

**DECATUR COUNTY HOSPITAL**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

**DECATUR COUNTY HOSPITAL  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

<b>SCHEDULE OF OFFICIALS</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEETS</b>	<b>10</b>
<b>STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS</b>	<b>12</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>13</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>15</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>BUDEGTARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND     CHANGES IN NET ASSETS</b>	<b>26</b>
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF NET PATIENT SERVICE REVENUES</b>	<b>27</b>
<b>SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER     REVENUES</b>	<b>29</b>
<b>SCHEDULES OF OPERATING EXPENSES</b>	<b>30</b>
<b>SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM     PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS</b>	<b>32</b>
<b>SCHEDULES OF INVENTORIES AND PREPAID EXPENSES</b>	<b>33</b>
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>34</b>
<b>SCHEDULE OF FINDINGS</b>	<b>36</b>

DECATUR COUNTY HOSPITAL  
SCHEDULE OF OFFICIALS  
YEAR ENDED JUNE 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Mike Schmidt	Chairman	December 31, 2004
Bill Morain	Vice Chairman	December 31, 2006
Guy Clark	Treasurer	December 31, 2004
Tom Thomas	Secretary	December 31, 2006
Terry Geiger	Member	December 31, 2004
Gwen Simpson	Member	December 31, 2006
Sherry Untiedt	Member	December 31, 2008

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Hospital Officials

Monica Gustafson	Administrator
Paula Pickens	Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Decatur County Hospital  
Leon, Iowa

We have audited the accompanying balance sheets of Decatur County Hospital as of June 30, 2004 and 2003, and the related statements of revenues and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, 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.

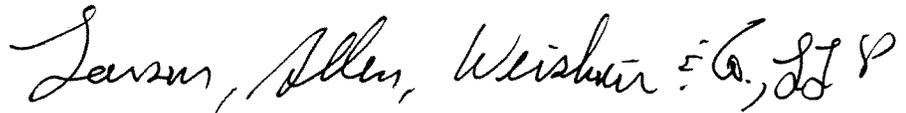
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted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

As described in Note 1 to the financial statements, Decatur County Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Disclosures* as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003, have been reclassified to conform to the current year presentation.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004 on our consideration of Decatur 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 audits.

The management's discussion and analysis on pages 3 through 9 and budgetary comparison schedule of revenues, expenses and changes in net assets on page 26 are not a required part of the basic financial statements, but are required 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 made for the purpose of forming an opinion on Decatur County Hospital's basic financial statements. The other supplementary information from pages 27 to 33 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
September 17, 2004

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

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

**Using This Annual Report**

The June 30, 2004 and 2003 Independent Auditors' Report includes audited financial statements that include:

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

**Financial Highlights**

- The Hospital's total assets increased in each of the last two years with a \$320,205 or 4.4% increase in 2004 and a \$704,102 or 10.57% increase in 2003.
- The Hospital's net assets increased in 2004 by \$139,413 or 28.8%, and increased \$30,006 or .6%.
- The Hospital reported operating income of \$101,442 in 2004 and an operating loss of \$(13,478) in 2003.

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

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

Required supplementary information to the above statements is provided in:

- Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets

Other supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Age Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets  
(Continued)**

There were two significant changes in Decatur County Hospital's accounting policies for time period covered by this report:

- The amount for an item to qualify as a capital expenditure increased from \$500 to \$2,500 dollars in 2003 and to \$5,000 in June 2004.
- A policy was established to limit the length of time extended for payment of self-pay balances on Accounts Receivable to nine months, after which it is sent to an outside collection agency. This more aggressive collection policy has decreased the AR balance, the days in AR, and the Allowance for Bad Debt from previous years, but has initially increased Bad Debt Expense in the first year of this policy.

**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 in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Decatur County and the surrounding areas.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 580,150	\$ 878,261	\$ 768,481
Patients Receivables, Net	1,024,206	943,358	1,017,289
Other Current Assets	408,329	623,964	261,424
Noncurrent Cash and Investments	1,274,355	1,103,768	1,147,305
Capital Assets, Net	3,840,510	3,257,897	2,898,539
Succeeding Year Property Tax Receivable	555,581	555,678	556,489
Restricted Assets	-	-	9,296
<b>Total Assets</b>	<u>\$ 7,683,131</u>	<u>\$ 7,362,926</u>	<u>\$ 6,658,823</u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 716,820	\$ 785,941	\$ 597,348
Long-Term Debt (Less Current Maturities)	1,566,099	1,316,089	829,775
Deferred Revenue from Succeeding Year Property Tax Receivable	555,581	555,678	556,489
<b>Total Liabilities</b>	<u>2,838,500</u>	<u>2,657,708</u>	<u>1,983,612</u>
<b>Total Net Assets</b>	4,844,631	4,705,218	4,665,916
Restricted Net Assets	-	-	9,296
<b>Total Liabilities and Net Assets</b>	<u>\$ 7,683,131</u>	<u>\$ 7,362,926</u>	<u>\$ 6,658,824</u>

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Financial Analysis of the Hospital (Continued)**

Days of Cash on Hand for both current and noncurrent cash and investments fluctuated from 95 days in 2002, 99 days in 2003, and 88 in 2004. Days in Net AR remained between 50 to 55 days for the entire 3-year period shown on this report. Net Capital Assets increased 18% in 2004 and 12% in 2003, which were funded in part by Long-Term Notes and Capital Leases, and in part by cash outlays. Long-term debt increased 19% in 2004 and 59% in 2003. The average age of plant, which indicates the financial age of the fixed assets of the hospital, decreased from 16 years in 2003 to 7 years in 2004. There has been no significant change in Net Assets in the past two years.

