

MONROE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2004 AND 2003

**MONROE COUNTY HOSPITAL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

OFFICIALS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	10
STATEMENTS OF CASH FLOWS	11
NOTES TO FINANCIAL STATEMENTS	13
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	24
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF NET PATIENT SERVICE REVENUES	25
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUES	27
SCHEDULES OF OPERATING EXPENSES	28
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	33
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	34
SCHEDULE OF COMPARATIVE STATISTICS (UNAUDITED)	35
REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLINACE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS	36
SCHEDULE OF FINDINGS	38
INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS	39

**MONROE COUNTY HOSPITAL
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Dan Stocker	Chairperson	2005
Lorraine Starcevic	Vice Chairperson	2004
Debbie Judge	Secretary and Treasurer	2004
Lana Kaldenberg	Member	2008
Michael Freshwater	Member	2008
Joanna Albers	Member	2004
Kevin Kness	Member	2005
HOSPITAL OFFICIALS		
Gregory A. Paris	Administrator	
Heather Cain	Chief Financial Officer	

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the accompanying balance sheets of Monroe County Hospital as of June 30, 2004 and 2003, and the related statement 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards 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.

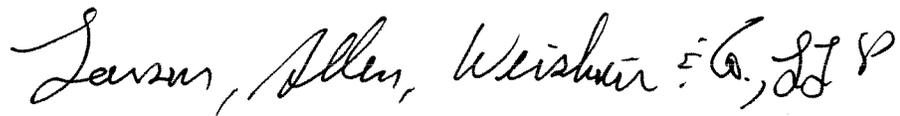
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monroe County Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Monroe County Hospital adopted the provisions of *Governmental Accounting Standards Board Statements No. 34, Basic Financial Statements – and Management's Discussion Analysis – for State and Local Governments*, Statements No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures* as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year presentation.

The management's discussion and analysis and Budgetary Comparison Information on pages 3 through 7 and 24 is not a required part of the basic financial statements, but is 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 measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2004 on our consideration of Monroe County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information from pages 25 to 34 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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. The statistical data contained in the schedule of comparative statistics on page 35 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2004

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

This section of the Monroe County Hospital annual audited financial report represents management's discussion and analysis of Monroe County Hospital's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on Monroe County Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2004 and 2003 Independent Auditors' Report includes audited financial statements that include:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

Financial Highlights

- The Hospital's total assets increased by \$88,010 or 1.0% in 2004 and increased by \$1,402,029 or 12.8% in 2003.
- The Hospital's net assets increased in each of the last two years with a \$443,002 or 8.7% increase in 2004 and a \$889,902 or 21.2% increase in 2003.
- The Hospital reported positive operating income of \$149,269 in 2004 and \$585,215 in 2003.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about Monroe County Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Required supplementary information to the above statements is provided in:

- Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets

Other supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedule of Operating Expenses
- Schedules of Age Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Comparative Statistics

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

There were no significant changes in Monroe County Hospital's accounting policies for the Fiscal Years Ended June 30, 2004 or 2003.

Financial Analysis of the Hospital

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Monroe County and the surrounding areas.

Table 1: Assets, Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 3,244,296	\$ 3,262,512	\$ 3,178,533
Noncurrent Cash and Investments	1,015,722	1,126,080	3,156,543
Capital Assets, Net	7,534,963	7,307,053	3,929,339
Succeeding Year Property Tax Receivable	518,367	523,433	546,374
Other Assets	<u>120,507</u>	<u>126,767</u>	<u>133,027</u>
Total Assets	<u><u>\$ 12,433,855</u></u>	<u><u>\$ 12,345,845</u></u>	<u><u>\$ 10,943,816</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,302,002	\$ 1,391,638	\$ 1,063,331
Long-Term Debt (Less Current Maturities)	5,081,122	5,341,412	5,134,651
Deferred Revenue from Succeeding Year Property Tax Receivable	<u>518,367</u>	<u>523,433</u>	<u>546,374</u>
Total Liabilities	<u>6,901,491</u>	<u>7,256,483</u>	<u>6,744,356</u>
Total Net Assets	<u>5,532,364</u>	<u>5,089,362</u>	<u>4,199,460</u>
Total Liabilities and Net Assets	<u><u>\$ 12,433,855</u></u>	<u><u>\$ 12,345,845</u></u>	<u><u>\$ 10,943,816</u></u>

Asset categories changing significantly during 2004 and 2003 included Noncurrent Cash and Investments and Capital Assets. Noncurrent Cash and Investments decreased by \$110,358 or 9.8% in 2004 and decreased by \$2,030,463 or 64.3% in 2003. Capital Assets increased in 2004 by \$227,910 or 3.1% and increased in 2003 by \$3,377,714 or 86.0%

The current ratio (current assets divided by current liabilities) for 2004 was 2.49 and 2003 was 2.34. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 9,138,490	\$ 8,059,642	\$ 7,454,399
Operating Expenses	<u>8,989,221</u>	<u>7,474,427</u>	<u>7,292,796</u>
Operating Income	149,269	585,215	161,603
Non-Operating Revenues (Expenses)	<u>32,270</u>	<u>54,687</u>	<u>212,390</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	181,539	639,902	373,993
Capital Grants and Contributions	<u>261,463</u>	<u>250,000</u>	<u>2,025</u>
Increase in Net Assets	443,002	889,902	376,018
Net Assets, Beginning of Year	<u>5,089,362</u>	<u>4,199,460</u>	<u>3,823,442</u>
Net Assets, End of Year	<u>\$ 5,532,364</u>	<u>\$ 5,089,362</u>	<u>\$ 4,199,460</u>

