

**Floyd Valley Hospital
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2004

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Floyd Valley Hospital
OFFICIALS
June 30, 2004

After January 2004

Board of Trustees

Jim Ryan, Chairman
Bill Rosacker, Vice Chairman
Craig Bauerly, Treasurer
Larry Petersen, Secretary
Margaret Moir

Expiration of term

December, 2007
December, 2007
December, 2005
December, 2007
December, 2005

Administrator

Michael T. Donlin, C.H.E.

Director of Financial Services

Daryl J. Friedenbach

Before January 2004

Board of Trustees

Margaret Moir, Chairman
Jim Ryan, Vice Chairman
Marvin Nemmers, Treasurer
Bill Rosacker, Secretary
Craig Bauerly

Expiration of term

December, 2005
December, 2003
December, 2003
December, 2003
December, 2003

Administrator

Michael T. Donlin, C.H.E.

Director of Financial Services

Daryl J. Friedenbach

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Floyd Valley Hospital
Le Mars, Iowa

We have audited the accompanying balance sheets of Floyd Valley Hospital, a component unit of the City of Le Mars, Iowa as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, 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 auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions 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 Floyd Valley Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 on our consideration of Floyd Valley Hospital's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 13, 2004

Floyd Valley Hospital Management's Discussion and Analysis

As management of Floyd Valley Hospital, we offer readers of the hospital's financial statements this narrative overview and analysis of the hospital's financial performance during the fiscal years ended June 30, 2004, 2003 and 2002. Please read it in conjunction with the hospital's financial statements, which follow this section.

Overview of the Financial Statements:

This annual report includes management's discussion and analysis report, the independent auditors report and the basic financial statements of the hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements:

The financial statements of the hospital report information of the hospital using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The balance sheet includes all of the hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Floyd Valley Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the hospital and assessing the liquidity and the financial flexibility of the hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the hospital's operations over the past year and can be used to determine whether the hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights:

- Total assets increased by \$2.4 million from FY 2003 to \$23.8 million.
- Total net property and equipment increased by \$2.3 million from FY 2003.
- Fund equity increased by \$800,455 from FY 2003.
- FY 2004 net patient service revenue increased by \$436,908, primarily due to increases in outpatient utilization as well as charge rate increases effective July 1, 2003.
- FY 2004 expenses increased by \$755,589 due to cost increases on supplies and staffing.
- Total margin for FY 2004 was 5.0%, compared to 5.9% for FY 2003 and 5.3% for FY 2002.

Financial Analysis of the Hospital:

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of the hospital and the changes in them. The hospital's net assets – the difference between assets and liabilities – are a way to measure financial health or financial position. Over time, sustained increases or decreases in the hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

Net Assets:

A summary of the hospital's balance sheets at June 30, 2004, 2003, and 2002 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2004	June 30, 2003	June 30, 2002
Current and other assets	\$11,605	\$11,507	\$ 7,358
Property and Equipment	\$12,159	\$ 9,860	\$ 7,842
Total Assets	\$23,764	\$21,367	\$15,200
Long term debt outstanding	\$ 8,716	\$ 8,103	\$ 3,000
Other liabilities	\$ 2,694	\$ 1,711	\$ 1,552
Total liabilities	\$11,410	\$ 9,814	\$ 4,552
Invested in Capital Assets	\$ 4,484	\$ 4,762	\$ 4,842
Restricted	\$ 2,065	\$ 1,222	\$ 861
Unrestricted	\$ 5,805	\$ 5,569	\$ 4,945
Total Fund Equity	\$12,354	\$11,553	\$ 10,648

As can be seen in Table 1, net assets increased by \$801 thousand to \$12.35 million in fiscal year 2004, up from \$11.55 million in fiscal year 2003 and \$10.65 million in fiscal year 2002. The change in net assets results primarily from operating profits for the hospital.

During fiscal year 2004, work continues on the construction of the outpatient addition that began during fiscal year 2003. The total cost of the project is expected to be \$3.6 million. The project was financed with Hospital Revenue Notes issued during fiscal year 2003. The project is expected to be completed in September of 2004.

In October of 2003 the hospital issued \$580,000 of Hospital Revenue Bonds to finance the acquisition of hospital capital equipment including a new CT Scanner as well as information system upgrades.

In June of 2004 the hospital issued \$755,000 of Hospital Revenue Refunding Notes. The proceeds of this issuance is for the advanced refunding of the 1996 Taxable Revenue Notes that were originally issued for the construction of the Medical Office Building located on the hospital campus. The call date of the 1996 Taxable Revenue Notes is November of 2004.

Revenues, Expenses, and Changes in Fund Equity:

The following table presents a summary of the hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2004, 2003 and 2002

Table 2
Condensed Statements of Revenue, Expenses, and Changes in Fund Equity
(In Thousands)

	2004	2003	2002
Total Revenue	\$16,127	\$15,464	\$13,833
Expenses	\$15,311	\$14,555	\$13,098
Operating Income	\$ 816	\$ 909	\$ 735
Non-Operating (Losses)	\$ (40)	\$ (59)	\$ (22)
Excess of Revenues over expenses before contributions	\$ 776	\$ 850	\$ 713
Contributions	\$ 25	\$ 55	\$ 46
Changes in Fund Equity	\$ 801	\$ 905	\$ 759
Total Fund Equity, Beginning	\$11,553	\$10,648	\$ 9,889
Total Fund Equity, Ending	\$12,354	\$11,553	\$10,648

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2004, 2003 and 2002.

Volume: Inpatient admissions for fiscal year 2004 were 3% less than in 2003. Outpatient utilization increased over the prior fiscal year by 2%. Skilled care admissions were up from the prior year by 5%, while Home Health visits were up by 4%. The number of births at the hospital was down by 3% from the prior fiscal year.

Net Patient Service Revenue: Due to a rate increase of 6.7% effective July 1, 2003, and the changes in services described above, net patient revenues increased by \$437 thousand or 3% in comparison to fiscal year 2003. The hospital continued to see contractual adjustments as a percent of gross charges rise as Medicare and Medicaid reimbursement failed to keep up with charge increases. Greater utilization by Wellmark Blue Cross also factored into higher contractual allowances as the contract with Wellmark calls for lower reimbursement than other commercial payer contracts.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2004, 2003 and 2002.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2004	2003	2002
Medicare	44.5%	47.3%	47.6%
Wellmark Blue Cross	27.3%	17.5%	14.6%
Commercial	20.1%	27.5%	30.6%
Medicaid	5.4%	4.7%	4.5%
All others	2.6%	3.0%	2.7%

Nursing Service expenses increased by 8% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by \$145,671 or 3% due to salary costs and benefits due to market demands as well as staffing increases to accompany higher volumes. Also the demands for greater mobile imaging services based on utilization demands have increased the costs of outside purchased services.

