

DAVIS COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004

OFFICE COPY

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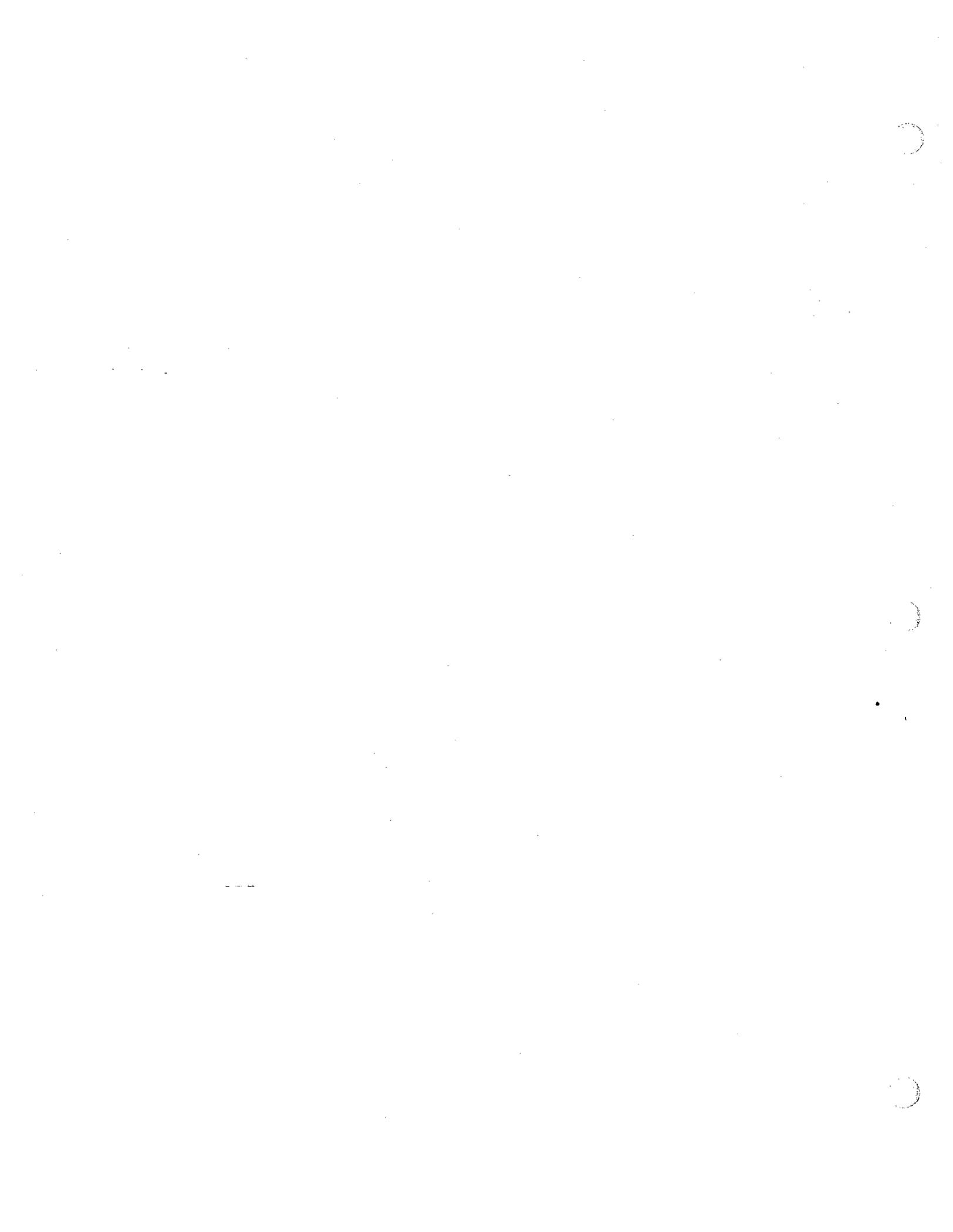
OFFICIALS

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**DAVIS COUNTY HOSPITAL
OFFICIALS
YEARS ENDED JUNE 30, 2005 AND 2004**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Jo Ann Augspurger	Chairperson	2010
Chris Ball	Vice-Chairperson	2008
Judy Carlson	Member	2010
Kevin Cook	Member	2006
Justin Swaim	Member	2006
Pat Van Arkel	Member	2010
Leon Wilkinson	Member	2008
HOSPITAL OFFICIALS		
John Monnahan	Administrator (1)	
Jerri Christman	Chief Financial Officer	
Valerie Gray	Director of Nursing	
Debbie Scott	Director of Ancillary Services	
Kathi Scott	Director of Marketing and Development	

(1) Resigned in July 2005. Greg Paris and Roger Lenz served as interim Administrators subsequent to year end.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the accompanying financial statements of Davis County Hospital as of and for the years ended June 30, 2005 and 2004, 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.

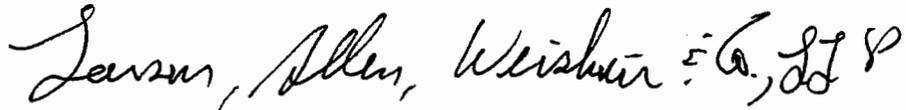
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005 and 2004, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005 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 25 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed 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 26 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 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 34 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 15, 2005

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

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, 2005. 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, 2005 and 2004 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 \$1,352,129 or 8.3% in 2005 and increased by \$238,424 or 1.5% in 2004.
- The Hospital's net assets increased in each of the last two years with a \$295,541 or 4.3% increase in 2005 and a \$285,431 or 4.3% increase in 2004.

