

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, 2008 AND 2007

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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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, 2008 and 2007, 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, 2008 and 2007, 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 15, 2008 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, 2006 (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.

Gronwald, Bell, Kyhan & Co. P.C.

Atlantic, Iowa
December 15, 2008



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, 2008, 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 \$1,109,157 or 5.2 percent increase in 2008 and \$1,636,884 or 8.2 percent increase in 2007.

The Hospital reported an operating loss of \$657,823 in 2008 and an operating loss of \$113,577 in 2007. In 2006, the Hospital reported operating income of \$792,758.

Nonoperating revenues were \$1,739,323 in 2008, \$1,724,396 in 2007, and \$1,467,055 in 2006. The largest component of nonoperating revenues is county taxes, which have been approximately \$1.2 million each year.

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 \$1,109,157 or 5.2 percent in 2008 and \$1,636,884 or 8.2 percent in 2007, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 8,390,113	\$ 8,420,401	\$ 7,354,583
Capital assets, net	10,071,071	10,398,351	9,417,528
Other noncurrent assets	<u>9,926,554</u>	<u>9,351,393</u>	<u>9,423,421</u>
Total assets	<u>\$ 28,387,738</u>	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>
Liabilities:			
Long-term debt outstanding	\$ 2,091,687	\$ 2,599,071	\$ 3,083,816
Other current and noncurrent liabilities	<u>3,704,638</u>	<u>4,088,818</u>	<u>3,266,344</u>
Total liabilities	<u>\$ 5,796,325</u>	<u>\$ 6,687,889</u>	<u>\$ 6,350,160</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 7,220,908	\$ 6,975,528	\$ 5,405,563
Restricted expendable net assets	856,405	927,880	986,127
Unrestricted	<u>14,514,100</u>	<u>13,578,848</u>	<u>13,453,682</u>
Total net assets	<u>\$ 22,591,413</u>	<u>\$ 21,482,256</u>	<u>\$ 19,845,372</u>
Total liabilities and net assets	<u>\$ 28,387,738</u>	<u>\$ 28,170,145</u>	<u>\$ 26,195,532</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>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues:			
Net patient service revenues	\$ 20,810,592	\$ 20,374,292	\$ 20,475,146
Other operating revenues	<u>385,803</u>	<u>377,313</u>	<u>410,356</u>
Total operating revenues	21,196,395	20,751,605	20,885,502
Operating Expenses:			
Salaries and wages	10,590,712	9,924,747	9,467,498
Employee benefits	2,892,083	2,931,459	2,608,108
Professional fees	1,159,415	991,107	988,114
Other operating expenses	5,678,661	5,642,079	5,838,749
Depreciation and amortization	<u>1,533,347</u>	<u>1,375,790</u>	<u>1,190,275</u>
Total operating expenses	<u>21,854,218</u>	<u>20,865,182</u>	<u>20,092,744</u>
Operating income (loss)	(657,823)	(113,577)	792,758
Nonoperating Revenues and Expenses:			
Property taxes	1,220,713	1,221,000	1,226,600
Investment income	485,433	499,306	313,831
Noncapital grants and contributions	82,360	77,310	60,672
Other nonoperating revenues and expenses, net	<u>(47,183)</u>	<u>(73,220)</u>	<u>(134,048)</u>
Total nonoperating revenues (expenses)	<u>1,739,323</u>	<u>1,724,396</u>	<u>1,467,055</u>
Excess of Revenues Over Expenses			
Before Capital Grants and Contributions	1,081,500	1,610,819	2,259,813
Capital Grants and Contributions	<u>27,657</u>	<u>26,065</u>	<u>42,000</u>
Increase in Net Assets	1,109,157	1,636,884	2,301,813
Net Assets Beginning of Year	<u>21,482,256</u>	<u>19,845,372</u>	<u>17,543,559</u>
Net Assets End of Year	<u>\$ 22,591,413</u>	<u>\$ 21,482,256</u>	<u>\$ 19,845,372</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 2008, the Hospital had an operating loss of (\$657,823); in 2007, it was (\$113,577); and in 2006, the Hospital had an operating income of \$792,758. The operating loss in 2008 represents a decrease of \$544,246 from the loss in 2007, and the operating loss in 2007 represents a decrease of \$906,335 from the income in 2006.

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

Net patient service revenue increased \$436,300 or 2.1 percent from 2007 to 2008. Components of this include \$1,438,168 in increased patient charges (4.9%), \$760,244 in increased contractual adjustments (9.6%), and \$244,109 in increased provision for bad debts and charity care (30%). Accounts written off increased \$183,345 or 18 percent in 2008 and the aging of accounts receivable shows a trend of older accounts on the Hospital's books.

In 2008, contractual adjustments are 28.2 percent of patient service revenue, compared to 27.0 percent of patient service revenue in 2007, 25.3 percent in 2006, 28.3 percent in 2005, and 38.0 percent in 2004. Contractual adjustments have improved since 2004 because of 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 is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 56 percent of the Hospital's patient service revenue in 2008 (59 percent in 2007). Medicaid represents about 9 percent of the Hospital's patient service revenues in 2008 (8 percent in 2007).

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. At the date of this report, three years of Medicare 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. Many of the non-Medicare contractuals are increasing significantly. In particular, the Hospital's Wellmark business has grown about 27 percent while the Wellmark contractual has grown about 49 percent in 2008.