Net patient service revenue made up 92.7% in 2004 and 90.6% in 2003 of the Monroe County Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 9,965,203	\$ 8,042,032	\$ 8,208,273
Contractual Adjustments and Provisions for Bad Debt	1,498,170	737,093	1,554,626
Net Patient Service Revenue	<u>\$ 8,467,033</u>	<u>\$ 7,304,939</u>	<u>\$ 6,653,647</u>
Contractual Adjustments as a Percent of Revenues	<u>15.03%</u>	<u>9.17%</u>	<u>18.94%</u>

Total operating expenses increased \$1,514,794 or 20.3% in 2004 and increased \$181,631 or 2.5% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 28-32 of the audited financial statements for this information. In 2004 there was a significant increase in depreciation expense. This is due primarily to having a full year of depreciation resulting from the construction project. In 2004 other professional services expense also increased significantly. This is due primarily to Monroe County Hospital entering into employment contracts with two local physicians and a contract for services with the local physicians' clinic practice.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was 1.6% in 2004 down from 7.30% in 2003. Operating income in 2004 was \$149,269 and in 2003 was \$585,215.

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Other Operating Revenue decreased by \$83,246 or 11.0% in 2004 and decreased by \$46,049 or 5.8% in 2003. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2004	2003	2002
County Taxes	\$ 568,795	\$ 664,470	\$ 638,948
Meals	32,125	21,586	49,303
Rent-Physician's Clinic	42,092	42,969	43,440
Medical Records Transcripts	2,711	1,660	1,706
Miscellaneous	25,734	24,018	67,355
Total Other Revenues	<u>\$ 671,457</u>	<u>\$ 754,703</u>	<u>\$ 800,752</u>

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes except in the 2003 acute statistics where there was a decrease of 395 days and yet an increase in revenue of \$76,885 or 19.0%. This is a result of adjustments to room rates in conjunction with the transition to Critical Access Hospital.

Table 5: Statistical Data

	2004	2003	2002
Patient Days			
Acute	1,210	1,070	1,465
Swing Bed			
Skilled Care	900	793	1,153
Intermediate Care	3,073	3,380	5,392
Total	<u>5,183</u>	<u>5,243</u>	<u>8,010</u>
Admissions			
Acute	389	349	441
Swing Bed			
Skilled Care	99	108	
Intermediate Care	13	14	
Total	<u>501</u>	<u>471</u>	<u>441</u>
Discharges			
Acute	389	349	441
Swing Bed			
Skilled Care	101	102	
Intermediate Care	11	18	
Total	<u>501</u>	<u>469</u>	<u>441</u>
Average Length of Stay, Acute	<u>3.1</u>	<u>3.1</u>	<u>3.3</u>
Beds	25	25	46
Occupancy Percentage			
Acute	13.2%	11.7%	8.7%
Swing Bed	43.5%	45.7%	39.0%

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2004 the Hospital had \$7,534,963 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$791,103 to purchase new capital assets. In 2003 the Hospital purchased new capital assets costing \$3,890,128 (the net of additions and retirements). This consists primarily of costs associated with the Hospital building and renovation project. This project was completed in 2004 and focused on a complete remodel and expansion of the outpatient hospital areas.

Long Term Debt

Table 6 shows a summary of the Hospital's long term debt outstanding.

Table 6: Long Term Debt

	<u>2004</u>	<u>2003</u>	<u>2002</u>
2001 Revenue Bonds	\$ 4,685,000	\$ 4,845,000	\$ 5,000,000
1993 Revenue Note	280,874	289,651	298,010
Capital Lease Obligations	<u>375,538</u>	<u>449,184</u>	<u>-</u>
Total Long Term Debt	<u>\$ 5,341,412</u>	<u>\$ 5,583,835</u>	<u>\$ 5,298,010</u>

The most significant number in Table 6 is the 2001 revenue notes. The Monroe County Board of Supervisors adopted a resolution authorizing the issuance of \$5,000,000 of Hospital Revenue Bonds in November 2001 to finance the renovation of the hospital and to refund the 1980 revenue bonds on the original construction of the hospital. The bonds are payable in semi-annual installments on July 1 and January 1 of each year until 2021. The interest rate on the bonds is 5.66%.

Economic Factors

The Economic trends in our community, as well as our population figures, have stayed relatively stable over the past years, and thus there has been little change in the economic profile of the community.

Agriculture plays an important role in our community's economics. The past year's yields will not have a huge impact on the economic situation of the community.

At this time, one new industry is making a move to our community. A railway locomotive corporation is planning to open a factory in our community during 2005. A total of 75 new jobs will be created. With that, the economic outlook for our community should improve over the next few years.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Sample Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Greg Paris, Administrator or Heather Cain, Chief Financial Officer at Monroe County Hospital, 6580 165th Street, Albia, IA 52531.

