

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION  
COMMENTS AND RECOMMENDATIONS  
YEARS ENDED JUNE 30, 2005 AND 2004

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Officials  
 June 30, 2005

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Marvin Focht, Chairman (Resigned May 2, 2005)	Villisca, Iowa	--
Sarah Smith, Vice-Chairman	Red Oak, Iowa	2008
Jim Robinson, Treasurer	Villisca, Iowa	2010
Helen Murphy, Secretary	Red Oak, Iowa	2006
Lorin Petersen	Stanton, Iowa	2008
Roger Ehmke	Red Oak, Iowa	2010
Jim Sifford	Red Oak, Iowa	2006
Kenneth Rech (Appointed June, 2005)	Red Oak, Iowa	2006

Administrator:

Allen E. Pohren	Red Oak, Iowa
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Chief Financial Officer:

Rick Leinen	Red Oak, Iowa
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# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Montgomery County Memorial Hospital as of June 30, 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 Montgomery County Memorial Hospital 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 24, 2005 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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  
Montgomery County Memorial Hospital

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 23 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 24 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Granerold, Bell, Kuhn & Co. P.C.*

Atlantic, Iowa  
August 24, 2005



# Montgomery County Memorial Hospital

2301 Eastern Avenue • P.O. Box 498 • Red Oak, Iowa 51566 • Phone 712-623-7000

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

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 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 \$2,284,116 or 15.0 percent increase in 2005 and a \$52,837 or .3 percent increase in 2004.

The Hospital reported an operating income in 2005 of \$880,138 and an operating loss in 2004 (\$1,124,099). This is an improvement of \$2,004,237 from 2004 to 2005. The operating loss in 2004 decreased by \$70,066 or 5.9 percent compared to the loss reported in 2003.

Nonoperating revenues increased in 2005 by \$233,042 or 20.8 percent compared to 2004. Nonoperating revenues decreased in 2004 by \$153,680 or 12.0 percent 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.

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

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

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased \$2,284,116 or 15.0 percent in 2005 and \$52,837 (.3 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>
<b>Assets:</b>			
Current assets	\$ 8,767,002	\$ 6,977,405	\$ 7,072,778
Capital assets, net	8,855,079	9,027,837	9,667,532
Other noncurrent assets	<u>7,447,206</u>	<u>6,749,529</u>	<u>6,551,491</u>
 Total assets	 <u>\$ 25,069,287</u>	 <u>\$ 22,754,771</u>	 <u>\$ 23,291,801</u>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 3,576,716	\$ 4,113,868	\$ 4,842,581
Other current and noncurrent liabilities	<u>3,949,012</u>	<u>3,381,460</u>	<u>3,242,614</u>
 Total liabilities	 <u>\$ 7,525,728</u>	 <u>\$ 7,495,328</u>	 <u>\$ 8,085,195</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 4,202,282	\$ 3,755,421	\$ 4,399,760
Restricted expendable net assets	976,232	1,078,376	1,249,674
Unrestricted	<u>12,365,045</u>	<u>10,425,646</u>	<u>9,557,172</u>
 Total net assets	 <u>\$ 17,543,559</u>	 <u>\$ 15,259,443</u>	 <u>\$ 15,206,606</u>

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

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2 shows the components of the operating and nonoperating activities and the resulting effect on changes in net assets.

Table 2: Operating Results and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net patient service revenues	\$ 18,910,939	\$ 15,888,189	\$ 16,446,956
Other operating revenues	<u>453,648</u>	<u>457,592</u>	<u>512,106</u>
Total operating revenues	19,364,587	16,345,781	16,959,062
Operating Expenses:			
Salaries and wages	8,777,461	8,118,901	8,240,700
Employee benefits	2,195,066	2,079,962	2,261,385
Professional fees	1,110,463	1,047,324	1,172,167
Other operating expenses	5,380,704	5,126,880	5,402,280
Depreciation and amortization	<u>1,020,755</u>	<u>1,096,813</u>	<u>1,076,695</u>
Total operating expenses	<u>18,484,449</u>	<u>17,469,880</u>	<u>18,153,227</u>
Operating income (loss)	880,138	( 1,124,099)	( 1,194,165)
Nonoperating Revenues and Expenses:			
Property taxes	1,214,764	1,230,042	1,226,079
Investment income	207,081	92,005	335,814
Noncapital grants and contributions	111,223	73,535	38,363
Other nonoperating revenues and expenses, net	<u>( 178,090)</u>	<u>( 273,646)</u>	<u>( 324,640)</u>
Nonoperating revenues, net	<u>1,354,978</u>	<u>1,121,936</u>	<u>1,275,616</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments and Unusual Item	2,235,116	( 2,163)	81,451
Grants, Contributions, and Endowments			
Unusual item	--	--	829,114
Capital grants and contributions	<u>49,000</u>	<u>55,000</u>	<u>101,000</u>
Increase in net assets	2,284,116	52,837	1,011,565
Net Assets Beginning of Year	<u>15,259,443</u>	<u>15,206,606</u>	<u>14,195,041</u>
Net Assets End of Year	<u>\$ 17,543,559</u>	<u>\$ 15,259,443</u>	<u>\$ 15,206,606</u>

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

OPERATING GAINS AND LOSSES

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2005, the Hospital has an operating income of \$880,138. In each of the previous two years, the Hospital reported an operating loss (\$1,124,099 operating loss in 2004; \$1,194,165 operating loss in 2003). The operating income in 2005 represents an increase of \$2,004,237 over the loss in 2004. The operating loss in 2004 decreased by \$70,066 or 5.9 percent of the loss reported in 2003.

The primary components of these operating income and operating losses are:

Contractual adjustments decreased \$2,324,876 or 23 percent from 2004 to 2005, and decreased \$139,480 or 1 percent from 2003 to 2004. In 2005, contractual adjustments are 28.3 percent of patient service revenue, compared to 38.0 percent of patient service revenue in 2004 (37.4 percent in 2003). The primary reason for this improvement is the Hospital's designation as a Critical Access Hospital effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a Critical Access Hospital, the Hospital receives cost-based reimbursement from Medicare and Medicaid for inpatient and outpatient services, versus prospectively determined reimbursement in prior years. This is a significant improvement in reimbursement from Medicare, who represents about 56 percent of the Hospital's patient service revenues, and Medicaid, who represents about 8 percent of the Hospital's patient service revenues.

