ELLSWORTH MUNICIPAL HOSPITAL

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2005 AND 2004

ELLSWORTH MUNICIPAL HOSPITAL
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ELLSWORTH MUNICIPAL HOSPITAL
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2005

Name	Title
John Swartz	Chairman
Diana Ruhl	Secretary
Kraig Kasischke	Member
Norman Kastendick	Member
Chris Weaver	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, 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 Ellsworth Municipal Hospital as of June 30, 2005 and 2004, 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 19, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Larson, Allen, Weishair & Co., LLP | An Independent Member of Baker Tilly International

The Management's Discussion and Analysis on page 3 through page 8 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 measurement 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 26 to 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 35 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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2005

ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004

The Management Discussion and Analysis offers the readers of Ellsworth Municipal Hospital's (the Hospital) financial statements an overview and analysis of the Hospital's financial activities for the fiscal years ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with the financial statements and notes, which begin on page 9.

Financial Highlights

- The Hospital's total assets increased in each of the last two years with a $799,242 or 6.3% increase in 2005 and a $200,849 or 1.6% increase in 2004.
- The Hospital's net assets increased in each of the last two years with a $754,612 or 8.6% increase in 2005 and a $137,928 or 1.6% increase in 2004.
- The Hospital reported positive operating income of $507,879 in 2005 and $172,488 in 2004. Operating income in 2005 increased by $335,391 or 194% over the income reported in 2004. Operating income in 2004 decreased by $10,710 or 5.8% compared to 2003.

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 in which they are incurred.

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 10. The Hospital's net assets increased in each of the past two years by $754,612 (8.6%) in 2005 and $137,928 (1.6%) in 2004, as shown in **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

	2005	2004	2003
Assets:			
Current Assets	$ 3,756,154	$ 3,313,993	$ 3,091,364
Non-Current Assets	2,710,284	2,729,268	2,412,454
Property, Plant, and Equipment, Net	6,540,000	6,195,149	6,501,101
Other Assets	424,128	392,914	425,556
Total Assets	$ 13,430,566	$ 12,631,324	$ 12,430,475
Liabilities:			
Current Liabilities	$ 1,763,380	$ 1,420,855	$ 1,075,252
Long-Term Debt	2,167,018	2,464,913	2,747,595
Total Liabilities	3,930,398	3,885,768	3,822,847
Net Assets:			
Invested in Capital Assets Net of Related Debt	4,075,084	3,447,291	3,484,761
Restricted			
Expendable for Capital Improvements	937,335	913,571	875,888
By Bond Indentures	308,452	308,452	308,452
Unrestricted	4,179,297	4,076,242	3,938,527
Total Net Assets	9,500,168	8,745,556	8,607,628
Total Liabilities and Net Assets	$ 13,430,566	$ 12,631,324	$ 12,430,475

A significant change in the Hospital's assets in 2005 are the current assets; an increase of $442,161 or 13.3%, capital assets, net; a increase of $344,851 or 5.6%, and other assets; a increase of $31,214 or 7.9%. 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%.

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

In 2005, the Hospital's net assets increased by $754,612 or 8.6%, as shown in Table 2. This increase is made up of very different components. It represents an increase of 547% compared with the increase in net assets for 2004 of $137,928.

Table 2: Operating Results and Changes in Net Assets

	2005	2004	2003
Operating Revenue			
Net Patient Service Revenue	$ 14,055,639	$ 11,399,544	$ 10,601,631
Other Revenues	592,088	517,064	465,547
Total Operating Revenues	14,647,727	11,916,608	11,067,178
Operating Expenses			
Salaries and Wages	6,369,916	5,488,292	5,179,138
Employee Benefits	1,527,095	1,287,649	1,214,537
Professional Fees	1,590,910	935,254	829,232
Utilities	292,591	242,712	229,065
Insurance	128,299	103,184	88,570
Supplies and Miscellaneous	3,370,076	2,840,137	2,508,079
Depreciation & Amortization	728,987	699,368	682,740
Interest Expense	131,974	147,524	152,619
Total Operating Expenses	14,139,848	11,744,120	10,883,980
Operating Income	507,879	172,488	183,198
Non-Operating Revenue (Expenses)	122,311	(38,560)	(28,399)
Excess of Revenues Over Expenses Before Capital Grants & Contributions	630,190	133,928	154,799
Capital Grants and Contributions	124,422	4,000	8,131
Transfers to Ellsworth Municipal Hospital Foundation	-	-	(83,794)
Increase in Net Assets	754,612	137,928	79,136
Net Assets, Beginning of Year	8,745,556	8,607,628	8,528,492
Net Assets, End of Year	$ 9,500,168	$ 8,745,556	$ 8,607,628

Operating Income and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses, and changes in net assets for June 30, 2005 and 2004.