**MONROE COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,440,776	\$ 1,068,391
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, \$295,852, 2003, \$163,875)	1,539,117	1,071,796
Other Accounts Receivable	52,081	63,590
Estimated Third-Party Payor Settlements	-	913,942
Inventories	197,608	130,682
Prepaid Expenses	14,714	14,111
Total Current Assets	<u>3,244,296</u>	<u>3,262,512</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	394,252	379,303
Restricted by Bond Agreement	441,590	566,897
Principal of Endowment	179,880	179,880
Total Noncurrent Cash and Investments	<u>1,015,722</u>	<u>1,126,080</u>
SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	518,367	523,433
CAPITAL ASSETS, NET	7,534,963	7,307,053
OTHER ASSETS		
Investment, Physician-Hospital Organization	12,000	12,000
Bond Issue Costs	108,507	114,767
	<u>120,507</u>	<u>126,767</u>
Total Assets	<u>\$ 12,433,855</u>	<u>\$ 12,345,845</u>

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 260,290	\$ 242,423
Accounts Payable	488,892	683,806
Accrued Payroll and Related Liabilities	410,482	334,609
Accrued Interest	127,600	130,800
Estimated Third-party Payor Settlements	14,738	-
Total Current Liabilities	<u>1,302,002</u>	<u>1,391,638</u>
 DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	518,367	523,433
 LONG-TERM DEBT, NET OF CURRENT MATURITIES		
	<u>5,081,122</u>	<u>5,341,412</u>
Total Liabilities	6,901,491	7,256,483
 NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,193,551	1,723,218
Restricted		
By Bond Agreement	441,590	566,897
For Endowment	179,880	179,880
Unrestricted	2,717,343	2,619,367
Total Net Assets	<u>5,532,364</u>	<u>5,089,362</u>
 Total Liabilities and Net Assets		
	<u>\$ 12,433,855</u>	<u>\$ 12,345,845</u>

MONROE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
UNRESTRICTED REVENUES		
Net Patient Service Revenues (Net of Provisions for Bad Debt of 2004 in \$456,421 and 2003 in \$214,110)	\$ 8,467,033	\$ 7,304,939
OTHER REVENUES	671,457	754,703
Total Revenues	9,138,490	8,059,642
EXPENSES		
Nursing Service	2,513,089	2,343,116
Other Professional Service	2,748,442	2,115,341
General Service	973,999	771,872
Fiscal and Administrative Service and Unassigned Expenses	1,876,795	1,632,066
Depreciation	714,478	512,414
Interest	162,418	99,618
Total Expenses	8,989,221	7,474,427
Operating Income	149,269	585,215
NON-OPERATING GAINS		
Investment Income	29,190	50,081
Contributions	795	3,715
Gain on Disposal of Equipment	2,285	891
Non-Operating Gains	32,270	54,687
EXCESS OF REVENUES AND GAINS OVER EXPENSES	181,539	639,902
Capital Grants and Contributions	261,463	250,000
Increase in Net Assets	443,002	889,902
Net Assets - Beginning of Year	5,089,362	4,199,460
Net Assets - End of Year	\$ 5,532,364	\$ 5,089,362

See accompanying Notes to Financial Statements.

**MONROE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 8,928,392	\$ 6,767,076
Cash Paid to Employees	(4,318,744)	(3,703,015)
Cash Paid to Suppliers	(3,968,642)	(2,813,847)
Other Receipts and Payments, Net	102,662	90,233
Net Cash Provided by Operating Activities	743,668	340,447
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	795	3,715
Capital Grants and Contributions	261,463	250,000
County Taxes Received	568,795	664,470
Net Cash Provided by Non-Capital Financing Activities	831,053	918,185
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(791,103)	(3,260,400)
Payments on Long Term Debt	(242,423)	(179,012)
Interest Payments on Long-Term Debt	(308,358)	(327,015)
Net Cash Used by Capital and Related Financing Activities	(1,341,884)	(3,766,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	110,358	2,030,463
Interest Earned on Investments	29,190	50,081
Net Cash Provided by Investing Activities	139,548	2,080,544
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	372,385	(427,251)
Cash and Cash Equivalents - Beginning	1,068,391	1,495,642
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,440,776	\$ 1,068,391
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Equipment Acquired Under Capital Lease Obligation	\$ -	\$ 464,837

See accompanying Notes to Financial Statements.

**MONROE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 149,269	\$ 585,215
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Interest Expense Considered Capital Financing Activity	162,418	99,618
Depreciation	714,478	512,414
County Taxes	(568,795)	(664,470)
Decrease (Increase) in -		
Patient Receivables	(467,321)	70,079
Other Receivables	11,509	14,356
Inventories	(66,926)	4,171
Prepaid Expenses	(603)	8,106
Estimated Third-Party Payor Settlements	913,942	(607,942)
Increase (Decrease) in -		
Accounts Payable	(194,914)	320,650
Accrued Salaries, Wages, Benefits and Other	75,873	(1,750)
Estimated Third-Party Payor Settlements	14,738	-
Net Cash Provided by Operating Activities	\$ 743,668	\$ 340,447

See accompanying Notes to Financial Statements.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Monroe County Hospital (the Hospital) is a county public hospital, organized under Chapter 347, Code of Iowa. Services are provided to residents of Monroe and surrounding counties in southeastern Iowa.

A. Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units, which meet the Governmental Accounting Standards Board criteria.

B. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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

C. Basis of Accounting

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncement established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents – For purposes of the statement of cash flows, cash and cash equivalents all highly liquid investments with an original maturity of three months or less.

Patient Receivables – The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 135 days are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$295,852 and \$163,875, respectively.

