

DECATUR COUNTY HOSPITAL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

**DECATUR COUNTY HOSPITAL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

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

DECATUR COUNTY HOSPITAL
SCHEDULE OF OFFICIALS
YEAR ENDED JUNE 30, 2005

<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, 2010
Tom Thomas	Secretary	December 31, 2006
Leon Kessel	Member	December 31, 2010
Gwen Simpson	Member	December 31, 2006
Sherry Untiedt	Member	December 31, 2008

* - Extended to October 2005

Hospital Officials

Darrell Vondrak	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, 2005 and 2004, and the related statements of revenues, 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.

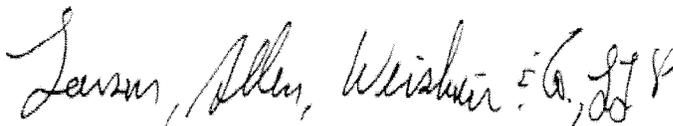
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005 and 2004, and the results of its operations and its 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 14, 2005 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.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 14, 2005

**DECATUR COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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, 2005. 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, 2005 and 2004 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 \$796,800 or 10.37% increase in 2005 and a \$320,205 or 4.35% increase in 2004.
- The Hospital's net assets decreased in 2005 by \$(159,290) or -3.29%, and increased \$139,413 or 2.96%.
- The Hospital reported an operating loss in each of the last two years with a \$782,139 loss in 2005 and a \$480,275 loss in 2004. (Note: County Tax Revenue is not included in these figures.)

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.

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

- Schedules of 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, 2005**

**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 in 2003 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 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 have 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>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Cash and Cash Equivalents	\$ 1,005,944	\$ 580,150	\$ 878,261
Patients Receivables, Net	1,344,004	1,024,206	943,358
Other Current Assets	244,361	408,329	623,964
Noncurrent Cash and Investments	1,727,966	1,274,355	1,103,768
Succeeding Year Property Tax Receivable	557,518	555,581	555,678
Capital Assets, Net	<u>3,600,138</u>	<u>3,840,510</u>	<u>3,257,897</u>
Total Assets	<u><u>\$ 8,479,931</u></u>	<u><u>\$ 7,683,131</u></u>	<u><u>\$ 7,362,926</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,950,296	\$ 716,820	\$ 785,941
Long-Term Debt (Less Current Maturities)	1,286,776	1,566,099	1,316,089
Deferred Revenue from Succeeding Year Property Tax Receivable	<u>557,518</u>	<u>555,581</u>	<u>555,678</u>
Total Liabilities	<u>3,794,590</u>	<u>2,838,500</u>	<u>2,657,708</u>
Invested in Capital Assets Net of Related Debt	2,033,056	2,033,697	1,804,761
Unrestricted	<u>2,652,285</u>	<u>2,810,934</u>	<u>2,900,457</u>
Total Net Assets	<u><u>4,685,341</u></u>	<u><u>4,844,631</u></u>	<u><u>4,705,218</u></u>
Total Liabilities and Net Assets	<u><u>\$ 8,479,931</u></u>	<u><u>\$ 7,683,131</u></u>	<u><u>\$ 7,362,926</u></u>

**DECATUR COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Financial Analysis of the Hospital (Continued)

Days of Cash on Hand for both current and noncurrent cash and investments fluctuated from 99 days in 2003, down to 88 days in 2004, and back up to 123 in 2005. Days in Net AR ended the year in FY 2005 at 63 days, which is up from 50 days at the end of FY 2004. Net Capital Assets decreased 6% in 2005, due to the sale and removal of some of the assets. The Capital Assets were funded in past years, in part by Long-Term Notes and Capital Leases, and in part by cash outlays. Long-term debt decreased 18% in 2005, as there was no new Long-term debt for FY 2005. The Average Age of Plant, which indicates the financial age of the fixed assets of the hospital, remains constant at approximately 7 years in 2005.