Volume: Inpatient discharges (excluding newborns) increased from 1,580 in 2003 to 1,788 in 2004 and increased to 1,832 in 2005. Patient days increased from 5,774 in 2003 to 7,138 in 2004 and increased to 7,488 in 2005. The Hospital psychiatric days increased 148 in 2005, and acute days decreased 7. In 2004 psychiatric days increased 158 days and acute days increased 849.

Also during the two year period swing bed days increased from 672 in 2003 to 1,037 in 2004 and increased to 1,154 in 2005.

Outpatient visits during the period decreased from 34,543 in 2003 to 28,226 in 2004 and increased to 29,625 in 2005.

Table 3: Inpatient and Outpatient Volume

	2005	2004	2003
Inpatient Discharges	1,832	1,788	1,580
Outpatient Visits	29,625	28,226	34,543

A significant impact on gross revenues during 2005 was related to the addition of the three clinics. These clinics generated approximately $1.2 million of additional revenue compared to 2004.

Ackley Clinic

Ellsworth Municipal Hospital has assumed the responsibility for the Clinic located in Ackley, Iowa. The Clinic is operating as a department of EMH with three physicians. We have applied for and received permission to operate it as a Provider-Based Clinic under the Medicare reimbursement rules. The staff at Ackley have become EMH employees. The physicians continue to be Mercy employees.

Ellsworth Family Medicine-Iowa Falls & Hubbard

With the departure from the McFarland Clinic of Francis Pisney, M.D. and Linda Gerhke, ARNP, Ellsworth Municipal's Board made the decision to employ both of these providers. Ellsworth Family Medicine is a department of EMH with locations in Iowa Falls and Hubbard. Dr. Pisney's new location in Iowa Falls is at 322 ½ College with Linda Gehrke's main practice site in Hubbard, Iowa. We plan to operate these Clinics as provider-based clinics under Medicare reimbursement rules.

Net Patient Service Revenue: Our net patient service revenues increased $797,913 in 2004 and increased $2,656,095 in 2005. 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.

	2005	2004	2003
Total Patient Service Revenues	$ 23,961,742	$ 19,787,402	$ 17,175,280
Contractual Adjustments	(9,086,336)	(7,767,007)	(6,179,812)
Contractual Adjustments as Percent of Revenues	37.9%	39.3%	36.0%

For both 2004 and 2005 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, 2005, 2004, and 2003.

Table 4: Payor Mix by Percentage

	2005	2004	2003
Medicare	54.6%	56.4%	53.6%
Wellmark	16.6%	14.5%	13.8%
Commercial	15.8%	15.8%	18.6%
Medicaid	8.1%	8.9%	8.9%
Other	4.9%	4.4%	5.1%
Total	100.0%	100.0%	100.0%

Salaries: Salaries increased from $5,488,292 in 2004 to $6,369,916 in 2005 and full-time equivalent employees (FTE) increased from 162.36 in 2004 to 188.82 in 2005. The salaries increased $881,624 in 2005 and the full-time equivalent employees increased 26.46 FTE in 2005. The majority of the increase in FTEs and salary was related to the clinic acquisitions and integrations described above. There was 19.22 FTEs associated with these transactions. 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.

Employee Benefits: Employee benefit costs increased $239,446 from 2004 this was caused by the clinic additions and increases in health insurance premiums.

The Hospital's Cash Flows
The Hospital experienced cash in flow from the results of operations and cash out flow related to the capital acquisitions made during the year.

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Capital Asset and Debt Administration

Capital Assets

At the end of 2005, the Hospital had $6,540,000 invested in capital assets, net of accumulated depreciation. In 2005, the Hospital purchased new equipment costing $588,903 and land, building, and building improvements costing $503,551. The majority of these additions relate to clinic acquisitions and physical plant upgrades. In 2004 the hospital purchased new equipment costing $375,275.

Debt

As of June 30, 2005, the Hospital had $2,464,916 in revenue notes and capital lease obligations outstanding. No new debt was issued during 2005 and 2004. The Hospital debt issuances – revenue bonds – cannot be issued without approval from the City of Iowa Falls.

Other Current Year Changes

Physical Plant Upgrades

It was a very busy year for EMH with multiple projects being completed or in process at the end of the fiscal year.

- **Piping Update -** A study of our cooling water distribution system showed that our piping was inadequate and inefficient. An engineering study completed by Capaun Engineering identified areas where the system could be improved and made more efficient. The piping project was bid on February 17, 2005 and construction started on February 25, 2005.

- **Obstetrical Unit Update -** After a significant amount of planning and review the design and construction for an updated Obstetrical Unit was completed during the fiscal year. The update used existing space but relocated several functions as well as creating a new waiting area. The architectural program was designed by Bergland & Cram of Mason City and the general contractor was Snyder Construction of Clear Lake.