Inventory – Inventory is valued at cost using the first-in, first-out method.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

Capital Assets, Net – Capital assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. Capital expenditures less than \$2,000 are expenses as incurred. Capital Expenditures of \$2,000 or greater are capitalized and amortized over the useful life of the asset.

Investments – Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets (Continued)

Succeeding Year Property Tax Receivable – 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 the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of 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.

Deferred Revenue for Succeeding Year Property Receivable – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Net Assets – Net assets of the Hospital are classified into 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 expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

E. Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Operating Revenues and Expenses

The Hospital's statement of revenues, expense, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

H. Net Patient Service Revenue

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 provided and adjusted in future periods, as final settlements are determined.

I. 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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Total charity care provided amounted to \$2,508 and \$1,014 for the years ended June 30, 2004 and 2003, respectively.

J. County Tax Revenue

Taxes levied to finance the current year are included in other operating revenue.

K. Other Assets

Other assets consist of unamortized bond issuance costs. Bond issuance costs are being amortized over the life of the bonds using the straight-line method.

NOTE 2 ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted, expendable net assets at June 30, 2004 and 2003 are available for debt service under bond agreements.

The amount restricted for endowment at June 30, 2004 and 2003 consists of an endowment received from an estate, the principal of which is to be held for fifty years, during which time the interest is available for the operations of the Hospital. After the endowment expires, the principal balance may be used for the operations of the Hospital. The time restriction expires January, 2051.

NOTE 3 NET PATIENT SERVICE REVENUE

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

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicare

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2002.

Medicaid

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2002.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenue and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 9,965,203	\$ 8,042,032
Contractual Adjustments		
Medicare	(319,341)	(157,820)
Medicaid	(239,152)	(63,724)
Blue Cross	(178,680)	(113,717)
Other Adjustments	(304,576)	(187,722)
Provision for Bad Debts	(456,421)	(214,110)
Total Contractual Adjustments and Bad Debts	<u>(1,498,170)</u>	<u>(737,093)</u>
Net Patient Service Revenues	<u>\$ 8,467,033</u>	<u>\$ 7,304,939</u>

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Receivables from Patients and Their Insurance Carriers	\$ 916,366	\$ 686,425
Receivables from Medicare	825,465	479,003
Receivables from Medicaid	93,138	70,243
Total Patient Receivables	1,834,969	1,235,671
Less Allowance for Doubtful Accounts	(295,852)	(163,875)
Patient Receivables, Net	\$ 1,539,117	\$ 1,071,796

NOTE 5 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2004 and 2003 are covered by Federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's cash and cash equivalents and investments are all category 1, which means that the cash and cash equivalents and investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

At June 30, 2004 and 2003, the Hospital had bank balances as follows:

	2004	2003
Insured or Collateralized by Iowa Insurance Trust	\$ 2,273,181	\$ 2,059,749
Carrying Amount	\$ 2,456,498	\$ 2,194,471

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of deposits and investments shown above are included in the Hospital's balance sheet as follows:

	2004	2003
Deposits	\$ 2,456,498	\$ 2,194,471
	\$ 2,456,498	\$ 2,194,471
Included in the following balance sheet captions		
Cash and Cash Equivalents	\$ 1,440,776	\$ 1,068,391
Noncurrent Cash and Investments		
Internally Designated for Capital Acquisitions	394,252	379,303
Restricted by Bond Agreement	441,590	566,897
Principal of Endowment	179,880	179,880
	\$ 2,456,498	\$ 2,194,471

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	July 1, 2003	Additions	(Retirements)	June 30, 2004
Capital Assets				
Land	\$ 62,600	\$ -	\$ -	\$ 62,600
Land Improvements	661,571	38,736	-	700,307
Buildings	5,482,854	502,853	-	5,985,707
Professional Building	738,384	-	-	738,384
Fixed Equipment	4,505,131	124,029	-	4,629,160
Major Movable Equipment	3,823,813	347,940	-	4,171,753
Construction in Process	71,170	710,127	(781,297)	-
Totals	15,345,523	1,723,685	(781,297)	16,287,911
Accumulated Depreciation				
Land Improvements	453,702	26,134	-	479,836
Building	2,033,457	189,025	-	2,222,482
Professional Building	240,193	21,926	-	262,119
Fixed Equipment	2,576,256	153,908	-	2,730,164
Major Movable Equipment	2,734,862	323,485	-	3,058,347
Totals	8,038,470	\$ 714,478	\$ -	8,752,948
	\$ 7,307,053			\$ 7,534,963

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 CAPITAL ASSETS (CONTINUED)

Capital Assets	July 1, 2002	Additions	(Retirements)	June 30, 2003
Land	\$ 62,600	\$ -	\$ -	\$ 62,600
Land Improvements	524,253	137,318	-	661,571
Buildings	2,662,990	2,819,864	-	5,482,854
Professional Building	738,384	-	-	738,384
Fixed Equipment	2,849,182	1,655,949	-	4,505,131
Major Movable Equipment	3,233,188	590,625	-	3,823,813
Construction in Process	1,384,798	3,221,347	(4,534,975)	71,170
Totals	11,455,395	8,425,103	(4,534,975)	15,345,523
Accumulated Depreciation				
Land Improvements	437,210	16,492	-	453,702
Building	1,921,468	111,989	-	2,033,457
Professional Building	217,005	23,188	-	240,193
Fixed Equipment	2,476,021	100,235	-	2,576,256
Major Movable Equipment	2,474,352	260,510	-	2,734,862
Totals	7,526,056	\$ 512,414	\$ -	8,038,470
	<u>\$ 3,929,339</u>			<u>\$ 7,307,053</u>

Construction in Process

As of June 30, 2004 and 2003, the Hospital is involved in a construction and remodeling project that will enhance and expand the services available to its patients. The project involves the addition of a new building designated for providing outpatient services, and the remodeling and expansion of existing outpatient hospital areas. Phases I and II of the project were completed during fiscal year 2003 at a cost of \$4,606,145. Phase III was completed during 2004 at a cost of \$781,297. Interest expense of approximately \$149,000 and \$164,000 was capitalized in 2004 and 2003, respectively.