The current ratio (current assets divided by current liabilities) was 1.33 in 2005, 2.81 in 2004, and 3.11 in 2003. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred. The main factor contributing to the decrease in the current ratio in 2005 is the large amount due to Medicare, which is included in the Current Liabilities.

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>
Net Patient Service Revenue	\$ 7,463,817	\$ 7,255,005	\$ 6,684,923
Other Operating Revenue	123,121	77,333	85,739
	<u>7,586,938</u>	<u>7,332,338</u>	<u>6,770,662</u>
Salaries	3,343,812	2,993,534	3,139,581
Employee Benefits	888,754	808,010	866,497
Medical Professional Fees	397,010	479,549	400,545
Utilities	250,834	238,628	233,799
Management, Legal, and Accounting Fees	83,484	68,822	76,308
Insurance	97,251	64,790	123,158
Supplies and Miscellaneous	2,750,052	2,637,966	2,108,085
Depreciation	461,375	420,596	338,500
Interest	96,505	100,718	82,374
Operating Expenses	<u>8,369,077</u>	<u>7,812,613</u>	<u>7,368,847</u>
Operating Income (Loss)	(782,139)	(480,275)	(598,185)
Non-Operating Revenues (Expenses)	<u>622,849</u>	<u>619,688</u>	<u>628,191</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	(159,290)	139,413	30,006
Net Assets, Beginning of Year	<u>4,844,631</u>	<u>4,705,218</u>	<u>4,675,212</u>
Net Assets, End of Year	<u>\$ 4,685,341</u>	<u>\$ 4,844,631</u>	<u>\$ 4,705,218</u>

**DECATUR COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Net patient service revenue made up 98% in 2005 and 99% in 2004 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. County Tax revenue is not included in the operating revenue. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2005	2004	2003
Total Patient Service Revenues	\$ 10,881,401	\$ 9,111,222	\$ 8,307,039
Contractual Adjustments and Provisions for Bad Debt	3,417,584	1,856,217	1,922,116
Net Patient Service Revenue	<u>\$ 7,463,817</u>	<u>\$ 7,255,005</u>	<u>\$ 6,384,923</u>
Contractual Adjustments as a Percent of Revenues	<u>31.41%</u>	<u>20.37%</u>	<u>23.14%</u>

Total operating expenses increased \$556,484 or 7% in 2005 and increased \$443,766 or 6% in 2004. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 29-30 of the audited financial statements for this information. In 2005, depreciation expense increased \$40,779 or 10%, resulting from the capital improvements and equipment purchases. Interest expense decreased \$4,213, or -4%, because the balances of the notes and leases decreased and there was no new long-term debt.

In FY 2005, Salaries and employee benefits increased 11% while medical professional fees decreased 17%, both due to the employment of 3 physicians for a portion of the year.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was -10% in 2005, down from -7% in 2004. Operating loss in 2005 was \$(782,139) and in 2004 was \$(480,275).

Other Operating Revenue increased \$45,788 in 2005 and decreased \$(8,406) in 2004. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2005	2004	2003
Cafeteria	\$ 45,958	\$ 44,387	\$ 55,952
Laundry	1,019	850	765
Medical Records Transcript Fees	3,571	3,449	2,493
Medicaid Administrative Claiming Reimbursement	9,161	3,462	12,306
Other	63,412	25,185	14,223
Total Other Revenues	<u>\$ 123,121</u>	<u>\$ 77,333</u>	<u>\$ 85,739</u>

**DECATUR COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

HOSPITAL STATISTICAL DATA

Table 5 shows the Hospital's statistical data. FY 2005 shows a 14% increase for Acute, Swing Bed and Respite patient days, while 2003 shows the final closure of the PMIC, Residential and Focus Unit. The increase in patient days was the main cause of patient revenue increases during 2005. The Hospital's Obstetrics Unit was closed Nov. 1, 2004.