The current ratio (current assets divided by current liabilities) was 2.81 in 2004, 3.11 in 2003, and 3.43 in 2002. 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>
Net Patient Service Revenue	\$ 7,255,005	\$ 6,684,923	\$ 6,807,319
Other Operating Revenue	659,050	670,446	645,931
Operating Expenses	<u>7,812,613</u>	<u>7,368,847</u>	<u>7,479,995</u>
Operating Income (Loss)	101,442	(13,478)	(26,745)
Non-Operating Revenues (Expenses)	<u>37,971</u>	<u>43,484</u>	<u>53,355</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	139,413	30,006	26,610
Capital Grants and Contributions	<u>-</u>	<u>-</u>	<u>440</u>
Increase in Net Assets	139,413	30,006	27,050
Net Assets, Beginning of Year	<u>4,705,218</u>	<u>4,675,212</u>	<u>4,648,162</u>
Net Assets, End of Year	<u>\$ 4,844,631</u>	<u>\$ 4,705,218</u>	<u>\$ 4,675,212</u>

Net patient service revenue made up 92% in 2004 and 91% in 2003 of the Decatur County Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. 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 Revenues	\$ 9,111,222	\$ 8,307,039	\$ 10,294,504
Contractual Adjustments and Provisions for Bad Debt	1,856,217	1,922,116	3,261,033
Net Patient Service Revenue	<u>\$ 7,255,005</u>	<u>\$ 6,384,923</u>	<u>\$ 7,033,471</u>
Contractual Adjustments as a Percent of Revenues	<u>20.37%</u>	<u>23.14%</u>	<u>31.68%</u>

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Financial Analysis of the Hospital (Continued)**

Total operating expenses increased \$443,766 or 6% in 2004 and decreased \$111,148 or 1.5% 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, depreciation expense increased \$82,096 or 24%, resulting from the capital improvements and equipment purchases. Interest expense increased \$18,344, or 22% because of the additional long-term debt and capital leases.

Salaries and employee benefits decreased by 5% due to the final closure of the inpatient Focus unit, while medical professional fees increased 20%, and supplies and miscellaneous increased 25%, while the hospital improved services in the Operating Room, Emergency Room, Anesthesiology, and Radiology.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue, excluding tax revenue) was -6.3% in 2004, up from -8.5% in 2003. Operating income in 2004 was \$101,442 and in 2003 was \$(13,478).

Other Operating Revenue decreased by \$11,396 or 1.7% in 2004 and by \$43,106 or 7% in 2003, due to an increase in county taxes. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
County Taxes	\$ 583,008	\$ 584,707	\$ 532,149
Cafeteria	44,388	55,952	68,304
Laundry	850	765	675
Medical Records Transcript Fees	3,450	2,493	1,588
Medicaid Administrative Claiming Reimbursement	3,462	12,306	16,415
Other	23,892	14,223	8,209
Total Other Revenues	<u>\$ 659,050</u>	<u>\$ 670,446</u>	<u>\$ 627,340</u>

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**HOSPITAL STATISTICAL DATA**

Table 5 shows the Hospital's statistical data. FY 2004 shows a 15% increase for Acute, Swing Bed and Respite patient days, while the decrease in days from 2003 to 2004 shows the final closure of the PMIC, Residential and Focus Unit.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	1,006	971	1,192
Swing Bed	553	442	581
Respite	102	29	12
PMIC, Residential & Focus	-	2,721	9,253
Newborn	74	114	60
Total	<u>1,735</u>	<u>4,277</u>	<u>11,098</u>
<b>Admissions</b>			
Acute	341	350	451
Swing Bed	62	60	72
Respite	7	3	5
PMIC, Residential & Focus	-	6	170
Newborn	37	57	36
Total	<u>447</u>	<u>476</u>	<u>734</u>
<b>Discharges</b>			
Acute	336	349	449
Swing Bed	52	62	72
Respite	9	3	5
PMIC, Residential & Focus	-	131	453
Newborn	40	59	37
Total	<u>437</u>	<u>604</u>	<u>1,016</u>
<b>Average Length of Stay, Acute</b>	<u>2.95</u>	<u>2.77</u>	<u>2.64</u>
<b>Beds</b>			
Acute, Swing & Respite	25	25	25
<b>Occupancy Percentage</b>			
Acute, Swing & Respite, Based on 25 Beds	18.2%	15.8%	19.5%

**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 the Hospital had \$3,840,510 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$1,003,209 for land improvements, building improvements, and new equipment, which includes \$569,522 acquired under capital lease agreements.

In 2003 the Hospital expended \$697,859 for building improvements and new equipment, which included \$225,000 for radiology equipment acquired under capital lease agreements.

