

**FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

ELLSWORTH MUNICIPAL HOSPITAL

ELLSWORTH MUNICIPAL HOSPITAL

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**ELLSWORTH MUNICIPAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
John Swartz	Chairperson	2010
Diana Ruhl	Secretary	2007
Kraig Kasischke	Member	2010
Norman Kastendick	Member	2007
Mike Stensland	Member	2008
<u>Hospital Officials</u>		
John O'Brien	Administrator	
Betty Riley	Chief Financial Officer	



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheet of **Ellsworth Municipal Hospital** as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year 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 audit. The financial statements of **Ellsworth Municipal Hospital** as of and for the year ended June 30, 2005, were audited by other auditors whose report dated August 19, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of **Ellsworth Municipal Hospital** as of June 30, 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006, 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.

Management's Discussion and Analysis on pages 4 through 9 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. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
August 17, 2006

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

Our discussion and analysis of Ellsworth Municipal Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with the audited financial report.

Financial Highlights

- ❑ The Hospital's total assets increased in each of the last three years with a \$159,728 or 1.2% increase in 2006, 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 three years with a \$75,735 or .8% increase in 2006, a \$754,612 or 8.6% increase in 2005, and a \$137,928 or 1.6% increase in 2004.
- ❑ The Hospital reported an operating income (loss) of \$(175,158) in 2006, \$507,879 in 2005 and \$172,488 in 2004. Operating income in 2006 decreased by \$683,037 or -3.4% over the income reported in 2005. Operating income in 2005 increased by \$335,391 or 194.0% compared to 2004.

Using This Annual Report

The Hospital's financial statements consist of three statements, a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors and grantors.

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

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

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

The Statement of Cash Flows

The final required statement is a statement of cash flows. This 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.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

The Hospital Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital net assets increased in each of the past two years by \$ 75,735 (.8%) in 2006 and \$754,612 (8.6%) in 2005, as shown in **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets	\$ 3,883,599	\$ 3,756,154	\$ 3,313,993
Assets limited as to use or restricted	2,592,137	2,710,284	2,729,268
Land, buildings and equipment	6,667,839	6,540,000	6,195,149
Other assets	<u>446,719</u>	<u>424,128</u>	<u>392,914</u>
Total assets	<u>\$ 13,590,294</u>	<u>\$ 13,430,566</u>	<u>\$ 12,631,324</u>
Liabilities:			
Current liabilities	\$ 1,944,538	\$ 1,763,380	\$ 1,420,855
Long-term debt	<u>2,069,853</u>	<u>2,167,018</u>	<u>2,464,913</u>
Total liabilities	<u>4,014,391</u>	<u>3,930,398</u>	<u>3,885,768</u>
Net assets:			
Invested in capital assets net of related debt	4,119,812	4,075,084	3,447,291
Restricted			
Expendable for capital improvements	934,753	937,335	913,571
By bond indentures	308,452	308,452	308,452
Unrestricted	<u>4,212,886</u>	<u>4,179,297</u>	<u>4,076,242</u>
Total net assets	<u>9,575,903</u>	<u>9,500,168</u>	<u>8,745,556</u>
Total liabilities and net assets	<u>\$ 13,590,294</u>	<u>\$ 13,430,566</u>	<u>\$ 12,631,324</u>

Significant changes in the Hospital's assets in 2006 are the current assets; an increase of \$127,445 or 3.4%; assets limited as to use or restricted, a decrease of \$118,147 or -4.4%; land, buildings and equipment; an increase of \$127,839 or 2.0%; and other assets, an increase of \$22,591 or 5.3%. A significant change in the Hospital's assets in 2005 are the current assets; an increase of \$442,161 or 13.3%, land, buildings and equipment; an increase of \$344,851 or 5.6%, and other assets; an increase of \$31,214 or 7.9%.

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

In 2006, the Hospital's net assets increased by \$75,735 or .8%, as shown in Table 2. This increase is made up of very different components. It represents a decrease of 900% compared with the increase in net assets for 2005 of \$754,612.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

Table 2: Operating Results and Changes in Net Assets

	2006	2005	2004
Operating revenue			
Net patient service revenue	\$ 15,203,406	\$ 14,107,954	\$ 11,399,544
Other revenues	<u>728,545</u>	<u>592,088</u>	<u>517,064</u>
Total operating revenues	15,931,951	14,700,042	11,916,608
Operating expenses			
Salaries and wages	7,387,408	6,369,916	5,488,292
Employee benefits	1,725,882	1,502,156	1,527,095
Supplies and other expenses	6,117,854	5,459,130	3,881,841
Depreciation and amortization	743,540	728,987	699,368
Interest expense	<u>132,425</u>	<u>131,974</u>	<u>147,524</u>
Total operating expenses	<u>16,107,109</u>	<u>14,192,163</u>	<u>11,744,120</u>
Operating Income	(175,158)	507,879	172,488
Nonoperating revenues (expenses)	<u>253,476</u>	<u>122,311</u>	<u>(38,560)</u>
Excess of revenues over expenses			
Before capital grants and contributions	78,318	630,190	133,928
Transfer to unrestricted net assets	(11,083)	-	-
Capital grants and contributions	<u>8,500</u>	<u>124,422</u>	<u>4,000</u>
Increase in net assets	75,735	754,612	137,928
Net assets, beginning of year	<u>9,500,168</u>	<u>8,745,556</u>	<u>8,607,628</u>
Net assets, end of year	<u>\$ 9,575,903</u>	<u>\$ 9,500,168</u>	<u>\$ 8,745,556</u>

Operating Income and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses, and changes in net assets for June 30, 2006 and 2005.