Uncompensated care levels have increased \$224,138, or 39.5 percent from 2004 to 2005, and decreased \$50,832 or 8.2 percent from 2003 to 2004 (increased \$291,890 or 89.3 percent from 2002 to 2003). These are services provided for which there is no expectation of payment. The hospital is experiencing higher levels of bad debts, including accounts written off as charity care, and accounts sent to a third party for collection.

The Hospital's expense for employee health benefits has decreased \$2,951 from 2004 to 2005, and decreased \$215,905 from 2003 to 2004. This has been a significant improvement from several high expense years in 2001, 2002, and 2003.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs is the expense for prescription drugs. In 2005, prescription drug costs totaled \$761,376, and in 2004, prescription drug costs totaled \$946,738 (in 2003, they totaled \$1,220,854). While the cost of individual drugs has continued to rise, the Hospital's overall costs have declined because in 2004, a new contract with the primary oncology group shifted the cost and the reimbursement for a large group of drugs to the physician group.

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

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

**NONOPERATING REVENUES AND EXPENSES**

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

**GRANTS, CONTRIBUTIONS, AND ENDOWMENTS**

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

**THE HOSPITAL'S CASH FLOWS**

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

**BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2005 was prepared on a modified accrual basis. Hospital expenditures during 2005 and 2004 did not exceed amounts budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At the end of 2005, the Hospital had \$8,855,079 invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In 2005, the Hospital purchased new property and equipment costing \$941,554 (\$584,949 in 2004; \$850,490 in 2003). In 2005, the Hospital identified \$1,328,974 of fully depreciated capital assets that had been taken out of service, including \$524,558 in the Radiology area, where new RIS/PACS equipment is being installed.

**Debt:**

At year-end, the Hospital had \$4,113,868 in bonds payable, notes payable, and capital lease obligations outstanding as detailed in Note H (\$4,622,827 at June 30, 2004). The Hospital issued \$5,075,000 of 2003 Series Hospital Revenue Refunding Capital Loan notes in December 2003. The 1993 Series notes were defeased.

**OTHER ECONOMIC FACTORS**

There is nothing significant to note.

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Balance Sheets  
June 30,

ASSETS

	<u>2005</u>	<u>2004</u>
<b>Current Assets:</b>		
Cash	\$ 1,972,633	\$ 1,357,807
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,245,000 in 2005, \$1,273,000 in 2004)	3,433,211	3,062,647
Other receivables	65,400	126,312
Inventory	322,135	346,879
Prepaid expense	132,570	107,108
Estimated third-party payor settlements	409,000	--
Succeeding year property tax receivable	1,156,000	1,151,000
Internally designated assets	<u>1,276,053</u>	<u>825,652</u>
Total current assets	8,767,002	6,977,405
<b>Designated and Restricted Assets:</b>		
Internally designated assets	6,761,006	5,997,659
Restricted assets	<u>976,232</u>	<u>1,078,376</u>
	7,737,238	7,076,035
Less amounts required to meet current liabilities	<u>1,276,053</u>	<u>825,652</u>
	6,461,185	6,250,383
<b>Capital Assets:</b>		
Depreciable capital assets, net	8,679,719	8,859,310
Non-depreciable capital assets	<u>175,360</u>	<u>168,527</u>
	8,855,079	9,027,837
<b>Other Assets:</b>		
Deferred rent	28,148	35,186
Notes receivable	44,675	82,059
Equipment deposits	590,334	80,270
Other	<u>322,864</u>	<u>301,631</u>
	986,021	499,146
<b>Total assets</b>	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 537,152	\$ 508,959
Accounts payable	946,271	434,777
Accrued salaries and wages	356,777	295,565
Accrued other employee compensation	533,576	461,293
Accrued interest payable	13,777	14,854
Accrued fees	16,800	15,850
Payroll taxes withheld and accrued	233,539	212,062
Other current liabilities	155,120	161,100
Estimated third-party payor settlements	--	126,000
Deferred revenue for succeeding year property tax receivable	<u>1,156,000</u>	<u>1,151,000</u>
Total current liabilities	3,949,012	3,381,460
<b>Long-Term Debt:</b>		
Capitalized lease obligations, less current maturities	23,859	116,667
Notes payable, less unamortized discount and current maturities	3,409,751	3,811,071
Note payable, less current maturities	<u>143,106</u>	<u>186,130</u>
Total long-term debt	<u>3,576,716</u>	<u>4,113,868</u>
Total liabilities	7,525,728	7,495,328
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	4,202,282	3,755,421
Restricted - expendable	976,232	1,078,376
Unrestricted	<u>12,365,045</u>	<u>10,425,646</u>
Total net assets	<u>17,543,559</u>	<u>15,259,443</u>
Total liabilities and net assets	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>

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

	2005	2004
<b>Revenue:</b>		
Net patient service revenue	\$ 18,910,939	\$ 15,888,189
Other revenue	453,648	457,592
Total revenue	19,364,587	16,345,781
<b>Expenses:</b>		
Nursing service	5,237,047	4,860,904
Other professional service	7,480,961	7,223,662
General service	1,911,734	1,768,806
Fiscal and administrative service	2,833,952	2,519,695
Provision for depreciation	1,020,755	1,096,813
Total expenses	18,484,449	17,469,880
Operating Income (Loss)	880,138	( 1,124,099)
<b>Non-Operating Revenue (Expenses):</b>		
County taxes	1,214,764	1,230,042
Investment income	207,081	92,005
Noncapital grants and contributions	111,223	73,535
Rental income, net	106,067	78,568
Gain (loss) on disposal of assets	( 19)	5,208
Interest expense	( 284,138)	( 357,422)
Non-operating revenue, net	1,354,978	1,121,936
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	2,235,116	( 2,163)
Capital Grants and Contributions	49,000	55,000
Excess of Revenues Over Expenses and Increase in Net Assets	2,284,116	52,837
Net Assets - Beginning of Year	15,259,443	15,206,606
Net Assets - End of Year	\$ 17,543,559	\$ 15,259,443