Capital Assets:

At the end of fiscal year 2004, the hospital has invested \$12.1 million in capital assets as shown in Table 5. The \$2.2 million increase in capital assets is primarily a result of the construction in progress for the outpatient building addition.

Table 5
Capital Assets
(in thousands)

	June 30,		
	2004	2003	2002
Land & Land Improvements	\$ 631	\$ 631	\$ 536
Buildings	\$ 9,441	\$ 9,155	\$ 7,253
Major Moveable Equipment	\$ 4,837	\$ 4,619	\$ 4,683
Land & Buildings Leased to Others	\$ 2,955	\$ 2,952	\$ 2,950
Construction/Equipment Installs in Progress	\$ 2,877	\$ 556	\$ –
Subtotal	<u>\$20,741</u>	<u>\$17,913</u>	<u>\$15,422</u>
Less accumulated depreciation	(\$ 8,581)	(\$ 8,053)	\$(7,581)
Property, plant and equipment, net	<u>\$ 12,159</u>	<u>\$ 9,860</u>	<u>\$ 7,842</u>

Debt Administration:

At the end of fiscal year 2004, the hospital had \$8.9 million in debt related to Hospital Revenue Bonds. This has increased by \$875 thousand from fiscal year 2003 following the issuance of \$580 thousand in Hospital Revenue Bonds related to the acquisition of equipment as well as \$755 thousand for an advanced refunding related to 1996 Taxable Hospital Revenue Notes. More detailed information regarding the hospital's debt is presented in the Notes to the Financial Statements.

The \$253 thousand outstanding in Municipal Lease notes at fiscal year ending 2003 was retired during 2004 with the acquisition of a new CT Scanner to replace the scanner covered under the lease.

Performance Compared to Budget:

Net patient revenues were \$14.7 million or 4% less than budget for fiscal year ended June 30, 2004. This shortfall from budget was related primarily to the decrease in inpatient volumes from the prior fiscal year and budget expectations. The hospital also experience greater contractual adjustments from Wellmark Blue Cross than expected due to a shift in the payer mix from Commercial Insurance to Wellmark Blue Cross, which has a lower reimbursement rate than commercial payers.

Operating Expenses were \$15.3 million or 6% less than budget expectations for the fiscal year ending June 30, 2004. The lower than expected expenses were related to lower inpatient numbers which decreased the demand for staffing and supplies related to patient care.

The following table compares fiscal year 2004 actual to budget information.

Table 6
Budget vs. Actual
(in thousands)

	FY 2004 Actual	FY 2004 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$20,025	\$20,971	(\$946)	(5%)
Contractual Adjustments	\$ 5,522	\$ 5,701	(\$179)	(3%)
Net patient service revenue	\$14,503	\$15,270	(\$767)	(5%)
Other operating revenue	\$ 1,623	\$ 1,503	\$120	7%
Total operating revenue	\$16,126	\$16,773	(\$647)	(4%)
Operating Expenses	\$15,311	\$16,216	(\$905)	(6%)
Operating Gain/Loss	\$ 815	\$ 557	\$258	32%
Non-Operating Income (Loss)	\$ (14)	\$ 129	(\$143)	(1,021%)
Excess of Revenues over Expenses	\$ 801	\$ 686	\$ 115	14%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2005 budget. Of primary importance is are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payers especially Wellmark Blue Cross and the shift in payer mix toward Wellmark Blue Cross.
- Cost of supplies including escalating drug costs
- Workforce shortages especially among nursing and impact on salary costs
- Regulatory changes such as HIPAA
- Facility expansion and growth in demand for services

Contacting Floyd Valley Hospital's Management

This financial report is designed to provide our customers, government officials and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional information, contact the Floyd Valley Hospital at (712) 546-7871 or write care of: Director of Financial Services, Floyd Valley Hospital, P.O. Box 10, Le Mars, Iowa 51031.

**Floyd Valley Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2004	2003
CURRENT ASSETS		
Cash	\$ 2,716,082	\$ 1,632,201
Certificates of deposit	-	450,000
Assets whose use is limited, required for current liabilities	1,060,843	535,853
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2004 \$1,513,586; 2003 \$1,430,161	1,516,640	1,904,757
Estimated third-party payor settlements	-	45,000
Other current receivables	45,425	13,175
Inventories	233,654	226,944
Prepaid expenses	103,094	108,209
Total current assets	<u>5,675,738</u>	<u>4,916,139</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	413,382	306,742
Certificates of deposit	3,096,914	2,395,847
Accrued interest receivable	3,803	11,012
	<u>3,514,099</u>	<u>2,713,601</u>
Restricted for construction and payment of revenue notes and interest		
Cash	2,227,866	3,380,689
Certificates of deposit	802,230	764,580
	<u>3,030,096</u>	<u>4,145,269</u>
Restricted by donors for specific purpose		
Cash	75,514	81,552
Total assets whose use is limited	6,619,709	6,940,422
Less assets whose use is limited and that are required for current liabilities	1,060,843	535,853
Noncurrent assets whose use is limited	<u>5,558,866</u>	<u>6,404,569</u>
PROPERTY AND EQUIPMENT	20,740,525	17,912,617
Less accumulated depreciation	8,581,158	8,052,595
Total property and equipment	<u>12,159,367</u>	<u>9,860,022</u>
OTHER ASSETS		
Unamortized financing costs	68,119	50,414
Other receivable	121,849	11,648
Investment in Floyd Valley Associates	16,564	16,375
Investment in Northwest Iowa Diagnostics	74,158	36,901
Investment in Floyd Valley Home Medical Equipment	89,342	70,935
Total other assets	<u>370,032</u>	<u>186,273</u>
 Totals	 <u>\$23,764,003</u>	 <u>\$21,367,003</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND BALANCE		2004	2003
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 595,000	\$ 567,165
Accounts payable			
Trade		1,183,907	849,300
Construction and equipment		473,582	27,334
Accrued employee compensation		713,666	650,736
Security deposits		29,750	31,875
Payroll taxes and amounts withheld from employees		74,379	79,681
Accrued interest		73,375	71,667
Estimated third-party payor settlements		145,000	-
		<u>3,288,659</u>	<u>2,277,758</u>
LONG-TERM DEBT , less current maturities		<u>8,121,400</u>	<u>7,535,756</u>
Total liabilities		<u>11,410,059</u>	<u>9,813,514</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		4,483,718	4,762,204
Restricted		2,064,859	1,221,718
Unrestricted		<u>5,805,367</u>	<u>5,569,567</u>
Total fund equity		<u>12,353,944</u>	<u>11,553,489</u>
Totals		<u>\$23,764,003</u>	<u>\$21,367,003</u>

