,337,332
Construction in Progress	\$ 35,790	\$ 602,899	\$ --	\$ 638,689
Land	313,476	--	--	313,476
Total Non-depreciable Capital Assets	\$ 349,266	\$ 602,899	\$ --	\$ 952,165

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE G - CAPITAL ASSETS - Continued

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

Total rental expense for operating leases in 2005 was approximately \$233,369 (\$294,993 in 2004).

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE H - LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2005 and 2004 follows:

	<u>Balance 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2005</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2001 bonds	\$ 8,480,000	\$ --	\$ 240,000	\$ 8,240,000	\$ 250,000
Series 2003 notes	2,000,000	--	485,000	1,515,000	495,000
Note payable, bank	2,158,561	--	389,523	1,769,038	444,174
Less unamortized discount and debt issue costs	<u>(667,802)</u>	<u>--</u>	<u>(67,150)</u>	<u>(600,652)</u>	<u>(67,667)</u>
Total Long-Term Debt	<u>\$ 11,970,759</u>	<u>\$ --</u>	<u>\$1,047,373</u>	<u>\$ 10,923,386</u>	<u>\$1,121,507</u>
	<u>Balance 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2004</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 1993 notes	\$ 415,000	\$ --	\$ 415,000	\$ --	\$ --
Series 2001 bonds	8,715,000	--	235,000	8,480,000	240,000
Series 2003 notes	2,480,000	--	480,000	2,000,000	485,000
Note payable, bank	--	2,300,000	141,439	2,158,561	425,852
Less unamortized discount and debt issue costs	<u>(734,694)</u>	<u>--</u>	<u>(66,892)</u>	<u>(667,802)</u>	<u>(67,150)</u>
Total Long-Term Debt	<u>\$ 10,875,306</u>	<u>\$2,300,000</u>	<u>\$1,204,547</u>	<u>\$ 11,970,759</u>	<u>\$1,083,702</u>

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE H - LONG-TERM DEBT - Continued

Series 1993 Notes

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

Series 2001 Bonds

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

Series 2003 Notes

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

Note Payable, Bank

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

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE H - LONG-TERM DEBT - Continued

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

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2006	\$ 1,189,174	\$ 517,570
2007	1,223,711	476,092
2008	1,264,107	431,053
2009	652,046	383,120
2010	825,000	350,533
2011-15	4,395,000	1,115,755
2016-17	1,975,000	110,138
	<u>\$ 11,524,038</u>	<u>\$ 3,384,261</u>

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

NOTE I - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were approximately \$671,000, \$605,000, and \$479,000, respectively, equal to the required contributions for each year.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE J - DEFERRED COMPENSATION PLAN

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

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

The market value of the exclusive benefit plan assets at June 30, 2005 was \$500,383 (\$418,256 at June 30, 2004). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - RELATED ORGANIZATIONS

Mahaska Hospital Foundation and Hospice of Mahaska County Endowment Foundation are separate not for profit organizations with independent boards of directors. During the year ended June 30, 2005, contributions received from these organizations were \$173,448 and \$121,306, respectively.

NOTE L - COMMITMENTS AND CONTINGENCIES

Notes Receivable

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

Risk Management

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

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2005 and 2004

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

Construction in progress at June 30, 2005 of \$602,899 consists of renovation costs of the MHP West building. The total cost of the project is estimated to be \$605,000. The project is being financed through the use of existing Hospital internally designated funds. The Hospital has also committed to additional components for its information system over the next year. The estimated total cost is \$115,000, which will be financed through the use of existing Hospital internally designated reserves. As of June 30, 2005, the funds expended for the system totaled \$35,790.

Geriatric Behavioral Health Unit

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

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2005, the Hospital has accumulated funds in excess of actual claims paid of \$149,973 (\$75,275 at June 30, 2004). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2005 is \$135,098 (\$140,000 at June 30, 2004), which is reported under current liabilities.

Building and Equipment Purchase

The Hospital has committed to purchase a building and various equipment items. The estimated cost of the capital assets is \$228,000, which will be financed in part by a bank loan in the amount of \$157,000. The remaining purchases will be financed through the use of existing internally designated assets.

