

ELLSWORTH MUNICIPAL HOSPITAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2004 AND 2003

**ELLSWORTH MUNICIPAL HOSPITAL
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ELLSWORTH MUNICIPAL HOSPITAL
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2004

<u>Name</u>	<u>Title</u>
John Swartz	Chairman
Diana Ruhl	Secretary
Kraig Kasischke	Member
Norman Kastendick	Member
Dr. Frances Pisney	Member
* * * * *	
John O'Brien	Administrator

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheets of Ellsworth Municipal Hospital, an enterprise fund of the City of Iowa Falls, Iowa, as of June 30, 2004 and 2003, 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 U.S. generally accepted auditing standards, and 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 Ellsworth Municipal Hospital as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 5, 2004 on our consideration of Ellsworth Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read with this report in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on page 3 through page 7 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 presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information from pages 24 to 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 33 has been summarized from the Hospital's records and has not been subjected to such audit procedures. Accordingly, we express no opinion on such data.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 5, 2004

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Our discussion and analysis of Ellsworth Municipal Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with the financial statements and notes, which begin on page 8.

Financial Highlights

- The Hospital's total assets increased in each of the last two years with a \$200,849 or 1.6% increase in 2004 and a \$141,356 or 1.2% increase in 2003.
- The Hospital's net assets increased in each of the last two years with a \$137,928 or 1.6% increase in 2004 and a \$79,136 or 0.9% increase in 2003.
- The Hospital reported positive operating income of \$172,488 in 2004 and \$183,148 in 2003. Operating income in 2004 decreased by \$10,660 or 5.9% over the income reported in 2003. Operating income in 2003 decreased by \$330,389 or 64.3% compared to 2002.

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 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 and grantors.

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

Ellsworth Municipal Hospital's financial statements report information on the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of the Hospital and assesses the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Ellsworth Municipal Hospital does not receive any funding from the City of Iowa Falls. Revenues and expenses are reported on an accrual basis, which means that revenues and expenses are recorded in the periods where they are incurred.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

The Statement of Cash Flows

The final required statement is a statement of cash flows. The statement shows cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activity. It also provides information on how cash was generated, how it was used, and the changes to the cash balance during the fiscal year.

The Hospital Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet page 9. The Hospital's net assets increased in each of the past two years by \$137,928 (1.6%) in 2004 and \$79,136 (0.9%) in 2003, as shown in **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

	2004	2003	2002
Assets:			
Current Assets	\$ 3,313,993	\$ 3,091,364	\$ 3,195,276
Non-Current Assets	2,729,268	2,412,454	2,289,562
Capital Assets, Net	6,195,149	6,501,101	6,418,237
Other Assets	392,914	425,556	386,044
Total Assets	\$ 12,631,324	\$ 12,430,475	\$ 12,289,119
Current Liabilities	\$ 1,420,855	\$ 1,075,252	\$ 1,221,362
Long-Term Debt	2,464,913	2,747,595	2,539,265
Total Liabilities	3,885,768	3,822,847	3,760,627
Net Assets	8,745,556	8,607,628	8,528,492
Total Liabilities and Net Assets	\$ 12,631,324	\$ 12,430,475	\$ 12,289,119

A significant change in the Hospital's assets in 2004 are the current assets; an increase of \$222,629 or 7.2%, non-current cash and investments; an increase of \$316,814 or 13.1%, capital assets, net; a decrease of \$305,952 or 4.8%, and other assets; a decrease of \$32,642 or 7.7%. Non-current cash and investments increased by \$122,892 or 5.4% in 2003.

Operating Results and the Changes in the Hospital's Net Assets

In 2004, the Hospital's net assets increased by \$137,928 or 1.6%, as shown in Table 2. This increase is made up of very different components. It represents an increase of 69.7% compared with the increase in net assets for 2003 of \$79,136.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues	\$ 11,916,608	\$ 11,067,178	\$ 11,051,238
Operating Expenses	<u>11,744,120</u>	<u>10,883,980</u>	<u>10,537,651</u>
Operating Income	172,488	183,198	513,587
Non-Operating Revenues (Expenses)	<u>(38,560)</u>	<u>(28,399)</u>	<u>(66,787)</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	133,928	154,799	446,800
Capital Grants and Contributions	4,000	8,131	97,815
Transfers to Ellsworth Municipal Hospital Foundation	<u>-</u>	<u>(83,794)</u>	<u>-</u>
Increase in Net Assets	137,928	79,136	544,615
Net Assets, Beginning of Year	<u>8,607,628</u>	<u>8,528,492</u>	<u>7,983,877</u>
Net Assets, End of Year	<u><u>\$ 8,745,556</u></u>	<u><u>\$ 8,607,628</u></u>	<u><u>\$ 8,528,492</u></u>

Operating Income and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses, and changes in net assets for June 30, 2004 and 2003.