- **Chiller Plant -** As part of our Master Planning process the need for additional chilling capacity at EMH was identified. After Board approval on May 11, 2005 with a budget of $823,000, construction started several weeks later and is ongoing at the end of the fiscal year. The addition to the Chiller Plant will double the amount of cooling capacity within the hospital dealing with one of our infrastructure issues and planning for the future.

Contacting the Hospital's Management

This financial report is designed to present the public with a general overview of the Hospital's finances and operating activities. If you have questions or need additional information, please contact Administration at Ellsworth Municipal Hospital at 110 Rocksylvania Ave., Iowa Falls, Iowa 50126.

ELLSWORTH MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	$ 122,835	$ 494,255
Current Portion of Noncurrent Cash and Investments	23,727	23,727
Patient Receivables, Less Allowance for Uncollectible Accounts (2005 - $547,000 and 2004 - $438,000)	3,064,981	2,301,060
Accounts Receivable - Other	36,739	56,236
Inventories	391,524	343,436
Prepaid Expenses	116,348	95,279
Total Current Assets	3,756,154	3,313,993
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	1,481,361	1,522,109
Internally Designated for Health Benefits	6,863	8,863
Restricted by Contributors for Capital Improvements	937,335	913,571
Restricted by Bond Indenture	308,452	308,452
Less Noncurrent Cash and Investments That are Required for Current Liabilities	(23,727)	(23,727)
Noncurrent Cash and Investments	2,710,284	2,729,268
CAPITAL ASSETS, NET	6,540,000	6,195,149
OTHER ASSETS		
Investments in Affiliated Organizations	404,404	371,201
Unamortized Bond Issue Costs	19,724	21,713
Total Other Assets	424,128	392,914
Total Assets	$ 13,430,566	$ 12,631,324

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 297,898	$ 282,945
Accounts Payable	549,614	290,564
Accrued Payroll and Related Withholdings	723,454	550,130
Third-Party Payor Settlement Payable	192,414	297,216
Total Current Liabilities	1,763,380	1,420,855
LONG-TERM DEBT, Less Current Maturities		
Revenue Bonds Payable	2,030,045	2,208,413
Obligations Under Capital Lease	136,973	256,500
Total Long-Term Debt	2,167,018	2,464,913
Total Liabilities	3,930,398	3,885,768
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,075,084	3,447,291
Restricted		
Expendable for Capital Improvements	937,335	913,571
By Bond Indentures	308,452	308,452
Unrestricted	4,179,297	4,076,242
Total Net Assets	9,500,168	8,745,556
Total Liabilities and Net Assets	$ 13,430,566	$ 12,631,324

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

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of $819,767 in 2005 and $620,851 in 2004)	$ 14,055,639	$ 11,399,544
Other Revenues	592,088	517,064
Total Operating Revenues	14,647,727	11,916,608
OPERATING EXPENSES		
Salaries and Wages	6,369,916	5,488,292
Employee Benefits	1,527,095	1,287,649
Professional Fees	1,590,910	935,254
Utilities	292,591	242,712
Insurance	128,299	103,184
Supplies and Miscellaneous	3,370,076	2,840,137
Depreciation & Amortization	728,987	699,368
Interest Expense	131,974	147,524
Total Operating Expenses	14,139,848	11,744,120
OPERATING INCOME	507,879	172,488
NONOPERATING REVENUES (EXPENSES)		
Investment Income	82,742	63,663
Contributions	4,157	5,630
Net Loss on Affiliated Organizations	51,518	(106,135)
Loss on Disposal of Capital Assets	(16,106)	(1,718)
Non-Operating Revenues (Expenses), Net	122,311	(38,560)
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	630,190	133,928
Capital Contributions	124,422	4,000
Increase in Net Assets	754,612	137,928
Net Assets Beginning of the Year	8,745,556	8,607,628
Net Assets End of the Year	$ 9,500,168	$ 8,745,556

See accompanying Notes to Financial Statements.

ELLSWORTH MUNICIPAL 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 Party Payors	$ 13,186,916	$ 11,461,852
Cash Paid to Employees	(7,723,432)	(6,640,718)
Cash Paid to Suppliers	(5,191,983)	(4,231,119)
Interest Paid on Long-Term Debt	(132,229)	(146,692)
Other Receipts and Payments, Net	611,585	486,042
Net Cash Provided by Operating Activities	750,857	929,365
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions	128,579	9,630
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(282,943)	(268,482)
Proceeds from Sale of Property and Equipment	4,500	2,028
Acquisition of Capital Assets	(1,092,454)	(395,174)
Net Cash Used by Capital and Related Financing Activities	(1,370,897)	(661,628)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	19,574	(311,458)
(Increase) Decrease in Investments in Affiliated Organizations	18,315	30,347
Interest Income	82,152	58,308
Net Cash Provided (Used) by Investing Activities	120,041	(222,803)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(371,420)	54,564
Cash and Cash Equivalents Beginning of Year	494,255	439,691
Cash and Cash Equivalents End of Year	$ 122,835	$ 494,255

See accompanying Notes to Financial Statements.

