

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, 2009 AND 2008

MONTGOMERY COUNTY MEMORIAL HOSPITAL

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	23
ACCOMPANYING INFORMATION:	
Schedules Supporting Balance Sheets:	
Patient receivables	24
Inventory/Prepaid expense	25
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets:	
Patient service revenue	26
Revenue and related adjustments	27
Nursing service expenses	28
Other professional service expenses	31
General service expenses	36
Fiscal and administrative service expenses	37
Comparative Statistics	39
Comparative Balance Sheets	40
Comparative Statements of Revenues and Expenses	41
COMMENTS AND RECOMMENDATIONS:	
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	42
Schedule of Findings	44

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2009

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Sarah Smith, Chair	Red Oak, Iowa	2014
Kenneth Rech, Vice-Chair	Red Oak, Iowa	2014
Lorin Petersen, Treasurer	Stanton, Iowa	2014
Jim Robinson	Villisca, Iowa	2010
Roger Ehmke, Secretary	Red Oak, Iowa	2010
Kathy Carlson	Red Oak, Iowa	2012
Kevin Cabbage	Stanton, Iowa	2012

Chief Executive Officer:

Allen E. Pohren	Red Oak, Iowa
-----------------	---------------

Chief Financial Officer:

Rick Leinen	Red Oak, Iowa
-------------	---------------

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

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, 2009 and 2008, 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, 2009 and 2008, 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 10, 2009 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 4e 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, 2007 (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. Morewood, Bell, Kuhn & Co. P.C.

Atlantic, Iowa
December 10, 2009



Montgomery County Memorial Hospital

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2009, 2008, and 2007. 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 an \$805,783 or 3.6 percent increase in 2009 and a \$1,109,157 or 5.2 percent increase in 2008.

The Hospital reported an operating loss of \$823,182 in 2009 and an operating loss of \$679,589 in 2008. In 2007, the Hospital reported an operating loss of \$113,577.

Non-operating revenues were \$1,603,965 in 2009, \$1,761,089 in 2008, and \$1,724,396 in 2007. 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 \$805,783 or 3.6 percent in 2009 and \$1,109,157 or 5.2 percent in 2008, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 8,041,887	\$ 8,390,113	\$ 8,420,401
Capital assets, net	13,595,321	10,071,071	10,398,351
Other noncurrent assets	<u>7,167,674</u>	<u>10,006,342</u>	<u>9,351,393</u>
Total assets	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>	<u>\$ 28,170,145</u>
Liabilities:			
Long-term debt outstanding	\$ 1,653,893	\$ 2,151,233	\$ 2,599,071
Other current and noncurrent liabilities	<u>3,753,793</u>	<u>3,724,880</u>	<u>4,088,818</u>
Total liabilities	<u>\$ 5,407,686</u>	<u>\$ 5,876,113</u>	<u>\$ 6,687,889</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 11,262,460	\$ 7,400,409	\$ 6,975,528
Restricted expendable net assets	857,302	856,405	927,880
Unrestricted	<u>11,277,434</u>	<u>14,334,599</u>	<u>13,578,848</u>
Total net assets	<u>\$ 23,397,196</u>	<u>\$ 22,591,413</u>	<u>\$ 21,482,256</u>
Total liabilities and net assets	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>	<u>\$ 28,170,145</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>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
Net patient service revenues	\$ 23,610,244	\$ 20,810,592	\$ 20,374,292
Other operating revenues	<u>415,627</u>	<u>385,803</u>	<u>377,313</u>
Total operating revenues	24,025,871	21,196,395	20,751,605
Operating Expenses:			
Salaries and wages	12,135,988	10,590,712	9,924,747
Employee benefits	3,136,846	2,892,083	2,931,459
Professional fees	1,676,300	1,159,415	991,107
Other operating expenses	6,251,298	5,678,661	5,642,079
Depreciation and amortization	<u>1,648,621</u>	<u>1,555,113</u>	<u>1,375,790</u>
Total operating expenses	<u>24,849,053</u>	<u>21,875,984</u>	<u>20,865,182</u>
Operating income (loss)	(823,182)	(679,589)	(113,577)
Nonoperating Revenues and Expenses:			
Property taxes	1,291,992	1,220,713	1,221,000
Investment income	230,921	485,433	499,306
Noncapital grants and contributions	47,686	82,360	77,310
Other nonoperating revenues and expenses, net	<u>33,366</u>	<u>(27,417)</u>	<u>(73,220)</u>
Total nonoperating revenues (expenses)	<u>1,603,965</u>	<u>1,761,089</u>	<u>1,724,396</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	780,783	1,081,500	1,610,819
Capital Grants and Contributions	<u>25,000</u>	<u>27,657</u>	<u>26,065</u>
Increase in Net Assets	805,783	1,109,157	1,636,884
Net Assets Beginning of Year	<u>22,591,413</u>	<u>21,482,256</u>	<u>19,845,372</u>
Net Assets End of Year	<u>\$ 23,397,196</u>	<u>\$ 22,591,413</u>	<u>\$ 21,482,256</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 2009, the Hospital had an operating loss of (\$823,182); in 2008, it was (\$679,589); and in 2007, the Hospital had an operating loss of (\$113,577). The operating loss in 2009 represents an increase of \$143,593 from the loss in 2008, and the operating loss in 2008 represents an increase of \$566,012 from the income in 2007.

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

Net patient service revenue increased \$2,799,652 or 13.5 percent from 2008 to 2009. Components of this include \$6,089,516 in increased patient charges (19.9%), \$3,315,510 in increased contractual adjustments (38.4%), and no increased provision for bad debts and charity care. Accounts written off were comparatively similar from 2009 to 2008. The aging of accounts receivable shows a trend of few older accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for approximately nine months in 2009. In addition, Surgical Services were provided for the full year.