Volume: Inpatient discharges decreased from 1,693 in 2002 to 1,580 in 2003 and increased to 1,788 in 2004. Patient days decreased from 6,320 in 2002 to 5,774 in 2003 and increased to 7,118 in 2004. The Hospital psychiatric days increased 158 in 2004, and acute days increased 849. In 2003 psychiatric days decreased 172 days and acute days decreased 102.

Also during the two year period swing bed days increased from 672 in 2003 to 1,037 in 2004.

Outpatient visits during the period increased from 33,123 in 2002 to 34,543 in 2003 and decreased to 28,226 in 2004.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Table 3: Inpatient and Outpatient Volume

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Inpatient Discharges	1,788	1,580	1,693
Outpatient Visits	28,226	34,543	33,123

Net Patient Service Revenue: Our net patient service revenues increased \$8,454 in 2003 and increased \$797,913 in 2004. These changes are the result of the following changes in gross revenues and contractual adjustments. Contractual adjustments are the amounts the Hospital cannot collect from Medicare, Medicaid, and insurance companies.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 19,787,377	\$ 17,175,280	\$ 16,166,840
Contractual Adjustments	(7,767,007)	(6,179,812)	(5,129,203)
Contractual Adjustment as Percent of Revenues	<u>39.3%</u>	<u>36.0%</u>	<u>31.7%</u>

For both 2003 and 2004 the Hospital implemented 4% price increases.

The following table presents the relative percentage of gross charges billed for patient service by payer for the years ending June 30, 2004, 2003, and 2002.

Table 4: Payor Mix by Percentage

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Medicare	56.4	53.6	52.2
Wellmark	14.5	13.8	14.3
Commercial	15.8	18.6	19.6
Medicaid	8.9	8.9	8.8
Other	4.4	5.1	5.1
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Salaries: Salaries increased from \$5,179,138 in 2003 to \$5,488,292 in 2004 and full-time equivalent employees (FTE) decreased from 163.66 in 2003 to 162.36 in 2004. The salaries increased \$300,000 in 2004 and the full-time equivalent employees decreased 0.52 FTE in 2004. The Hospital made wage adjustments during the year based on market data. In addition, each full or part time employee was eligible for a merit based wage adjustment.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Table 3: Inpatient and Outpatient Volume

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Inpatient Discharges	1,788	1,580	1,693
Outpatient Visits	28,226	34,543	33,123

Net Patient Service Revenue: Our net patient service revenues increased \$322 in 2003 and increased \$797,913 in 2004. These changes are the result of the following changes in gross revenues and contractual adjustments. Contractual adjustments are the amounts the Hospital cannot collect from Medicare, Medicaid, and insurance companies.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
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**ELLSWORTH MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 494,255	\$ 439,691
Current Portion of Noncurrent Cash and Investments	23,727	23,727
Patient Receivables, Less Allowance for Uncollectible Accounts (2004 - \$438,000 and 2003 - \$320,000)	2,301,060	2,174,971
Accounts Receivable - Other	56,236	25,214
Inventories	343,436	342,797
Prepaid Expenses	95,279	84,964
Total Current Assets	<u>3,313,993</u>	<u>3,091,364</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	1,522,109	1,226,241
Internally Designated for Health Benefits	8,863	13,101
Restricted by Contributors for Capital Improvements	913,571	888,387
Restricted by Bond Indenture	308,452	308,452
Less Noncurrent Cash and Investments That are Required for Current Liabilities	<u>(23,727)</u>	<u>(23,727)</u>
Noncurrent Cash and Investments	2,729,268	2,412,454
CAPITAL ASSETS, NET	6,195,149	6,501,101
OTHER ASSETS		
Investments in Affiliated Organizations	371,201	401,854
Unamortized Bond Issue Costs	21,713	23,702
Total Other Assets	<u>392,914</u>	<u>425,556</u>
Total Assets	<u>\$ 12,631,324</u>	<u>\$ 12,430,475</u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 282,945	\$ 268,745
Accounts Payable	290,564	283,613
Accrued Expenses	550,130	414,075
Third-Party Payor Settlement Payable	297,216	108,819
Total Current Liabilities	<u>1,420,855</u>	<u>1,075,252</u>
 LONG-TERM DEBT, Less Current Maturities		
Revenue Bonds Payable	2,208,413	2,377,837
Obligations Under Capital Lease	256,500	369,758
Total Long-Term Debt	<u>2,464,913</u>	<u>2,747,595</u>
 Total Liabilities	 3,885,768	 3,822,847
 COMMITMENTS AND CONTINGENCIES		
 NET ASSETS		
Invested in Capital Assets Net of Related Debt	3,447,291	3,484,761
Restricted		
Expendable for Capital Improvements	913,571	888,387
By Bond Indentures	308,452	308,452
Unrestricted	4,076,242	3,926,028
Total Net Assets	<u>8,745,556</u>	<u>8,607,628</u>
 Total Liabilities and Net Assets	 <u>\$ 12,631,324</u>	 <u>\$ 12,430,475</u>

