

DAVIS COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2004 AND 2003

**DAVIS COUNTY HOSPITAL
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YEARS ENDED JUNE 30, 2004 AND 2003**

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**DAVIS COUNTY HOSPITAL
OFFICIALS
YEARS ENDED JUNE 30, 2004 AND 2003**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jim Clark	Chairperson	2004
Chris Ball	Vice-Chairperson	2008
Russell Bridgman	Secretary and Treasurer	2008
Jo Ann Augspurgen	Member	2004
Garry Klicker	Member	2006
Pat Van Arkel	Member	2006
Leon Wilkinson	Member	2004
HOSPITAL OFFICIALS		
John E. Monnahan	CEO/Administrator	
Jerri Christman	Chief Financial Officer	
Valerie Gray	Director of Nursing	
Debbie Scott	Director of Ancillary Services	
Kathi Scott	Director of Marketing and Development	

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the accompanying financial statements of Davis County Hospital as of June 30, 2004 and 2003, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Davis County Hospital as of June 30, 2004 and 2003, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2004 on our consideration of Davis County 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.

The management's discussion and analysis on pages 3 through 9 and budgetary comparison information on page 27 are not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Davis County Hospital's basic financial statements. The supplementary information from pages 28 to 35 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 36 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 16, 2004

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

This section of the Davis County Hospital (DCH) annual audited financial report represents management's discussion and analysis of DCH's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on DCH's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Financial Highlights-

- The Hospital's total assets increased by \$238,424 or 1.48% in 2004 and increased by \$153,450 or 1.0% in 2003.
- The Hospital's net assets increased in each of the last two years with a \$285,431 or 4.3% increase in 2004 and a \$599,106 or 10.0% increase in 2003.
- The Hospital reported positive operating income of \$149,757 in 2004 and \$644,386 in 2003.

This represents a decrease in 2004 of \$494,629 and an increase in 2003 of \$247,323.

The Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows

These financial statements report information about DCH using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the Hospital that determines the Hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Required supplementary information further explains and supports the financial statements with a comparison of the Hospital's budget for the year.

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Also, supporting supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedule of Insurance
- Comparative Statistics (Unaudited)

There were no significant changes in DCH's accounting policies for the Fiscal Year Ended June 30, 2004.

Financial Analysis of the Hospital

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows has been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes occurring in those assets. Increases or decreases in net assets are one indicator of whether or not the Hospital's financial health is improving. Other nonfinancial factors can also have an effect on the Hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Davis County and the surrounding areas.

**TABLE 1
Summary of Financial Information**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Table 1: Assets, Liabilities, and Net Assets			
Assets			
Total Current Assets	\$ 4,419,170	\$ 3,973,413	\$ 2,755,652
Noncurrent Cash and Investments	756,227	133,704	326,600
Capital Assets Net	10,380,886	11,199,121	12,146,330
Succeeding Year Property Tax Receivable	705,398	712,522	631,627
Other Assets	86,201	90,698	95,196
Total Assets	<u>\$ 16,347,882</u>	<u>\$ 16,109,458</u>	<u>\$ 15,955,405</u>
Liabilities			
Total Current Liabilities	\$ 1,720,484	\$ 1,424,442	\$ 1,498,876
Long-Term Debt (Less Current Maturities)	7,065,903	7,401,828	7,854,945
Deferred Revenue from Succeeding Year Property Tax Receivable	705,398	712,522	631,627
Total Liabilities	<u>9,491,785</u>	<u>9,538,792</u>	<u>9,985,448</u>
Total Net Assets	<u>6,856,097</u>	<u>6,570,666</u>	<u>5,971,560</u>
Total Liabilities and Net Assets	<u>\$ 16,347,882</u>	<u>\$ 16,109,458</u>	<u>\$ 15,957,008</u>

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Cash and Cash Equivalents and Noncurrent Cash and Investments increased significantly during 2004 and 2003. Current Assets increased by \$445,760 or 11.2% in 2004 and increased by \$1,217,761 or 44.2% in 2003. Noncurrent Cash and Investments increased in 2004 by \$622,520 or 465.6% and in 2003 decreased by \$192,896 or 59.1%. Capital Assets decreased in 2004 by \$818,235 or 7.3% and decreased in 2003 by \$947,209 or 7.8%. The current ratio (current assets divided by current liabilities) for 2004 was 2.57 and 2003 was 2.79. It is a measure of liquidity, providing an indication of the Hospital's ability to pay current liabilities; a high ratio number is preferred.

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**TABLE 2
Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 11,720,348	\$ 11,305,815	\$ 10,125,761
Operating Expenses	11,570,591	10,661,429	9,728,698
Operating Income	<u>149,757</u>	<u>644,386</u>	<u>397,063</u>
Non-Operating Revenues (Expenses)	<u>119,548</u>	<u>12,916</u>	<u>23,932</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	269,305	657,302	420,995
Capital Grants and Contributions	1,700	1,941	12,900
Restricted Contributions, Net of Pledges Written Off	<u>14,426</u>	<u>(60,137)</u>	<u>(20,774)</u>
Increase in Net Assets	<u>285,431</u>	<u>599,106</u>	<u>413,121</u>
Net Assets, Beginning of the Year	6,570,666	5,971,560	5,558,439
Net Assets, End of the Year	<u>\$ 6,856,097</u>	<u>\$ 6,570,666</u>	<u>\$ 5,971,560</u>