Volume: Inpatient discharges (excluding newborns) increased from 1,788 in 2004 to 1,832 in 2005 and decreased to 1,742 in 2006. Patient days decreased from 7,138 in 2004 to 6,569 in 2005 and decreased to 6,421 in 2006. The Hospital psychiatric days decreased 90 in 2005 and acute days decreased 319 in 2005. In 2006 psychiatric days increased 241 days and acute days decreased 244 days.

Also during the two-year period swing bed days decreased from 1,075 in 2005 to 930 in 2006.

Outpatient visits grew during the period increasing from 28,226 in 2004 to 29,625 in 2005 and decreasing to 26,562 in 2006.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

Table 3: Inpatient and Outpatient Volume

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Inpatient discharges	1,742	1,832	1,788
Outpatient visits	26,562	29,625	28,226

Net Patient Service Revenue: Our net patient service revenues increased \$2,708,410 in 2005 and increased \$1,095,452 in 2006. These changes are the result of the following changes in gross revenues and contractual adjustments. Contractual adjustments are the amounts the Hospital cannot collect from Medicare, Medicaid, and insurance companies.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total patient service revenues	\$24,773,929	\$ 24,014,014	\$ 19,787,402
Contractual adjustments	(8,833,014)	(9,086,336)	(7,767,007)
Contractual adjustment as percent of revenues	<u>35.7%</u>	<u>37.8%</u>	<u>39.3%</u>

For both 2005 and 2006 the Hospital implemented 4% price increases.

The following table presents the relative percentage of gross charges billed for patient service by payor for the years ending June 30, 2006, 2005, and 2004.

Table 4: Payor Mix by Percentage

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	51.7	54.6	56.4
Wellmark	19.4	16.6	14.5
Commercial	13.6	15.8	15.8
Medicaid	8.2	8.1	8.9
Other	<u>7.1</u>	<u>4.9</u>	<u>4.4</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Salaries: Salaries increased from \$6,369,916 in 2005 to \$7,387,408 in 2006 and full-time equivalent employees (FTE) increased from 188.82 in 2005 to 196.24 in 2006. The salaries increased \$1,017,492 in 2006 and the full-time equivalent employees increased 7.42 FTE in 2006. The Hospital made wage adjustments during the year based on market data. In addition, each full or part time employee was eligible for a merit based wage adjustment.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

Employee Benefits: Employee benefit costs increased \$223,726 from 2005 primarily due to the increase in health insurance premiums.

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 Asset and Debt Administration

Capital Assets

At the end of 2006, the Hospital had \$6,667,839 invested in capital assets, net of accumulated depreciation. In 2006, the Hospital purchased new equipment costing \$30,220 and building and building improvements costing \$843,171. In 2005 the Hospital spent \$588,903 to acquire new equipment and land, building, and building improvements costing \$503,551.

Debt

As of June 30, 2006, the Hospital had \$2,548,027 in revenue notes and capital lease obligations outstanding. The Hospital acquired new debt in the amount of \$500,000 for the air conditioning system. The Hospital debt issuances – revenue bonds – cannot be issued without approval from the City of Iowa Falls

Other Current Year Changes

Surgeon

Ellsworth Municipal Hospital was successful in recruiting George Pfaltzgraff, M.D. to replace Nicholas Meyer, M.D. who moved to Missouri. Dr. Pfaltzgraff is operating as an employee of Ellsworth Municipal Hospital with his office located in the Clinic building.

Psychiatrist

EMH is currently recruiting for a full-time Psychiatrist as part of our inpatient and outpatient mental health program. During the last fiscal year we have been utilizing several temporary physicians to oversee the program. Recruiting is ongoing.

Ellsworth Family Medicine – Hubbard

During the year Ellsworth Municipal Hospital and Ellsworth Family Medicine – Hubbard severed their relationship. EFM-Hubbard is now operating as a private practice, leasing one employee from EMH.

Family Practice Recruitment

The Iowa Falls Clinic and McFarland Clinic were successful in recruiting an additional family practitioner to each facility. Andy Goodner, M.D. signed to become a member of the Iowa Falls Clinic at the beginning of the next fiscal year. Arron Heiar, M.D. will be joining the McFarland Clinic at the beginning of the next fiscal year.

Chiller Plant

The chiller plant project doubling the amount of cooling capacity within the hospital was completed during the fiscal year. This plant, which was part of the master planning process, doubles the hospitals cooling capacity and was a component of the master plan.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006 AND 2005**

Critical Access Hospital Designation

The hospital applied for and received critical access designation during the fiscal year. Critical Access Hospital Designation is a program under Medicare for smaller rural hospitals that pays for Medicare patients based on cost rather than a fee schedule. This program has been very beneficial to smaller rural hospitals. The hospital is limited to 25 medical/surgical, obstetrical, plus an additional 10 psychiatric beds. Length of stay can average no more than four days during the year.

Electronic Health Records

The EMH Board has approved the installation of an electronic health record as part of a consortium with six additional rural hospitals and Mercy Medical Center – North Iowa. The program will take approximately 2 ½ years to implement and will cost approximately one million dollars in capital and \$525,000 in increased operating expenses. The EHR¹⁰ program is being partially funded by an AHRQ Grant through the federal government. Electronic health records had been shown to improve quality and over time improve efficiency.

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 Rocksylvana Ave., Iowa Falls, Iowa 50126.