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.

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)

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

DCH changed its operating system from HSI to CPSI in February 2005. As a result of this conversion DCH experienced delays in the billing cycle and as result the amount of outstanding accounts receivable increased considerably from February 2005 to the end of the fiscal year, June 30, 2005.

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 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 Davis County and the surrounding area

**TABLE 1
Summary of Financial Information**

Table 1: Assets, Liabilities, and Net Assets	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets			
Total Current Assets	\$ 4,508,956	\$ 4,419,170	\$ 3,973,413
Noncurrent Cash and Investments	1,388,076	756,227	133,704
Capital Assets Net	11,022,777	10,380,886	11,199,121
Succeeding Year Property Tax Receivable	698,499	705,398	712,522
Other Assets	81,703	86,201	90,698
Total Assets	<u>\$ 17,700,011</u>	<u>\$ 16,347,882</u>	<u>\$ 16,109,458</u>
Liabilities			
Total Current Liabilities	\$ 2,439,192	\$ 1,711,545	\$ 1,424,442
Long-Term Debt (Less Current Maturities)	7,538,816	7,074,842	7,401,828
Deferred Revenue from Succeeding Year Property Tax Receivable	698,499	705,398	712,522
Total Liabilities	<u>10,676,507</u>	<u>9,491,785</u>	<u>9,538,792</u>
Net Assets			
Invested in Capital Assets Net of Related Debt Restricted	2,945,644	2,933,106	3,450,381
By Bond Agreement	397,370	371,786	347,200
By Contributors and Grantors	80,488	91,589	70,850
Unrestricted	3,600,002	3,459,616	2,702,235
Total Net Assets	<u>7,023,504</u>	<u>6,856,097</u>	<u>6,570,666</u>
Total Liabilities and Net Assets	<u>\$ 17,700,011</u>	<u>\$ 16,347,882</u>	<u>\$ 16,109,458</u>

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

Cash and Cash Equivalents and Noncurrent Cash and Investments increased during 2005 and 2004. Current Assets increased by \$89,786 or 2.0% in 2005 and increased by \$445,757 or 11.2% in 2004. Noncurrent Cash and Investments increased significantly in 2005 by \$631,849 or 83.6% and in 2004 increased by \$622,523 or 465.6%. The increase in noncurrent cash and investments is due to the Hospital setting funds aside for the Medical Office Building completion project. Capital Assets increased in 2005 by \$641,891 or 6.2% and decreased in 2004 by \$818,235 or 7.3%. The current ratio (current assets divided by current liabilities) for 2005 was 1.95 and 2004 was 2.57. 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>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenue			
Net Patient Service Revenue	\$ 11,714,663	\$ 10,583,865	\$ 10,175,262
Other Revenues	486,830	451,444	473,071
Total Operating Revenues	<u>12,201,493</u>	<u>11,035,309</u>	<u>10,648,333</u>
Operating Expenses			
Salaries and Wages	\$ 5,512,480	\$ 4,709,397	\$ 4,144,887
Employee Benefits	1,383,142	1,273,233	1,033,813
Professional Fees	953,307	940,838	1,099,451
Utilities	420,188	395,027	371,720
Insurance	110,680	144,806	114,834
Supplies and Miscellaneous	2,936,205	2,682,735	2,421,658
Depreciation	1,112,132	993,892	1,025,184
Interest & Amortization	381,164	430,663	449,882
Total Operating Expenses	<u>12,809,298</u>	<u>11,570,591</u>	<u>10,661,429</u>
Operating Income	(607,805)	(535,282)	(13,096)
Non-Operating Revenues (Expenses)	<u>771,391</u>	<u>804,587</u>	<u>670,398</u>
Excess of Revenues over Expenses Before			
Capital Grants and Contributions	163,586	269,305	657,302
Capital Grants and Contributions	14,297	1,700	1,941
Restricted Contributions, Net of Pledges Written Off	<u>(10,476)</u>	<u>14,426</u>	<u>(60,137)</u>
Increase in Net Assets	167,407	285,431	599,106
Net Assets, Beginning of the Year	6,856,097	6,570,666	5,971,560
Net Assets, End of the Year	<u>\$ 7,023,504</u>	<u>\$ 6,856,097</u>	<u>\$ 6,570,666</u>

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

Net Patient Service Revenue made up 96.0% in 2005 and 95.9% in 2004 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>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 15,931,858	\$ 14,140,930	\$ 12,481,816
Contractual Adjustments and Provisions for Bad Debt	4,217,195	3,557,065	2,306,554
Net Patient Service Revenue	<u>\$ 11,714,663</u>	<u>\$ 10,583,865</u>	<u>\$ 10,175,262</u>
Contractual Adjustments and Provisions for Bad Debts as a Percent of Revenues	<u>26.47%</u>	<u>25.15%</u>	<u>18.48%</u>

Total Operating Expenses increased \$1,110,573 or 9.6% in 2005 and increased \$909,162 or 8.5 % in 2004. Increases in salaries are attributed to the first full year of a new physician office and increases in wage rates on average of 4-5%. The Operating Expenses are broken by department on the Schedules of Operating Expenses located in the Other Supplementary Information Section of the audited financial statements. In 2005, DCH had two employed physicians. The associated expenses are shown on the Schedules of Operating Expenses under Clinic. Operating income (loss) (total operating revenue less total operating expenses) was (\$479,671) in 2005 compared to (\$535,282) in 2004. Other Operating Revenue increased by \$35,386 or 7.8% in 2005 and decreased by \$21,627 or 4.6% in 2004. Table 4 shows the detail for this line item.