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REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Budgetary Comparison Schedule
Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the 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 adjustment results from accounting for interest, plant and equipment purchases, depreciation, and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 1,723,297	\$ --	\$ 1,723,297	
Other revenues	<u>24,114,536</u>	<u>--</u>	<u>24,114,536</u>	
	25,837,833	--	25,837,833	
Expenses	<u>25,301,829</u>	<u>--</u>	<u>25,301,829</u>	
Net	536,004	--	536,004	
Balance beginning of year	<u>20,442,058</u>	<u>881,000</u>	<u>21,323,058</u>	
Balance end of year	<u>\$ 20,978,062</u>	<u>\$ 881,000</u>	<u>\$ 21,859,062</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Budget</u>
Amount raised by taxation	\$ 1,723,297	\$ --	\$ 1,723,297	\$ 1,599,279
Other revenues	<u>24,114,536</u>	<u>600,579</u>	<u>24,715,115</u>	<u>23,404,075</u>
	25,837,833	600,579	26,438,412	25,003,354
Expenses	<u>25,301,829</u>	<u>(293,735)</u>	<u>25,008,094</u>	<u>25,168,900</u>
Net	536,004	894,314	1,430,318	(165,546)
Balance beginning of year	<u>21,323,058</u>	<u>(11,281,344)</u>	<u>10,041,714</u>	<u>10,041,714</u>
Balance end of year	<u>\$ 21,859,062</u>	<u>\$(10,387,030)</u>	<u>\$ 11,472,032</u>	<u>\$ 9,876,168</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

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

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
Hospital				
0 - 30	\$ 3,083,943	44.6%	\$ 2,936,547	39.2%
31 - 60	969,197	14.0	1,469,398	19.6
61 - 90	511,077	7.4	716,287	9.6
91 - 180	750,826	10.8	735,068	9.8
Over 181	<u>748,105</u>	<u>10.8</u>	<u>798,394</u>	<u>10.7</u>
	6,063,148	87.6	6,655,694	88.9
Community Health and Hospice	372,004	5.4	312,679	4.2
Physician clinic	488,152	7.0	391,722	5.2
Occupational health	--	--	128,404	1.7
	<u>6,923,304</u>	<u>100.0%</u>	<u>7,488,499</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	548,000		504,000	
Allowance for contractual adjustments	<u>1,532,000</u>		<u>2,035,000</u>	
	<u>\$ 4,843,304</u>		<u>\$ 4,949,499</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Balance, beginning	\$ 504,000	\$ 425,000
Provision for bad debts	1,153,286	791,323
Recoveries of accounts previously written off	<u>365,626</u>	<u>245,813</u>
	2,022,912	1,462,136
Accounts written off	<u>1,474,912</u>	<u>958,136</u>
Balance, ending	<u>\$ 548,000</u>	<u>\$ 504,000</u>

See Independent Auditor's Report.

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

	2005	2004
<u>Inventory</u>		
Store room	\$ 119,680	\$ 157,894
Dietary	7,853	8,772
Pharmacy	100,641	171,607
Laboratory	74,139	78,677
Operating room	565,661	530,900
Radiology	10,684	15,983
	\$ 878,658	\$ 963,833
 <u>Prepaid Expense</u>		
Insurance	\$ 40,857	\$ 36,058

See Independent Auditor's Report.

