

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, 2007 AND 2006

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2007

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Sarah Smith, Chair	Red Oak, Iowa	2008
Kenneth Rech, Vice-Chair	Red Oak, Iowa	2012
Jim Robinson, Treasurer	Villisca, Iowa	2010
Roger Ehmke, Secretary	Red Oak, Iowa	2010
Lorin Petersen	Stanton, Iowa	2008
Kathy Carlson	Red Oak, Iowa	2012
Kevin Cabbage	Stanton, Iowa	2012
 <u>Chief Executive Officer:</u>		
Allen E. Pohren	Red Oak, Iowa	
 <u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

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

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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, 2007 and 2006, 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, 2007 and 2006, 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 December 11, 2007 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, 2005 (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.

G. L. ... , Reel, Kuhn & W. P. C.

Atlantic, Iowa
December 11, 2007



Montgomery County Memorial Hospital

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MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2007 and 2006. 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 \$1,636,884 or 8.2 percent increase in 2007 and \$2,301,813 or 13.1 percent increase in 2006.

The Hospital reported an operating loss of \$113,577 in 2007 and an operating income of \$792,758 in 2006. The results from operations decreased \$906,335 in 2007 from the income in 2006. In 2005, the Hospital reported operating income of \$880,138.

Nonoperating revenues increased in 2007 by \$257,341 or 17.5 percent compared to 2006. Nonoperating revenues increased in 2006 by \$112,077 or 8.3 percent compared to 2005.

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. The Hospital's net assets, the difference between assets and liabilities, are 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. Other non-financial 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 must be considered 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. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the 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 \$1,636,884 or 8.2 percent in 2007 and \$2,301,813 or 13.1 percent in 2006, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 8,420,401	\$ 7,354,583	\$ 8,767,002
Capital assets, net	10,398,351	9,417,528	8,855,079
Other noncurrent assets	<u>9,351,393</u>	<u>9,423,421</u>	<u>7,447,206</u>
Total assets	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>
Liabilities:			
Long-term debt outstanding	\$ 2,599,071	\$ 3,083,816	\$ 3,576,716
Other current and noncurrent liabilities	<u>4,088,818</u>	<u>3,266,344</u>	<u>3,949,012</u>
Total liabilities	<u>\$ 6,687,889</u>	<u>\$ 6,350,160</u>	<u>\$ 7,525,728</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 6,975,528	\$ 5,405,563	\$ 4,202,282
Restricted expendable net assets	927,880	986,127	976,232
Unrestricted	<u>13,578,848</u>	<u>13,453,682</u>	<u>12,365,045</u>
Total net assets	<u>\$ 21,482,256</u>	<u>\$ 19,845,372</u>	<u>\$ 17,543,559</u>
Total liabilities and net assets	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</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>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues:			
Net patient service revenues	\$ 20,374,292	\$ 20,475,146	\$ 18,910,939
Other operating revenues	<u>377,313</u>	<u>410,356</u>	<u>453,648</u>
Total operating revenues	20,751,605	20,885,502	19,364,587
Operating Expenses:			
Salaries and wages	9,924,747	9,467,498	8,777,461
Employee benefits	2,931,459	2,608,108	2,195,066
Professional fees	927,257	988,114	990,878
Other operating expenses	5,705,929	5,838,749	5,500,289
Depreciation and amortization	<u>1,375,790</u>	<u>1,190,275</u>	<u>1,020,755</u>
Total operating expenses	<u>20,865,182</u>	<u>20,092,744</u>	<u>18,484,449</u>
Operating income (loss)	(113,577)	792,758	880,138
Nonoperating Revenues and Expenses:			
Property taxes	1,221,000	1,226,600	1,214,764
Investment income	499,306	313,831	207,081
Noncapital grants and contributions	77,310	60,672	111,223
Other nonoperating revenues and expenses, net	<u>(73,220)</u>	<u>(134,048)</u>	<u>(178,090)</u>
Total nonoperating revenues (expenses)	<u>1,724,396</u>	<u>1,467,055</u>	<u>1,354,978</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,610,819	2,259,813	2,235,116
Capital Grants and Contributions	<u>26,065</u>	<u>42,000</u>	<u>49,000</u>
Excess of Revenues Over Expenses and Increase in Net Assets	1,636,884	2,301,813	2,284,116
Net Assets Beginning of Year	<u>19,845,372</u>	<u>17,543,559</u>	<u>15,259,443</u>
Net Assets End of Year	<u>\$ 21,482,256</u>	<u>\$ 19,845,372</u>	<u>\$ 17,543,559</u>

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

OPERATING INCOME AND LOSS

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 2007, the Hospital had an operating loss of (\$113,577). In both 2006 and 2005, the Hospital had an operating income, \$792,758 in 2006 and \$880,138 in 2005. In 2004, the Hospital reported an operating loss of (\$1,124,099). The operating loss in 2007 represents a decrease of \$906,335 from the income in 2006. The operating income in 2006 represents a decrease of \$87,380 from the income in 2005. The operating income 2005 was an increase of \$2,004,237 over the loss in 2004.

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

Contractual adjustments increased \$616,488 or 8.5 percent from 2006 to 2007. Contractual adjustments decreased \$534,820 or 6.9 percent from 2005 to 2006, and decreased \$2,324,876 or 23 percent from 2004 to 2005. In 2007, contractual adjustments are 27.0 percent of patient service revenue, compared to 25.3 percent of patient service revenue in 2006, 28.3 percent of patient service revenue in 2005, and 38.0 percent of patient service revenue in 2004.

The primary reason for the overall improvement in contractual adjustments since 2004 is the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, 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, which represents about 59 percent of the Hospital's patient service revenues in both 2007 and 2006 and 56 percent in 2005, and Medicaid, which represents about 8 percent of the Hospital's patient service revenues in 2007, 2006 and 2005.

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. In 2007 the fiscal intermediary for Medicare audited the Hospital's first cost report as a CAH. At the date of this report, two years of Medicare cost reports and four years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement.