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	1,102	1,006	971
Swing Bed	823	553	442
Respite	40	102	29
PMIC, Residential & Focus	-	-	2,721
Newborn	14	74	114
Total	<u>1,979</u>	<u>1,735</u>	<u>4,277</u>
Admissions			
Acute	354	341	350
Swing Bed	78	62	60
Respite	9	7	3
PMIC, Residential & Focus	-	-	6
Newborn	12	37	57
Total	<u>453</u>	<u>447</u>	<u>476</u>
Discharges			
Acute	353	336	349
Swing Bed	82	52	62
Respite	8	9	3
PMIC, Residential & Focus	-	-	131
Newborn	12	40	59
Total	<u>455</u>	<u>437</u>	<u>604</u>
Average Length of Stay, Acute	<u>3.11</u>	<u>2.95</u>	<u>2.77</u>
Beds			
Acute, Swing & Respite	25	25	25
Occupancy Percentage			
Acute, Swing & Respite, Based on 25 Beds	21.5%	18.2%	15.8%

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, 2005 the Hospital had \$3,600,138 invested in capital assets net of accumulated depreciation. In FY 2005, the Hospital expended \$221,003 for building improvements and new equipment, none of which was financed by long-term debt.

In FY 2004, the Hospital expended \$1,003,210 for land improvements, building improvements, and new equipment, which includes \$569,522 acquired under capital lease agreements.

**DECATUR COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Long Term Debt

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

Table 6: Long Term Debt

	<u>2005</u>	<u>2004</u>	<u>2003</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.	\$ 722,476	\$ 772,741	\$ 820,109
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.	357,187	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
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.	104,919	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.	324,081	418,132	-
6. Capital Lease - Colonoscopes The Hospital purchased colonoscopes in 2004 for \$70,488 under a capital lease, which will expire in 2009.	58,419	69,522	-
Total Long Term Debt	<u>\$ 1,567,082</u>	<u>\$ 1,806,813</u>	<u>\$ 1,453,136</u>

**DECATUR COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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.

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, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,005,944	\$ 580,150
Patient Receivables, Less Allowance for Uncollectible Accounts of \$210,690 in 2005 and \$230,524 in 2004	1,344,004	1,024,206
Other Receivables	15,017	14,443
Third Party Payor Settlement Receivable	-	185,071
Inventory	185,150	168,095
Prepaid Expenses	44,194	40,720
Total Current Assets	2,594,309	2,012,685
 NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	1,727,966	1,274,355
Total Noncurrent Cash and Investments	1,727,966	1,274,355
 SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	557,518	555,581
 CAPITAL ASSETS, NET		
	3,600,138	3,840,510
Total Assets	\$ 8,479,931	\$ 7,683,131

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 324,307	\$ 234,295
Current Maturities of Long-Term Debt	280,306	240,714
Accrued Payroll and Related Liabilities	232,169	226,543
Third Party Payor Settlement Payable	1,113,514	-
Other Accrued Liabilities	-	15,268
Total Current Liabilities	<u>1,950,296</u>	<u>716,820</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	557,518	555,581
LONG-TERM DEBT, Less Current Maturities		
	<u>1,286,776</u>	<u>1,566,099</u>
Total Liabilities	3,794,590	2,838,500
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,033,056	2,033,697
Unrestricted	<u>2,652,285</u>	<u>2,810,934</u>
Total Net Assets	<u>4,685,341</u>	<u>4,844,631</u>
Total Liabilities and Net Assets	<u>\$ 8,479,931</u>	<u>\$ 7,683,131</u>

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

	2005	2004
UNRESTRICTED REVENUES		
Net Patient Service Revenue, Net of Provision for Bad Debt of \$286,845 in 2005 and \$279,592 in 2004	\$ 7,463,817	\$ 7,255,005
Other Revenues	123,121	77,333
Total Revenues	7,586,938	7,332,338
EXPENSES		
Salaries	3,343,812	2,993,534
Employee Benefits	888,754	808,010
Medical Professional Fees	397,010	479,549
Utilities	250,834	238,628
Management, Legal, and Accounting Fees	83,484	68,822
Insurance	97,251	64,790
Supplies and Miscellaneous	2,750,052	2,637,966
Depreciation	461,375	420,596
Interest	96,505	100,718
Total Expenses	8,369,077	7,812,613
OPERATING LOSS	(782,139)	(480,275)
NON-OPERATING GAINS		
Tax revenue	586,062	583,008
Investment Income	28,944	21,173
Noncapital Grants and Contributions	7,843	15,507
Total Non-operating Gains	622,849	619,688
EXCESS (DEFICIT) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	(159,290)	139,413
Net Assets Beginning of Year	4,844,631	4,705,218
Net Assets End of Year	\$ 4,685,341	\$ 4,844,631

