

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2005 and 2004**

Together with Independent Auditor's Report

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

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June 30, 2005 and 2004

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GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

OFFICIALS

June 30, 2005

<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Jerry Bakker	Chairman	Grundy Center, IA	April 2006
Wayne Bracy	Vice-Chairman	Conrad, IA	April 2007
Jane Dodd	Secretary	Reinbeck, IA	April 2008
Marty Rouse	Treasurer	Grundy Center, IA	April 2006
Janet Eberline	Member	Grundy Center, IA	April 2007
Evie Haupt	Member	Wellsburg, IA	April 2007
Dan Robertson	Member	Reinbeck, IA	April 2008

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



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- Harvey D. Johnson, CPA
- Wendell L. Quist, CPA
- Clifford C. Huntington, CPA
- Roger E. Howard, CPA
- Roger E. Thompson, CPA
- Tom H. Schnack, CPA
- Daniel L. Hassel, CPA
- Dennis K. Grindle, CPA
- Dennis R. Hein, CPA
- Brent T. Frieauf, CPA
- Barbara J. Fajen, CPA
- Brian D. Green, CPA

Independent Auditor's Report

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

We have audited the accompanying balance sheets of GRUNDY COUNTY MEMORIAL HOSPITAL (Hospital), as of and for the years ended June 30, 2005 and 2004 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grundy County Memorial Hospital as of June 30, 2005, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2005, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 9 and page 28 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
August 31, 2005.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis **June 30, 2005 and 2004**

Our discussion and analysis of Grundy County Memorial Hospital's (Hospital's) financial performance provides an overview of the Hospital and its financial activities for the fiscal years ended June 30, 2005, 2004, and 2003. Please read it in conjunction with the Hospital's financial statements, which begin on page 12.

Using This Annual Report

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

- Management's Discussion and Analysis introduces the Hospital and its basic financial statements while providing an analytical overview of the Hospital's financial activities.
- The Hospital's financial statements consist of three statements - Balance Sheets; Statements of Revenue, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

General Information

The Hospital

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

History

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

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

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

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

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

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Financial and Operations History

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

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

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

Modernization Project

The Hospital was built strictly as an inpatient facility, and it has completely outgrown its outpatient areas. The building is 53 years old and in desperate need of updating. The hospital needs to modernize the physical plant and continue to improve its technology to best serve the future healthcare needs of residents of Grundy County and the surrounding area.

The GCMH Board of Commissioners prioritized the most urgent needs of the hospital and has approved the following modernization plan to maximize efficiency, quality and convenience.

Mechanical Systems

Heating, cooling, air handling and electrical systems will be replaced/upgraded immediately.

Specialty Clinics

Six new exam rooms including two special procedure rooms will be added, with easy access to surgery, lab and radiology. A nurse's station close to the reception and charting area will allow two specialty clinics to operate at the same time.

Emergency Room

A designated trauma room and two emergency bays in the department are planned. A waiting area will be added to this area.

Outpatient Therapy

This area will include new square footage for growing Physical Therapy, Occupational Therapy, Speech Therapy and Cardiac Rehab programs.

Surgery & Recovery

Minor remodeling in the surgery area includes new doors and ventilation systems to improve infection control. A new Post-Anesthesia Unit improves patient safety and surgery efficiency by adding recovery beds and recliners.

Outpatient Lobby

A new entry will offer easy access to specialty clinics, the admissions area and outpatient services. The new waiting area will include seating for 50 people, public restrooms and a gift shop.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis June 30, 2005 and 2004

Radiology

This area will feature new state of the art facilities for the CT scanner, dexascan, mammography and sonography equipment. The layout allows for easy access to all rooms from a central radiology workroom.

Site Work

This project includes an entry drive with a covered drop-off for vehicles and additional parking. An increase in outpatient services means patients and visitors often must park in the street rather than in the hospital lot. Additional adjacent parking would provide relief in inclement weather and help many patients who have trouble ambulating a long distance.

The modernization project is on schedule at the present time. The Outpatient Therapy area was completed and occupied November, 2004. The new addition, including Lab, Radiology, Specialty Clinic and Lobby, was completed June, 2005. The Surgery, Recovery Room and Emergency Department remodel is scheduled for completion December, 2005.

A Partner for Grundy County

GCMH Associates

The Hospital is a vital part of Grundy County. With a staff of 140, it is one of the county's largest employers. The total annual payroll and benefits for the hospital reach 3.815 million dollars. The expansion and modernization of Grundy County Memorial Hospital will lead to the creation of several jobs over the next 2 years.

The Administrative Team and Hospital Board of Commissioners demonstrate their commitment by providing many opportunities for employee education as well as encouraging persons in lower skilled positions to train for higher skill level and professional positions within the organization.

Economic Impact

According to 2004 Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$5 million for the county each year. The economic impact of the entire health sector (including physicians, home health, pharmacies, etc) on Grundy County is almost \$15 million dollars. If the health sector increases or decreases in size, the medical health of the community, as well as the economic health of the community, are greatly affected. For the attraction of industrial firms, businesses, and retirees, it is crucial that the area have a quality health sector.

Community Partner

The Hospital also strives to be a good community partner. GCMH takes health education classes, health fairs and wellness opportunities out into the county. The hospital also offers immunization clinics, occupational health services, education and drug-screenings throughout the county, thereby touching many lives.