Floyd Valley Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2004	2003
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2004 \$253,673; 2003 \$301,536	\$14,503,439	\$14,066,531
OTHER REVENUE	<u>1,623,160</u>	<u>1,397,213</u>
Total revenue	<u>16,126,599</u>	<u>15,463,744</u>
EXPENSES		
Nursing service	4,061,149	3,775,358
Other professional service	5,048,274	4,902,603
General service	1,342,730	1,278,744
Fiscal and administrative service and unassigned expenses	3,890,738	3,618,023
Provision for depreciation	<u>967,918</u>	<u>980,492</u>
Total expenses	<u>15,310,809</u>	<u>14,555,220</u>
Operating income	<u>815,790</u>	<u>908,524</u>
NONOPERATING GAINS (LOSSES)		
Interest income	136,416	133,883
Interest and amortization expense	(253,581)	(258,530)
Unrestricted contributions	6,036	37,715
Equity in earnings of equity method investments	70,750	28,850
Gain (loss) on disposal of equipment	<u>160</u>	<u>(859)</u>
Total nonoperating gains (losses)	<u>(40,219)</u>	<u>(58,941)</u>
Excess of revenues over expenses before contributions	775,571	849,583
CONTRIBUTIONS		
Change in fund equity	<u>24,884</u>	<u>55,467</u>
	800,455	905,050
TOTAL FUND EQUITY		
Beginning	<u>11,553,489</u>	<u>10,648,439</u>
Ending	<u>\$12,353,944</u>	<u>\$11,553,489</u>

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$15,081,556	\$13,716,414
Cash paid to suppliers for goods and services	(7,725,929)	(6,321,293)
Cash paid to employees for services	(6,226,322)	(7,340,786)
Other operating revenue received	<u>1,478,584</u>	<u>1,668,985</u>
Net cash provided by operating activities	<u>2,607,889</u>	<u>1,723,320</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	6,036	37,715
Contributions restricted for property and equipment, net	<u>24,884</u>	<u>55,467</u>
Net cash provided by noncapital financing activities	<u>30,920</u>	<u>93,182</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(2,821,015)	(2,926,692)
Proceeds on sale of property and equipment	-	10,370
Principal paid on long-term debt	(712,596)	(434,625)
Payment of deferred financing costs	(17,705)	(38,900)
Proceeds from revenue notes, net of discount	1,326,075	5,528,100
Interest paid on long-term debt	<u>(314,517)</u>	<u>(328,499)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,539,758)</u>	<u>1,809,754</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,574,144)	(2,890,543)
Proceeds from maturities of certificates of deposit	3,285,427	2,035,847
Collections on note receivable	-	644,909
Distribution from Floyd Valley Associates	14,000	15,000
Capital contribution to Northwest Iowa Diagnostics	-	(19,000)
Capital contribution to Floyd Valley Home Medical Equipment	-	(75,000)
Interest received	<u>207,326</u>	<u>185,714</u>
Net cash (used in) investing activities	<u>(67,391)</u>	<u>(103,073)</u>
NET INCREASE IN CASH	31,660	3,523,183
CASH		
Beginning	<u>5,401,184</u>	<u>1,878,001</u>
Ending	<u>\$ 5,432,844</u>	<u>\$ 5,401,184</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 815,790	\$ 908,524
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	967,918	980,492
Change in assets and liabilities		
(Increase) decrease in patient receivables	388,117	(210,117)
(Increase) decrease in other current receivables	(32,250)	32,336
(Increase) in inventories	(6,710)	(28,489)
(Increase) decrease in prepaid expenses	5,115	(19,964)
(Increase) decrease in other receivable	(110,201)	10,003
Increase (decrease) in estimated third-party payor settlements	190,000	(140,000)
Increase in accounts payable, net of amounts for property and equipment	334,607	101,480
Increase in accrued employee compensation	62,930	51,286
Increase (decrease) in security deposits	(2,125)	31,875
Increase (decrease) in payroll taxes and withholdings	<u>(5,302)</u>	<u>5,894</u>
Net cash provided by operating activities	<u>\$2,607,889</u>	<u>\$1,723,320</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$2,716,082	\$1,632,201
Assets whose use is limited		
Designated by board for plant expansion	413,382	306,742
Restricted for construction and payment of revenue notes and interest	2,227,866	3,380,689
Restricted by donors for specific purpose	<u>75,514</u>	<u>81,552</u>
Total per statements of cash flows	<u>\$5,432,844</u>	<u>\$5,401,184</u>

See Notes to Financial Statements.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is the municipal hospital of the City of Le Mars, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or property. The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

Reporting Entity

For financial reporting purposes, Floyd Valley Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities. 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. Floyd Valley Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Hospital is includable as a component unit within the City of Le Mars, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Investments and Investment Income

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. Depreciation and amortization are computed using these asset lives:

Land improvements	10 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	1 to 20 years

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the revenue notes and capital lease obligations that are attributable to the acquisition, construction, or improvement of those assets. Unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same fund equity component as the unspent proceeds.

Restricted fund equity

Restricted fund equity consists of funds restricted on which constraints have been externally imposed by creditors (such as through debt covenants) grantors, contributors, or laws or regulations of other governments.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Statements of Revenue, Expenses, and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Costs of Borrowing

Deferred financing costs are amortized over the period the obligation is outstanding using the bonds-outstanding method.

Interest

Interest costs incurred during the period of construction are capitalized and included with the costs of the project.