Net patient service revenue made up 90.3% in 2004 and 90.0% in 2003 of the DCH's total operating revenue. Due to agreements with third party payors, contractual adjustment must be subtracted from gross patient service revenue to arrive at net patient service revenue. Table 3 below shows the contractual adjustments that were recognized:

**TABLE 3
Net Patient Service Revenue and Contractual Adjustments**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenue	\$ 14,140,930	\$ 12,481,816	\$ 12,359,797
Contractual Adjustments and Provisions for Bad Debt	<u>3,557,065</u>	<u>2,306,554</u>	<u>3,319,107</u>
Net Patient Service Revenue	<u>\$ 10,583,865</u>	<u>\$ 10,175,262</u>	<u>\$ 9,040,690</u>
Contractual Adjustments and Provisions for Bad Debts as a Percent of Revenues	<u>25.15%</u>	<u>18.48%</u>	<u>26.85%</u>

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Total operating expenses increased \$909,162 or 8.5 % in 2004 and increased \$932,731 or 9.6% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 30-31 of the audited financial statements for this information. In 2004, DCH had a family practice clinic in operation. The associated expenses are shown on the Schedules of Operating Expenses under Clinic. Also increased health insurance costs are reflected as part of the increase of the Employment Benefits in the same schedule. Operating income (total operating revenue less total operating expenses) was \$149,757 in 2004 compared to \$644,386 in 2003. Other Operating Revenue increased by \$5,930 or 0.5% in 2004 and increased by \$45,479 or 4.2% in 2003. Table 4 shows the detail for this line item.

**TABLE 4
Other Operating Revenue**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues for Expenses of HHC:			
Davis County	\$ 67,567	\$ 65,583	\$ 63,731
Iowa Department of Public Health	53,216	89,056	89,665
Other Funding	69,250	64,877	49,264
County Taxes	716,646	653,103	622,816
Ambulance Reimbursement	25,000	25,000	25,000
Cafeteria	86,687	100,930	105,510
Sale of Supplies and Drugs	20,489	31,097	16,079
Rent	45,858	59,384	71,359
Purchase Discounts	21,078	19,204	8,943
Other	30,692	22,319	32,707
Total Other Revenues	<u>\$ 1,136,483</u>	<u>\$ 1,130,553</u>	<u>\$ 1,085,074</u>

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. There is a direct correlation between utilization changes and revenue changes. During 2004 there was a 6.3% increase in acute patient days, while there was a 38.1% decrease in swing bed days during the same period. The average length of stay, acute was down slightly in 2004 when compared to 2003 as was the occupancy percentage for acute and swing.

**TABLE 5
Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient Days			
Acute	2,064	1,941	2,176
Swing Bed	712	1,150	895
Newborn	79	88	82
Long Term Care	11,498	11,372	11,512
Total	<u>14,353</u>	<u>14,551</u>	<u>14,665</u>

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

**TABLE 5
Statistical Data (Continued)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Admissions			
Acute	628	564	639
Swing Bed	74	104	90
Newborn	51	42	44
Long Term Care	30	30	19
Total	<u>783</u>	<u>740</u>	<u>792</u>
Discharges			
Acute	630	556	641
Swing Bed	75	105	88
Newborn	51	42	44
Long Term Care	29	30	19
Total	<u>785</u>	<u>733</u>	<u>792</u>
Average Length of Stay, Acute	<u>3.3</u>	<u>3.5</u>	<u>3.4</u>
Beds			
Acute and Swing	25	25	25
Long Term Care	32	32	32
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	30.4%	33.9%	33.7%
Long Term Care, Based on 32 Beds	98.4%	97.4%	98.6%

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2004 and 2003 the Hospital had \$10,380,886 and \$11,199,121, respectively, invested in capital assets net of accumulated depreciation. During 2004 a new ambulance was leased via a capital lease and the Hockersmith Apartments were sold.

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Long Term Debt

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

**TABLE 6
Long-Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
1998 Revenue Notes	\$ 6,893,665	\$ 7,099,726	\$ 7,410,787
Notes Payable	174,166	210,833	247,500
Contract Payable	-	79,851	97,433
Capital Lease Obligations	<u>379,949</u>	<u>358,330</u>	<u>439,089</u>
 Total Long-Term Debt	 <u>\$ 7,447,780</u>	 <u>\$ 7,748,740</u>	 <u>\$ 8,194,809</u>

The most significant number in Table 6 is the 1998 revenue notes. The Davis County Board of Supervisors adopted a resolution authorizing the issuance of \$8,300,000 of Hospital Revenue Notes in September 1998 to finance the renovation of the Hospital. The notes are payable through September 1, 2023, with interest coupons payable at March 1 and September 1 at annual rates varying from 4.2% to 5.625%. Notes maturing on or after September 1, 2009 may be called for redemption in whole or part at principal plus accrued interest on or after September 1, 2008. Special Term Notes maturing on September 1, 2023 are subject to special obligatory redemption at principal plus accrued interest from amounts on deposit in the Contributions Fund on interest payment dates on or after September 1, 1999.

Economic Factors

The Economic trends in our community, as well as our population figures, have stayed relatively stable over the past years, and thus there has been little change in the economic profile of the community. The Davis County School District, the county's largest employer, has seen some shortfalls in its budget due to state and federal funding cuts. These cuts could have a trickle down effect on the community and the Hospital in future years. Agriculture plays an important role in our community's economics. The past year's yields will not have a huge impact on the economic situation of the community. There appears at this time to be no sign of any new industries making a move to our community nor are there any indications of any businesses closing. With that, the economic outlook for our community should remain steady.