GCMH Administration and key staff are actively involved in the community-wide health needs assessment, planning and implementation strategies with public health, school, business, community and county officials. The sessions will focus on updating and resetting the vision for community health.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Financial Highlights

- The Hospital's cash and cash equivalents and assets limited as to use or restricted, collectively, decreased \$3,323,457 primarily due to amounts invested into the ongoing modernization project.
- The Hospital's net assets increased \$712,895, 20.6% from June 30, 2004 to June 30, 2005.
- Net patient service revenue before provision for bad debt increased \$778,925, 14.1% from 2004 to 2005.
- Operating expenses increased \$875,175, 15.9% from the year ending June 30, 2004 to June 30, 2005.

Financial Statements

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

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue 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.

The Statements of Cash Flows

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

Changes in The Hospital's Net Assets and Operating Results

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 12. The Hospital's net assets increased \$712,895, 20.6% from June 30, 2004 to June 30, 2005. (Refer to **Table 1**).

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 2,224,423	2,279,981	1,987,599
Capital assets, net	6,227,822	2,309,616	1,387,105
Other noncurrent assets	<u>947,572</u>	<u>4,062,133</u>	<u>796,442</u>
Total assets	<u>9,399,817</u>	<u>8,651,730</u>	<u>4,171,146</u>
Liabilities:			
Long-term debt outstanding	3,959,305	3,948,201	--
Other current and noncurrent liabilities	<u>1,272,445</u>	<u>1,248,357</u>	<u>1,024,274</u>
Total liabilities	<u>5,231,750</u>	<u>5,196,558</u>	<u>1,024,274</u>
Net assets:			
Invested in capital assets, net of related debt	2,270,154	1,513,076	1,387,105
Restricted for debt service	429,590	469,969	--
Unrestricted	<u>1,468,323</u>	<u>1,472,127</u>	<u>1,759,767</u>
Total net assets	<u>\$ 4,168,067</u>	<u>3,455,172</u>	<u>3,146,872</u>

The Hospital's cash and cash equivalents and assets limited as to use or restricted, collectively, decreased \$3,323,457 primarily due to amounts invested into the ongoing modernization project. This is reflected with an increase in capital assets, net of \$3,918,206.

Operating Results

In 2005, the Hospital's net assets increased by \$712,895, 20.6%. (Refer to **Table 2**). This increase includes an excess of revenue over expenses before capital grants and contributions of \$104,240 for June 30, 2005 compared to June 30, 2004 of \$154,673.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenue:			
Net patient service revenue	\$ 6,199,357	5,448,127	5,237,358
Other operating revenue	<u>145,985</u>	<u>61,820</u>	<u>52,192</u>
Total operating revenue	6,345,342	5,509,947	5,289,550
Operating Expenses:			
Salaries and benefits	3,815,293	3,329,477	3,004,553
Purchased services and other	2,218,627	1,973,386	1,960,893
Depreciation and amortization	332,946	211,163	187,438
Interest	<u>22,335</u>	<u>--</u>	<u>4,747</u>
Total operating expenses	6,389,201	5,514,026	5,157,631
Operating income (loss)	(43,859)	(4,079)	131,919
Nonoperating Revenue and Expenses			
County subsidy	163,000	163,000	163,000
Investment income	16,144	29,384	48,159
Noncapital grants and contributions	17,483	21,947	8,098
Other nonoperating revenue and expenses, net	<u>(48,528)</u>	<u>(55,579)</u>	<u>(31,092)</u>
Total nonoperating revenue (expenses), net	148,099	158,752	188,165
Excess of revenue over expenses before capital grants and contributions	104,240	154,673	320,084
Capital grants and contributions	608,655	153,627	142,640
Increase in net assets	\$ <u>712,895</u>	<u>308,300</u>	<u>462,724</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss) - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2004, the Hospital reported an operating loss of \$4,079 and for the year ending June 30, 2005, the Hospital reported an operating loss of \$43,859.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

The primary components of the operating loss of \$43,859 are:

- Inpatient and swing bed revenue decreased \$231,525, 16.5% from June 30, 2004 to June 30, 2005 due to a change in the mix of patient days. Acute days decreased 7.0%, Skilled days decreased 28.0%, and Hospitality days decreased 14.9%. The decrease in Acute and Skilled days resulted in a decrease in Therapy, Radiology, Lab and Pharmacy revenue.
- Outpatient revenue including clinic revenue increased \$1,290,254, 35.1% from 2004 to 2005. This increase is primarily due to:
 - Surgery volume increased from 193 procedures to 335, an increase of 142 procedures, 73.6%.
 - Emergency Room outpatient visits increased from 1,148 visits to 1,234, an increase of 86 visits, 7.5%.
 - Lab procedures increased from 71,174 for the year ending June 30, 2004 to 76,072 procedures for June 30, 2005, a 6.9% increase.
 - Radiology volume increased 541 visits, 14.1% from 2004 to 2005.
 - Therapy had an increase in outpatient volume of 1,521 visits, 31.7%.
- Long-Term Care revenue increased \$24,211, 1.2% while days decreased 757 days, 4.0% and an increase in rates effective July 1, 2004.
- Net patient service revenue before provision for bad debt increased \$778,925, 14.1% from 2004 to 2005. This increase is not as large as the gross patient revenue increase due to an increase in the deductions. As a Critical Access Hospital, the Hospital is reimbursed reasonable cost for most inpatient and outpatient services by Medicare and Medicaid, while a majority of the other Insurance plans reimburse a percentage of charges.
- Increases in salary and benefit costs for the Hospital's Associates of \$485,816, 14.6%.
- Purchased services and professional fees increased \$35,542, 3.7% from 2004 to 2005. This increase is primarily due to the increase in mobile procedures (increase of 119 procedures, 41.2%) and therapy volume (increase of 1,270 visits, 19.7%) along with expenses associated with contracted IT expenses.
- Increases in supplies and other expenses of \$166,072, 20.0%. This increase is a result of the increase in outpatient volume and surgical procedures.
- Depreciation and amortization expense increased \$121,783, 57.7%. This increase is due to portions of the \$6,000,000 modernization project being opened during the year ending June 30, 2005 and the purchase of equipment.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of the county subsidy, investment income, noncapital grants and contributions, fundraising expenses and the gain (loss) on disposal of capital assets. Fundraising expenses have decreased \$13,698, 21.9% from 2004 to 2005 due to the fulfillment of payments associated with the capital campaign for the modernization project being completed.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005, the Hospital had \$6,227,822 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2005, the Hospital purchased new equipment costing \$305,070. This is an increase from the year ending June 30, 2004, \$265,666 and June 30, 2003, \$128,712. This increase relates to the purchases related to the modernization of the hospital, including a mammography machine, scrub sink and recovery recliners for Surgery, lobby and office furniture, an ENT chair, dishwasher, steamer, computers and network server. Construction in progress also saw an increase between 2004 and 2005 due to the modernization project.

Debt

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

Other Economic Factors

The year ending June 30, 2005 provided the Hospital substantial challenges due to a slumping economy, reduction in reimbursement from Medicare and Medicaid.

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

- Expenses are expected to continue to increase.
- Aged Hospital facility is being modernized with the modernization project but the portion of the facility not being modernized with this project will require constant maintenance and upkeep.
- Technology continues to expand. The Hospital's current technology is outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost. The Hospital will be implementing and converting to a new financial application while adding a point of care and order entry system late fall of 2005.
- Potential changes in federal and state reimbursement for patient services.

Grundy County Memorial Hospital continues to recruit physicians to the area. In 2003, there were 22 physicians practicing on the GCMH Medical staff. Today, there are 76 providers due to the growth in Specialty Clinics and the Surgery Department. The Hospital also has a strategic initiative to achieve greater market penetration in the surrounding communities (Eldora, Reinbeck, Conrad and Parkersburg).

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Contacting The Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional financial information, contact the Hospital Administration Office, at 201 East J Avenue, Grundy Center, IA 50638.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Balance Sheets
June 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 836,820	871,097
Assets limited as to use or restricted	28,727	208,910
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$175,398 in 2005 and \$107,324 in 2004	1,006,160	845,147
Succeeding year County subsidy receivable	163,000	163,000
Other	10,529	18,740
Inventories	144,037	126,822
Prepaid expenses	<u>35,150</u>	<u>46,265</u>
Total current assets	<u>2,224,423</u>	<u>2,279,981</u>
Assets limited as to use or restricted:		
By Board for capital improvements	512,157	610,934
Under Hospital Revenue Bonds	<u>402,500</u>	<u>3,412,720</u>
	<u>914,657</u>	<u>4,023,654</u>
Capital assets, net	<u>6,227,822</u>	<u>2,309,616</u>
Other assets, net	<u>32,915</u>	<u>38,479</u>
Total assets	<u>\$ 9,399,817</u>	<u>8,651,730</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable -		
Trade	281,304	212,749
Construction	328,303	141,441
Accrued expenses -		
Accrued salaries, wages and vacation payable	333,555	309,518
Payroll taxes	23,374	21,174
Interest	13,584	54,338
Deferred revenue for succeeding year County subsidy receivable	163,000	163,000
Estimated third-party payor settlements	<u>129,325</u>	<u>346,137</u>
Total current liabilities	1,272,445	1,248,357
Long-term debt, net of unamortized discount	<u>3,959,305</u>	<u>3,948,201</u>
Total liabilities	<u>5,231,750</u>	<u>5,196,558</u>
Net assets:		
Invested in capital assets, net of related debt	2,270,154	1,513,076
Restricted for debt service	429,590	469,969
Unrestricted	<u>1,468,323</u>	<u>1,472,127</u>
Total net assets	<u>4,168,067</u>	<u>3,455,172</u>
Total liabilities and net assets	<u>\$ 9,399,817</u>	<u>8,651,730</u>

See notes to the financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 6,316,241	5,537,316
Provision for bad debts	<u>(116,884)</u>	<u>(89,189)</u>
Net patient and service revenue	6,199,357	5,448,127
Other operating revenue	<u>145,985</u>	<u>61,820</u>
Total operating revenue	<u>6,345,342</u>	<u>5,509,947</u>
OPERATING EXPENSES:		
Salaries	2,961,533	2,697,445
Employee benefits	853,760	632,032
Purchased services and professional fees	984,244	948,702
Utilities	160,709	139,330
Supplies and other expenses	995,013	828,941
Depreciation and amortization	332,946	211,163
Insurance	78,661	56,413
Interest	<u>22,335</u>	<u>--</u>
Total operating expenses	<u>6,389,201</u>	<u>5,514,026</u>
OPERATING LOSS	<u>(43,859)</u>	<u>(4,079)</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	16,144	29,384
County subsidy	163,000	163,000
Noncapital grants and contributions	17,483	21,947
Fundraising expenses	(48,903)	(62,601)
Gain on disposal of capital assets	<u>375</u>	<u>7,022</u>
Nonoperating revenue, net	<u>148,099</u>	<u>158,752</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	104,240	154,673
CAPITAL GRANTS AND CONTRIBUTIONS	<u>608,655</u>	<u>153,627</u>
INCREASE IN NET ASSETS	<u>\$ 712,895</u>	<u>308,300</u>