Accounting Estimates and Assumptions

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

Reclassification

Certain reclassifications have been made in the June 30, 2003 financial statements to conform to the June 30, 2004 presentation. These reclassifications had no impact on the total fund equity.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The 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, certain common stocks, and warrants or improvement certificates of a drainage district.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	June 30	
	2004	2003
Receivable from patients	\$1,082,163	\$1,166,145
Receivable from insurance carriers	1,053,568	1,076,540
Receivable from Medicare	731,577	905,658
Receivable from Medicaid	<u>162,918</u>	<u>186,575</u>
Total patient receivables	3,030,226	3,334,918
Less allowances for contractual and other adjustments	<u>(1,513,586)</u>	<u>(1,430,161)</u>
 Totals	 <u>\$1,516,640</u>	 <u>\$1,904,757</u>

NOTE 4 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2004 and 2003 follows:

	Balance July 1, 2003	Additions	Deletions	Transfers	Ending June 30, 2004
Land	\$ 103,274	\$ -	\$ -	\$ -	\$ 103,274
Land improvements	527,221	-	-	-	527,221
Buildings and fixed equipment	9,154,991	40,820	-	245,233	9,441,044
Major movable equipment	4,619,441	345,962	(638,724)	509,931	4,836,610
Land and buildings leased to others	2,951,826	-	-	3,471	2,955,297
Construction in progress	<u>555,864</u>	<u>3,079,850</u>	<u>-</u>	<u>(758,635)</u>	<u>2,877,079</u>
Totals	17,912,617	3,466,632	(638,724)	-	20,740,525
Less accumulated depreciation and amortization	<u>(8,052,595)</u>	<u>(967,918)</u>	<u>439,355</u>	<u>-</u>	<u>(8,581,158)</u>
 Net property and equipment	 <u>\$ 9,860,022</u>	 <u>\$2,498,714</u>	 <u>\$ (199,369)</u>	 <u>\$ -</u>	 <u>\$12,159,367</u>
	Balance July 1, 2002	Additions	Deletions	Transfers	Ending June 30, 2003
Land	\$ 59,822	\$ 43,452	\$ -	\$ -	\$ 103,274
Land improvements	476,606	49,971	-	644	527,221
Buildings and fixed equipment	7,252,225	1,970,651	(86,980)	19,095	9,154,991
Major movable equipment	4,682,261	352,720	(559,830)	144,290	4,619,441
Land and buildings leased to others	2,950,205	1,621	-	-	2,951,826
Equipment installations in progress	1,740	183,753	-	(185,493)	-
Construction in progress	<u>-</u>	<u>534,400</u>	<u>-</u>	<u>21,464</u>	<u>555,864</u>
Totals	15,422,859	3,136,568	(646,810)	-	17,912,617
Less accumulated depreciation and amortization	<u>(7,581,281)</u>	<u>(980,492)</u>	<u>509,178</u>	<u>-</u>	<u>(8,052,595)</u>
 Net property and equipment	 <u>\$ 7,841,578</u>	 <u>\$2,156,076</u>	 <u>\$ (137,632)</u>	 <u>\$ -</u>	 <u>\$ 9,860,022</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$967,918 and \$980,493, respectively. Interest capitalized during the years ended June 30, 2004 and 2003 was \$203,162 and \$118,706 net of interest income of \$57,980 and \$52,703 for a net total of \$145,182 and \$66,003, respectively.

NOTE 5 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$19,130 as well as an annual payment of \$1,890. The leases expire at various times through 2007 with various provisions for renewal options. The Hospital is responsible for all property taxes, utilities, and housekeeping.

Other revenue for the years ended June 30, 2004 and 2003 includes gross rental income of \$215,741 and \$215,871, respectively, for these leases.

Future minimum rentals to be received under these leases are as follows:

Year ending June 30

2005	\$ 226,960
2006	193,605
2007	175,027
2008	<u>71,845</u>
Total	<u>\$ 667,437</u>

NOTE 6 ASSETS RESTRICTED FOR PAYMENT OF REVENUE NOTES AND INTEREST

Assets restricted for payment of revenue notes and interest are required to be funded by the note resolution. Following are the changes in these assets for the years ended June 30, 2004 and 2003.

	<u>Capital Improvement Fund</u>	<u>Reserve Fund</u>	<u>Sinking Fund</u>
Balance, June 30, 2002	\$ 100,000	\$ 365,000	\$ 285,556
Transfers from (to) current asset cash	(100,000)	399,580	728,685
Interest income	—	—	2,370
Payment of notes and interest	<u>—</u>	<u>—</u>	<u>(641,025)</u>
Balance, June 30, 2003	—	764,580	375,586
Transfers from current asset cash	—	37,650	956,800
Interest income	—	—	6,955
Payment of notes and interest	<u>—</u>	<u>—</u>	<u>(879,108)</u>
Balance, June 30, 2004	<u>\$ —</u>	<u>\$ 802,230</u>	<u>\$ 460,233</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 INVESTMENT IN FLOYD VALLEY ASSOCIATES

The Hospital has a 50% investment interest in Floyd Valley Associates, an entity engaged in providing bone densitometry testing services. The investment is accounted for using the equity method. The Hospital has recorded its share of the entity's income of \$14,188 and \$15,014 for the years ended June 30, 2004 and 2003, respectively.

NOTE 8 INVESTMENT IN NORTHWEST IOWA DIAGNOSTICS

The Hospital has a 47% investment interest in Northwest Iowa Diagnostics, an entity engaged in providing ultrasound technology staffing services. The investment is accounted for using the equity method. The Hospital has recorded its share of the entity's income of \$38,153 and \$17,901 for the years ended June 30, 2004 and 2003, respectively.

Northwest Iowa Diagnostics is an entity formed under chapter 28E of the Iowa Code. The Hospital is a contributing member. The Hospital leases two Hospital employees to provide services for Northwest Iowa Diagnostics. During the years ended June 30, 2004 and 2003, the Hospital received \$153,183 and \$67,650, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$128,380 and \$77,190 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2004 and 2003, respectively. Separate financial statements of the entity can be obtained by contacting the Hospital's Director of Financial Services.

NOTE 9 INVESTMENT IN FLOYD VALLEY HOME MEDICAL EQUIPMENT

The Hospital has a 50% investment interest in Floyd Valley Home Medical Equipment, an entity engaged in the sale and implementation of medical equipment for home use. The investment is accounted for using the equity method. The Hospital has recorded its share of the entity's income (loss) of \$18,407 and \$(4,065) for the years ended June 30, 2004 and 2003, respectively.

Floyd Valley Home Medical Equipment is an entity formed under chapter 28E of the Iowa Code. The Hospital is a contributing member. The Hospital leases three Hospital employees to provide services for Floyd Valley Home Medical Equipment as well as office space in the Hospital's facility. During the years ended June 30, 2004 and 2003, the Hospital received \$58,886 and \$11,801, respectively, in lease revenue from Floyd Valley Home Medical Equipment related to this agreement.