Looking forward DCH has recruited a general surgeon to replace the communities retiring general surgeon. Facilities' planning has begun to complete the Medical Office Building (MOB), which was left unfinished at the end of the earlier renovation project. This completion is contingent upon funding from the CDBG program with the balance of the costs paid for with hospital cash reserves. Having the MOB finished would enable there to be consolidation of most of the medical resources in Bloomfield. The Hospital is able to use cash reserves to achieve this goal due to its increased liquidity. DCH is in a strong enough cash position that is has been able to invest in certificates of deposit. At year end there was \$323,523 in certificates of deposit.

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2004 AND 2003**

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Davis County Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Davis County Hospital, 507-509 North Madison, Bloomfield, IA 52537.

**DAVIS COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS	2004	2003
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,850,405	\$ 908,577
Current Portion of Noncurrent Cash and Investments	371,786	347,200
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, \$679,000; 2003, \$717,500)	1,854,637	2,046,659
Accounts Receivable - Other	34,475	25,492
Third-Party Payor Settlement Receivable	-	343,008
Inventories	265,469	254,174
Prepaid Expenses	42,398	48,303
Total Current Assets	4,419,170	3,973,413
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Scholarships	13,493	22,547
Internally Designated for Capital Improvements	563,523	-
Internally Designated for Employee Assistance	3,891	3,633
Internally Designated for Health Benefits	83,731	36,674
Restricted by Bond Agreement	371,786	347,200
Restricted by Contributors and Grantors	91,589	70,850
Less Noncurrent Cash and Investments That are Required for Current Liabilities	(371,786)	(347,200)
Noncurrent Cash and Investments	756,227	133,704
CAPITAL ASSETS, NET	10,380,886	11,199,121
SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	705,398	712,522
OTHER ASSETS		
Unamortized Financing Costs	86,201	90,698
Total Assets	\$ 16,347,882	\$ 16,109,458

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 381,877	\$ 346,912
Accounts Payable	342,256	334,578
Accrued Expenses	713,776	595,967
Accrued Interest	157,622	146,985
Third-Party Payor Settlement Payable	<u>124,953</u>	<u>-</u>
Total Current Liabilities	1,720,484	1,424,442
LONG-TERM DEBT, Less Current Maturities	7,065,903	7,401,828
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>705,398</u>	<u>712,522</u>
Total Liabilities	9,491,785	9,538,792
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,933,106	3,450,381
Restricted		
By Bond Agreement	371,786	347,200
By Contributors and Grantors	91,589	70,850
Unrestricted	<u>3,459,616</u>	<u>2,702,235</u>
Total Net Assets	<u>6,856,097</u>	<u>6,570,666</u>
Total Liabilities and Net Assets	<u>\$ 16,347,882</u>	<u>\$ 16,109,458</u>

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

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenue (net of provision for bad debts of \$511,814 in 2004 and \$31,130 in 2003)	\$ 10,583,865	\$ 10,175,262
Other Revenues	1,136,483	1,130,553
Total Operating Revenues	11,720,348	11,305,815
OPERATING EXPENSES		
Salaries and Wages	4,709,397	4,144,887
Employee Benefits	1,273,233	1,033,813
Professional Fees	940,838	1,099,451
Utilities	395,027	371,720
Insurance	144,806	114,834
Supplies and Miscellaneous	2,682,735	2,421,658
Depreciation	993,892	1,025,184
Interest & Amortization	430,663	449,882
Total Operating Expenses	11,570,591	10,661,429
OPERATING INCOME	149,757	644,386
NONOPERATING REVENUES (EXPENSES)		
Investment Income	14,328	11,825
Contributions	56,773	676
Net Gain (Loss) on Sale of Property and Equipment	48,447	415
Total Non-Operating Revenues (Expenses), Net	119,548	12,916
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	269,305	657,302
Capital Grants and Contributions	1,700	1,941
Restricted Contributions, Net of Pledges Written Off	14,426	(60,137)
Increase in Net Assets	285,431	599,106
Net Assets Beginning of the Year	6,570,666	5,971,560
Net Assets End of the Year	\$ 6,856,097	\$ 6,570,666

See accompanying Notes to Financial Statements.

**DAVIS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
JUNE 30, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 11,243,848	\$ 9,767,452
Cash Paid to Employees	(5,864,821)	(5,070,923)
Cash Paid to Suppliers	(4,161,118)	(4,221,631)
Other Receipts and Payments, Net	410,854	516,284
Net Cash Provided by Operating Activities	1,628,763	991,182
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Unrestricted Contributions	56,773	676
Restricted Contributions, Net of Pledges Written Off	16,126	(58,196)
County Taxes Received	716,646	653,103
Net Cash Provided by Non-Capital Financing Activities	789,545	595,583
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid for Interest on Long-Term Debt	(406,590)	(431,634)
Principal Payments on Long-Term Debt	(439,034)	(455,008)
Proceeds from Sale of Capital Assets	209,078	-
Acquisition of Capital Assets	(207,153)	(75,956)
Net Cash Used in Capital and Related Financing Activities	(843,699)	(962,598)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	(647,109)	176,737
Interest Income	14,328	11,825
Net Cash Provided (Used) by Investing Activities	(632,781)	188,562
 Net Increase in Cash and Cash Equivalents	941,828	812,729
 Cash and Cash Equivalents Beginning of Year	908,577	95,848
Cash and Cash Equivalents End of Year	\$ 1,850,405	\$ 908,577

See accompanying Notes to Financial Statements.