Major movable equipment includes equipment under capital lease in the amount of \$464,837 at June 30, 2004 and 2003. Accumulated amortization on equipment under capital lease is \$95,967 and \$0 at June 30, 2004 and 2003, respectively.

NOTE 7 OTHER ACCOUNTS RECEIVABLE

Included in the other accounts receivable is a physician receivable. The Hospital has entered into an income guarantee agreement with a local physician, wherein monthly payments were made to the physician over a twelve-month income guarantee period, which commenced October 1997. The total income guarantee amounted to \$97,685. Subsequent to the twelve-month income guarantee period, the Hospital agreed to forgive the repayment of the amount guaranteed to the physician over a five-year period. The total outstanding balance at June 30, 2004 and 2003 was \$0 and \$19,537, respectively. Forgiveness of the loan was amortized to expense in the amount of \$19,537 in 2004 and 2003.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 8 LONG-TERM DEBT

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Hospital Revenue Bonds	\$ 4,845,000	\$ -	\$ (160,000)	\$ 4,685,000	\$ 165,000
Hospital Revenue Note	289,651	-	(8,777)	280,874	9,216
Obligations Under Capital Lease	449,184	-	(73,646)	375,538	86,074
Total Long-Term Debt	<u>\$ 5,583,835</u>	<u>\$ -</u>	<u>\$ (242,423)</u>	<u>\$ 5,341,412</u>	<u>\$ 260,290</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Hospital Revenue Bonds	\$ 5,000,000	\$ -	\$ (155,000)	\$ 4,845,000	\$ 160,000
Hospital Revenue Note	298,010	-	(8,359)	289,651	8,777
Obligations Under Capital Lease	-	464,837	(15,653)	449,184	73,646
Total Long-Term Debt	<u>\$ 5,298,010</u>	<u>\$ 464,837</u>	<u>\$ (179,012)</u>	<u>\$ 5,583,835</u>	<u>\$ 242,423</u>

Hospital Revenue Bonds, Series 1980 and Series 2001

The Series 2001 Hospital Revenue Bonds were issued to refund the 1980 bonds and provide additional funds for the ongoing construction project described in Note 4. These bonds are payable in semi-annual installments, including interest of 5.66%, on July 1 and January 1 of each year until 2021. The bonds are collateralized by the net patient revenue of the Hospital. A debt service reserve fund, which is to be maintained at \$211,500, was fully funded at June 30, 2004 and 2003.

Hospital Revenue Note, Series 1993 A

The total amount of the Hospital Revenue Note, dated August 1993, was \$352,500. The note is payable in yearly installments of \$23,283, including interest at 5%, payable on July 1 of each year until July of 2023. The Hospital has reserved the right to prepay the principal of this note due July 1, 2004 to 2023. The bonds are collateralized by the net patient revenue of the Hospital. A debt service fund, which is to be maintained at \$23,283, is fully funded.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 8 LONG-TERM DEBT (CONTINUED)

Obligations Under Capital Lease

During 2003, the Hospital entered into an agreement to acquire medical equipment under capital lease. The obligation is due in monthly installments totaling \$9,195, expiring on June 2008, including interest at 7.21%. The lease is collateralized by the medical equipment under lease.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2005	\$ 174,216	\$ 265,760	\$ 86,074	\$ 24,269
2006	184,677	257,943	92,489	17,854
2007	190,162	249,514	99,382	10,960
2008	200,669	240,447	97,593	3,554
2009	211,202	230,599	-	-
2010-2014	1,214,996	978,499	-	-
2015-2019	1,582,953	595,459	-	-
2020-2023	1,206,999	115,469	-	-
	<u>\$ 4,965,874</u>	<u>\$ 2,933,690</u>	<u>\$ 375,538</u>	<u>\$ 56,637</u>

NOTE 9 DEFINED BENEFIT PENSION PLAN

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$201,146, \$168,331, and \$167,970, respectively, equal to the required contributions for each year.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 10 RELATED ORGANIZATION

Management Services

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines, under which Mercy Medical Center – Des Moines provides an administrator, management consultation, and other services to Monroe County Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Monroe County Hospital. Expenses for the administrative and management services received were \$211,933 and \$170,390 for the years ended June 30, 2004 and 2003, respectively.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

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

Malpractice Insurance

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. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

NOTE 12 SUBSEQUENT EVENT

Subsequent to June 30, 2004, the Hospital entered into a capital lease for the purchase of a new information system. The Hospital is expected to implement the system in March 2005, at a cost of approximately \$900,000.

