

MONROE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004

**MONROE COUNTY HOSPITAL
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YEARS ENDED JUNE 30, 2005 AND 2004**

OFFICIALS

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**MONROE COUNTY HOSPITAL
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Dan Stocker	Chairperson	2006
Michael Freshwater	Vice Chairperson	2009
Debbie Judge	Secretary and Treasurer	2011
Kevin Kness	Member	2006
Lana Kaldenburg	Member	2009
Lorraine Starcevic	Member	2011
Tim Shehan	Member	2011
HOSPITAL OFFICIALS		
Gregory A. Paris	Administrator	
Heather Cain	Chief Financial Officer	

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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, 2005 and 2004, 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.

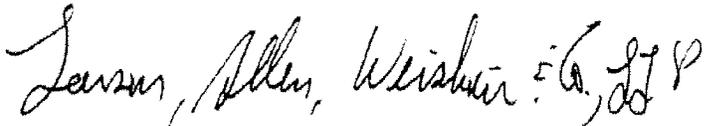
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005 and 2004, and the results of its operations and its 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 our report dated August 19, 2005 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.

The management's discussion and analysis and Budgetary Comparison Information on pages 3 through 8 and 25 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information from pages 26 to 35 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 36 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, WEISHAAR & CO., LLP

Austin, Minnesota
August 19, 2005

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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, 2005. 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, 2005 and 2004 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 \$1,115,378 or 9.0% in 2005 and increased by \$88,010 or .7% in 2004.
- The Hospital's net assets decreased by \$328,092 or 5.9% and increased by \$443,002 or 8.7% in 2004.
- The Hospital reported an operating loss of (\$411,855) in 2005 and positive operating income of \$149,269 in 2004.

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 Accounts Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Comparative Statistics

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

There were no significant changes in Monroe County Hospital's accounting policies for the Fiscal Years Ended June 30, 2005 or 2004.

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

	2005	2004	2003
Assets:			
Current Assets	\$ 3,941,174	\$ 3,244,296	\$ 3,262,512
Noncurrent Cash and Investments	1,035,668	1,015,722	1,126,080
Capital Assets, Net	7,922,060	7,534,963	7,307,053
Succeeding Year Property Tax Receivable	536,084	518,367	523,433
Other Assets	114,247	120,507	126,767
Total Assets	\$ 13,549,233	\$ 12,433,855	\$ 12,345,845
Liabilities:			
Total Current Liabilities	\$ 2,251,844	\$ 1,302,002	\$ 1,391,638
Long-Term Debt (Less Current Maturities)	5,557,033	5,081,122	5,341,412
Deferred Revenue from Succeeding Year Property Tax Receivable	536,084	518,367	523,433
Total Liabilities	8,344,961	6,901,491	7,256,483
Net Assets:			
Invested in Capital Assets Net of Related Debt Restricted	1,925,516	2,193,551	1,723,218
By Bond Agreement	441,590	441,590	566,897
For Endowment	179,880	179,880	179,880
Unrestricted	2,657,286	2,717,343	2,619,367
Total Net Assets	5,204,272	5,532,364	5,089,362
Total Liabilities and Net Assets	\$ 13,549,233	\$ 12,433,855	\$ 12,345,845

Asset categories changing significantly during 2005 and 2004 included Current Assets and Capital Assets, Net. Current Assets increased by \$696,878 or 21.5% in 2005 and decreased by \$18,216 or 0.6% in 2004. Capital Assets increased by \$387,097 or 5.1% in 2005 and increased by \$227,910 or 3.1% in 2004.

The only liability category changing significantly during 2005 and 2004 was Long-Term Debt (Less Current Maturities). This category increased by \$475,911 or 9.4% in 2005 and decreased by \$260,290 or 4.9% in 2004.

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

The current ratio (current assets divided by current liabilities) for 2005 was 1.75 and 2004 was 2.49. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

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>2005</u>	<u>2004</u>	<u>2003</u>
Net Patient Service Revenue	\$ 8,718,905	\$ 8,467,033	\$ 7,304,939
Other Operating Revenue	655,260	671,457	754,703
Total Revenue	<u>9,374,165</u>	<u>9,138,490</u>	<u>8,059,642</u>
Operating Expenses			
Nursing Service	2,681,704	2,513,089	2,343,116
Other Professional Service	2,616,907	2,748,442	2,115,341
General Service	1,067,940	974,032	771,872
Fiscal and Administrative Service	2,334,706	1,876,762	1,632,066
Depreciation	791,630	714,478	512,414
Interest	293,133	162,418	99,618
Operating Expenses	<u>9,786,020</u>	<u>8,989,221</u>	<u>7,474,427</u>
Operating Income	(411,855)	149,269	585,215
Non-Operating Revenues (Expenses)	<u>72,010</u>	<u>32,270</u>	<u>54,687</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	(339,845)	181,539	639,902
Capital Grants and Contributions	<u>11,753</u>	<u>261,463</u>	<u>250,000</u>
Increase in Net Assets	(328,092)	443,002	889,902
Net Assets, Beginning of Year	<u>5,532,364</u>	<u>5,089,362</u>	<u>4,199,460</u>
Net Assets, End of Year	<u>\$ 5,204,272</u>	<u>\$ 5,532,364</u>	<u>\$ 5,089,362</u>