**TABLE 4
Other Operating Revenue**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues for Expenses of HHC:			
Davis County	\$ 47,973	\$ 67,567	\$ 65,583
Iowa Department of Public Health	69,493	53,216	89,056
Other Funding	110,232	101,423	64,877
Ambulance Reimbursement	32,500	25,000	25,000
Cafeteria	99,180	86,687	100,930
Sale of Supplies and Drugs	20,765	20,489	31,097
Rent	43,230	45,858	59,384
Purchase Discounts	26,978	21,078	19,204
Other	36,479	30,126	17,940
Total Other Revenues	<u>\$ 486,830</u>	<u>\$ 451,444</u>	<u>\$ 473,071</u>

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. There is a direct correlation between utilization changes and revenue changes. During 2005 there was a 5.6% increase in acute patient days, while there was a 5.2% decrease in swing bed days during the same period. The Average Length of Stay was up slightly in 2005 when compared to 2004 as was the Occupancy Percentage for acute and swing.

**TABLE 5
Statistical Data**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	2,172	2,064	1,941
Swing Bed	652	712	1,150
Newborn	82	79	88
Long Term Care	11,281	11,498	11,372
Total	<u>14,187</u>	<u>14,353</u>	<u>14,551</u>
Admissions			
Acute	615	628	564
Swing Bed	76	74	104
Newborn	43	51	42
Long Term Care	43	30	30
Total	<u>777</u>	<u>783</u>	<u>740</u>
Discharges			
Acute	616	630	556
Swing Bed	74	75	105
Newborn	43	51	42
Long Term Care	43	29	30
Total	<u>776</u>	<u>785</u>	<u>733</u>
Average Length of Stay, Acute	<u>3.5</u>	<u>3.3</u>	<u>3.5</u>
Beds			
Acute and Swing	25	25	25
Long Term Care	32	32	32
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	30.9%	30.4%	33.9%
Long Term Care, Based on 32 Beds	96.6%	98.4%	97.4%

The Hospital's Cash Flows

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

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

Capital Assets

At June 30, 2005 and 2004 the Hospital had \$11,022,777 and \$10,380,886, respectively, invested in capital assets net of accumulated depreciation. During 2005 the hospital entered into capital leases for CPSI, the new software operating system, and an eight slice CT (Computed (or computerized) Tomography) scanner, which was an upgrade from the former CT scanner. These assets were reflected as additions to capital assets accordingly.

Long Term Debt

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

**TABLE 6
Long-Term Debt**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
1998 Revenue Notes	\$ 6,840,000	\$ 7,065,000	\$ 7,065,000
Notes Payable	137,499	174,166	174,166
Capital Lease Obligations	<u>1,262,030</u>	<u>379,949</u>	<u>379,949</u>
 Total Long-Term Debt	 <u>\$ 8,239,529</u>	 <u>\$ 7,619,115</u>	 <u>\$ 7,619,115</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. The increase in Capital Lease Obligations is a result of the CPSI information system and CT scanner assets discussed above under Capital Assets.

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 significant impact on the economic situation of the community. There appears at this time to be no sign of any new industries making a move into the area nor are there any indications of any major industrial businesses closing. During the year a few small retail businesses were lost to the community with no new additions to replace these businesses. With that, the economic outlook for our community should remain steady.

Looking forward DCH, is planning to complete the Medical Office Building (MOB), which was left unfinished at the end of the earlier renovation project. The completion of the MOB is a board priority and options to complete are being evaluated. Having the MOB finished would enable consolidation of most of the medical resources in Bloomfield.

**DAVIS COUNTY HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

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, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 765,519	\$ 1,850,405
Current Portion of Noncurrent Cash and Investments	397,370	371,786
Patient Receivables, Less Allowance for Uncollectible Accounts (2005 - \$1,099,981 and 2004 - \$679,000)	2,946,428	1,854,637
Accounts Receivable - Other	45,414	34,475
Inventories	313,461	265,469
Prepaid Expenses	40,764	42,398
Total Current Assets	4,508,956	4,419,170
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Scholarships	11,429	13,493
Internally Designated for Capital Improvements	1,091,250	563,523
Internally Designated for Employee Assistance	3,332	3,891
Internally Designated for Health Benefits	201,577	83,731
Restricted by Bond Agreement	397,370	371,786
Restricted by Contributors and Grantors	80,488	91,589
Less Noncurrent Cash and Investments That are Required for Current Liabilities	(397,370)	(371,786)
Noncurrent Cash and Investments	1,388,076	756,227
CAPITAL ASSETS, NET	11,022,777	10,380,886
SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	698,499	705,398
OTHER ASSETS		
Unamortized Financing Costs	81,703	86,201
Total Assets	\$ 17,700,011	\$ 16,347,882

