

**COMBINED STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
<b>REVENUE</b>		
Net Patient Service Revenue	\$ 17,336,669	\$ 15,026,458
Other Revenue	293,607	322,669
Total Revenue	17,630,276	15,349,127
<b>EXPENSES</b>		
Salaries and Benefits	8,282,819	7,727,381
Professional Fees, Supplies, Drugs and Other	6,550,109	6,405,001
Depreciation and Amortization	1,239,052	1,132,380
Interest Expense	351,787	316,721
Total Expenses	16,423,767	15,581,483
<b>OPERATING INCOME (LOSS)</b>	1,206,509	(232,356)
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment Income	455,681	261,669
Unrealized Loss On Investments	(77,566)	-
Grant and Donation Revenue	158,586	147,157
Loss on Disposals of Fixed Assets	(17,452)	(518)
Total Nonoperating Gains (Losses)	519,249	408,308
<b>EXCESS OF REVENUE OVER EXPENSES</b>	1,725,758	175,952
Restricted Contributions	500	9,238
<b>INCREASE IN NET ASSETS</b>	1,726,258	185,190
Net Assets - Beginning of the Year	17,009,233	16,824,043
<b>NET ASSETS - END OF THE YEAR</b>	\$ 18,735,491	\$ 17,009,233

*Bad Debt expense of \$249,108 being included in contractals. This should be reclassified to Operating Expenses.*

*Unrealized Loss On Investments of \$77,566 included in Non-Operating Expenses. This needs to be reclassified below Revenue Over Expenses.*

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 3 NET PATIENT SERVICES REVENUE (CONTINUED)**

**Other**

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 37.9% and 11.7%, respectively, for the year ended December 31, 2005 and 34.8% and 12.0%, respectively, for the year ended December 31, 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.

Patient service revenues and contractual adjustments for the years ended December 31 are as follows:

	2005	2004
Gross Patient Service Revenues	\$ 26,618,603	\$ 25,326,244
Less Revenue Adjustments:		
Medicare	5,518,427	6,421,431
Medicaid	2,003,220	1,747,460
Other	1,511,179	1,966,521
Provision for Bad Debts	249,108	164,374
Total Discounts and Adjustments	9,281,934	10,299,786
Net Patient Service Revenue	\$ 17,336,669	\$ 15,026,458

**NOTE 4 CASH AND ASSETS LIMITED AS TO USE**

**Deposits**

Minnesota Statute requires that all Municipal Organization's deposits be protected by insurance, surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Hospital or in a financial institution other than that furnishing the collateral.

*Because only the Net Patient Revenue is listed on the Income Statement, we need to look at the Net Patient Services Revenue Note to determine for certain if Bad Debt is included in Contractual Adjustments.*

*In this case they are, and a reclass of \$249,108 from Contractual Adjustments to Operating Expenses should occur.*

HAR Line Number	Account Name	Audited Financial Statement	Bad Debt	Interest Income	Interest Expense	Reclasses				Difference	
						Unrealized Gains/Losses	Gain on Sale of Properties	Loss on Sale of Properties	Reported on HAR		
210	Gross Charges from Patient Care	26,618,603								26,618,603	-
220	Total Adjustments and Uncollectibles	(9,281,934)	249,108							(9,032,826)	-
219	Net Revenue from Patient Care	17,336,669	249,108							17,585,777	-
240	Total Other Operating Revenue	293,607								293,607	-
260	Total Operating Revenue	17,630,276	249,108							17,879,384	-
260	Total Operating Expense	16,423,767	249,108							16,672,875	-
200	Income/(Loss) from Operations	1,206,509	-							1,206,509	-
320	Total Non-Operating Revenue	614,267								614,267	-
330	Total Non-Operating Expense	95,018				(77,566)				17,452	-
333	Extraordinary Items	-								-	-
300	Revenue in Excess of Expenses	1,725,758	-			77,566				1,803,324	-
340	Other Changes to Unrestricted Net Assets					(77,566)				(77,566)	-