The Hospital's expense for employee health benefits has increased \$221,225, or 19.1 percent, from 2006 to 2007 and \$339,486, or 41.5 percent, from 2005 to 2006 (decreased \$2,951 from 2004 to 2005). There has been significant use of employee health benefits in 2007 and 2006.

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 net 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 investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 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, 2007 was prepared on a modified accrual basis. Hospital expenditures during 2007 did not exceed amounts budgeted. Expenditures in 2006 exceeded amounts budgeted by \$326,281.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2007, the Hospital had \$10,398,351 invested in capital assets, net of accumulated depreciation (\$9,417,528 in 2006), as detailed in Note F to the financial statements. In 2007, the Hospital purchased new property and equipment costing \$2,334,919 (\$1,849,072 in 2006; \$941,554 in 2005). In 2007, the Hospital identified \$983,512 of fully depreciated capital assets taken out of service. No assets were identified as taken out of service in 2006. In 2005, the Hospital identified \$1,328,974 of fully depreciated capital assets taken out of service, including \$524,558 in the Radiology area, where new RIS/PACS equipment has been installed. As of June 30, 2007, the Hospital has incurred costs of \$322,291 for equipment and software projects that have not been placed in service. The estimated cost to complete these projects is \$580,866.

Debt:

At year-end, the Hospital had \$3,422,823 in bonds payable, notes payable, and capital lease obligations outstanding as detailed in Note H (\$4,011,965 at June 30, 2006). The Hospital issued \$5,075,000 of 2003 Series Hospital Revenue Refunding Capital Loan notes in December 2003.

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>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 1,842,873	\$ 1,118,862
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$940,000 in 2007, \$1,087,000 in 2006)	3,745,341	3,477,529
Other receivables	89,792	71,214
Inventory	320,792	330,444
Prepaid expense	145,506	75,067
Estimated third-party payor settlements	--	202,000
Succeeding year property tax receivable	1,172,000	1,159,000
Internally designated assets	<u>1,104,097</u>	<u>920,467</u>
Total current assets	8,420,401	7,354,583
Designated and Restricted Assets:		
Internally designated assets	8,864,827	8,429,489
Restricted assets	<u>927,880</u>	<u>986,127</u>
	9,792,707	9,415,616
Less amounts required to meet current liabilities	<u>1,104,097</u>	<u>920,467</u>
	8,688,610	8,495,149
Capital Assets:		
Depreciable capital assets, net	10,118,180	9,241,965
Non-depreciable capital assets	<u>280,171</u>	<u>175,563</u>
	10,398,351	9,417,528
Other Assets:		
Deferred rent	14,074	21,111
Notes receivable	38,982	28,731
Equipment deposits	322,291	586,655
Other	<u>287,436</u>	<u>291,775</u>
	662,783	928,272
Total assets	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 484,745	\$ 492,900
Accounts payable	725,381	462,495
Accrued salaries and wages	185,197	152,756
Accrued other employee compensation	595,220	563,734
Accrued interest payable	11,105	12,470
Accrued fees	17,000	17,000
Payroll taxes withheld and accrued	245,334	242,827
Other current liabilities	192,836	163,162
Estimated third-party payor settlements	460,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,172,000</u>	<u>1,159,000</u>
Total current liabilities	<u>4,088,818</u>	<u>3,266,344</u>
Long-Term Debt:		
Notes payable, less unamortized discount and current maturities	2,548,908	2,985,993
Note payable, less current maturities	<u>50,163</u>	<u>97,823</u>
Total long-term debt	<u>2,599,071</u>	<u>3,083,816</u>
Total liabilities	6,687,889	6,350,160
Net Assets:		
Invested in capital assets, net of related debt	6,975,528	5,405,563
Restricted - expendable	927,880	986,127
Unrestricted	<u>13,578,848</u>	<u>13,453,682</u>
Total net assets	<u>21,482,256</u>	<u>19,845,372</u>
Total liabilities and net assets	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>

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

	<u>2007</u>	<u>2006</u>
Revenue:		
Net patient service revenue	\$ 20,374,292	\$ 20,475,146
Other revenue	<u>377,313</u>	<u>410,356</u>
Total revenue	20,751,605	20,885,502
Expenses:		
Nursing service	5,849,883	5,752,644
Other professional service	8,274,967	8,070,429
General service	2,152,640	2,069,302
Fiscal and administrative service	3,211,902	3,010,094
Provision for depreciation	<u>1,375,790</u>	<u>1,190,275</u>
Total expenses	<u>20,865,182</u>	<u>20,092,744</u>
Operating Income (Loss)	(113,577)	792,758
Non-Operating Revenue (Expenses):		
County taxes	1,221,000	1,226,600
Investment income	499,306	313,831
Noncapital grants and contributions	77,310	60,672
Rental income, net	164,573	128,974
Gain (Loss) on disposal of assets	2,000	(485)
Interest expense	<u>(239,793)</u>	<u>(262,537)</u>
Non-operating revenue, net	<u>1,724,396</u>	<u>1,467,055</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,610,819	2,259,813
Capital Grants and Contributions	<u>26,065</u>	<u>42,000</u>
Excess of Revenues Over Expenses and Increase in Net Assets	1,636,884	2,301,813
Net Assets - Beginning of Year	<u>19,845,372</u>	<u>17,543,559</u>
Net Assets - End of Year	<u>\$ 21,482,256</u>	<u>\$ 19,845,372</u>

The accompanying notes are an integral part of these statements.

