

**Jefferson County Hospital
Fairfield, Iowa**

FINANCIAL REPORT

June 30, 2005

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Jefferson County Hospital
OFFICIALS
June 30, 2005

(Before January 2005)

BOARD OF TRUSTEES

Expiration of term

Officers

Dorian Atwood, Chair
Doug Johnson, Vice Chair
Grace Bogaards, Secretary/Treasurer

December 31, 2008
December 31, 2008
December 31, 2008

Members

Dick Hunt
Dave Fredericks
Bob Keller
Laurel Woody

December 31, 2006
December 31, 2006
December 31, 2004
December 31, 2004

CHIEF EXECUTIVE OFFICER

Ralph Paulding III

CHIEF FINANCIAL OFFICER

Eugene Irwin

(After January 2005)

BOARD OF TRUSTEES

Expiration of term

Officers

Bob Keller, Chair
Doug Johnson, Vice Chair
Dave Fredericks, Secretary/Treasurer

December 31, 2010
December 31, 2008
December 31, 2006

Members

Laurel Woody
Dorian Atwood
Grace Bogaards
Tom Kunkle

December 31, 2010
December 31, 2008
December 31, 2008
December 31, 2006

CHIEF EXECUTIVE OFFICER

Ralph Paulding III

CHIEF FINANCIAL OFFICER

Eugene Irwin

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

We have audited the accompanying balance sheets of Jefferson County Hospital as of June 30, 2005 and 2004, 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, 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 Jefferson 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2005, on our consideration of Jefferson County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5-11 and the budgetary comparison information on page 27 are not required parts of the basic financial statements but are supplementary information required by 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 supplementary information. However, we did not audit the information and express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 4, 2005

JEFFERSON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Jefferson County Hospital, we offer readers of the Jefferson County Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2005, 2004 and 2003. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of Jefferson County 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 Jefferson County 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 Jefferson County Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Jefferson County Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of Jefferson County Hospital and assessing the liquidity and 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 Jefferson County Hospital's operations over the past year and can be used to determine whether Jefferson County Hospital has successfully recovered all 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, non-capital 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 \$2,913,480 from FY 2004 to \$19,995,075.
- Property and equipment increased from FY 2004 by \$951,963.
- Total debt increased from FY 2004 by \$1,315,689.
- Fund equity increased from FY 2004 by \$1,454,775.
- Net patient service revenue increased from FY 2004 by \$2,607,138 due to increased utilization and Critical Access Hospital status.
- Expenses increased from FY 2004 by \$1,687,206 or 11.5%.
- Total margin for FY 2005 was 7.9%, compared to (3.3%) for FY 2004.

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of Jefferson County Hospital and the changes in them. Jefferson County 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 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 governmental legislation should also be considered.

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2005, 2004 and 2003, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	June 30, 2005	June 30, 2004	Dollar Change	Total % Change	June 30, 2003
Current and other assets	\$10,359,314	\$8,397,797	\$1,961,517	23%	\$8,669,179
Capital assets	\$9,635,761	\$8,683,798	\$951,963	11%	\$8,665,770
Total Assets	\$19,995,075	\$17,081,595	\$2,913,480	17%	\$17,334,949
Long-term debt outstanding	\$2,304,442	\$583,087	\$1,721,355	295%	\$635,344
Other liabilities	\$2,455,953	\$2,718,603	(\$262,650)	(10%)	\$2,472,843
Total liabilities	\$4,760,395	\$3,301,690	\$1,458,705	44%	\$3,108,187
Total net assets	\$15,234,680	\$13,779,905	\$1,454,775	11%	\$14,226,762

As can be seen by Table 1, net assets increased by \$1,454,775 to \$15,234,680 in fiscal year 2005, up from \$13,779,905 in fiscal year 2004. The change in net assets results primarily from the improved financial performance the Hospital experienced in FY 2005.

REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

The following table presents a summary of the Jefferson County Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2005, 2004 and 2003.