Salaries and benefit costs increased \$626,589 or 4.8 percent from 2007 to 2008. The Hospital's expense for employee health benefits decreased \$180,633, or 13.1 percent, from 2007 to 2008. Employee health benefits increased \$221,225 or 19.1 percent in 2007 and \$339,486 or 41.5 percent in 2006. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

Total operating expenses increased \$989,036 or 4.7 percent from 2007 to 2008. Included in this is an increase in depreciation expense of \$157,557 or 11.5 percent. Investments in new technology and replacement of aging capital assets in the past three years are resulting in increased depreciation and equipment maintenance costs.

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

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.

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, 2008 was prepared on a modified accrual basis. Hospital expenditures during 2008 and 2007 did not exceed amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2008, the Hospital had \$10,071,071 invested in capital assets, net of accumulated depreciation (\$10,398,351 in 2007), as detailed in Note F to the financial statements. In 2008, the Hospital purchased new property and equipment costing \$608,156 (\$2,334,919 in 2007; \$1,849,072 in 2006). As of June 30, 2008, the Hospital incurred fees of \$863,658 for long-term site development, renovation and expansion of the existing facility. The total estimated cost of the project is \$15,652,000 and the Hospital is anticipating the use of internally generated funds and the issuance of debt to complete the project.

Debt:

At year-end, the Hospital had \$2,850,163 in bonds payable, notes payable, and capital lease obligations outstanding as detailed in Note H (\$3,422,823 at June 30, 2007).

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

	2008	2007
Current Assets:		
Cash	\$ 1,986,147	\$ 1,842,873
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,122,000 in 2008, \$940,000 in 2007)	3,842,037	3,745,341
Other receivables	85,385	89,792
Inventory	301,609	320,792
Prepaid expense	144,864	145,506
Succeeding year property tax receivable	1,225,000	1,172,000
Internally designated assets	805,071	1,104,097
Total current assets	8,390,113	8,420,401
Designated and Restricted Assets:		
Internally designated assets	9,290,973	8,864,827
Restricted assets	856,405	927,880
	10,147,378	9,792,707
Less amounts required to meet current liabilities	805,071	1,104,097
	9,342,307	8,688,610
Capital Assets:		
Depreciable capital assets, net	9,104,073	10,118,180
Non-depreciable capital assets	966,998	280,171
	10,071,071	10,398,351
Other Assets:		
Deferred rent	7,037	14,074
Notes receivable	30,000	38,982
Equipment deposits	251,404	322,291
Other	295,806	287,436
	584,247	662,783
Total assets	\$ 28,387,738	\$ 28,170,145

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 507,385	\$ 484,745
Accounts payable	428,478	725,381
Accrued salaries and wages	249,965	185,197
Accrued other employee compensation	644,450	595,220
Accrued interest payable	9,595	11,105
Accrued fees	17,000	17,000
Payroll taxes withheld and accrued	122,167	245,334
Other current liabilities	43,598	192,836
Estimated third-party payor settlements	457,000	460,000
Deferred revenue for succeeding year property tax receivable	<u>1,225,000</u>	<u>1,172,000</u>
Total current liabilities	3,704,638	4,088,818
Long-Term Debt:		
Notes payable, less unamortized discount and current maturities	2,091,687	2,548,908
Note payable, less current maturities	<u>--</u>	<u>50,163</u>
Total long-term debt	<u>2,091,687</u>	<u>2,599,071</u>
Total liabilities	5,796,325	6,687,889
Net Assets:		
Invested in capital assets, net of related debt	7,220,908	6,975,528
Restricted - expendable	856,405	927,880
Unrestricted	<u>14,514,100</u>	<u>13,578,848</u>
Total net assets	<u>22,591,413</u>	<u>21,482,256</u>
Total liabilities and net assets	<u>\$ 28,387,738</u>	<u>\$ 28,170,145</u>

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

	2008	2007
Revenue:		
Net patient service revenue	\$ 20,810,592	\$ 20,374,292
Other revenue	385,803	377,313
Total revenue	21,196,395	20,751,605
Expenses:		
Nursing service	6,075,632	5,849,883
Other professional service	8,635,302	8,274,967
General service	2,178,217	2,152,640
Fiscal and administrative service	3,431,720	3,211,902
Provision for depreciation	1,533,347	1,375,790
Total expenses	21,854,218	20,865,182
Operating Loss	(657,823)	(113,577)
Non-Operating Revenue (Expenses):		
County taxes	1,220,713	1,221,000
Investment income	485,433	499,306
Noncapital grants and contributions	82,360	77,310
Rental income, net	164,792	164,573
Gain on disposal of assets	--	2,000
Interest expense	(213,975)	(239,793)
Non-operating revenue, net	1,739,323	1,724,396
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,081,500	1,610,819
Capital Grants and Contributions	27,657	26,065
Increase in Net Assets	1,109,157	1,636,884
Net Assets - Beginning of Year	21,482,256	19,845,372
Net Assets - End of Year	\$ 22,591,413	\$ 21,482,256

The accompanying notes are an integral part of these statements.