ELLSWORTH MUNICIPAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note 4	\$ 245,293	\$ 122,835
Assets limited as to use or restricted - Note 4	-	23,727
Receivables		
Patient, net of estimated uncollectibles of \$1,536,000 in 2006 and \$1,838,000 in 2005	2,579,842	3,064,981
Estimated third-party payor settlements	450,000	-
Other	62,458	36,739
Supplies	391,697	391,524
Prepaid expense	154,309	116,348
Total current assets	<u>3,883,599</u>	<u>3,756,154</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements and health benefits	2,307,412	2,425,559
Restricted under bond agreement	284,725	308,452
Restricted for current liabilities	-	(23,727)
Total assets limited as to use or restricted, less amounts restricted for current liabilities	<u>2,592,137</u>	<u>2,710,284</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>6,667,839</u>	<u>6,540,000</u>
OTHER ASSETS		
Investments in affiliated organizations - Note 10	428,984	404,404
Deferred financing costs, net of accumulated amortization of \$13,923 in 2006 and \$11,934 in 2005	17,735	19,724
Total other assets	<u>446,719</u>	<u>424,128</u>
Total assets	<u>\$ 13,590,294</u>	<u>\$ 13,430,566</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 478,174	\$ 297,898
Accounts payable		
Trade	626,897	549,614
Estimated third-party payor settlements	-	192,414
Accrued expenses		
Salaries and wages	277,758	236,908
Vacation	522,043	424,261
Payroll taxes and other payroll withholdings	<u>39,666</u>	<u>62,285</u>
Total current liabilities	1,944,538	1,763,380
LONG-TERM DEBT, less current maturities - Note 6	<u>2,069,853</u>	<u>2,167,018</u>
Total liabilities	<u>4,014,391</u>	<u>3,930,398</u>
NET ASSETS		
Invested in capital assets net of related debt	4,119,812	4,075,084
Restricted		
Under bond agreement	308,452	308,452
Plant replacement and expansion funds	934,753	937,335
Unrestricted	<u>4,212,886</u>	<u>4,179,297</u>
Total net assets	<u>9,575,903</u>	<u>9,500,168</u>
Total liabilities and net assets	<u>\$ 13,590,294</u>	<u>\$ 13,430,566</u>

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net provision for bad debts of \$737,509 in 2006 and \$819,767 in 2005) - Notes 2 and 3	\$ 15,203,406	\$ 14,107,954
Other operating revenues	<u>728,545</u>	<u>592,088</u>
TOTAL OPERATING REVENUES	<u>15,931,951</u>	<u>14,700,042</u>
OPERATING EXPENSES		
Salaries and wages	7,387,443	6,369,916
Employee benefits	1,755,558	1,527,341
Supplies and other expenses	6,088,143	5,433,945
Depreciation and amortization	743,540	728,987
Interest	<u>132,425</u>	<u>131,974</u>
TOTAL OPERATING EXPENSES	<u>16,107,109</u>	<u>14,192,163</u>
OPERATING INCOME (LOSS)	<u>(175,158)</u>	<u>507,879</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	85,268	82,742
Noncapital grants and contributions	11,618	4,157
Net gain on affiliated organizations	156,961	51,518
Loss on sale of property and equipment	<u>(371)</u>	<u>(16,106)</u>
NET NONOPERATING REVENUES	<u>253,476</u>	<u>122,311</u>
REVENUES IN EXCESS OF EXPENSES BEFORE OTHER CHANGES	78,318	630,190
Transfer to unrestricted net assets	(11,083)	-
Capital contributions and grants	<u>8,500</u>	<u>124,422</u>
INCREASE IN NET ASSETS	75,735	754,612
NET ASSETS BEGINNING OF YEAR	<u>9,500,168</u>	<u>8,745,556</u>
NET ASSETS END OF YEAR	<u>\$ 9,575,903</u>	<u>\$ 9,500,168</u>

See notes to financial statements.

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 15,046,131	\$ 13,239,231
Payments of salaries and wages	(7,248,811)	(6,213,264)
Payments of supplies and other expenses	(7,826,902)	(6,754,466)
Other receipts and payments, net	<u>691,743</u>	<u>611,585</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>662,161</u>	<u>883,086</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	<u>11,618</u>	<u>4,157</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(873,444)	(1,092,455)
Proceeds from sale of property and equipment	3,683	4,500
Payments on long-term debt	(416,889)	(282,942)
Proceeds from issuance of long-term debt	500,000	-
Interest payments on long-term debt	(132,694)	(132,229)
Capital contributions and grants	<u>8,500</u>	<u>124,422</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(910,844)</u>	<u>(1,378,704)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in assets limited as to use or restricted	141,874	18,984
Increase in investments in affiliated organizations	(24,580)	(33,203)
Net gain on affiliated organization	156,961	51,518
Investment income	<u>85,268</u>	<u>82,742</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>359,523</u>	<u>120,041</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	122,458	(371,420)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>122,835</u>	<u>494,255</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 245,293</u>	<u>\$ 122,835</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (175,158)	\$ 507,879
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	743,540	728,987
Interest expense considered capital and related financing activity	132,694	132,229
Provision for bad debts	737,509	819,767
Transfer to unrestricted net assets	(11,083)	-
Changes in assets and liabilities		
Patient receivables	(252,370)	(1,583,688)
Estimated third-party payor settlements	(642,414)	(104,802)
Other receivables	(25,719)	19,497
Supplies	(173)	(48,088)
Prepaid expense	(37,961)	(21,069)
Accounts payable	77,283	259,050
Accrued expenses	116,013	173,324
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 662,161</u>	<u>\$ 883,086</u>

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ellsworth Municipal Hospital (“the Hospital”) is a municipal hospital of the City of Iowa Falls, organized under Chapter 392, of the Code of Iowa. The Hospital provides health care services in accordance with a master affiliation agreement with Mercy Medical Center – North Iowa as discussed further in Note 11. 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. The Hospital is exempt from income taxes as a political subdivision.