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$620,851 in 2004 and \$393,837 in 2003)	\$ 11,399,544	\$ 10,601,631
Other Revenues	517,064	465,547
Total Operating Revenues	11,916,608	11,067,178
OPERATING EXPENSES		
Salaries and Wages	5,488,292	5,179,138
Employee Benefits	1,287,649	1,214,537
Professional Fees	935,254	829,232
Utilities	242,712	229,065
Insurance	103,184	88,570
Supplies and Miscellaneous	2,840,137	2,508,079
Depreciation & Amortization	699,368	682,740
Interest Expense	147,524	152,619
Total Operating Expenses	11,744,120	10,883,980
OPERATING INCOME	172,488	183,198
NONOPERATING REVENUES (EXPENSES)		
Investment Income	63,663	68,496
Contributions	5,630	6,535
Net Loss on Affiliated Organizations	(106,135)	(101,638)
Other	(1,718)	(1,792)
Non-Operating Revenues (Expenses), Net	(38,560)	(28,399)
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	133,928	154,799
Capital Contributions	4,000	8,131
Transfers to Ellsworth Municipal Hospital Foundation	-	(83,794)
Increase in Net Assets	137,928	79,136
Net Assets Beginning of the Year	8,607,628	8,528,492
Net Assets End of the Year	\$ 8,745,556	\$ 8,607,628

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL 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 Party Payors	\$ 11,461,852	\$ 10,673,032
Cash Paid to Employees	(6,640,718)	(6,360,559)
Cash Paid to Suppliers	(4,231,119)	(4,004,551)
Interest Paid on Long-Term Debt	(146,692)	(153,187)
Other Receipts and Payments, Net	486,042	504,654
Net Cash Provided by Operating Activities	929,365	659,389
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	9,630	14,666
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(268,482)	(278,845)
Proceeds from Sale of Property and Equipment	2,028	
Acquisition of Capital Assets	(395,174)	(189,811)
Net Cash Used in Capital and Related Financing Activities	(661,628)	(468,656)
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	(311,458)	(115,997)
(Increase) Decrease in Investments in Affiliated Organizations	30,347	(31,273)
Transfers to Ellsworth Municipal Hospital Foundation	-	(83,794)
Interest Income	58,308	63,765
Net Cash Used by Investing Activities	(222,803)	(167,299)
 Net Increase in Cash and Cash Equivalents	54,564	38,100
 Cash and Cash Equivalents Beginning of Year	439,691	401,591
 Cash and Cash Equivalents End of Year	\$ 494,255	\$ 439,691

See accompanying Notes to Financial Statements.

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

	2004	2003
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Excess of Operating Revenues over Operating Expenses	\$ 172,488	\$ 183,198
Adjustments to Reconcile Excess of Operating Revenues over Operating Expenses to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	699,368	682,740
Forgiveness of Accounts Receivable From Affiliated Organization	(105,829)	(111,866)
Decrease (Increase) In:		
Patient Receivables	(126,089)	123,784
Accounts Receivable - Other	(31,022)	39,107
Inventories	(639)	18,478
Prepaid Expenses	(10,315)	(41,524)
Increase (Decrease) In:		
Accounts Payable	6,951	(214,693)
Accrued Interest Payable	832	(568)
Accrued Expenses	135,223	33,116
Third-Party Payor Settlement Payable	188,397	(52,383)
Net Cash Provided by Operating Activities	\$ 929,365	\$ 659,389
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
NON-CASH FINANCING ACTIVITIES		
Assets Acquired Under Capital Lease Agreement	\$ -	\$ 577,497

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hospital is the municipal hospital of the City of Iowa Falls, organized under Chapter 392, Code of Iowa. Services are provided primarily to residents of Hardin and surrounding counties in central Iowa. The Hospital is considered an enterprise fund of the City of Iowa Falls.

Reporting Entity

For financial reporting purposes, Ellsworth Municipal Hospital has included all funds, organizations, 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. Ellsworth Municipal Hospital has no component units which meet the Government Accounting Standards Board criteria.

Basis of Presentation

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), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – 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*; Statement No 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2002. The GASB pronouncements 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, presentation of net assets, and the inclusion of management's discussion and analysis.

Use of Estimates

The preparation of financial statements in conformity with 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.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, the Hospital considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Patient Receivables - Patient receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts. 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 generally required within 30 days. Accounts past due 90 days are individually analyzed for collectibility. Accounts deemed uncollectible are written-off on a monthly basis.

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

Capital Assets, Net - Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

Investments - Investments consist of certificates of deposit and money market savings account which are valued at purchase cost, or fair market value at date of acquisition if donated.

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, 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.

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 expendable net assets* are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital including amounts deposited as required by revenue bond indentures. *Unrestricted net assets* are the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, 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.

Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue 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.

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 rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid cost reports have been settled through June 30, 2001.

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 revenues. Charity care provided during the years ending June 30, 2004 and 2003 was approximately \$55,000 and \$14,000, respectively.

Unamortized Bond Issue Costs

Bond issue costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$1,989 for the years ended June 30, 2004 and 2003, respectively.