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

	2008	2007
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 20,715,303	\$ 20,749,902
Cash paid to suppliers	(10,128,093)	(9,501,244)
Cash paid to employees	(10,476,714)	(9,860,820)
Other revenue received	385,803	377,313
Net cash provided by operating activities	496,299	1,765,151
Cash flows from non-capital financing activities:		
County tax received	1,220,713	1,221,000
Noncapital grants and contributions	82,360	77,310
Net cash provided by non-capital financing activities	1,303,073	1,298,310
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(593,149)	(84,446)
Purchase of property and equipment	(618,581)	(1,768,768)
Equipment deposits	(163,801)	(146,150)
Principal paid on long-term debt	(572,660)	(589,142)
Interest paid	(130,449)	(148,617)
Capital grants and contributions	27,657	26,065
Proceeds from the sale of assets	--	2,000
Net cash used in capital and related financing activities	(2,050,983)	(2,709,058)
Cash flows from investing activities:		
Investment income received	485,433	499,306
Increase in designated and restricted assets	(272,935)	(214,302)
(Increase) decrease in notes receivable, net	8,982	(16,531)
Office building rental income, net	263,511	259,585
(Increase) decrease in other assets	(8,370)	4,339
Net cash provided by investing activities	476,621	532,397
Net increase in cash and cash equivalents	225,010	886,800
Cash and cash equivalents at beginning of year	2,815,304	1,928,504
Cash and cash equivalents at end of year	\$ 3,040,314	\$ 2,815,304

(continued next page)

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

	2008	2007
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,986,147	\$ 1,842,873
Cash and cash equivalents in internally designated assets	1,054,167	972,431
	\$ 3,040,314	\$ 2,815,304
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(657,823)	\$(113,577)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,533,347	1,375,790
Amortization of notes receivable	--	6,280
Changes in assets and liabilities		
Accounts receivable	(92,289)	(286,390)
Inventory	19,183	9,652
Prepaid expense	642	(70,439)
Estimated third-party payor settlements	(3,000)	662,000
Accounts payable, trade	(145,354)	85,727
Accrued salaries and wages	64,768	32,441
Accrued other employee compensation	49,230	31,486
Payroll taxes withheld and accrued	(123,167)	2,507
Other current liabilities	(149,238)	29,674
Total adjustments	1,154,122	1,878,728
Net cash provided by operating activities	\$ 496,299	\$ 1,765,151

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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, 2008 and 2007

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 2008 or 2007.

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, 2008 and 2007

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, 2008 and 2007

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

16. Net Assets

Net assets of the Hospital are classified in three 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 net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, 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. *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 and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2005. 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, 2008 and 2007

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2008	2007
Long-term debt	\$ 856,405	\$ 927,880

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2008 or 2007.

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

	2008	2007
Purchase of property and equipment	\$ 27,657	\$ 26,065
Payment of long-term debt	71,475	--
	\$ 99,132	\$ 26,065

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 \$14,514,100 (\$13,578,848 as of June 30, 2007) of unrestricted net assets as of June 30, 2008, \$9,290,973 (\$8,864,827 for 2007) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	2008	2007
Capital acquisitions and related property taxes	\$ 9,290,973	\$ 8,388,627
Employee health insurance	--	476,200
	\$ 9,290,973	\$ 8,864,827

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2008 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, 2008 and 2007

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:

	2008	2007
Internally Designated Assets:		
Cash and cash equivalents	\$ 984,887	\$ 826,787
Certificates of deposit	5,801,624	4,773,241
Federal mortgage notes	2,400,000	3,150,000
Interest receivable	104,462	114,799
	\$ 9,290,973	\$ 8,864,827
Restricted Assets:		
Cash and cash equivalents	\$ 69,280	\$ 145,644
Certificates of deposit	778,998	275,114
Federal mortgage notes	--	500,000
Accrued interest	8,127	7,122
	\$ 856,405	\$ 927,880

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, 2008 and 2007

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

<u>Cost</u>	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
Land Improvements	\$ 1,011,283	\$ --	\$ --	\$ 1,011,283
Buildings	6,993,305	--	--	6,993,305
Building Components	1,981,860	52,833	--	2,034,693
Building Service Equipment	4,962,122	19,637	--	4,981,759
Fixed Equipment	540,380	--	--	540,380
Major Movable Equipment	<u>11,363,974</u>	<u>535,686</u>	<u>8,248</u>	<u>11,891,412</u>
	26,852,924	608,156	8,248	27,452,832
 <u>Depreciation</u>				
Land Improvements	904,169	23,383	--	927,552
Buildings	2,574,875	188,587	--	2,763,462
Building Components	1,308,980	81,764	--	1,390,744
Building Service Equipment	4,091,589	222,223	--	4,313,812
Fixed Equipment	517,343	5,757	--	523,100
Major Movable Equipment	<u>7,337,788</u>	<u>1,100,549</u>	<u>8,248</u>	<u>8,430,089</u>
Total Depreciation	<u>16,734,744</u>	<u>1,622,263</u>	<u>8,248</u>	<u>18,348,759</u>
Depreciable Capital Assets, Net	<u>\$ 10,118,180</u>	<u>\$(1,014,107)</u>	<u>\$ --</u>	<u>\$ 9,104,073</u>
Construction in Progress	\$ 176,831	\$ 686,827	\$ --	\$ 863,658
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 280,171</u>	<u>\$ 686,827</u>	<u>\$ --</u>	<u>\$ 966,998</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE F - CAPITAL ASSETS - Continued

<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>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,303,676, of which a major portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,622,263 for the year ended June 30, 2008 (\$1,458,704 in 2007), of which \$88,916 (\$82,914 in 2007) 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, 2008 and 2007

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:

	2008	2007
Deferred Rent	\$ 7,037	\$ 14,074

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2008 and 2007 follows:

	Balance 2007	Additions	Reductions	Balance 2008	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 97,823	\$ --	\$ 47,660	\$ 50,163	\$ 50,163
Series 2003 notes	3,325,000	--	525,000	2,800,000	535,000
Less unamortized discount and debt issue costs	(339,007)	--	(87,916)	(251,091)	(77,778)
Total Long-Term Debt	\$3,083,816	\$ --	\$ 484,744	\$2,599,072	\$ 507,385
	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	(435,249)	--	(96,242)	(339,007)	(87,915)
	3,552,857	--	469,041	3,083,816	484,745
Capital Lease Obligation	23,859	--	23,859	--	--
Total Long-Term Debt	\$3,576,716	\$ --	\$ 492,900	\$3,083,816	\$ 484,745

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 Hospital has pledged its future revenues (net of certain expenses) to repay the note.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE H - NON-CURRENT LIABILITIES - Continued

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. The Hospital has pledged its future revenues (net of certain expenses) to repay the notes.