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**MONROE COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004**

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

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Final to Actual Cash Basis
Amounts to be Raised by Taxation	\$ 568,795	\$ -	\$ 568,795	\$ 523,433	\$ 45,362
Other Revenues/ Receipts	8,863,428	569,432	9,432,860	8,798,208	634,652
	<u>9,432,223</u>	<u>569,432</u>	<u>10,001,655</u>	<u>9,321,641</u>	<u>680,014</u>
Expenses/ Expenditures	8,989,221	640,049	9,629,270	10,000,000	370,730
Net	443,002	(70,617)	372,385	(678,359)	1,050,744
Balance, Beginning	5,089,362	(4,020,971)	1,068,391	3,913,377	(2,844,986)
Balance, Ending	<u>\$ 5,532,364</u>	<u>\$ (4,091,588)</u>	<u>\$ 1,440,776</u>	<u>\$ 3,235,018</u>	<u>\$ (1,794,242)</u>

(This page intentionally left blank)

OTHER SUPPLEMENTARY INFORMATION

**MONROE COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 581,899	\$ 481,500
Extended Care	280,457	279,832
Skilled Care	229,410	191,040
Total	1,091,766	952,372
OTHER NURSING SERVICES		
Operating Room	389,177	381,577
Recovery Room	133,677	137,110
Central Services and Supply	523,952	522,857
Intravenous Therapy	374,536	370,140
Emergency Room	675,989	753,151
Hospice	294,440	182,213
Home Health Services	15,060	16,182
Ambulance	478,064	449,788
	2,884,895	2,813,018
OTHER PROFESSIONAL SERVICES		
Laboratory	1,407,061	1,190,424
Blood Administration	5,437	3,244
Radiology	367,119	238,020
Electrocardiology	95,636	85,994
Respiratory Therapy	277,010	218,551
Pharmacy	1,139,498	920,115
Anesthesiology	149,330	157,079
Physical Therapy	416,495	414,766
Speech Pathology	12,338	15,765
CT scans, Ultrasound, Mammography, MRI and Nuclear Scanning	1,317,827	877,495
Cardiac rehab	42,767	41,528
Occupational therapy	121,435	114,675
Outpatient Clinic	70,975	-
Physician Clinic	568,122	-
Total	5,991,050	4,277,656
Total Patient Service Revenues	9,967,711	8,043,046
Less: Charity Care	(2,508)	(1,014)
Patient Service Revenues	9,965,203	8,042,032
Less: Contractual Adjustments and Bad Debts	(1,498,170)	(737,093)
Net Patient Service Revenues	\$ 8,467,033	\$ 7,304,939

INPATIENTS		OUTPATIENTS	
2004	2003	2004	2003
\$ 581,899	\$ 481,500	\$ -	\$ -
280,457	279,832	-	-
229,410	191,040	-	-
<u>1,091,766</u>	<u>952,372</u>	<u>-</u>	<u>-</u>
78,814	62,662	310,363	318,915
14,489	12,288	119,188	124,822
116,697	113,234	407,255	409,623
240,281	218,640	134,255	151,500
68,300	61,564	607,689	691,587
-	-	294,440	182,213
-	-	15,060	16,182
-	-	<u>478,064</u>	<u>449,788</u>
<u>518,581</u>	<u>468,388</u>	<u>2,366,314</u>	<u>2,344,630</u>
230,784	204,171	1,176,277	986,253
4,218	2,660	1,219	584
42,811	40,575	324,308	197,445
14,410	16,859	81,226	69,135
262,692	206,302	14,318	12,249
462,294	405,498	677,204	514,617
36,077	29,993	113,253	127,086
82,837	52,734	333,658	362,032
5,712	1,762	6,626	14,003
368,310	271,750	949,517	605,745
-	-	42,767	41,528
46,996	22,880	74,439	91,795
-	-	70,975	-
-	-	<u>568,122</u>	<u>-</u>
<u>1,557,141</u>	<u>1,255,184</u>	<u>4,433,909</u>	<u>3,022,472</u>
<u>\$ 3,167,488</u>	<u>\$ 2,675,944</u>	<u>\$ 6,800,223</u>	<u>\$ 5,367,102</u>

**MONROE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ (319,341)	\$ (157,820)
Medicaid	(239,152)	(63,724)
Blue Cross	(178,680)	(113,717)
Other Adjustments	(304,576)	(187,722)
Provision for Bad Debt	(456,421)	(214,110)
Total Adjustments to Patient Service Revenues	\$ (1,498,170)	\$ (737,093)
 OTHER REVENUES		
County Taxes	\$ 568,795	\$ 664,470
Meals	32,125	21,586
Rent-Physician's Clinic	42,092	42,969
Medical Records Transcripts	2,711	1,660
Miscellaneous	25,734	24,018
Total Other Revenues	\$ 671,457	\$ 754,703

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

NURSING SERVICE EXPENSES

	Year Ended June 30	
	2004	2003
NURSING ADMINISTRATION		
Salaries	\$ 40,244	\$ 51,644
Supplies and Expenses	2,618	665
	42,862	52,309
MEDICAL AND SURGICAL		
Salaries	782,050	707,796
Supplies and Expenses	68,562	71,142
	850,612	778,938
EXTENDED CARE		
Salaries	181,209	171,933
Supplies and Expenses	6,214	4,572
	187,423	176,505
INFECTION CONTROL		
Salaries	18,665	24,455
Supplies and Expenses	4,640	4,277
	23,305	28,732
OPERATING ROOM		
Salaries	207,121	165,481
Supplies and Expenses	137,594	182,338
	344,715	347,819
EMERGENCY SERVICE		
Salaries	326,780	283,237
Professional fees	209,098	-
Supplies and Expenses	29,038	292,309
	564,916	575,546
HOSPICE		
Salaries	122,293	66,028
Supplies and Expenses	120,531	53,663
	242,824	119,691
HOME HEALTH SERVICES		
Salaries	644	19,933
Supplies and Expenses	6,386	6,413
	7,030	26,346
AMBULANCE		
Salaries	221,182	200,952
Physician Assistant and Nurse Practitioner	28,220	36,278
	249,402	237,230
 Totals	 \$ 2,513,089	 \$ 2,343,116