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

	2007	2006
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 20,749,902	\$ 20,632,014
Cash paid to suppliers	(9,501,244)	(9,524,426)
Cash paid to employees	(9,860,820)	(9,641,361)
Other revenue received	377,313	410,356
Net cash provided by operating activities	1,765,151	1,876,583
Cash flows from non-capital financing activities:		
County tax received	1,221,000	1,226,600
Noncapital grants and contributions	77,310	60,672
Net cash provided by non-capital financing activities	1,298,310	1,287,272
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(84,446)	(203)
Purchase of property and equipment	(1,768,768)	(1,425,542)
Equipment deposits	(146,150)	(739,692)
Principal paid on long-term debt	(589,142)	(640,832)
Interest paid	(148,617)	(165,981)
Capital grants and contributions	26,065	42,000
Proceeds from the sale of assets	2,000	500
Selling costs on sale of assets	--	(985)
Net cash used in capital and related financing activities	(2,709,058)	(2,930,735)
Cash flows from investing activities:		
Investment income received	499,306	309,115
Increase in designated and restricted assets	(214,302)	(1,195,491)
(Increase) decrease in notes receivable, net	(16,531)	9,664
Office building rental income, net	259,585	236,903
Decrease in other assets	4,339	31,089
Net cash provided by (used in) investing activities	532,397	(608,720)
Net increase (decrease) in cash and cash equivalents	886,800	(375,600)
Cash and cash equivalents at beginning of year	1,928,504	2,304,104
Cash and cash equivalents at end of year	\$ 2,815,304	\$ 1,928,504

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,842,873	\$ 1,118,862
Cash and cash equivalents in internally designated assets	<u>972,431</u>	<u>809,642</u>
	<u>\$ 2,815,304</u>	<u>\$ 1,928,504</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(113,577)	\$ 792,758
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Provision for depreciation	1,375,790	1,190,275
Provision for bad debts	810,774	809,592
Amortization of notes receivable	6,280	6,280
Changes in assets and liabilities		
Accounts receivable	(1,097,164)	(859,724)
Inventory	9,652	(8,309)
Prepaid expense	(70,439)	57,503
Estimated third-party payor settlements	662,000	207,000
Accounts payable, trade	85,727	(162,459)
Accrued salaries and wages	32,441	(204,021)
Accrued other employee compensation	31,486	30,158
Accrued fees	--	200
Payroll taxes withheld and accrued	2,507	9,288
Other current liabilities	29,674	8,042
Total adjustments	<u>1,878,728</u>	<u>1,083,825</u>
Net cash provided by operating activities	<u>\$ 1,765,151</u>	<u>\$ 1,876,583</u>

Non-Cash Transactions:

The Hospital also recorded the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities.

	<u>2007</u>	<u>2006</u>
Increase (decrease) in unrealized gains	<u>\$ --</u>	<u>\$ 4,716</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

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 one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component unit from these financial statements which, when discreetly presented, would not materially affect the Hospital's Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, or Statement of Cash Flows.

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, 2007 and 2006

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 2007 or 2006.

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. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other 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, 2007 and 2006

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, 2007 and 2006

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 and most outpatient services 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, 2005. The Medicaid cost reports have been audited through September 30, 2004. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. 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, 2007 and 2006

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2007	2006
Long-term debt	<u>\$ 927,880</u>	<u>\$ 986,127</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2007 or 2006.

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

	2007	2006
Purchase of property and equipment	<u>\$ 26,065</u>	<u>\$ 42,000</u>

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 \$13,578,848 (\$13,453,682 as of June 30, 2006) of unrestricted net assets as of June 30, 2007, \$8,864,827 (\$8,429,489 for 2006) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	2007	2006
Capital acquisitions and related property taxes	\$ 8,388,627	\$ 7,975,603
Employee health insurance	<u>476,200</u>	<u>453,886</u>
	<u>\$ 8,864,827</u>	<u>\$ 8,429,489</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2007 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, 2007 and 2006

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:

	2007	2006
Internally Designated Assets:		
Cash and cash equivalents	\$ 826,787	\$ 607,957
Certificates of deposit	4,773,241	4,545,190
Federal mortgage notes	3,150,000	3,149,745
Interest receivable	114,799	126,597
	\$ 8,864,827	\$ 8,429,489
Restricted Assets:		
Cash and cash equivalents	\$ 145,644	\$ 201,685
Certificates of deposit	275,114	272,748
Federal mortgage notes	500,000	500,000
Accrued interest	7,122	11,694
	\$ 927,880	\$ 986,127

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, 2007 and 2006

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2007 and 2006 were as follows:

<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
Land Improvements	\$ 1,011,283	\$ --	\$ --	\$ 1,011,283
Buildings	6,993,305	--	--	6,993,305
Building Components	1,897,785	84,075	--	1,981,860
Building Service Equipment	4,947,451	14,671	--	4,962,122
Fixed Equipment	553,774	10,586	23,980	540,380
Major Movable Equipment	<u>10,097,919</u>	<u>2,225,587</u>	<u>959,532</u>	<u>11,363,974</u>
	25,501,517	2,334,919	983,512	26,852,924
 <u>Depreciation</u>				
Land Improvements	872,834	31,335	--	904,169
Buildings	2,386,288	188,587	--	2,574,875
Building Components	1,235,076	73,904	--	1,308,980
Building Service Equipment	3,867,265	224,324	--	4,091,589
Fixed Equipment	535,786	5,537	23,980	517,343
Major Movable Equipment	<u>7,362,303</u>	<u>935,017</u>	<u>959,532</u>	<u>7,337,788</u>
Total Depreciation	<u>16,259,552</u>	<u>1,458,704</u>	<u>983,512</u>	<u>16,734,744</u>
Depreciable Capital Assets, Net	<u>\$ 9,241,965</u>	<u>\$ 876,215</u>	<u>\$ --</u>	<u>\$ 10,118,180</u>
Construction in Progress	\$ 72,223	\$ 104,608	\$ --	\$ 176,831
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 175,563</u>	<u>\$ 104,608</u>	<u>\$ --</u>	<u>\$ 280,171</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2006</u>
Land Improvements	\$ 1,011,283	\$ --	\$ --	\$ 1,011,283
Buildings	6,993,305	--	--	6,993,305
Building Components	1,829,668	68,117	--	1,897,785
Building Service Equipment	4,794,270	153,181	--	4,947,451
Fixed Equipment	553,774	--	--	553,774
Major Movable Equipment	8,470,145	1,627,774	--	10,097,919
	<u>23,652,445</u>	<u>1,849,072</u>	<u>--</u>	<u>25,501,517</u>
 <u>Depreciation</u>				
Land Improvements	836,545	36,289	--	872,834
Buildings	2,197,994	188,294	--	2,386,288
Building Components	1,173,133	61,943	--	1,235,076
Building Service Equipment	3,639,757	227,508	--	3,867,265
Fixed Equipment	531,170	4,616	--	535,786
Major Movable Equipment	6,594,127	768,176	--	7,362,303
Total Depreciation	<u>14,972,726</u>	<u>1,286,826</u>	<u>--</u>	<u>16,259,552</u>
Depreciable Capital Assets, Net	<u>\$ 8,679,719</u>	<u>\$ 562,246</u>	<u>\$ --</u>	<u>\$ 9,241,965</u>
Construction in Progress	\$ 72,020	\$ 203	\$ --	\$ 72,223
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 175,360</u>	<u>\$ 203</u>	<u>\$ --</u>	<u>\$ 175,563</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,272,103, of which a major portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,458,704 for the year ended June 30, 2007 (\$1,286,826 in 2006), of which \$82,914 (\$96,551 in 2006) 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, 2007 and 2006