In 2009, contractual adjustments are 32.5 percent of patient service revenue, compared to 28.2 percent of patient service revenue in 2008, 27.0 percent in 2007, 25.3 percent in 2006, and 28.3 percent in 2005. Contractual adjustments have improved since 2004, 38.0 percent, because of 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 58 percent of the Hospital's patient service revenue in 2009 (56 percent in 2008). Medicaid represents about 8.9 percent of the Hospital's patient service revenues in 2009 (9.3 percent in 2008).

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 contractuales are increasing significantly. In particular, the Hospital's Wellmark business has grown about 28.5 percent while the Wellmark contractual grew about 21 percent in 2009.

Salaries and benefit costs increased \$1,790,039 or 13.3 percent from 2008 to 2009. Employee benefits increased \$244,763 or 8.5 percent in 2009. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

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

Total operating expenses increased \$2,973,069 or 13.6 percent from 2008 to 2009. Included in this is an increase in depreciation expense of \$95,032 or 6.2 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. Part of the hospital's increased salaries and expense has been incurred with the addition of Red Oak Internal Medicine and Surgical service for 2009.

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, 2009 was prepared on a modified accrual basis. Hospital gross operating revenue and operating expenditures were less than budgeted amounts during 2009 by \$11,170,628 and \$10,545,280, respectively. The budgeted amounts were higher due to the anticipated debt proceeds and construction cost that have not yet been incurred.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2009, the Hospital had \$28,990,543 invested in capital assets, net of accumulated depreciation (\$20,065,934 in 2009), as detailed in Note F to the financial statements. In 2009, the Hospital purchased new property and equipment costing \$1,545,168 (\$608,156 in 2008; \$2,334,919 in 2007). As of June 30, 2009, the Hospital incurred fees of \$4,567,372 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 \$2,265,000 in bonds payable, notes payable, and capital lease obligations outstanding as detailed in Note H (\$2,850,163 at June 30, 2008).

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

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>2009</u>	<u>2008</u>
Current Assets:		
Cash	\$ 1,138,063	\$ 1,986,147
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,907,000 in 2009, \$1,122,000 in 2008)	4,022,247	3,842,037
Other receivables	80,680	85,385
Inventory	387,787	301,609
Prepaid expense	127,948	144,864
Succeeding year property tax receivable	1,282,000	1,225,000
Internally designated assets	<u>1,003,162</u>	<u>805,071</u>
Total current assets	8,041,887	8,390,113
Designated and Restricted Assets:		
Internally designated assets	6,575,930	9,290,973
Restricted assets	<u>857,302</u>	<u>856,405</u>
	7,433,232	10,147,378
Less amounts required to meet current liabilities	<u>1,003,162</u>	<u>805,071</u>
	6,430,070	9,342,307
Capital Assets:		
Depreciable capital assets, net	8,924,609	9,104,073
Non-depreciable capital assets	<u>4,670,712</u>	<u>966,998</u>
	13,595,321	10,071,071
Other Assets:		
Deferred rent	--	7,037
Notes receivable	92,500	30,000
Debt issue costs	59,546	79,788
Equipment deposits	260,804	251,404
Other	<u>324,754</u>	<u>295,806</u>
	737,604	664,035
Total assets	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 497,340	\$ 527,627
Accounts payable	673,622	428,478
Accrued salaries and wages	306,160	249,965
Accrued other employee compensation	727,940	644,450
Accrued interest payable	7,919	9,595
Accrued fees	20,000	17,000
Payroll taxes withheld and accrued	165,416	122,167
Other current liabilities	38,396	43,598
Estimated third-party payor settlements	35,000	457,000
Deferred revenue for succeeding year property tax receivable	<u>1,282,000</u>	<u>1,225,000</u>
Total current liabilities	3,753,793	3,724,880
Long-Term Debt:		
Notes payable, less unamortized refunding costs and current maturities	<u>1,653,893</u>	<u>2,151,233</u>
Total liabilities	5,407,686	5,876,113
Net Assets:		
Invested in capital assets, net of related debt	11,262,460	7,400,409
Restricted - expendable	857,302	856,405
Unrestricted	<u>11,277,434</u>	<u>14,334,599</u>
Total net assets	<u>23,397,196</u>	<u>22,591,413</u>
Total liabilities and net assets	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>

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

	2009	2008
Revenue:		
Net patient service revenue	\$ 23,610,244	\$ 20,810,592
Other revenue	415,627	385,803
Total revenue	24,025,871	21,196,395
Expenses:		
Nursing service	6,375,855	6,054,137
Other professional service	10,767,412	8,667,636
General service	2,322,928	2,178,217
Fiscal and administrative service	3,734,237	3,420,881
Provision for depreciation	1,628,379	1,533,347
Amortization	20,242	21,766
Total expenses	24,849,053	21,875,984
Operating Loss	(823,182)	(679,589)
Non-Operating Revenue (Expenses):		
County taxes	1,291,992	1,220,713
Investment income	230,921	485,433
Noncapital grants and contributions	47,686	82,360
Rental income, net	115,729	164,792
Gain on disposal of assets	1,331	--
Interest expense	(83,694)	(192,209)
Non-operating revenue, net	1,603,965	1,761,089
Excess of Revenues Over Expenses Before Capital Grants and Contributions	780,783	1,081,500
Capital Grants and Contributions	25,000	27,657
Increase in Net Assets	805,783	1,109,157
Net Assets - Beginning of Year	22,591,413	21,482,256
Net Assets - End of Year	\$ 23,397,196	\$ 22,591,413

The accompanying notes are an integral part of these statements.