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Long Term Debt**

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

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
1. Note Payable - Great Western Bank The 1998 purchase and renovation of the "Focus" Building was refinanced in 2000 for \$940,000 by Great Western Bank, and will mature in 2015.	\$ 772,741	\$ 820,109	\$ 864,744
2. Note Payable - American State Bank This note is to finance the renovation of mechanical and electrical systems at the Hospital. It was originally financed at \$465,000 in 2002 and will mature in 2012.	397,166	431,936	-
3. Capital Lease - Mammography System A Mammography System was purchased for \$63,800 in 1999 under a capital lease, which expired in 2004.	-	9,664	23,533
4. Capital Lease - Radiology/Fluoroscopy Equipment Radiology equipment was purchased for \$225,000 in FY 2003 under a capital lease, which will expire in 2007.	149,252	191,427	-
5. Capital Lease - CPSI Computer System The Hospital expended \$675,308 for a Hospital Information System in FY 2004. The major portion of the purchase was funded by a capital lease for \$500,000, which will expire in 2008.	418,132	-	-
6. Capital Lease - Colonoscopes The Hospital purchased colonoscopes in 2004 for \$70,488 under a capital lease, which will expire in 2009.	69,522	-	-
<b>Total Long Term Debt</b>	<u>\$ 1,806,813</u>	<u>\$ 1,453,136</u>	<u>\$ 888,277</u>

**DECATUR COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2004**

**Economic Factors**

Decatur County is the poorest county in Iowa, with 57.2% of the population of the county below 200% of the Federal Poverty Level (2000 Census). The unemployment rate is 6.8%, which is higher than the state rate of 3.8%. High unemployment and employment in low paying jobs that do not offer health insurance are main contributors to a high uninsured rate. This situation does not appear to be improving for Decatur County.

On the positive side, a non-profit organization in the area, Community Health Centers of Southern Iowa, Inc. dba Healthcare Development of Lamoni, Inc. recently applied for and received a federal grant of \$650,000 per year to assist with the operation of a Community Health Center, which will improve access to primary healthcare services for many of the people in the area who cannot afford basic healthcare. The Community Health Center plans to begin operations on April 1, 2005.

Although the plans for the Community Health Center have not fully materialized at this time, Decatur County Hospital anticipates entering into contractual arrangements with the CHC for Laboratory and X-Ray services in 2005.

**Contacting the Hospital**

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Decatur 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 Decatur County Hospital, 1405 NW Church Street, Leon, IA 50144. Phone 641-446-4871.

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

	2004	2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 580,150	\$ 878,261
Patient Receivables, Less Allowance for Uncollectible Accounts of 2004 \$230,500; 2003 \$357,600)	1,024,206	943,358
Other Receivables	14,443	16,707
Third Party Payor Settlement Receivable	185,071	394,944
Inventory	168,095	192,143
Prepaid Expenses	40,720	20,170
Total Current Assets	2,012,685	2,445,583
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Acquisitions	1,274,355	1,103,768
Total Noncurrent Cash and Investments	1,274,355	1,103,768
<b>SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	555,581	555,678
<b>CAPITAL ASSETS, NET</b>	3,840,510	3,257,897
Total Assets	\$ 7,683,131	\$ 7,362,926

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 234,295	\$ 197,024
Construction Accounts Payable	-	111,132
Current Maturities of Long-Term Debt	240,714	137,047
Accrued Payroll and Related Liabilities	226,543	333,146
Other Accrued Liabilities	15,268	7,592
Total Current Liabilities	<u>716,820</u>	<u>785,941</u>
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	555,581	555,678
<b>LONG-TERM DEBT, Less Current Maturities</b>	<u>1,566,099</u>	<u>1,316,089</u>
Total Liabilities	2,838,500	2,657,708
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	2,033,697	1,804,761
Unrestricted	2,810,934	2,900,457
Total Net Assets	<u>4,844,631</u>	<u>4,705,218</u>
Total Liabilities and Net Assets	<u>\$ 7,683,131</u>	<u>\$ 7,362,926</u>

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

	2004	2003
<b>UNRESTRICTED REVENUES</b>		
Net Patient Service Revenue (Net of Provision for Bad Debt of (\$279,592 in 2004 and \$246,874 in 2003))	\$ 7,255,005	\$ 6,684,923
Other Revenues	659,050	670,446
Total Revenues	7,914,055	7,355,369
<b>EXPENSES</b>		
Salaries	2,993,534	3,139,581
Employee Benefits	808,010	866,497
Medical Professional Fees	479,549	400,545
Utilities	238,628	233,799
Management, Legal, and Accounting Fees	68,822	76,308
Insurance	64,790	123,158
Supplies and Miscellaneous	2,637,966	2,108,085
Depreciation	420,596	338,500
Interest	100,718	82,374
Total Expenses	7,812,613	7,368,847
<b>OPERATING INCOME (LOSS)</b>	101,442	(13,478)
<b>NON-OPERATING GAINS</b>		
Investment Income	21,173	29,991
Noncapital Grants and Contributions	16,798	13,493
Total Non-operating Gains	37,971	43,484
<b>EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	139,413	30,006
Net Assets Beginning of Year	4,705,218	4,675,212
Net Assets End of Year	\$ 4,844,631	\$ 4,705,218

See accompanying Notes to Financial Statements.