Table 2
Condensed Statements of Revenue, Expenses, and Changes in Fund Equity

	Year ended June 30,		
	2005	2004	2003
Total revenue	\$16,119,803	\$13,443,191	\$12,534,372
Expenses	16,331,597	14,644,391	13,135,008
Operating (loss)	(211,794)	(1,201,200)	(600,636)
Non-operating gains	1,615,319	724,642	802,844
Excess of revenues over expenses	1,403,525	(476,558)	202,208
Other changes in fund equity-contributions	51,250	29,701	26,633
Total fund equity, beginning	13,779,905	14,226,762	13,997,921
Total fund equity, ending	\$15,234,680	\$13,779,905	\$14,226,762

Operating and Financial Performance

Volume: Acute inpatient admissions for fiscal year 2005 were 722 compared to 741 in fiscal year 2004. Acute patient days increased by 4% compared to FY 2004 because of the increased length of stay. Swing bed admissions decreased by 12% for FY 2005 to a total of 307 admissions. Swing bed patient days decreased by 5% due to the decrease in admissions mentioned above. Outpatient visits decreased by 5% to 22,837 visits in FY 2005. Operating room procedures were 6% below FY 2004's level due to a reduction in inpatient and outpatient surgical procedures. Total operating room procedures in FY 2005 were 491 surgeries compared to 520 in FY 2004 with 75% of the surgeries being outpatient procedures.

Net Patient Service Revenue: Due to an average rate increase of 4% effective July 1, 2004, and the conversion to Critical Access Hospital status, net patient service revenues climbed by \$2,607,138 or 20% compared to fiscal year 2004. During the fiscal year, Jefferson County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payors) decreased by 10%. The majority of the decrease came from Medicare reimbursement increases due to the Critical Access Hospital status.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2005, 2004 and 2003.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2005	2004	2003
Medicare	50%	49%	48%
Wellmark	19%	18%	15%
Other Commercial Insurance	13%	12%	15%
Medicaid	8%	6%	6%
All other	10%	15%	16%
Total	100.0%	100.0%	100.0%

Significant changes in operations from FY 2004:

Other Operating Revenue: FY 2005 showed a 24%, or \$69,474, increase in other operating revenue compared to FY 2004. The reasons for the increase in Other Operating Revenue are increased rental income from a physician clinic purchased by the hospital during the year and recovery of physician recruitment fees.

Employee Benefits: FY 2005 showed a \$172,772 increase in Employee Benefit expense when compared to FY 2004. This is a 12% increase in cost. The primary reason for the increase is due to an increase in workers compensation premiums.

Interest Expense: There was a \$26,572 increase in interest expense during FY 2005. This is attributed to new borrowing for an IT system as well as the issue of revenue notes for a construction project.

CAPITAL ASSETS

At the end of fiscal year 2005, the Jefferson County Hospital has invested \$9,635,761 in capital assets. The increase in capital assets is primarily a result of increases in equipment and building improvements. Equipment purchases were \$575,567 due to the purchase of phase 2 of a new information technology system. Building improvement purchases were \$755,497 due to a remodeling project.

The following table summarizes Jefferson County Hospital's capital assets as of June 30, 2005, 2004 and 2003.

Table 4
Capital Assets
(in Thousands)

	June 30,			
	2005	2004	Change	2003
Land	\$589.3	\$424.0	\$165.3	\$416.5
Land improvements	532.9	522.6	10.3	522.6
Buildings	13,218.2	12,505.2	713.0	12,556.3
Major moveable equipment	7,498.8	6,923.2	575.6	6,842.4
Construction in progress	677.1	65.3	611.8	9.3
Subtotal	22,516.3	20,440.3	2,076.0	20,347.1
Less accumulated depreciation	(12,880.5)	(11,756.5)	1,124	(11,681.3)
Property, plant and equipment, net	\$9,635.8	\$8,683.8	\$952.0	\$8,665.8

DEBT ADMINISTRATION

Long-Term Debt

At year-end, Jefferson County Hospital had \$2,566,705 in short- and long-term debt related to Hospital Revenue Bonds and financing for an information technology upgrade. This has increased from \$1,251,016 in fiscal year 2004 due to new debt related to an information technology upgrade and a remodeling project. More detailed information about Jefferson County Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 17% of Jefferson County Hospital's equity as of year-end.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were \$15,759,988 or 1% under budget for the fiscal year ended June 30, 2005. This was primarily due to lower Medicare contractual allowances due to Critical Access Hospital status.