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 Foundation is a component unit of the Hospital. However, the Hospital has elected to exclude the Foundation from these financial statements.

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 8.

Basis of Presentation

The balance sheet displays the Hospital’s assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital’s policy to use restricted resources first.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Measurement Focus and 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 Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds 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 Procedure.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Hospital considers saving accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use or restricted.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. Accounts past due 90 days are individually analyzed for collectibility. Accounts deemed uncollectible are written-off on a monthly basis.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Supplies

Supplies are valued at cost using the first-in, first-out method.

Deferred Financing

Deferred financing 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, 2006 and 2005, respectively.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for the Hospital's operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	3-15 years

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for internally-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in nonoperating revenue to the extent expended within the period.

Compensated Absences

The Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including interest income, grants and unrestricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

Grants and Contributions

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$64,996 and \$72,550 for advertising costs for the years ended June 30, 2006 and 2005, respectively.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

Reclassifications

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 2 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, were \$23,235 and \$86,057, respectively.

NOTE 3 – NET PATIENT SERVICE REVENUE

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

Medicare: *Under Prospective Payment System:* Prior to critical access designation, services rendered to Medicare program beneficiaries were paid at prospectively determined rates. These rates vary according to a patient classification system that was based on clinical, diagnostic, and other factors. The Hospital was reimbursed for these services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2004.

Under Critical Access Hospital Designation: Effective December 1, 2005, the Hospital was relicensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare 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.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other 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.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 24,773,929</u>	<u>\$ 24,014,014</u>
Contractual adjustments:		
Medicare	(5,526,458)	(6,158,893)
Medicaid	(1,282,625)	(1,174,268)
Blue Cross	(819,281)	(922,539)
Other	<u>(1,204,650)</u>	<u>(830,593)</u>
Total contractual adjustments	<u>(8,833,014)</u>	<u>(9,086,293)</u>
Net patient service revenue	15,940,915	14,927,721
Provision for bad debts	<u>(737,509)</u>	<u>(819,767)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 15,203,406</u>	<u>\$ 14,107,954</u>

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2006 and 2005, were entirely covered by Federal depository insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; 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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

At June 30, 2006 and 2005, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Checking and savings accounts	\$ 404,283	\$ 493,172
Certificates of deposit	2,412,242	2,343,730
Interest receivable	<u>20,905</u>	<u>19,944</u>
 Total Deposits	 <u>\$ 2,837,430</u>	 <u>\$ 2,856,846</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 245,293	\$ 122,835
Assets limited as to use or restricted	<u>2,592,137</u>	<u>2,734,011</u>
	<u>\$ 2,837,430</u>	<u>\$ 2,856,846</u>

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Summaries of land, buildings, and equipment at June 30, 2006 and 2005, are as follows:

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 689,757	\$ -	\$ -	\$ -	\$ 689,757
Building	4,730,740	5,861	(7,420)	-	4,729,181
Fixed equipment	5,122,153	-	(12,068)	995,433	6,105,518
Major movable equipment	3,967,828	30,270	(214,005)	-	3,784,093
Construction in progress	199,890	837,310	-	(995,433)	41,767
Total	<u>14,710,368</u>	<u>\$ 873,441</u>	<u>\$ (233,493)</u>	<u>\$ -</u>	<u>15,350,316</u>
Accumulated depreciation					
Land improvements	308,506	\$ 30,261	\$ -	\$ -	338,767
Building	1,958,868	161,191	(6,964)	-	2,113,095
Fixed equipment	3,239,442	174,110	(12,068)	-	3,401,484
Major movable equipment	2,663,552	375,984	(210,405)	-	2,829,131
Total	<u>8,170,368</u>	<u>\$ 741,546</u>	<u>\$ (229,437)</u>	<u>\$ -</u>	<u>8,682,477</u>
Land, buildings, and equipment, net	<u>\$ 6,540,000</u>				<u>\$ 6,667,839</u>
	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
Cost					
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
Total	<u>13,779,126</u>	<u>\$ 1,092,454</u>	<u>\$ (161,212)</u>	<u>\$ -</u>	<u>14,710,368</u>
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
Total	<u>7,583,977</u>	<u>\$ 726,990</u>	<u>\$ (140,599)</u>	<u>\$ -</u>	<u>8,170,368</u>
Land, buildings, and equipment, net	<u>\$ 6,195,149</u>				<u>\$ 6,540,000</u>

(continued on next page)

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 6 – LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2006 and 2005, is as follows:

	Balance June 30, 2005	Additions	Payments	Balance June 30, 2006	Amounts Due Within One Year
1998 revenue bonds	\$ 2,208,414	\$ -	\$ (178,368)	\$ 2,030,046	\$ 187,494
Hospital revenue note - Green Belt Bank and Trust	-	500,000	(118,995)	381,005	164,533
Obligations under capital lease - Note 7	<u>256,502</u>	<u>-</u>	<u>(119,526)</u>	<u>136,976</u>	<u>126,147</u>
Total long-term debt	<u>\$ 2,464,916</u>	<u>\$ 500,000</u>	<u>\$ (416,889)</u>	<u>2,548,027</u>	<u>\$ 478,174</u>
Less current maturities				<u>(478,174)</u>	
Long-term debt, less current maturities				<u>\$ 2,069,853</u>	
	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
Obligations under capital lease	<u>369,758</u>	<u>-</u>	<u>(113,256)</u>	<u>256,502</u>	<u>119,529</u>
Total long-term debt	<u>\$ 2,747,858</u>	<u>\$ -</u>	<u>\$ (282,942)</u>	2,464,916	<u>\$ 297,898</u>
Less current maturities				<u>(297,898)</u>	
Long-term debt, less current maturities				<u>\$ 2,167,018</u>	

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.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Hospital Revenue Note – Green Belt Bank and Trust

Green Belt Bank and Trust requires monthly payments of principal and interest of \$14,877 through October 1, 2008. Interest is charged at a rate of 4.50%.