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

	2009	2008
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 23,012,739	\$ 20,715,303
Cash paid to suppliers	(11,085,769)	(10,128,093)
Cash paid to employees	(11,996,303)	(10,476,714)
Other revenue received	<u>415,627</u>	<u>385,803</u>
Net cash provided by operating activities	346,294	496,299
Cash flows from non-capital financing activities:		
County tax received	1,291,992	1,220,713
Noncapital grants and contributions	<u>47,686</u>	<u>82,360</u>
Net cash provided by non-capital financing activities	1,339,678	1,303,073
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(3,510,903)	(593,149)
Purchase of property and equipment	(1,418,204)	(618,581)
Equipment deposits	(9,780)	(163,801)
Principal paid on long-term debt	(585,163)	(572,660)
Interest paid	(110,500)	(130,449)
Capital grants and contributions	25,000	27,657
Proceeds from the sale of assets	<u>1,331</u>	<u>--</u>
Net cash used in capital and related financing activities	(5,608,219)	(2,050,983)
Cash flows from investing activities:		
Investment income received	230,921	485,433
(Increase) decrease in designated and restricted assets	5,046,095	(272,935)
(Increase) decrease in notes receivable, net	(62,500)	8,982
Office building rental income, net	220,544	263,511
Increase in other assets	<u>(28,948)</u>	<u>(8,370)</u>
Net cash provided by investing activities	<u>5,406,112</u>	<u>476,621</u>
Net increase in cash and cash equivalents	1,483,865	225,010
Cash and cash equivalents at beginning of year	<u>3,040,314</u>	<u>2,815,304</u>
Cash and cash equivalents at end of year	<u>\$ 4,524,179</u>	<u>\$ 3,040,314</u>

(continued next page)

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

	2009	2008
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,138,063	\$ 1,986,147
Cash and cash equivalents in internally designated assets	3,386,116	1,054,167
	\$ 4,524,179	\$ 3,040,314
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(823,182)	\$(679,589)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,628,379	1,533,347
Amortization	20,242	21,766
Changes in assets and liabilities		
Accounts receivable	(175,505)	(92,289)
Inventory	(86,178)	19,183
Prepaid expense	16,916	642
Estimated third-party payor settlements	(422,000)	(3,000)
Accounts payable, trade	6,890	(145,354)
Accrued salaries and wages	56,195	64,768
Accrued other employee compensation	83,490	49,230
Payroll taxes withheld and accrued	43,249	(123,167)
Accrued fees	3,000	--
Other current liabilities	(5,202)	(149,238)
Total adjustments	1,169,476	1,175,888
Net cash provided by operating activities	\$ 346,294	\$ 496,299

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 and 2008

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 \$5,000 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. The Hospital capitalized interest cost of \$81,579 in 2009 (\$ - 0 - in 2008).

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, 2009 and 2008

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, 2009 and 2008

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 cost report has been audited and finalized by the fiscal intermediaries through June 30, 2006. The Hospital's Medicaid cost report has 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, 2009 and 2008

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2009	2008
Long-term debt	\$ 857,302	\$ 856,405

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2009 or 2008.

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

	2009	2008
Purchase of property and equipment	\$ 25,000	\$ 27,657
Payment of long-term debt	--	71,475
	\$ 25,000	\$ 99,132

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 \$11,277,434 (\$14,334,599 as of June 30, 2008) of unrestricted net assets as of June 30, 2009, \$6,575,930 (\$9,290,973 for 2008) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	2009	2008
Capital acquisitions and related property taxes	\$ 4,123,670	\$ 9,290,973
Operations	2,452,260	--
	\$ 6,575,930	\$ 9,290,973

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2009 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, 2009 and 2008

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:

	2009	2008
Internally Designated Assets:		
Cash and cash equivalents	\$ 3,317,524	\$ 984,887
Certificates of deposit	3,239,498	5,801,624
Federal mortgage notes	--	2,400,000
Interest receivable	18,908	104,462
	\$ 6,575,930	\$ 9,290,973
Restricted Assets:		
Cash and cash equivalents	\$ 68,592	\$ 69,280
Certificates of deposit	783,148	778,998
Interest receivable	5,562	8,127
	\$ 857,302	\$ 856,405

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, 2009 and 2008

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2009 and 2008 were as follows:

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 1,011,283	\$ 35,928	\$ --	\$ 1,047,211
Buildings	6,993,305	78,555	--	7,071,860
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	4,981,759	167,347	--	5,149,106
Fixed Equipment	540,380	88,459	--	628,839
Major Movable Equipment	<u>11,891,412</u>	<u>1,174,879</u>	<u>7,457</u>	<u>13,058,834</u>
	27,452,832	1,545,168	7,457	28,990,543
 <u>Depreciation</u>				
Land Improvements	927,552	21,219	--	948,771
Buildings	2,763,462	198,228	--	2,961,690
Building Components	1,390,744	81,763	--	1,472,507
Building Service Equipment	4,313,812	170,001	--	4,483,813
Fixed Equipment	523,100	55,972	--	579,072
Major Movable Equipment	<u>8,430,089</u>	<u>1,197,449</u>	<u>7,457</u>	<u>9,620,081</u>
Total Depreciation	<u>18,348,759</u>	<u>1,724,632</u>	<u>7,457</u>	<u>20,065,934</u>
Depreciable Capital Assets, Net	<u>\$ 9,104,073</u>	<u>\$(179,464)</u>	<u>\$ --</u>	<u>\$ 8,924,609</u>
Construction in Progress	\$ 863,658	\$ 3,703,714	\$ --	\$ 4,567,372
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 966,998</u>	<u>\$ 3,703,714</u>	<u>\$ --</u>	<u>\$ 4,670,712</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

NOTE F - CAPITAL ASSETS - Continued

<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>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,303,676, of which a portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,724,632 for the year ended June 30, 2009 (\$1,622,263 in 2008), of which \$96,253 (\$88,916 in 2008) 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, 2009 and 2008

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:

	2009	2008
Deferred Rent	\$ --	\$ 7,037

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2009 and 2008 follows:

	Balance 2008	Additions	Reductions	Balance 2009	Current Portion
Long-Term Debt:					
Series 1992 note	\$ 50,163	\$ --	\$ 50,163	\$ --	\$ --
Series 2003 notes	2,800,000	--	535,000	2,265,000	545,000
Less unamortized refunding costs	(171,303)	--	(57,536)	(113,767)	(47,660)
Total Long-Term Debt	<u>\$2,678,860</u>	<u>\$ --</u>	<u>\$ 527,627</u>	<u>\$2,151,233</u>	<u>\$ 497,340</u>
	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 refunding costs	(237,453)	--	(66,150)	(171,303)	(57,536)
Total Long-Term Debt	<u>\$3,185,370</u>	<u>\$ --</u>	<u>\$ 506,510</u>	<u>\$2,678,860</u>	<u>\$ 527,627</u>

The Series 1992 County Public Hospital Revenue Capital Loan note was issued in December, 1992. The note was payable from the revenues of the Hospital and matured in annual installments starting December 15, 1994 through December 15, 2008. The note had an interest rate of 5.25%. The Hospital had pledged its future revenues (net of certain expenses) to repay the note.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

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 26% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$694,000 and \$2,644,000, 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
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>\$ 2,265,000</u>	<u>\$ 224,277</u>	<u>\$ 2,489,277</u>

Total interest cost for the year ended June 30, 2009 was \$166,360 (\$195,089 in 2008). Interest of \$81,579 (\$ - 0 - in 2008) was capitalized as part of the cost of construction in progress. Interest of \$1,087 (\$2,880 in 2008) 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, 2009 and 2008

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 4.10% (4.30% beginning July 1, 2009) of their annual salary and the Hospital is required to contribute 6.35% (6.65% beginning July 1, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were approximately \$748,000, \$624,000, and \$558,000, 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, 2009, was approximately \$1,648,700, (\$1,790,400 at June 30, 2008). 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, 2009 and 2008

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:

	2009	2008
Services purchased from HPSI	<u>\$ 88,667</u>	<u>\$ 88,702</u>
Services and supplies provided to HPSI	<u>\$ 22,708</u>	<u>\$ 25,660</u>
Amount due to HPSI	<u>\$ 32,189</u>	<u>\$ 20,662</u>
Member share of net assets	<u>\$ 300,011</u>	<u>\$ 272,435</u>

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, 2009, contributions received from this organization were \$ - 0 - (\$13,657 for 2008).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

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. 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, 2009, the Hospital incurred fees of \$4,567,372 for long-term site development, and renovation and expansion projects of the existing facility. The Hospital has accepted bids totaling approximately \$13,138,000 for the three phases 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, 2009, the Hospital incurred costs of \$260,804 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 \$398,500, which is being financed through the use of internally generated funds.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Events

The Hospital has evaluated all subsequent events through December 10, 2009, the date the financial statements were available to be issued.

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

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, 2009 and 2008, was as follows:

	2009	2008
Receivable from:		
Patients	\$ 812,758	\$ 686,058
Medicare	2,922,762	2,358,721
Medicaid	514,292	391,005
Blue Cross	1,056,993	756,785
Other commercial insurance carriers	580,299	733,779
Others	42,143	37,689
	5,929,247	4,964,037
Less allowances for doubtful accounts and contractual adjustments	1,907,000	1,122,000
	\$ 4,022,247	\$ 3,842,037

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year ended June 30, 2009

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	\$ 1,291,992	\$ --	\$ 1,291,992	
Other revenues	24,337,844	25,000	24,362,844	
Transfers in (out)	<u>24,103</u>	<u>(24,103)</u>	<u>--</u>	
	25,653,939	897	25,654,836	
Expenses	<u>24,849,053</u>	<u>--</u>	<u>24,849,053</u>	
Net	804,886	897	805,783	
Balance beginning of year	<u>21,735,008</u>	<u>856,405</u>	<u>22,591,413</u>	
Balance end of year	<u>\$ 22,539,894</u>	<u>\$ 857,302</u>	<u>\$ 23,397,196</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 1,291,992	\$ --	\$ 1,291,992	\$ 1,225,278
Other revenues	<u>24,362,844</u>	<u>181,034</u>	<u>24,543,878</u>	<u>35,781,220</u>
	25,654,836	181,034	25,835,870	37,006,498
Expenses	<u>24,849,053</u>	<u>4,041,789</u>	<u>28,890,842</u>	<u>39,436,122</u>
Net	805,783	(3,860,755)	(3,054,972)	(2,429,624)
Balance beginning of year	<u>22,591,413</u>	<u>(11,297,262)</u>	<u>11,294,151</u>	<u>11,294,151</u>
Balance end of year	<u>\$ 23,397,196</u>	<u>\$(15,158,017)</u>	<u>\$ 8,239,179</u>	<u>\$ 8,864,527</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>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,789,429	30.2%	\$ 994,019	20.0%
31 - 90	1,858,448	31.3	1,365,408	27.5
91 - 180	447,792	7.6	523,902	10.6
181 - 360	118,894	2.0	199,024	4.0
361 and over	202,996	3.4	133,040	2.7
	<u>4,417,559</u>	<u>74.5</u>	<u>3,215,393</u>	<u>64.8</u>
In hospital and unbilled	1,511,688	25.5	1,748,644	35.2
	<u>5,929,247</u>	<u>100.0%</u>	<u>4,964,037</u>	<u>100.0%</u>
 Less:				
Allowance for doubtful accounts	355,000		329,000	
Allowance for contractual adjustments	<u>1,552,000</u>		<u>793,000</u>	
	<u>\$ 4,022,247</u>		<u>\$ 3,842,037</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Balance, beginning	\$ 329,000	\$ 260,000
Provision for bad debts	965,494	1,025,240
Recoveries of accounts previously written off	<u>219,449</u>	<u>247,021</u>
	1,513,943	1,532,261
Accounts written off	<u>1,158,943</u>	<u>1,203,261</u>
Balance, ending	<u>\$ 355,000</u>	<u>\$ 329,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	2009	2008
<u>Inventory</u>		
General stores	\$ 216,004	\$ 157,232
Pharmacy	159,790	134,957
Dietary	11,993	9,420
	\$ 387,787	\$ 301,609
 <u>Prepaid Expense</u>		
Dues	\$ 13,088	\$ 13,515
General insurance	74,023	112,305
Service contracts	40,837	19,044
	\$ 127,948	\$ 144,864

See Independent Auditor's Report.