**DECATUR COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 7,384,030	\$ 6,386,903
Cash Paid to Employees	(3,900,471)	(4,054,107)
Cash Paid to Suppliers	(3,557,854)	(2,774,406)
Other Receipts and Payments, Net	659,050	670,446
Net Cash Provided by Operating Activities	584,755	228,836
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Contributions	16,798	13,493
Net Cash Provided by Non-Capital Financing Activities	16,798	13,493
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Property and Equipment	(433,688)	(472,859)
Payments on Long Term Debt	(215,845)	(120,490)
Proceeds from Issuance of Long Term Debt	-	460,350
Interest Payments on Long-Term Debt	(100,718)	(82,374)
Net Cash Used by Capital and Related Financing Activities	(750,251)	(215,373)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in Noncurrent Cash and Investments	(170,586)	52,833
Interest Earned on Investments	21,173	29,991
Net Cash Provided (Used) by Financing Activities	(149,413)	82,824
 <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(298,111)	109,780
 Cash and Cash Equivalents - Beginning	878,261	768,481
 <b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 580,150	\$ 878,261

See accompanying Notes to Financial Statements.

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

	2004	2003
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 101,442	\$ (13,478)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by Operating Activities		
Interest Expense Considered Capital Financing Activity	100,718	82,374
Depreciation	420,596	338,500
Decrease (Increase) in -		
Patient Receivables	(80,848)	73,931
Other Receivables	2,264	22,301
Inventories	24,048	(25,893)
Prepaid Expenses	(20,550)	13,003
Third Party Payor Settlements Receivable	209,873	(371,951)
Increase (Decrease) in -		
Accounts Payable	(73,861)	158,078
Accrued Salaries, Wages, Benefits and Other	(98,927)	(48,029)
Net Cash Provided by Operating Activities	\$ 584,755	\$ 228,836
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
<b>NON-CASH FINANCING ACTIVITIES</b>		
Assets Acquired Under Capital Lease Agreement	\$ 569,522	\$ 225,000

See accompanying Notes to Financial Statements.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Decatur County Hospital (the Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Leon, Iowa and the surrounding area. The Hospital is exempt from income taxes and sales taxes as a political subdivision of the State of Iowa.

**A. Reporting Entity**

For financial reporting purposes, Decatur County Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. Decatur County Hospital has no component units, which meet the Governmental Accounting Standards Board criteria.

**B. Use of Estimates**

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

**C. Basis of Accounting**

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 Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. 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.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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, that do not conflict with or contradict GASB pronouncements.

**D. Assets, Liabilities and Net Assets**

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

*Cash and Cash Equivalents* – For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

*Patient Receivables* – The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 60 days of receipt of invoice or claim submitted. Accounts past due more than 60 days are turned over to a collection agency. An allowance is estimated for other accounts based on historical experience. At June 30, 2004 and 2003, the allowance for uncollectible accounts was approximately \$230,500 and \$357,600, respectively.

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

*Capital Assets, Net* – Capital assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the property. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than \$5,000 are expensed as incurred. Capital expenditures of \$5,000 or greater are capitalized and amortized over the useful life of the asset.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

*Investments* – Investments are valued at purchase cost plus accumulated interest, or fair market value. Investments consist of non-negotiable certificates of deposit and equity securities. Investments in equity securities are stated at fair value.

*Noncurrent Cash and Investments* - Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees. 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 for Succeeding Year Property Receivable* – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

*Net Assets* – Net assets of the Hospital are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted. The Hospital had no restricted net assets at June 30, 2004 and 2003.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Contributions**

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted 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.

**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. Compensated Absences**

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as PTO benefits at the time benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

**H. Net Patient Service Revenue**

Net Patient Service Revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**I. Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Total charity care provided amounted to \$12,768 and \$14,041 for the years ended June 30, 2004 and 2003, respectively.

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

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. County Tax Revenue**

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

**NOTE 2 DESIGNATED NET ASSETS**

Of the \$2,810,934 and \$2,900,457 of unrestricted net assets at June 30, 2004 and 2003, respectively, the Board of Trustees has designated \$1,274,355 and \$1,103,768, respectively. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

**NOTE 3 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. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2002.

**Medicaid**

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2002.

**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.

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

**NOTE 3 NET PATIENT SERVICE REVENUES (CONTINUED)**

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

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 9,111,222	\$ 8,607,039
Contractual Adjustments:		
Medicare	896,683	552,365
Medicaid	396,608	659,635
Provision for Bad Debt	279,592	246,874
Other	<u>283,334</u>	<u>463,242</u>
Total Contractual Adjustments and Bad Debts	<u>1,856,217</u>	<u>1,922,116</u>
Net Patient Service Revenues	<u>\$ 7,255,005</u>	<u>\$ 6,684,923</u>

**NOTE 4 PATIENT RECEIVABLES**

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

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 868,207	\$ 940,625
Receivable from Medicare	316,195	252,357
Receivable from Medicaid	<u>70,304</u>	<u>107,976</u>
Total Patient Receivables	1,254,706	1,300,958
Less Allowance for Doubtful Accounts	<u>(230,500)</u>	<u>(357,600)</u>
Patient Receivables, Net	<u>\$ 1,024,206</u>	<u>\$ 943,358</u>

**NOTE 5 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. Maximum depository amounts stated in the Hospital's depository resolution were not exceeded during the year.