NOTE 10 LONG-TERM DEBT

Hospital Revenue Notes, Series 1996A

The City Council of Le Mars adopted a resolution authorizing the issuance of \$325,000 of Hospital Revenue Notes dated November 1, 1996, to finance fifty percent of the cost of the construction of a tunnel connection between the Hospital and the medical office building in Le Mars. The notes mature serially through November 1, 2008, with interest coupons payable on May 1 and November 1 at annual rates varying from 5.6% to 5.9%. Notes maturing in 2005 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2004, or on any date thereafter at par and accrued interest at the coupon rate.

Outstanding June 30	
2004	2003

\$ 166,900	\$ 195,900
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**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2004	2003
Hospital Revenue Notes, Series 1996B (Taxable)		
<p>The City Council of Le Mars adopted a resolution authorizing the issuance of \$1,175,000 of Hospital Revenue Notes dated November 1, 1996, to finance the acquisition of medical office buildings in Le Mars and Remsen, the addition to the Le Mars medical office building, and fifty percent of the cost of the construction of a tunnel connection between the Hospital and the medical office building in Le Mars. The notes mature serially through November 1, 2008, with interest coupons payable on May 1 and November 1 at annual rates varying from 8.1% to 8.4%. Notes maturing in 2005 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2004, or on any date thereafter at par and accrued interest at the coupon rate.</p>	\$ 783,700	\$ 857,600
Hospital Revenue Refunding Notes, Series 1998		
<p>The City Council of Le Mars adopted a resolution authorizing the issuance of \$1,470,000 of Hospital Revenue Refunding Notes Series 1998 dated November 1, 1998. The notes mature serially through November 1, 2007, with interest coupons payable May 1 and November 1 at annual rates varying from 4.35% to 4.5%. Notes maturing in 2005 and thereafter may be called for redemption in whole or in part in any order of maturity on November 1, 2004, or any date thereafter at par and accrued interest at the coupon rate.</p>	871,725	1,068,725
Hospital Revenue Notes, Series 1999		
<p>The City Council of Le Mars adopted a resolution authorizing the issuance of \$320,000 of Hospital Revenue Notes dated December 1, 1999, to finance computer upgrades, x-ray equipment, and improvements to the sprinkler system. The notes mature serially through November 1, 2006, with interest coupons payable on May 1 and November 1 at annual rates varying from 5.3% to 5.5%. Notes maturing in 2005 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2004, or on any date thereafter at par and accrued interest at the coupon rate.</p>	151,900	196,000
Hospital Revenue Notes, Series 2002A		
<p>The City Council of Le Mars adopted a resolution authorizing the issuance of \$1,800,000 of Hospital Revenue Notes dated July 1, 2002, to finance the acquisition of an assisted living facility in Le Mars. The notes mature serially through November 1, 2017, with interest coupons payable on May 1 and November 1 at annual rates varying from 3.5% to 5.45%. Notes maturing in 2012 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2011, or on any date thereafter at par and accrued interest at the coupon rate.</p>	1,675,800	1,764,000

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2004	2003
Hospital Revenue Notes, Series 2002B		
The City Council of Le Mars adopted a resolution authorizing the issuance of \$3,845,000 of Hospital Revenue Notes dated December 1, 2002, to finance the construction of an addition to and remodeling of portions of the Hospital. The notes mature serially through November 1, 2022, with interest coupons payable on May 1 and November 1 at annual rates varying from 2.8% to 5.9%. Notes maturing in 2013 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2012, or on any date thereafter at par and accrued interest at the coupon rate.	\$3,748,500	\$3,768,100
Hospital Revenue Notes, Series 2003		
The City Council of Le Mars adopted a resolution authorizing the issuance of \$580,000 of Hospital Revenue Notes dated October 1, 2003, for the purpose of paying the cost of acquiring equipment. The notes mature serially through November 1, 2008, with interest coupons payable on May 1 and November 1 at annual rates varying from 1.8% to 3.35%. The notes are not subject to redemption prior to maturity.	574,200	-
Hospital Revenue Notes, Series 2004		
The City Council of Le Mars adopted a resolution authorizing the issuance of \$755,000 of Hospital Revenue Notes dated June 1, 2004, for the purpose of crossover advance refunding of the City's outstanding Hospital Revenue Notes, Series 1996B on November 1, 2004. The notes mature serially November 1, 2005 through November 1, 2008, with interest coupons payable on May 1 and November 1 at annual rates varying from 3.4% to 5.15%. The notes are not subject to redemption prior to maturity.	743,675	-
Obligation Under Capital Lease		
The Hospital has entered into an agreement to acquire medical equipment under a capital lease. The related liability under the lease at June 30, 2003 was \$252,596. The obligation was paid during the year ended June 30, 2004. The amount capitalized under the lease was \$510,000 with related accumulated amortization of \$264,708 at June 30, 2003.		
Totals	8,716,400	8,102,921
Less current maturities	<u>(595,000)</u>	<u>(567,165)</u>
Total long-term debt	<u>\$8,121,400</u>	<u>\$7,535,756</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

The note resolutions require, among other things, the maintenance of a "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and a "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of \$802,230 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next November 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. In accordance with the resolutions, the proceeds of the Series 2004 Issues were properly expended for the purpose of payment of costs on the specific purpose of the Issues and establishment of an escrow account. The notes are payable solely and only from the revenues of the Hospital which have been placed in the Sinking Fund and do not constitute an indebtedness of the City. These notes are reported net of unamortized discount of \$163,600 and \$154,675 as of June 30, 2004 and 2003, respectively.