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

	2009	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,693,948	\$ 175,298
Coronary care	1,908,594	180,823
Nursery	<u>129,471</u>	<u>--</u>
	3,732,013	356,121
Other Nursing Services:		
Operating room	272,116	1,430,957
Recovery room	14,871	169,853
Labor and delivery rooms	119,660	43,640
Medical supplies	668,248	1,022,205
Intravenous therapy	929,283	386,642
Emergency service	25,870	2,028,373
Wound/ostomy care	1,342	8,074
Outpatient clinics	<u>2,341</u>	<u>223,230</u>
	2,033,731	5,312,974
Other Professional Services:		
Emergency room physicians	199,312	756,033
Laboratory	829,407	2,226,125
Electrocardiology	130,473	197,602
Electroencephalography	2,232	10,664
Radiology	131,443	1,350,748
Ultrasound	65,099	669,041
CT scan	283,945	2,189,557
Mammography	579	472,966
MRI	72,413	976,173
Nuclear medicine	34,896	132,113
Pharmacy	1,584,574	972,816
Anesthesiology	196,846	574,795
Inhalation therapy	1,000,498	208,375
Physical therapy	88,697	951,435
Speech therapy	5,260	28,607
Occupational therapy	7,129	169,605
Cardiopulmonary rehabilitation	--	98,961
Oncology	25,398	883,304
Sleep study	--	250,132
Home health	--	499,759
Hospice	5,109	305,070
Durable medical equipment	--	258,460
Business health	--	98,688
Women's health	42,366	388,379
Villisca Medical Clinic	--	179,768
Surgical services	138,477	372,592
Internal Medicine	<u>223,184</u>	<u>1,151,355</u>
	<u>5,067,337</u>	<u>16,373,123</u>
	<u>\$ 10,833,081</u>	<u>\$ 22,042,218</u>

See Independent Auditor's Report.

2009		2008	
Swing Bed	Total	Swing Bed	Total
\$ 1,298,449	\$ 3,167,695	\$ 2,544,492	
--	2,089,417	1,233,654	
--	129,471	105,268	
<u>1,298,449</u>	<u>5,386,583</u>	<u>3,883,414</u>	
21,356	1,724,429	1,571,522	
1,081	185,805	187,298	
--	163,300	156,464	
207,044	1,897,497	1,716,959	
330,380	1,646,305	1,475,142	
--	2,054,243	2,089,386	
4,843	14,259	7,022	
772	226,343	234,329	
<u>565,476</u>	<u>7,912,181</u>	<u>7,438,122</u>	
--	955,345	680,591	
176,111	3,231,643	2,732,558	
12,374	340,449	448,992	
248	13,144	16,120	
26,910	1,509,101	1,441,350	
10,218	744,358	741,515	
31,516	2,505,018	2,035,369	
197	473,742	423,401	
11,998	1,060,584	899,221	
12,428	179,437	171,515	
761,613	3,319,003	2,636,329	
9,313	780,954	715,373	
584,201	1,793,074	1,687,371	
200,279	1,240,411	1,037,503	
8,455	42,322	50,255	
22,052	198,786	154,619	
--	98,961	106,690	
29,488	938,190	1,088,483	
--	250,132	270,964	
--	499,759	392,316	
--	310,179	245,468	
--	258,460	497,327	
--	98,688	115,605	
--	430,745	522,628	
--	179,768	153,968	
12,153	523,222	31,160	
58,965	1,433,504	--	
<u>1,968,519</u>	<u>23,408,979</u>	<u>19,296,691</u>	
<u>\$ 3,832,444</u>	<u>\$ 36,707,743</u>	<u>\$ 30,618,227</u>	

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

	2009	2008
Net Patient Service Revenue:		
Patient service revenue	\$ 36,707,743	\$ 30,618,227
Contractual adjustments	(11,958,081)	(8,642,571)
Discounts and allowances	(135,276)	(110,181)
Charity care	(38,648)	(29,643)
Provision for bad debts	(965,494)	(1,025,240)
	<u>\$ 23,610,244</u>	<u>\$ 20,810,592</u>
 Other Operating Revenue:		
Meals sold	\$ 90,184	\$ 80,741
Prisoner meals	19,080	21,822
Meals on wheels	43,801	39,916
Lifeline	66,461	64,113
Medical record transcripts	4,820	4,956
Case management	40,299	39,122
Wellness	26,984	26,679
Contracted services	64,845	44,868
Certified training classes	11,171	275
Miscellaneous	47,982	63,311
	<u>\$ 415,627</u>	<u>\$ 385,803</u>

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Administrative:		
Salaries and wages	\$ 156,522	\$ 145,440
Employee benefits	27,703	28,485
Supplies and other expense	<u>28,354</u>	<u>19,970</u>
	212,579	193,895
Quality Assurance:		
Salaries and wages	61,688	58,384
Employee benefits	12,207	11,456
Supplies and other expense	<u>10,292</u>	<u>8,181</u>
	84,187	78,021
Inservice:		
Salaries and wages	60,839	58,372
Employee benefits	14,784	17,453
Supplies and other expense	<u>31,215</u>	<u>30,146</u>
	106,838	105,971
Medical and Surgical:		
Salaries and wages	1,577,465	1,558,609
Employee benefits	421,047	431,827
Supplies and other expense	<u>130,759</u>	<u>70,015</u>
	2,129,271	2,060,451
Coronary Care:		
Salaries and wages	950,822	835,029
Employee benefits	225,529	217,477
Supplies and other expense	<u>22,739</u>	<u>21,373</u>
	1,199,090	1,073,879
Obstetric:		
Salaries and wages	53,981	54,823
Employee benefits	7,537	7,483
Supplies and other expense	<u>3,322</u>	<u>2,024</u>
	64,840	64,330