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

**NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)**

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

The Hospital's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's cash and cash equivalents and investments are all category 1, which means that the cash and cash equivalents and 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:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 2,019,746</u>	<u>\$ 2,139,933</u>
Carrying Amount	<u>\$ 1,838,539</u>	<u>\$ 1,970,367</u>

At June 30, 2004 and 2003, the Hospital's investments consisted of the following:

	<u>2004</u>	<u>2003</u>
Carrying Amount		
Alliant Energy Stock (at Fair Value)	<u>\$ 15,966</u>	<u>\$ 11,662</u>

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

	<u>2004</u>	<u>2003</u>
Deposits	<u>\$ 1,838,539</u>	<u>\$ 1,970,367</u>
Investments	<u>15,966</u>	<u>11,662</u>
	<u>\$ 1,854,505</u>	<u>\$ 1,982,029</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 580,150	\$ 878,261
Noncurrent Cash and Investments		
Internally Designated for Capital Acquisitions	<u>1,274,355</u>	<u>1,103,768</u>
	<u>\$ 1,854,505</u>	<u>\$ 1,982,029</u>

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

**NOTE 6 CAPITAL ASSETS**

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

	July 1, 2003	Additions	(Retirements)	July 1, 2004
<b>Capital Assets</b>				
Land and Improvements	\$ 220,035	\$ 10,819	\$ (69,768)	\$ 161,086
Building and Improvements	4,693,019	576,249	(1,178,989)	4,090,279
Major Movable Equipment, Including Equipment Under Capital Lease	3,274,280	797,961	(1,527,145)	2,545,096
Construction in Progress	381,819	806,996	(1,188,815)	-
<b>Totals</b>	<b>8,569,153</b>	<b>2,192,025</b>	<b>(3,964,717)</b>	<b>6,796,461</b>
<b>Accumulated Depreciation</b>				
Land and Improvements	99,937	7,096	(69,768)	37,265
Building and Improvements	2,694,230	121,400	(1,178,989)	1,636,641
Major Movable Equipment	2,517,089	292,100	(1,527,144)	1,282,045
<b>Totals</b>	<b>5,311,256</b>	<b>\$ 420,596</b>	<b>\$ (2,775,901)</b>	<b>2,955,951</b>
	<u><b>\$ 3,257,897</b></u>			<u><b>\$ 3,840,510</b></u>
	July 1, 2002	Additions	(Retirements)	July 1, 2003
<b>Capital Assets</b>				
Land and Improvements	\$ 220,035	\$ -	\$ -	\$ 220,035
Building and Improvements	4,651,176	41,843	-	4,693,019
Major Movable Equipment, Including Equipment Under Capital Lease	3,000,083	274,197	-	3,274,280
Construction in Progress	-	381,819	-	381,819
<b>Totals</b>	<b>7,871,294</b>	<b>697,859</b>	<b>-</b>	<b>8,569,153</b>
<b>Accumulated Depreciation</b>				
Land and Improvements	92,533	7,404	-	99,937
Building and Improvements	2,564,756	129,474	-	2,694,230
Major Movable Equipment	2,315,467	201,622	-	2,517,089
<b>Totals</b>	<b>4,972,756</b>	<b>\$ 338,500</b>	<b>\$ -</b>	<b>5,311,256</b>
	<u><b>\$ 2,898,538</b></u>			<u><b>\$ 3,257,897</b></u>

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

**NOTE 7 LONG-TERM DEBT**

A schedule of changes in 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
Great Western Bank Note Payable	\$ 820,109	\$ -	\$ (47,368)	\$ 772,741	\$ 50,260
American State Bank Note Payable	431,936	-	(34,770)	397,166	39,979
Obligations Under Capital Lease	<u>201,091</u>	<u>569,522</u>	<u>(133,707)</u>	<u>636,906</u>	<u>150,475</u>
Total Long-Term Debt	<u>\$ 1,453,136</u>	<u>\$ 569,522</u>	<u>\$ (215,845)</u>	<u>\$ 1,806,813</u>	<u>\$ 240,714</u>
	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Great Western Bank Note Payable	\$ 864,744	\$ -	\$ (44,635)	\$ 820,109	\$ 47,363
American State Bank Note Payable	-	460,350	(28,414)	431,936	37,845
Obligations Under Capital Lease	<u>23,532</u>	<u>225,000</u>	<u>(47,441)</u>	<u>201,091</u>	<u>51,839</u>
Total Long-Term Debt	<u>\$ 888,276</u>	<u>\$ 685,350</u>	<u>\$ (120,490)</u>	<u>\$ 1,453,136</u>	<u>\$ 137,047</u>

The Great Western note payable requires monthly payments of principal and interest with interest at a variable rate ranging from 5.59% to 7.95%. Principal and interest payments are due through August 2015.