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 538,317	\$ 372,938
Accounts Payable	410,228	342,256
Accrued Expenses	1,065,734	713,776
Accrued Interest	130,124	157,622
Third-Party Payor Settlement Payable	294,789	124,953
Total Current Liabilities	<u>2,439,192</u>	<u>1,711,545</u>
 LONG-TERM DEBT, Less Current Maturities	 7,538,816	 7,074,842
 DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	 <u>698,499</u>	 <u>705,398</u>
 Total Liabilities	 10,676,507	 9,491,785
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,945,644	2,933,106
Restricted		
By Bond Agreement	397,370	371,786
By Contributors and Grantors	80,488	91,589
Unrestricted	3,600,002	3,459,616
Total Net Assets	<u>7,023,504</u>	<u>6,856,097</u>
 Total Liabilities and Net Assets	 <u>\$ 17,700,011</u>	 <u>\$ 16,347,882</u>

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

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue (net of provision for bad debts of \$501,957 in 2005 and \$511,814 in 2004)	\$ 11,714,663	\$ 10,583,865
Other Revenues	486,830	451,444
Total Operating Revenues	12,201,493	11,035,309
OPERATING EXPENSES		
Salaries and Wages	5,512,480	4,709,397
Employee Benefits	1,383,142	1,273,233
Professional Fees	953,307	940,838
Utilities	420,188	395,027
Insurance	110,680	144,806
Supplies and Miscellaneous	2,936,205	2,682,735
Depreciation	1,112,132	993,892
Interest & Amortization	381,164	430,663
Total Operating Expenses	12,809,298	11,570,591
OPERATING LOSS	(607,805)	(535,282)
NONOPERATING REVENUES (EXPENSES)		
County Tax Revenue	718,707	716,646
Investment Income	22,482	14,328
Unrestricted Grants and Contributions	28,432	25,166
Net Gain (Loss) on Sale of Property and Equipment	1,770	48,447
Total Non-Operating Revenues	771,391	804,587
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS		
	163,586	269,305
Capital Grants and Contributions	14,297	1,700
Restricted Contributions, Net of Pledges Written Off	(10,476)	14,426
Increase in Net Assets	167,407	285,431
Net Assets Beginning of the Year	6,856,097	6,570,666
Net Assets End of the Year	\$ 7,023,504	\$ 6,856,097

See accompanying Notes to Financial Statements.

**DAVIS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 10,792,708	\$ 11,243,848
Cash Paid to Employees	(6,543,664)	(5,864,821)
Cash Paid to Suppliers	(4,398,766)	(4,161,118)
Other Receipts and Payments, Net	475,891	442,461
Net Cash Provided by Operating Activities	326,169	1,660,370
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Unrestricted Contributions	28,432	25,166
Restricted Contributions, Net of Pledges Written Off	3,821	16,126
County Taxes Received	718,707	716,646
Net Cash Provided by Non-Capital Financing Activities	750,960	757,938
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Paid for Interest on Long-Term Debt	(395,226)	(406,590)
Principal Payments on Long-Term Debt	(332,480)	(439,034)
Proceeds from Sale of Capital Assets	131,282	209,078
Acquisition of Capital Assets	(930,640)	(207,153)
Net Cash Used by Capital and Related Financing Activities	(1,527,064)	(843,699)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	(657,433)	(647,109)
Interest Income	22,482	14,328
Net Cash Used by Investing Activities	(634,951)	(632,781)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,084,886)	941,828
Cash and Cash Equivalents Beginning of Year	1,850,405	908,577
Cash and Cash Equivalents End of Year	\$ 765,519	\$ 1,850,405

See accompanying Notes to Financial Statements.

**DAVIS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (607,805)	\$ (535,282)
Adjustments to Reconcile Operating Loss To Net Cash Flows Provided by Operating Activities		
Provided by Operating Activities:		
Interest and Amortization Expense	381,164	430,663
Depreciation	1,112,132	993,892
Decrease (Increase) In:		
Patient Receivables	(1,091,791)	192,022
Accounts Receivable - Other	(10,939)	(8,983)
Third - Party Payor Settlement Receivable	-	343,008
Inventories	(47,992)	(11,295)
Prepaid Expenses	1,634	5,905
Increase (Decrease) In:		
Accounts Payable	67,972	7,678
Accrued Payroll and Payroll Withholdings	351,958	117,809
Third-Party Payor Settlement Payable	169,836	124,953
Net Cash Provided by Operating Activities	\$ 326,169	\$ 1,660,370
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
NON-CASH FINANCING ACTIVITIES		
Assets Acquired Under Capital Lease Agreement	\$ 952,894	\$ 129,135

See accompanying Notes to Financial Statements.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 hospital. 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.

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.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 more than 120 days past due are individually analyzed for collectibility. Accounts deemed uncollectible are written-off on a monthly basis.

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

Capital Assets, Net – Capital assets are stated on the basis of cost. The provision for depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. Capital expenditures less than \$2,000 are expensed as incurred. Capital expenses of \$2,000 or greater are capitalized and amortized over the useful life of the asset.

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

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.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 non-capital 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.

E. Operating Revenues and Expenses

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

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

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. 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 \$28,467 and \$38,067 for the years ended June 30, 2005 and 2004, respectively.