See accompanying Notes to Financial Statements.

**DECATUR 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 Parties	\$ 8,442,604	\$ 7,384,030
Cash Paid to Employees	(4,242,208)	(3,900,471)
Cash Paid to Suppliers	(3,509,722)	(3,557,854)
Other Receipts and Payments, Net	123,121	77,333
Net Cash Provided by Operating Activities	813,795	3,038
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Contributions	7,843	15,507
Tax Revenues	586,062	583,008
Net Cash Provided by Non-Capital Financing Activities	593,905	598,515
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(221,003)	(433,688)
Payments on Long Term Debt	(239,731)	(215,845)
Interest Payments on Long-Term Debt	(96,505)	(100,718)
Net Cash Used by Capital and Related Financing Activities	(557,239)	(750,251)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	(453,611)	(170,586)
Interest Earned on Investments	28,944	21,173
Net Cash Used by Investing Activities	(424,667)	(149,413)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	425,794	(298,111)
Cash and Cash Equivalents - Beginning	580,150	878,261
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,005,944	\$ 580,150

See accompanying Notes to Financial Statements.

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

	2005	2004
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (782,139)	\$ (480,275)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Interest Expense Considered Capital Financing Activity	96,505	100,718
Depreciation	461,375	420,596
Decrease (Increase) in -		
Patient Receivables	(319,798)	(80,848)
Other Receivables	(574)	2,264
Inventories	(17,055)	24,048
Prepaid Expenses	(3,474)	(20,550)
Third Party Payor Settlements Receivable	185,071	209,873
Increase (Decrease) in -		
Accounts Payable	90,012	(73,861)
Accrued Salaries, Wages, Benefits and Other	(9,642)	(98,927)
Third Party Payor Settlements Payable	1,113,514	-
Net Cash Provided by Operating Activities	\$ 813,795	\$ 3,038
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
NON-CASH FINANCING ACTIVITIES		
Assets Acquired Under Capital Lease Agreement	\$ -	\$ 569,522

See accompanying Notes to Financial Statements.

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

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

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.

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF 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, 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, 2005 and 2004, the allowance for uncollectible accounts was \$210,690 and \$230,524, 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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. 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. This amount was \$2,500 in 2004.

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.

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF 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. 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, 2005 and 2004.

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.

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

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

F. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including interest income, tax revenues, non-operating grants and unrestricted contributions, 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 \$4,454 and \$12,768 for the years ended June 30, 2005 and 2004, respectively.

J. County Tax Revenue

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

K. Reclassifications

Certain items in the 2004 financial statements have been reclassified for comparability purposes with the 2005 financial statements. These reclassifications did not affect the excess of revenues over expenses or net assets as previously reported.

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

NOTE 2 DESIGNATED NET ASSETS

Of the \$2,652,285 and \$2,810,934 of unrestricted net assets at June 30, 2005 and 2004, respectively, the Board of Trustees has designated \$1,727,966 and \$1,274,355, 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, 2004.

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, 2004.

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.

Laws and regulations governing 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.