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

	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 149,757	\$ 644,386
Adjustments to Reconcile Operating Income To Net Cash Flows Provided by Operating Activities		
Provided by Operating Activities:		
Interest and Amortization Expense	430,663	449,882
Depreciation	993,892	1,025,184
County Taxes	(716,646)	(653,103)
Decrease (Increase) In:		
Patient Receivables	192,022	(477,483)
Accounts Receivable - Other	(8,983)	38,834
Third - Party Payor Settlement Receivable	343,008	69,673
Inventories	(11,295)	(13,078)
Prepaid Expenses	5,905	(6,819)
Increase (Decrease) In:		
Accounts Payable	7,678	(194,071)
Accrued Payroll and Payroll Withholdings	117,809	107,777
Third-Party Payor Settlement Payable	124,953	-
Net Cash Provided by Operating Activities	\$ 1,628,763	\$ 991,182
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
NON-CASH FINANCING ACTIVITIES		
Assets Acquired Under Capital Lease Agreement	\$ 129,135	\$ -

See accompanying Notes to Financial Statements.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Davis County Hospital ("The Hospital") is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Davis County. The Hospital provides health care services primarily to residents of Davis County and others in southeastern Iowa.

A. Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential 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 Government 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 organization 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 organization. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. 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.

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2002. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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 amount 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 reported period. Actual results could differ from those estimates.

D. Assets, Liabilities, and Net Assets

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Hospital considers money market checking, petty cash accounts and certain undesignated certificates of deposits with maturity dates of six months or less to be cash and cash equivalents.

Patient Receivables – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts and contractual adjustments from third-party payors. The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are individually analyzed for collectibility. Accounts deemed uncollectible are written-off on a monthly basis. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$679,000 and \$717,500, respectively.

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

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

Pledges Receivable – Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made to the extent deemed collectible.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property Tax Receivable - Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. 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.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

E. 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 net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bonds indentures, discussed in Note 6. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

H. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

I. 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.

J. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Total Charity Care provided amounted to \$38,067 and \$59,863 for the years ended June 30, 2004 and 2003, respectively.

K. County Tax Apportionments

Taxes levied to finance the current year are included in other operating revenue.

L. Unamortized Bond Financing Costs

Bond financing costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$4,497 for the years ended June 30, 2004 and 2003.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 2 NET PATIENT SERVICE REVENUES

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

Medicare

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Medicare cost reports through fiscal year ended June 30, 2002 have been settled.

Medicaid

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. Medicaid cost reports through June 30, 2001 have been settled.

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.

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

	<u>2004</u>	<u>2003</u>
Gross Patient Services Revenues, at Established Rates	\$ 14,140,930	\$ 12,541,679
Deductions		
Medicare	2,234,887	1,804,035
Medicaid	297,901	190,623
Provision for Bad Debts	511,814	31,130
Other	512,463	340,629
Total Deductions	<u>3,557,065</u>	<u>2,366,417</u>
Net Patient Service Revenues	<u>\$ 10,583,865</u>	<u>\$ 10,175,262</u>

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 3 PATIENT RECEIVABLES

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

	2004	2003
Receivable from Patients and Their Insurance Carriers	\$ 1,631,304	\$ 1,681,342
Receivables from Medicare	712,775	946,233
Receivables from Medicaid	189,558	136,584
Total Patient Receivables	2,533,637	2,764,159
Less Allowance for Doubtful Accounts	(679,000)	(717,500)
Patient Receivables, Net	\$ 1,854,637	\$ 2,046,659

NOTE 4 DEPOSITS AND INVESTMENTS

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

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

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

At June 30, 2004 and 2003, the Hospital had bank balances as follows:

	2004	2003
Insured or Collateralized by Iowa Insurance Trust	\$ 2,915,097	\$ 1,452,439
Carrying Amount	\$ 2,961,499	\$ 1,350,366

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of deposits and investments shown above are included in the Hospital's balance sheet as follows:

	<u>2004</u>	<u>2003</u>
Deposits	\$ 2,961,499	\$ 1,350,366
Pledges Receivable, Net	14,794	31,320
Student Loans Receivable	2,125	7,795
	<u>\$ 2,978,418</u>	<u>\$ 1,389,481</u>

Included in the following balance sheet captions

	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 1,850,405	\$ 908,577
Current Portion Of Noncurrent Cash and Investments	371,786	347,200
Noncurrent Cash and Investments		
Internally Designated for Scholarships	13,493	22,547
Internally Designated for Capital Improvements	563,523	-
Internally Designated for Employee Assistance	3,891	3,633
Internally Designated for Health Benefits	83,731	36,674
Restricted by Bond Agreement	371,786	347,200
Restricted by Contributors and Grantors	91,589	70,850
Less Noncurrent Cash and Investments That are Required for Current Liabilities	<u>(371,786)</u>	<u>(347,200)</u>
Noncurrent Cash and Investments	<u>\$ 2,978,418</u>	<u>\$ 1,389,481</u>

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2004</u>
CAPITAL ASSETS				
Land and Land Improvements	\$ 347,582	\$ 3,300	\$ (20,196)	\$ 330,686
Building	12,562,348	50,825	(193,475)	12,419,698
Fixed Equipment	1,742,235	7,670	(50,329)	1,699,576
Major Movable Equipment	4,454,595	280,632	(156,627)	4,578,600
Construction in Progress	6,109	11,904	(18,013)	-
Totals	19,112,869	<u>\$ 354,331</u>	<u>\$ (438,640)</u>	19,028,560