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 18,066,287	\$ 16,522,911
Cash paid to suppliers	( 8,565,504)	( 8,234,832)
Cash paid to employees	( 8,643,966)	( 8,122,025)
Other revenue received	<u>453,648</u>	<u>457,592</u>
Net cash provided by operating activities	1,310,465	623,646
Cash flows from non-capital financing activities:		
County tax received	1,214,764	1,230,042
Noncapital grants and contributions	<u>111,223</u>	<u>73,535</u>
Net cash provided by non-capital financing activities	1,325,987	1,303,577
Cash flows from capital and related financing activities:		
Construction in progress expenditures	( 6,833)	( 117,557)
Purchase of property and equipment	( 879,473)	( 530,072)
Equipment deposits	( 139,362)	( 46,818)
Principal paid on long-term debt	( 619,619)	( 661,744)
Debt issue costs paid	--	( 95,625)
Interest paid	( 182,078)	( 271,923)
Capital grants and contributions	49,000	55,000
Proceeds from the sale of assets, net of selling costs	<u>--</u>	<u>17,970</u>
Net cash used in capital and related financing activities	( 1,778,365)	( 1,650,769)
Cash flows from investing activities:		
Investment income received	224,461	282,315
Increase in designated and restricted assets	( 586,334)	( 581,170)
Decrease in notes receivable, net	6,104	9,715
Office building rental income, net	225,990	212,284
Increase in other assets	<u>( 21,233)</u>	<u>( 83,335)</u>
Net cash used in investing activities	( 151,012)	( 160,191)
Net increase in cash and cash equivalents	707,075	116,263
Cash and cash equivalents at beginning of year	<u>1,597,029</u>	<u>1,480,766</u>
Cash and cash equivalents at end of year	<u>\$ 2,304,104</u>	<u>\$ 1,597,029</u>

(continued next page)

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

	2005	2004
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,972,633	\$ 1,357,807
Cash and cash equivalents in internally designated assets	331,471	239,222
	\$ 2,304,104	\$ 1,597,029
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 880,138	\$( 1,124,099)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Provision for depreciation	1,020,755	1,096,813
Provision for bad debts	792,131	567,993
Amortization of notes receivable	31,280	33,780
Changes in assets and liabilities		
Accounts receivable	( 1,101,783)	( 814,271)
Inventory	24,744	( 9,076)
Prepaid expense	( 25,462)	( 19,567)
Estimated third-party payor settlements	( 535,000)	881,000
Accounts payable, trade	73,720	27,000
Accrued salaries and wages	61,212	34,503
Accrued other employee compensation	72,283	( 37,627)
Accrued fees	950	2,200
Payroll taxes withheld and accrued	21,477	3,570
Other current liabilities	( 5,980)	( 18,573)
Total adjustments	430,327	1,747,745
Net cash provided by operating activities	\$ 1,310,465	\$ 623,646

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

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

2. Enterprise Fund Accounting

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

3. Use of Estimates

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

4. Cash and Cash Equivalents

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

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

5. Inventory Valuation

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

6. Investments

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

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$2,000 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 three 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. None of the Hospital's interest cost was capitalized in either 2005 or 2004.

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Any excess over 528 hours accumulated at any pay period date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 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. Currently, the Hospital has no endowment funds.

15. Restricted Resources

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 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 and Medicaid - Inpatient services, most outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2003. The Medicaid cost reports have been audited through June 30, 2002. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 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	\$ 976,232	\$ 1,078,376

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2005 or 2004.

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	\$ 49,000	\$ 55,000

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$12,365,045 (\$10,425,646 as of June 30, 2004) of unrestricted net assets as of June 30, 2005, \$6,761,006 (\$5,997,659 for 2004) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	2005	2004
Capital acquisitions	\$ 6,324,126	\$ 5,570,067
Employee health insurance	436,880	427,592
	\$ 6,761,006	\$ 5,997,659

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. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE E - DEPOSITS AND INVESTMENTS - Continued

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

The composition of designated and restricted assets is as follows:

	2005	2004
<b>Internally Designated Assets:</b>		
Cash and cash equivalents	\$ 130,409	\$ 40,664
Certificates of deposit	2,758,655	2,229,390
U.S. government agencies	669,038	3,716,880
Federal mortgage notes	3,146,445	--
Interest receivable	56,459	10,725
	\$ 6,761,006	\$ 5,997,659
<b>Restricted Assets:</b>		
Cash and cash equivalents	\$ 201,062	\$ 198,558
Certificates of deposit	271,501	270,916
U.S. government agencies	992	608,029
Federal mortgage notes	499,482	--
Accrued interest	3,195	873
	\$ 976,232	\$ 1,078,376

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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE F - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Land Improvements	\$ 1,009,983	\$ 1,300	\$ --	\$ 1,011,283
Buildings	6,993,305	--	--	6,993,305
Building Components	1,807,209	22,459	--	1,829,668
Building Service Equipment	4,719,943	74,327	--	4,794,270
Fixed Equipment	555,336	1,412	2,974	553,774
Major Movable Equipment	8,976,756	842,056	1,348,667	8,470,145
	<u>24,062,532</u>	<u>941,554</u>	<u>1,351,641</u>	<u>23,652,445</u>
 <u>Depreciation</u>				
Land Improvements	789,697	46,848	--	836,545
Buildings	2,009,612	188,382	--	2,197,994
Building Components	1,109,770	63,363	--	1,173,133
Building Service Equipment	3,416,797	222,960	--	3,639,757
Fixed Equipment	525,040	9,104	2,974	531,170
Major Movable Equipment	7,352,306	588,850	1,347,029	6,594,127
Total Depreciation	<u>15,203,222</u>	<u>1,119,507</u>	<u>1,350,003</u>	<u>14,972,726</u>
Depreciable Capital Assets, Net	<u>\$ 8,859,310</u>	<u>\$( 177,953)</u>	<u>\$ 1,638</u>	<u>\$ 8,679,719</u>
Construction in Progress	\$ 65,187	\$ 6,833	\$ --	\$ 72,020
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 168,527</u>	<u>\$ 6,833</u>	<u>\$ --</u>	<u>\$ 175,360</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Land Improvements	\$ 1,004,309	\$ 5,674	\$ --	\$ 1,009,983
Buildings	6,884,792	108,513	--	6,993,305
Building Components	1,775,538	31,671	--	1,807,209
Building Service Equipment	4,711,577	8,366	--	4,719,943
Fixed Equipment	549,463	5,873	--	555,336
Major Movable Equipment	<u>8,638,638</u>	<u>424,852</u>	<u>86,734</u>	<u>8,976,756</u>
	23,564,317	584,949	86,734	24,062,532
 <u>Depreciation</u>				
Land Improvements	737,252	52,445	--	789,697
Buildings	1,823,210	186,402	--	2,009,612
Building Components	1,028,586	81,184	--	1,109,770
Building Service Equipment	3,186,870	229,927	--	3,416,797
Fixed Equipment	493,755	31,285	--	525,040
Major Movable Equipment	<u>6,799,135</u>	<u>627,143</u>	<u>73,972</u>	<u>7,352,306</u>
Total Depreciation	<u>14,068,808</u>	<u>1,208,386</u>	<u>73,972</u>	<u>15,203,222</u>
Depreciable Capital Assets, Net	<u>\$ 9,495,509</u>	<u>\$( 623,437)</u>	<u>\$ 12,762</u>	<u>\$ 8,859,310</u>
Construction in Progress	\$ 68,683	\$ 114,228	\$ 117,724	\$ 65,187
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 172,023</u>	<u>\$ 114,228</u>	<u>\$ 117,724</u>	<u>\$ 168,527</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,261,797, of which a major portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,119,507 for the year ended June 30, 2005 (\$1,208,386 in 2004), of which \$98,752 (\$111,573 in 2004) is related to the space occupied by the physicians and is included in the net rental income under non-operating revenue.