American State Bank note payable requires monthly payments of principal and interest with interest at the rate of 5.5%. This note is collateralized by patient revenues. Principal and interest payments are due through July 2012.

The Hospital leases certain equipment under capital lease agreements. Leases require monthly payments of principal and interest at rates from 5.00% to 5.30%. Leases are secured by equipment.

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

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

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

Years Ending June 30:	Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2005	\$ 90,239	\$ 65,216	\$ 150,475	\$ 31,700
2006	95,568	59,888	158,922	23,252
2007	101,212	54,244	167,853	14,321
2008	107,190	48,266	135,137	5,643
2009	113,521	41,935	24,519	630
2010-2014	555,503	107,183	-	-
2015-2019	106,674	4,026	-	-
	<u>\$ 1,169,907</u>	<u>\$ 380,758</u>	<u>\$ 636,906</u>	<u>\$ 75,546</u>

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

	2004	2003
Major Movable Equipment	\$ 977,970	\$ 289,800
Less: Accumulated Amortization	(138,271)	(67,786)
	<u>\$ 839,699</u>	<u>\$ 222,014</u>

**NOTE 8 OPERATING LEASES**

The Hospital has a non-cancelable equipment lease, which is classified as an operating lease. The following schedule represents the commitment for future lease payments:

<u>Year Ended June 30,</u>	
2005	<u>\$ 9,970</u>
Total Non - Cancelable Payments	<u>\$ 9,970</u>

**NOTE 9 DEFINED BENEFIT PENSION PLAN**

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$165,526, \$175,151, and \$196,038, respectively, equal to the required contributions for each year.

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

**NOTE 10 RELATED ORGANIZATION**

**Management Services**

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides, management consultation, and other services to Decatur County Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Decatur County Hospital. The amount paid to Mercy for services during the years ended June 30, 2004 and 2003 were approximately \$258,600 and \$240,000, respectively. Accounts payable due to Mercy at years ended June 30, 2004 and 2003 were \$13,377 and \$11,495, respectively.

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

**Hospital Risk Management**

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

**Malpractice Insurance**

The Hospital purchases medical malpractice insurance under a claims-made policy. Under this policy, only claims made and reported to the insurer are covered during the policy term regardless of when the incident giving rise to the claim incurred.

**Health Care Industry**

The Hospital 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 health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. The Hospital received notification from the Iowa Department of Human Services (DHS) that they are in violation of certain regulations and are subject to repayment for patient services previously billed. Management is working with legal counsel to review this information, and as of the date of this report a final agreement with Iowa DHS has not been reached.

**Wellness Center**

The Hospital began a renovation project to convert part of the building that formerly housed the FOCUS program into wellness center. The total expected cost of the project is \$60,000 including renovation costs and equipment, and will be financed from the Hospital's reserves.

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## REQUIRED SUPPLEMENTARY INFORMATION

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**DECATUR COUNTY HOSPITAL  
BUDGETARY COMPARISON SCHEDULE OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS  
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.

	Accrual Basis			Budget	Final to Actual Cash Basis Variance
	Total Net Assets	Accrual Adjustments	Cash Basis		
Estimated Amount to be Raised by Taxation	\$ 583,008	\$ -	\$ 583,008	\$ 555,678	\$ 27,330
Estimated Other Revenues/Receipts	7,369,018	107,853	7,476,871	6,592,213	884,658
	<u>7,952,026</u>	<u>107,853</u>	<u>8,059,879</u>	<u>7,147,891</u>	<u>911,988</u>
Expenses/Expenditures Net	7,812,613	374,790	8,187,403	7,885,897	(301,506)
	<u>139,413</u>	<u>(266,937)</u>	<u>(127,524)</u>	<u>(738,006)</u>	<u>610,482</u>
Balance, Beginning	<u>4,705,218</u>	<u>(2,723,189)</u>	<u>1,982,029</u>	<u>1,057,234</u>	<u>924,795</u>
Balance, Ending	<u>\$ 4,844,631</u>	<u>\$ (2,990,126)</u>	<u>\$ 1,854,505</u>	<u>\$ 319,228</u>	<u>\$ 1,535,277</u>

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## OTHER SUPPLEMENTARY INFORMATION