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	July 1, 2003	Additions	(Retirements)	June 30, 2004
ACCUMULATED DEPRECIATION				
Land Improvements	\$ 175,913	\$ 9,335	\$ (551)	\$ 184,697
Building	2,509,406	651,318	(55,218)	3,105,506
Fixed Equipment	1,567,714	36,604	(48,531)	1,555,787
Major Movable Equipment	3,660,715	296,635	(155,666)	3,801,684
Totals	7,913,748	<u>\$ 993,892</u>	<u>\$ (259,966)</u>	8,647,674
CAPITAL ASSETS, NET	<u>\$ 11,199,121</u>			<u>\$ 10,380,886</u>
	July 1, 2002	Additions	(Retirements)	June 30, 2003
CAPITAL ASSETS				
Land and Land Improvements	\$ 347,582	\$ -	\$ -	\$ 347,582
Building	12,506,755	55,593	-	12,562,348
Fixed Equipment	1,742,235	-	-	1,742,235
Major Movable Equipment	4,440,084	16,273	(1,762)	4,454,595
Construction in Progress	1,603	4,506	-	6,109
Totals	19,038,259	<u>\$ 76,372</u>	<u>\$ (1,762)</u>	19,112,869
ACCUMULATED DEPRECIATION				
Land Improvements	166,243	9,670	-	175,913
Building	1,852,974	656,432	-	2,509,406
Fixed Equipment	1,529,725	37,989	-	1,567,714
Major Movable Equipment	3,341,384	321,093	(1,762)	3,660,715
Totals	6,890,326	<u>\$ 1,025,184</u>	<u>\$ (1,762)</u>	7,913,748
CAPITAL ASSETS, NET	<u>\$ 12,147,933</u>			<u>\$ 11,199,121</u>

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT

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

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
1998 Revenue Bonds	\$ 7,280,000	\$ -	\$ (215,000)	\$ 7,065,000	\$ 225,000
Note Payable	210,833	-	(36,667)	174,166	36,667
Contract Payable	79,851	-	(79,851)	-	-
Capital Lease Obligations	358,330	129,135	(107,516)	379,949	120,210
Total Long-Term Debt	7,929,014	129,135	(439,034)	7,619,115	381,877
Discount on Revenue Bonds	(180,274)	-	8,939	(171,335)	(8,939)
Net Long-Term Debt	<u>\$ 7,748,740</u>	<u>\$ 129,135</u>	<u>\$ (430,095)</u>	<u>\$ 7,447,780</u>	<u>\$ 372,938</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
1998 Revenue Bonds	\$ 7,600,000	\$ -	\$ (320,000)	\$ 7,280,000	\$ 215,000
Note Payable	247,500	-	(36,667)	210,833	36,667
Contract Payable	97,433	-	(17,582)	79,851	19,032
Capital Lease Obligations	439,089	-	(80,759)	358,330	76,213
Total Long-Term Debt	8,384,022	-	(455,008)	7,929,014	346,912
Discount on Revenue Bonds	(189,213)	-	8,939	(180,274)	(8,939)
Net Long-Term Debt	<u>\$ 8,194,809</u>	<u>\$ -</u>	<u>\$ (446,069)</u>	<u>\$ 7,748,740</u>	<u>\$ 337,973</u>

Hospital Revenue Notes, Series 1998

The Board of Supervisors of Davis County, Iowa adopted a resolution authorizing the issuance of \$8,300,000 of Hospital Revenue Bonds Series 1998 dated September 1, 1998, to finance the constructing, remodeling, and equipping of the Hospital. The Bonds are payable through September 1, 2023, with interest coupons payable at March 1 and September 1 at annual rates varying from 4.2% to 5.625%. Bonds maturing on or after September 1, 2009 may be called for redemption in whole or part at principal plus accrued interest on or after September 1, 2008. Special Term Bonds maturing on September 1, 2023 are subject to special obligatory redemption at principal plus accrued interest from amounts on deposit in the Contributions Fund (in multiples of \$5,000) on interest payments dates on or after September 1, 1999.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Note Payable

The Board of Supervisors of Davis County, Iowa adopted a resolution authorizing the issuance of a \$330,000 Promissory Note as evidence of its obligation in connection with a certain Rural Economic Loan Agreement between Davis County, Iowa and a Cooperative. The Note is dated June 17, 1999 and is payable exclusively from the net revenues of the Hospital. The loan is to foster economic development in rural areas and is to be solely to equip, renovate, enlarge, and improve the Hospital. The loan is payable in 36 quarterly installments of \$9,167 without interest starting June 2000, through March 2008.

Contract Payable

Contract payable for real estate is payable in quarterly installments of \$6,215 including interest at 8%, due March 1, 2007. The real estate is pledged as collateral for the contract payable. During fiscal year 2004 the real estate pledged as collateral was sold and a portion of the proceeds were used to payoff the contract.

Obligations Under Capital Lease

The Hospital has entered into capital lease obligations for the purchase of equipment. The equipment and the related liability under the capital leases were recorded at the present value of the future payments due under the leases as determined with various discount rates ranging from 5.6% to 7.4%.

Discount on Revenue Bonds

The Hospital is amortizing the discount on the revenue bonds over the life of the bonds.