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 5,821,532	5,343,560
Cash paid to employees for salaries and benefits	(3,789,056)	(3,235,577)
Cash paid to suppliers and contractors	(2,156,172)	(2,082,068)
Other receipts and payments, net	<u>154,196</u>	<u>78,603</u>
Net cash provided by operating activities	<u>30,500</u>	<u>104,518</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	163,000	163,000
Noncapital grants and contributions	<u>17,483</u>	<u>21,947</u>
Net cash provided by noncapital financing activities	<u>180,483</u>	<u>184,947</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(3,931,233)	(925,318)
Capital grants and contributions	608,655	153,627
Fundraising costs	(48,903)	(62,601)
Proceeds from issuance of long term debt	--	3,944,500
Bond issuance costs	--	(40,333)
Interest paid on debt	<u>(203,766)</u>	<u>--</u>
Net cash provided by (used in) capital and related financing activities	<u>(3,575,247)</u>	<u>3,069,875</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (Deposits to) assets limited as to use, net	3,289,180	(3,436,122)
Investment income	<u>40,807</u>	<u>29,384</u>
Net cash provided by (used in) investing activities	<u>3,329,987</u>	<u>(3,406,738)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(34,277)	(47,398)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>871,097</u>	<u>918,495</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u>836,820</u>	<u>871,097</u>

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (43,859)	(4,079)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	332,946	211,163
Interest expense included in operating expenses	22,335	--
(Increase) decrease in current assets -		
Accounts receivable -		
Patient and resident	(161,013)	(162,706)
Other	8,211	16,783
Inventories	(17,215)	(4,268)
Prepaid expenses	11,115	19,821
Increase (decrease) in current liabilities -		
Accounts payable - Trade	68,555	(124,233)
Accrued salaries, wages and vacation payable	24,037	77,211
Payroll taxes	2,200	16,689
Estimated third-party payor settlements - Medicare and Medicaid	(216,812)	58,137
Net cash provided by operating activities	\$ <u>30,500</u>	<u>104,518</u>

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Notes to Financial Statements June 30, 2005 and 2004

(1) Organization and Summary of Significant Accounting Policies

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

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

A. *Reporting Entity*

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

B. *Industry Environment*

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

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

C. *Basis of Presentation*

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

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

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

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

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

D. *Measurement Focus and Basis of Accounting*

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

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

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

E. *Use of Estimates*

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

F. *Cash and Cash Equivalents*

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

G. *Patient and Resident Receivables*

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

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

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

H. *County Subsidy Receivable*

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

I. *Assets Limited as to Use or Restricted*

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

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

J. *Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Capital assets donated for Hospital operations are recorded at their estimated fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

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

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

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

K. *Costs of Borrowing*

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets.

L. *Deferred Debt Financing Costs*

Deferred bond issuance costs are being amortized over the life of the related bonds on a straight-line basis. Amortization expense applicable to these bonds amounted to \$5,563 and \$1,855 for the years ended June 30, 2005 and 2004, respectively. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

M. *Compensated Absences*

Hospital associates accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005 and 2004.

N. *Deferred Revenue*

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

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

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

P. *Net Patient Service Revenue*

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

Q. *Grants and Contributions*

From time to time, the Hospital receives contributions from Grundy County Memorial Hospital Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. *Charity Care*

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

S. *Investment Income*

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

T. *Reclassifications*

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 reporting format.

(2) Deposits and Investments

The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement 3 at June 30, 2005 and 2004.

(3) Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2002.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2005, and 58% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2004. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 873,981	998,949
Outpatient	4,868,456	3,598,429
Swingbed	297,787	404,344
Nursing Home	1,964,676	1,940,465
Clinic	97,306	77,079
	<u>8,102,206</u>	<u>7,019,266</u>
Contractual adjustments:		
Medicare	(1,339,575)	(1,221,652)
Medicaid	(148,191)	(41,392)
Other	(297,603)	(203,389)
Charity care services	(596)	(15,517)
	<u>(1,785,965)</u>	<u>(1,481,950)</u>
Net patient and resident service revenue before provision for bad debt	<u>\$ 6,316,241</u>	<u>5,537,316</u>

(4) Assets Limited as to Use or Restricted

By Board

Cash deposits and investments designated by the Board for future capital improvements, as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Money market accounts	\$ 410,248	404,925
Certificates of deposit	<u>101,909</u>	<u>206,009</u>
	<u>\$ 512,157</u>	<u>610,934</u>