Operating expenses were \$557,000 or 3.5% over budget for the year with salaries and benefits being 4% above budget. The rest of the operating expenses reflect increased depreciation expense resulting from capital purchases.

Total non-operating gains were \$860,000 over budget due to an \$813,000 bequest as well as improved investment performance.

The following table compares fiscal year 2005 actual to budget information.

Table 5
Budget vs. Actual
(In Thousands)

	FY 2005 Budget	FY 2005 Actual	Dollar Variance	Percent Variance
Gross patient service revenue	\$23,011.8	\$23,346.3	\$334.5	1.5%
Contractual adjustments	7,540.8	7,586.3	45.5	0.6%
Net patient service revenue	15,471.0	15,760.0	289.0	1.9%
Other operating revenue	288.1	359.8	71.7	12.6%
Total operating revenue	15,759.1	16,119.8	360.7	2.3%
Operating expenses	15,774.6	16,331.6	557.0	3.5%
Operating income	(15.5)	(211.8)	(196.3)	1,266.5%
Income from investments	90.2	115.5	25.3	28.0%
Other non-operating gains	768.8	1,499.8	731.0	95.1%
Excess of revenues over expenses	843.5	1,403.5	560.0	66.4%

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

Jefferson County Hospital's Board and management considered many factors when setting the fiscal year 2006 budget. Of primary importance in setting the 2006 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Privacy legislation (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Jefferson County Hospital; 400 Highland; Fairfield, Iowa 52556. Phone number 641-472-4111.

**Jefferson County Hospital
BALANCE SHEETS**

	June 30	
ASSETS	2005	2004
CURRENT ASSETS		
Cash	\$ 2,702,869	\$ 969,731
Patient receivables, less allowance for contractual adjustments and uncollectibles 2005 \$988,000; 2004 \$1,194,788	3,035,955	2,219,698
Other receivables	144,670	176,865
Estimated third-party payor settlements	149,522	-
Inventories	134,249	142,118
Prepaid expenses	319,208	294,258
Total current assets	<u>6,486,473</u>	<u>3,802,670</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	-	365,707
Certificates of deposit	2,778,893	3,200,423
Interest receivable	21,886	11,849
	<u>2,800,779</u>	<u>3,577,979</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	41,273	37,320
Certificates of deposit	154,047	154,047
	<u>195,320</u>	<u>191,367</u>
Total assets whose use is limited	<u>2,996,099</u>	<u>3,769,346</u>
PROPERTY AND EQUIPMENT	22,516,220	20,440,307
Less accumulated depreciation	<u>12,880,459</u>	<u>11,756,509</u>
Total property and equipment	<u>9,635,761</u>	<u>8,683,798</u>
OTHER ASSETS		
Unamortized financing costs	-	10,668
Succeeding year property tax receivable	746,611	738,795
Investment in joint ventures	130,131	76,318
Total other assets	<u>876,742</u>	<u>825,781</u>
Totals	<u>\$19,995,075</u>	<u>\$17,081,595</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND EQUITY		2005	2004
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 262,263	\$ 667,929
Accounts payable		753,910	666,884
Accrued employee compensation		584,267	516,610
Payroll taxes and withholdings		108,902	53,385
Estimated third-party payor settlements		-	75,000
		<u>1,709,342</u>	<u>1,979,808</u>
LONG-TERM DEBT		2,566,705	1,251,016
Less current maturities		<u>262,263</u>	<u>667,929</u>
Total long-term debt		<u>2,304,442</u>	<u>583,087</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		<u>746,611</u>	<u>738,795</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		7,069,056	7,432,782
Restricted			
For specific purpose by donors		195,320	191,367
Unrestricted		<u>7,970,304</u>	<u>6,155,756</u>
Total fund equity		<u>15,234,680</u>	<u>13,779,905</u>
Totals		<u>\$19,995,075</u>	<u>\$17,081,595</u>

See Notes to Financial Statements.