Reclassification of 2003 Data

Data in the 2003 financial statements have been reclassified to conform with the 2004 basis of presentation. Net assets and the results of operations as previously stated have not changed as a result of these reclassifications.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 2 NET PATIENT SERVICE REVENUES

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

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues,		
	\$ 19,787,402	\$ 17,175,280
Contractual Adjustments		
Medicare	5,552,548	4,604,769
Medicaid	932,355	632,389
Provision for Bad Debt	620,851	393,837
Other	1,282,104	942,654
Total Deductions	<u>8,387,858</u>	<u>6,573,649</u>
Net Patient Service Revenues	<u>\$ 11,399,544</u>	<u>\$ 10,601,631</u>

NOTE 3 PATIENT RECEIVABLES

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

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,980,800	\$ 1,807,293
Receivable from Medicare	668,762	578,045
Receivable from Medicaid	89,498	109,633
Total Patient Receivables	<u>2,739,060</u>	<u>2,494,971</u>
Less Allowance for Doubtful Accounts	<u>(438,000)</u>	<u>(320,000)</u>
Patient Receivables, Net	<u>\$ 2,301,060</u>	<u>\$ 2,174,971</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS

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

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

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

	2004	2003
Insured or Collateralized by Iowa Insurance Trust	\$ 3,462,430	\$ 3,127,363
Carrying Amount	\$ 3,247,250	\$ 2,875,872
	2004	2003
Deposits	\$ 3,247,250	\$ 2,875,872
Included in the following balance sheet captions		
Cash and Cash Equivalents	\$ 494,255	\$ 439,691
Noncurrent Cash and Investments		
Internally Designated for Capital Acquisitions	1,522,109	1,226,241
Internally Designated for Health Benefits	8,863	13,101
Restricted by Contributors for Capital Improvements	913,571	888,387
Restricted by Bond Indenture	308,452	308,452
	\$ 3,247,250	\$ 2,875,872

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 5 CAPITAL ASSETS

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

	Balance July 1, 2003	Additions	(Retirements)	Balance June 30, 2004
CAPITAL ASSETS				
Land and Land Improvements	\$ 679,757	\$ -	\$ -	\$ 679,757
Building	4,234,854	2,335	-	4,237,189
Fixed Equipment	5,079,974	18,788	-	5,098,762
Major Movable Equipment	3,479,996	354,152	(90,629)	3,743,519
Construction in Progress	-	19,899	-	19,899
Totals	<u>\$ 13,474,581</u>	<u>\$ 395,174</u>	<u>\$ (90,629)</u>	<u>\$ 13,779,126</u>
ACCUMULATED DEPRECIATION				
Land Improvements	\$ 247,657	\$ 30,495	\$ -	\$ 278,152
Building	1,691,580	130,973	-	1,822,553
Fixed Equipment	2,868,586	203,022	-	3,071,608
Major Movable Equipment	2,165,657	332,889	(86,882)	2,411,664
Totals	<u>\$ 6,973,480</u>	<u>\$ 697,379</u>	<u>\$ (86,882)</u>	<u>\$ 7,583,977</u>
CAPITAL ASSETS, NET	<u>\$ 6,501,101</u>			<u>\$ 6,195,149</u>
	Balance July 1, 2002	Additions	(Retirements)	Balance June 30, 2003
CAPITAL ASSETS				
Land and Land Improvements	\$ 679,757	\$ -	\$ -	\$ 679,757
Building	4,234,854	-	-	4,234,854
Fixed Equipment	5,057,641	24,490	(2,157)	5,079,974
Major Movable Equipment	3,238,272	740,914	(499,190)	3,479,996
Totals	<u>\$ 13,210,524</u>	<u>\$ 765,404</u>	<u>\$ (501,347)</u>	<u>\$ 13,474,581</u>
ACCUMULATED DEPRECIATION				
Land Improvements	\$ 217,090	\$ 30,567	\$ -	\$ 247,657
Building	1,558,957	132,623	-	1,691,580
Fixed Equipment	2,652,977	217,766	(2,157)	2,868,586
Major Movable Equipment	2,363,263	299,795	(497,401)	2,165,657
Totals	<u>\$ 6,792,287</u>	<u>\$ 680,751</u>	<u>\$ (499,558)</u>	<u>\$ 6,973,480</u>
CAPITAL ASSETS, NET	<u>\$ 6,418,237</u>			<u>\$ 6,501,101</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT

A schedule of changes in the Hospital's long term debt for 2004 and 2003 is as follows:

	Balance June 30, 2003	Additions	Payments	Balance June 30, 2004	Amounts Due Within One Year
1998 Revenue Bonds	\$ 2,539,265	\$ -	\$ (161,165)	\$ 2,378,100	\$ 169,687
Capital Lease Obligations	477,075	-	(107,317)	369,758	113,258
Total Long Term Debt	\$ 3,016,340	\$ -	\$ (268,482)	\$ 2,747,858	\$ 282,945