(continued next page)

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

	<u>2009</u>	<u>2008</u>
Nursery:		
Salaries and wages	\$ 50,957	\$ 53,403
Employee benefits	7,114	7,288
Supplies and other expense	<u>6,018</u>	<u>5,732</u>
	64,089	66,423
Operating Room:		
Salaries and wages	482,861	416,647
Employee benefits	107,109	99,891
Supplies and other expense	<u>146,147</u>	<u>123,403</u>
	736,117	639,941
Labor and Delivery:		
Salaries and wages	26,562	27,480
Employee benefits	3,708	3,752
Supplies and other expense	<u>19,368</u>	<u>17,711</u>
	49,638	48,943
Central Services and Supply:		
Salaries and wages	176,589	174,614
Employee benefits	66,237	60,137
Supplies sold to patients	479,977	460,441
Supplies and other expense	<u>6,053</u>	<u>7,437</u>
	728,856	702,629
Intravenous Therapy:		
Solutions	34,054	33,902
Emergency Services:		
Salaries and wages	471,083	477,213
Employee benefits	90,563	95,025
Supplies and other expense	<u>17,608</u>	<u>17,153</u>
	579,254	589,391
Outpatient Clinics:		
Salaries and wages	277,558	295,726
Employee benefits	81,159	79,697
Supplies and other expense	<u>28,325</u>	<u>20,938</u>
	<u>387,042</u>	<u>396,361</u>
	<u>\$ 6,375,855</u>	<u>\$ 6,054,137</u>

(continued next page)

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

	<u>2009</u>	<u>2008</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,346,927	\$ 4,155,740
Employee benefits	1,064,697	1,059,971
Other expense	<u>964,231</u>	<u>838,426</u>
	<u>\$ 6,375,855</u>	<u>\$ 6,054,137</u>

See Independent Auditor's Report.

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

	2009	2008
Emergency Room Physicians:		
Professional fees	\$ 871,984	\$ 501,088
Supplies and other expense	<u>72</u>	<u>--</u>
	872,056	501,088
Laboratory:		
Salaries and wages	467,984	466,529
Employee benefits	127,262	134,187
Purchased services	119,141	106,649
Supplies and other expense	<u>476,335</u>	<u>430,090</u>
	1,190,722	1,137,455
Blood Bank:		
Cost of blood	98,607	102,919
Electrocardiology:		
Salaries and wages	15,499	12,163
Employee benefits	2,155	1,661
Purchased services	49,624	57,725
Supplies and other expense	<u>694</u>	<u>1,886</u>
	67,972	73,435
Electroencephalography:		
Salaries and wages	1,248	1,942
Employee benefits	174	263
Purchased services	--	1,500
Supplies and other expense	<u>90</u>	<u>238</u>
	1,512	3,943
Radiology:		
Salaries and wages	440,014	411,336
Employee benefits	103,787	95,910
Supplies and other expense	<u>229,834</u>	<u>205,876</u>
	773,635	713,122
Ultrasound:		
Salaries and wages	93,920	92,688
Employee benefits	18,654	21,019
Supplies and other expense	<u>54,929</u>	<u>60,270</u>
	167,503	173,977

(continued next page)

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

	<u>2009</u>	<u>2008</u>
CT Scan:		
Salaries and wages	\$ 46,459	\$ 47,321
Employee benefits	15,222	14,191
Professional fees	64,477	44,163
Supplies and other expense	<u>5,275</u>	<u>6,618</u>
	131,433	112,293
Mammography:		
Purchased services	120,365	36,717
Supplies and other expense	<u>10,611</u>	<u>8,357</u>
	130,976	45,074
MRI:		
Purchased services	175,746	162,500
Supplies and other expense	<u>11,384</u>	<u>11,398</u>
	187,130	173,898
Nuclear Medicine:		
Purchased services	71,742	79,118
Supplies and other expense	<u>--</u>	<u>650</u>
	71,742	79,768
Pharmacy:		
Salaries and wages	306,630	299,534
Employee benefits	57,022	57,089
Purchased services	104,301	103,163
Drugs	526,149	464,446
Supplies and other expense	<u>8,450</u>	<u>14,357</u>
	1,002,552	938,589
Anesthesiology:		
Salaries and wages	416,146	384,089
Employee benefits	68,942	67,714
Professional fees	10,791	1,990
Supplies and other expense	<u>22,179</u>	<u>20,259</u>
	518,058	474,052
Inhalation Therapy:		
Salaries and wages	307,738	306,967
Employee benefits	72,698	73,425
Purchased services	--	110
Supplies and other expense	<u>154,309</u>	<u>237,266</u>
	534,745	617,768

(continued next page)

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

	<u>2009</u>	<u>2008</u>
Physical Therapy:		
Professional fees	\$ 471,542	\$ 390,790
Supplies and other expense	<u>5,765</u>	<u>4,571</u>
	477,307	395,361
Speech Therapy:		
Professional fees	23,355	21,985
Occupational Therapy:		
Professional fees	75,748	55,438
Supplies and other expense	<u>176</u>	<u>237</u>
	75,924	55,675
Cardiopulmonary Rehabilitation:		
Salaries and wages	109,828	124,122
Employee benefits	32,505	38,184
Supplies and other expense	<u>4,763</u>	<u>7,466</u>
	147,096	169,772
Oncology:		
Salaries and wages	138,575	80,478
Employee benefits	18,121	9,364
Supplies and other expense	<u>253,635</u>	<u>295,327</u>
	410,331	385,169
Sleep Study:		
Salaries and wages	106,063	108,577
Employee benefits	15,905	15,234
Supplies and other expense	<u>12,196</u>	<u>13,700</u>
	134,164	137,511
Home Health:		
Salaries and wages	312,190	289,622
Employee benefits	85,119	84,579
Professional fees	71,836	69,718
Purchased services	18,194	21,131
Supplies and other expense	<u>32,304</u>	<u>30,446</u>
	519,643	495,496
Hospice:		
Salaries and wages	100,709	94,525
Employee benefits	13,563	12,547
Purchased services	56,939	50,555
Supplies and other expense	<u>31,343</u>	<u>32,707</u>
	202,554	190,334