Hospital Revenue Bonds

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

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

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

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

The amounts segregated as of June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Sinking Fund, cash and money market accounts	\$ 27,090	67,469
Debt Service Reserve Fund, certificates of deposit	\$ 402,500	402,500
Project Fund -		
Certificate of deposits	\$ --	2,661,912
Money market accounts and accrued interest	1,637	489,749
	<u>1,637</u>	<u>3,151,661</u>
	431,227	3,621,630
Less amounts required for current obligations	<u>(28,727)</u>	<u>(208,910)</u>
	<u>\$ 402,500</u>	<u>3,412,720</u>

(5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Patient and resident accounts	\$ 1,497,516	1,189,391
Less estimated third-party contractual adjustments	(315,958)	(236,920)
Less allowance for doubtful accounts	<u>(175,398)</u>	<u>(107,324)</u>
	<u>\$ 1,006,160</u>	<u>845,147</u>

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

	<u>2005</u>	<u>2004</u>
Medicare	36%	49%
Medicaid	10	9
Commercial insurance	36	29
Patients and residents	<u>18</u>	<u>13</u>
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

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

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 10,850	--	--	10,850
Construction in progress	942,255	3,943,801	(3,583,777)	1,302,279
Total capital assets, not being depreciated	<u>953,105</u>	<u>3,943,801</u>	<u>(3,583,777)</u>	<u>1,313,129</u>
Capital assets, being depreciated:				
Land improvements	88,363	--	--	88,363
Buildings	2,763,052	--	3,583,777	6,346,829
Equipment	1,602,965	305,070	--	1,908,035
Total capital assets, being depreciated	<u>4,454,380</u>	<u>305,070</u>	<u>3,583,777</u>	<u>8,343,227</u>
Less accumulated depreciation:				
Land improvements	65,897	2,338	--	68,236
Buildings	2,035,844	185,113	--	2,220,957
Fixed equipment	996,128	143,213	--	1,139,341
Total accumulated depreciation	<u>3,097,869</u>	<u>330,664</u>	<u>--</u>	<u>3,428,534</u>
Total capital assets, being depreciated, net	<u>1,356,511</u>	<u>3,558,183</u>	<u>--</u>	<u>4,914,693</u>
Total capital assets, net	<u>\$ 2,309,616</u>	<u>7,501,984</u>	<u>--</u>	<u>6,227,822</u>
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 10,850	--	--	10,850
Construction in progress	108,927	833,328	--	942,255
Total capital assets, not being depreciated	<u>119,777</u>	<u>833,328</u>	<u>--</u>	<u>953,105</u>
Capital assets, being depreciated:				
Land improvements	80,500	7,863	--	88,363
Buildings	2,736,604	26,448	--	2,763,052
Equipment	1,353,978	265,666	16,679	1,602,965
Total capital assets, being depreciated	<u>4,171,082</u>	<u>299,977</u>	<u>16,679</u>	<u>4,454,380</u>
Less accumulated depreciation:				
Land improvements	63,755	2,142	--	65,897
Buildings	1,961,100	74,744	--	2,035,844
Fixed equipment	878,899	132,423	15,194	996,128
Total accumulated depreciation	<u>2,903,754</u>	<u>209,309</u>	<u>15,194</u>	<u>3,097,869</u>
Total capital assets, being depreciated, net	<u>1,267,328</u>	<u>90,668</u>	<u>1,485</u>	<u>1,356,511</u>
Total capital assets, net	<u>\$ 1,387,105</u>	<u>923,996</u>	<u>1,485</u>	<u>2,309,616</u>

Construction Commitment

Construction in progress at June 30, 2005 represents costs incurred for a facility's master plan. This project will consist of mechanical systems upgrade and renovation and expansion of the existing Hospital facilities. The estimated total cost of the project is \$6,000,000 and is estimated to be completed in December 2005. The Project is being financed with Hospital Revenue Bonds and assets limited as to use or restricted. Costs related to the Project of \$4,806,176 at June 30, 2005 are included in the accompanying balance sheet.

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2005 and 2004 consisted of the following:

	<u>June 30, 2004</u>	<u>Borrowings</u>	<u>Payments / Amortization</u>	<u>June 30, 2005</u>	<u>Due Within One Year</u>
Hospital Revenue Bonds	\$ 4,025,000	--	--	4,025,000	--
Discount on Hospital Revenue Bonds	<u>(76,799)</u>	--	<u>11,104</u>	<u>(65,695)</u>	--
Net	<u>\$ 3,948,201</u>	<u>--</u>	<u>11,104</u>	<u>3,959,305</u>	<u>--</u>

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

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ --	163,013	163,013
2007	--	163,013	163,013
2008	--	163,013	163,013
2009	--	163,013	163,013
2010	--	163,013	163,013
2011	<u>4,025,000</u>	<u>163,013</u>	<u>4,188,013</u>
	<u>\$ 4,025,000</u>	<u>978,078</u>	<u>5,003,078</u>

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

A summary of interest expense and investment income on borrowed funds during the years ended June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Interest cost:		
Capitalized	\$ 140,678	54,338
Expensed	<u>22,335</u>	<u>--</u>
	<u>\$ 163,013</u>	<u>54,338</u>
Investment income:		
Capitalized	<u>\$ 24,663</u>	<u>9,241</u>

(8) Pension and Retirement Benefits

The Hospital's employees are leased employees of Allen Health System. As a result, the employees participate in Allen Health System's defined contribution pension plan. Participants may make pre-tax contributions from 1% to 20% of eligible salaries. The Hospital contributes 2% of participants' eligible salaries and matches up to 50% of the first 4% of participants' contributions. Pension plan expense for the years ended June 30, 2005 and 2004 was \$136,550 and \$125,321, respectively.