J. County Tax Apportionments

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

K. 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, 2005 and 2004.

L. Reclassification of 2004 Data

Data in 2004 financial statements have been reclassified to conform with the 2005 basis of presentation. The reclassifications have no effect on the previously reported net income or net assets.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 is certified 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 is certified 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, 2002 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 11%, respectively, of the Hospital's net patient revenue for the year ended 2005, and 50% and 11%, respectively, of the Hospital's net patient revenue, for the year ended 2004. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

	2005	2004
Gross Patient Services Revenues, at Established Rates	\$ 15,931,858	\$ 14,140,930
Deductions		
Medicare	2,680,729	2,234,887
Medicaid	370,351	297,901
Provision for Bad Debts	501,957	511,814
Other	664,158	512,463
Total Deductions	4,217,195	3,557,065
Net Patient Service Revenues	\$ 11,714,663	\$ 10,583,865

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 3 PATIENT RECEIVABLES

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

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 2,635,212	\$ 1,631,304
Receivables from Medicare	1,017,897	712,775
Receivables from Medicaid	393,300	189,558
Total Patient Receivables	<u>4,046,409</u>	<u>2,533,637</u>
Less Allowance for Doubtful Accounts	<u>(1,099,981)</u>	<u>(679,000)</u>
Patient Receivables, Net	<u>\$ 2,946,428</u>	<u>\$ 1,854,637</u>

NOTE 4 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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.

	<u>2005</u>	<u>2004</u>
Deposits	\$ 2,550,655	\$ 2,961,499
Pledges Receivable, Net	310	14,794
Student Loans Receivable	-	2,125
	<u>\$ 2,550,965</u>	<u>\$ 2,978,418</u>

Included in the Following Balance Sheet Captions:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 765,519	\$ 1,850,405
Current Portion Of Noncurrent Cash and Investments	397,370	371,786
Noncurrent Cash and Investments		
Internally Designated for Scholarships	11,429	13,493
Internally Designated for Capital Improvements	1,091,250	563,523
Internally Designated for Employee Assistance	3,332	3,891
Internally Designated for Health Benefits	201,577	83,731
Restricted by Bond Agreement	397,370	371,786
Restricted by Contributors and Grantors	80,488	91,589
Less Noncurrent Cash and Investments That are Required for Current Liabilities	<u>(397,370)</u>	<u>(371,786)</u>
Noncurrent Cash and Investments	<u>\$ 2,550,965</u>	<u>\$ 2,978,418</u>

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 CAPITAL ASSETS

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

	July 1, 2004	Additions	(Retirements)	June 30, 2005
CAPITAL ASSETS				
Land and Land Improvements	\$ 330,686	\$ -	\$ -	\$ 330,686
Building	12,419,698	35,655	-	12,455,353
Fixed Equipment	1,699,576	85,234	-	1,784,810
Major Movable Equipment	4,578,600	1,729,024	(542,039)	5,765,585
Construction in Progress	-	33,621	-	33,621
Totals	19,028,560	<u>\$ 1,883,534</u>	<u>\$ (542,039)</u>	20,370,055
ACCUMULATED DEPRECIATION				
Land Improvements	184,697	9,446	-	194,143
Building	3,105,506	648,273	-	3,753,779
Fixed Equipment	1,555,787	38,731	-	1,594,518
Major Movable Equipment	3,801,684	415,685	(412,531)	3,804,838
Totals	8,647,674	<u>\$ 1,112,135</u>	<u>\$ (412,531)</u>	9,347,278
CAPITAL ASSETS, NET	<u>\$ 10,380,886</u>			<u>\$ 11,022,777</u>
	July 1, 2003	Additions	(Retirements)	June 30, 2004
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
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>

Construction in Progress at June 30, 2005 consists of costs incurred for the Medical Office Building, a down payment on X-Ray equipment and improvements in process in the Long Term Care department. The Medical Office Building is in the preliminary stages of planning and the costs are related to architectural and design fees. The cost of the X-Ray equipment is expected to be \$84,500, which will be funded with the reserves of the Hospital and will be placed into service in September 2005. The Long Term Care improvements will be completed in August 2005 totaling \$18,000 and funded with cash reserves.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 LONG-TERM DEBT

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

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
1998 Revenue Bonds	\$ 7,065,000	\$ -	\$ (225,000)	\$ 6,840,000	\$ 230,000
Note Payable	174,166	-	(36,667)	137,499	36,667
Capital Lease Obligations	379,949	952,894	(70,813)	1,262,030	280,589
Total Long-Term Debt	7,619,115	952,894	(332,480)	8,239,529	547,256
Discount on Revenue Bonds	(171,335)	-	8,939	(162,396)	(8,939)
Net Long-Term Debt	<u>\$ 7,447,780</u>	<u>\$ 952,894</u>	<u>\$ (323,541)</u>	<u>\$ 8,077,133</u>	<u>\$ 538,317</u>

	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>

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.

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.

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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 2.8% 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:

Year Ending June 30:	Long Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2006	\$ 266,667	\$ 390,371	\$ 280,589	\$ 36,907
2007	281,666	379,451	262,198	28,693
2008	291,666	367,579	258,902	19,938
2009	297,500	354,996	267,452	11,387
2010	285,000	341,434	192,889	3,035
2011-2015	1,655,000	1,472,564	-	-
2016-2020	2,145,000	978,244	-	-
2021-2025	1,755,000	313,275	-	-
	<u>\$ 6,977,499</u>	<u>\$ 4,597,914</u>	<u>\$ 1,262,030</u>	<u>\$ 99,960</u>

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

Total interest cost was \$376,667 and \$426,166 for the years ended June 30, 2005 and 2004, respectively.