The annual debt service on the notes is expected to require less than 24% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$702,000 and \$2,948,000, respectively.

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 the long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2009	\$ 585,163	\$ 110,501	\$ 695,664
2010	545,000	90,033	635,033
2011	560,000	68,713	628,713
2012	575,000	45,436	620,436
2013	585,000	20,095	605,095
	<u>\$ 2,850,163</u>	<u>\$ 334,778</u>	<u>\$ 3,184,941</u>

Total interest expense for the year ended June 30, 2008 was \$216,855 (\$243,494 in 2007). Interest of \$2,880 (\$3,701 in 2007) 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, 2008 and 2007

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 3.90% (4.10% beginning July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% beginning July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were approximately \$624,000, \$558,000, and \$529,000, 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, 2008, was approximately \$1,790,400, (\$1,749,800 at June 30, 2007). 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, 2008 and 2007

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:

	2008	2007
Services purchased from HPSI	\$ 95,896	\$ 102,695
Services and supplies provided to HPSI	\$ 25,660	\$ 26,135
Amount due to HPSI	\$ 20,662	\$ 17,958
Member share of net assets	\$ 272,435	\$ 261,213

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, 2008, contributions received from this organization were \$13,657 (\$ - 0 - for 2007).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE L - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

Prior to January 1, 2008, the Hospital had established an employee health insurance fund. Under the self-insured plan, the Hospital paid claims from this fund up to maximum limits and carried stop loss insurance for claims in excess of the limits. At June 30, 2007, the Hospital had designated funds in excess of actual claims paid of \$476,200. This amount of funds, shown under restricted assets, would have been made available if they were needed to pay claims. The estimated amount of unpaid claims at June 30, 2007 was approximately \$160,000, which is included in other current liabilities.

Effective January 1, 2008, the Hospital terminated the self-insured plan and now purchases insurance coverage.

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, 2008, the Hospital incurred fees of \$863,658 for long-term site development, and renovation and expansion projects of the existing facility. The Hospital has accepted bids totaling approximately \$2,873,000 for the first phase of construction. The total estimated cost of the projects is approximately \$15,652,000. The projects are being financed through the use of internally generated funds and the issuance of debt. The projects are expected to be completed in September, 2010.

Equipment Deposits

As of June 30, 2008, the Hospital incurred costs of \$251,404 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 approximately \$449,000, which is being financed through the use of internally generated funds.

Equipment Purchase

As of June 30, 2008, the Hospital has committed to purchase a Datascope Patient Monitoring System for \$292,950, which is planned to be installed in September, 2008.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Receivable from:		
Patients	\$ 686,058	\$ 792,916
Medicare	2,358,721	2,110,845
Medicaid	391,005	376,499
Blue Cross	756,785	553,950
Other commercial insurance carriers	733,779	801,997
Others	<u>37,689</u>	<u>49,134</u>
	4,964,037	4,685,341
Less allowances for doubtful accounts and contractual adjustments	<u>1,122,000</u>	<u>940,000</u>
	<u>\$ 3,842,037</u>	<u>\$ 3,745,341</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year ended June 30, 2008

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	\$ 1,220,713	\$ --	\$ 1,220,713	
Other revenues	21,715,005	27,657	21,742,662	
Transfers in (out)	<u>99,132</u>	<u>(99,132)</u>	<u>--</u>	
	23,034,850	(71,475)	22,963,375	
Expenses	<u>21,854,218</u>	<u>--</u>	<u>21,854,218</u>	
Net	1,180,632	(71,475)	1,109,157	
Balance beginning of year	<u>20,554,376</u>	<u>927,880</u>	<u>21,482,256</u>	
Balance end of year	<u>\$ 21,735,008</u>	<u>\$ 856,405</u>	<u>\$ 22,591,413</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 1,220,713	\$ --	\$ 1,220,713	\$ 1,170,030
Other revenues	<u>21,742,662</u>	<u>213,975</u>	<u>21,956,637</u>	<u>27,476,789</u>
	22,963,375	213,975	23,177,350	28,646,819
Expenses	<u>21,854,218</u>	<u>628,819</u>	<u>22,483,037</u>	<u>31,803,645</u>
Net	1,109,157	(414,844)	694,313	(3,156,826)
Balance beginning of year	<u>21,482,256</u>	<u>(9,083,073)</u>	<u>12,399,183</u>	<u>12,399,183</u>
Balance end of year	<u>\$ 22,591,413</u>	<u>\$(9,497,917)</u>	<u>\$ 13,093,496</u>	<u>\$ 9,242,357</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 994,019	20.0%	\$ 1,317,004	28.1%
31 - 90	1,365,408	27.5	1,143,727	24.4
91 - 180	523,902	10.6	498,395	10.6
181 - 360	199,024	4.0	135,362	2.9
361 and over	<u>133,040</u>	<u>2.7</u>	<u>108,208</u>	<u>2.3</u>
	3,215,393	64.8	3,202,696	68.3
In hospital and unbilled	<u>1,748,644</u>	<u>35.2</u>	<u>1,482,645</u>	<u>31.7</u>
	<u>4,964,037</u>	<u>100.0%</u>	<u>4,685,341</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	329,000		260,000	
Allowance for contractual adjustments	<u>793,000</u>		<u>680,000</u>	
	<u>\$ 3,842,037</u>		<u>\$ 3,745,341</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance, beginning	\$ 260,000	\$ 287,000
Provision for bad debts	1,025,240	780,721
Recoveries of accounts previously written off	<u>247,021</u>	<u>212,195</u>
	1,532,261	1,279,916
Accounts written off	<u>1,203,261</u>	<u>1,019,916</u>
Balance, ending	<u>\$ 329,000</u>	<u>\$ 260,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	2008	2007
<u>Inventory</u>		
General stores	\$ 157,232	\$ 171,480
Pharmacy	134,957	139,855
Dietary	9,420	9,457
	\$ 301,609	\$ 320,792
 <u>Prepaid Expense</u>		
Dues	\$ 13,515	\$ 13,146
General insurance	112,305	103,793
Service contracts	19,044	28,567
	\$ 144,864	\$ 145,506