Net patient service revenue made up 93.0% in 2005 and 92.7% in 2004 of the Monroe County Hospital's total operating revenue. Net patient revenue increased \$251,872 or 3.0% in 2005 and \$1,162,094 or 15.9% in 2004. The main cause of the increase in 2004 was the addition of a physician clinic and radiology equipment. Acute, swing bed and intermediate care utilization increased 184 days or 3.6% in 2005 and decreased 60 days or 1.1% in 2004. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors.

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2005	2004	2003
Total Patient Service Revenues	\$ 10,832,650	\$ 9,965,203	\$ 8,042,032
Contractual Adjustments and Provisions for Bad Debt	2,113,745	1,498,170	737,093
Net Patient Service Revenue	<u>\$ 8,718,905</u>	<u>\$ 8,467,033</u>	<u>\$ 7,304,939</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Patient Service Revenues	<u>19.51%</u>	<u>15.03%</u>	<u>9.17%</u>

Contractual adjustments and Provisions for Bad Debt increased by \$615,575 or 41.1% in 2005 and increased by \$761,077 or 103.3% in 2004. The increase in both years is due to Medicare and Medicaid cost report tentative and final settlements. During 2005 the Medicare program conducted audits of the 2003 and 2004 filed cost reports resulting in amounts due to the Medicare program of \$194,891 and \$52,831 respectively. Additionally, the tentative settlement on the filed 2005 combined Medicare and Medicaid cost reports totaled \$334,645.

Total operating expenses increased by \$796,799 or 8.9% in 2005 and increased \$1,514,794 or 20.3% in 2004. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 29-33 of the audited financial statements for this information. In 2005 there was a 24.4% increase in Fiscal and Administrative Service expenses. This is due primarily to expenses associated with physician recruitment and increases in employee health insurance premiums. In 2005 there was also a significant increase in interest expense. This is due to the hospital capitalizing interest related to the construction project in 2004 and 2003. The construction project was completed during 2004 therefore all interest recorded in 2005 was expensed as incurred.

The Operating Margin (total operating revenue, plus county tax revenue, less total operating expenses divided by total operating revenue) was (4.4%) in 2005 down from 1.6% in 2004. Operating income in 2005 was (\$411,855) and in 2004 was \$149,269.

Other Operating Revenue decreased by \$16,197 or 2.4% in 2005 and decreased by \$83,246 or 11.0% in 2004. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2005	2004	2003
County Taxes	\$ 532,624	\$ 568,795	\$ 664,470
Meals	37,471	32,125	21,586
Rent-Physician's Clinic	42,616	42,092	42,969
Medical Records Transcripts	3,825	2,711	1,660
Miscellaneous	38,724	25,734	24,018
Total Other Revenues	<u>\$ 655,260</u>	<u>\$ 671,457</u>	<u>\$ 754,703</u>

**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In comparison, there is a direct correlation between utilization changes and increases in patient revenue.

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	1,443	1,210	1,070
Swing Bed			
Skilled Care	1,108	900	793
Intermediate Care	2,816	3,073	3,380
Total	<u>5,367</u>	<u>5,183</u>	<u>5,243</u>
Admissions			
Acute	403	389	349
Swing Bed			
Skilled Care	142	99	108
Intermediate Care	16	13	14
Total	<u>561</u>	<u>501</u>	<u>471</u>
Discharges			
Acute	405	389	349
Swing Bed			
Skilled Care	142	101	102
Intermediate Care	19	11	18
Total	<u>566</u>	<u>501</u>	<u>469</u>
Average Length of Stay, Acute	<u>3.6</u>	<u>3.1</u>	<u>3.1</u>
Beds	25	25	25
Occupancy Percentage			
Acute	15.8%	13.2%	11.7%
Swing Bed	43.0%	43.5%	45.7%

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, 2005 the Hospital had \$7,922,060 invested in capital assets net of accumulated depreciation. In 2005, the Hospital expended \$256,757 to purchase new capital assets. The most significant capital investment made in 2005 was the capital lease of a new clinical and financial hospital information system. The total capitalized investment in this system was \$898,968. In 2004 the Hospital purchased new capital assets costing \$791,103. 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.