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

NOTE 3 NET PATIENT SERVICE REVENUES (CONTINUED)

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

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 10,881,401	\$ 9,111,222
Contractual Adjustments:		
Medicare	2,296,298	896,683
Medicaid	542,351	396,608
Provision for Bad Debt	286,845	279,592
Other	292,090	283,334
Total Contractual Adjustments and Bad Debts	<u>3,417,584</u>	<u>1,856,217</u>
Net Patient Service Revenues	<u>\$ 7,463,817</u>	<u>\$ 7,255,005</u>

NOTE 4 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	\$ 853,166	\$ 868,207
Receivable from Medicare	542,075	316,195
Receivable from Medicaid	159,453	70,304
Total Patient Receivables	<u>1,554,694</u>	<u>1,254,706</u>
Less Allowance for Doubtful Accounts	<u>(210,690)</u>	<u>(230,500)</u>
Patient Receivables, Net	<u>\$ 1,344,004</u>	<u>\$ 1,024,206</u>

NOTE 5 DEPOSITS AND INVESTMENTS

The Hospital's deposits 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 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.

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

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

The Hospital's investment policy does not limit investments on interest rate risk and credit risk. The Hospital complies with State of Iowa statutes in regards to interest rate credit risk.

At June 30, 2005 and 2004 the Hospital's deposits and investments at fair market value are as follows:

	<u>2005</u>	<u>2004</u>
Deposits	\$ 2,716,616	\$ 1,838,539
Investment in Common Stock	17,294	15,966
	<u>\$ 2,733,910</u>	<u>\$ 1,854,505</u>

Included in the following balance sheet captions:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 1,005,944	\$ 580,150
Noncurrent Cash and Investments Internally Designated for Capital Acquisitions	1,727,966	1,274,355
	<u>\$ 2,733,910</u>	<u>\$ 1,854,505</u>

NOTE 6 CAPITAL ASSETS

	<u>July 1, 2004</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>July 1, 2005</u>
Capital Assets				
Land and Improvements	\$ 161,086	\$ -	\$ -	\$ 161,086
Building and Improvements	4,090,279	128,307	(4,000)	4,214,586
Major Movable Equipment, Including Equipment Under Capital Lease	2,545,096	60,554	(28,726)	2,576,924
Construction in Progress	-	34,057	-	34,057
Totals	<u>6,796,461</u>	<u>222,918</u>	<u>(32,726)</u>	<u>6,986,653</u>
Accumulated Depreciation				
Land and Improvements	37,265	7,546	-	44,811
Building and Improvements	1,636,641	138,886	(2,667)	1,772,860
Major Movable Equipment	1,282,045	314,943	(28,144)	1,568,844
Totals	<u>2,955,951</u>	<u>\$ 461,375</u>	<u>\$ (30,811)</u>	<u>3,386,515</u>
	<u>\$ 3,840,510</u>			<u>\$ 3,600,138</u>

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

NOTE 6 CAPITAL ASSETS (CONTINUED)

	July 1, 2003	Additions	(Retirements)	July 1, 2004
Capital Assets				
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)	-
Totals	<u>8,569,153</u>	<u>2,192,025</u>	<u>(3,964,717)</u>	<u>6,796,461</u>
Accumulated Depreciation				
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
Totals	<u>5,311,256</u>	<u>\$ 420,596</u>	<u>\$ (2,775,901)</u>	<u>2,955,951</u>
	<u>\$ 3,257,897</u>			<u>\$ 3,840,510</u>

Construction in progress at June 30, 2005, consists of costs incurred to assist with the determination of the Hospital's ability to consider a future expansion project. There are no commitments for future expenditures nor are there any specific expansion plans.

NOTE 7 LONG-TERM DEBT

A schedule of changes in 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
Great Western Bank Note Payable	\$ 772,741	\$ -	\$ (50,265)	\$ 722,476	\$ 79,149
American State Bank Note Payable	397,166	-	(39,979)	357,187	42,235
Obligations Under Capital Lease	636,906	-	(149,487)	487,419	158,922
Total Long-Term Debt	<u>\$ 1,806,813</u>	<u>\$ -</u>	<u>\$ (239,731)</u>	<u>\$ 1,567,082</u>	<u>\$ 280,306</u>

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

NOTE 7 LONG-TERM DEBT (CONTINUED)

	Balance July 1, 2003			Balance June 30, 2004		Amounts Due Within One Year
	Additions	(Payments)				
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	201,091	569,522	(133,707)	636,906	150,475	
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>	

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%. This note is collateralized by patient revenues. 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.