See Independent Auditor's Report.

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

	2008	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,317,984	\$ 181,064
Coronary care	1,117,587	116,067
Nursery	105,268	--
	2,540,839	297,131
Other Nursing Services:		
Operating room	242,308	1,313,494
Recovery room	15,410	170,622
Labor and delivery rooms	112,191	44,273
Medical supplies	584,359	927,017
Intravenous therapy	799,821	328,363
Emergency service	75,399	2,013,434
Wound/ostomy care	1,081	4,447
Outpatient clinics	2,973	230,356
	1,833,542	5,032,006
Other Professional Services:		
Emergency room physicians	18,798	661,793
Laboratory	737,234	1,839,660
Electrocardiology	161,077	278,202
Electroencephalography	3,472	12,152
Radiology	129,819	1,277,383
Ultrasound	69,518	664,119
CT scan	279,866	1,737,878
Mammography	197	423,007
MRI	43,856	834,839
Nuclear medicine	20,219	140,311
Pharmacy	1,165,478	809,788
Anesthesiology	178,094	529,926
Inhalation therapy	860,052	212,027
Physical therapy	63,085	843,699
Speech therapy	10,569	23,913
Occupational therapy	12,081	113,797
Cardiopulmonary rehabilitation	--	106,690
Oncology	31,952	997,279
Sleep study	--	270,964
Home health	--	392,316
Hospice	6,425	239,043
Durable medical equipment	--	497,327
Business health	--	115,605
Women's health	27,762	494,866
Villisca Medical Clinic	--	153,968
	3,819,554	13,670,552
	\$ 8,193,935	\$ 18,999,689

See Independent Auditor's Report.

2008		2007	
Swing Bed	Total	Swing Bed	Total
\$ 1,076,604	\$ 2,575,652	\$ 2,347,133	
--	1,233,654	1,274,896	
--	105,268	105,414	
<u>1,076,604</u>	<u>3,914,574</u>	<u>3,727,443</u>	
15,720	1,571,522	1,583,430	
1,266	187,298	186,353	
--	156,464	140,559	
205,583	1,716,959	1,631,834	
346,958	1,475,142	1,267,735	
553	2,089,386	1,850,824	
1,494	7,022	--	
1,000	234,329	212,944	
<u>572,574</u>	<u>7,438,122</u>	<u>6,873,679</u>	
--	680,591	657,618	
155,664	2,732,558	2,874,525	
9,713	448,992	478,522	
496	16,120	18,904	
34,148	1,441,350	1,320,368	
7,878	741,515	687,003	
17,625	2,035,369	1,774,403	
197	423,401	143,211	
20,526	899,221	1,011,977	
10,985	171,515	193,806	
661,063	2,636,329	2,681,933	
7,353	715,373	705,103	
615,292	1,687,371	1,617,601	
130,719	1,037,503	1,042,679	
15,773	50,255	49,723	
28,741	154,619	136,934	
--	106,690	142,699	
59,252	1,088,483	867,288	
--	270,964	293,284	
--	392,316	388,191	
--	245,468	163,446	
--	497,327	539,439	
--	115,605	103,160	
--	522,628	536,374	
--	153,968	150,746	
<u>1,775,425</u>	<u>19,265,531</u>	<u>18,578,937</u>	
\$ 3,424,603	\$ 30,618,227	\$ 29,180,059	

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

	2008	2007
Net Patient Service Revenue:		
Patient service revenue	\$ 30,618,227	\$ 29,180,059
Contractual adjustments	(8,642,571)	(7,882,327)
Discounts and allowances	(110,181)	(112,666)
Charity care	(29,643)	(30,053)
Provision for bad debts	(1,025,240)	(780,721)
	<u>\$ 20,810,592</u>	<u>\$ 20,374,292</u>
 Other Operating Revenue:		
Meals sold	\$ 80,741	\$ 79,997
Prisoner meals	21,822	21,804
Meals on wheels	39,916	36,060
Lifeline	64,113	59,898
Medical record transcripts	4,956	3,338
Case management	39,122	51,205
Wellness	26,679	26,062
Contracted services	44,868	14,800
Certified training classes	275	12,653
Miscellaneous	63,311	71,496
	<u>\$ 385,803</u>	<u>\$ 377,313</u>

See Independent Auditor's Report.