	Balance June 30, 2002	Additions	Payments	Balance June 30, 2003	Amounts Due Within One Year
1998 Revenue Bonds	\$ 2,692,836	\$ -	\$ (153,571)	\$ 2,539,265	\$ 161,428
Capital Lease Obligations	26,756	575,593	(125,274)	477,075	107,317
Total Long Term Debt	\$ 2,719,592	\$ 575,593	\$ (278,845)	\$ 3,016,340	\$ 268,745

1998 Hospital Revenue Bonds Payable

City of Iowa Falls Hospital Revenue Bonds, payable to Iowa Falls State Bank and Green Belt Bank and Trust issued November 1, 1998, in accordance with Chapter 384, Code of Iowa, with interest of 5%. Interest only payments were paid monthly through May 1, 2000, with interest and principal payments due monthly thereafter. Monthly deposits into a sinking fund are required for payment of interest and principal. A debt service reserve fund, which is to be maintained at \$284,725 is fully funded.

Obligations Under Capital Lease

The Hospital, through the City of Iowa Falls, leases certain equipment under a capital lease arrangement. The lease has a term of five years with an effective interest rate of 5.18%, and requires monthly payments of \$10,871.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

The following is the leased equipment by major class at June 30, 2004 and 2003:

	2004	2003
Major Movable Equipment	\$ 577,497	\$ 577,497
Less Accumulated Amortization	(218,394)	(102,894)
	\$ 359,103	\$ 474,603

Aggregate Long-Term Debt Requirements

The aggregate future principal payment requirements for the next five years for long-term debt are as follows:

Year Ending June 30,	Revenue Bonds		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2005	\$ 169,687	\$ 115,038	\$ 113,258	\$ 17,192
2006	178,368	106,357	119,529	10,923
2007	187,494	97,231	126,147	4,304
2008	197,107	87,639	10,824	49
2009	207,170	77,555	-	-
2010-2014	1,206,108	217,518	-	-
2015-2019	232,166	5,348	-	-
	\$ 2,378,100	\$ 706,686	\$ 369,758	\$ 32,468

Payments on the above obligations are to be made solely and only out of the net revenues of the Hospital.

NOTE 7 PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which as 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.

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 contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$329,000, \$316,000, and \$314,000, respectively, equal to the required contributions for each year.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 8 INVESTMENTS IN AFFILIATED ORGANIZATIONS

The Hospital has investments in a number of affiliated organizations, which are accounted for on the equity method. The following is a summary of these investments:

Iowa Falls Clinic

The Hospital is in a joint venture agreement with Mercy Medical Center – North Iowa to operate the Iowa Falls Clinic (the Clinic). The Clinic provides, develops, and coordinates all manner of clinical medical services to residents, visitors, and employees of Hardin County and the surrounding area.

The Hospital is a 50% owner of this Clinic and shares 50% of income or losses from the Clinic operations. The Hospital's share of the venture's losses, \$(111,279) in 2004 and \$(125,156) in 2003, have been included in non-operating revenues (expenses).

The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2004 and 2003 was approximately \$841,000 and \$987,000, respectively. As of June 30, 2004 and 2003 the Hospital records reflected a receivable from affiliated organization of \$44,351 and \$74,967, respectively, relating to these services. During 2004 and 2003, the Hospital forgave accounts receivable from the clinic totaling \$105,829 and \$111,866, respectively.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ending June 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Assets	\$ 695,814	\$ 690,426
Current Liabilities	\$ 201,253	\$ 193,957
Unrestricted Net Assets	494,561	496,469
Total Liabilities and Net Assets	<u>\$ 695,814</u>	<u>\$ 690,426</u>
Net Revenues	<u>\$ 2,749,052</u>	<u>\$ 2,533,993</u>
Net Loss	<u>\$ (222,557)</u>	<u>\$ (250,313)</u>
Forgiveness of Accounts Payable to Owners	<u>\$ 220,649</u>	<u>\$ 223,734</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 8 INVESTMENTS IN AFFILIATED ORGANIZATIONS (CONTINUED)

Greenbelt Home Care

The Hospital has a 20% interest in a joint venture of Greenbelt Home Care and shares any income or loss in this percentage. The Hospital has contributed \$28,296 of capital to this joint venture, and loaned \$27,143 to be repaid by the joint venture, through June 30, 2004. The Hospital's share of the joint ventures gains and (losses) \$(13,317) in 2004 and \$23,484 in 2003 have been included in non-operating revenues (expenses).

NOTE 9 RELATED ORGANIZATION

During 2003 Ellsworth Municipal Hospital Foundation was organized under the provisions of the Internal Revenue Code Section 501 (c)(3). The Foundation is organized and operated exclusively to benefit Ellsworth Municipal Hospital and the Hospital is the sole corporate member of the Foundation. During the year ended June 30, 2003 the Hospital transferred assets totaling \$83,794 to the Foundation. As of June 30, 2004 and 2003 the Foundation had a payable to the Hospital in the amount of \$1,030 and \$1,220, respectively, which is recorded with other receivables on the balance sheet of the Hospital.