ELLSWORTH MUNICIPAL 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	$ 507,879	$ 172,488
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	728,987	699,368
Forgiveness of Accounts Receivable From Affiliated Organization	-	(105,829)
Decrease (Increase) In:		
Patient Receivables	(763,921)	(126,089)
Accounts Receivable - Other	19,497	(31,022)
Inventories	(48,088)	(639)
Prepaid Expenses	(21,069)	(10,315)
Increase (Decrease) In:		
Accounts Payable	259,050	6,951
Accrued Interest Payable	(255)	832
Accrued Expenses	173,579	135,223
Third-Party Payor Settlement Payable	(104,802)	188,397
Net Cash Provided by Operating Activities	$ 750,857	$ 929,365

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hospital is the municipal hospital of the City of Iowa Falls, organized under Chapter 392, of the 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.

During the fiscal year ended June 30, 2005 the Hospital acquired the assets of or started physician clinic practices in Ackley, IA Hubbard, IA and Iowa Falls, IA. The operations of these clinics are included in the financial statements of Ellsworth Municipal Hospital from the date of acquisition or start date to June 30, 2005. For further discussion see Note 7.

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.

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.

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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. 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.

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.

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.

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 restricted to a specific operating purpose are reported as other operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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, 2005 and 2004 was approximately $86,000 and $55,000, 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, 2005 and 2004, respectively.

NOTE 2 NET PATIENT SERVICE REVENUE

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

Medicare
Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and certain outpatient services related to Medicare beneficiaries were paid based upon a cost reimbursement methodology. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits based thereof by the Medicare fiscal intermediary. 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. Outpatient services are reimbursed under the Ambulatory Payment Classification (APC) method, which reimburses the Hospital a predetermined amount for most outpatient services. The APC payments are not based on the provider's annual cost report and during the transition period there is a hold harmless provision which prevents the Hospital from experiencing large reductions in payment through December 31, 2005. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2002.

Medicaid
Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% percent and 1% percent, respectively, of the Hospital's net patient revenue for the year ended 2005, and 50% percent and 3% percent, respectively, of the Hospital's net patient revenue, for the year ended 2004. 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.

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	2005	2004
Total Patient Service Revenues,	$ 23,961,742	$ 19,787,402
Contractual Adjustments		
Medicare	6,158,936	5,552,548
Medicaid	1,174,268	932,355
Provision for Bad Debt	819,767	620,851
Other	1,753,132	1,282,104
Total Deductions	9,906,103	8,387,858
Net Patient Service Revenues	$ 14,055,639	$ 11,399,544

NOTE 3 PATIENT RECEIVABLES

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

	2005	2004
Receivable from Patients and Their Insurance Carriers	$ 2,456,690	$ 1,980,800
Receivable from Medicare	930,711	668,762
Receivable from Medicaid	224,580	89,498
Total Patient Receivables	3,611,981	2,739,060
Less Allowance for Doubtful Accounts	(547,000)	(438,000)
Patient Receivables, Net	$ 3,064,981	$ 2,301,060

NOTE 4 DEPOSITS AND INVESTMENTS

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

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	2005	2004
Deposits	$ 2,856,846	$ 3,247,250
Included in the following balance sheet captions		
Cash and Cash Equivalents	$ 122,835	$ 494,255
Noncurrent Cash and Investments		
Internally Designated for Capital Acquisitions	1,481,361	1,522,109
Internally Designated for Health Benefits	6,863	8,863
Restricted by Contributors for Capital Improvements	937,335	913,571
Restricted by Bond Indenture	308,452	308,452
Total Deposits	$ 2,856,846	$ 3,247,250

NOTE 5 CAPITAL ASSETS

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

	Balance July 1, 2004	Additions	(Retirements)	Balance June 30, 2005
CAPITAL ASSETS				
Land and Land Improvements	$ 679,757	$ 10,000	$ -	$ 689,757
Building	4,237,189	493,551	-	4,730,740
Fixed Equipment	5,098,762	46,904	(23,513)	5,122,153
Major Movable Equipment	3,743,519	362,008	(137,699)	3,967,828
Construction in Progress	19,899	179,991	-	199,890
Totals	$ 13,779,126	$ 1,092,454	$ (161,212)	$ 14,710,368
ACCUMULATED DEPRECIATION				
Land Improvements	$ 278,152	$ 30,354	$ -	$ 308,506
Building	1,822,553	136,315	-	1,958,868
Fixed Equipment	3,071,608	191,347	(23,513)	3,239,442
Major Movable Equipment	2,411,664	368,974	(117,086)	2,663,552
Totals	$ 7,583,977	$ 726,990	$ (140,599)	$ 8,170,368
CAPITAL ASSETS, NET	$ 6,195,149			$ 6,540,000

NOTE 5 CAPITAL ASSETS (CONTINUED)

	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	$ 13,474,581	$ 395,174	$ (90,629)	$ 13,779,126
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	$ 6,973,480	$ 697,379	$ (86,882)	$ 7,583,977
CAPITAL ASSETS, NET	$ 6,501,101			$ 6,195,149

Construction in Progress at year end consists of costs incurred during a Chiller Plant upgrade. Total costs of the project are budgeted to be $823,000. The hospital has funded the current construction in progress with cash reserves. The remainder of the project will either be financed with cash reserves or a private loan. The project is expected to be completed in the Fall of 2006.