(continued next page)

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

	<u>2009</u>	<u>2008</u>
Business Health:		
Salaries and wages	\$ 65,695	\$ 108,764
Employee benefits	15,834	23,549
Supplies and other expense	<u>40,719</u>	<u>38,296</u>
	122,248	170,609
Women's Health:		
Salaries and wages	331,734	320,311
Employee benefits	93,803	95,674
Supplies and other expense	<u>54,644</u>	<u>47,734</u>
	480,181	463,719
Villisca Medical Clinic:		
Salaries and wages	171,228	161,426
Employee benefits	44,971	41,619
Supplies and other expense	<u>59,881</u>	<u>59,180</u>
	276,080	262,225
Surgical Services:		
Salaries and wages	343,595	898
Employee benefits	53,011	120
Supplies and other expense	<u>37,018</u>	<u>20,477</u>
	433,624	21,495
Internal Medicine:		
Salaries and wages	679,774	--
Employee benefits	145,658	--
Purchased services	14,146	--
Supplies and other expense	<u>76,714</u>	<u>--</u>
	916,292	--
Social Services:		
Salaries and wages	96,598	91,483
Employee benefits	21,084	22,079
Supplies and other expense	<u>1,360</u>	<u>1,651</u>
	119,042	115,213
Lifeline:		
Supplies and other expense	56,976	56,544
Health Information Management:		
Salaries and wages	296,760	283,548
Employee benefits	75,085	64,622
Supplies and other expense	<u>96,075</u>	<u>56,653</u>
	467,920	404,823

(continued next page)

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

	2009	2008
Case Management:		
Salaries and wages	\$ 1,067	\$ 14,625
Employee benefits	151	1,941
Supplies and other expense	197	2,430
	1,415	18,996
Diabetes Program:		
Salaries and wages	94,931	98,839
Employee benefits	26,026	25,608
Supplies and other expense	3,197	2,678
	124,154	127,125
Wound/Ostomy Care:		
Purchased services	26,208	24,812
Supplies and other expense	4,255	3,391
	30,463	28,203
	<u>\$ 10,767,412</u>	<u>\$ 8,667,636</u>

SUMMARY

Salaries and wages	\$ 4,944,385	\$ 3,799,787
Employee benefits	1,106,752	900,579
Professional fees	1,589,733	1,085,172
Other expense	3,126,542	2,882,098
	<u>\$ 10,767,412</u>	<u>\$ 8,667,636</u>

See Independent Auditor's Report.

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

	2009	2008
Dietary:		
Salaries and wages	\$ 443,205	\$ 415,212
Employee benefits	141,134	141,679
Food	206,401	187,688
Supplies and other expense	53,091	43,666
	843,831	788,245
Housekeeping:		
Salaries and wages	355,938	328,547
Employee benefits	128,749	122,053
Purchased services	21,322	17,978
Supplies and other expense	93,325	86,405
	599,334	554,983
Laundry and Linen:		
Purchased services	96,611	89,051
Supplies and other expense	2,757	2,610
	99,368	91,661
Plant Engineering:		
Salaries and wages	218,443	179,235
Employee benefits	39,366	35,654
Utilities	316,707	347,640
Purchased services	42,432	31,680
Supplies and other expense	163,447	149,119
	780,395	743,328
	\$ 2,322,928	\$ 2,178,217

SUMMARY

Salaries and wages	\$ 1,017,586	\$ 922,994
Employee benefits	309,249	299,386
Other expense	996,093	955,837
	\$ 2,322,928	\$ 2,178,217

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Administrative:		
Salaries and wages	\$ 244,803	\$ 224,661
Employee benefits	235,369	227,148
Professional fees	86,567	74,243
Dues and subscriptions	48,582	44,625
Purchased services	35,139	26,738
Collection fees	60,942	67,857
Telephone	36,103	36,110
Supplies and other expense	<u>165,159</u>	<u>156,065</u>
	912,664	857,447
Accounting:		
Salaries and wages	185,266	185,369
Employee benefits	43,332	47,824
Supplies and other expense	<u>29,673</u>	<u>7,747</u>
	258,271	240,940
Admissions/Business Office:		
Salaries and wages	193,904	187,987
Employee benefits	60,055	55,742
Supplies and other expense	<u>7,993</u>	<u>9,337</u>
	261,952	253,066
Patient Accounting:		
Salaries and wages	239,751	259,922
Employee benefits	61,359	57,510
Supplies and other expense	<u>94,316</u>	<u>60,666</u>
	395,426	378,098
Fiscal Services:		
Salaries and wages	142,562	134,936
Employee benefits	47,460	48,078
Purchased services	8,214	911
Supplies and other expense	<u>6,462</u>	<u>7,866</u>
	204,698	191,791
Information Systems:		
Salaries and wages	568,355	483,535
Employee benefits	129,438	117,869
Purchased services and maintenance	315,406	262,347
Supplies and other expense	<u>78,480</u>	<u>67,980</u>
	1,091,679	931,731

(continued next page)

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

	2009	2008
Human Resources:		
Salaries and wages	\$ 79,323	\$ 74,692
Employee benefits	44,420	42,314
Purchased services	2,000	806
Supplies and other expense	33,821	25,454
	159,564	143,266
Public Relations:		
Salaries and wages	77,211	70,258
Employee benefits	13,795	13,545
Supplies and other expense	71,859	79,808
	162,865	163,611
DRG/Utilization Review:		
Salaries and wages	95,915	90,831
Employee benefits	20,920	22,117
Purchased services	23,076	14,850
Supplies and other expense	1,689	896
	141,600	128,694
Insurance:		
Liability and property insurance	145,518	132,237
	\$ 3,734,237	\$ 3,420,881