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
2006	\$ 121,384	\$ 59,186	\$ 158,922	\$ 23,252
2007	128,606	51,964	167,853	14,321
2008	136,258	44,312	135,137	5,643
2009	144,366	36,204	25,507	630
2010	152,959	27,611	-	-
2011-2015	396,090	28,308	-	-
	<u>\$ 1,079,663</u>	<u>\$ 247,585</u>	<u>\$ 487,419</u>	<u>\$ 43,846</u>

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

	2005	2004
Major Movable Equipment	\$ 977,970	\$ 977,970
Less: Accumulated Amortization	(316,147)	(138,271)
	<u>\$ 661,823</u>	<u>\$ 839,699</u>

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

NOTE 8 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, 2005, 2004, and 2003 were \$186,700, \$165,500, and \$175,200, respectively, equal to the required contributions for each year.

NOTE 9 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, 2005 and 2004 were approximately \$249,000 and \$258,600, respectively. Accounts payable due to Mercy at years ended June 30, 2005 and 2004 were \$12,502 and \$13,377, respectively.

NOTE 10 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.

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

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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

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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, 2005**

	Accrual Basis			Original Budget	Final to Actual Cash Basis Variance
	Total Net Assets	Accrual Adjustments	Cash Basis		
Estimated Amount to be Raised by Taxation	\$ 586,062	\$ -	\$ 586,062	\$ 555,581	\$ 30,481
Estimated Other Revenues/Receipts	7,623,725	978,787	8,602,512	8,287,205	315,307
	<u>8,209,787</u>	<u>978,787</u>	<u>9,188,574</u>	<u>8,842,786</u>	<u>345,788</u>
Expenses/Expenditures	8,369,077	(59,908)	8,309,169	8,846,963	537,794
Net	<u>(159,290)</u>	<u>1,038,695</u>	<u>879,405</u>	<u>(4,177)</u>	<u>883,582</u>
Balance, Beginning	4,844,631	(2,990,126)	1,854,505	1,397,074	457,431
Balance, Ending	<u>\$ 4,685,341</u>	<u>\$ (1,951,431)</u>	<u>\$ 2,733,910</u>	<u>\$ 1,392,897</u>	<u>\$ 1,341,013</u>

NOTE 1 – BUDGETARY COMPARISON

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. The Hospital did not amend its original budget during the year.

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OTHER SUPPLEMENTARY INFORMATION

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

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Adults and Pediatrics	\$ 631,088	\$ 548,862
Nursery	5,810	31,375
Skilled Nursing	215,398	112,740
Respite	6,395	16,455
Observation	209,046	196,831
Total	<u>1,067,737</u>	<u>906,263</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	1,034,511	1,206,632
Labor and Delivery Room	10,080	25,433
Emergency Room	577,577	469,409
Central Services and Supply	148,956	181,649
Laboratory	1,026,623	747,672
Radiology	832,911	520,237
Ultrasound	412,512	398,538
Scans	318,436	365,129
Electrocardiology	83,417	68,352
Pharmacy	1,647,321	1,097,098
Anesthesiology	383,776	441,480
Respiratory Therapy	531,972	385,125
Physical Therapy	424,891	347,823
Occupational Therapy	28,187	25,358
Speech Therapy	7,540	4,607
Cardiac Therapy	44,228	36,626
Ambulance	516,527	408,544
Home Health	765,143	756,076
Clinic Services	380,603	79,224
Mental Health Services	642,907	652,715
Total	<u>9,818,118</u>	<u>8,217,727</u>
Total Patient Service Revenues	10,885,855	9,123,990
Less Charity Care	<u>(4,454)</u>	<u>(12,768)</u>
	10,881,401	9,111,222
Adjustments to Patient Service Revenues	<u>(3,417,584)</u>	<u>(1,856,217)</u>
Net Patient Service Revenues	<u>\$ 7,463,817</u>	<u>\$ 7,255,005</u>