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**MONROE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Long Term Debt

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

Table 6: Long Term Debt

	<u>2005</u>	<u>2004</u>	<u>2003</u>
2001 Revenue Bonds	\$ 4,520,000	\$ 4,685,000	\$ 4,845,000
1993 Revenue Note	271,658	280,874	289,651
Capital Lease Obligations	<u>1,204,886</u>	<u>375,538</u>	<u>449,184</u>
 Total Long Term Debt	 <u>\$ 5,996,544</u>	 <u>\$ 5,341,412</u>	 <u>\$ 5,583,835</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%. The increase in capital lease obligations in 2005 is due to the hospital information system acquired under capital lease during 2005.

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 sizeable impact on the economic situation of the community.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Monroe County 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, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,858,468	\$ 1,440,776
Patient Receivables, Less Allowance for Uncollectible Accounts (2005, \$320,625, 2004, \$295,852)	1,722,144	1,539,117
Other Accounts Receivable	95,644	52,081
Inventories	216,657	197,608
Prepaid Expenses	48,261	14,714
Total Current Assets	3,941,174	3,244,296
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	414,198	394,252
Restricted by Bond Agreement	441,590	441,590
Principal of Endowment	179,880	179,880
Total Noncurrent Cash and Investments	1,035,668	1,015,722
SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	536,084	518,367
CAPITAL ASSETS, NET	7,922,060	7,534,963
OTHER ASSETS		
Investment, Physician-Hospital Organization	12,000	12,000
Bond Issue Costs	102,247	108,507
	114,247	120,507
Total Assets	\$ 13,549,233	\$ 12,433,855

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 439,511	\$ 260,290
Accounts Payable	499,131	488,892
Accrued Payroll and Related Liabilities	532,241	410,482
Accrued Interest	124,094	127,600
Estimated Third-party Payor Settlements	656,867	14,738
Total Current Liabilities	<u>2,251,844</u>	<u>1,302,002</u>
 DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	536,084	518,367
 LONG-TERM DEBT, NET OF CURRENT MATURITIES		
	<u>5,557,033</u>	<u>5,081,122</u>
Total Liabilities	8,344,961	6,901,491
 NET ASSETS		
Invested in Capital Assets Net of Related Debt	1,925,516	2,193,551
Restricted		
By Bond Agreement	441,590	441,590
Nonexpendable Endowment	179,880	179,880
Unrestricted	2,657,286	2,717,343
Total Net Assets	<u>5,204,272</u>	<u>5,532,364</u>
Total Liabilities and Net Assets	<u>\$ 13,549,233</u>	<u>\$ 12,433,855</u>

MONROE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
UNRESTRICTED REVENUES		
Net Patient Service Revenues (Net of Provisions for Bad Debt of 2005 in \$273,607 and 2004 in \$456,421)	\$ 8,718,905	\$ 8,467,033
OTHER REVENUES	655,260	671,457
Total Revenues	9,374,165	9,138,490
EXPENSES		
Nursing Service	2,681,704	2,513,089
Other Professional Service	2,616,907	2,748,442
General Service	1,067,940	974,032
Fiscal and Administrative Service and Unassigned Expenses	2,334,706	1,876,762
Depreciation	791,630	714,478
Interest	293,133	162,418
Total Expenses	9,786,020	8,989,221
Operating Income (Loss)	(411,855)	149,269
NON-OPERATING GAINS		
Investment Income	29,474	29,190
HRSA Grant Income	35,253	-
Contributions	734	795
Gain on Disposal of Equipment	6,549	2,285
Non-Operating Gains	72,010	32,270
EXCESS (DEFICIT) OF REVENUES AND GAINS OVER EXPENSES	(339,845)	181,539
Capital Grants and Contributions	11,753	261,463
Increase (Decrease) in Net Assets	(328,092)	443,002
Net Assets - Beginning of Year	5,532,364	5,089,362
Net Assets - End of Year	\$ 5,204,272	\$ 5,532,364

See accompanying Notes to Financial Statements

**MONROE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 9,178,007	\$ 8,928,392
Cash Paid to Employees	(4,813,035)	(4,324,339)
Cash Paid to Suppliers	(3,852,383)	(3,963,047)
Other Receipts and Payments, Net	122,636	102,662
Net Cash Provided by Operating Activities	635,225	743,668
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	734	795
Capital Grants and Contributions	11,753	261,463
HRSA Grant Income	35,253	-
County Taxes Received	532,624	568,795
Net Cash Provided by Non-Capital Financing Activities	580,364	831,053
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(256,757)	(791,103)
Payments on Long Term Debt	(260,289)	(242,423)
Interest Payments on Long-Term Debt	(290,379)	(308,358)
Net Cash Used by Capital and Related Financing Activities	(807,425)	(1,341,884)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	(19,946)	110,358
Interest Earned on Investments	29,474	29,190
Net Cash Provided by Investing Activities	9,528	139,548
INCREASE IN CASH AND CASH EQUIVALENTS	417,692	372,385
Cash and Cash Equivalents - Beginning	1,440,776	1,068,391
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,858,468	\$ 1,440,776
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Equipment Acquired Under Capital Lease Obligation	\$ 915,421	\$ -

See accompanying Notes to Financial Statements.