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

	2008	2007
Administrative:		
Salaries and wages	\$ 145,440	\$ 135,780
Employee benefits	28,485	36,100
Supplies and other expense	19,970	25,516
	193,895	197,396
Quality Assurance:		
Salaries and wages	58,384	55,376
Employee benefits	11,456	11,229
Supplies and other expense	8,181	9,909
	78,021	76,514
Inservice:		
Salaries and wages	58,372	53,006
Employee benefits	17,453	20,916
Supplies and other expense	30,146	18,907
	105,971	92,829
Medical and Surgical:		
Salaries and wages	1,559,507	1,457,530
Employee benefits	431,947	440,795
Supplies and other expense	90,492	75,421
	2,081,946	1,973,746
Coronary Care:		
Salaries and wages	835,029	785,285
Employee benefits	217,477	230,112
Supplies and other expense	21,373	23,132
	1,073,879	1,038,529
Obstetric:		
Salaries and wages	54,823	54,125
Employee benefits	7,483	7,253
Supplies and other expense	2,024	1,625
	64,330	63,003

(continued next page)

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

	2008	2007
Nursery:		
Salaries and wages	\$ 53,403	\$ 54,310
Employee benefits	7,288	7,278
Supplies and other expense	5,732	3,878
	66,423	65,466
Operating Room:		
Salaries and wages	416,647	383,154
Employee benefits	99,891	103,843
Supplies and other expense	123,403	130,023
	639,941	617,020
Labor and Delivery:		
Salaries and wages	27,480	25,448
Employee benefits	3,752	3,410
Supplies and other expense	17,711	21,868
	48,943	50,726
Central Services and Supply:		
Salaries and wages	174,614	155,225
Employee benefits	60,137	55,646
Supplies sold to patients	460,441	493,003
Supplies and other expense	7,437	6,126
	702,629	710,000
Intravenous Therapy:		
Solutions	33,902	39,773
Emergency Services:		
Salaries and wages	477,213	451,771
Employee benefits	95,025	98,580
Supplies and other expense	17,153	20,202
	589,391	570,553
Outpatient Clinics:		
Salaries and wages	295,726	249,472
Employee benefits	79,697	82,709
Supplies and other expense	20,938	22,147
	396,361	354,328
	\$ 6,075,632	\$ 5,849,883

(continued next page)

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

	<u>2008</u>	<u>2007</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,156,638	\$ 3,860,482
Employee benefits	1,060,091	1,097,871
Other expense	<u>858,903</u>	<u>891,530</u>
	<u>\$ 6,075,632</u>	<u>\$ 5,849,883</u>

See Independent Auditor's Report.

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

	2008	2007
Emergency Room Physicians: Professional fees	\$ 501,088	\$ 399,982
Laboratory:		
Salaries and wages	466,529	391,918
Employee benefits	134,187	118,136
Purchased services	106,649	182,530
Supplies and other expense	430,090	381,859
	1,137,455	1,074,443
Blood Bank:		
Cost of blood	102,919	93,004
Electrocardiology:		
Salaries and wages	12,163	21,850
Employee benefits	1,661	2,928
Purchased services	57,725	63,489
Supplies and other expense	1,886	2,350
	73,435	90,617
Electroencephalography:		
Salaries and wages	1,942	2,686
Employee benefits	263	359
Purchased services	1,500	--
Supplies and other expense	238	1,635
	3,943	4,680
Radiology:		
Salaries and wages	411,336	398,696
Employee benefits	95,910	91,572
Supplies and other expense	205,876	192,876
	713,122	683,144
Ultrasound:		
Salaries and wages	92,688	99,820
Employee benefits	21,019	18,554
Supplies and other expense	60,270	53,084
	173,977	171,458

(continued next page)

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

	<u>2008</u>	<u>2007</u>
CT Scan:		
Salaries and wages	\$ 47,321	\$ 47,058
Employee benefits	14,191	15,109
Professional fees	44,163	13,555
Supplies and other expense	6,618	36,878
	<u>112,293</u>	<u>112,600</u>
Mammography:		
Purchased services	36,717	6,135
Supplies and other expense	8,357	10,423
	<u>45,074</u>	<u>16,558</u>
MRI:		
Purchased services	162,500	213,908
Supplies and other expense	11,398	18,063
	<u>173,898</u>	<u>231,971</u>
Nuclear Medicine:		
Purchased services	79,118	97,434
Supplies and other expense	650	--
	<u>79,768</u>	<u>97,434</u>
Pharmacy:		
Salaries and wages	299,534	291,210
Employee benefits	57,089	54,193
Purchased services	103,163	104,986
Drugs	464,446	442,353
Supplies and other expense	14,357	9,551
	<u>938,589</u>	<u>902,293</u>
Anesthesiology:		
Salaries and wages	384,089	342,908
Employee benefits	56,875	61,256
Professional fees	1,990	1,241
Supplies and other expense	20,259	20,071
	<u>463,213</u>	<u>425,476</u>
Inhalation Therapy:		
Salaries and wages	306,967	262,606
Employee benefits	73,425	67,544
Purchased services	110	126
Supplies and other expense	237,266	254,901
	<u>617,768</u>	<u>585,177</u>

(continued next page)

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

	2008	2007
Physical Therapy:		
Professional fees	\$ 390,790	\$ 395,616
Supplies and other expense	4,571	7,789
	395,361	403,405
Speech Therapy:		
Professional fees	21,985	27,300
Supplies and other expense	--	6
	21,985	27,306
Occupational Therapy:		
Professional fees	55,438	52,003
Supplies and other expense	237	115
	55,675	52,118
Cardiopulmonary Rehabilitation:		
Salaries and wages	124,122	123,731
Employee benefits	38,184	26,940
Supplies and other expense	7,466	10,769
	169,772	161,440
Home Health:		
Salaries and wages	289,622	282,862
Employee benefits	84,579	80,842
Professional fees	69,718	63,850
Purchased services	21,131	33,162
Supplies and other expense	30,446	31,526
	495,496	492,242
Hospice:		
Salaries and wages	94,525	89,268
Employee benefits	12,547	11,845
Purchased services	50,555	48,577
Supplies and other expense	32,707	23,127
	190,334	172,817
Social Services:		
Salaries and wages	91,483	87,245
Employee benefits	22,079	24,387
Supplies and other expense	1,651	2,995
	115,213	114,627
Lifeline:		
Supplies and other expense	56,544	50,981