Summarized financial information from the financial statements of Ellsworth Municipal Hospital Foundation as of and for the years ending June 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Assets	\$ 338,555	\$ 175,201
Liabilities	\$ 1,030	\$ 1,220
Net Assets	337,525	173,981
Total Liabilities and Net Assets	<u>\$ 338,555</u>	<u>\$ 175,201</u>
Revenues	<u>\$ 164,574</u>	<u>\$ 91,665</u>
Net Income	<u>\$ 163,544</u>	<u>\$ 90,187</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 10 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. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims made basis. 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 11 BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The reported expenses for the year ended June 30, 2004 were \$11,744,097 as compared to the budgeted amount of \$11,831,393. The reported revenues for the same period were \$11,878,024 as compared to the budgeted amount of \$11,971,178.

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SUPPLEMENTARY INFORMATION

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

	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,838,675	\$ 1,467,385
Intensive Care	12,291	-
Swing Bed	171,940	106,928
INN Care	4,004	6,292
Nursery	78,799	85,170
Psychiatric Care	1,877,547	1,526,534
Total	<u>3,983,256</u>	<u>3,192,309</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	1,253,242	1,100,488
Recovery Room	46,723	52,784
Delivery and Labor Room	138,102	160,491
Anesthesiology	555,443	492,801
Radiology	3,703,299	3,466,312
Laboratory	2,657,393	2,395,055
Blood Supplies	48,426	31,249
Intravenous Therapy	237,640	194,584
Respiratory Therapy	1,275,970	889,970
Physical Therapy	680,992	743,928
Occupational Therapy	359,474	330,100
Speech Therapy	68,264	75,357
Electrocardiology	224,752	248,898
Cardiac Rehabilitation	145,436	177,856
Medical and Surgical Supplies	757,655	423,962
Pharmacy	1,773,627	1,467,184
Emergency	798,882	701,464
Psychiatrist	571,273	529,944
Clinic	81,550	44,792
Partial Hospital Psychiatric	380,412	336,782
Chemical Dependency	83,514	113,181
Diabetic Education	16,975	19,632
Total	<u>15,859,044</u>	<u>13,996,814</u>
Charity Care	<u>(54,898)</u>	<u>(13,843)</u>
Total Patient Service Revenues	19,787,402	17,175,280
Adjustments to Patient Service Revenues	<u>(8,387,858)</u>	<u>(6,573,649)</u>
Net Patient Service Revenues	<u>\$ 11,399,544</u>	<u>\$ 10,601,631</u>

INPATIENTS		OUTPATIENTS	
2004	2003	2004	2003
\$ 1,744,767	\$ 1,370,292	\$ 93,908	\$ 97,093
12,291	-	-	-
171,940	106,928	-	-
4,004	6,292	-	-
78,799	85,105	-	65
1,590,862	1,250,050	286,685	276,484
<u>3,602,663</u>	<u>2,818,667</u>	<u>380,593</u>	<u>373,642</u>
245,589	177,665	1,007,653	922,823
12,047	13,092	34,676	39,692
124,541	120,666	13,561	39,825
145,526	111,751	409,917	381,050
715,501	590,103	2,987,798	2,876,209
1,121,133	931,828	1,536,260	1,463,227
29,211	15,385	19,215	15,864
187,720	146,380	49,920	48,204
1,103,175	720,756	172,795	169,214
241,205	175,213	439,787	568,715
275,145	233,094	84,329	97,006
22,442	12,244	45,822	63,113
86,098	82,048	138,654	166,850
2,066	734	143,370	177,122
178,934	96,741	578,721	327,221
1,249,977	1,009,273	523,650	457,911
218,877	152,583	580,005	548,881
-	-	571,273	529,944
-	-	81,550	44,792
308	984	380,104	335,798
-	-	83,514	113,181
-	-	16,975	19,632
<u>5,959,495</u>	<u>4,590,540</u>	<u>9,899,549</u>	<u>9,406,274</u>
<u>\$ 9,562,158</u>	<u>\$ 7,409,207</u>	<u>\$ 10,280,142</u>	<u>\$ 9,779,916</u>