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

	2005	2004
Moveable Equipment	\$ 1,569,784	\$ 636,770
Less Accumulated Depreciation	(271,732)	(336,935)
Total	<u>\$ 1,298,052</u>	<u>\$ 299,835</u>

**DAVIS COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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, 2005, 2004, and 2003 were \$299,745, \$265,579, and \$230,952, 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 \$34,169 and \$67,000 for the years ended June 30, 2005 and 2004, respectively.

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 AND NOTES
BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2005**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budgeted Amounts	Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 718,707	\$ -	\$ 718,707	\$ 705,398	\$ 13,309
Estimated Other Revenues/Receipts	12,257,998	(803,382)	11,454,616	13,946,760	(2,492,144)
	<u>12,976,705</u>	<u>(803,382)</u>	<u>12,173,323</u>	<u>14,652,158</u>	<u>(2,478,835)</u>
Expenses/Disbursements Net	12,809,298	448,911	13,258,209	11,891,185	1,367,024
	<u>167,407</u>	<u>(1,252,293)</u>	<u>(1,084,886)</u>	<u>2,760,973</u>	<u>(3,845,859)</u>
Balance Beginning of Year	<u>6,856,097</u>	<u>(5,005,692)</u>	<u>1,850,405</u>	<u>9,163,688</u>	<u>(7,313,283)</u>
Balance End of Year	<u>\$ 7,023,504</u>	<u>\$ (6,257,985)</u>	<u>\$ 765,519</u>	<u>\$ 11,924,661</u>	<u>\$ (11,159,142)</u>

NOTE 1

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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. During 2005 the budget was not amended.

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OTHER SUPPLEMENTARY INFORMATION

**DAVIS COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,111,140	\$ 1,001,898
Intensive Care	-	13,370
Swing Bed	265,496	275,495
INN Care	1,299,126	1,267,834
Nursery	36,509	33,080
Total	<u>2,712,271</u>	<u>2,591,677</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	1,344,601	1,160,655
Recovery Room	250,591	216,113
Delivery and Labor Room	28,019	27,975
Anesthesiology	152,827	148,116
Radiology	3,223,738	2,779,801
Ambulance	365,722	321,999
Home Health Care	108,411	117,900
Laboratory	1,902,816	1,607,352
Intravenous Therapy	150,809	236,346
Respiratory Therapy	578,068	543,883
Physical Therapy	1,578,645	1,558,166
Speech Therapy	15,426	21,843
Electrocardiology	102,315	98,206
Cardiac Rehabilitation	80,448	78,635
Electroencephalography	5,529	8,015
Medical and Surgical Supplies	375,503	352,207
Pharmacy	1,475,911	1,361,700
Emergency	954,214	782,470
Clinic	554,461	165,938
Total	<u>13,248,054</u>	<u>11,587,320</u>
Charity Care	<u>(28,467)</u>	<u>(38,067)</u>
Total Patient Service Revenues	15,931,858	14,140,930
Adjustments to Patient Service Revenues	<u>(4,217,195)</u>	<u>(3,557,065)</u>
Net Patient Service Revenues	<u>\$ 11,714,663</u>	<u>\$ 10,583,865</u>

INPATIENTS		OUTPATIENTS	
2005	2004	2005	2004
\$ 1,111,140	\$ 1,001,898	\$ -	\$ -
-	13,370	-	-
265,496	275,495	-	-
1,299,126	1,267,834	-	-
36,509	33,080	-	-
<u>2,712,271</u>	<u>2,591,677</u>	-	-
289,419	231,387	1,055,182	929,268
57,968	45,484	192,623	170,629
21,196	21,623	6,823	6,352
42,693	44,882	110,134	103,234
99,412	116,486	3,124,326	2,663,315
4,796	2,612	360,926	319,387
-	-	108,411	117,900
354,790	356,820	1,548,026	1,250,532
117,083	179,748	33,726	56,598
409,135	389,426	168,933	154,457
406,965	363,628	1,171,680	1,194,538
4,741	6,859	10,685	14,984
19,313	19,234	83,002	78,972
-	-	80,448	78,635
962	687	4,567	7,328
202,587	194,623	172,916	157,584
788,876	656,396	687,035	705,304
137,409	102,217	816,805	680,253
-	-	554,461	165,938
<u>2,957,345</u>	<u>2,732,112</u>	<u>10,290,709</u>	<u>8,855,208</u>
<u>\$ 5,669,616</u>	<u>\$ 5,323,789</u>	<u>\$ 10,290,709</u>	<u>\$ 8,855,208</u>

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**DAVIS COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 2,680,729	\$ 2,234,887
Contractual Adjustments - Medicaid	370,351	297,901
Provision for Bad Debts	501,957	511,814
Other Allowances and Adjustments	664,158	512,463
 Total Adjustments	 \$ 4,217,195	 \$ 3,557,065
 OTHER REVENUES		
Revenues for Expenses of HHC:		
Davis County	\$ 47,973	\$ 67,567
Iowa Department of Public Health	69,493	53,216
Other Funding	110,232	101,423
Ambulance Reimbursement	32,500	25,000
Cafeteria	99,180	86,687
Sale of Supplies and Drugs	20,765	20,489
Rent	43,230	45,858
Purchase Discounts	26,978	21,078
Other	36,479	30,126
 Total Other Revenues	 \$ 486,830	 \$ 451,444