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 bonds and note are payable solely and only from revenues and receipts of the Hospital.

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

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2007	\$ 478,174	\$ 115,527	\$ 593,701
2008	380,120	94,027	474,147
2009	251,457	77,899	329,356
2010	217,769	66,956	284,725
2011	228,911	55,813	284,724
2012-2016	991,596	99,848	1,091,444
	<u>\$ 2,548,027</u>	<u>\$ 510,070</u>	<u>\$ 3,058,097</u>

NOTE 7 – LEASES

The Hospital leases certain equipment under long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2006 and 2005 for all operating leases was \$53,116 and \$43,646, respectively. The capitalized leased asset consists of:

	<u>2006</u>	<u>2005</u>
Major movable equipment	\$ 577,497	\$ 577,497
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(449,393)</u>	<u>(324,268)</u>
	<u>\$ 128,104</u>	<u>\$ 253,229</u>

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Minimum future lease payments for the capital leases are as follows:

<u>Year Ending June 30,</u>		
2007	\$	130,458
2008		<u>10,871</u>
Total minimum lease payments		141,329
Less interest		<u>(4,353)</u>
Present value of minimum lease payments – Note 6	\$	<u><u>136,976</u></u>

NOTE 8 – 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 Physicians 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 9 – PENSION PLAN

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, 50306-9117.

ELLSWORTH MUNICIPAL HOSPITAL
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Plan members are required to contribute 3.70% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$423,873, \$375,303, and \$329,387, respectively, equal to the required contributions for each year.

NOTE 10 – 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 at that percentage. The Hospital's share of income, \$126,041 in 2006 and \$42,676 in 2005, have been included in nonoperating revenues.

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, 2006 and 2005, was \$185,860 and \$179,821, respectively. As of June 30, 2006 and 2005, the Hospital records reflected a receivable from affiliated organization of \$43,655 and \$26,036, respectively, relating to these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ending June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Assets	<u>\$ 711,059</u>	<u>\$ 765,156</u>
Current liabilities	<u>\$ 179,060</u>	<u>\$ 185,242</u>
Unrestricted net assets	<u>531,999</u>	<u>579,914</u>
Total liabilities and net assets	<u>\$ 711,059</u>	<u>\$ 765,156</u>
Net revenues	<u>\$ 3,449,662</u>	<u>\$ 3,220,602</u>
Net income	<u>\$ 252,085</u>	<u>\$ 85,353</u>
Repayment of accounts payable to owners	<u>\$ (300,000)</u>	<u>\$ -</u>

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Greenbelt Home Care

The Hospital has a partnership interest in a joint venture of Greenbelt Home Care. During fiscal 2006, the Hospital forgave a loan of \$23,636 to Greenbelt Home Care in exchange for a 10% increase in its partnership interest. After the transaction, the Hospital has a 30% interest in the joint venture of Greenbelt Home Care and shares any income or loss at that percentage. The Hospital has contributed \$51,932 of capital to this joint venture, and loaned \$3,507 as of June 30, 2006. The Hospital's share of the joint ventures gains, \$30,920 in 2006 and \$8,842 in 2005, have been included in nonoperating revenues.

NOTE 11 – RELATED ORGANIZATIONS

Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa region under the name of Ellsworth Municipal Hospital. As a part of this Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services for the Hospital. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$1,480,520 and \$1,150,487 for the years ended June 30, 2006 and 2005, respectively.

Management Services Agreement

The Hospital entered into a contractual arrangement with Medical Center – North Iowa under which Medical Center – North Iowa 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 \$330,623 and \$308,797 for the years ended June 30, 2006 and 2005, respectively.

Due to Affiliated Organization

As of June 30, 2006 and 2005, the Hospital records reflect a due to Medical Center – North Iowa of \$256,598 and \$212,692, respectively, for the various services and distributions 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, 2006 and 2005, the Foundation had a payable to the Hospital in the amount of \$8,010 and \$2,237, respectively, which is recorded with other receivables on the balance sheet of the Hospital.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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Summarized financial information from the financial statements of Ellsworth Municipal Hospital Foundation as of and for the years ending June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Assets	<u>\$ 435,575</u>	<u>\$ 360,077</u>
Liabilities	<u>8,010</u>	2,237
Net assets	<u>\$ 427,565</u>	<u>\$ 357,840</u>
Total liabilities and net assets	<u>\$ 435,575</u>	<u>\$ 360,077</u>
Revenues	<u>\$ 77,735</u>	<u>\$ 122,552</u>
Net income	<u>\$ 69,725</u>	<u>\$ 20,315</u>

NOTE 12 – CONTINGENCIES

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. 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.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 13 - COMMITMENTS

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:

<u>Years Ending June 30</u>	
2007	<u>\$ 20,400</u>

Rent expense of \$20,400 and \$17,000 on the rental agreement is included in the clinic's expenses for the years ended June 30, 2006 and 2005, respectively.

NOTE 14 – 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, 2006 were \$16,107,480 as compared to the amended budget amount of \$15,780,493. The reported revenues for the same period were \$16,183,215 as compared to the amended budget amount of \$15,948,973.