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

	<u>2005</u>	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical and surgical	\$ 3,019,021	\$ 491,304
Coronary care	217,238	--
Nursery	277,750	--
Obstetrics	383,135	14,859
Swing bed	--	--
Vision Quest	1,328,300	--
	<u>5,225,444</u>	<u>506,163</u>
Other Nursing Services:		
Operating and recovery rooms	2,432,780	4,050,477
Delivery and labor rooms	236,421	75,171
Central services and supply	98,025	61,869
Wound/ostomy care	4,377	28,329
Emergency services	497,346	1,701,738
Cardiac rehabilitation and stress test	4,799	387,081
	<u>3,273,748</u>	<u>6,304,665</u>
Other Professional Services:		
Emergency room physicians	151,677	747,579
Laboratory	948,669	1,526,708
Electrocardiology	1,651	20,082
Electroencephalography	4,950	19,800
Radiology	158,780	815,020
Ultrasound	25,270	213,877
Nuclear scanning	4,258	57,717
MRI scanning	129,845	1,642,405
CT scanning	517,782	1,853,844
Outsourced services	49,876	255,036
Pharmacy	1,742,727	733,562
Oncology	1,784	713,070
Anesthesiology	247,713	490,688
Respiratory therapy	805,196	408,337
Physical therapy	98,721	1,047,864
Occupational therapy	55,999	181,912
Speech therapy	16,604	78,254
Ambulance	342,759	677,804
Community health	--	1,505,670
Hospice	--	556,721
Occupational health	--	203,733
New Directions	--	870,264
Physician clinic	--	2,003,783
	<u>5,304,261</u>	<u>16,623,730</u>
	<u>\$ 13,803,453</u>	<u>\$ 23,434,558</u>

See Independent Auditor's Report.

2005		2004
Swing Bed	Total	Total
\$ --	\$ 3,510,325	\$ 2,923,129
--	217,238	313,992
--	277,750	260,200
--	397,994	393,170
879,565	879,565	592,769
--	1,328,300	1,151,100
<u>879,565</u>	<u>6,611,172</u>	<u>5,634,360</u>
24,361	6,507,618	5,956,697
--	311,592	292,605
5,634	165,528	258,985
10,977	43,683	4,586
195	2,199,279	1,975,988
--	391,880	267,462
<u>41,167</u>	<u>9,619,580</u>	<u>8,756,323</u>
117	899,373	979,933
75,927	2,551,304	2,433,569
--	21,733	23,657
--	24,750	23,650
14,369	988,169	898,428
1,904	241,051	226,312
1,745	63,720	61,954
15,569	1,787,819	1,357,089
--	2,371,626	1,830,551
4,529	309,441	298,108
468,990	2,945,279	1,966,637
80	714,934	319,813
3,938	742,339	686,088
262,917	1,476,450	1,435,721
167,265	1,313,850	1,215,652
104,439	342,350	269,355
10,828	105,686	78,090
19,437	1,040,000	982,096
--	1,505,670	1,608,129
--	556,721	688,332
--	203,733	360,384
--	870,264	1,069,037
--	2,003,783	1,452,919
<u>1,152,054</u>	<u>23,080,045</u>	<u>20,265,504</u>
<u>\$ 2,072,786</u>	<u>\$ 39,310,797</u>	<u>\$ 34,656,187</u>

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

	2005	2004
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 39,310,797	\$ 34,656,187
Contractual adjustments	(14,813,526)	(12,541,911)
Provision for bad debts	(1,153,286)	(791,323)
	\$ 23,343,985	\$ 21,322,953
 <u>Other Revenue</u>		
Cafeteria	\$ 98,332	\$ 106,206
Catering	34,692	28,921
Medical record transcripts	1,265	1,220
Non-patient supplies	1,419	793
Outpatient clinics	64,096	63,237
Dietary services	27,164	20,103
Medical Alert	24,938	80
Miscellaneous	18,817	66,826
	\$ 270,723	\$ 287,386

See Independent Auditor's Report.

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

	2005	2004
Administrative:		
Salaries and wages	\$ 406,207	\$ 356,106
Employee benefits	69,847	40,452
Supplies and other expense	21,739	21,043
	497,793	417,601
Medical and Surgical:		
Salaries and wages	1,432,045	1,315,046
Employee benefits	198,912	172,035
Supplies and other expense	147,164	93,784
	1,778,121	1,580,865
Obstetrics:		
Salaries and wages	199,435	140,048
Employee benefits	30,573	20,100
Supplies and other expense	58,803	43,418
	288,811	203,566
Nursery:		
Salaries and wages	95,215	120,117
Employee benefits	14,712	15,384
Supplies and other expense	3,369	1,914
	113,296	137,415
Vision Quest:		
Salaries and wages	472,478	412,102
Employee benefits	63,001	72,968
Supplies and other expense	309,901	303,842
	845,380	788,912
Operating and Recovery Rooms:		
Salaries and wages	643,430	549,215
Employee benefits	75,399	69,956
Supplies and other expense	1,156,015	736,112
	1,874,844	1,355,283
Delivery and Labor Rooms:		
Salaries and wages	98,277	131,152
Employee benefits	14,331	20,416
Supplies and other expense	731	1,939
	113,339	153,507