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

	TOTAL	
	2004	2003
<b>PATIENT CARE SERVICES</b>		
Adults and Pediatrics	\$ 548,862	\$ 491,130
Nursery	31,375	47,080
Skilled Nursing	112,740	57,460
Respite	16,455	3,850
Observation	196,831	198,287
FOCUS	-	593,828
Total	<u>906,263</u>	<u>1,391,635</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	1,206,632	941,959
Labor and Delivery Room	25,433	62,128
Emergency Room	469,409	422,482
Central Services and Supply	181,649	190,980
Laboratory	747,672	730,878
Radiology	520,237	517,110
Ultrasound	398,538	346,496
Scans	365,129	318,017
Electrocardiology	68,352	76,380
Pharmacy	1,097,098	884,780
Anesthesiology	441,480	382,306
Respiratory Therapy	385,125	413,951
Physical Therapy	347,823	296,256
Occupational Therapy	25,358	12,533
Speech Therapy	4,607	1,248
Cardiac Therapy	36,626	35,696
Ambulance	408,544	397,374
Home Health	756,076	643,738
Clinic Services	79,224	61,661
Mental Health Services	652,715	493,472
Total	<u>8,217,727</u>	<u>7,229,445</u>
Total Patient Service Revenues	9,123,990	8,621,080
Less Charity Care	<u>(12,768)</u>	<u>(14,041)</u>
	9,111,222	8,607,039
Adjustments to Patient Service Revenues	<u>(1,856,217)</u>	<u>(1,922,116)</u>
Net Patient Service Revenues	<u>\$ 7,255,005</u>	<u>\$ 6,684,923</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 548,862	\$ 491,130	\$ -	\$ -
31,375	47,080	-	-
112,740	57,460	-	-
16,455	3,850	-	-
-	-	196,831	198,287
-	593,828	-	-
<u>709,432</u>	<u>1,193,348</u>	<u>196,831</u>	<u>198,287</u>
157,338	170,837	1,049,294	771,122
24,256	55,146	1,177	6,982
37,891	38,706	431,518	383,776
46,342	67,819	135,307	123,161
177,965	222,363	569,707	508,515
46,604	59,063	473,633	458,047
15,593	14,421	382,945	332,075
44,562	54,067	320,567	263,950
12,285	11,130	56,067	65,250
435,783	375,088	661,315	509,692
63,753	79,417	377,727	302,889
251,172	248,672	133,953	165,279
68,758	44,225	279,065	252,031
15,861	12,533	9,497	-
1,586	1,248	3,021	-
-	-	36,626	35,696
9,006	4,536	399,538	392,838
-	-	756,076	643,738
-	-	79,224	61,661
4,895	1,260	647,820	492,212
<u>1,413,650</u>	<u>1,460,531</u>	<u>6,804,077</u>	<u>5,768,914</u>
<u>\$ 2,123,082</u>	<u>\$ 2,653,879</u>	<u>\$ 7,000,908</u>	<u>\$ 5,967,201</u>

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

	<u>2004</u>	<u>2003</u>
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Medicare	\$ 896,683	\$ 552,365
Medicaid	396,608	659,635
Provision for Bad Debt	279,592	246,874
Other	283,334	463,242
Total Adjustments to Patient Service Revenues	<u>\$ 1,856,217</u>	<u>\$ 1,922,116</u>
 <b>OTHER REVENUES</b>		
County Tax Revenue	\$ 583,008	\$ 584,707
Cafeteria	44,388	55,952
Laundry	850	765
Medical Records Transcript Fees	3,450	2,493
Medicaid Administrative Claiming Reimbursement	3,462	12,306
Other	23,892	14,223
Total Other Revenues	<u>\$ 659,050</u>	<u>\$ 670,446</u>

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

	TOTAL	
	2004	2003
Capital Related Costs - Building, Fixtures and Moveable Equipment	\$ 420,596	\$ 338,500
Employee Benefits	808,010	866,497
Administrative and General	1,017,335	1,006,726
Operation of Plant	425,564	442,042
Laundry and Linen	35,189	37,728
Housekeeping	118,062	119,882
Dietary	250,662	257,949
Nursing Administration	44,271	51,908
Medical Records	100,229	98,418
Social Services	19,776	19,653
Adults and Pediatrics	679,609	656,954
Nursery	14,885	13,683
Operating and Recovery Room	329,760	237,017
Labor and Delivery Room	5,814	10,740
Anesthesiology	195,301	171,682
Radiology	466,856	401,396
Laboratory	298,711	291,230
Ultrasound	91,705	76,913
Oncology	-	17,753
Respiratory Therapy	136,073	111,003
Physical Therapy	249,618	122,732
Occupational Therapy	87,626	7,718
Speech Pathology	3,134	4,622
Electrocardiology	1,097	3,820
Medical and Surgical Supplies	-	73,588
Pharmacy	410,961	333,216
Cardiac Rehabilitation	18,578	18,289
Clinics	117,545	67,934
Emergency	386,809	273,625
Ambulance	156,452	149,952
FOCUS/Adolescent Services	407,768	607,570
Home Health	384,881	377,657
Quality Assurance	29,018	18,076
Interest Expense	100,718	82,374
<b>TOTAL</b>	<b>\$ 7,812,613</b>	<b>\$ 7,368,847</b>