(9) Operating Subsidy

Effective January 1, 1998, the Hospital entered into an operating agreement with Iowa Health System (Allen Health System). Under this agreement, the Board of Commissioners of Grundy County Memorial Hospital (Hospital Commission) and Allen Health System will jointly exercise certain powers of the Hospital Commission to operate the Hospital and share in the risk and benefits of operation. Included in other operating revenue as a result of this agreement are amounts due from Allen Health System as of June 30, 2005 and 2004 of \$44,207 and \$4,078, respectively.

(10) Hospital Risk Management

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

The Hospital's leased employees participate in Allen Health System's Self-Funded Health Plan (Plan). The Plan's members include all employees of Allen Health System. The Hospital contributes monthly to the Plan. The Hospital's contributions to the Plan during the years ended June 30, 2005 and 2004 were \$415,253 and \$283,727, respectively. Stop-loss coverage is provided through a commercial insurance company.

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

(11) Professional Liability Insurance

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

(12) Commitments and Contingencies

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

Purchase Agreements

In April 2005, the Hospital entered into a purchase and license agreement for a new financial and clinical computer hardware and software system. The estimated cost of the project is approximately \$850,000, including conversion, installation and training costs. The Hospital made a down payment in 2005 in the amount of approximately \$65,000 included in capital assets, net in the accompanying balance sheet. The anticipated implementation dates of the financial and clinical software systems are November 2005 and December 2005, respectively. In August 2005, the Hospital entered into a \$650,000 Subordinate Hospital Revenue Note, Series 2005 to finance the project.

The Hospital also entered into an Asset Purchase Agreement in March 2005 for medical equipment in the amount of \$127,000. The equipment was not received and placed into service until August 2005. The purchase of this equipment is being financed with assets limited as to use or restricted.

(13) Foundation

Grundy County Memorial Hospital Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore the Foundation is not reported with the Hospital under GASB Statement 39.

A summary of the Foundation's assets, liabilities and net assets, based on a modified cash basis, as of June 30, 2005 and 2004 follows:

	<u>(Unaudited)</u>	
	<u>2005</u>	<u>2004</u>
Assets	\$ <u>826,326</u>	<u>695,171</u>
Net assets	\$ <u>826,326</u>	<u>695,171</u>

The Hospital received \$503,490 and \$43,655 from the Foundation during the years ended June 30, 2005 and 2004, respectively, for the purchase of property and equipment. The Hospital also received \$44,897 and \$6,992 from the Foundation for operating purposes during the years ended June 30, 2005 and 2004. As of June 30, 2005, the Foundation has approximately \$497,000 of pledges receivable related to the Hospital's Project.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

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

Required Supplementary Information

June 30, 2005 and 2004

	<u>Accrual Basis</u>			Budget	Variance Favorable (Unfavorable)
	<u>General</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>		
Estimated amount to be raised by taxation	\$ 163,000	-	163,000	163,000	-
Estimated other revenues / receipts	6,987,999	(345,326)	6,642,673	9,222,511	(2,579,838)
	7,150,999	(345,326)	6,805,673	9,385,511	(2,579,838)
Expenses / Disbursements	6,438,104	3,691,026	10,129,130	12,528,568	2,399,438
Net	712,895	(4,036,352)	(3,323,457)	(3,143,057)	\$ <u>(180,400)</u>
Balance beginning of year	3,455,172	1,648,489	5,103,661	5,103,661	
Balance end of year	\$ <u>4,168,067</u>	<u>(2,387,863)</u>	<u>1,780,204</u>	<u>1,960,604</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Schedules of Net Patient and Resident Service Revenue
 For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 1,964,676	--	--	1,964,676	1,940,465	--	--	1,940,465
Swing bed	370,800	--	--	370,800	490,916	--	--	490,916
Adult and pediatric	217,563	--	--	217,563	220,098	--	--	220,098
Hospitality	54,597	--	--	54,597	60,667	--	--	60,667
Observation	2,470	37,559	--	40,029	4,449	33,111	--	37,560
	<u>2,610,106</u>	<u>37,559</u>	<u>--</u>	<u>2,647,665</u>	<u>2,716,595</u>	<u>33,111</u>	<u>--</u>	<u>2,749,706</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	51,418	1,032,382	15,051	1,098,851	52,609	877,035	25,983	955,627
Operating and recovery rooms	2,021	853,136	--	855,157	2,918	414,656	--	417,574
Physical therapy	4,522	721,028	90,042	815,592	4,065	534,943	121,077	660,085
Pharmacy	87,705	461,108	127,636	676,449	74,368	451,637	154,392	680,397
Emergency and outpatient service	7,596	587,499	450	595,545	25,847	474,677	349	500,873
Radiology	11,506	493,710	2,923	508,139	13,271	384,288	5,534	403,093
Mobile services	14,898	361,823	1,769	378,490	960	191,541	2,690	195,191
Occupational therapy	756	99,160	35,629	135,545	331	33,259	41,561	75,151
GCMH clinic	--	97,306	--	97,306	--	77,079	--	77,079
Electrocardiology	4,131	64,161	765	69,057	8,990	51,915	1,595	62,500
Respiratory therapy	36,365	7,535	10,700	54,600	33,126	4,457	39,380	76,963
Anesthesiology	68	51,786	--	51,854	60	36,994	--	37,054
Cardiac rehab	201	46,410	--	46,611	--	58,555	--	58,555
Central services and supply	7,364	23,261	4,531	35,156	6,274	37,188	8,814	52,276
Speech therapy	--	12,678	8,291	20,969	--	4,845	2,969	7,814
Diabetic education	--	7,654	--	7,654	--	--	--	--
Ambulance	--	7,566	--	7,566	--	9,328	--	9,328
	<u>228,551</u>	<u>4,928,203</u>	<u>297,787</u>	<u>5,454,541</u>	<u>222,819</u>	<u>3,642,397</u>	<u>404,344</u>	<u>4,269,560</u>
GROSS PATIENT SERVICE REVENUE	\$ 2,838,657	4,965,762	297,787	8,102,206	2,939,414	3,675,508	404,344	7,019,266
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(1,785,369)				(1,466,433)
Provision for bad debt				(116,884)				(89,189)
Charity care services and other discounts, based on charges forgone				(596)				(15,517)
NET PATIENT SERVICE REVENUE				\$ 6,199,357				5,448,127