Jefferson County Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2005	2004
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2005 \$473,121; 2004 \$527,912	\$15,759,988	\$13,152,850
OTHER REVENUE	<u>359,815</u>	<u>290,341</u>
Total revenue	<u>16,119,803</u>	<u>13,443,191</u>
EXPENSES		
Nursing service	4,472,567	3,965,758
Other professional service	5,265,630	4,794,992
General service	1,934,834	1,740,951
Fiscal and administrative service and unassigned expenses	3,533,908	3,094,782
Provision for depreciation	<u>1,124,658</u>	<u>1,047,908</u>
Total expenses	<u>16,331,597</u>	<u>14,644,391</u>
Operating (loss)	<u>(211,794)</u>	<u>(1,201,200)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	763,477	766,405
Investment income	97,491	91,127
Interest expense	(79,347)	(52,775)
Equity in income (losses) of joint venture investments	18,021	(101,046)
Unrestricted contributions	813,817	15,393
Gain on disposal of equipment	<u>1,860</u>	<u>5,538</u>
Total nonoperating gains (losses)	<u>1,615,319</u>	<u>724,642</u>
Excess (deficiency) of revenues over expenses before contributions	<u>1,403,525</u>	<u>(476,558)</u>
CONTRIBUTIONS	<u>51,250</u>	<u>29,701</u>
Change in fund equity	1,454,775	(446,857)
TOTAL FUND EQUITY		
Beginning	<u>13,779,905</u>	<u>14,226,762</u>
Ending	<u>\$15,234,680</u>	<u>\$13,779,905</u>

**Jefferson County Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$14,719,209	\$13,033,595
Cash paid to suppliers for goods and services	(8,224,797)	(7,724,190)
Cash paid to employees for services	(6,778,355)	(5,878,349)
Other operating revenue received	<u>393,056</u>	<u>363,636</u>
Net cash provided by (used in) operating activities	<u>109,113</u>	<u>(205,308)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	762,431	769,220
Unrestricted contributions received	813,817	15,393
Scholarships awarded	<u>(1,468)</u>	<u>(2,000)</u>
Net cash provided by noncapital financing activities	<u>1,574,780</u>	<u>782,613</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment and construction in progress	(2,076,621)	(1,065,935)
Principal payments on long-term debt	(812,665)	(551,276)
Proceeds on issuance of debt	2,128,354	641,999
Proceeds from investments	487,169	-
Proceeds from sale of equipment	1,860	5,538
Interest paid on long-term debt	(79,347)	(52,775)
Contributions restricted for purchase of property and equipment	<u>47,299</u>	<u>25,937</u>
Net cash (used in) capital and related financing activities	<u>(303,951)</u>	<u>(996,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(65,639)	(77,307)
Contributions to investments in joint ventures	(50,188)	(55,000)
Investment income received	<u>107,269</u>	<u>114,967</u>
Net cash (used in) investing activities	<u>(8,558)</u>	<u>(17,340)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,371,384	(436,547)
CASH AND CASH EQUIVALENTS		
Beginning	<u>1,372,758</u>	<u>1,809,305</u>
Ending	<u>\$ 2,744,142</u>	<u>\$ 1,372,758</u>

See Notes to Financial Statements.

Jefferson County Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2005	2004
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (211,794)	\$ (1,201,200)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Provision for depreciation	1,124,658	1,047,908
Amortization of financing costs	10,668	14,425
Change in assets and liabilities		
(Increase) in patient receivables	(816,257)	(169,255)
Decrease in other receivables, net of noncapital financing activities	33,241	73,295
Decrease in inventories	7,869	162
(Increase) in prepaid expenses	(24,950)	(76,834)
Increase in accounts payable	87,026	26,936
Increase in accrued employee compensation	67,657	88,877
Increase (decrease) in payroll taxes and withholdings	55,517	(59,622)
Increase (decrease) in net estimated third-party payor settlements	<u>(224,522)</u>	<u>50,000</u>
Net cash provided by (used in) operating activities	<u>\$ 109,113</u>	<u>\$ (205,308)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$ 2,702,869	\$ 969,731
Assets whose use is limited		
Board-designated for plant replacement and expansion	-	365,707
Restricted by donors for specific purpose	<u>41,273</u>	<u>37,320</u>
Total per statement of cash flows	<u>\$ 2,744,142</u>	<u>\$ 1,372,758</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Jefferson County.

Reporting Entity

For financial reporting purposes, Jefferson 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. The Jefferson County Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

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.