**MONROE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (411,855)	\$ 149,269
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Interest Expense Considered Capital Financing Activity	293,133	162,418
Depreciation	791,630	714,478
County Taxes	(532,624)	(568,795)
Decrease (Increase) in -		
Patient Receivables	(183,027)	(467,321)
Other Receivables	(43,563)	11,509
Inventories	(19,049)	(66,926)
Prepaid Expenses	(33,547)	(603)
Estimated Third-Party Payor Settlements	-	913,942
Increase (Decrease) in -		
Accounts Payable	10,239	(194,914)
Accrued Salaries, Wages, Benefits and Other	121,759	75,873
Estimated Third-Party Payor Settlements	642,129	14,738
Net Cash Provided by Operating Activities	\$ 635,225	\$ 743,668

See accompanying Notes to Financial Statements.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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

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.

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.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2005 and 2004, the allowance for uncollectible accounts was \$320,625 and \$295,852, 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, as well as funds that are aside due to bond requirements. 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. Useful lives are assigned based on estimated useful lives of depreciable lives recommended by the American Hospital Association. It is the Hospital's to include amortization expense on assets acquired under capital leases with depreciation on owned 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, 2005 AND 2004**

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 are reported as nonoperating revenues. Amounts that are restricted to a specific operating purpose are reported as other operating revenue. 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, 2005 AND 2004**

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. The Hospital has also included county tax revenue in other operating income. Other revenues, including interest income and unrestricted grants and contributions, 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 \$19,873 and \$2,508 for the years ended June 30, 2005 and 2004, 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 ENDOWMENT AND RESTRICTED NET ASSETS

Restricted, expendable net assets at June 30, 2005 and 2004 are available for debt service under bond agreements.

The amount restricted for nonexpendable endowment at June 30, 2005 and 2004 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 DESIGNATED NET ASSETS

Of the \$2,657,286 and \$2,717,343 of unrestricted net assets at September 30, 2005 and 2004, respectively, the Board of Trustees has designated \$414,198 and \$394,252, respectively, for capital expenditures. Designated funds remain under the control of the Board of Directors, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 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:

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, 2004.

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, 2004.

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. The 2005 net patient service revenue decreased approximately \$248,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

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

	2005	2004
Total Patient Service Revenue	\$ 10,832,650	\$ 9,965,203
Contractual Adjustments		
Medicare	(1,265,544)	(319,341)
Medicaid	(42,451)	(239,152)
Blue Cross	(250,384)	(178,680)
Other Adjustments	(281,759)	(304,576)
Provision for Bad Debts	(273,607)	(456,421)
Total Contractual Adjustments and Bad Debts	(2,113,745)	(1,498,170)
Net Patient Service Revenues	\$ 8,718,905	\$ 8,467,033

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2005 and 2004 consisted of the following:

	2005	2004
Receivables from Patients and Their Insurance Carriers	\$ 790,434	\$ 916,366
Receivables from Medicare	1,072,264	825,465
Receivables from Medicaid	180,071	93,138
Total Patient Receivables	2,042,769	1,834,969
Less Allowance for Doubtful Accounts	(320,625)	(295,852)
Patient Receivables, Net	\$ 1,722,144	\$ 1,539,117

NOTE 6 NON-CURRENT CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 and 2004 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.

At June 30, 2005 and 2004, the Hospital's deposits were entirely covered by federal depository insurance or by the Iowa Sinking Fund.

At June 30, 2005 and 2004, the Hospital's deposits are as follows:

	2005	2004
Deposits	\$ 2,894,136	\$ 2,456,498
	\$ 2,894,136	\$ 2,456,498

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 NON-CURRENT CASH AND INVESTMENTS (CONTINUED)

Included in the following balance sheet captions:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 1,858,468	\$ 1,440,776
Noncurrent Cash and Investments		
Internally Designated for Capital Acquisitions	414,198	394,252
Restricted by Bond Agreement	441,590	441,590
Principal of Endowment	<u>179,880</u>	<u>179,880</u>
	<u>\$ 2,894,136</u>	<u>\$ 2,456,498</u>