SALARIES		OTHER	
2004	2003	2004	2003
\$ -	\$ -	\$ 420,596	\$ 338,500
-	-	808,010	866,497
445,034	435,624	572,301	571,102
118,201	121,668	307,363	320,374
27,784	27,591	7,405	10,137
94,258	96,211	23,804	23,671
152,896	153,851	97,766	104,098
43,376	49,556	895	2,352
72,147	63,319	28,082	35,099
18,973	18,959	803	694
627,787	614,200	51,822	42,754
13,023	10,372	1,862	3,311
173,327	125,164	156,433	111,853
5,582	10,590	232	150
-	-	195,301	171,682
148,533	132,905	318,323	268,491
106,044	119,612	192,667	171,618
-	-	91,705	76,913
-	-	-	17,753
74,195	66,424	61,878	44,579
22,974	97,926	226,644	24,806
-	-	87,626	7,718
-	-	3,134	4,622
1,097	3,599	-	221
-	16,679	-	56,909
36,758	32,489	374,203	300,727
15,500	16,450	3,078	1,839
78,604	35,465	38,941	32,469
124,378	87,177	262,431	186,448
141,741	137,003	14,711	12,949
142,198	363,749	265,570	243,821
280,287	285,068	104,594	92,589
28,837	17,930	181	146
-	-	100,718	82,374
<u>\$ 2,993,534</u>	<u>\$ 3,139,581</u>	<u>\$ 4,819,079</u>	<u>\$ 4,229,266</u>

**DECATUR COUNTY HOSPITAL  
SCHEDULES OF AGED 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
1-30 days (Includes Patients in Hospital June 30)	\$ 644,588	45.79 %	\$ 694,360	45.56 %
31-60 Days	212,779	15.11 %	192,264	12.61 %
61-90 Days	121,455	8.63 %	111,691	7.33 %
91 Days and Over	428,926	30.47 %	525,824	34.50 %
Total Accounts Receivable	<u>1,407,748</u>	<u>100.00 %</u>	<u>1,524,139</u>	<u>100.00 %</u>
<b>ALLOWANCES</b>				
Contractual Allowances	153,042		223,181	
Allowance for Doubtful Accounts	230,500		357,600	
Total Allowances	<u>383,542</u>		<u>580,781</u>	
Net Accounts Receivable	<u>\$ 1,024,206</u>		<u>\$ 943,358</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 20,643</u>		<u>\$ 18,991</u>	
Days of Net Patient Service Revenue in Accounts Receivable	<u>50</u>		<u>50</u>	

**Analysis of Allowance for Doubtful Accounts**

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 357,600		\$ 345,173	
Add:				
Provision for Doubtful Accounts	<u>279,592</u>	3.98 %	<u>246,874</u>	3.92 %
	637,192		592,047	
Deduct:				
Accounts Written Off - Net of Recoveries	<u>(406,692)</u>	(5.78)%	<u>(234,447)</u>	(3.72)%
Ending Balance	<u>\$ 230,500</u>		<u>\$ 357,600</u>	

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

	2004	2003
<b>INVENTORIES</b>		
Central Stores	\$ 34,007	\$ 43,560
Laboratory	31,852	44,126
Radiology	5,133	3,773
Pharmacy	57,028	62,040
Respiratory Therapy	7,100	6,625
Physical Therapy	-	372
Ambulance Service	1,424	1,417
Dietary	5,314	5,469
Plant Operation and Maintenance	21,835	20,978
Housekeeping	2,690	1,406
Laundry and Linen	1,712	2,377
Total	\$ 168,095	\$ 192,143
 <b>PREPAID EXPENSES</b>		
	\$ 40,720	\$ 20,170
Total	\$ 40,720	\$ 20,170

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

Board of Trustees  
Decatur County Hospital  
Leon, Iowa

We have audited the financial statements of Decatur County Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

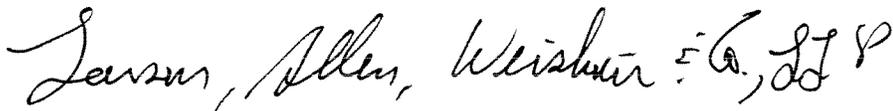
In planning and performing our audit, we considered the Decatur County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. 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 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Decatur 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 and other matters, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings.

We also noted certain additional matters that we reported to the management of Decatur County Hospital in a separate letter dated September 17, 2004.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Decatur County Hospital and other parties to whom Decatur County Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
September 17, 2004

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

**Part I: Disposition of Prior Year Findings Related to the Financial Statements:**

- 03-1 Disbursement Cycle Weakness – Employee responsibilities were reviewed and segregated in order to eliminate incompatible duties.
- 03-2 Information System Weakness – The Hospital obtained a new computer system during 2004 which allows them to limit access for employees to appropriate areas.

**Part II: Other Findings Related to Required Statutory Reporting:**

04-1 **Official Depository Banks**

A resolution of official depository banks has been approved by the governing board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 **Certified Budget**

Hospital cash basis expenditures during the year ended June 30, 2004 exceeded budgeted amounts.

**Recommendation**

Monitor expenditures compared to budget and, if necessary, file an amended budget in the future in order to avoid exceeding budgeted expenditure amounts.

**Response**

Expenditures will be monitored and, if necessary, an amendment to the budget will be filed in order to remain in compliance with the filed budget.

**Conclusion**

Response accepted.

04-3 **Entertainment Expense**

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 Expense**

No expenditures of Hospital money for travel expense of spouses of Hospital official and/or employees were noted.

04-5 **Business Transactions**

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

04-6 **Board Minutes**

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

**DECATUR COUNTY HOSPITAL  
SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED JUNE 30, 2004**

04-7 **Deposits and Investments**

We noted no instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

04-8 **Publications 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 county 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 published schedules of bills allowed and schedules of salaries paid as required by the Code.