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

	2005	2004
Central Services and Supply:		
Supplies and other expense	\$ 78,291	\$ 162,855
Wound/Ostomy Care:		
Salaries and wages	18,417	--
Employee benefits	2,281	--
Supplies and other expense	1,192	1,420
	21,890	1,420
Emergency Services:		
Salaries and wages	273,721	257,899
Employee benefits	37,296	71,888
Supplies and other expense	83,724	65,936
	394,741	395,723
Cardiac Rehabilitation:		
Salaries and wages	35,985	52,611
Employee benefits	3,404	7,830
Supplies and other expense	43,418	44,082
	82,807	104,523
	\$ 6,089,313	\$ 5,301,670

SUMMARY

Salaries and wages	\$ 3,675,210	\$ 3,334,296
Employee benefits	509,756	491,029
Supplies and other expense	1,904,347	1,476,345
	\$ 6,089,313	\$ 5,301,670

See Independent Auditor's Report.

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

	2005	2004
Emergency Room Physicians:		
Salaries and wages	\$ 752,095	\$ 297,942
Employee benefits	122,681	25,925
Professional fees	39,739	412,683
	914,515	736,550
Laboratory:		
Salaries and wages	307,560	283,663
Employee benefits	40,373	41,740
Professional fees	186,220	207,693
Supplies and other expense	324,118	279,883
	858,271	812,979
Electroencephalography and Electrocardiology:		
Salaries and wages	197	225
Employee benefits	15	17
Purchased services	2,976	4,224
	3,188	4,466
Oncology:		
Salaries and wages	84,091	72,037
Employee benefits	12,953	11,015
Supplies and other expense	235,189	121,741
	332,233	204,793
Radiology and Ultrasound:		
Salaries and wages	387,238	352,313
Employee benefits	54,383	50,337
Supplies and other expense	366,588	207,480
	808,209	610,130
MRI Scanning:		
Purchased services	--	204,625
Nuclear Scanning:		
Purchased services	51,523	51,490
CT Scanning:		
Purchased services	--	292,112
Outsourced Services:		
Purchased services	237,794	234,573
Supplies and other expense	180	480
	237,974	235,053

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

	<u>2005</u>	<u>2004</u>
Pharmacy:		
Salaries and wages	\$ 231,998	\$ 228,995
Employee benefits	34,241	28,121
Drugs and other expense	<u>637,603</u>	<u>451,908</u>
	903,842	709,024
 Anesthesiology:		
Supplies and other expense	62,223	60,166
 Respiratory Therapy:		
Salaries and wages	240,178	202,854
Employee benefits	31,520	31,501
Professional fees	13,084	48,324
Supplies and other expense	<u>52,518</u>	<u>50,356</u>
	337,300	333,035
 Physical Therapy:		
Professional fees	631,164	584,170
Supplies and other expense	<u>22,273</u>	<u>18,101</u>
	653,437	602,271
 Speech Therapy:		
Salaries and wages	47,081	37,680
Employee benefits	6,055	6,537
Professional fees	--	4,130
Supplies and other expense	<u>4,914</u>	<u>6,389</u>
	58,050	54,736
 Occupational Therapy:		
Professional fees	162,377	129,031
Supplies and other expense	<u>2,578</u>	<u>2,746</u>
	164,955	131,777
 Ambulance:		
Salaries and wages	420,486	387,428
Employee benefits	57,804	50,874
Purchased services	257	489
Supplies and other expense	<u>30,014</u>	<u>34,235</u>
	508,561	473,026

(continued next page)