NOTE 15 – 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.

NOTE 16 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	35%	26%
Medicaid	4	6
Commercial insurance	24	27
Other third-party payors and patients	<u>37</u>	<u>41</u>
	<u>100%</u>	<u>100%</u>

ELLSWORTH MUNICIPAL HOSPITAL



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2006 supplementary information is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information, except for the Schedule of Statistical Information on page 40 marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

The 2005 supplementary information is presented for purposes of additional analysis and is not a required part of the 2005 basic financial statements. Such information, except for the Schedule of Statistical Information on page 40 marked "unaudited," was subjected to the auditing procedures applied by other auditors in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
August 17, 2006

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005

	TOTAL	
	2006	2005
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 1,812,115	\$ 2,086,031
Intensive care	-	1,099
Swing bed	169,136	214,107
INN care	11,232	6,150
Psychiatric care	2,238,026	2,162,191
Nursery	114,724	105,387
Total	<u>4,345,233</u>	<u>4,574,965</u>
OTHER PROFESSIONAL SERVICES		
Operating room	1,372,569	1,263,863
Recovery room	48,379	82,496
Labor and delivery room	167,897	153,784
Anesthesiology	615,921	668,595
Radiology	4,096,238	4,205,129
Laboratory	4,060,554	3,652,712
Blood	41,426	44,850
Intravenous thereapy	232,596	254,332
Respiratory therapy	855,567	1,312,239
Physical therapy	597,330	617,749
Occupational therapy	355,619	390,751
Speech therapy	111,489	97,908
Electrocardiology	236,733	244,894
Cardiac rehabilitation	179,193	186,371
Medical and surgical supplies	860,155	1,012,647
Pharmacy	1,852,983	1,881,458
Emergency services	1,074,551	955,769
Psychiatrist	490,075	601,331
Clinic	2,832,204	1,508,502
Partial hospital psychiatric	252,054	279,725
Chemical dependency	101,832	95,540
Diabetic education	16,566	14,461
Total	<u>20,451,931</u>	<u>19,525,106</u>
Charity care	<u>(23,235)</u>	<u>(86,057)</u>
Total patient service revenue	<u>24,773,929</u>	<u>24,014,014</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(5,526,458)	(6,158,893)
Medicaid	(1,282,625)	(1,174,268)
Blue Cross	(819,281)	(922,539)
Other	(1,204,650)	(830,593)
Total contractual adjustments	<u>(8,833,014)</u>	<u>(9,086,293)</u>
NET PATIENT SERVICE REVENUE	15,940,915	14,927,721
PROVISION FOR BAD DEBTS	<u>(737,509)</u>	<u>(819,767)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 15,203,406</u>	<u>\$ 14,107,954</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 1,681,222	\$ 1,970,837	\$ 130,893	\$ 115,194
-	1,099	-	-
169,136	214,107	-	-
11,232	6,150	-	-
1,964,710	1,870,658	273,316	291,533
114,724	105,387	-	-
<u>3,941,024</u>	<u>4,168,238</u>	<u>404,209</u>	<u>406,727</u>
341,781	286,103	1,030,788	977,760
14,481	46,256	33,898	36,240
161,556	135,146	6,341	18,638
166,841	185,190	449,080	483,405
612,450	756,248	3,483,788	3,448,881
1,070,396	1,239,312	2,990,158	2,413,400
26,959	28,193	14,467	16,657
175,864	199,992	56,732	54,340
657,730	1,097,126	197,837	215,113
162,994	208,854	434,336	408,895
267,495	294,396	88,124	96,355
22,346	24,073	89,143	73,835
63,525	83,529	173,208	161,365
495	1,544	178,698	184,827
250,868	306,209	609,287	706,438
1,092,716	1,287,075	760,267	594,383
166,006	244,385	908,545	711,384
-	-	490,075	601,331
-	-	2,832,204	1,508,502
3,809	335	248,245	279,390
-	-	101,832	95,540
-	-	16,566	14,461
<u>5,258,312</u>	<u>6,423,966</u>	<u>15,193,619</u>	<u>13,101,140</u>
<u>\$ 9,199,336</u>	<u>\$ 10,592,204</u>	<u>\$ 15,597,828</u>	<u>\$ 13,507,867</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Rent	\$ 125,160	\$ 125,160
Lab fees	80,886	66,055
Health program	70,159	48,549
Therapy services	60,197	49,922
Clinic fees	57,034	62,535
Guest meals	55,770	45,354
Purchase discounts and rebates	43,648	36,086
Pharmacy service	37,350	-
Healthy hearts	35,645	28,418
Management fees	34,600	34,600
Grants	34,552	-
Housekeeping services	25,680	19,641
Contributions for operations	19,091	-
Massage	13,405	13,476
Telemedicine grant	5,188	3,892
Vending machines	4,228	5,633