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:

	2007	2006
Deferred Rent	\$ 14,074	\$ 21,111

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2007 and 2006 follows:

	Balance 2006	Additions	Reductions	Balance 2007	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 143,106	\$ --	\$ 45,283	\$ 97,823	\$ 47,660
Series 2003 notes	3,845,000	--	520,000	3,325,000	525,000
Less unamortized discount and debt issue costs	<u>(435,249)</u>	<u>--</u>	<u>(96,242)</u>	<u>(339,007)</u>	<u>(87,915)</u>
	3,552,857	--	469,041	3,083,816	484,745
Capital Lease Obligation	<u>23,859</u>	<u>--</u>	<u>23,859</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$3,576,716</u>	<u>\$ --</u>	<u>\$ 492,900</u>	<u>\$3,083,816</u>	<u>\$ 484,745</u>
	Balance 2005	Additions	Reductions	Balance 2006	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 186,130	\$ --	\$ 43,024	\$ 143,106	\$ 45,283
Series 2003 notes	4,350,000	--	505,000	3,845,000	520,000
Less unamortized discount and debt issue costs	<u>(538,929)</u>	<u>--</u>	<u>(103,680)</u>	<u>(435,249)</u>	<u>(96,242)</u>
	3,997,201	--	444,344	3,552,857	469,041
Capital Lease Obligation	<u>116,667</u>	<u>--</u>	<u>92,808</u>	<u>23,859</u>	<u>23,859</u>
Total Long-Term Debt	<u>\$4,113,868</u>	<u>\$ --</u>	<u>\$ 537,152</u>	<u>\$3,576,716</u>	<u>\$ 492,900</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

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 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 refund 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 obligation are as follows:

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2008	\$ 572,660	\$ 130,415
2009	585,163	110,501
2010	545,000	90,033
2011	560,000	68,713
2012	575,000	45,436
2013	585,000	20,095
	<u>\$ 3,422,823</u>	<u>\$ 465,193</u>

Total interest expense for the year ended June 30, 2007 was \$243,494 (\$268,354 in 2006). Interest of \$3,701 (\$5,817 in 2006) 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, 2007 and 2006

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% (3.90% beginning July 1, 2007) of their annual salary and the Hospital is required to contribute 5.75% (6.05% beginning July 1, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were approximately \$558,000, \$529,000, and \$490,300, 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, 2007, was approximately \$1,749,800, (\$1,381,200 at June 30, 2006). 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, 2007 and 2006

NOTE K - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center 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:

	2007	2006
Services purchased from HPSI	\$ 102,695	\$ 101,453
Services and supplies provided to HPSI	\$ 26,135	\$ 26,028
Amount due to HPSI	\$ 17,958	\$ 19,943
Member share of net assets	\$ 261,213	\$ 261,675

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, 2007, contributions received from this organization were \$ - 0 - (\$15,000 for 2006).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007, the Hospital has designated funds in excess of actual claims paid of \$476,200 (\$453,886 at June 30, 2006). 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, 2007 is approximately \$160,000 (\$137,000 at June 30, 2006), which is included in other current liabilities.

Notes Receivable

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

Risk Management

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

Construction in Progress

As of June 30, 2007, the Hospital incurred fees of \$176,831 for long-term site development planning. The project is being financed through the use of internally generated funds.

Equipment Deposits

As of June 30, 2007, the Hospital incurred costs of \$322,291 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 \$580,866, which is being financed through the use of internally generated funds.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Receivable from:		
Patients	\$ 792,916	\$ 782,369
Medicare	2,110,845	2,147,503
Medicaid	376,499	289,292
Blue Cross	553,950	527,726
Other commercial insurance carriers	801,997	767,606
Others	<u>49,134</u>	<u>50,033</u>
	4,685,341	4,564,529
Less allowances for doubtful accounts and contractual adjustments	<u>940,000</u>	<u>1,087,000</u>
	<u>\$ 3,745,341</u>	<u>\$ 3,477,529</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year ended June 30, 2007