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**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES
AND OTHER REVENUE
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 5,552,548	\$ 4,604,769
Contractual Adjustments - Medicaid	932,355	632,389
Provision for Bad Debt	620,851	393,837
Other Allowances and Adjustments	<u>1,282,104</u>	<u>942,654</u>
 Total Adjustments	 <u><u>\$ 8,387,858</u></u>	 <u><u>\$ 6,573,649</u></u>
OTHER REVENUES		
Guest Meals	\$ 38,473	\$ 40,448
Medical Record Transcripts	3,716	3,842
Vending Machines	4,324	5,143
Purchase Discounts and Rebates	23,812	10,504
Miscellaneous Pharmacy Sales	4,369	4,927
Laundry	474	424
Health Program	62,345	40,361
Physical Therapy Service	23,605	10,581
Clinic Fees	62,004	44,322
Rent Income	125,160	125,160
Lab Fees	53,729	72,641
Management Fees	34,600	34,600
Other	<u>80,453</u>	<u>72,594</u>
 Total Other Revenues	 <u><u>\$ 517,064</u></u>	 <u><u>\$ 465,547</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Capital Related Costs - Moveable Equipment	-	-
Employee Benefits	-	-
Administrative and General	554,618	512,272
Operation of Plant	132,918	129,666
Laundry and Linen	12,315	15,386
Housekeeping	141,507	144,840
Dietary	174,152	165,511
Nursing Administration	5,192	4,735
Central Services	113,173	106,831
Medical Records	326,517	303,581
Social Service	9,628	9,809
Nonphysician Anesthetist	122,410	116,888
Adults and Pediatrics	1,001,830	926,303
Intensive Care Unit	9,241	-
Psychiatric Care	527,435	510,381
Nursery	31,908	33,545
Operating Room	307,083	306,286
Delivery and Labor Room	63,172	53,732
Anesthesiology	-	-
Radiology	272,209	263,375
Laboratory	265,908	252,927
Respiratory Therapy	48,606	43,214
Physical Therapy	241,940	235,146
Occupational Therapy	76,290	70,597
Speech Pathology	35,017	44,233
Electrocardiology	7,189	8,570
Cardiac Rehabilitation	105,427	110,036
Medical Supplies Charged to Patients	-	-
Drugs Charged to Patients	155,052	114,607
Emergency Room	218,234	197,851
Psychiatrist	60,992	60,168
Clinic	157,051	143,294
Partial Hospital Psychiatric	126,046	121,545
Chemical Dependency	60,558	56,925
Diabetic Education	12,854	-
Amortization	-	-
Interest	-	-
Marketing and Community Health Promotions	111,820	116,884
	<u>111,820</u>	<u>116,884</u>
Total Expenses	<u>\$ 5,488,292</u>	<u>\$ 5,179,138</u>

OTHER		TOTAL	
2004	2003	2004	2003
\$ 364,490	\$ 380,957	\$ 364,490	\$ 380,957
332,889	299,794	332,889	299,794
1,287,649	1,214,537	1,287,649	1,214,537
681,813	661,666	1,236,431	1,173,938
378,748	365,131	511,666	494,797
10,137	11,072	22,452	26,458
15,704	14,812	157,211	159,652
107,221	97,417	281,373	262,928
71,863	66,510	77,055	71,245
62,199	53,573	175,372	160,404
30,566	33,516	357,083	337,097
214	233	9,842	10,042
107,545	70,500	229,955	187,388
98,640	103,583	1,100,470	1,029,886
3,620	2,867	12,861	2,867
35,881	42,002	563,316	552,383
2,902	1,521	34,810	35,066
68,136	58,684	375,219	364,970
3,620	2,124	66,792	55,856
14,691	15,025	14,691	15,025
593,807	575,335	866,016	838,710
370,034	298,373	635,942	551,300
58,942	60,422	107,548	103,636
24,456	25,243	266,396	260,389
9,482	7,569	85,772	78,166
1,444	3,094	36,461	47,327
20,439	22,239	27,628	30,809
12,369	17,797	117,796	127,833
215,074	240,581	215,074	240,581
370,091	330,638	525,143	445,245
81,240	71,986	299,474	269,837
348,243	252,666	409,235	312,834
174,428	10,660	331,479	153,954
19,188	20,263	145,234	141,808
10,658	927	71,216	57,852
814	-	13,668	-
1,989	1,989	1,989	1,989
147,524	152,619	147,524	152,619
117,078	116,917	228,898	233,801
<u>\$ 6,255,828</u>	<u>\$ 5,704,842</u>	<u>\$ 11,744,120</u>	<u>\$ 10,883,980</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF AGE 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)	\$ 1,876,734	52.38 %	\$ 1,450,076	45.92 %
31-60 Days	431,000	12.03 %	528,055	16.73 %
61-90 Days	188,793	5.27 %	176,186	5.58 %
91 Days and Over	1,085,805	30.32 %	1,002,776	31.77 %
Total Accounts Receivable	<u>3,582,332</u>	<u>100.00 %</u>	<u>3,157,093</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -				
Medicare	605,213		495,853	
Medicaid	169,473		95,448	
Commercial	68,586		70,821	
Doubtful Accounts	438,000		320,000	
Net Accounts Receivable	<u>\$ 2,301,060</u>		<u>\$ 2,174,971</u>	
 Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	 <u>\$ 32,933</u>		 <u>\$ 30,125</u>	
 Days of Net Patient Service Revenue in Accounts Receivable at Year End	 <u>69.9</u>		 <u>72.2</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	\$ 320,000		\$ 320,000	
Add:				
Provision for Doubtful Accounts	620,851	5.65 %	393,837	3.57 %
Recoveries Previously Written Off	131,879	1.20 %	108,761	0.98 %
	<u>1,072,730</u>		<u>822,598</u>	
Deduct:				
Accounts Written Off	(634,730)	(5.77)%	(502,598)	(4.55)%
Ending Balance	<u>\$ 438,000</u>		<u>\$ 320,000</u>	