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts, mutual funds and the Iowa Public Agency Investment Trust (IPAIT) amount to be cash equivalents.

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Open-end mutual funds Iowa Public Agency Investment Trust IPAIT (governmental external investment pool registered as an investment company) Mutual Funds	Fair value determined by current share price Fair value determined by current share price

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Investments in certain partnerships are accounted for using the equity method under which the net income of the partnerships is recognized as investment income and added to the investment account.

Investment income is reported as nonoperating gains.

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 using these asset lives:

Land improvements	10 to 25 years
Buildings	5 to 40 years
Equipment	3 to 20 years

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. Current year delinquent property taxes receivable represents unpaid taxes for the current year. 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.

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following 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 long-term debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued)

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by grantors or contributors.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

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.

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.

Statements of Revenues, 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.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are county residents.

Costs of Borrowing

Unamortized financing costs are amortized over the period the obligation is outstanding using the straight-line method.

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.

NOTE 2 CASH AND INVESTMENTS

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

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

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

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. The investments listed below are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

The Hospital's investments at June 30, 2005 are as follows:

	Fair value
Mutual fund	<u>\$ 41,273</u>

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 PATIENT RECEIVABLES

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

	June 30	
	2005	2004
Receivable from patients	\$ 675,639	\$ 570,006
Receivable from insurance carriers	1,598,990	1,520,003
Receivable from Medicare	1,435,597	1,172,033
Receivable from Medicaid	<u>313,729</u>	<u>152,444</u>
Total patient receivables	4,023,955	3,414,486
Less allowances for contractual and other adjustments	<u>(988,000)</u>	<u>(1,194,788)</u>
Totals	<u>\$3,035,955</u>	<u>\$2,219,698</u>

NOTE 4 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 and Medicaid

Effective November 1, 2004, the Hospital became designated a Critical Access Hospital. As a Critical Access Hospital, services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the 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 audited by the Medicare fiscal intermediary through June 30, 2003.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 NET PATIENT SERVICE REVENUE (continued)

Other

The Hospital has also entered into payment agreements with Blue Cross and other certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge and discounts from established charges.

NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2005 and 2004 follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2005</u>
Land	\$ 424,005	\$ 165,292	\$ -	\$ -	\$ 589,297
Land improvements	522,596	10,288	-	-	532,884
Buildings	12,505,219	755,497	(42,500)	-	13,218,216
Equipment	6,923,204	575,567	-	-	7,498,771
Construction and equipment installations in progress	<u>65,283</u>	<u>611,769</u>	<u>-</u>	<u>-</u>	<u>677,052</u>
Totals	20,440,307	2,118,413	(42,500)	-	22,516,220
Less accumulated depreciation and amortization	(11,756,509)	(1,124,658)	<u>708</u>	<u>-</u>	(12,880,459)
Net property and equipment	<u>\$ 8,683,798</u>	<u>\$ 993,755</u>	<u>\$ (41,792)</u>	<u>\$ -</u>	<u>\$ 9,635,761</u>
	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2004</u>
Land	\$ 416,505	\$ 7,500	\$ -	\$ -	\$ 424,005
Land improvements	522,596	-	-	-	522,596
Buildings	12,556,283	47,405	(98,469)	-	12,505,219
Equipment	6,842,420	955,045	(874,261)	-	6,923,204
Equipment installations in progress	<u>9,297</u>	<u>55,986</u>	<u>-</u>	<u>-</u>	<u>65,283</u>
Totals	20,347,101	1,065,936	(972,730)	-	20,440,307
Less accumulated depreciation and amortization	(11,681,331)	(1,047,908)	<u>972,730</u>	<u>-</u>	(11,756,509)
Net property and equipment	<u>\$ 8,665,770</u>	<u>\$ 18,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,683,798</u>

Construction and equipment installations in progress consist primarily of costs related to the remodeling of the Hospital's long-term care area. Total construction costs are estimated to be approximately \$628,000. The project will be funded by current reserves of the Hospital.