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	\$ 1,221,000	\$ --	\$ 1,221,000	
Other revenues	21,255,001	26,065	21,281,066	
Transfers in (out)	<u>84,312</u>	<u>(84,312)</u>	<u>--</u>	
	22,560,313	(58,247)	22,502,066	
Expenses	<u>20,865,182</u>	<u>--</u>	<u>20,865,182</u>	
Net	1,695,131	(58,247)	1,636,884	
Balance beginning of year	<u>18,859,245</u>	<u>986,127</u>	<u>19,845,372</u>	
Balance end of year	<u>\$ 20,554,376</u>	<u>\$ 927,880</u>	<u>\$ 21,482,256</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 1,221,000	\$ --	\$ 1,221,000	\$ 1,159,406
Other revenues	<u>21,281,066</u>	<u>239,793</u>	<u>21,520,859</u>	<u>23,924,863</u>
	22,502,066	239,793	22,741,859	25,084,269
Expenses	<u>20,865,182</u>	<u>1,446,229</u>	<u>22,311,411</u>	<u>23,628,252</u>
Net	1,636,884	(1,206,436)	430,448	1,456,017
Balance beginning of year	<u>19,845,372</u>	<u>(7,511,873)</u>	<u>12,333,499</u>	<u>12,333,499</u>
Balance end of year	<u>\$ 21,482,256</u>	<u>\$ (8,718,309)</u>	<u>\$ 12,763,947</u>	<u>\$ 13,789,516</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	2007		2006	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 1,317,004	28.1%	\$ 1,156,893	25.3%
31 - 90	1,143,727	24.4	1,114,916	24.4
91 - 180	498,395	10.6	459,257	10.1
181 - 360	135,362	2.9	164,560	3.6
361 and over	108,208	2.3	142,146	3.1
	3,202,696	68.3	3,037,772	66.5
In hospital and unbilled	1,482,645	31.7	1,526,757	33.5
	4,685,341	100.0%	4,564,529	100.0%
Less:				
Allowance for doubtful accounts	260,000		287,000	
Allowance for contractual adjustments	680,000		800,000	
	\$ 3,745,341		\$ 3,477,529	

Allowance for Doubtful Accounts:

	Year Ended June 30,	
	2007	2006
Balance, beginning	\$ 287,000	\$ 306,000
Provision for bad debts	810,774	809,592
Recoveries of accounts previously written off	212,195	227,828
	1,309,969	1,343,420
Accounts written off	1,049,969	1,056,420
Balance, ending	\$ 260,000	\$ 287,000

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	2007	2006
<u>Inventory</u>		
General stores	\$ 171,480	\$ 178,293
Pharmacy	139,855	142,408
Dietary	9,457	9,743
	\$ 320,792	\$ 330,444
 <u>Prepaid Expense</u>		
Dues	\$ 13,146	\$ 13,069
General insurance	103,793	61,998
Service contracts	28,567	--
	\$ 145,506	\$ 75,067

See Independent Auditor's Report.

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

	2007	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,247,943	\$ 134,515
Coronary care	1,162,098	112,798
Nursery	<u>105,318</u>	<u>96</u>
	2,515,359	247,409
Other Nursing Services:		
Operating room	191,814	1,382,024
Recovery room	13,439	172,433
Labor and delivery rooms	95,202	45,357
Medical supplies	554,411	911,945
Intravenous therapy	730,075	257,572
Emergency service	63,806	1,787,018
Outpatient clinics	<u>1,758</u>	<u>210,693</u>
	1,650,505	4,767,042
Other Professional Services:		
Emergency room physicians	14,755	642,863
Laboratory	770,396	1,943,455
Electrocardiology	153,922	309,613
Electroencephalography	8,488	9,952
Radiology	107,316	1,183,694
Ultrasound	67,787	609,409
CT scan	242,147	1,501,554
Mammography	78	143,133
MRI	70,280	926,354
Nuclear medicine	27,967	158,981
Pharmacy	1,218,273	872,398
Anesthesiology	164,701	536,644
Inhalation therapy	854,833	216,223
Physical therapy	64,058	862,113
Speech therapy	4,888	41,567
Occupational therapy	9,532	99,751
Cardiopulmonary rehabilitation	--	142,699
Oncology	59,111	772,385
Sleep study	--	293,284
Home health	--	388,191
Hospice	4,095	159,351
Durable medical equipment	--	539,439
Business health	--	103,160
Women's health	68,103	468,271
Villisca Medical Clinic	<u>--</u>	<u>150,746</u>
	<u>3,910,730</u>	<u>13,075,230</u>
	<u>\$ 8,076,594</u>	<u>\$ 18,089,681</u>

See Independent Auditor's Report.

2007		2006	
Swing Bed	Total	Swing Bed	Total
\$ 964,675	\$ 2,347,133	\$ 2,179,310	
--	1,274,896	1,180,607	
--	105,414	105,758	
<u>964,675</u>	<u>3,727,443</u>	<u>3,465,675</u>	
9,592	1,583,430	1,653,482	
481	186,353	181,366	
--	140,559	139,993	
165,478	1,631,834	1,616,712	
280,088	1,267,735	1,212,562	
--	1,850,824	1,694,158	
493	212,944	197,201	
<u>456,132</u>	<u>6,873,679</u>	<u>6,695,474</u>	
--	657,618	590,316	
160,674	2,874,525	2,689,873	
14,987	478,522	567,881	
464	18,904	30,793	
29,358	1,320,368	1,293,492	
9,807	687,003	624,618	
30,702	1,774,403	1,542,521	
--	143,211	150,603	
15,343	1,011,977	962,045	
6,858	193,806	177,119	
591,262	2,681,933	3,445,941	
3,758	705,103	767,941	
546,545	1,617,601	1,630,993	
116,508	1,042,679	1,079,317	
3,268	49,723	45,937	
27,651	136,934	233,142	
--	142,699	121,778	
35,792	867,288	161,657	
--	293,284	317,861	
--	388,191	343,239	
--	163,446	313,269	
--	539,439	713,910	
--	103,160	99,173	
--	536,374	556,311	
--	150,746	63,555	
<u>1,592,977</u>	<u>18,578,937</u>	<u>18,523,285</u>	
<u>\$ 3,013,784</u>	<u>\$ 29,180,059</u>	<u>\$ 28,684,434</u>	

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

	<u>2007</u>	<u>2006</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 29,180,059	\$ 28,684,434
Contractual adjustments	(7,882,327)	(7,265,839)
Discounts and allowances	(112,666)	(133,857)
Provision for bad debts	<u>(810,774)</u>	<u>(809,592)</u>
	<u>\$ 20,374,292</u>	<u>\$ 20,475,146</u>
 Other Operating Revenue:		
Meals sold	\$ 79,997	\$ 74,687
Prisoner meals	21,804	23,844
Meals on wheels	36,060	27,730
Lifeline	59,898	55,999
Medical record transcripts	3,338	4,859
Case management	51,205	62,021
Wellness	26,062	25,242
Contracted services	14,800	79,694
Certified training classes	12,653	5,054
Miscellaneous	<u>71,496</u>	<u>51,226</u>
	<u>\$ 377,313</u>	<u>\$ 410,356</u>