NOTE G - DEFERRED RENT

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE G - DEFERRED RENT - Continued

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

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

	2005	2004
Deferred Rent	\$ 28,148	\$ 35,186

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2005 and 2004 follows:

	Balance 2004	Additions	Reductions	Balance 2005	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 227,008	\$ --	\$ 40,878	\$ 186,130	\$ 43,024
Series 2003 notes	4,840,000	--	490,000	4,350,000	505,000
Less unamortized discount and debt issue costs	( 649,589)	--	( 110,660)	( 538,929)	( 103,680)
	4,417,419	--	420,218	3,997,201	444,344
Capital Lease Obligations	205,408	--	88,741	116,667	92,808
Total Long-Term Debt	\$4,622,827	\$ --	\$ 508,959	\$4,113,868	\$ 537,152
	Balance 2003	Additions	Reductions	Balance 2004	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 263,900	\$ --	\$ 36,892	\$ 227,008	\$ 40,878
Series 1993 bonds	5,380,000	--	5,380,000	--	--
Series 2003 notes	--	5,075,000	235,000	4,840,000	490,000
Less unamortized discount and debt issue costs	( 666,388)	( 95,625)	( 112,424)	( 649,589)	( 110,660)
	4,977,512	4,979,375	5,539,468	4,417,419	420,218
Capital Lease Obligations	290,260	--	84,852	205,408	88,741
Total Long-Term Debt	\$5,267,772	\$4,979,375	\$5,624,320	\$4,622,827	\$ 508,959

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE H - NON-CURRENT LIABILITIES - Continued

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

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

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

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

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

Year Ending June 30,	Long-Term Debt		Capital Leases	
	Principal	Interest	Principal	Interest
2006	\$ 548,024	\$ 162,630	\$ 92,808	\$ 3,344
2007	565,283	147,869	23,859	179
2008	572,660	130,415	--	--
2009	585,163	110,501	--	--
2010	545,000	90,033	--	--
2011-13	<u>1,720,000</u>	<u>134,244</u>	<u>--</u>	<u>--</u>
	<u>\$ 4,536,130</u>	<u>\$ 775,692</u>	<u>\$ 116,667</u>	<u>\$ 3,523</u>

Total interest expense for the year ended June 30, 2005 was \$291,661 (\$370,940 in 2004). Interest of \$7,523 (\$13,518 in 2004) is related to the rental space portion of the office building and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

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 \$490,300, \$461,700, and \$459,200, respectively, equal to the required contributions for each year.

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 human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

The market value of the exclusive benefit plan assets at June 30, 2005, was approximately \$1,136,878, (\$745,550 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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE K - RELATED ORGANIZATION

Health Partners of Southwest Iowa

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

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

	2005	2004
Services purchased from HPSI	\$ 119,589	\$ 152,037
Services and supplies provided to HPSI	\$ 32,591	\$ 11,913
Amount due to HPSI	\$ 19,350	\$ 22,682
Member share of net assets	\$ 267,232	\$ 241,981

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

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2005, contributions received from this organization were \$25,000 (\$25,000 for 2004).

NOTE L - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2005, the Hospital has designated funds in excess of actual claims paid of \$436,880 (\$427,592 at June 30, 2004). This amount of funds, shown under restricted assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2005 is \$119,606 (\$128,192 at June 30, 2004), which is included in other current liabilities.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Notes Receivable

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

Risk Management

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

Construction in Progress

As of June 30, 2005, the Hospital incurred fees of \$72,020 for long-term site development planning. The project is being financed through the use of internally generated funds.

Equipment Deposits

As of June 30, 2005, the Hospital incurred costs of \$590,334 for the purchase of equipment and various computer hardware and software applications that had not been completed and placed in service. The total estimated cost to complete the remaining projects is \$658,000, which is being financed through the use of internally generated funds.