**DAVIS COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 1,112,132	\$ 993,892
Employee Benefits	1,383,142	1,273,233
Administrative and General	1,221,666	1,141,439
Purchasing	60,326	56,364
Operation of Plant	668,222	702,559
Laundry and Linen	96,123	91,083
Housekeeping	281,239	261,915
Dietary	492,285	469,519
Nursing Administration	293,794	262,161
Medical Records	148,619	147,563
Information Systems	146,162	-
Adults and Pediatrics	725,922	659,312
Intensive Care Unit	-	6,834
Nursing Home	726,712	631,933
Operating Room	233,023	190,500
OB, Delivery and Labor Room	58,980	60,151
Anesthesiology	141,418	136,819
Radiology	716,712	591,634
Laboratory	593,337	525,343
Respiratory Therapy	177,766	180,030
Physical Therapy	734,166	707,821
Speech Therapy	11,700	14,600
Cardiac Rehabilitation	34,436	35,301
Electroencephalography	2,208	3,264
Medical Supplies Charged to Patients	159,047	136,673
Drugs Charged to Patients	533,468	569,959
Emergency Room	509,490	381,042
Ambulance Service	253,853	251,835
Clinic	542,578	301,071
Home Health	266,975	255,886
Interest	381,164	430,663
Professional Standards Review and Quality Improvement	102,633	100,192
Total Expenses	\$ 12,809,298	\$ 11,570,591

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 1,112,132	\$ 993,892
-	-	1,383,142	1,273,233
719,121	558,214	502,545	583,225
65,202	49,899	(4,876)	6,465
179,796	207,306	488,426	495,253
16,576	15,573	79,547	75,510
196,971	185,264	84,268	76,651
232,940	232,135	259,345	237,384
272,046	242,765	21,748	19,396
104,887	102,843	43,732	44,720
47,084	-	99,078	-
685,023	614,715	40,899	44,597
-	5,201	-	1,633
676,412	599,601	50,300	32,332
150,052	135,831	82,971	54,669
51,649	53,667	7,331	6,484
-	-	141,418	136,819
207,469	179,349	509,243	412,285
249,438	220,689	343,899	304,654
111,898	100,664	65,868	79,366
32,244	40,131	701,922	667,690
-	-	11,700	14,600
30,016	32,929	4,420	2,372
-	-	2,208	3,264
-	-	159,047	136,673
139,656	115,012	393,812	454,947
335,039	255,610	174,451	125,432
203,834	205,223	50,019	46,612
490,114	257,615	52,464	43,456
216,636	203,502	50,339	52,384
-	-	381,164	430,663
98,377	95,659	4,256	4,533
<u>\$ 5,512,480</u>	<u>\$ 4,709,397</u>	<u>\$ 7,296,818</u>	<u>\$ 6,861,194</u>

DAVIS COUNTY HOSPITAL
SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
0-30 days	\$ 1,475,334	30.5	\$ 1,269,011	41.9
31-60 Days	680,016	14.0	532,257	17.5
61-90 Days	432,803	8.9	194,177	6.4
91 Days and Over	2,252,113	46.6	1,038,792	34.2
Total Accounts Receivable	<u>4,840,264</u>	<u>100.00 %</u>	<u>3,034,237</u>	<u>100.00 %</u>
ALLOWANCES				
Contractual -				
Medicare	564,000		407,600	
Medicaid	229,855		93,000	
Doubtful Accounts	1,099,981		679,000	
Net Accounts Receivable	<u>\$ 2,946,428</u>		<u>\$ 1,854,637</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Doubtful Accounts)	<u>33,470</u>		<u>30,399</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>88</u>		<u>61</u>	

Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 679,000		\$ 717,500	
Add:				
Provision for Doubtful Accounts	501,957	4.74 %	511,814	4.84 %
Recoveries Previously Written Off	115,841	1.09 %	119,602	1.13 %
Accounts Previously Written Off and Transferred Back to Accounts Receivable	443,192	4.19 %	156,604	1.48 %
	<u>1,739,990</u>		<u>1,505,520</u>	
Deduct:				
Accounts Written Off	<u>(640,009)</u>	<u>(6.05)%</u>	<u>(826,520)</u>	<u>(7.81)%</u>
Ending Balance	<u>\$ 1,099,981</u>		<u>\$ 679,000</u>	

**DAVIS COUNTY HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
INVENTORIES		
Central Stores	\$ 35,355	\$ 26,887
Pharmacy	110,722	80,772
Dietary	19,806	13,965
Laboratory	20,119	16,185
Office Supplies	8,673	9,886
Floor Supplies	114,298	113,286
Fuel Oil	4,488	4,488
 Total Inventories	 \$ 313,461	 \$ 265,469
 PREPAID EXPENSES		
Insurance	\$ 12,259	\$ 17,173
Service Contracts	10,742	15,525
Dues	7,902	7,215
Other	9,861	2,485
 Total Prepaid Expenses	 \$ 40,764	 \$ 42,398