NOTE 7 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

Capital Assets	<u>July 1, 2004</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2005</u>
Land	\$ 62,600	\$ -	\$ -	\$ 62,600
Land Improvements	700,307	-	-	700,307
Buildings	5,985,707	43,132	-	6,028,839
Professional Building	738,384	-	-	738,384
Fixed Equipment	4,629,160	21,457	-	4,650,617
Major Movable Equipment	<u>4,171,753</u>	<u>1,114,138</u>	<u>(77,053)</u>	<u>5,208,838</u>
Totals	16,287,911	1,178,727	(77,053)	17,389,585
Accumulated Depreciation				
Land Improvements	479,836	27,073	-	506,909
Building	2,222,482	204,428	-	2,426,910
Professional Building	262,119	20,773	-	282,892
Fixed Equipment	2,730,164	158,116	-	2,888,280
Major Movable Equipment	<u>3,058,347</u>	<u>381,240</u>	<u>(77,053)</u>	<u>3,362,534</u>
Totals	<u>8,752,948</u>	<u>\$ 791,630</u>	<u>\$ (77,053)</u>	<u>9,467,525</u>
	<u>\$ 7,534,963</u>			<u>\$ 7,922,060</u>

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 CAPITAL ASSETS (CONTINUED)

Capital Assets	<u>2003</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>2004</u>
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
	<u>\$ 7,307,053</u>			<u>\$ 7,534,963</u>

The Hospital was involved in a construction project that was completed during 2004 that involved the addition of a new building designated for providing outpatient services and the expansion and remodeling of existing hospital outpatient areas. Interest expense of approximately \$149,000 was capitalized for the project during 2004.

Major movable equipment includes equipment under capital lease in the amount of \$1,380,258 and \$464,837 at June 30, 2005 and 2004, respectively. Accumulated amortization on equipment under capital lease is \$333,648 and \$95,967 at June 30, 2005 and 2004, respectively.

NOTE 8 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Hospital Revenue Bonds	\$ 4,685,000	\$ -	\$ (165,000)	\$ 4,520,000	\$ 175,000
Hospital Revenue Note	280,874	-	(9,216)	271,658	9,677
Obligations Under Capital Lease	375,538	915,421	(86,073)	1,204,886	254,834
Total Long-Term Debt	\$ 5,341,412	\$ 915,421	\$ (260,289)	\$ 5,996,544	\$ 439,511

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 LONG-TERM DEBT (CONTINUED)

	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>

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, 2005 and 2004.

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, 2005 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.

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.

During 2005 the Hospital entered into an agreement to acquire a computer system under a capital lease. Lease payments in the amount of \$18,098 including principal and interest at 7.45% are payable monthly. The lease is collateralized by the computer system.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 LONG-TERM DEBT (CONTINUED)

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
2006	\$ 184,677	\$ 257,943	\$ 254,834	\$ 72,683
2007	190,161	249,515	267,930	59,586
2008	200,669	240,447	278,658	39,664
2009	211,202	230,598	194,510	22,665
2010	216,763	220,063	208,954	8,221
2011-2015	1,283,245	913,027	-	-
2016-2020	1,672,100	507,420	-	-
2021-2023	832,841	53,913	-	-
	<u>\$ 4,791,658</u>	<u>\$ 2,672,926</u>	<u>\$ 1,204,886</u>	<u>\$ 202,819</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, 2005, 2004, and 2003 were 216,536, 201,146, and 168,331, respectively, equal to the required contributions for each year.

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 \$153,789 and \$160,470 for the years ended June 30, 2005 and 2004, respectively.

**MONROE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MONROE COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis
Amounts to be Raised by Taxation	\$ 532,624	\$ -	\$ 532,624	\$ 518,367	\$ 14,257
Other Revenues/ Receipts	8,925,304	432,607	9,357,911	10,464,521	(1,106,610)
	<u>9,457,928</u>	<u>432,607</u>	<u>9,890,535</u>	<u>10,982,888</u>	<u>(1,092,353)</u>
Expenses/ Expenditures	9,786,020	(313,177)	9,472,843	9,889,514	416,671
Net	<u>(328,092)</u>	<u>745,784</u>	<u>417,692</u>	<u>1,093,374</u>	<u>(675,682)</u>
Balance, Beginning	<u>5,532,364</u>	<u>(4,091,588)</u>	<u>1,440,776</u>	<u>2,580,279</u>	<u>(1,139,503)</u>
Balance, Ending	<u>\$ 5,204,272</u>	<u>\$ (3,345,804)</u>	<u>\$ 1,858,468</u>	<u>\$ 3,673,653</u>	<u>\$ (1,815,185)</u>

NOTE 1 BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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.