NOTE M - 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:

	<u>2005</u>	<u>2004</u>
Receivable from:		
Patients	\$ 769,202	\$ 869,573
Medicare	1,858,310	1,932,953
Medicaid	446,920	273,875
Blue Cross	596,241	436,395
Other commercial insurance carriers	921,135	733,742
Others	<u>86,403</u>	<u>89,109</u>
	4,678,211	4,335,647
Less allowances for doubtful accounts and contractual adjustments	<u>1,245,000</u>	<u>1,273,000</u>
	<u>\$ 3,433,211</u>	<u>\$ 3,062,647</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2005 and 2004

NOTE N - NON-CASH TRANSACTIONS

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

	<u>2005</u>	<u>2004</u>
Increase in unrealized gains (losses)	<u>\$( 17,380)</u>	<u>\$( 190,310)</u>
Book value of traded assets	<u>\$ 1,619</u>	<u>\$ --</u>

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 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, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,214,764	\$ --	\$ 1,214,764
Other revenues	19,504,801	49,000	19,553,801
Transfers in (out)	<u>151,144</u>	<u>( 151,144)</u>	<u>--</u>
	20,870,709	( 102,144)	20,768,565
Expenses	<u>18,484,449</u>	<u>--</u>	<u>18,484,449</u>
Net	2,386,260	( 102,144)	2,284,116
Balance beginning of year	<u>14,181,067</u>	<u>1,078,376</u>	<u>15,259,443</u>
Balance end of year	<u>\$ 16,567,327</u>	<u>\$ 976,232</u>	<u>\$ 17,543,559</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,214,764	\$ --	\$ 1,214,764	\$ 1,150,788
Other revenues	<u>19,553,801</u>	<u>291,661</u>	<u>19,845,462</u>	<u>21,084,723</u>
	20,768,565	291,661	21,060,226	22,235,511
Expenses	<u>18,484,449</u>	<u>2,004,420</u>	<u>20,488,869</u>	<u>23,109,900</u>
Net	2,284,116	( 1,712,759)	571,357	( 874,389)
Balance beginning of year	<u>15,259,443</u>	<u>( 4,183,249)</u>	<u>11,076,194</u>	<u>11,076,194</u>
Balance end of year	<u>\$ 17,543,559</u>	<u>\$( 5,896,008)</u>	<u>\$ 11,647,551</u>	<u>\$ 10,201,805</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 776,567	16.6%	\$ 801,884	18.5%
31 - 90	1,566,219	33.5	1,328,951	30.7
91 - 180	496,422	10.6	417,381	9.6
181 - 360	205,429	4.4	231,956	5.4
361 and over	112,393	2.4	166,206	3.8
	<u>3,157,030</u>	<u>67.5</u>	<u>2,946,378</u>	<u>68.0</u>
In hospital and unbilled	<u>1,521,181</u>	<u>32.5</u>	<u>1,389,269</u>	<u>32.0</u>
	<u>4,678,211</u>	<u>100.0%</u>	<u>4,335,647</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	306,000		326,000	
Allowance for contractual adjustments	<u>939,000</u>		<u>947,000</u>	
	<u>\$ 3,433,211</u>		<u>\$ 3,062,647</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Balance, beginning	\$ 326,000	\$ 375,000
Provision for bad debts	792,131	567,993
Recoveries of accounts previously written off	<u>189,627</u>	<u>171,476</u>
	<u>1,307,758</u>	<u>1,114,469</u>
Accounts written off	<u>1,001,758</u>	<u>788,469</u>
Balance, ending	<u>\$ 306,000</u>	<u>\$ 326,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	2005	2004
<u>Inventory</u>		
General stores	\$ 178,390	\$ 178,736
Pharmacy	133,084	141,997
Dietary	10,661	9,766
Operating room	--	16,380
	\$ 322,135	\$ 346,879
 <u>Prepaid Expense</u>		
Dues	\$ 14,156	\$ 12,908
General insurance	79,807	79,242
Service contracts	38,607	14,958
	\$ 132,570	\$ 107,108

See Independent Auditor's Report.

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

	2005	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,063,605	\$ 141,065
Coronary care	990,035	55,314
Nursery	104,576	--
	2,158,216	196,379
Other Nursing Services:		
Operating room	220,142	1,358,551
Recovery room	14,682	159,980
Labor and delivery rooms	99,768	39,779
Medical supplies	627,547	938,544
Intravenous therapy	597,732	266,416
Emergency service	114,889	1,496,688
Outpatient clinics	1,565	198,567
	1,676,325	4,458,525
Other Professional Services:		
Emergency room physicians	33,880	545,097
Laboratory	675,111	1,648,251
Electrocardiology	189,074	308,247
Electroencephalography	8,481	19,859
Radiology	140,253	1,216,076
Ultrasound	62,011	571,562
CT scan	205,187	1,234,100
Mammography	--	156,693
MRI	54,400	976,379
Nuclear medicine	35,805	173,065
Pharmacy	1,197,505	1,707,550
Anesthesiology	191,655	624,368
Inhalation therapy	717,593	226,096
Physical therapy	59,164	938,070
Speech therapy	2,176	27,139
Occupational therapy	8,604	207,706
Cardiopulmonary rehabilitation	220	102,106
Oncology	--	23,913
Home health	--	336,713
Hospice	13,470	180,227
Durable medical equipment	--	694,620
Business health	--	151,307
Women's health	87,629	402,379
Sleep study	--	298,875
	3,682,218	12,770,398
	\$ 7,516,759	\$ 17,425,302

See Independent Auditor's Report.

2005		2004	
Swing Bed	Total	Swing Bed	Total
\$ 506,780	\$ 1,711,450	\$ 1,585,972	
--	1,045,349	1,054,850	
--	104,576	79,516	
<u>506,780</u>	<u>2,861,375</u>	<u>2,720,338</u>	
12,489	1,591,182	1,490,117	
1,135	175,797	171,234	
--	139,547	82,796	
219,124	1,785,215	1,654,080	
251,717	1,115,865	1,298,577	
633	1,612,210	1,402,149	
477	200,609	169,063	
<u>485,575</u>	<u>6,620,425</u>	<u>6,268,016</u>	
--	578,977	552,083	
149,752	2,473,114	2,409,480	
14,498	511,819	558,731	
657	28,997	21,070	
41,972	1,398,301	1,461,838	
8,656	642,229	637,920	
35,413	1,474,700	1,315,762	
--	156,693	137,107	
8,996	1,039,775	851,843	
7,722	216,592	223,928	
638,083	3,543,138	3,937,315	
7,538	823,561	721,550	
581,476	1,525,165	1,537,904	
140,057	1,137,291	1,021,343	
7,105	36,420	61,124	
27,894	244,204	288,171	
--	102,326	100,948	
--	23,913	97,791	
--	336,713	419,030	
--	193,697	180,488	
--	694,620	507,635	
--	151,307	113,225	
--	490,008	402,672	
2,105	300,980	123,601	
<u>1,671,924</u>	<u>18,124,540</u>	<u>17,682,559</u>	
<u>\$ 2,664,279</u>	<u>\$ 27,606,340</u>	<u>\$ 26,670,913</u>	