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Administrative:		
Salaries and wages	\$ 135,780	\$ 136,821
Employee benefits	36,100	40,020
Supplies and other expense	<u>25,516</u>	<u>52,185</u>
	197,396	229,026
Quality Assurance:		
Salaries and wages	55,376	54,903
Employee benefits	11,229	10,706
Supplies and other expense	<u>9,909</u>	<u>12,550</u>
	76,514	78,159
Inservice:		
Salaries and wages	53,006	54,640
Employee benefits	20,916	19,424
Supplies and other expense	<u>18,907</u>	<u>25,219</u>
	92,829	99,283
Medical and Surgical:		
Salaries and wages	1,457,530	1,330,078
Employee benefits	440,795	382,101
Supplies and other expense	<u>75,421</u>	<u>112,399</u>
	1,973,746	1,824,578
Coronary Care:		
Salaries and wages	785,285	729,647
Employee benefits	230,112	219,721
Supplies and other expense	<u>23,132</u>	<u>26,317</u>
	1,038,529	975,685
Obstetric:		
Salaries and wages	54,125	55,665
Employee benefits	7,253	7,459
Supplies and other expense	<u>1,625</u>	<u>3,540</u>
	63,003	66,664

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Nursery:		
Salaries and wages	\$ 54,310	\$ 54,701
Employee benefits	7,278	7,330
Supplies and other expense	<u>3,878</u>	<u>6,257</u>
	65,466	68,288
Operating Room:		
Salaries and wages	383,154	449,796
Employee benefits	103,843	103,555
Supplies and other expense	<u>130,023</u>	<u>129,189</u>
	617,020	682,540
Labor and Delivery:		
Salaries and wages	25,448	26,105
Employee benefits	3,410	3,499
Supplies and other expense	<u>21,868</u>	<u>10,223</u>
	50,726	39,827
Central Services and Supply:		
Salaries and wages	155,225	154,996
Employee benefits	55,646	49,856
Supplies sold to patients	493,003	495,296
Supplies and other expense	<u>6,126</u>	<u>6,733</u>
	710,000	706,881
Intravenous Therapy:		
Solutions	39,773	33,566
Emergency Services:		
Salaries and wages	451,771	416,148
Employee benefits	98,580	88,748
Supplies and other expense	<u>20,202</u>	<u>21,770</u>
	570,553	526,666
Outpatient Clinics:		
Salaries and wages	249,472	298,981
Employee benefits	82,709	87,850
Supplies and other expense	<u>22,147</u>	<u>34,650</u>
	<u>354,328</u>	<u>421,481</u>
	<u>\$ 5,849,883</u>	<u>\$ 5,752,644</u>

(continued next page)

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

	<u>2007</u>	<u>2006</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 3,860,482	\$ 3,762,481
Employee benefits	1,097,871	1,020,269
Other expense	<u>891,530</u>	<u>969,894</u>
	<u>\$ 5,849,883</u>	<u>\$ 5,752,644</u>

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Emergency Room Physicians:		
Professional fees	\$ 399,982	\$ 380,788
Laboratory:		
Salaries and wages	391,918	361,962
Employee benefits	118,136	91,699
Purchased services	182,530	128,155
Supplies and other expense	<u>381,859</u>	<u>448,843</u>
	1,074,443	1,030,659
Blood Bank:		
Cost of blood	93,004	82,206
Electrocardiology:		
Salaries and wages	21,850	27,155
Employee benefits	2,928	3,639
Purchased services	63,489	120,945
Supplies and other expense	<u>2,350</u>	<u>2,478</u>
	90,617	154,217
Electroencephalography:		
Salaries and wages	2,686	4,165
Employee benefits	359	558
Supplies and other expense	<u>1,635</u>	<u>8,359</u>
	4,680	13,082
Radiology:		
Salaries and wages	398,696	393,728
Employee benefits	91,572	82,167
Supplies and other expense	<u>192,876</u>	<u>150,852</u>
	683,144	626,747
Ultrasound:		
Salaries and wages	99,820	67,766
Employee benefits	18,554	9,369
Supplies and other expense	<u>53,084</u>	<u>19,548</u>
	171,458	96,683

(continued next page)

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

	<u>2007</u>	<u>2006</u>
CT Scan:		
Salaries and wages	\$ 47,058	\$ 43,366
Employee benefits	15,109	13,668
Professional fees	13,555	27,612
Supplies and other expense	<u>36,878</u>	<u>52,270</u>
	112,600	136,916
Mammography:		
Purchased services	6,135	11,561
Supplies and other expense	<u>10,423</u>	<u>12,108</u>
	16,558	23,669
MRI:		
Purchased services	213,908	191,627
Supplies and other expense	<u>18,063</u>	<u>16,353</u>
	231,971	207,980
Nuclear Medicine:		
Purchased services	97,434	95,098
Pharmacy:		
Salaries and wages	291,210	249,838
Employee benefits	54,193	48,262
Purchased services	104,986	107,330
Drugs	442,353	684,823
Supplies and other expense	<u>9,551</u>	<u>12,724</u>
	902,293	1,102,977
Anesthesiology:		
Salaries and wages	342,908	429,554
Employee benefits	61,256	64,222
Professional fees	1,241	2,938
Supplies and other expense	<u>20,071</u>	<u>31,475</u>
	425,476	528,189
Inhalation Therapy:		
Salaries and wages	262,606	254,051
Employee benefits	67,544	60,208
Purchased services	126	96
Supplies and other expense	<u>254,901</u>	<u>314,831</u>
	585,177	629,186