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

OTHER PROFESSIONAL SERVICE EXPENSES	Year Ended June 30	
	2004	2003
LABORATORY		
Salaries	\$ 187,169	\$ 178,350
Supplies and Expenses	241,582	227,389
	428,751	405,739
RADIOLOGY		
Salaries	265,264	201,798
Supplies and Expenses	88,016	65,693
	353,280	267,491
RESPIRATORY THERAPY		
Salaries	57,055	51,440
Professional Fees	24,150	28,352
	81,205	79,792
PHARMACY		
Supplies and Expenses	550,247	503,966
ANESTHESIOLOGY		
Professional Fees	97,181	105,969
PHYSICAL THERAPY		
Professional Fees	191,569	193,002
Supplies and Expenses	4,434	5,915
	196,003	198,917
SPEECH PATHOLOGY		
Professional Fees	8,237	11,584
CT SCANS		
Salaries	1,564	-
Supplies and Expenses	4,310	127,042
	5,874	127,042
ULTRASOUND		
Supplies and Expenses	85,765	88,185
MAMMOGRAPHY		
Salaries	123	-
Supplies and Expenses	-	2,200
	123	2,200
MAGNETIC RESONANCE IMAGING		
Supplies and Expenses	65,695	75,011
NUCLEAR SCANNING		
Supplies and Expenses	16,396	14,148

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	Year Ended June 30	
	2004	2003
CARDIAC REHABILITATION		
Salaries	\$ 17,929	\$ 16,128
Supplies and Expenses	1,716	1,393
	<u>19,645</u>	<u>17,521</u>
OCCUPATIONAL THERAPY		
Professional Fees	74,508	65,435
Supplies and Expenses	1,499	1,406
	<u>76,007</u>	<u>66,841</u>
MEDICAL RECORDS AND LIBRARY		
Salaries	109,773	105,115
Supplies and Expenses	12,778	14,760
	<u>122,551</u>	<u>119,875</u>
OUTPATIENT CLINIC		
Salaries	45,913	2,504
Supplies and Expenses	9,075	-
	<u>54,988</u>	<u>2,504</u>
PHYSICIAN CLINIC		
Salaries	192,728	11,721
Supplies and Expenses	393,766	16,835
	<u>586,494</u>	<u>28,556</u>
Totals	<u>\$ 2,748,442</u>	<u>\$ 2,115,341</u>
GENERAL SERVICE EXPENSES		
DIETARY		
Salaries	\$ 161,502	\$ 144,273
Food	89,627	79,221
Supplies and Expenses	13,298	12,020
	<u>264,427</u>	<u>235,514</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	85,464	63,964
Utilities	187,968	148,901
Supplies and Expenses	250,310	160,297
	<u>523,742</u>	<u>373,162</u>
ENVIRONMENTAL SERVICES		
Salaries	90,346	70,230
Supplies and Expenses	38,111	37,955
	<u>128,457</u>	<u>108,185</u>
LAUNDRY AND LINEN		
Salaries	42,462	43,294
Supplies and Expenses	14,911	11,717
	<u>57,373</u>	<u>55,011</u>
Totals	<u>\$ 973,999</u>	<u>\$ 771,872</u>

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	Year Ended June 30	
	2004	2003
FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration and business office		
Salaries	\$ 231,736	\$ 190,148
Management Fees	211,933	170,390
Supplies and Expense	34,247	14,958
Consulting Fees	8,538	44,040
Legal and accounting fees	40,857	32,742
Postage, supplies and business office expenses	128,790	77,125
Physician expenses	41,081	61,372
	697,182	590,775
Admitting		
Salaries	34,657	54,221
Supplies and Expense	14,629	7,632
	49,286	61,853
Community wellness		
Salaries	296	8,774
Supplies and Expense	12,935	7,913
	13,231	16,687
Purchasing		
Salaries	45,328	42,831
Supplies and Expense	1,886	6,555
	47,214	49,386
Personnel		
Salaries	45,467	31,214
Supplies and Expense	25,346	7,197
	70,813	38,411
Employee Education		
Salaries	659	15,529
Supplies and Expense	3,194	16,737
	3,853	32,266
Medical Care Evaluation		
Salaries	-	31,553
Supplies and Expense	19,962	1,092
	19,962	32,645
Total Fiscal and Administrative Expenses	901,541	822,023

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	Year Ended June 30	
	2004	2003
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	\$ 258,160	\$ 216,992
IPERS	201,146	168,331
Group Health Insurance	322,896	271,833
Workers compensation	66,431	63,844
Other	30,361	25,719
Insurance	96,260	63,324
Total Unassigned Expenses	975,254	810,043
Total Fiscal and Administrative and Unassigned Expenses	\$ 1,876,795	\$ 1,632,066