NOTE 6 LONG-TERM DEBT

A schedule of changes in the Hospital's long term debt for 2005 and 2004 is as follows:

	Balance June 30, 2004	Additions	Payments	Balance June 30, 2005	Amounts Due Within One Year
1998 Revenue Bonds	$ 2,378,100	$ -	$ (169,686)	$ 2,208,414	$ 178,369
Capital Lease Obligations	369,758	-	(113,256)	256,502	119,529
Total Long-Term Debt	$ 2,747,858	$ -	$ (282,942)	$ 2,464,916	$ 297,898

	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

NOTE 6 LONG-TERM DEBT (CONTINUED)

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.

The following is the leased equipment by major class at June 30, 2005 and 2004:

	2005	2004
Major Movable Equipment	$ 577,497	$ 577,497
Less Accumulated Amortization	(324,268)	(218,394)
	$ 253,229	$ 359,103

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
2006	$ 178,368	$ 106,357	$ 119,529	$ 10,923
2007	187,494	97,231	126,147	4,304
2008	197,107	87,639	10,826	49
2009	207,170	77,555	-	-
2010	216,866	66,956	-	-
2011-2015	1,221,409	161,071	-	-
2016-2020	-	-	-	-
	$ 2,208,414	$ 596,809	$ 256,502	$ 15,276

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

NOTE 7 CLINIC INTEGRATIONS

Ackley Clinic Acquisition

Effective September 1, 2004, the Hospital entered into a purchase agreement with a MMC-NI for the acquisition of the clinic in Ackley, Iowa. In conjunction with this agreement, the Hospital purchased equipment for a total purchase price of $18,563. The provision of professional medical services in Ackley is included under the Master Affiliation Agreement with MMC-NI, all other employees of the clinic became employees of the Hospital effective September 1, 2004.

Iowa Falls Physician Clinic Practice

During the fiscal year ended June 30, 2005 the hospital expanded services in Iowa Falls by adding a new physician clinic in the community. In conjunction with the expansion, a new physician office building was purchased and remodeled and operations were started in that location in April 2005. An alternative location was used from December 2004 until the opening of the new clinic location.

Hubbard Clinic Acquisition

Effective December 1, 2004, the Hospital entered into a purchase agreement with McFarland Clinic, P.C. and Clinic Building Company, Inc. for the acquisition of the clinic in Hubbard, Iowa. In conjunction with this agreement, the Hospital purchased the equipment, supplies, drugs and medical records for a total purchase price of $24,495. All employees including the nurse practitioner, became Hospital employees effective November 30, 2004.

NOTE 8 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, 2005, 2004, and 2003 were approximately $375,000, $329,000, and $316,000, respectively, equal to the required contributions for each year.

NOTE 9 INVESTMENTS IN AFFILIATED ORGANIZATIONS

The Hospital has investments in two organizations, both of 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 income or losses from clinic operations. The Hospital's share of income (losses), $42,676 in 2005 and $(111,279) in 2004, 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, 2005 and 2004 was $179,821 and $179,821, respectively. As of June 30, 2005 and 2004 the Hospital records reflected a receivable from affiliated organization of $26,036 and $44,351, respectively, relating to these services. During 2005 and 2004, the Hospital forgave accounts receivable from the clinic totaling $0 and $105,829, respectively.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ending June 30, 2005 and 2004 is as follows:

	2005	2004
Assets	$ 765,156	$ 695,814
Current Liabilities	$ 185,242	$ 201,253
Unrestricted Net Assets	579,914	494,561
Total Liabilities and Net Assets	$ 765,156	$ 695,814
Net Revenues	$ 3,220,602	$ 2,749,052
Net Loss	$ 85,353	$ (222,557)
Forgiveness of Accounts Payable to Owners	$ -	$ 220,649

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. The Hospital's share of the joint ventures gains and (losses) $8,842 in 2005 and $(13,317) in 2004 have been included in non-operating revenues (expenses). Subsequent to year end the hospital agreed to forgive $26,449 of the loan to Greenbelt Home Care in exchange for a 30% partnership interest in Greenbelt Home Care.

NOTE 10 RELATED ORGANIZATION

Master Affiliation Agreement

The Hospital has a Master Affiliation Agreement with Mercy Medical Center- North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa Region. As a part of this Master Affiliation Agreement, the Hospital entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Hospital. Amounts paid to MMC-NI for the provision of these services amounted to $1,150,487 and $497,032 for the years ended June 30, 2005 and 2004, respectively.