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

	2005	2004
Net Patient Service Revenue:		
Patient service revenue	\$ 27,606,340	\$ 26,670,913
Contractual adjustments	( 7,800,659)	( 10,125,535)
Discounts and allowances	( 102,611)	( 89,196)
Provision for bad debts	( 792,131)	( 567,993)
	<u>\$ 18,910,939</u>	<u>\$ 15,888,189</u>
 Other Operating Revenue:		
Meals sold	\$ 72,788	\$ 71,106
Prisoner meals	21,948	34,804
Meals on wheels	27,731	33,939
Lifeline	52,803	47,929
Medical record transcripts	4,250	3,246
Case management	44,537	57,191
Wellness	24,122	20,348
Contracted services	162,583	136,894
Miscellaneous	42,886	52,135
	<u>\$ 453,648</u>	<u>\$ 457,592</u>

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Administrative:		
Salaries and wages	\$ 126,255	\$ 111,777
Employee benefits	32,955	31,842
Supplies and other expense	<u>45,243</u>	<u>31,639</u>
	204,453	175,258
Quality Assurance:		
Salaries and wages	52,622	49,118
Employee benefits	9,546	8,924
Supplies and other expense	<u>5,188</u>	<u>3,641</u>
	67,356	61,683
Inservice:		
Salaries and wages	61,175	50,125
Employee benefits	17,166	15,134
Supplies and other expense	<u>14,154</u>	<u>12,137</u>
	92,495	77,396
Medical and Surgical:		
Salaries and wages	1,297,751	1,217,804
Employee benefits	301,005	290,141
Supplies and other expense	<u>94,195</u>	<u>97,069</u>
	1,692,951	1,605,014
Coronary Care:		
Salaries and wages	637,765	580,835
Employee benefits	168,739	159,604
Supplies and other expense	<u>26,536</u>	<u>24,357</u>
	833,040	764,796
Obstetric:		
Salaries and wages	56,809	45,572
Employee benefits	7,612	6,106
Supplies and other expense	<u>1,565</u>	<u>2,361</u>
	65,986	54,039

(continued next page)

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

	2005	2004
Nursery:		
Salaries and wages	\$ 49,806	\$ 43,439
Employee benefits	6,674	5,821
Supplies and other expense	3,367	4,811
	59,847	54,071
Operating Room:		
Salaries and wages	393,828	361,372
Employee benefits	85,709	82,045
Supplies and other expense	99,987	94,630
	579,524	538,047
Labor and Delivery:		
Salaries and wages	24,750	18,782
Employee benefits	3,317	2,517
Supplies and other expense	5,034	5,103
	33,101	26,402
Central Services and Supply:		
Salaries and wages	145,379	130,521
Employee benefits	41,486	39,213
Supplies sold to patients	493,207	486,567
Supplies and other expense	6,101	6,553
	686,173	662,854
Intravenous Therapy:		
Solutions	30,383	27,708
Emergency Services:		
Salaries and wages	397,991	374,777
Employee benefits	76,114	72,200
Supplies and other expense	18,083	21,766
	492,188	468,743
Outpatient Clinics:		
Salaries and wages	302,259	255,089
Employee benefits	72,854	57,372
Supplies and other expense	24,437	32,432
	399,550	344,893
	\$ 5,237,047	\$ 4,860,904

(continued next page)

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

	<u>2005</u>	<u>2004</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 3,546,390	\$ 3,239,211
Employee benefits	823,177	770,919
Other expense	<u>867,480</u>	<u>850,774</u>
	<u>\$ 5,237,047</u>	<u>\$ 4,860,904</u>

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Emergency Room Physicians:		
Salaries and wages	\$ 240	\$ 26,310
Employee benefits	31	4,284
Professional fees	369,332	324,581
Supplies and other expense	--	518
	<u>369,603</u>	<u>355,693</u>
Laboratory:		
Salaries and wages	335,363	323,238
Employee benefits	78,947	83,830
Professional fees	119,585	97,922
Supplies and other expense	371,086	329,397
	<u>904,981</u>	<u>834,387</u>
Blood Bank:		
Cost of blood	79,513	96,402
Electrocardiology:		
Salaries and wages	21,699	17,679
Employee benefits	2,908	2,369
Purchased services	104,270	111,595
Supplies and other expense	2,874	3,065
	<u>131,751</u>	<u>134,708</u>
Electroencephalography:		
Salaries and wages	3,212	1,798
Employee benefits	430	241
Supplies and other expense	11,563	10,025
	<u>15,205</u>	<u>12,064</u>
Radiology:		
Salaries and wages	343,382	344,029
Employee benefits	64,622	73,650
Supplies and other expense	123,771	95,106
	<u>531,775</u>	<u>512,785</u>
Ultrasound:		
Salaries and wages	57,017	48,626
Employee benefits	7,406	6,498
Supplies and other expense	19,252	19,594
	<u>83,675</u>	<u>74,718</u>

(continued next page)

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

	<u>2005</u>	<u>2004</u>
<b>CT Scan:</b>		
Salaries and wages	\$ 41,095	\$ 40,282
Employee benefits	10,810	5,409
Professional fees	20,258	24,043
Supplies and other expense	<u>29,666</u>	<u>23,472</u>
	101,829	93,206
<b>Mammography:</b>		
Purchased services	17,288	8,150
Supplies and other expense	<u>10,504</u>	<u>10,166</u>
	27,792	18,316
<b>MRI:</b>		
Purchased services	228,000	194,434
Supplies and other expense	<u>20,765</u>	<u>18,567</u>
	248,765	213,001
<b>Nuclear Medicine:</b>		
Purchased services	85,951	94,565
Supplies and other expense	<u>306</u>	<u>--</u>
	86,257	94,565
<b>Pharmacy:</b>		
Salaries and wages	258,113	240,700
Employee benefits	51,469	47,123
Purchased services	94,546	89,551
Drugs	761,376	946,738
Supplies and other expense	<u>9,395</u>	<u>8,259</u>
	1,174,899	1,332,371
<b>Anesthesiology:</b>		
Salaries and wages	526,550	440,597
Employee benefits	73,125	56,123
Professional fees	383	12,267
Supplies and other expense	<u>24,846</u>	<u>22,741</u>
	624,904	531,728
<b>Inhalation Therapy:</b>		
Salaries and wages	234,977	234,361
Employee benefits	49,292	47,713
Professional fees	--	175
Supplies and other expense	<u>298,284</u>	<u>217,644</u>
	582,553	499,893