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OTHER SUPPLEMENTARY INFORMATION

**MONROE COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 763,562	\$ 581,899
Extended Care	265,757	280,457
Skilled Care	304,700	229,410
Total	<u>1,334,019</u>	<u>1,091,766</u>
OTHER NURSING SERVICES		
Operating Room	506,078	389,177
Recovery Room	86,320	133,677
Central Services and Supply	353,683	523,952
Intravenous Therapy	271,920	374,536
Emergency Room	742,325	675,989
Hospice	355,659	294,440
Home Health Services	3,820	15,060
Ambulance	460,430	478,064
	<u>2,780,235</u>	<u>2,884,895</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	1,497,095	1,407,061
Blood Administration	4,178	5,437
Radiology	386,791	367,119
Electrocardiology	116,070	95,636
Respiratory Therapy	381,932	277,010
Pharmacy	1,618,364	1,139,498
Anesthesiology	153,346	149,330
Physical Therapy	427,010	416,495
Speech Pathology	7,617	12,338
CT scans, Ultrasound, Mammography, MRI and Nuclear Scanning	1,397,801	1,317,827
Cardiac rehab	55,686	42,767
Occupational therapy	148,727	121,435
Outpatient Clinic	66,331	70,975
Physician Clinic	477,321	568,122
Total	<u>6,738,269</u>	<u>5,991,050</u>
Total Patient Service Revenues	10,852,523	9,967,711
Less: Charity Care	<u>(19,873)</u>	<u>(2,508)</u>
Patient Service Revenues	10,832,650	9,965,203
Less: Contractual Adjustments and Bad Debts	<u>(2,113,745)</u>	<u>(1,498,170)</u>
Net Patient Service Revenues	<u>\$ 8,718,905</u>	<u>\$ 8,467,033</u>

INPATIENTS		OUTPATIENTS	
2005	2004	2005	2004
\$ 763,562	\$ 581,899	\$ -	\$ -
265,757	280,457	-	-
304,700	229,410	-	-
<u>1,334,019</u>	<u>1,091,766</u>	<u>-</u>	<u>-</u>
104,229	78,814	401,849	310,363
14,017	14,489	72,303	119,188
88,065	116,697	265,618	407,255
190,680	240,281	81,240	134,255
63,167	68,300	679,158	607,689
20,401	-	335,258	294,440
-	-	3,820	15,060
36,228	-	424,202	478,064
<u>516,787</u>	<u>518,581</u>	<u>2,263,448</u>	<u>2,366,314</u>
257,041	230,784	1,240,054	1,176,277
3,187	4,218	991	1,219
52,207	42,811	334,584	324,308
19,503	14,410	96,567	81,226
357,791	262,692	24,141	14,318
708,325	462,294	910,039	677,204
39,542	36,077	113,804	113,253
70,334	82,837	356,676	333,658
4,486	5,712	3,131	6,626
312,869	368,310	1,084,932	949,517
-	-	55,686	42,767
80,059	46,996	68,668	74,439
-	-	66,331	70,975
-	-	477,321	568,122
<u>1,905,344</u>	<u>1,557,141</u>	<u>4,832,925</u>	<u>4,433,909</u>
<u>\$ 3,756,150</u>	<u>\$ 3,167,488</u>	<u>\$ 7,096,373</u>	<u>\$ 6,800,223</u>

**MONROE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 1,265,544	\$ 319,341
Medicaid	42,451	239,152
Blue Cross	250,384	178,680
Other Adjustments	281,759	304,576
Provision for Bad Debt	273,607	456,421
Total Adjustments to Patient Service Revenues	\$ 2,113,745	\$ 1,498,170
 OTHER REVENUES		
County Taxes	\$ 532,624	\$ 568,795
Meals	37,471	32,125
Rent-Physician's Clinic	42,616	42,092
Medical Records Transcripts	3,825	2,711
Miscellaneous	38,724	25,734
Total Other Revenues	\$ 655,260	\$ 671,457

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

NURSING SERVICE EXPENSES

	Year Ended June 30	
	2005	2004
NURSING ADMINISTRATION		
Salaries	\$ 49,357	\$ 40,244
Supplies and Expenses	3,801	2,618
	<u>53,158</u>	<u>42,862</u>
MEDICAL AND SURGICAL		
Salaries	841,821	782,050
Supplies and Expenses	137,688	68,562
	<u>979,509</u>	<u>850,612</u>
EXTENDED CARE		
Salaries	182,948	181,209
Supplies and Expenses	3,993	6,214
	<u>186,941</u>	<u>187,423</u>
INFECTION CONTROL		
Salaries	8,410	18,665
Supplies and Expenses	644	4,640
	<u>9,054</u>	<u>23,305</u>
OPERATING ROOM		
Salaries	219,726	207,121
Supplies and Expenses	119,708	137,594
	<u>339,434</u>	<u>344,715</u>
EMERGENCY SERVICE		
Salaries	340,271	326,780
Professional fees	251,544	209,098
Supplies and Expenses	40,524	29,038
	<u>632,339</u>	<u>564,916</u>
HOSPICE		
Salaries	147,413	122,293
Supplies and Expenses	78,580	120,531
	<u>225,993</u>	<u>242,824</u>
HOME HEALTH SERVICES		
Salaries	383	644
Supplies and Expenses	2,061	6,386
	<u>2,444</u>	<u>7,030</u>
AMBULANCE		
Salaries	229,747	221,182
Physician Assistant and Nurse Practitioner	23,085	28,220
	<u>252,832</u>	<u>249,402</u>
Totals	<u>\$ 2,681,704</u>	<u>\$ 2,513,089</u>