Management Services

The Hospital has a contractual arrangement with MMC-NI, under which MMC-NI provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were $308,797 and $295,225 for the years ended June 30, 2005 and 2004, respectively.

Due to MMC-NI

As of June 30, 2005 and 2004, the Hospital records reflect a due to MMC-NI of $212,692 and $76,220, respectively for the various services related to these agreements.

Ellsworth Municipal Hospital Foundation

The 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. As of June 30, 2005 and 2004 the Foundation had a payable to the Hospital in the amount of $2,237 and $1,030, 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, 2005 and 2004 is as follows:

	2005	2004
Assets	$ 360,077	$ 338,555
Liabilities	$ 2,237	$ 1,030
Net Assets	357,840	337,525
Total Liabilities and Net Assets	$ 360,077	$ 338,555
Revenues	$ 122,552	$ 164,574
Net Income	$ 20,315	$ 163,544

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. 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.

Rental Agreements

The Hospital has entered into a rental agreement effective September 2004 and ending June 2007. The rental agreement is for the clinic building in Ackley, which is in conjunction with the Ackley Clinic Acquisition discussed above. The following schedule represents the commitment for future rent payments:

Year Ended June 30,	
2006	$ 20,400
2007	20,400
Total Rental Payments	$ 40,800

Rent expense of $17,000 on the rental agreement is included in the clinic's expenses for the years ended June 30, 2005, respectively.

NOTE 12 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, 2005 were $14,139,848 as compared to the amended budget amount of $14,418,340. The reported revenues for the same period were $14,558,349 as compared to the amended budget amount of $14,926,453.

SUPPLEMENTARY INFORMATION

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	$ 2,086,071	$ 1,838,675
Intensive Care	1,099	12,291
Swing Bed	214,107	171,940
INN Care	6,150	4,004
Nursery	105,387	78,799
Psychiatric Care	2,162,191	1,877,547
Total	4,575,005	3,983,256
OTHER PROFESSIONAL SERVICES		
Operating Room	1,263,863	1,253,242
Recovery Room	82,496	46,723
Delivery and Labor Room	153,784	138,102
Anesthesiology	668,595	555,443
Radiology	4,205,129	3,703,299
Laboratory	3,600,440	2,657,393
Blood Supplies	44,850	48,426
Intravenous Therapy	254,332	237,640
Respiratory Therapy	1,312,239	1,275,970
Physical Therapy	617,749	680,992
Occupational Therapy	390,751	359,474
Speech Therapy	97,908	68,264
Electrocardiology	244,894	224,752
Cardiac Rehabilitation	186,371	145,436
Medical and Surgical Supplies	1,012,647	757,655
Pharmacy	1,881,458	1,773,627
Emergency	955,769	798,882
Psychiatrist	601,331	571,273
Clinic	1,508,462	81,550
Partial Hospital Psychiatric	279,725	380,412
Chemical Dependency	95,540	83,514
Diabetic Education	14,461	16,975
Total	19,472,794	15,859,044
Charity Care	(86,057)	(54,898)
Total Patient Service Revenues	23,961,742	19,787,402
Adjustments to Patient Service Revenues	(9,906,103)	(8,387,858)
Net Patient Service Revenues	$ 14,055,639	$ 11,399,544

INPATIENTS		OUTPATIENTS	
2005	2004	2005	2004
$ 1,970,837	$ 1,744,767	$ 115,234	$ 93,908
1,099	12,291	-	-
214,107	171,940	-	-
6,150	4,004	-	-
105,387	78,799	-	-
1,872,195	1,590,862	289,996	286,685
4,169,775	3,602,663	405,230	380,593
286,103	245,589	977,760	1,007,653
46,256	12,047	36,240	34,676
135,146	124,541	18,638	13,561
185,190	145,526	483,405	409,917
756,248	715,501	3,448,881	2,987,798
1,239,312	1,121,133	2,361,128	1,536,260
28,193	29,211	16,657	19,215
199,992	187,720	54,340	49,920
1,097,126	1,103,175	215,113	172,795
208,854	241,205	408,895	439,787
294,396	275,145	96,355	84,329
24,073	22,442	73,835	45,822
83,529	86,098	161,365	138,654
1,544	2,066	184,827	143,370
306,209	178,934	706,438	578,721
1,287,075	1,249,977	594,383	523,650
244,385	218,877	711,384	580,005
-	-	601,331	571,273
-	-	1,508,462	81,550
335	308	279,390	380,104
-	-	95,540	83,514
-	-	14,461	16,975
6,423,966	5,959,495	13,048,828	9,899,549
$ 10,593,741	$ 9,562,158	$ 13,454,058	$ 10,280,142