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

	<u>2005</u>	<u>2004</u>
Community Health:		
Salaries and wages	\$ 731,127	\$ 757,265
Employee benefits	102,808	89,612
Purchased services	126,036	148,791
Supplies and other expense	<u>114,104</u>	<u>111,930</u>
	1,074,075	1,107,598
Hospice:		
Salaries and wages	410,860	410,841
Employee benefits	51,025	54,185
Supplies and other expense	<u>134,253</u>	<u>204,014</u>
	596,138	669,040
Medical Records:		
Salaries and wages	243,934	255,533
Employee benefits	29,950	36,571
Supplies and other expense	<u>94,341</u>	<u>59,650</u>
	368,225	351,754
Physician Clinic:		
Salaries and wages	2,038,805	1,361,119
Employee benefits	229,984	149,961
Supplies and other expense	<u>141,939</u>	<u>128,121</u>
	2,410,728	1,639,201
Outpatient Clinics:		
Salaries and wages	2,703	23,302
Employee benefits	197	2,800
Purchased services	190	--
Supplies and other expense	<u>1,833</u>	<u>229</u>
	4,923	26,331
Dietician Services:		
Salaries and wages	52,341	48,347
Employee benefits	8,842	5,917
Supplies and other expense	<u>6,046</u>	<u>4,689</u>
	67,229	58,953
New Directions:		
Salaries and wages	765,801	773,610
Employee benefits	107,890	92,164
Purchased services	16,761	42,579
Supplies and other expense	<u>46,727</u>	<u>55,033</u>
	937,179	963,386

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

	2005	2004
Occupational Health:		
Salaries and wages	\$ 115,378	\$ 109,017
Employee benefits	10,523	21,949
Purchased services	56,429	111,209
Supplies and other expense	17,801	26,401
	200,131	268,576
	\$ 11,552,909	\$ 10,601,072

SUMMARY

Salaries and wages	\$ 6,831,873	\$ 5,602,171
Employee benefits	901,244	699,226
Professional fees	1,032,584	1,386,031
Supplies and other expense	2,787,208	2,913,644
	\$ 11,552,909	\$ 10,601,072

See Independent Auditor's Report.

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

	2005	2004
Dietary:		
Salaries and wages	\$ 227,875	\$ 220,746
Employee benefits	29,537	31,978
Food	120,881	117,402
Supplies and other expense	26,681	23,311
	404,974	393,437
Operation of Plant:		
Salaries and wages	190,138	204,099
Employee benefits	27,171	32,042
Utilities	383,415	360,140
Supplies and other expense	244,110	251,120
	844,834	847,401
Environmental Services:		
Salaries and wages	301,991	275,760
Employee benefits	36,935	40,125
Supplies and other expense	39,271	39,417
	378,197	355,302
Laundry and Linen:		
Salaries and wages	105,045	99,391
Employee benefits	15,454	14,627
Supplies and other expense	19,129	22,804
	139,628	136,822
	\$ 1,767,633	\$ 1,732,962

SUMMARY

Salaries and wages	\$ 825,049	\$ 799,996
Employee benefits	109,097	118,772
Supplies and other expense	833,487	814,194
	\$ 1,767,633	\$ 1,732,962

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Administrative:		
Salaries and wages	\$ 822,968	\$ 850,072
Employee benefits	113,036	102,956
Professional fees	31,749	62,496
Supplies and other expense	274,237	366,865
Purchased services	87,152	83,619
Travel and education	28,821	33,255
Telephone	2,774	1,690
Dues, subscriptions and licenses	50,140	34,380
Collection fees	92,050	99,665
	<u>1,502,927</u>	<u>1,634,998</u>
Information Systems:		
Salaries and wages	123,049	117,174
Employee benefits	19,199	17,841
Purchased services	6,216	837
Supplies and other expense	102,378	101,794
	<u>250,842</u>	<u>237,646</u>
Purchasing:		
Salaries and wages	94,610	89,797
Employee benefits	14,747	14,657
Supplies and other expense	3,964	15,431
	<u>113,321</u>	<u>119,885</u>
Public Relations:		
Salaries and wages	76,181	44,092
Employee benefits	12,557	6,435
Supplies and other expense	80,711	86,546
	<u>169,449</u>	<u>137,073</u>
Human Resources:		
Salaries and wages	70,674	69,228
Employee benefits	10,009	13,278
Purchased services	8,413	5,753
Supplies and other expense	35,760	24,855
	<u>124,856</u>	<u>113,114</u>