(continued next page)

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

	<u>2008</u>	<u>2007</u>
Health Information Management:		
Salaries and wages	\$ 283,548	\$ 261,540
Employee benefits	64,622	61,348
Supplies and other expense	<u>56,653</u>	<u>70,234</u>
	404,823	393,122
Case Management:		
Salaries and wages	14,625	32,673
Employee benefits	1,941	7,135
Supplies and other expense	<u>3,950</u>	<u>13,554</u>
	20,516	53,362
Sleep Study:		
Salaries and wages	108,577	108,198
Employee benefits	15,234	14,869
Professional fees	--	52
Supplies and other expense	<u>12,180</u>	<u>10,883</u>
	135,991	134,002
Women's Health:		
Salaries and wages	320,311	315,484
Employee benefits	95,674	101,205
Supplies and other expense	<u>47,734</u>	<u>33,385</u>
	463,719	450,074
Business Health:		
Salaries and wages	108,764	102,292
Employee benefits	23,549	23,463
Supplies and other expense	<u>38,296</u>	<u>34,117</u>
	170,609	159,872
Villisca Medical Clinic:		
Salaries and wages	161,426	164,569
Employee benefits	41,619	39,076
Supplies and other expense	<u>59,180</u>	<u>52,622</u>
	262,225	256,267
Oncology:		
Salaries and wages	80,478	87,638
Employee benefits	9,364	11,450
Supplies and other expense	<u>295,327</u>	<u>244,347</u>
	385,169	343,435

(continued next page)

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

	2008	2007
Diabetes Program:		
Salaries and wages	\$ 98,839	\$ 90,983
Employee benefits	25,608	26,563
Supplies and other expense	2,678	3,514
	127,125	121,060
 Wound/Ostomy Care:		
Purchased services	24,812	--
Supplies and other expense	3,391	--
	28,203	--
	<u>\$ 8,635,302</u>	<u>\$ 8,274,967</u>

SUMMARY

Salaries and wages	\$ 3,798,889	\$ 3,605,235
Employee benefits	889,620	858,774
Professional fees	1,085,172	953,599
Other expense	2,861,621	2,857,359
	<u>\$ 8,635,302</u>	<u>\$ 8,274,967</u>

See Independent Auditor's Report.

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

	2008	2007
Dietary:		
Salaries and wages	\$ 415,212	\$ 401,254
Employee benefits	141,679	170,666
Food	187,688	175,934
Supplies and other expense	43,666	45,361
	788,245	793,215
Housekeeping:		
Salaries and wages	328,547	315,718
Employee benefits	122,053	123,078
Purchased services	17,978	13,973
Supplies and other expense	86,405	75,218
	554,983	527,987
Laundry and Linen:		
Purchased services	89,051	96,098
Supplies and other expense	2,610	2,835
	91,661	98,933
Plant Engineering:		
Salaries and wages	179,235	177,499
Employee benefits	35,654	40,720
Utilities	347,640	336,266
Purchased services	31,680	48,259
Supplies and other expense	149,119	129,761
	743,328	732,505
	\$ 2,178,217	\$ 2,152,640

SUMMARY

Salaries and wages	\$ 922,994	\$ 894,471
Employee benefits	299,386	334,464
Other expense	955,837	923,705
	\$ 2,178,217	\$ 2,152,640

See Independent Auditor's Report.

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

	2008	2007
Administrative:		
Salaries and wages	\$ 224,661	\$ 210,307
Employee benefits	237,987	214,239
Professional fees	74,243	37,508
Dues and subscriptions	44,625	44,772
Purchased services	26,738	22,268
Collection fees	67,857	58,021
Telephone	36,110	36,785
Supplies and other expense	156,065	90,164
	868,286	714,064
Accounting:		
Salaries and wages	185,369	179,067
Employee benefits	47,824	51,156
Supplies and other expense	7,747	11,375
	240,940	241,598
Admissions/Business Office:		
Salaries and wages	187,987	175,222
Employee benefits	55,742	55,504
Supplies and other expense	9,337	11,127
	253,066	241,853
Patient Accounting:		
Salaries and wages	259,922	219,084
Employee benefits	57,510	64,576
Supplies and other expense	60,666	51,746
	378,098	335,406
Fiscal Services:		
Salaries and wages	134,936	130,385
Employee benefits	48,078	58,116
Purchased services	911	--
Supplies and other expense	7,866	8,697
	191,791	197,198
Information Systems:		
Salaries and wages	483,535	424,961
Employee benefits	117,869	113,159
Purchased services and maintenance	262,347	242,084
Supplies and other expense	67,980	100,830
	931,731	881,034

(continued next page)

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

	2008	2007
Human Resources:		
Salaries and wages	\$ 74,692	\$ 69,620
Employee benefits	42,314	44,813
Purchased services	806	3,000
Supplies and other expense	25,454	25,840
	143,266	143,273
Public Relations:		
Salaries and wages	70,258	68,451
Employee benefits	13,545	14,268
Supplies and other expense	79,808	87,113
	163,611	169,832
DRG/Utilization Review:		
Salaries and wages	90,831	87,462
Employee benefits	22,117	24,519
Purchased services	14,850	15,415
Supplies and other expense	896	1,353
	128,694	128,749
Insurance:		
Liability and property insurance	132,237	158,895
	\$ 3,431,720	\$ 3,211,902