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Other Operating Revenue
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating subsidy	\$ 44,207	4,078
Cafeteria and vending	31,209	22,105
Rental income	28,455	20,528
Grants	18,431	--
Clinic	3,767	8,119
Medical records transcriptions	885	2,520
Senior Life	--	903
Other	<u>19,031</u>	<u>3,567</u>
	<u>\$ 145,985</u>	<u>61,820</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Departmental Expenses
For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Long term care	729,458	3,393	29,970	762,821	667,632	3,410	30,165	701,207
Adult and pediatric	\$ 192,690	20,720	8,091	221,501	163,921	19,584	8,326	191,831
Swing bed	155,042	6,458	5,627	167,127	158,743	948	4,986	164,677
Hospitality	82,377	-	77	82,454	81,754	-	148	81,902
	<u>1,159,567</u>	<u>30,571</u>	<u>43,765</u>	<u>1,233,903</u>	<u>1,072,050</u>	<u>23,942</u>	<u>43,625</u>	<u>1,139,617</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	150,362	79,125	114,032	343,519	147,000	56,104	108,312	311,416
Emergency room	144,642	179,671	8,936	333,249	105,738	231,063	8,239	345,040
Radiology	135,103	130,609	29,536	295,248	118,393	82,157	15,208	215,758
Physical therapy	55,381	218,317	18,527	292,225	53,075	173,259	12,901	239,235
Pharmacy	8,938	10,930	242,058	261,926	10,199	17,274	183,861	211,334
Operating and recovery room	95,964	41,928	75,144	213,036	72,161	26,522	45,610	144,293
GCMH clinic	98,258	21,497	5,147	124,902	97,707	39,139	18,305	155,151
Medical records	32,238	14,277	17,497	64,012	29,951	12,281	18,360	60,592
Cardiac rehab	26,235	16,272	2,717	45,224	29,062	16,272	1,944	47,278
Social services	35,498	-	293	35,791	30,800	-	237	31,037
Specialty clinic	3,484	303	23,068	26,855	2,624	999	16,018	19,641
Anesthesiology	-	19,152	566	19,718	-	14,242	5,904	20,146
Central services and supply	20,901	-	(8,368)	12,533	22,329	32	15,631	37,992
Electrocardiology	4,691	5,476	417	10,584	4,091	3,351	289	7,731
Senior Life	7,028	-	947	7,975	6,024	-	470	6,494
Respiratory therapy	-	-	7,774	7,774	-	-	7,200	7,200
Speech therapy	-	7,535	-	7,535	-	4,225	-	4,225
Diabetic education	5,289	-	755	6,044	-	-	-	-
Ambulance	2,535	-	-	2,535	2,382	-	-	2,382
Healthology	-	-	-	-	-	330	1,141	1,471
	<u>826,547</u>	<u>745,092</u>	<u>539,046</u>	<u>2,110,685</u>	<u>731,536</u>	<u>677,250</u>	<u>459,630</u>	<u>1,868,416</u>
GENERAL SERVICES:								
Dietary	237,348	6,068	140,967	384,383	226,046	7,155	117,799	351,000
Plant operation and maintenance	115,010	18,782	206,319	340,111	107,609	11,379	184,687	303,675
Housekeeping	108,418	2,556	23,983	134,957	104,553	2,507	17,150	124,210
Laundry and linen	26,172	78,492	2,090	106,754	27,204	85,539	1,416	114,159
	<u>486,948</u>	<u>105,898</u>	<u>373,359</u>	<u>966,205</u>	<u>465,412</u>	<u>106,580</u>	<u>321,052</u>	<u>893,044</u>
ADMINISTRATIVE SERVICES								
	<u>488,471</u>	<u>102,683</u>	<u>199,552</u>	<u>790,706</u>	<u>428,447</u>	<u>140,930</u>	<u>143,964</u>	<u>713,341</u>
NONDEPARTMENTAL								
Employee benefits	-	-	853,760	853,760	-	-	632,032	632,032
Depreciation and amortization	-	-	332,946	332,946	-	-	211,163	211,163
Insurance	-	-	78,661	78,661	-	-	56,413	56,413
Interest	-	-	22,335	22,335	-	-	-	-
	<u>-</u>	<u>-</u>	<u>1,287,702</u>	<u>1,287,702</u>	<u>-</u>	<u>-</u>	<u>899,608</u>	<u>899,608</u>
TOTAL EXPENSES	\$ 2,961,533	984,244	2,443,424	6,389,201	2,697,445	948,702	1,867,879	5,514,026