Aggregate Long-Term Debt Requirements

The aggregate future principal and interest payment requirements for long-term debt are as follows:

<u>Year Ending June 30:</u>	<u>Long Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 261,667	\$ 383,455	\$ 120,354	\$ 15,029
2006	266,667	372,609	126,895	9,921
2007	281,667	360,895	132,700	2,144
2008	291,667	348,431	-	-
2009	297,500	335,032	-	-
2010-2014	1,575,000	1,442,808	-	-
2015-2019	2,035,000	953,502	-	-
2020-2024	2,230,000	310,884	-	-
	<u>\$ 7,239,168</u>	<u>\$ 4,507,616</u>	<u>\$ 379,949</u>	<u>\$ 27,094</u>

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

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Total interest cost was \$426,166 and \$445,385 for the years ended June 30, 2004 and 2003, respectively.

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

	2004	2003
Moveable Equipment	\$ 636,770	\$ 507,635
Less Accumulated Depreciation	(336,935)	(217,263)
Total	\$ 299,835	\$ 290,372

NOTE 7 PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$265,579, \$230,952, and \$227,916, respectively, equal to the required contributions for each year.

NOTE 8 RELATED ORGANIZATION

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines, under which Mercy Medical Center – Des Moines provides management consultation and other services to Davis County Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Davis County Hospital. Expenses for the services received amounted to approximately \$67,000 and \$19,000 for the years ended June 30, 2004 and 2003, respectively.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 9 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital 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.

Self-Funded Employee Health Insurance

The Hospital has elected to self-insure their employee health insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not yet paid at the end of the year.

REQUIRED SUPPLEMENTARY INFORMATION

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**DAVIS COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2004**

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 716,646	\$ -	\$ 716,646	\$ 712,522	\$ 4,124
Estimated Other Revenues/Receipts	11,139,376	811,631	11,951,007	8,454,004	3,497,003
	<u>11,856,022</u>	<u>811,631</u>	<u>12,667,653</u>	<u>9,166,526</u>	<u>3,501,127</u>
Expenses/Disbursements	11,570,591	155,234	11,725,825	11,123,083	602,742
Net	285,431	656,397	941,828	(1,956,557)	2,898,385
Balance Beginning of Year	<u>6,570,666</u>	<u>(5,662,089)</u>	<u>908,577</u>	<u>5,357,750</u>	<u>(4,449,173)</u>
Balance End of Year	<u><u>\$ 6,856,097</u></u>	<u><u>\$ (5,005,692)</u></u>	<u><u>\$ 1,850,405</u></u>	<u><u>\$ 3,401,193</u></u>	<u><u>\$ (1,550,788)</u></u>

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OTHER SUPPLEMENTARY INFORMATION

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

	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,001,898	\$ 888,295
Intensive Care	13,370	6,445
Swing Bed	275,495	425,765
INN Care	1,267,834	1,205,962
Nursery	33,080	34,022
Total	<u>2,591,677</u>	<u>2,560,489</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	1,160,655	1,119,897
Recovery Room	216,113	179,140
Delivery and Labor Room	27,975	21,688
Anesthesiology	148,116	154,156
Radiology	2,779,801	2,471,618
Ambulance	321,999	283,123
Home Health Care	117,900	126,008
Laboratory	1,607,352	1,330,705
Intravenous Therapy	236,346	209,656
Respiratory Therapy	543,883	376,956
Physical Therapy	1,558,166	1,492,565
Speech Therapy	21,843	12,906
Electrocardiology	98,206	76,418
Cardiac Rehabilitation	78,635	33,624
Electroencephalography	8,015	4,836
Medical and Surgical Supplies	352,207	309,904
Pharmacy	1,361,700	1,083,552
Emergency	782,470	694,438
Clinic	165,938	-
Total	<u>11,587,320</u>	<u>9,981,190</u>
Charity Care	<u>(38,067)</u>	<u>(59,863)</u>
Total Patient Service Revenues	14,140,930	12,481,816
Adjustments to Patient Service Revenues	<u>(3,557,065)</u>	<u>(2,306,554)</u>
Net Patient Service Revenues	<u>\$ 10,583,865</u>	<u>\$ 10,175,262</u>

INPATIENTS		OUTPATIENTS	
2004	2003	2004	2003
\$ 1,001,898	\$ 888,295	\$ -	\$ -
13,370	6,445	-	-
275,495	425,765	-	-
1,267,834	1,205,962	-	-
33,080	34,022	-	-
<u>2,591,677</u>	<u>2,560,489</u>	-	-
231,387	185,523	929,268	934,374
45,484	30,361	170,629	148,779
21,623	16,183	6,352	5,505
44,882	38,190	103,234	115,966
116,486	92,629	2,663,315	2,378,989
2,612	1,218	319,387	281,905
-	-	117,900	126,008
356,820	318,137	1,250,532	1,012,568
179,748	161,835	56,598	47,821
389,426	264,002	154,457	112,954
363,628	446,065	1,194,538	1,046,500
6,859	8,387	14,984	4,519
19,234	14,100	78,972	62,318
-	85	78,635	33,539
687	220	7,328	4,616
194,623	166,216	157,584	143,688
656,396	599,381	705,304	484,171
102,217	94,248	680,253	600,190
-	-	165,938	-
<u>2,732,112</u>	<u>2,436,780</u>	<u>8,855,208</u>	<u>7,544,410</u>
<u>\$ 5,323,789</u>	<u>\$ 4,997,269</u>	<u>\$ 8,855,208</u>	<u>\$ 7,544,410</u>