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

	<u>2007</u>	<u>2006</u>
Physical Therapy:		
Professional fees	\$ 395,616	\$ 412,299
Supplies and other expense	<u>7,789</u>	<u>4,756</u>
	403,405	417,055
Speech Therapy:		
Professional fees	27,300	21,675
Supplies and other expense	<u>6</u>	<u>847</u>
	27,306	22,522
Occupational Therapy:		
Professional fees	52,003	86,595
Supplies and other expense	<u>115</u>	<u>295</u>
	52,118	86,890
Cardiopulmonary Rehabilitation:		
Salaries and wages	123,731	106,065
Employee benefits	26,940	14,217
Supplies and other expense	<u>10,769</u>	<u>9,210</u>
	161,440	129,492
Home Health:		
Salaries and wages	282,862	290,289
Employee benefits	80,842	67,964
Purchased services	97,012	63,695
Supplies and other expense	<u>31,526</u>	<u>24,647</u>
	492,242	446,595
Hospice:		
Salaries and wages	89,268	89,042
Employee benefits	11,845	11,936
Purchased services	48,577	51,490
Supplies and other expense	<u>23,127</u>	<u>49,962</u>
	172,817	202,430
Social Services:		
Salaries and wages	87,245	82,659
Employee benefits	24,387	22,257
Supplies and other expense	<u>2,995</u>	<u>1,191</u>
	114,627	106,107
Lifeline:		
Supplies and other expense	50,981	47,897

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Health Information Management:		
Salaries and wages	\$ 261,540	\$ 260,559
Employee benefits	61,348	57,261
Supplies and other expense	<u>70,234</u>	<u>63,945</u>
	393,122	381,765
Case Management:		
Salaries and wages	32,673	68,257
Employee benefits	7,135	8,413
Supplies and other expense	<u>13,554</u>	<u>8,718</u>
	53,362	85,388
Sleep Study:		
Salaries and wages	108,198	108,467
Employee benefits	14,869	14,590
Professional fees	52	1,275
Supplies and other expense	<u>10,883</u>	<u>17,038</u>
	134,002	141,370
Women's Health:		
Salaries and wages	315,484	311,445
Employee benefits	101,205	95,200
Supplies and other expense	<u>33,385</u>	<u>26,671</u>
	450,074	433,316
Business Health:		
Salaries and wages	102,292	84,762
Employee benefits	23,463	20,252
Supplies and other expense	<u>34,117</u>	<u>32,544</u>
	159,872	137,558
Villisca Medical Clinic:		
Salaries and wages	164,569	84,319
Employee benefits	39,076	19,258
Supplies and other expense	<u>52,622</u>	<u>39,022</u>
	256,267	142,599
Oncology:		
Salaries and wages	87,638	18,365
Employee benefits	11,450	2,060
Supplies and other expense	<u>244,347</u>	<u>40,169</u>
	343,435	60,594

(continued next page)

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

	2007	2006
Diabetes Program:		
Salaries and wages	\$ 90,983	\$ 92,638
Employee benefits	26,563	25,056
Supplies and other expense	3,514	2,760
	121,060	120,454
	\$ 8,274,967	\$ 8,070,429

SUMMARY

Salaries and wages	\$ 3,605,235	\$ 3,428,452
Employee benefits	858,774	732,256
Professional fees	889,749	933,182
Other expense	2,921,209	2,976,539
	\$ 8,274,967	\$ 8,070,429

See Independent Auditor's Report.

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

	2007	2006
Dietary:		
Salaries and wages	\$ 401,254	\$ 397,547
Employee benefits	170,666	148,816
Food	175,934	171,201
Supplies and other expense	45,361	49,257
	793,215	766,821
Housekeeping:		
Salaries and wages	315,718	304,238
Employee benefits	123,078	101,941
Purchased services	13,973	12,566
Supplies and other expense	75,218	76,775
	527,987	495,520
Laundry and Linen:		
Purchased services	96,098	92,948
Supplies and other expense	2,835	2,686
	98,933	95,634
Plant Engineering:		
Salaries and wages	177,499	175,906
Employee benefits	40,720	39,377
Utilities	336,266	369,556
Purchased services	48,259	27,630
Supplies and other expense	129,761	98,858
	732,505	711,327
	\$ 2,152,640	\$ 2,069,302

SUMMARY

Salaries and wages	\$ 894,471	\$ 877,691
Employee benefits	334,464	290,134
Other expense	923,705	901,477
	\$ 2,152,640	\$ 2,069,302

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Administrative:		
Salaries and wages	\$ 210,307	\$ 184,903
Employee benefits	214,239	192,211
Professional fees	37,508	54,932
Dues and subscriptions	44,772	41,586
Purchased services	22,268	37,784
Collection fees	58,021	58,467
Telephone	36,785	34,739
Supplies and other expense	<u>90,164</u>	<u>120,144</u>
	714,064	724,766
Accounting:		
Salaries and wages	179,067	169,009
Employee benefits	51,156	47,667
Supplies and other expense	<u>11,375</u>	<u>9,275</u>
	241,598	225,951
Admissions/Business Office:		
Salaries and wages	175,222	173,077
Employee benefits	55,504	52,184
Supplies and other expense	<u>11,127</u>	<u>15,364</u>
	241,853	240,625
Patient Accounting:		
Salaries and wages	219,084	169,112
Employee benefits	64,576	52,404
Supplies and other expense	<u>51,746</u>	<u>41,575</u>
	335,406	263,091
Fiscal Services:		
Salaries and wages	130,385	126,358
Employee benefits	58,116	52,884
Supplies and other expense	<u>8,697</u>	<u>6,820</u>
	197,198	186,062
Information Systems:		
Salaries and wages	424,961	362,855
Employee benefits	113,159	98,485
Purchased services and maintenance	242,084	252,699
Supplies and other expense	<u>100,830</u>	<u>88,880</u>
	881,034	802,919

(continued next page)