Scheduled principal and interest repayments on revenues notes are as follows:

	<u>Revenue notes payable</u>	
	<u>Principal</u>	<u>Interest</u>
Year ending June 30		
2005	\$ 595,000	\$ 427,780
2006	735,000	416,060
2007	785,000	381,434
2008	815,000	343,381
2009	1,115,000	290,540
2010 to 2014	1,390,000	1,127,353
2015 to 2019	1,715,000	740,136
2020 to 2024	<u>1,730,000</u>	<u>208,550</u>
Total	8,880,000	3,935,234
Less unamortized discount	<u>(163,600)</u>	<u>—</u>
 Totals	 <u>\$8,716,400</u>	 <u>\$3,935,234</u>

Long-term debt activity for the years ended June 30, 2004 and 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2004					
Hospital revenue notes	\$8,005,000	\$1,335,000	\$ (460,000)	\$8,880,000	\$ 595,000
Obligations under capital lease	<u>252,596</u>	<u>—</u>	<u>(252,596)</u>	<u>—</u>	<u>—</u>
Totals	<u>\$8,257,596</u>	<u>\$1,335,000</u>	<u>\$ (712,596)</u>	<u>\$8,880,000</u>	<u>\$ 595,000</u>
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2003					
Hospital revenue notes	\$2,695,000	\$5,645,000	\$ (335,000)	\$8,005,000	\$ 460,000
Obligations under capital lease	<u>352,221</u>	<u>—</u>	<u>(99,625)</u>	<u>252,596</u>	<u>107,165</u>
Totals	<u>\$3,047,221</u>	<u>\$5,645,000</u>	<u>\$ (434,625)</u>	<u>\$8,257,596</u>	<u>\$ 567,165</u>

The Hospital's interest expense under these agreements totaled \$443,118 and \$367,358 for the years ended June 30, 2004 and 2003, respectively, with \$203,162 capitalized in 2004 and \$118,706 in 2003.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 11 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2004 and 2003.

	2004	2003
Charges foregone, based on established rates	\$ <u>49,477</u>	\$ <u>47,000</u>
Equivalent percentage of charity care patients to all patients served	<u>.2%</u>	<u>.2%</u>

NOTE 12 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$328,791, \$316,597 and \$294,609, respectively, which equals the required contribution and amount charged to IPERS expense each year.

NOTE 13 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$30,000 per person and approximately \$1,119,000 and \$921,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2004 and 2003 was \$926,444 and \$813,439, respectively, which includes program administration expenses.

NOTE 14 CONTINGENCIES

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Incidents occurring through June 30, 2004 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 15 NET PATIENT SERVICE REVENUE

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

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement and Modernization Act of 2003) for services furnished before January 1, 2006, the Hospital's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 year. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. 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. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2001.

Medicaid

Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per patient classification.

Other

The Hospital has payment agreements with Blue Cross, other commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

NOTE 16 COMMITMENTS

The Hospital has plans for construction and renovation to be completed in phases. The total cost of Phase I is estimated to be approximately \$3,650,000. The project is being paid for with proceeds received from issuance of Series 2002B Hospital Revenue Notes. As of June 30, 2004 the Hospital has committed to contracts totaling approximately \$2,900,000. The amounts paid related to these projects totaled \$2,410,201 and \$489,861, for the years ended June 30, 2004 and 2003, respectively.

NOTE 17 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 the purchase of 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.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees
Floyd Valley Hospital
Le Mars, Iowa

Our report on our audits of the basic financial statements of Floyd Valley Hospital for 2004 and 2003 appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 13, 2004

Floyd Valley Hospital
AGE ANALYSIS OF PATIENT RECEIVABLES

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
0 - 60 days	\$1,948,127	\$2,068,857	64.29%	62.03%
61 - 90 days	210,262	305,680	6.94	9.17
91 - 180 days	367,439	504,179	12.13	15.12
Over 6 months	<u>504,398</u>	<u>456,202</u>	<u>16.64</u>	<u>13.68</u>
Totals	<u>3,030,226</u>	<u>3,334,918</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	473,552	500,870		
Contractual adjustments	<u>1,040,034</u>	<u>929,291</u>		
Total allowances	<u>1,513,586</u>	<u>1,430,161</u>		
Totals	<u>\$1,516,640</u>	<u>\$1,904,757</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
BALANCE , beginning	\$ 500,870	\$ 410,303
ADD		
Provision for bad debts	253,673	301,536
Recoveries of accounts previously written off	185,322	132,050
LESS		
Accounts written off	<u>(466,313)</u>	<u>(343,019)</u>
BALANCE , ending	<u>\$ 473,552</u>	<u>\$ 500,870</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
General stores	\$ 101,008	\$ 97,212
Pharmacy	91,849	91,849
Operating room	34,910	31,108
Intravenous solutions	2,874	3,559
Marcus clinic	<u>3,013</u>	<u>3,216</u>
Totals	<u>\$ 233,654</u>	<u>\$ 226,944</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Midwest Medical Insurance Company (policy expiration January 1, 2005)	
Professional liability	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Employee benefits liability	\$1,000,000/3,000,000 \$1,000 deductible
Umbrella excess liability	\$11,000,000
CNA Insurance Company (policy expiration January 1, 2005)	
Umbrella excess liability	\$20,000,000
AIG Insurance Company (policy expiration January 1, 2005)	
Umbrella excess liability	\$4,000,000
Unitrin, Milwaukee Insurance Company (policy expiration January 1, 2005)	
Automobiles	
Liability	\$1,000,000
Collision	\$500 deductible
Uninsured/under insured motorist	\$1,000,000
Medical payments	\$5,000
Hired and nonowned auto	\$1,000,000
Chubb Insurance Company (policy expiration January 1, 2005)	
Directors' and officers' liability	\$5,000,000/15,000,000
Employment practices liability	\$5,000,000/15,000,000 \$50,000 deductible
Avera Property Insurance, Inc. (policy expiration January 1, 2005)	
Building and contents, fire and extended coverage (100% co-insurance, replace value)	\$500,000/22,876,367 \$10,000 deductible
Blanket earnings and expense	Included
The Hartford, Inc. (policy expiration January 1, 2005)	
Blanket fidelity bond	
Employee dishonesty	\$1,000,000
Money and securities	\$25,000
Forgery	\$200,000
Computer fraud	\$1,000,000
Wire transfer	\$1,000,000 \$10,000 deductible
Farm Bureau Mutual Insurance Company (policy expiration November 1, 2004)	
Worker's Compensation	Statutory

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

**Floyd Valley Hospital
PATIENT SERVICE REVENUE**

	<u>Total</u>	
	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 1,448,626	\$ 1,410,600
Long term care	281,673	263,807
Nursery	41,065	36,920
	<u>1,771,364</u>	<u>1,711,327</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	1,295,893	1,091,963
Delivery and labor room	87,438	73,711
Central service and supply	1,474,604	1,268,381
Emergency service	1,880,465	1,604,396
Home health services	805,850	704,429
	<u>5,544,250</u>	<u>4,742,880</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	2,737,966	2,193,887
Electrocardiology	541,484	662,973
Radiology	4,389,131	3,861,501
Pharmacy	2,251,925	2,698,334
Anesthesiology	1,092,185	972,054
Respiratory therapy	265,631	305,818
Physical therapy	957,141	970,629
Occupational therapy	130,560	132,698
Speech therapy	136,356	151,574
Enterostomy	76,914	56,992
Audiology	3,096	3,349
Marcus clinic	119,828	123,047
Cardiac rehabilitation	57,104	64,043
	<u>12,759,321</u>	<u>12,196,899</u>
	20,074,935	18,651,106
Charity care charges foregone, based on established rates	<u>(49,477)</u>	<u>(47,000)</u>
Total gross patient service revenue	20,025,458	18,604,106
Provisions for contractual and other adjustments	<u>(5,522,019)</u>	<u>(4,537,575)</u>
Net patient service revenue	<u>\$14,503,439</u>	<u>\$14,066,531</u>