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**DAVIS COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 2,234,887	\$ 1,804,035
Contractual Adjustments - Medicaid	297,901	190,623
Provision for Bad Debts	511,814	31,130
Other Allowances and Adjustments	<u>512,463</u>	<u>280,766</u>
 Total Adjustments	 <u>\$ 3,557,065</u>	 <u>\$ 2,306,554</u>
OTHER REVENUES		
Revenues for Expenses of HHC:		
Davis County	\$ 67,567	\$ 65,583
Iowa Department of Public Health	53,216	89,056
Other Funding	69,250	64,877
County Taxes	716,646	653,103
Ambulance Reimbursement	25,000	25,000
Cafeteria	86,687	100,930
Sale of Supplies and Drugs	20,489	31,097
Rent	45,858	59,384
Purchase Discounts	21,078	19,204
Other	<u>30,692</u>	<u>22,319</u>
 Total Other Revenues	 <u>\$ 1,136,483</u>	 <u>\$ 1,130,553</u>

**DAVIS COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Employee Benefits	-	-
Administrative and General	558,214	509,636
Purchasing	49,899	39,936
Operation of Plant	207,306	181,382
Laundry and Linen	15,573	13,978
Housekeeping	185,264	168,197
Dietary	232,135	225,679
Nursing Administration	242,765	244,965
Medical Records	102,843	88,939
Adults and Pediatrics	614,715	576,580
Intensive Care Unit	5,201	13,881
Nursing Home	599,601	569,343
Operating Room	135,831	143,190
OB, Delivery and Labor Room	53,667	49,765
Anesthesiology	-	-
Radiology	179,349	139,967
Laboratory	220,689	205,725
Respiratory Therapy	100,664	77,232
Physical Therapy	40,131	43,314
Speech Therapy	-	-
Cardiac Rehabilitation	32,929	18,587
Electroencephalography	-	-
Medical Supplies Charged to Patients	-	-
Drugs Charged to Patients	115,012	109,456
Emergency Room	255,610	243,433
Ambulance Service	205,223	172,690
Clinic	257,615	21,000
Home Health	203,502	190,631
Interest	-	-
Professional Standards Review and Quality Improvement	95,659	97,381
Total Expenses	\$ 4,709,397	\$ 4,144,887

OTHER		TOTAL	
2004	2003	2004	2003
\$ 993,892	\$ 1,025,184	\$ 993,892	\$ 1,025,184
1,273,233	1,033,813	1,273,233	1,033,813
583,225	515,628	1,141,439	1,025,264
6,465	6,905	56,364	46,841
495,253	427,226	702,559	608,608
75,510	76,769	91,083	90,747
76,651	66,216	261,915	234,413
237,384	225,191	469,519	450,870
19,396	12,037	262,161	257,002
44,720	36,674	147,563	125,613
44,597	36,201	659,312	612,781
1,633	4,081	6,834	17,962
32,332	23,845	631,933	593,188
54,669	54,552	190,500	197,742
6,484	5,596	60,151	55,361
136,819	146,343	136,819	146,343
412,285	446,559	591,634	586,526
304,654	300,386	525,343	506,111
79,366	63,319	180,030	140,551
667,690	644,788	707,821	688,102
14,600	10,295	14,600	10,295
2,372	2,027	35,301	20,614
3,264	2,112	3,264	2,112
136,673	143,377	136,673	143,377
454,947	323,147	569,959	432,603
125,432	327,171	381,042	570,604
46,612	26,178	251,835	198,868
43,456	2,403	301,071	23,403
52,384	72,559	255,886	263,190
430,663	449,882	430,663	449,882
4,533	6,078	100,192	103,459
<u>\$ 6,861,194</u>	<u>\$ 6,516,542</u>	<u>\$ 11,570,591</u>	<u>\$ 10,661,429</u>

**DAVIS COUNTY HOSPITAL
SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
Inhouse and Unbilled Patients	\$ 1,069,459	35.2 %	\$ 1,292,341	38.1 %
0-30 days	199,552	6.6	188,692	5.6
31-60 Days	532,257	17.5	572,977	16.9
61-90 Days	194,177	6.4	298,651	8.8
91 Days and Over	1,038,792	34.3	1,042,598	30.6
Total Accounts Receivable	<u>3,034,237</u>	100.00 %	<u>3,395,259</u>	100.00 %

ALLOWANCES

Contractual -		
Medicare	407,600	496,100
Medicaid	93,000	135,000
Doubtful Accounts	679,000	717,500
Net Accounts Receivable	<u>\$ 1,854,637</u>	<u>\$ 2,046,659</u>

Net Patient Service Revenue per Calendar Day (Excluding Provision for Doubtful Accounts)	<u>30,399</u>	<u>27,963</u>
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Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>61</u>	<u>73</u>
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Analysis of Allowance for Doubtful Accounts

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 717,500		\$ 425,000	
Add:				
Provision for Doubtful Accounts	511,814	4.84 %	31,130	0.31 %
Recoveries Previously Written Off	156,604	1.48 %	97,485	0.96 %
Accounts Previously Written Off and Transferred Back to Accounts Receivable	<u>119,602</u>	1.13 %	<u>414,763</u>	4.08 %
	1,505,520		968,378	
Deduct:				
Accounts Written Off	<u>(826,520)</u>	(7.81)%	<u>(250,878)</u>	(2.47)%
Ending Balance	<u>\$ 679,000</u>		<u>\$ 717,500</u>	

**DAVIS COUNTY HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
INVENTORIES		
Central Stores	\$ 26,887	\$ 37,324
Pharmacy	80,772	75,231
Dietary	13,965	15,569
Laboratory	16,185	13,018
Office Supplies	9,886	9,300
Floor Supplies	113,286	99,244
Fuel Oil	4,488	4,488
 Total Inventories	 \$ 265,469	 \$ 254,174
 PREPAID EXPENSES		
Insurance	\$ 17,173	\$ 20,048
Service Contracts	15,525	15,403
Dues	7,215	7,072
Other	2,485	5,780
 Total Prepaid Expenses	 \$ 42,398	 \$ 48,303