Medical records transcripts	1,862	3,347
Miscellaneous pharmacy sales	1,845	5,695
Laundry	474	603
Other	<u>21,771</u>	<u>43,122</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 728,545</u>	<u>\$ 592,088</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 5,795	\$ 5,472
Supplies and other expenses	<u>77,590</u>	<u>74,744</u>
	<u>83,385</u>	<u>80,216</u>
ADULTS AND PEDIATRICS		
Salaries and wages	1,108,363	1,068,790
Supplies and other expenses	<u>128,225</u>	<u>125,123</u>
	<u>1,236,588</u>	<u>1,193,913</u>
INTENSIVE CARE UNIT		
Salaries and wages	-	386
Supplies and other expenses	<u>4,539</u>	<u>3,586</u>
	<u>4,539</u>	<u>3,972</u>
PSYCHIATRIC CARE		
Salaries and wages	645,429	572,435
Supplies and other expenses	<u>44,745</u>	<u>42,428</u>
	<u>690,174</u>	<u>614,863</u>
NURSERY		
Salaries and wages	47,491	40,504
Supplies	<u>2,821</u>	<u>2,582</u>
	<u>50,312</u>	<u>43,086</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	373,406	344,911
Supplies and other expenses	<u>129,219</u>	<u>110,726</u>
	<u>502,625</u>	<u>455,637</u>
LABOR AND DELIVERY ROOMS		
Salaries and wages	77,873	67,229
Supplies and other expenses	<u>3,949</u>	<u>2,803</u>
	<u>81,822</u>	<u>70,032</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>16,594</u>	<u>23,118</u>
NONPHYSICIAN ANESTHETISTS		
Salaries and wages	139,247	137,495
Supplies and other expenses	<u>49,616</u>	<u>92,136</u>
	<u>188,863</u>	<u>229,631</u>
RADIOLOGY		
Salaries and wages	310,072	285,769
Supplies and other expenses	<u>592,323</u>	<u>622,740</u>
	<u>902,395</u>	<u>908,509</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
LABORATORY		
Salaries and wages	\$ 333,940	\$ 301,072
Supplies and other expenses	<u>509,048</u>	<u>470,906</u>
	<u>842,988</u>	<u>771,978</u>
RESPIRATORY THERAPY		
Salaries and wages	50,036	52,251
Supplies and other expenses	<u>51,388</u>	<u>62,598</u>
	<u>101,424</u>	<u>114,849</u>
PHYSICAL THERAPY		
Salaries and wages	281,689	261,832
Supplies and other expenses	<u>30,599</u>	<u>27,892</u>
	<u>312,288</u>	<u>289,724</u>
OCCUPATIONAL THERAPY		
Salaries and wages	77,284	79,145
Supplies and other expenses	<u>20,488</u>	<u>13,385</u>
	<u>97,772</u>	<u>92,530</u>
SPEECH THERAPY		
Salaries and wages	66,676	44,786
Supplies and other expenses	<u>2,290</u>	<u>845</u>
	<u>68,966</u>	<u>45,631</u>
ELECTROCARDIOLOGY		
Salaries and wages	8,363	9,728
Supplies and other expenses	<u>18,954</u>	<u>22,157</u>
	<u>27,317</u>	<u>31,885</u>
CARDIAC REHABILITATION		
Salaries and wages	97,144	90,930
Supplies and other expenses	<u>14,450</u>	<u>13,173</u>
	<u>111,594</u>	<u>104,103</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>274,325</u>	<u>296,792</u>
PHARMACY		
Salaries and wages	280,627	143,841
Supplies and other expenses	<u>412,271</u>	<u>432,628</u>
	<u>692,898</u>	<u>576,469</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CENTRAL SUPPLY		
Salaries and wages	\$ 128,795	\$ 117,543
Supplies and other expenses	<u>50,174</u>	<u>66,804</u>
	<u>178,969</u>	<u>184,347</u>
EMERGENCY SERVICES		
Salaries and wages	340,421	261,795
Supplies and other expenses	<u>156,202</u>	<u>83,821</u>
	<u>496,623</u>	<u>345,616</u>
PSYCHIATRIST		
Salaries and wages	74,406	12,529
Supplies and other expenses	<u>193,070</u>	<u>73,877</u>
	<u>267,476</u>	<u>86,406</u>
CLINIC		
Salaries and wages	892,324	538,245
Supplies and other expenses	<u>1,637,352</u>	<u>1,316,427</u>
	<u>2,529,676</u>	<u>1,854,672</u>
ENTEROSTOMAL THERAPY		
Supplies and other expenses	<u>24,340</u>	<u>16,959</u>
PARTIAL HOSPITAL PSYCHIATRIC		
Salaries and wages	245,174	245,241
Supplies and other expenses	<u>18,294</u>	<u>14,575</u>
	<u>263,468</u>	<u>259,816</u>
CHEMICAL DEPENDENCY		
Salaries and wages	73,820	71,874
Supplies and other expenses	<u>2,487</u>	<u>3,299</u>
	<u>76,307</u>	<u>75,173</u>
DIABETIC EDUCATION		
Salaries and wages	15,838	17,246
Supplies and other expenses	<u>839</u>	<u>692</u>
	<u>16,677</u>	<u>17,938</u>
SOCIAL SERVICES		
Salaries and wages	9,999	9,352
Supplies and other expenses	<u>377</u>	<u>193</u>
	<u>10,376</u>	<u>9,545</u>
MEDICAL RECORDS		
Salaries and wages	388,285	354,953
Supplies and other expenses	<u>30,312</u>	<u>32,435</u>
	<u>418,597</u>	<u>387,388</u>