<u>Inpatient</u>		<u>Outpatient</u>		<u>Swing bed</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
\$1,448,626	\$1,410,600	\$ -	\$ -	\$ -	\$ -
-	-	-	-	281,673	263,807
41,065	36,920	-	-	-	-
<u>1,489,691</u>	<u>1,447,520</u>	<u>-</u>	<u>-</u>	<u>281,673</u>	<u>263,807</u>
591,064	494,633	704,829	597,330	-	-
73,830	64,002	13,608	9,709	-	-
916,845	764,797	399,337	361,839	158,422	141,745
141,995	107,757	1,735,577	1,495,678	2,893	961
-	-	805,850	704,429	-	-
<u>1,723,734</u>	<u>1,431,189</u>	<u>3,659,201</u>	<u>3,168,985</u>	<u>161,315</u>	<u>142,706</u>
869,776	739,574	1,794,833	1,403,024	73,357	51,289
114,748	138,140	420,110	515,507	6,626	9,326
693,738	677,595	3,660,549	3,154,206	34,844	29,700
1,019,141	1,204,795	974,859	1,233,464	257,925	260,075
480,961	398,666	604,411	573,388	6,813	-
137,641	163,058	62,993	68,218	64,997	74,542
37,611	38,241	839,800	847,584	79,730	84,804
6,021	6,653	86,305	82,242	38,234	43,803
20,242	17,144	86,095	88,115	30,019	46,315
6,027	4,768	62,523	47,691	8,364	4,533
1,673	1,808	1,423	1,541	-	-
-	-	119,828	123,047	-	-
-	-	55,942	63,893	1,162	150
<u>3,387,579</u>	<u>3,390,442</u>	<u>8,769,671</u>	<u>8,201,920</u>	<u>602,071</u>	<u>604,537</u>
<u>\$6,601,004</u>	<u>\$6,269,151</u>	<u>\$12,428,872</u>	<u>\$11,370,905</u>	<u>\$1,045,059</u>	<u>\$1,011,050</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Contractual adjustments	\$5,175,336	\$4,150,470
Employee and other allowances	67,176	60,640
Clinic discounts and adjustments	25,834	24,929
Provision for bad debts	<u>253,673</u>	<u>301,536</u>
Totals	<u>\$5,522,019</u>	<u>\$4,537,575</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Cafeteria	\$ 112,694	\$ 101,749
Meals on Wheels	10,504	8,037
Rental income	279,255	269,528
Park Place Estates		
Management fees	84,865	94,483
Dietary	-	11,351
Rental income	865,719	730,923
Other	<u>270,123</u>	<u>181,142</u>
Totals	<u>\$1,623,160</u>	<u>\$1,397,213</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
NURSING ADMINISTRATION		
Salaries	\$ 127,260	\$ 120,406
Supplies and expenses	<u>3,292</u>	<u>1,407</u>
	<u>130,552</u>	<u>121,813</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,130,535	1,183,446
Supplies and expenses	<u>42,404</u>	<u>40,373</u>
	<u>1,172,939</u>	<u>1,223,819</u>
SWING BED		
Salaries	<u>221,944</u>	<u>214,412</u>
NURSERY		
Salaries	26,729	19,378
Supplies and expenses	<u>2,800</u>	<u>1,755</u>
	<u>29,529</u>	<u>21,133</u>
OPERATING AND RECOVERY ROOMS		
Salaries	330,360	301,024
Supplies and expenses	<u>104,897</u>	<u>73,481</u>
	<u>435,257</u>	<u>374,505</u>
DELIVERY AND LABOR ROOM		
Salaries	40,993	28,064
Supplies and expenses	<u>4,967</u>	<u>3,457</u>
	<u>45,960</u>	<u>31,521</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	84,102	81,978
Purchased services	15,376	6,737
Supplies and expenses	<u>389,454</u>	<u>295,496</u>
	<u>488,932</u>	<u>384,211</u>
EMERGENCY SERVICE		
Salaries	344,246	337,784
Professional fees	512,983	457,089
Supplies and expenses	<u>33,660</u>	<u>33,406</u>
	<u>890,889</u>	<u>828,279</u>
HOME HEALTH		
Salaries	509,474	468,999
Purchased services	49,448	21,314
Supplies and expenses	<u>86,225</u>	<u>85,352</u>
	<u>645,147</u>	<u>575,665</u>
Totals	<u>\$4,061,149</u>	<u>\$3,775,358</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
LABORATORY		
Salaries	\$ 298,749	\$ 295,282
Professional fees	9,052	6,938
Purchased services	123,243	113,224
Supplies and expenses	211,488	186,692
Blood	62,025	46,547
	<u>704,557</u>	<u>648,683</u>
ELECTROCARDIOLOGY		
Salaries	9,294	14,457
Purchased services	119,741	188,146
Supplies and expenses	2,094	1,721
	<u>131,129</u>	<u>204,324</u>
RADIOLOGY		
Salaries	350,259	325,172
Professional fees	488,570	479,059
Purchased services	481,736	407,332
Supplies and expenses	194,048	181,867
	<u>1,514,613</u>	<u>1,393,430</u>
PHARMACY		
Salaries	157,740	138,449
Purchased services	7,603	9,198
Drugs	589,626	644,816
Intravenous solutions and supplies	16,086	37,437
Supplies and expenses	28,955	7,957
	<u>800,010</u>	<u>837,857</u>
ANESTHESIOLOGY		
Salaries	-	10,098
Purchased services	421,257	392,598
Supplies and expenses	11,547	5,889
	<u>432,804</u>	<u>408,585</u>
RESPIRATORY THERAPY		
Salaries	110,522	112,156
Supplies and expenses	6,349	5,824
	<u>116,871</u>	<u>117,980</u>
PHYSICAL THERAPY		
Salaries	88,990	97,726
Purchased services	495,066	495,980
Supplies and expenses	19,239	18,902
	<u>603,295</u>	<u>612,608</u>
OCCUPATIONAL THERAPY		
Purchased services	63,121	67,816
Supplies and expenses	285	213
	<u>63,406</u>	<u>68,029</u>
OCCUPATIONAL HEALTH		
Salaries	2,903	5,247
Supplies and expense	1,959	5,445
	<u>4,862</u>	<u>10,692</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2004	2003
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 49,897	\$ 10,297
Supplies and expenses	<u>2,149</u>	<u>435</u>
	<u>52,046</u>	<u>10,732</u>
SPEECH THERAPY		
Purchased services	109,085	123,221
Supplies and expenses	<u>350</u>	<u>99</u>
	<u>109,435</u>	<u>123,320</u>
ENTEROSTOMY		
Salaries	61,834	47,494
Supplies and expenses	<u>2,540</u>	<u>4,896</u>
	<u>64,374</u>	<u>52,390</u>
AUDIOLOGY		
Salaries	1,057	489
Purchased services	913	736
Supplies and expenses	<u>287</u>	<u>12</u>
	<u>2,257</u>	<u>1,237</u>
MARCUS CLINIC		
Salaries	39,028	34,916
Professional fees	88,371	67,901
Purchased services	4,676	4,405
Supplies and expenses	<u>15,230</u>	<u>14,078</u>
	<u>147,305</u>	<u>121,300</u>
CARDIAC REHABILITATION		
Salaries	50,433	49,395
Supplies and expenses	<u>1,948</u>	<u>1,423</u>
	<u>52,381</u>	<u>50,818</u>
LIFELINE		
Salaries	3,198	3,298
Supplies and expenses	<u>1,335</u>	<u>1,059</u>
	<u>4,533</u>	<u>4,357</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	43,878	50,145
Supplies and expenses	<u>984</u>	<u>2,068</u>
	<u>44,862</u>	<u>52,213</u>
MEDICAL RECORDS		
Salaries	142,541	135,994
Purchased services	17,500	785
Supplies and expenses	<u>37,040</u>	<u>32,763</u>
	<u>197,081</u>	<u>169,542</u>
SOCIAL SERVICE		
Salaries	<u>2,453</u>	<u>14,506</u>
Totals	<u>\$5,048,274</u>	<u>\$4,902,603</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
DIETARY		
Salaries	\$ 285,974	\$ 280,942
Food	195,838	182,159
Purchased services	35,518	30,244
Supplies and expenses	<u>39,319</u>	<u>39,219</u>
	<u>556,649</u>	<u>532,564</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	182,260	174,233
Utilities	218,978	208,003
Purchased services	32,615	24,644
Supplies and expenses	<u>98,752</u>	<u>98,824</u>
	<u>532,605</u>	<u>505,704</u>
HOUSEKEEPING		
Salaries	159,499	145,967
Purchased services	1,473	213
Supplies and expenses	<u>20,459</u>	<u>19,837</u>
	<u>181,431</u>	<u>166,017</u>
LAUNDRY AND LINEN		
Purchased services	60,093	57,012
Linens	10,519	15,491
Supplies and expenses	<u>1,433</u>	<u>1,956</u>
	<u>72,045</u>	<u>74,459</u>
 Totals	 <u>\$1,342,730</u>	 <u>\$1,278,744</u>