**DAVIS COUNTY HOSPITAL
SCHEDULE OF INSURANCE
YEAR ENDED JUNE 30, 2004**

Chubb Group of Insurance (policy expiration June 16, 2005) Building and contents, fire and extended coverage (100% co-insurance, replacement value)	\$21,917,240 \$5,000 deductible
Earthquake (policy expiration June 16, 2005)	\$10,000,000 \$50,000 deductible
Blanket earnings and expense (policy expiration June 16, 2005)	\$3,166,200
Accounts receivable (policy expiration June 16, 2005)	\$250,000
General liability – PIC Wisconsin (policy expiration June 16, 2005)	\$1,000,000/3,000,000 \$10,000 deductible
Healthcare facility medical professional liability – PIC Wisconsin	\$1,000,000/3,000,000
Owned automobiles – Chubb Group of Insurance	
Liability	\$1,000,000
Collision and Comprehensive	\$1,000,000
Uninsured/underinsured motorist	\$1,000,000 \$1,000 deductible
Hired individuals/nonowned automobiles	
Liability	\$1,000,000
Blanket fidelity bond	
Employees and Board Members	\$50,000 \$1,000 deductible
Excess coverage on covered individuals	\$200,000
Boiler (Included in Blanket)	
Traveler's Insurance (policy expiration June 16, 2005)	
Directors' and Officers' liability	\$1,000,000 \$25,000 deductible
United Fire and Casualty Company	
Surety bonding	\$10,000
Farm Bureau Financial Services (policy expiration April 1, 2005)	
Workers' compensation	Statutory
Petroleum Marketers Mutual Storage Tank (policy expiration March 25, 2005)	
Financial Responsibility Program	\$500,000/\$1,000,000 \$10,000 deductible

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**DAVIS COUNTY HOSPITAL
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
PATIENT DAYS		
Acute	2,064	1,941
Swing Bed	712	1,150
Newborn	79	88
Long Term Care	<u>11,498</u>	<u>11,372</u>
Totals	<u><u>14,353</u></u>	<u><u>14,551</u></u>
ADMISSIONS		
Acute	628	564
Swing Bed	74	104
Newborn	51	42
Long Term Care	<u>30</u>	<u>30</u>
Totals	<u><u>783</u></u>	<u><u>740</u></u>
DISCHARGES		
Acute	630	556
Swing Bed	75	105
Newborn	51	42
Long Term Care	<u>29</u>	<u>30</u>
Totals	<u><u>785</u></u>	<u><u>733</u></u>
AVERAGE LENGTH OF STAY, ACUTE	<u>3.3</u>	<u>3.5</u>
BEDS		
Acute and Swing Bed	25	25
Long Term Care	32	32
OCCUPANCY PERCENTAGE		
Acute, Based on 25 Beds	30.4%	33.9%
Long Term Care, Based on 32 Beds	<u>98.4%</u>	<u>97.4%</u>

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

Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the financial statements of Davis County Hospital, which collectively comprise Davis County Hospital's basic financial statements as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Davis County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 operations of the internal control over financial reporting that, in our judgment, could adversely affect Davis County 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.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, 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 Davis County 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, noncompliance 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 noncompliance 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 Davis County Hospital in a separate letter dated September 16, 2004.

This report is intended solely for the information and use of the Board of Trustees, management, employees, and citizens of Davis County and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 16, 2004

**DAVIS COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

Part I: FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

04-1 OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 CERTIFIED BUDGET

Hospital based cash expenditures during the year ended June 30, 2004 did exceed budgeted amounts.

Recommendation – To file amended budgeted if expenses are anticipated to exceed budgeted amounts.

Response – Will monitor actual to budgeted expenses

Conclusion – Response accepted.

04-3 QUESTIONABLE EXPENDITURES

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

04-4 TRAVEL EXPENSES

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

04-5 BUSINESS TRANSACTIONS

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

04-6 BOARD MINUTES

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

04-7 DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.

04-8 PUBLICATION OF BILLS ALLOWED AND SALARIES

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the country as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish schedules of bills allowed and a schedule of salaries paid as required by the Code.

**DAVIS COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

Part II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

04-1 REPORTABLE CONDITIONS

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 accountant at the Home Health Agency does the monthly billing, received the payments, prepared the bank deposits, and posts and maintains the accounts receivable and revenue journals and subsidiary journals.

Recommendation – To assign the cash receipts and bank deposit duties to a different employee. By doing this, another person will be involved within the operations of billing and accounts receivable systems and a system of checks and balances will be restored.

Response – We will revise our procedures as suggested

Conclusion – Response accepted.

INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the primary government financial statements of Davis County Hospital as of June 30, 2004, and have issued our report thereon dated September 16, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that Davis County Hospital was not in compliance with any of the terms, covenants, provisions or conditions of Section Fifteen "Patient Rates and Charges", Section Sixteen "Application of Revenues; Sinking Fund; Contributions Fund and Investments", and Section Seventeen "Covenants Regarding the Operation of the Hospital" of the loan agreement dated September 11, 1988 relating to the \$8,300,000 issue of Hospital Revenue Bonds, Series 1998, with the County of Davis, Iowa, 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 Davis County Hospital, and the County of Davis, Iowa and is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 16, 2004