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2005 and 2004

ANALYSIS OF AGING:

Days Since Discharge	2005		2004	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 702,559	46.91 %	524,766	35.04
31 - 60	312,744	20.88	284,665	19.01
61 - 90	138,565	9.25	140,566	9.39
91 - 120	75,433	5.04	52,497	3.51
120 - 365	200,897	13.42	146,560	9.79
> 1 year	67,318	4.50	40,337	2.69
	<u>1,497,516</u>	100.00 %	<u>1,189,391</u>	100.00

Less:

Allowance for doubtful accounts	(175,398)	(107,324)
Allowance for contractual adjustments	<u>(315,958)</u>	<u>(236,920)</u>
	<u>\$ 1,006,160</u>	<u>\$ 845,147</u>

NET DAYS REVENUE IN PATIENT
ACCOUNTS RECEIVABLE

2005	2004
59.24 days	56.62 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 107,324	94,500
Provision of uncollectible accounts	116,884	89,189
Recoveries of accounts previously written off	47,805	20,850
Accounts written off	<u>(96,615)</u>	<u>(97,215)</u>
Balance, end of year	<u>\$ 175,398</u>	<u>107,324</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
INVENTORY:		
Pharmacy	\$ 57,053	58,602
Central supply	56,637	39,121
Laboratory	21,431	20,664
Dietary	6,979	6,120
Radiology	<u>1,937</u>	<u>2,315</u>
	\$ <u>144,037</u>	<u>126,822</u>
 PREPAID EXPENSES:		
Insurance	\$ 24,581	13,631
Maintenance contracts	10,394	26,539
Other	<u>175</u>	<u>6,095</u>
	\$ <u>35,150</u>	<u>46,265</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Insurance Coverage
For the Years Ended June 30, 2005 and 2004

Company	Property Covered	Amount of Coverage	Expiration Date
PIC Wisconsin	General Liability		12/15/05
	Each Occurrence - Bodily Injury and Property Damage	1,000,000	
	Aggregate	3,000,000	
	Fire Damage Limit (any one fire)	1,000,000	
	Products and Completed Operations	1,000,000	
	Personal and Advertising Injury	1,000,000	
	Employee Benefits Liability Limit	1,000,000	
	Damage to Premises Rent to You Limited	1,000,000	
	Medical Expense	10,000	
PIC Wisconsin	Hospital Professional Liability (claims made basis)		12/15/05
	Per Professional Health Care Incident	1,000,000	
	Aggregate	3,000,000	
	Legal Expense (not Defense Costs)	10,000	
PIC Wisconsin	Commercial Umbrella	1,000,000	12/15/05
PIC Wisconsin	Excess Professional Liability (Umbrella)	3,000,000	12/15/05
Federal Insurance Company	Commercial Property		12/15/05
	Building	8,983,094	
	Personal Property	1,646,687	
	Business Income with Extra Expense	3,039,306	
	EDP Equipment	157,094	
	Various Other Property Coverage	1,232,335	
	Newly Acquired or Constructed Property		
	Building	1,000,000	
	Personal Property	600,000	
EDP and various other coverages	365,000		
Federal Insurance Company	Auto Bodily Injury & Property Damage Liability	1,000,000	1/1/06
	Medical Payments	5,000	
	Un/Underinsured Motorist	1,000,000	
	Hired Auto	Actual Cash Value	
Fireman's Fund Insurance Company	Directors & Officers Liability	1,000,000	7/05/05
Allen Health System	Worker's Compensation Liability (self-insured)	500,000	--
	Stop/loss coverage through commercial insurance carrier		

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Financial Statistical Highlights
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	248	284
All other	135	128
Swing bed - skilled	824	1,147
Hospitality	<u>501</u>	<u>589</u>
	<u>1,708</u>	<u>2,148</u>
 Nursing Home	 <u>18,313</u>	 <u>19,070</u>
 Discharges:		
Hospital adult and pediatric -		
Medicare	98	92
All other	<u>50</u>	<u>32</u>
	<u>148</u>	<u>124</u>
 Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.53 days	3.09 days
All other	2.70 days	4.00 days
 Observation equivalent days	60	55
 Surgical procedures	335	193
 Emergency Room visits	1,247	1,205
 Full-time equivalents personnel	89.04	84.93



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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 of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the accompanying balance sheets of GRUNDY COUNTY MEMORIAL HOSPITAL (Hospital), as of June 30, 2005, and the related statement of revenue and expenses, changes in net assets, and cash flows for the year then ended and have issued our report thereon dated August 31, 2005. We have 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 the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II in the accompanying schedule of findings and question costs.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 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. Prior year statutory comment, item II-B-03, has not been resolved.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Grundy County Memorial Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
August 31, 2005.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedule of Findings and Questioned Costs

June 30, 2005

Part I: Summary of the Independent Auditor's Results

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

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

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

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

Certified Budget: Hospital disbursements during the year ended June 30, 2005 did not exceed budgeted amounts.

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

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedule of Findings and Questioned Costs

June 30, 2005

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

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

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

Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

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