SUMMARY

Salaries and wages	\$ 1,712,191	\$ 1,564,559
Employee benefits	642,986	640,350
Professional fees	74,243	37,508
Other expense	1,002,300	969,485
	\$ 3,431,720	\$ 3,211,902

SUMMARY OF EXPENSES

Salaries and wages	\$ 10,590,712	\$ 9,924,747
Employee benefits	2,892,083	2,931,459
Professional fees	1,159,415	991,107
Other expense	5,678,661	5,642,079
	\$ 20,320,871	\$ 19,489,392

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Admissions	1,103	1,130	1,136	1,142	1,232
Discharges	1,102	1,133	1,137	1,140	1,234
Average Length of Stay	3.44	3.55	3.42	3.36	3.26
Acute Patient Days	3,795	4,022	3,883	3,828	4,017
Average Occupied Beds	10.4	11.0	10.6	10.5	11.0
Swing Bed Days	2,376	2,372	2,673	2,963	3,311
Combined Average Occupied Beds	16.9	17.5	18.0	18.6	20.0
Beds Available	25	25	25	25	40
Nursery Days	212	227	240	251	203
Outpatient Occasions of Service	39,720	40,346	39,706	40,371	36,979

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	2008	2007
Current Assets:		
Cash	\$ 1,986,147	\$ 1,842,873
Receivables, net	3,927,422	3,835,133
Inventory	301,609	320,792
Prepaid expense	144,864	145,506
Estimated third-party payor settlements	--	--
Succeeding year property tax receivable	1,225,000	1,172,000
Internally designated assets	805,071	1,104,097
Total current assets	8,390,113	8,420,401
 Other Assets:		
Internally designated and restricted assets	9,342,307	8,688,610
Capital assets, net	10,071,071	10,398,351
Other non-current assets	584,247	662,783
Total other assets	19,997,625	19,749,744
	\$ 28,387,738	\$ 28,170,145
 Current Liabilities:		
Current maturities of long-term debt	\$ 507,385	\$ 484,745
Accounts payable	428,478	725,381
Estimated third-party payor settlements	457,000	460,000
Accrued expenses	1,086,775	1,246,692
Deferred revenue for succeeding year property tax receivable	1,225,000	1,172,000
Total current liabilities	3,704,638	4,088,818
 Long-Term Debt, Net	2,091,687	2,599,071
 Net Assets	22,591,413	21,482,256
	\$ 28,387,738	\$ 28,170,145

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 1,118,862	\$ 1,972,633	\$ 1,357,807
3,548,743	3,498,611	3,188,959
330,444	322,135	346,879
75,067	132,570	107,108
202,000	409,000	--
1,159,000	1,156,000	1,151,000
920,467	1,276,053	825,652
<u>7,354,583</u>	<u>8,767,002</u>	<u>6,977,405</u>
8,495,149	6,461,185	6,250,383
9,417,528	8,855,079	9,027,837
928,272	986,021	499,146
<u>18,840,949</u>	<u>16,302,285</u>	<u>15,777,366</u>
<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>
\$ 492,900	\$ 537,152	\$ 508,959
462,495	946,271	434,777
--	--	126,000
1,151,949	1,309,589	1,160,724
<u>1,159,000</u>	<u>1,156,000</u>	<u>1,151,000</u>
<u>3,266,344</u>	<u>3,949,012</u>	<u>3,381,460</u>
3,083,816	3,576,716	4,113,868
<u>19,845,372</u>	<u>17,543,559</u>	<u>15,259,443</u>
<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>

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

	<u>2008</u>	<u>2007</u>
Patient Service Revenue	\$ 30,618,227	\$ 29,180,059
Adjustments to Patient Service Revenue	<u>(9,807,635)</u>	<u>(8,805,767)</u>
Net Patient Service Revenue	20,810,592	20,374,292
Other Revenue	<u>385,803</u>	<u>377,313</u>
Total Revenue	21,196,395	20,751,605
Expenses	<u>21,854,218</u>	<u>20,865,182</u>
Operating Income (Loss)	(657,823)	(113,577)
Non-Operating Revenue, Net	<u>1,739,323</u>	<u>1,724,396</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	1,081,500	1,610,819
Capital Grants and Contributions	<u>27,657</u>	<u>26,065</u>
Increase in Net Assets	<u>\$ 1,109,157</u>	<u>\$ 1,636,884</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 28,684,434	\$ 27,606,340	\$ 26,670,913
(8,209,288)	(8,695,401)	(10,782,724)
20,475,146	18,910,939	15,888,189
<u>410,356</u>	<u>453,648</u>	<u>457,592</u>
20,885,502	19,364,587	16,345,781
<u>20,092,744</u>	<u>18,484,449</u>	<u>17,469,880</u>
792,758	880,138	(1,124,099)
<u>1,467,055</u>	<u>1,354,978</u>	<u>1,121,936</u>
2,259,813	2,235,116	(2,163)
<u>42,000</u>	<u>49,000</u>	<u>55,000</u>
<u>\$ 2,301,813</u>	<u>\$ 2,284,116</u>	<u>\$ 52,837</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, 2008, and have issued our report thereon dated December 15, 2008. 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, 2008 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.

Gromewald, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
December 15, 2008

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2008

PART I - REPORTABLE CONDITIONS

08-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. This is a common deficiency among most small rural Hospitals.

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

08-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2008 did not exceed amounts budgeted.

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

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

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

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

08-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.

* * *