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

OTHER PROFESSIONAL SERVICE EXPENSES	Year Ended June 30	
	2005	2004
LABORATORY		
Salaries	\$ 206,392	\$ 187,169
Supplies and Expenses	255,997	241,582
	462,389	428,751
RADIOLOGY		
Salaries	320,898	265,264
Supplies and Expenses	46,820	88,016
	367,718	353,280
RESPIRATORY THERAPY		
Salaries	66,889	57,055
Professional Fees	21,238	24,150
	88,127	81,205
PHARMACY		
Supplies and Expenses	507,928	550,247
ANESTHESIOLOGY		
Professional Fees	99,530	97,181
PHYSICAL THERAPY		
Professional Fees	224,730	191,569
Supplies and Expenses	2,483	4,434
	227,213	196,003
SPEECH PATHOLOGY		
Professional Fees	5,948	8,237
CT SCANS		
Salaries	9,405	1,564
Supplies and Expenses	7,940	4,310
	17,345	5,874
ULTRASOUND		
Supplies and Expenses	33,390	85,765
MAMMOGRAPHY		
Salaries	1,220	123
Supplies and Expenses	4,518	-
	5,738	123
MAGNETIC RESONANCE IMAGING		
Supplies and Expenses	63,623	65,695
NUCLEAR SCANNING		
Supplies and Expenses	14,132	16,396

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	Year Ended June 30	
	2005	2004
CARDIAC REHABILITATION		
Salaries	\$ 22,195	\$ 17,929
Supplies and Expenses	2,207	1,716
	<u>24,402</u>	<u>19,645</u>
OCCUPATIONAL THERAPY		
Professional Fees	86,048	74,508
Supplies and Expenses	1,008	1,499
	<u>87,056</u>	<u>76,007</u>
MEDICAL RECORDS AND LIBRARY		
Salaries	102,310	109,773
Supplies and Expenses	15,368	12,778
	<u>117,678</u>	<u>122,551</u>
OUTPATIENT CLINIC		
Salaries	95,700	45,913
Supplies and Expenses	9,153	9,075
	<u>104,853</u>	<u>54,988</u>
PHYSICIAN CLINIC		
Salaries	83,042	192,728
Supplies and Expenses	306,795	393,766
	<u>389,837</u>	<u>586,494</u>
Totals	<u>\$ 2,616,907</u>	<u>\$ 2,748,442</u>
GENERAL SERVICE EXPENSES		
DIETARY		
Salaries	\$ 173,748	\$ 161,502
Food	104,024	89,627
Supplies and Expenses	15,173	13,298
	<u>292,945</u>	<u>264,427</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	107,508	85,497
Utilities	189,524	187,968
Supplies and Expenses	271,173	250,310
	<u>568,205</u>	<u>523,775</u>
ENVIRONMENTAL SERVICES		
Salaries	111,873	90,346
Supplies and Expenses	31,332	38,111
	<u>143,205</u>	<u>128,457</u>
LAUNDRY AND LINEN		
Salaries	48,033	42,462
Supplies and Expenses	15,552	14,911
	<u>63,585</u>	<u>57,373</u>
Totals	<u>\$ 1,067,940</u>	<u>\$ 974,032</u>

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	Year Ended June 30	
	2005	2004
FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration and business office		
Salaries	\$ 287,402	\$ 238,302
Management Fees	208,672	211,933
Supplies and Expense	227,786	157,217
Consulting Fees	38,803	8,538
Legal and accounting fees	35,615	40,857
Physician expenses	106,416	41,081
	904,694	697,928
Admitting		
Salaries	34,407	32,281
Supplies and Expense	7,968	14,629
	42,375	46,910
Community wellness		
Salaries	400	296
Supplies and Expense	15,102	12,935
	15,502	13,231
Purchasing		
Salaries	57,017	46,700
Supplies and Expense	6,288	2,111
	63,305	48,811
Personnel		
Salaries	106,830	45,467
Supplies and Expense	22,459	25,346
	129,289	70,813
Employee Education		
Salaries	1,370	659
Supplies and Expense	303	3,194
	1,673	3,853
Medical Care Evaluation		
Salaries	(31)	-
Supplies and Expense	12,516	19,962
	12,485	19,962
Total Fiscal and Administrative Expenses	1,169,323	901,508

**MONROE COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	Year Ended June 30	
	2005	2004
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	\$ 287,391	\$ 258,160
IPERS	216,536	201,146
Group Health Insurance	414,504	322,896
Workers compensation	78,859	66,431
Other	80,820	30,361
Insurance	87,273	96,260
Total Unassigned Expenses	1,165,383	975,254
Total Fiscal and Administrative and Unassigned Expenses	\$ 2,334,706	\$ 1,876,762