NOTE 6 LONG TERM DEBT

The Board of Supervisors of Jefferson County adopted a resolution authorizing the issuance of a County Public Hospital Revenue Note. The agreement provided for the principal amount of the note not to exceed \$5,000,000, with the eventual amount borrowed being \$4,994,381. The note was due in monthly installments of \$47,345 including interest at 4.868%. This note was satisfied in 2005.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG TERM DEBT (continued)

The Jefferson County Hospital Revenue Note (Series 2004), dated December 21, 2004, was issued for the purpose of refinancing a previous County Public Hospital Revenue Note and to provide financing for capital improvement projects. The note is payable solely from the revenues of the Hospital. The agreement provides for advances of principal in an amount not to exceed \$1,887,500. The interest rate on the agreement is 4.25%. On December 21, 2012, the interest rate will be adjusted to equal to a percent of the U.S. Treasury Constant Maturity Index; however, the adjusted interest rate shall never exceed 5.265%. Current monthly payments on the note are \$14,199. The maturity date of the agreement is December 21, 2020.

The Hospital entered into a Governmental Lease-Purchase Agreement with a bank for the purchase of equipment in March, 2005. The original amount of the obligation due under the agreement was \$240,854, with an interest rate of 4.5%. Monthly payments of \$4,491 are due until March, 2010. The agreement is secured by equipment.

The Hospital entered into a Governmental Lease-Purchase Agreement with a bank for the purchase of equipment in March, 2004. The agreement commenced on April 1, 2004. The original amount of obligations due under the agreement was \$641,999 with an interest rate of 4.5%. Monthly payments of \$11,970 are due until April 1, 2009, the termination date of the agreement. The agreement is secured by equipment.

Principal and interest maturities of long-term debt at June 30, 2005 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30			
2006	\$ 262,263	\$ 105,688	\$ 367,951
2007	274,067	93,854	367,921
2008	286,183	81,738	367,921
2009	263,240	68,771	332,011
2010	150,961	59,849	210,810
2011-2015	633,124	218,831	851,955
2016-2020	<u>696,867</u>	<u>69,981</u>	<u>766,848</u>
Totals	<u>\$2,566,705</u>	<u>\$ 698,712</u>	<u>\$3,265,417</u>

A summary of changes in long-term debt for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
County Revenue Note	\$ 637,838	\$ -	\$ (637,838)	\$ -	\$ -
Hospital Revenue Note	-	1,887,500	(45,597)	1,841,903	93,920
Equipment notes	<u>613,178</u>	<u>240,854</u>	<u>(129,230)</u>	<u>724,802</u>	<u>168,343</u>
Totals	<u>\$1,251,016</u>	<u>\$2,128,354</u>	<u>\$ (812,665)</u>	<u>\$2,566,705</u>	<u>\$ 262,263</u>

A summary of changes in long-term debt for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
County Revenue Note	\$1,160,293	\$ -	\$ (522,455)	\$ 637,838	\$ 549,474
Equipment note	<u>-</u>	<u>641,999</u>	<u>(28,821)</u>	<u>613,178</u>	<u>118,455</u>
Totals	<u>\$1,160,293</u>	<u>\$ 641,999</u>	<u>\$ (551,276)</u>	<u>\$1,251,016</u>	<u>\$ 667,929</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 MALPRACTICE CLAIMS

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.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2005 may result in the assertion of additional 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.

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 \$417,271, \$319,431 and \$296,959, respectively, equal to the required contributions for each year.

NOTE 9 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, 2005 and 2004.

	2005	2004
Charges foregone, based on established rates	\$ <u>169,796</u>	\$ <u>100,741</u>
Equivalent percentage of charity care patients to all patients served	<u>0.7%</u>	<u>0.5%</u>

NOTE 10 EMPLOYEE BENEFITS

The Hospital has developed a self-insured health insurance program for all employees. Claims for health care services 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 \$50,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$729,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2005 and 2004 was \$558,489 and \$561,600, respectively.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 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.

NOTE 12 ROBERT A. RYAN, M.D. ENDOWED SCHOLARSHIP FUND

This fund was established through a donation received from Robert A. Ryan, M.D. The investment is to be maintained in perpetuity and the income only to be used for a nursing scholarship for a member of the senior class graduating from Fairfield High School, Fairfield, Iowa or from another high school in the area. At June 30, 2005, the balance of the fund was being maintained in mutual funds with a total balance of \$41,273.