(continued next page)

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

	<u>2005</u>	<u>2004</u>
Physical Therapy:		
Professional fees	\$ 429,866	\$ 389,729
Supplies and other expense	5,513	6,089
	<u>435,379</u>	<u>395,818</u>
Speech Therapy:		
Professional fees	14,822	23,655
Occupational Therapy:		
Professional fees	95,373	111,198
Supplies and other expense	201	569
	<u>95,574</u>	<u>111,767</u>
Cardiopulmonary Rehabilitation:		
Salaries and wages	97,205	92,763
Employee benefits	13,158	12,919
Supplies and other expense	7,364	6,823
	<u>117,727</u>	<u>112,505</u>
Home Health:		
Salaries and wages	257,215	249,507
Employee benefits	63,095	63,044
Purchased services	65,858	79,515
Supplies and other expense	21,447	23,271
	<u>407,615</u>	<u>415,337</u>
Hospice:		
Salaries and wages	69,272	68,922
Employee benefits	8,909	9,213
Purchased services	32,025	19,897
Supplies and other expense	31,140	29,522
	<u>141,346</u>	<u>127,554</u>
Social Services:		
Salaries and wages	75,534	71,665
Employee benefits	18,569	18,171
Supplies and other expense	1,480	1,982
	<u>95,583</u>	<u>91,818</u>
Lifeline:		
Supplies and other expense	42,727	48,269

(continued next page)

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

	2005	2004
<b>Health Information Management:</b>		
Salaries and wages	\$ 243,180	\$ 229,566
Employee benefits	51,244	56,612
Supplies and other expense	54,751	58,120
	349,175	344,298
 <b>Case Management:</b>		
Salaries and wages	55,140	35,682
Employee benefits	7,149	4,675
Supplies and other expense	2,904	1,482
	65,193	41,839
 <b>Sleep Study:</b>		
Salaries and wages	61,967	3,904
Employee benefits	8,549	523
Professional fees	9,859	27,410
Supplies and other expense	7,992	13,121
	88,367	44,958
 <b>Women's Health:</b>		
Salaries and wages	300,422	311,878
Employee benefits	85,028	92,455
Supplies and other expense	31,145	19,388
	416,595	423,721
 <b>Business Health:</b>		
Salaries and wages	81,825	82,222
Employee benefits	19,249	21,654
Supplies and other expense	40,918	24,904
	141,992	128,780

(continued next page)

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

	2005	2004
Diabetes Program:		
Salaries and wages	\$ 83,135	\$ 85,891
Employee benefits	21,260	20,585
Supplies and other expense	969	3,030
	105,364	109,506
	\$ 7,480,961	\$ 7,223,662

SUMMARY

Salaries and wages	\$ 3,146,543	\$ 2,949,620
Employee benefits	635,250	627,091
Professional fees	1,059,478	1,010,980
Other expense	2,639,690	2,635,971
	\$ 7,480,961	\$ 7,223,662

See Independent Auditor's Report.

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

	2005	2004
<b>Dietary:</b>		
Salaries and wages	\$ 364,673	\$ 331,348
Employee benefits	121,528	120,911
Food	164,837	173,169
Supplies and other expense	41,146	41,955
	692,184	667,383
<b>Housekeeping:</b>		
Salaries and wages	279,855	257,168
Employee benefits	73,147	70,340
Purchased services	13,012	11,059
Supplies and other expense	67,545	62,387
	433,559	400,954
<b>Laundry and Linen:</b>		
Purchased services	94,633	93,110
Supplies and other expense	2,362	2,155
	96,995	95,265
<b>Plant Engineering:</b>		
Salaries and wages	162,298	146,492
Employee benefits	34,076	33,033
Utilities	335,483	337,219
Purchased services	32,894	--
Supplies and other expense	124,245	88,460
	688,996	605,204
	\$ 1,911,734	\$ 1,768,806

SUMMARY

Salaries and wages	\$ 806,826	\$ 735,008
Employee benefits	228,751	224,284
Other expense	876,157	809,514
	\$ 1,911,734	\$ 1,768,806

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Administrative:		
Salaries and wages	\$ 176,002	\$ 161,204
Employee benefits	200,861	182,794
Professional fees	50,985	36,344
Dues and subscriptions	46,970	44,550
Purchased services	16,788	9,007
Collection fees	55,495	53,392
Telephone	34,342	48,070
YMCA pledge and vocational building	10,000	10,000
Supplies and other expense	<u>167,351</u>	<u>157,624</u>
	758,794	702,985
Accounting:		
Salaries and wages	154,220	146,734
Employee benefits	39,938	37,947
Supplies and other expense	<u>25,403</u>	<u>8,510</u>
	219,561	193,191
Admissions/Business Office:		
Salaries and wages	170,522	165,470
Employee benefits	44,854	44,267
Supplies and other expense	<u>18,351</u>	<u>22,223</u>
	233,727	231,960
Patient Accounting:		
Salaries and wages	140,284	156,016
Employee benefits	40,592	36,408
Supplies and other expense	<u>38,693</u>	<u>37,069</u>
	219,569	229,493
Fiscal Services:		
Salaries and wages	118,641	107,752
Employee benefits	42,462	40,932
Purchased services	125	--
Supplies and other expense	<u>6,621</u>	<u>7,985</u>
	167,849	156,669
Information Systems:		
Salaries and wages	321,258	273,532
Employee benefits	80,556	70,091
Purchased services and maintenance	245,071	169,415
Supplies and other expense	<u>55,088</u>	<u>17,341</u>
	701,973	530,379

(continued next page)

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

	2005	2004
<b>Human Resources:</b>		
Salaries and wages	\$ 56,911	\$ 51,189
Employee benefits	27,819	15,414
Purchased services	1,191	691
Supplies and other expense	21,638	21,535
	107,559	88,829
 <b>Public Relations:</b>		
Salaries and wages	58,697	55,500
Employee benefits	11,498	11,573
Supplies and other expense	79,305	67,694
	149,500	134,767
 <b>DRG/Utilization Review:</b>		
Salaries and wages	81,167	77,665
Employee benefits	19,308	18,242
Purchased services	13,187	6,433
Supplies and other expense	1,627	6,780
	115,289	109,120
 <b>Insurance:</b>		
Liability and property insurance	160,131	142,302
	\$ 2,833,952	\$ 2,519,695