**MONROE COUNTY HOSPITAL
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 932,171	43 %	\$ 878,269	44 %
31-60 Days	319,691	15 %	463,972	23 %
61-90 Days	247,612	11 %	126,271	6 %
91 Days and Over	689,295	31 %	512,230	27 %
Total Accounts Receivable	<u>2,188,769</u>	<u>100 %</u>	<u>1,980,742</u>	<u>100 %</u>

ALLOWANCES

Contractual - Medicare, Medicaid and Other	146,000	145,773
Doubtful Accounts	<u>320,625</u>	<u>295,852</u>
Total Allowances	466,625	441,625
Net Accounts Receivable	<u>\$ 1,722,144</u>	<u>\$ 1,539,117</u>

Net Patient Service Revenue per Calendar Day (excludes bad debt)	<u>\$ 24,637</u>	<u>\$ 24,448</u>
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Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>70</u>	<u>63</u>
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Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 295,852		\$ 163,875	
Add:				
Provision for Doubtful Accounts	273,607	3.14 %	456,421	5.39 %
Recoveries Previously Written Off	<u>114,403</u>	1.31 %	<u>73,140</u>	0.86 %
	388,010		693,436	
Deduct:				
Accounts Written Off	<u>(363,237)</u>	(4.17)%	<u>(397,584)</u>	(4.70)%
Ending Balance	<u>\$ 320,625</u>		<u>\$ 295,852</u>	

**MONROE COUNTY HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
INVENTORIES		
Central Supply	\$ 16,744	\$ 8,408
Operating Room	72,739	78,043
Emergency Room	7,648	7,648
Dietary	4,706	5,373
Radiology	8,697	8,697
Laboratory	13,496	13,497
Ambulance	2,653	2,653
Respiratory Therapy	4,119	4,119
Pharmacy	85,855	69,170
Totals Inventories	\$ 216,657	\$ 197,608
PREPAID EXPENSES		
Insurance	\$ 11,735	\$ 6,235
Lease Payments	36,526	-
Other	-	8,479
Totals Prepaid Expenses	\$ 48,261	\$ 14,714

**MONROE COUNTY HOSPITAL
SCHEDULE OF COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)**

	<u>2005</u>	<u>2004</u>
Patient Days:		
Adult and Pediatric	1,443	1,210
Swing Bed		
Skilled Care	1,108	900
Intermediate Care	<u>2,816</u>	<u>3,073</u>
Totals	<u><u>5,367</u></u>	<u><u>5,183</u></u>
Admissions:		
Acute	403	389
Discharges:		
Acute	405	389
Average Length of Stay:		
Acute	3.6	3.1
Beds	25	25
Occupancy Percentage:		
Acute	15.8%	13.2%
Swing Bed	43.0%	43.5%

**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, 2005 and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Monroe County Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings.

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 caused by errors or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

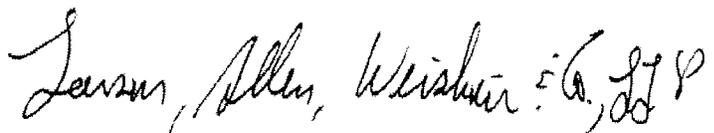
Compliance and Other Matters

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 no instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Monroe County Hospital in a separate letter dated August 19, 2005.

Comments involving statutory and other legal matters about the Hospitals operations for the year ended June 30, 2005 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.

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.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2005

**MONROE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

05-I-1 Monthly Account Reconciliation

The Hospital does not have an effective process in place to reconcile accounts on a monthly basis.

Recommendation

We recommend evaluating the current accounting processes in order to create an effective month end account reconciliation process.

Response

We will review the monthly processes and implement effective month end procedures.

Conclusion

Response accepted.

**MONROE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

05-II-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, 2005.

05-II-2 CERTIFIED BUDGET

Hospital disbursements for the year ended June 30, 2005, did not exceed budgeted amounts.

05-II-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.

05-II-4 TRAVEL EXPENSES

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

05-II-5 BUSINESS TRANSACTIONS

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

05-II-6 BOARD MINUTES

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

05-II-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.

05-II-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.

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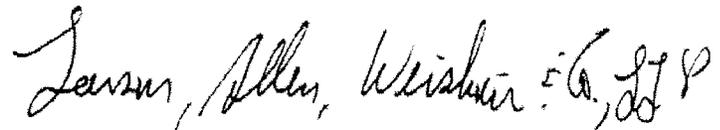
INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees
Monroe County Hospital
Albia, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Monroe County Hospital as of June 30, 2005, and have issued our report thereon dated August 19, 2005.

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, 2005