NOTE 13 INVESTMENT IN JOINT VENTURES

The Hospital has varying interests in several joint ventures engaged in providing various health care services. The investments are accounted for using the equity method. The Hospital has recorded its share of the joint ventures' income (losses) of \$18,021 in 2005 and \$(101,046) in 2004.

NOTE 14 PROPERTY LEASED TO OTHERS

The Hospital has entered into a lease agreement to lease medical office building space to physicians. The lease requires initial annual payments of \$53,100 through December, 2014. Lease payments will be adjusted each year after the initial three year lease period based on the Consumer Price Index. The Hospital is responsible for utilities, housekeeping and maintenance.

Future minimum payments under the lease are as follows:

Year ending June 30

2006	\$ 53,100
2007	53,100
2008	53,100
2009	53,100
2010	53,100
Thereafter	<u>238,950</u>
Total	<u>\$ 504,450</u>

**INDEPENDENT AUDITOR'S REPORT ON THE REQUIRED
AND OTHER SUPPLEMENTARY INFORMATION**

The Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

Our report on our audits of the basic financial statements of Jefferson County Hospital as of and for the years ended June 30, 2005 and 2004 appears on page 4. 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 4, 2005

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson County Hospital
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2005

The following is a comparison of actual expenditures to budget:

	<u>Reported amounts (GAAP basis)</u>			<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>Budget</u>
	<u>*General funds</u>	<u>Donor-restricted funds</u>	<u>Total (memorandum only)</u>			
Amount to be raised by taxation	\$ 763,477	\$ —	\$ 763,477	\$ —	\$ 763,477	\$ 738,795
Other revenue/ receipts	<u>17,571,410</u>	<u>5,419</u>	<u>17,576,829</u>	<u>(520,488)</u>	<u>17,056,341</u>	<u>15,085,029</u>
	<u>18,334,887</u>	<u>5,419</u>	<u>18,340,306</u>	<u>(520,488)</u>	<u>17,819,818</u>	<u>15,823,824</u>
Expenses/ expenditures	<u>16,884,065</u>	<u>1,466</u>	<u>16,885,531</u>	<u>(842,422)</u>	<u>16,043,109</u>	<u>16,297,000</u>
Net	<u>1,450,822</u>	<u>3,953</u>	<u>1,454,775</u>	<u>321,934</u>	<u>1,776,709</u>	<u>(473,176)</u>
Balance, beginning	<u>13,588,538</u>	<u>191,367</u>	<u>13,779,905</u>	<u>(7,432,782)</u>	<u>6,347,123</u>	<u>5,907,893</u>
Balance, ending	<u>\$15,039,360</u>	<u>\$ 195,320</u>	<u>\$15,234,680</u>	<u>\$(7,110,848)</u>	<u>\$ 8,123,832</u>	<u>\$ 5,434,717</u>

*Includes unrestricted fund equity and fund equity invested in capital assets, net of related debt.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for all funds following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital prepares its annual budget on a basis (budget basis) which differs from generally accepted accounting principles (GAAP basis). The major differences between budget and GAAP bases are that depreciation and bad debts are not recorded as expenditures on the budget basis and capital expenditures and debt service are recorded on the budget basis.

OTHER SUPPLEMENTARY INFORMATION

**Jefferson County Hospital
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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
0 – 30 days (includes patients in Hospital at end of year)	\$1,755,581	\$1,558,176	46.32%	47.63%
31 – 60 days	706,627	600,589	18.64	18.36
61 – 90 days	306,704	315,195	8.10	9.64
Over 90 days	<u>1,021,002</u>	<u>797,163</u>	<u>26.94</u>	<u>24.37</u>
	<u>3,789,914</u>	<u>3,271,123</u>	<u>100.00%</u>	<u>100.00%</u>
Physician Clinic	<u>234,041</u>	<u>143,363</u>		
Total receivables	<u>4,023,955</u>	<u>3,414,486</u>		
Allowances				
Contractual				
Medicare	630,000	595,100		
Medicaid and Blue Cross	150,000	200,900		
Uncollectibles	115,000	338,788		
Physician Clinic	<u>93,000</u>	<u>60,000</u>		
Total allowances	<u>988,000</u>	<u>1,194,788</u>		
Totals	<u>\$3,035,955</u>	<u>\$2,219,698</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
BALANCE , beginning	\$ 338,788	\$ 124,000		
ADD				
Provision for bad debts	473,121	527,912	3.00%	4.01%
DEDUCT				
Accounts written off	<u>(696,909)</u>	<u>(313,124)</u>	4.42	2.38
BALANCE , ending	<u>\$ 115,000</u>	<u>\$ 338,788</u>		