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ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES AND OTHER REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	$ 6,158,936	$ 5,552,548
Contractual Adjustments - Medicaid	1,174,268	932,355
Provision for Bad Debt	819,767	620,851
Other Allowances and Adjustments	1,753,132	1,282,104
Total Adjustments	$ 9,906,103	$ 8,387,858
OTHER REVENUES		
Guest Meals	$ 45,354	$ 38,473
Transition Grant/Telemedicine Grant	3,892	-
Medical Record Transcripts	3,347	3,716
Vending Machines	5,633	4,324
Purchase Discounts and Rebates	36,086	23,812
Miscellaneous Pharmacy Sales	5,695	4,369
Laundry	603	474
Health Program	48,549	62,345
Physical Therapy Service	49,922	23,605
Clinic Fees	62,535	62,004
Rent Income	125,160	125,160
Lab Fees	66,055	53,729
Management Fees	34,600	34,600
Other	104,657	80,453
Total Other Revenues	$ 592,088	$ 517,064

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	$ 358,015	$ 364,490
Capital Related Costs - Moveable Equipment	368,983	332,889
Employee Benefits	1,527,095	1,287,649
Administrative and General	1,373,489	1,236,431
Operation of Plant	520,958	511,666
Laundry and Linen	30,248	22,452
Housekeeping	175,894	157,211
Dietary	295,342	281,373
Nursing Administration	80,216	77,055
Central Services	184,347	175,372
Medical Records	387,388	357,083
Social Service	9,545	9,842
Nonphysician Anesthetist	229,631	229,955
Adults and Pediatrics	1,193,913	1,100,470
Intensive Care Unit	3,972	12,861
Psychiatric Care	614,863	563,316
Nursery	43,086	34,810
Operating Room	455,637	375,219
Delivery and Labor Room	70,032	66,792
Anesthesiology	23,118	14,691
Radiology	908,509	866,016
Laboratory	771,978	635,942
Respiratory Therapy	133,767	107,548
Physical Therapy	289,724	266,396
Occupational Therapy	92,530	85,772
Speech Pathology	45,631	36,461
Electrocardiology	31,885	27,628
Cardiac Rehabilitation	104,103	117,796
Medical Supplies Charged to Patients	277,874	215,074
Drugs Charged to Patients	576,469	525,143
Emergency Room	362,575	299,474
Psychiatrist	513,984	409,235
Clinic	1,503,873	331,479
Partial Hospital Psychiatric	130,765	145,234
Chemical Dependency	75,173	71,216
Diabetic Education	18,184	13,668
Amortization	1,989	1,989
Interest	131,974	147,524
Marketing and Community Health Promotions	223,089	228,898
Total Expenses	$ 14,139,848	$ 11,744,120

SALARIES		OTHER	
2005	2004	2005	2004
$ -	$ -	$ 358,015	$ 364,490
-	-	368,983	332,889
-	-	1,527,095	1,287,649
614,921	554,618	758,568	681,813
148,910	132,918	372,048	378,748
16,655	12,315	13,593	10,137
156,706	141,507	19,188	15,704
181,820	174,152	113,522	107,221
5,472	5,192	74,744	71,863
117,543	113,173	66,804	62,199
354,953	326,517	32,435	30,566
9,352	9,628	193	214
137,495	122,410	92,136	107,545
1,068,790	1,001,830	125,123	98,640
386	9,241	3,586	3,620
572,435	527,435	42,428	35,881
40,504	31,908	2,582	2,902
344,911	307,083	110,726	68,136
67,229	63,172	2,803	3,620
-	-	23,118	14,691
285,769	272,209	622,740	593,807
301,072	265,908	470,906	370,034
52,251	48,606	81,516	58,942
261,832	241,940	27,892	24,456
79,145	76,290	13,385	9,482
44,786	35,017	845	1,444
9,728	7,189	22,157	20,439
90,930	105,427	13,173	12,369
-	-	277,874	215,074
143,841	155,052	432,628	370,091
261,795	218,234	100,780	81,240
63,370	60,992	450,614	348,243
614,790	157,051	889,083	174,428
117,855	126,046	12,910	19,188
71,874	60,558	3,299	10,658
17,246	12,854	938	814
-	-	1,989	1,989
-	-	131,974	147,524
115,550	111,820	107,539	117,078
$ 6,369,916	$ 5,488,292	$ 7,769,932	$ 6,255,828

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF AGE 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 Amount	2005 Percent	2004 Amount	2004 Percent
1-30 days (Includes Patients in Hospital June 30)	$ 2,444,870	49.87 %	$ 1,876,734	52.38 %
31-60 Days	1,005,765	20.51 %	431,000	12.03 %
61-90 Days	307,623	6.27 %	188,793	5.27 %
91 Days and Over	1,144,484	23.35 %	1,085,805	30.32 %
Total Accounts Receivable	4,902,742	100.00 %	3,582,332	100.00 %
ALLOWANCES				
Contractual -				
Medicare	804,058		605,213	
Medicaid	243,813		169,473	
Commercial	242,890		68,586	
Doubtful Accounts	547,000		438,000	
Net Accounts Receivable	$ 3,064,981		$ 2,301,060	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	$ 40,755		$ 32,933	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	75.21		69.9	