SUMMARY

Salaries and wages	\$ 1,277,702	\$ 1,195,062
Employee benefits	507,888	457,668
Professional fees	50,985	36,344
Other expense	997,377	830,621
	\$ 2,833,952	\$ 2,519,695

SUMMARY OF EXPENSES

Salaries and wages	\$ 8,777,461	\$ 8,118,901
Employee benefits	2,195,066	2,079,962
Professional fees	1,110,463	1,047,324
Other expense	5,380,704	5,126,880
	\$ 17,463,694	\$ 16,373,067

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
 Comparative Statistics  
 Year ended June 30,

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Admissions	1,142	1,232	1,395	1,419	1,450
Discharges	1,140	1,234	1,399	1,431	1,446
Average Length of Stay	3.36	3.26	3.79	4.12	4.29
Acute Patient Days	3,828	4,017	5,307	5,901	6,199
Average Occupied Beds	10.5	11.0	14.5	16.2	17.0
Swing Bed Days	2,963	3,311	3,309	3,489	3,202
Combined Average Occupied Beds	18.6	20.0	23.6	25.7	25.8
Beds Available	25	40	40	40	40
Nursery Days	251	203	201	178	152
Outpatient Occasions of Service	40,371	36,979	39,810	40,065	36,804

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	<u>2005</u>	<u>2004</u>
<b>Current Assets:</b>		
Cash	\$ 1,972,633	\$ 1,357,807
Receivables, net	3,498,611	3,188,959
Inventory	322,135	346,879
Prepaid expense	132,570	107,108
Estimated third-party payor settlements	409,000	--
Succeeding year property tax receivable	1,156,000	1,151,000
Internally designated assets	<u>1,276,053</u>	<u>825,652</u>
Total current assets	8,767,002	6,977,405
<b>Other Assets:</b>		
Internally designated and restricted assets	6,461,185	6,250,383
Capital assets, net	8,855,079	9,027,837
Other non-current assets	<u>986,021</u>	<u>499,146</u>
Total other assets	<u>16,302,285</u>	<u>15,777,366</u>
	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 537,152	\$ 508,959
Accounts payable	946,271	434,777
Estimated third-party payor settlements	--	126,000
Accrued expenses	1,309,589	1,160,724
Deferred revenue for succeeding year property tax receivable	<u>1,156,000</u>	<u>1,151,000</u>
Total current liabilities	3,949,012	3,381,460
Long-Term Debt, Net	3,576,716	4,113,868
Net Assets	<u>17,543,559</u>	<u>15,259,443</u>
	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 1,071,955	\$ 1,401,570	\$ 1,112,253
2,942,681	3,070,160	3,107,639
337,803	337,282	290,553
87,541	40,535	92,787
755,000	261,000	295,000
1,155,000	1,127,000	986,000
<u>722,798</u>	<u>578,053</u>	<u>686,221</u>
7,072,778	6,815,600	6,570,453
6,131,966	5,189,906	4,797,910
9,667,532	10,031,894	9,903,835
<u>419,525</u>	<u>444,591</u>	<u>412,294</u>
16,219,023	15,666,391	15,114,039
<u>\$ 23,291,801</u>	<u>\$ 22,481,991</u>	<u>\$ 21,684,492</u>
\$ 425,191	\$ 388,976	\$ 291,103
472,365	506,483	599,931
--	--	--
1,190,058	996,719	935,626
<u>1,155,000</u>	<u>1,127,000</u>	<u>986,000</u>
3,242,614	3,019,178	2,812,660
4,842,581	5,267,772	5,285,355
<u>15,206,606</u>	<u>14,195,041</u>	<u>13,586,477</u>
<u>\$ 23,291,801</u>	<u>\$ 22,481,991</u>	<u>\$ 21,684,492</u>

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

	<u>2005</u>	<u>2004</u>
Patient Service Revenue	\$ 27,606,340	\$ 26,670,913
Adjustments to Patient Service Revenue	<u>( 8,695,401)</u>	<u>( 10,782,724)</u>
Net Patient Service Revenue	18,910,939	15,888,189
Other Revenue	<u>453,648</u>	<u>457,592</u>
Total Revenue	19,364,587	16,345,781
Expenses	<u>18,484,449</u>	<u>17,469,880</u>
Operating Income (Loss)	880,138	( 1,124,099)
Non-Operating Revenue, Net	<u>1,354,978</u>	<u>1,121,936</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Unusual Item	2,235,116	( 2,163)
Capital Grants and Contributions	49,000	55,000
Unusual Item	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses	<u>\$ 2,284,116</u>	<u>\$ 52,837</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>
\$ 27,407,714	\$ 24,775,662	\$ 22,199,400
<u>( 10,960,758)</u>	<u>( 9,035,703)</u>	<u>( 7,357,145)</u>
16,446,956	15,739,959	14,842,255
<u>512,106</u>	<u>627,629</u>	<u>1,542,626</u>
16,959,062	16,367,588	16,384,881
<u>18,153,227</u>	<u>16,860,602</u>	<u>16,579,321</u>
( 1,194,165)	( 493,014)	( 194,440)
<u>1,275,616</u>	<u>1,036,578</u>	<u>623,845</u>
81,451	543,564	429,405
101,000	65,000	--
<u>829,114</u>	<u>--</u>	<u>--</u>
<u>\$ 1,011,565</u>	<u>\$ 608,564</u>	<u>\$ 429,405</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  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the accompanying financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2005, and have issued our report thereon dated August 24, 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 Montgomery County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 Montgomery County Memorial Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 05-I-A is a material weakness.

To the Board of Trustees  
Montgomery County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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.

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 Montgomery County Memorial Hospital 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.

*Gronwald, Bell, Kyhn & Co. P.C.*

Atlantic, Iowa  
August 24, 2005

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
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 stated 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 no expenditures for parties, banquets or other entertainment for employees or Board members.

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

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

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.

\* \* \*