(continued)

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
DIETARY		
Salaries and wages	\$ 193,322	\$ 181,820
Supplies and other expenses	<u>117,241</u>	<u>113,522</u>
	<u>310,563</u>	<u>295,342</u>
OPERATION OF PLANT		
Salaries and wages	160,246	148,910
Supplies and other expenses	<u>478,929</u>	<u>372,048</u>
	<u>639,175</u>	<u>520,958</u>
HOUSEKEEPING		
Salaries and wages	160,083	156,706
Supplies and other expenses	<u>20,090</u>	<u>19,188</u>
	<u>180,173</u>	<u>175,894</u>
LAUNDRY AND LINEN		
Salaries and wages	18,776	16,655
Supplies and other expenses	<u>11,794</u>	<u>13,593</u>
	<u>30,570</u>	<u>30,248</u>
MARKETING AND COMMUNITY HEALTH PROMOTIONS		
Salaries and wages	167,930	145,268
Supplies and other expenses	<u>137,885</u>	<u>107,539</u>
	<u>305,815</u>	<u>252,807</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	614,589	585,203
Supplies and other expenses	<u>825,323</u>	<u>758,611</u>
	<u>1,439,912</u>	<u>1,343,814</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	743,540	728,987
Interest	132,425	131,974
Employee benefits	<u>1,755,558</u>	<u>1,527,341</u>
	<u>2,631,523</u>	<u>2,388,302</u>
TOTAL OPERATING EXPENSES	<u>\$ 16,107,109</u>	<u>\$ 14,192,163</u>

ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2006 AND 2005

ANALYSIS OF AGING	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 2,181,036	52.99%	\$ 2,444,870	49.87%
31 to 60 days	499,577	12.14%	1,005,765	20.51%
61 to 90 days	253,735	6.16%	307,623	6.27%
91 days and over	<u>1,181,851</u>	<u>28.71%</u>	<u>1,144,484</u>	<u>23.35%</u>
	4,116,199	100.00%	4,902,742	100.00%
Less: Allowance for doubtful accounts	604,366		547,000	
Allowance for contractual adjustments	<u>931,991</u>		<u>1,290,761</u>	
Net	<u>\$ 2,579,842</u>		<u>\$ 3,064,981</u>	
Net patient service revenue (net of provision for bad debts) per calendar day	<u>\$ 41,653</u>		<u>\$ 38,652</u>	
Days of net revenue in net accounts receivable at year end	<u>62</u>		<u>79</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2006	2005
Beginning Balance	<u>\$ 547,000</u>	<u>\$ 438,000</u>
Add:		
Provision for bad debts	737,509	819,767
Recoveries previously written off	<u>225,165</u>	<u>179,421</u>
	<u>962,674</u>	<u>999,188</u>
Less:		
Accounts written off	<u>(905,308)</u>	<u>(890,188)</u>
Ending Balance	<u>\$ 604,366</u>	<u>\$ 547,000</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
SUPPLIES		
Central stores	\$ 46,981	\$ 51,094
Pharmacy	220,124	198,675
Dietary	8,065	7,343
Operating room and central supply	84,605	96,397
Laboratory	<u>31,922</u>	<u>38,015</u>
Total supplies	<u>\$ 391,697</u>	<u>\$ 391,524</u>
 PREPAID EXPENSE		
Insurance	\$ 119,802	\$ 83,575
Service contracts	23,193	22,747
Dues	6,882	7,338
Other	<u>4,432</u>	<u>2,688</u>
Total prepaid expense	<u>\$ 154,309</u>	<u>\$ 116,348</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2006 AND 2005**

	Balance July 1, 2005	Invested	Redeemed	Balance June 30, 2006
Debt service reserve fund				
1998 Hospital revenue bonds	\$ 284,725	\$ 284,725	\$ (284,725)	\$ 284,725
Revenue bond sinking fund				
1998 Hospital revenue bonds	<u>23,727</u>	<u>284,724</u>	<u>(308,451)</u>	<u>-</u>
 Total	 <u>\$ 308,452</u>	 <u>\$ 569,449</u>	 <u>\$ (593,176)</u>	 <u>\$ 284,725</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF INSURANCE
YEAR ENDED JUNE 30, 2006**

The following is a schedule of insurance in force for Ellsworth Municipal Hospital for the coverage period July 1, 2005 – June 30, 2006.

<u>Coverage Type</u>	<u>Coverage Amount</u>
Property (including rental dwellings)	\$ 15,084,940
General liability	1,000,000/3,000,000
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
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Acute	3,053	3,613
Swing-bed	885	1,154
Inn Care	45	41
Newborn	249	245
Psychiatric	<u>2,438</u>	<u>2,435</u>
Totals	<u><u>6,670</u></u>	<u><u>7,488</u></u>
DISCHARGES		
Acute	1,024	1,089
Swing-bed	116	132
Inn Care	12	8
Newborn	124	122
Psychiatric	<u>590</u>	<u>603</u>
Totals	<u><u>1,866</u></u>	<u><u>1,954</u></u>
AVERAGE LENGTH OF STAY		
Acute	2.89	3.20
Swing-bed	7.63	8.74
Psychiatric	4.13	4.04
BEDS		
Acute, effective December 1, 2005, decertified from 30 to 25 beds	25	30
Psychiatric	12	12
OCCUPANCY PERCENTAGE		
Acute, effective December 1, 2005, decertified from 30 to 25 beds	31%	33%
Psychiatric, based on 12 beds	56%	56%



CPAs & BUSINESS ADVISORS

**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**

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the accompanying balance sheet of **Ellsworth Municipal Hospital** as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of **Ellsworth Municipal Hospital** as of June 30, 2005, were audited by other auditors whose report dated August 19, 2005, expressed an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of **Ellsworth Municipal Hospital** 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in Part I as item I-A-06 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 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 weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of **Ellsworth Municipal Hospital** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings. 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. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Ellsworth Municipal Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 17, 2006

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2006 AND 2005**

Part I: Findings Related to Financial Statements:

Reportable Condition

I-A-06 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Hospital should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-06 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-B-06 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-C-06 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

II-D-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-E-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON DEBT AGREEMENT COVENANTS

The Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ellsworth Municipal Hospital as of June 30, 2006, and have issued our report thereon dated August 17, 2006.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
August 17, 2006