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

	2007	2006
Human Resources:		
Salaries and wages	\$ 69,620	\$ 65,920
Employee benefits	44,813	33,541
Purchased services	3,000	548
Supplies and other expense	25,840	10,636
	143,273	110,645
Public Relations:		
Salaries and wages	68,451	62,691
Employee benefits	14,268	13,288
Supplies and other expense	87,113	90,517
	169,832	166,496
DRG/Utilization Review:		
Salaries and wages	87,462	84,949
Employee benefits	24,519	22,785
Purchased services	15,415	13,847
Supplies and other expense	1,353	1,407
	128,749	122,988
Insurance:		
Liability and property insurance	158,895	166,551
	\$ 3,211,902	\$ 3,010,094

SUMMARY

Salaries and wages	\$ 1,564,559	\$ 1,398,874
Employee benefits	640,350	565,449
Professional fees	37,508	54,932
Other expense	969,485	990,839
	\$ 3,211,902	\$ 3,010,094

SUMMARY OF EXPENSES

Salaries and wages	\$ 9,924,747	\$ 9,467,498
Employee benefits	2,931,459	2,608,108
Professional fees	927,257	988,114
Other expense	5,705,929	5,838,749
	\$ 19,489,392	\$ 18,902,469

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Comparative Statistics
 Year ended June 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Admissions	1,130	1,136	1,142	1,232	1,395
Discharges	1,133	1,137	1,140	1,234	1,399
Average Length of Stay	3.55	3.42	3.36	3.26	3.79
Acute Patient Days	4,022	3,883	3,828	4,017	5,307
Average Occupied Beds	11.0	10.6	10.5	11.0	14.5
Swing Bed Days	2,372	2,673	2,963	3,311	3,309
Combined Average Occupied Beds	17.5	18.0	18.6	20.0	23.6
Beds Available	25	25	25	40	40
Nursery Days	227	240	251	203	201
Outpatient Occasions of Service	40,346	39,706	40,371	36,979	39,810

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 1,842,873	\$ 1,118,862
Receivables, net	3,835,133	3,548,743
Inventory	320,792	330,444
Prepaid expense	145,506	75,067
Estimated third-party payor settlements	--	202,000
Succeeding year property tax receivable	1,172,000	1,159,000
Internally designated assets	<u>1,104,097</u>	<u>920,467</u>
Total current assets	8,420,401	7,354,583
Other Assets:		
Internally designated and restricted assets	8,688,610	8,495,149
Capital assets, net	10,398,351	9,417,528
Other non-current assets	<u>662,783</u>	<u>928,272</u>
Total other assets	<u>19,749,744</u>	<u>18,840,949</u>
	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 484,745	\$ 492,900
Accounts payable	725,381	462,495
Estimated third-party payor settlements	460,000	--
Accrued expenses	1,246,692	1,151,949
Deferred revenue for succeeding year property tax receivable	<u>1,172,000</u>	<u>1,159,000</u>
Total current liabilities	4,088,818	3,266,344
Long-Term Debt, Net	2,599,071	3,083,816
Net Assets	<u>21,482,256</u>	<u>19,845,372</u>
	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 1,972,633	\$ 1,357,807	\$ 1,071,955
3,498,611	3,188,959	2,942,681
322,135	346,879	337,803
132,570	107,108	87,541
409,000	--	755,000
1,156,000	1,151,000	1,155,000
<u>1,276,053</u>	<u>825,652</u>	<u>722,798</u>
8,767,002	6,977,405	7,072,778
6,461,185	6,250,383	6,131,966
8,855,079	9,027,837	9,667,532
986,021	499,146	419,525
<u>16,302,285</u>	<u>15,777,366</u>	<u>16,219,023</u>
<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>
\$ 537,152	\$ 508,959	\$ 425,191
946,271	434,777	472,365
--	126,000	--
1,309,589	1,160,724	1,190,058
<u>1,156,000</u>	<u>1,151,000</u>	<u>1,155,000</u>
3,949,012	3,381,460	3,242,614
3,576,716	4,113,868	4,842,581
<u>17,543,559</u>	<u>15,259,443</u>	<u>15,206,606</u>
<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>

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

	<u>2007</u>	<u>2006</u>
Patient Service Revenue	\$ 29,180,059	\$ 28,684,434
Adjustments to Patient Service Revenue	<u>(8,805,767)</u>	<u>(8,209,288)</u>
Net Patient Service Revenue	20,374,292	20,475,146
Other Revenue	<u>377,313</u>	<u>410,356</u>
Total Revenue	20,751,605	20,885,502
Expenses	<u>20,865,182</u>	<u>20,092,744</u>
Operating Income (Loss)	(113,577)	792,758
Non-Operating Revenue, Net	<u>1,724,396</u>	<u>1,467,055</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Unusual Item	1,610,819	2,259,813
Capital Grants and Contributions	26,065	42,000
Unusual Item	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses	<u>\$ 1,636,884</u>	<u>\$ 2,301,813</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 27,606,340	\$ 26,670,913	\$ 27,407,714
<u>(8,695,401)</u>	<u>(10,782,724)</u>	<u>(10,960,758)</u>
18,910,939	15,888,189	16,446,956
<u>453,648</u>	<u>457,592</u>	<u>512,106</u>
19,364,587	16,345,781	16,959,062
<u>18,484,449</u>	<u>17,469,880</u>	<u>18,153,227</u>
880,138	(1,124,099)	(1,194,165)
<u>1,354,978</u>	<u>1,121,936</u>	<u>1,275,616</u>
2,235,116	(2,163)	81,451
49,000	55,000	101,000
<u>--</u>	<u>--</u>	<u>829,114</u>
<u>\$ 2,284,116</u>	<u>\$ 52,837</u>	<u>\$ 1,011,565</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 financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated December 11, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montgomery County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Hospital's financial statements, that is more than inconsequential, will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
Montgomery County Memorial Hospital

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 2007 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.

Montgomery County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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.

Glover, Bell, Kuhn & Co. P.C.

Atlantic, Iowa
December 11, 2007

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2007

PART I - REPORTABLE CONDITIONS

07-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

07-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2007 did not exceed amounts budgeted.

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

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

07-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

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

07-II-F 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.

* * *