**DAVIS COUNTY HOSPITAL
SCHEDULE OF INSURANCE
YEAR ENDED JUNE 30, 2005**

Chubb Group of Insurance (policy expiration June 16, 2006)	\$22,553,546
Building and contents, fire and extended coverage (100% co-insurance, replacement value)	\$5,000 deductible
Earthquake (policy expiration June 16, 2006)	\$10,000,000 \$50,000 deductible
Blanket earnings and expense (policy expiration June 16, 2006)	\$3,166,200
Accounts receivable (policy expiration June 16, 2006)	\$250,000
General liability – PIC Wisconsin (policy expiration June 16, 2006)	\$1,000,000/3,000,000 \$10,000 deductible
Healthcare facility medical professional liability – PIC Wisconsin	\$1,000,000/3,000,000
Owned automobiles – Iowa Fire/EMS Pak (expires June 16, 2006)	
Liability	\$1,000,000
Collision and Comprehensive	No Limit
Uninsured/underinsured motorist	\$1,000,000 \$1,000 deductible
Hired individuals/non-owned automobiles	
Liability	\$1,000,000
Blanket fidelity bond - Old Republic Surety Co	\$50,000
Employees and Board Members	\$1,000 deductible
Excess coverage on covered individuals	\$200,000
Boiler (Included in property coverage)	
Executive Risk Indemnity Inc. (policy expiration June 16, 2006)	
Directors' and Officers' liability	\$1,000,000 \$15,000 deductible
United Fire and Casualty Company	
Surety bonding	\$10,000
Farm Bureau Financial Services (policy expiration April 1, 2006)	
Workers' compensation	Statutory
Petroleum Marketers Mutual Storage Tank (policy expiration March 25, 2006)	
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, 2005 AND 2004
(UNAUDITED)**

	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Acute	2,172	2,064
Swing Bed	652	712
Newborn	82	79
Long Term Care	<u>11,281</u>	<u>11,498</u>
Totals	<u><u>14,187</u></u>	<u><u>14,353</u></u>
ADMISSIONS		
Acute	615	628
Swing Bed	76	74
Newborn	43	51
Long Term Care	<u>43</u>	<u>30</u>
Totals	<u><u>777</u></u>	<u><u>783</u></u>
DISCHARGES		
Acute	616	630
Swing Bed	74	75
Newborn	43	51
Long Term Care	<u>43</u>	<u>29</u>
Totals	<u><u>776</u></u>	<u><u>785</u></u>
AVERAGE LENGTH OF STAY, ACUTE		
	<u><u>3.5</u></u>	<u><u>3.3</u></u>
BEDS		
Acute and Swing Bed	25	25
Long Term Care	32	32
OCCUPANCY PERCENTAGE		
Acute, Based on 25 Beds	30.9%	30.4%
Long Term Care, Based on 32 Beds	<u><u>96.6%</u></u>	<u><u>98.4%</u></u>

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

Board of Trustees
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 years ended June 30 2005 and 2004, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in 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.

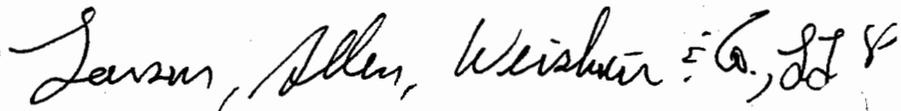
Compliance and Other Matters

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 an instance 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 15, 2005.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the 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 15, 2005

**DAVIS COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to Financial Statements:

Reportable Conditions

05-I-1 Segregation of Duties

The accountant currently has the ability to create new vendors, enter invoices and print checks.

Recommendation

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

Response

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

Conclusion

Response is accepted.

05-I-2 Segregation of Duties

The individual who prints payroll checks also has the ability to enter new employees in the information system, enter the hours, and change wages.

Recommendation

We recommend limiting the ability to create a new employee to an individual who does not have access to other areas of the payroll cycle.

Response

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

Conclusion

Response is accepted.

05-I-3 Segregation of Duties

The employees with the responsibility of opening the mail, accepting payments and preparing the daily deposit have access to the patient accounting system. This segregation of duties issue is ongoing in the Hospital and Home Health Agency's cash receipts process.

Recommendation

We recommend modifying the cash receipts process in both locations so that an employee with access to the patient accounts is not opening the mail and/or handling daily deposits.

Response

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

Conclusion

Response is accepted.

**DAVIS COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Required Statutory Reporting:

05-II-1 Official Depositories

A resolution naming official depositories has been adopted by the Board of Trustees, however the resolution did not include American Trust and Savings Bank.

Recommendation

The depository resolution should be updated when new depositories are added, maximum deposit limits change or previously approved depositories change their names.

Response

We will update our depository resolution as described above.

Conclusion

Response is accepted.

05-II-2 Certified Budget

Hospital's cash basis expenditures during the year ended June 30, 2005, exceed budgeted amounts.

Recommendation

To file amended budget if cash basis expenses are anticipated to exceed budgeted amounts.

Response

Will monitor actual to budgeted expenses.

Conclusion

Response is accepted.

05-II-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.

05-II-4 Travel Expenses

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

05-II-5 Business Transactions

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

**DAVIS COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

05-II-6 Board Minutes

Board minutes were examined and appeared to give a condensed accurate account of business transacted by the Board, however the minutes did not report the vote of each board member individually.

Recommendation

To report each individual board members vote in the board minutes.

Response

Board minutes will report the vote of each individual board member.

05-II-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

05-II-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 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 did publish schedules of bills allowed and a schedule of salaries paid as required by the Code.

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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 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, 2005, and have issued our report thereon dated September 15, 2005.

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 15, 2005