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

	2005	2004
Quality Management:		
Salaries and wages	\$ 37,706	\$ 41,273
Employee benefits	3,814	5,615
Supplies and other expense	6,415	5,577
	47,935	52,465
Employee Welfare:		
Unemployment tax	4,124	149
Group health and life insurance	1,015,491	988,017
Workers' compensation insurance	144,207	100,501
	1,163,822	1,088,667
Insurance:		
Insurance and bonding expense	322,764	208,931
	\$ 3,695,916	\$ 3,592,779

SUMMARY

Salaries and wages	\$ 1,225,188	\$ 1,211,636
Employee benefits	1,337,184	1,249,449
Professional fees	31,749	62,496
Supplies and other expense	1,101,795	1,069,198
	\$ 3,695,916	\$ 3,592,779

SUMMARY OF EXPENSES

Salaries and wages	\$ 12,557,320	\$ 10,948,099
Employee benefits	2,857,281	2,558,476
Professional fees	1,064,333	1,448,527
Supplies and other expense	6,626,837	6,273,381
	\$ 23,105,771	\$ 21,228,483

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Acute Care:					
Admissions	1,417	1,255	1,077	1,053	1,149
Discharges	1,421	1,260	1,076	1,061	1,147
Patient days	4,589	4,360	3,502	3,321	3,478
Average length of stay	3.23	3.46	3.25	3.13	3.03
Average occupied beds	12.6	11.9	9.6	9.1	9.5
Vision Quest:					
Admissions	143	114	--	--	--
Discharges	142	110	--	--	--
Patient days	1,436	1,279	--	--	--
Average length of stay	10.11	11.63	--	--	--
Average occupied beds	3.9	3.5	--	--	--
Swing Bed:					
Admissions	321	242	183	284	330
Discharges	318	241	181	282	333
SNF days	2,065	1,463	1,351	1,987	2,629
ICF days	50	29	62	141	184
Combined Average Occupied Beds	22.3	19.5	13.5	14.9	17.2
Nursery Days	505	540	423	398	423
Home Health Visits	20,326	20,235	18,235	16,886	16,297
Outpatient Occasions of Service	89,488	78,536	72,142	69,497	67,371

See Independent Auditor's Report.

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

	2005	2004
Current Assets:		
Cash	\$ 1,783,416	\$ 1,023,405
Receivables	5,146,724	5,208,426
Inventory	878,658	963,833
Prepaid expense	40,857	36,058
Estimated third-party payor settlements	17,000	231,000
Succeeding year property tax receivable	1,675,000	1,599,000
Internally designated assets	1,429,321	1,436,637
Total current assets	10,970,976	10,498,359
Other Assets:		
Designated and restricted assets, net	2,276,622	2,134,769
Capital assets, net	23,289,497	24,289,272
Other assets	214,099	300,099
Total other assets	25,780,218	26,724,140
	\$ 36,751,194	\$ 37,222,499
Current Liabilities:		
Current maturities of long-term debt	\$ 1,121,507	\$ 1,083,702
Accounts payable	634,006	838,743
Accrued expenses	1,659,740	1,490,939
Due to restricted assets	--	--
Deferred revenue for succeeding year property tax receivable	1,675,000	1,599,000
Total current liabilities	5,090,253	5,012,384
Long-Term Debt, Net	9,801,879	10,887,057
Net Assets	21,859,062	21,323,058
	\$ 36,751,194	\$ 37,222,499