Analysis of Allowance for Doubtful Accounts

	2005 Amount	2005 Percent of Net Patient Service Revenue	2004 Amount	2004 Percent of Net Patient Service Revenue
Beginning Balance	$ 438,000		$ 320,000	
Add:				
Provision for Doubtful Accounts	819,767	5.51 %	620,851	5.16 %
Recoveries Previously Written Off	179,421	1.21 %	131,879	1.10 %
	1,437,188		1,072,730	
Deduct:				
Accounts Written Off	(890,188)	(5.98)%	(634,730)	(5.28)%
Ending Balance	$ 547,000		$ 438,000	

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF INVENTORIES AND PREPAIDS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
INVENTORIES		
Central Stores	$ 51,094	$ 44,041
Pharmacy	198,675	169,748
Dietary	7,343	7,723
Operating Room and Central Sterile Supply	96,397	69,630
Laboratory	38,015	52,294
Total Inventories	$ 391,524	$ 343,436
PREPAID EXPENSES		
Insurance	$ 83,575	$ 67,267
Service Contracts	22,747	19,540
Dues	7,338	6,760
Other	2,688	1,712
Total Prepaid Expenses	$ 116,348	$ 95,279

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	(Retirements)	Balance June 30, 2005
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	$ 308,452	$ 284,724	$ 284,724	$ 308,452

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF INSURANCE
YEAR ENDED JUNE 30, 2005

The following is a schedule of insurance in force for Ellsworth Municipal Hospital for the coverage period July 1, 2004 – June 30, 2005.

Coverage Type		Coverage Amount
Property (Including Rental Dwellings)	$	15,085,248
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, 2005 AND 2004
(UNAUDITED)

	2005	2004
Patient days:		
Acute -		
Adult, Pediatric, and OB	3,612	3,598
Intensive Care	1	22
Swing Bed	1,154	1,037
Inn Care	41	16
Newborn	245	178
Psychiatric	2,435	2,287
Totals	7,488	7,138
Admissions:		
Acute (Adult, Pediatric, OB and Intensive Care)	1,081	1,096
Swing Bed	134	121
Inn Care	8	5
Newborn	123	103
Psychiatric	604	538
Totals	1,950	1,863
Discharges (Including Deaths):		
Acute (Adults, Pediatric, OB and Intensive Care)	1,089	1,081
Swing Bed	132	118
Inn Care	8	3
Newborn	122	102
Psychiatric	603	542
Totals	1,954	1,846
Average length of stay:		
Acute	3.2	3.2
Swing Bed	8.7	8.8
Psychiatric	4.0	4.2
Beds:		
Acute and Other	30	30
Psychiatric	12	12
Occupancy percentage:		
Acute, Based on 30 Beds in 2005 and 2004, Respectively	33.0 %	33.1 %
Psychiatric, Based on 12 Beds in 2005 and 2004, Respectively	55.6 %	52.2 %

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

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying financial statements of Ellsworth Municipal Hospital as of and for the years ended June 30, 2005 and 2004, 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 Ellsworth Municipal 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 Ellsworth Municipal Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 05-I-1 and 05-I-2.

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 error 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. 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 Ellsworth Municipal Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Comments involving statutory and other legal matters about the Hospital's 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, 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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2005

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to Financial Statements:

Reportable Conditions

05-I-1 Segregation of Duties

The accounts payable accountant currently has the ability to create new vendors, enter invoices, print checks and has access to the check stamp.

Recommendation

The ability to create a new vendor should be limited to one individual who does not have access to other areas of the disbursement cycle.

Response

Processing procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

05-I-2 Segregation of Duties

Clinic payments are being received, posted to the patient accounting system, and deposited into the bank by one employee.

Recommendation

One employee without access to the patient accounting system should open the mail, take payments and make out the deposit slip. Another employee should be posting payments in the patient accounting system and should not be making the daily deposit.

Response

Cash receipt procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:

05-II-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, 2005, although Ackley State Bank was omitted from the resolution and the Hospital currently has funds at this depository.

Recommendation

Include Ackley State Bank on the resolution naming official depositories or discontinue using the depository.

Response

The Ackley State Bank account will be closed.

Conclusion

Response is accepted.

05-II-2 Certified Budget

Hospital expenditures during the year ended June 30, 2005 did not exceed budgeted. During the same period actual revenues did not exceed amounts budgeted.

05-II-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.

05-II-4 Travel Expense

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 an accurate account of business transacted by the Board.

05-II-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.

LarsonAllen[SM]

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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 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, 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 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

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 19, 2005

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