SUMMARY

Salaries and wages	\$ 1,827,090	\$ 1,712,191
Employee benefits	656,148	632,147
Professional fees	86,567	74,243
Other expense	1,164,432	1,002,300
	\$ 3,734,237	\$ 3,420,881

SUMMARY OF EXPENSES

Salaries and wages	\$ 12,135,988	\$ 10,590,712
Employee benefits	3,136,846	2,892,083
Professional fees	1,676,300	1,159,415
Other expense	6,251,298	5,678,661
	\$ 23,200,432	\$ 20,320,871

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Comparative Statistics
 Year ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Admissions	1,099	1,103	1,130	1,136	1,142
Discharges	1,096	1,102	1,133	1,137	1,140
Average Length of Stay	3.63	3.44	3.55	3.42	3.36
Acute Patient Days	3,982	3,795	4,022	3,883	3,828
Average Occupied Beds	10.9	10.4	11.0	10.6	10.5
Swing Bed Days	2,290	2,376	2,372	2,673	2,963
Combined Average Occupied Beds	17.2	16.9	17.5	18.0	18.6
Beds Available	25	25	25	25	25
Nursery Days	190	212	227	240	251
Outpatient Occasions of Service	42,096	39,720	40,346	39,706	40,371

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	2009	2008
Current Assets:		
Cash	\$ 1,138,063	\$ 1,986,147
Receivables, net	4,102,927	3,927,422
Inventory	387,787	301,609
Prepaid expense	127,948	144,864
Estimated third-party payor settlements	--	--
Succeeding year property tax receivable	1,282,000	1,225,000
Internally designated assets	1,003,162	805,071
Total current assets	8,041,887	8,390,113
Other Assets:		
Internally designated and restricted assets	6,430,070	9,342,307
Capital assets, net	13,595,321	10,071,071
Other non-current assets	737,604	664,035
Total other assets	20,762,995	20,077,413
	\$ 28,804,882	\$ 28,467,526
Current Liabilities:		
Current maturities of long-term debt	\$ 497,340	\$ 527,627
Accounts payable	673,622	428,478
Estimated third-party payor settlements	35,000	457,000
Accrued expenses	1,265,831	1,086,775
Deferred revenue for succeeding year property tax receivable	1,282,000	1,225,000
Total current liabilities	3,753,793	3,724,880
Long-Term Debt, Net	1,653,893	2,151,233
Net Assets	23,397,196	22,591,413
	\$ 28,804,882	\$ 28,467,526

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 1,842,873	\$ 1,118,862	\$ 1,972,633
3,835,133	3,548,743	3,498,611
320,792	330,444	322,135
145,506	75,067	132,570
--	202,000	409,000
1,172,000	1,159,000	1,156,000
<u>1,104,097</u>	<u>920,467</u>	<u>1,276,053</u>
8,420,401	7,354,583	8,767,002
8,688,610	8,495,149	6,461,185
10,398,351	9,417,528	8,855,079
662,783	928,272	986,021
<u>19,749,744</u>	<u>18,840,949</u>	<u>16,302,285</u>
<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>
\$ 484,745	\$ 492,900	\$ 537,152
725,381	462,495	946,271
460,000	--	--
1,246,692	1,151,949	1,309,589
<u>1,172,000</u>	<u>1,159,000</u>	<u>1,156,000</u>
4,088,818	3,266,344	3,949,012
2,599,071	3,083,816	3,576,716
<u>21,482,256</u>	<u>19,845,372</u>	<u>17,543,559</u>
<u>\$ 28,170,145</u>	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>

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

	<u>2009</u>	<u>2008</u>
Patient Service Revenue	\$ 36,707,743	\$ 30,618,227
Adjustments to Patient Service Revenue	<u>(13,097,499)</u>	<u>(9,807,635)</u>
Net Patient Service Revenue	23,610,244	20,810,592
Other Revenue	<u>415,627</u>	<u>385,803</u>
Total Revenue	24,025,871	21,196,395
Expenses	<u>24,849,053</u>	<u>21,875,984</u>
Operating Income (Loss)	(823,182)	(679,589)
Non-Operating Revenue, Net	<u>1,603,965</u>	<u>1,761,089</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	780,783	1,081,500
Capital Grants and Contributions	<u>25,000</u>	<u>27,657</u>
Increase in Net Assets	<u>\$ 805,783</u>	<u>\$ 1,109,157</u>

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 29,180,059	\$ 28,684,434	\$ 27,606,340
<u>(8,805,767)</u>	<u>(8,209,288)</u>	<u>(8,695,401)</u>
20,374,292	20,475,146	18,910,939
<u>377,313</u>	<u>410,356</u>	<u>453,648</u>
20,751,605	20,885,502	19,364,587
<u>20,865,182</u>	<u>20,092,744</u>	<u>18,484,449</u>
(113,577)	792,758	880,138
<u>1,724,396</u>	<u>1,467,055</u>	<u>1,354,978</u>
1,610,819	2,259,813	2,235,116
<u>26,065</u>	<u>42,000</u>	<u>49,000</u>
<u>\$ 1,636,884</u>	<u>\$ 2,301,813</u>	<u>\$ 2,284,116</u>

COMMENTS AND RECOMMENDATIONS

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

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, 2009, and have issued our report thereon dated December 10, 2009. 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, 2009 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 response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response and, accordingly, we express no opinion on it.

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.

 Stanley W. Beck, CPA

Atlantic, Iowa
December 10, 2009

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2009

PART I - REPORTABLE CONDITIONS

09-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

09-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2009 did not exceed amounts budgeted.

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

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

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

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

09-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.

* * *