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 631,088	\$ 548,862	\$ -	\$ -
5,810	31,375	-	-
215,398	112,740	-	-
6,395	16,455	-	-
-	-	209,046	196,831
<u>858,691</u>	<u>709,432</u>	<u>209,046</u>	<u>196,831</u>
140,305	157,338	894,206	1,049,294
8,780	24,256	1,300	1,177
45,512	37,891	532,065	431,518
23,485	46,342	125,471	135,307
255,218	177,965	771,405	569,707
86,085	46,604	746,826	473,633
18,815	15,593	393,697	382,945
45,189	44,562	273,247	320,567
15,159	12,285	68,258	56,067
610,849	435,783	1,036,472	661,315
46,840	63,753	336,936	377,727
326,859	251,172	205,113	133,953
85,446	68,758	339,445	279,065
12,281	15,861	15,906	9,497
5,822	1,586	1,718	3,021
-	-	44,228	36,626
14,257	9,006	502,270	399,538
-	-	765,143	756,076
-	-	380,603	79,224
4,914	4,895	637,993	647,820
<u>1,745,816</u>	<u>1,413,650</u>	<u>8,072,302</u>	<u>6,804,077</u>
<u>\$ 2,604,507</u>	<u>\$ 2,123,082</u>	<u>\$ 8,281,348</u>	<u>\$ 7,000,908</u>

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

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 2,296,298	\$ 896,683
Medicaid	542,351	396,608
Provision for Bad Debt	286,845	279,592
Other	292,090	283,334
Total Adjustments to Patient Service Revenues	\$ 3,417,584	\$ 1,856,217
 OTHER REVENUES		
Cafeteria	\$ 45,958	\$ 44,387
Laundry	1,019	850
Medical Records Transcript Fees	3,571	3,449
Medicaid Administrative Claiming Reimbursement	9,161	3,462
Other	63,412	25,185
Total Other Revenues	\$ 123,121	\$ 77,333

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

	TOTAL	
	2005	2004
Capital Related Costs - Building, Fixtures and Moveable Equipment	\$ 461,375	\$ 420,596
Employee Benefits	888,754	808,010
Administrative and General	1,031,329	1,017,335
Operation of Plant	429,219	425,564
Laundry and Linen	29,027	35,189
Housekeeping	121,969	118,062
Dietary	273,800	250,662
Nursing Administration	46,013	44,271
Medical Records	117,325	100,229
Social Services	23,546	19,776
Adults and Pediatrics	676,223	679,609
Nursery	1,747	14,885
Operating and Recovery Room	252,791	329,760
Labor and Delivery Room	1,304	5,814
Anesthesiology	159,742	195,301
Radiology	510,230	466,856
Laboratory	367,829	298,711
Ultrasound	85,079	91,705
Respiratory Therapy	160,851	136,073
Physical Therapy	307,081	249,618
Occupational Therapy	38,425	87,626
Speech Pathology	6,880	3,134
Electrocardiology	-	1,097
Medical and Surgical Supplies	42,582	-
Pharmacy	503,394	410,961
Cardiac Rehabilitation	21,401	18,578
Clinics	292,804	117,545
Emergency	405,607	386,809
Ambulance	182,344	156,452
Mental Health Services	393,763	407,768
Home Health	407,590	384,881
Quality Assurance	32,548	29,018
Interest Expense	96,505	100,718
TOTAL	\$ 8,369,077	\$ 7,812,613