**Floyd Valley Hospital
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 114,150	\$ 120,066
Management fee	315,801	310,468
Telephone	41,352	34,522
Postage	38,503	31,738
Supplies and expenses	102,926	93,065
Freight	19,685	17,277
Organization dues	16,732	12,441
Public relations	6,444	7,657
Activities	4,228	3,578
Marketing	<u>44,553</u>	<u>38,223</u>
	<u>704,374</u>	<u>669,035</u>
Business office		
Salaries	350,486	336,192
Supplies and expenses	<u>116,805</u>	<u>107,368</u>
	<u>467,291</u>	<u>443,560</u>
Data processing		
Salaries	103,486	102,213
Supplies and expenses	<u>116,221</u>	<u>88,897</u>
	<u>219,707</u>	<u>191,110</u>
Human resources		
Salaries	72,529	67,262
Supplies and expenses	<u>46,274</u>	<u>64,449</u>
	<u>118,803</u>	<u>131,711</u>
Education		
Salaries	78,123	63,471
Purchased services	-	207
Supplies and expenses	<u>19,269</u>	<u>19,103</u>
	<u>97,392</u>	<u>82,781</u>
Park Place Estates		
Salaries	258,601	244,066
Purchased services	11,537	12,510
Supplies and expenses	<u>61,273</u>	<u>47,723</u>
	<u>331,411</u>	<u>304,299</u>
Endowment		
Salaries	19,272	17,538
Supplies and expenses	<u>1,730</u>	<u>936</u>
	<u>21,002</u>	<u>18,474</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	755,936	730,020
Group health insurance	926,444	813,439
Life and disability insurance	77,518	67,702
Tuition assistance	8,520	8,981
Insurance	<u>162,340</u>	<u>156,911</u>
	<u>1,930,758</u>	<u>1,777,053</u>
Totals	<u>\$3,890,738</u>	<u>\$3,618,023</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2004</u>	<u>2003</u>
PATIENT DAYS		
Acute	3,153	3,451
Special care	53	60
Nursery	283	284
Swing bed		
Skilled nursing care	1,623	1,654
Intermediate care	<u>101</u>	<u>76</u>
Totals	<u>5,213</u>	<u>5,525</u>
ADMISSIONS	1,231	1,272
DISCHARGES	1,232	1,268
AVERAGE LENGTH OF STAY, acute and special care	2.6	2.8
BEDS	44	44
OCCUPANCY PERCENT	30.6%	32.6%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$39,627	\$38,538
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	38.27	49.4

**INDEPENDENT AUDITOR'S 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
Floyd Valley Hospital
Le Mars, Iowa

We have audited the financial statements of Floyd Valley Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Floyd Valley 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 would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the 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 Floyd Valley Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 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. Those comments are present in Part II of the accompanying Schedule of Findings.

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 the City of Le Mars, Iowa 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 13, 2004

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2004**

Part I—Findings Related to the Financial Statements

No matters regarding reportable conditions, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2004**

Part II—Findings Related to Required Statutory Reporting

04-II-A OFFICIAL DEPOSITORIES

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

04-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

04-II-C TRAVEL EXPENSES

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

04-II-D BUSINESS TRANSACTIONS

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

04-II-E BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

04-II-F 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.