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF INVENTORIES AND PREPAIDS
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
INVENTORIES		
Central Stores	\$ 44,041	\$ 46,149
Pharmacy	169,748	170,654
Dietary	7,723	8,031
Operating Room and Central Sterile Supply	69,630	66,830
Laboratory	<u>52,294</u>	<u>51,133</u>
 Total Inventories	 <u><u>\$ 343,436</u></u>	 <u><u>\$ 342,797</u></u>
PREPAID EXPENSES		
Insurance	\$ 67,267	\$ 58,696
Service Contracts	19,540	17,740
Dues	6,760	6,887
Other	<u>1,712</u>	<u>1,641</u>
 Total Inventories	 <u><u>\$ 95,279</u></u>	 <u><u>\$ 84,964</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2004**

	Balance July 1, 2003	Additions	(Retirements)	Balance June 30, 2004
Debt Service Reserve Fund				
1998 Hospital Revenue Bonds	\$ 284,725	\$ -	\$ -	\$ 284,725
Revenue Bond Sinking Fund				
1998 Hospital Revenue Bonds	23,727	284,724	284,724	23,727
Totals	<u>\$ 308,452</u>	<u>\$ 284,724</u>	<u>\$ 284,724</u>	<u>\$ 308,452</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF INSURANCE
YEAR ENDED JUNE 30, 2004**

The following is a schedule of insurance in force for Ellsworth Municipal Hospital for the coverage period July 1, 2003 – June 30, 2004.

Coverage Type	Coverage Amount
Property (Including Rental Dwellings)	\$ 14,904,039
General Liability	1,000,000
Professional	1,000,000/3,000,000
Automobile	1,000,000
Accounts Receivable	3,500,000
Fidelity Bond	
- Administrator	150,000
- Accountant	150,000
Directors and Officers Liability	1,000,000
Umbrella – Excess Liability	4,000,000
Workers' Compensation	500,000/500,000

**ELLSWORTH MUNICIPAL HOSPITAL
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
Patient days:		
Acute -		
Adult, Pediatric, and OB	3,598	2,929
Intensive Care	22	-
Swing Bed	1,037	672
Inn Care	16	44
Newborn	178	203
Psychiatric	<u>2,287</u>	<u>2,129</u>
Totals	<u><u>7,138</u></u>	<u><u>5,977</u></u>
Admissions:		
Acute (Adult, Pediatric, OB and Intensive Care)	1,096	996
Swing Bed	121	67
Inn Care	5	15
Newborn	103	114
Psychiatric	<u>538</u>	<u>498</u>
Totals	<u><u>1,863</u></u>	<u><u>1,690</u></u>
Discharges (Including Deaths):		
Acute (Adults, Pediatric, OB and Intensive Care)	1,081	997
Swing Bed	118	69
Inn Care	3	15
Newborn	102	112
Psychiatric	<u>542</u>	<u>499</u>
Totals	<u><u>1,846</u></u>	<u><u>1,692</u></u>
Average length of stay:		
Acute	3.2	2.7
Swing Bed	8.8	7.4
Psychiatric	4.3	4.4
Beds:		
Acute and Other	30	30
Psychiatric	12	12
Occupancy percentage:		
Acute, Based on 30 Beds in		
2004 and 2003, Respectively	33.1 %	26.7 %
Psychiatric, Based on 12 Beds in		
2004 and 2003, Respectively	52.2 %	48.6 %

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the financial statements of Ellsworth Municipal Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 5, 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.

Compliance

As part of obtaining reasonable assurance about whether Ellsworth Municipal Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 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, 2004 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ellsworth Municipal Hospital's internal control over financial reporting in order to determine audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 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 within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Ellsworth Municipal Hospital and other parties to whom Ellsworth Municipal 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 specific parties.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 5, 2004

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

04-1 Official Depository Banks

A resolution of official depository banks has been approved by the governing board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget

Hospital expenditures during the year ended June 30, 2004 did not exceed budgeted. During the same period actual revenues did not exceed amounts budgeted.

04-3 Questionable Expenditures

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

04-4 Travel Expense

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 an accurate account of business transacted by the Board.

04-7 Deposits and Investments

We reviewed the Hospital's investment procedures and noted all investments to be in compliance with the state statutes regarding investments.

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INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, 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 Ellsworth Municipal Hospital as of June 30, 2004, and have issued our report thereon dated August 5, 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 Fifteen "Patient rates and Charges" of the loan agreement dated November 1, 1998, relating to the issue of Hospital Revenue Bonds with Iowa Falls State Bank and Green Belt Bank and Trust, 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 Ellsworth Municipal Hospital, and the City of Iowa Falls, 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 5, 2004