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 461,375	\$ 420,596
-	-	888,754	808,010
430,068	445,034	601,261	572,301
116,546	118,201	312,673	307,363
20,414	27,784	8,613	7,405
99,284	94,258	22,685	23,804
161,600	152,896	112,200	97,766
43,755	43,376	2,258	895
87,328	72,147	29,997	28,082
21,760	18,973	1,786	803
634,446	627,787	41,777	51,822
1,625	13,023	122	1,862
167,326	173,327	85,465	156,433
1,193	5,582	111	232
-	-	159,742	195,301
165,485	148,533	344,745	318,323
132,959	106,044	234,870	192,667
-	-	85,079	91,705
81,416	74,195	79,435	61,878
-	22,974	307,081	226,644
-	-	38,425	87,626
-	-	6,880	3,134
-	1,097	-	-
-	-	42,582	-
36,130	36,758	467,264	374,203
19,576	15,500	1,825	3,078
252,406	78,604	40,398	38,941
156,340	124,378	249,267	262,431
159,377	141,741	22,967	14,711
239,313	142,198	154,450	265,570
283,404	280,287	124,186	104,594
32,061	28,837	487	181
-	-	96,505	100,718
<u>\$ 3,343,812</u>	<u>\$ 2,993,534</u>	<u>\$ 5,025,265</u>	<u>\$ 4,819,079</u>

**DECATUR COUNTY HOSPITAL
SCHEDULES OF AGED 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
1-30 days (Includes Patients in Hospital June 30)	\$ 967,391	57.06 %	\$ 644,588	45.79 %
31-60 Days	252,942	14.92 %	212,779	15.11 %
61-90 Days	125,901	7.43 %	121,455	8.63 %
91 Days and Over	349,155	20.59 %	428,926	30.47 %
Total Accounts Receivable	<u>1,695,389</u>	<u>100.00 %</u>	<u>1,407,748</u>	<u>100.00 %</u>

ALLOWANCES

Contractual Allowances	140,685		153,042	
Allowance for Doubtful Accounts	210,700		230,500	
Total Allowances	<u>351,385</u>		<u>383,542</u>	
Net Accounts Receivable	<u>\$ 1,344,004</u>		<u>\$ 1,024,206</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 21,235</u>		<u>\$ 20,643</u>	
Days of Net Patient Service Revenue in Accounts Receivable	<u>63</u>		<u>50</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	\$ 230,500		\$ 357,600	
Add:				
Provision for Doubtful Accounts	286,845	3.84%	279,592	3.85%
	<u>517,345</u>		<u>637,192</u>	
Deduct:				
Accounts Written Off - Net of Recoveries	(306,645)	-4.11%	(406,692)	-5.61%
Ending Balance	<u>\$ 210,700</u>		<u>\$ 230,500</u>	

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

	2005	2004
INVENTORIES		
Central Stores	\$ 38,080	\$ 34,007
Laboratory	49,656	31,852
Radiology	5,599	5,133
Pharmacy	56,564	57,028
Respiratory Therapy	3,199	7,100
Ambulance Service	1,526	1,424
Dietary	6,496	5,314
Plant Operation and Maintenance	21,369	21,835
Housekeeping	1,566	2,690
Laundry and Linen	1,095	1,712
Total	\$ 185,150	\$ 168,095
 PREPAID EXPENSES		
	\$ 44,194	\$ 40,720

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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, 2005, and have issued our report thereon dated September 14, 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

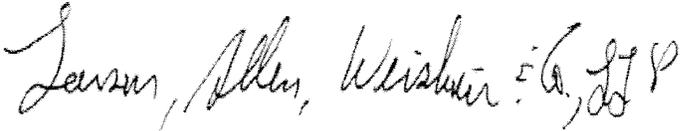
In planning and performing our audit, we considered Decatur County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to the management of Decatur County Hospital in a separate letter dated September 14, 2005.

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.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 14, 2005

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

05-1 Official Depository Banks

A resolution of official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-2 Certified Budget

Hospital disbursements for the year ended June 30, 2005 did not exceed amounts budgeted.

05-3 Questionable Expenditures

We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

05-4 Travel Expense

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

05-5 Business Transactions

There were no business transactions between the Hospital and Hospital officials and/or employees.

05-6 Board Minutes

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

05-7 Deposits and Investments

We noted no instances 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.

05-8 Publication of Bills Allowed and Salaries

Chapter 374.12(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 of 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.