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 558,619	\$ 595,893	\$ 402,139
3,401,067	3,519,833	2,462,544
509,144	397,028	346,553
35,486	31,725	23,427
27,000	290,000	280,000
1,562,000	1,542,000	1,502,000
<u>1,495,466</u>	<u>2,031,237</u>	<u>844,786</u>
7,588,782	8,407,716	5,861,449
6,917,672	12,377,856	11,785,589
21,122,943	16,113,581	11,593,575
194,491	321,976	169,884
<u>28,235,106</u>	<u>28,813,413</u>	<u>23,549,048</u>
<u>\$ 35,823,888</u>	<u>\$ 37,221,129</u>	<u>\$ 29,410,497</u>
\$ 1,063,108	\$ 354,512	\$ 475,217
1,089,729	2,482,414	774,802
1,225,488	1,016,279	812,847
8,116	8,116	8,116
<u>1,562,000</u>	<u>1,542,000</u>	<u>1,502,000</u>
4,948,441	5,403,321	3,572,982
9,812,198	10,871,224	6,555,063
<u>21,063,249</u>	<u>20,946,584</u>	<u>19,282,452</u>
<u>\$ 35,823,888</u>	<u>\$ 37,221,129</u>	<u>\$ 29,410,497</u>

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

	<u>2005</u>	<u>2004</u>
Patient Service Revenue	\$ 39,310,797	\$ 34,656,187
Adjustments to Patient Service Revenue	<u>(15,966,812)</u>	<u>(13,333,234)</u>
Net Patient Service Revenue	23,343,985	21,322,953
Other Revenue	<u>270,723</u>	<u>287,386</u>
Total Revenue	23,614,708	21,610,339
Expenses	<u>25,301,829</u>	<u>23,137,702</u>
Operating Loss	(1,687,121)	(1,527,363)
Non-Operating Income	<u>2,223,125</u>	<u>1,787,172</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	536,004	259,809
Unusual Item	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses	<u>\$ 536,004</u>	<u>\$ 259,809</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>2003</u>	<u>2002</u>	<u>2001*</u>
\$ 24,851,237	\$ 22,125,218	\$ 18,410,454
<u>(8,792,906)</u>	<u>(7,102,790)</u>	<u>(4,794,516)</u>
16,058,331	15,022,428	13,615,938
<u>251,589</u>	<u>307,523</u>	<u>1,538,680</u>
16,309,920	15,329,951	15,154,618
<u>18,399,286</u>	<u>15,863,181</u>	<u>15,323,700</u>
(2,089,366)	(533,230)	(169,082)
<u>1,976,139</u>	<u>2,197,362</u>	<u>905,366</u>
(113,227)	1,664,132	736,284
<u>229,892</u>	<u>--</u>	<u>--</u>
<u>\$ 116,665</u>	<u>\$ 1,664,132</u>	<u>\$ 736,284</u>

COMMENTS AND RECOMMENDATIONS

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

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

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

We have audited the accompanying financial statements of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahaska County Hospital's (d/b/a Mahaska Health Partnership) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mahaska County Hospital's (d/b/a Mahaska Health Partnership) ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by 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 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 above, we believe item 05-I-A is a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahaska County Hospital's (d/b/a Mahaska Health Partnership) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Mahaska County Hospital (d/b/a Mahaska Health Partnership) and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

G. Anderson, Bell, Kuhn & Co. P.C.

Atlantic, Iowa
August 17, 2005

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings
Year ended June 30, 2005

PART I - REPORTABLE CONDITIONS

05-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

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

05-II-B Certified Budget: Hospital expenditures during the year ended June 30, 2005 did not exceed amounts budgeted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
The Peppertree	Employee recognition banquet	\$ 1,830

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

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

Conclusion: Response accepted.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings - Continued
Year ended June 30, 2005

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

05-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not. However, several of the Board minutes have not been signed by the Board Secretary. In addition, the Board went into closed session and did not document the purpose for the session. Chapter 21.5 of the Iowa Code provides a list of situations for which closed sessions are allowed.

Recommendation: We recommend that all Board minutes be properly signed after their reading and approval, and that a purpose (listed in Chapter 21.5 of the Iowa Code) be documented, prior to going into any closed session.

Response: The Board minutes will be properly signed, and the purpose for any closed sessions will be properly documented in the future.

Conclusion: Response accepted.

05-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.

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

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

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

Conclusion: Response accepted.

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