**MONROE COUNTY HOSPITAL
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 878,269	45 %	\$ 856,583	60 %
31-60 Days	463,972	23 %	244,788	17 %
61-90 Days	126,271	6 %	84,331	6 %
91 Days and Over	512,230	26 %	252,719	17 %
Total Accounts Receivable	<u>1,980,742</u>	<u>100 %</u>	<u>1,438,421</u>	<u>100 %</u>

ALLOWANCES

Contractual - Medicare, Medicaid and Other	145,773	202,750
Doubtful Accounts	<u>295,852</u>	<u>163,875</u>
Total Allowances	441,625	366,625

Net Accounts Receivable	<u>\$ 1,539,117</u>	<u>\$ 1,071,796</u>
-------------------------	---------------------	---------------------

Net Patient Service Revenue per Calendar Day (excludes bad debt)	<u>\$ 24,448</u>	<u>\$ 20,600</u>
---	------------------	------------------

Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>63</u>	<u>52</u>
--	-----------	-----------

Analysis of Allowance for Doubtful Accounts

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 163,875		\$ 163,874	
Add:				
Provision for Doubtful Accounts	456,421	5.39 %	214,110	2.93 %
Recoveries Previously Written Off	<u>73,140</u>	0.86 %	<u>27,310</u>	0.37 %
	529,561		405,294	
Deduct:				
Accounts Written Off	<u>(397,584)</u>	(4.70)%	<u>(241,419)</u>	(3.30)%
Ending Balance	<u>\$ 295,852</u>		<u>\$ 163,875</u>	

**MONROE COUNTY HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
INVENTORIES		
Central Supply	\$ 8,408	\$ 8,915
Operating Room	78,043	79,444
Emergency Room	7,648	5,505
Dietary	5,373	5,544
Radiology	8,697	8,079
Laboratory	13,497	16,423
Ambulance	2,653	2,653
Respiratory Therapy	4,119	4,119
Pharmacy	69,170	-
	<u>\$ 197,608</u>	<u>\$ 130,682</u>
Totals Inventories	<u>\$ 197,608</u>	<u>\$ 130,682</u>
 PREPAID EXPENSES		
Insurance	\$ 6,235	\$ 6,036
Other	8,479	8,075
	<u>\$ 14,714</u>	<u>\$ 14,111</u>
Totals Prepaid Expenses	<u>\$ 14,714</u>	<u>\$ 14,111</u>

**MONROE COUNTY HOSPITAL
SCHEDULE OF COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
Patient Days:		
Adult and Pediatric	1,210	1,070
Swing Bed		
Skilled Care	900	793
Intermediate Care	<u>3,073</u>	<u>3,380</u>
Totals	<u><u>5,183</u></u>	<u><u>5,243</u></u>
Admissions:		
Acute	389	349
Discharges:		
Acute	389	349
Average Length of Stay:		
Acute	3.1	3.1
Beds	25	25
Occupancy Percentage:		
Acute	13.2%	11.7%
Swing Bed	43.5%	45.7%

**REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited the accompanying financial statements of Monroe County Hospital as of and for the year ended June 30, 2004 and have issued our report thereon dated August 19, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa 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 Monroe County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monroe County Hospital's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 an instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the Schedule of Findings.

We also noted certain additional matters that we reported to management of Monroe County Hospital in a separate letter dated August 19, 2004.

This report is intended solely for the information and use of the officials, employees and constituents of Monroe County Hospital and other parties to whom Monroe County 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.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2004

**MONROE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

04-1 OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 CERTIFIED BUDGET

A budget amendment was not adopted by May 31 as required by Chapter 24.9 of the Code of Iowa.

Recommendation:

If a budget amendment is required, it should be filed prior the May 31 deadline as required by the Code of Iowa.

Response:

Future amendments, if required, will be filed prior to the May 31 deadline.

Conclusion:

Response accepted

04-3 QUESTIONABLE EXPENDITURES

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-4 TRAVEL EXPENSES

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

04-5 BUSINESS TRANSACTIONS

No business transactions between the Hospital and Hospital officials and/or employees were noted.

04-6 BOARD MINUTES

Board minutes were examined and appeared to give a condensed accurate account of business transacted by the Board.

04-7 DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.

04-8 PUBLICATION OF BILLS ALLOWED AND SALARIES

Chapter 374.13(15) of the Code of Iowa states that "There shall be published quarterly in each of the official newspapers of the country as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..". The Hospital did publish schedules of bills allowed and a schedule of salaries paid as required by the Code.

(This page intentionally left blank)

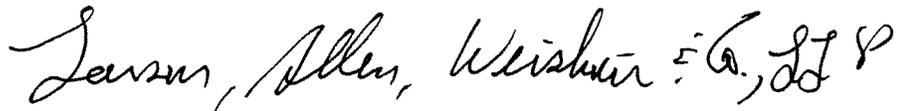
INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Monroe County Hospital as of June 30, 2004, and have issued our report thereon dated August 19, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital was not in compliance with any of the terms, covenants, provisions, or conditions of Section Sixteen "Sinking Fund," and Section Seventeen "Reserve Fund" of the loan agreement dated November 1, 2001, relating to the issue of \$5,000,000 Hospital Revenue and Refunding Bonds, Series 2001, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees, management of Monroe County Hospital, and the County of Monroe, Iowa and is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2004