**Jefferson County Hospital
INVENTORIES**

	<u>June 30</u>		<u>Increase (decrease)</u>
	<u>2005</u>	<u>2004</u>	
Storeroom	\$ 46,437	\$ 45,695	\$ 742
Uniforms and linen	61,718	76,184	(14,466)
Dietary	<u>26,094</u>	<u>20,239</u>	<u>5,855</u>
Totals	<u>\$ 134,249</u>	<u>\$ 142,118</u>	<u>\$ (7,869)</u>

**Jefferson County Hospital
INSURANCE COVERAGE
June 30, 2005**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Fireman's Fund	Directors and officers	July 2004 to July 2005	\$2,000,000
Ringewalt & Liesche	Courtesy Van	August 2004 to August 2005	\$1,000,000
Westport Insurance	Employee Honesty Bond	July 2003 to September 2007	\$50,000/employee
Midwest Medical Insurance	Medical Professional Liability	May 2005 to May 2006	
	Each claim		\$1,000,000
	Total facility		\$3,000,000
Midwest Medical Insurance	Umbrella Excess Liability	May 2005 to May 2006	\$3,000,000
St. Paul/Travelers	Business Auto	May 2005 to May 2006	\$1,000,000
St. Paul/Travelers	Building and Contents	May 2005 to May 2006	\$29,600,000
	Business Interruption		\$5,163,000

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

**Jefferson County Hospital
PATIENT SERVICE REVENUE**

	Total		Increase (decrease)
	Year ended June 30		
	2005	2004	
DAILY PATIENT SERVICES			
Medical and surgical	\$ 1,773,855	\$1,536,793	\$ 237,062
Critical care unit	52,775	48,230	4,545
Swing bed	881,324	837,596	43,728
Long term care	<u>1,384,820</u>	<u>1,205,503</u>	<u>179,317</u>
	<u>4,092,774</u>	<u>3,628,122</u>	<u>464,652</u>
OTHER NURSING SERVICES			
Operating and recovery rooms	3,058,186	2,862,201	195,985
Central supply	249,931	352,788	(102,857)
Emergency services	<u>3,155,955</u>	<u>2,641,567</u>	<u>514,388</u>
	<u>6,464,072</u>	<u>5,856,556</u>	<u>607,516</u>
OTHER PROFESSIONAL SERVICES			
Laboratory and blood bank	1,883,359	1,696,462	186,897
Electrocardiology	328,010	346,920	(18,910)
Radiology	1,999,496	1,890,332	109,164
CT scans	1,766,926	1,420,340	346,586
Magnetic resonance imaging	1,409,423	1,032,149	377,274
Pharmacy	1,681,778	1,784,072	(102,294)
Anesthesiology	493,660	445,020	48,640
Respiratory therapy	576,197	630,532	(54,335)
Physical therapy	1,222,989	1,140,233	82,756
Speech therapy	59,740	59,855	(115)
Occupational therapy	315,519	303,104	12,415
Medical arts	114,396	-	114,396
Physician clinic	<u>1,107,782</u>	<u>918,861</u>	<u>188,921</u>
	<u>12,959,275</u>	<u>11,667,880</u>	<u>1,291,395</u>
	23,516,121	21,152,558	2,363,563
Charity care charges foregone, based on established rates	<u>(169,796)</u>	<u>(100,741)</u>	<u>(69,055)</u>
Total gross patient service revenue	23,346,325	21,051,817	2,294,508
Provisions for contractual adjustments and bad debts	<u>(7,586,337)</u>	<u>(7,898,967)</u>	<u>312,630</u>
Net patient service revenue	<u>\$15,759,988</u>	<u>\$13,152,850</u>	<u>\$2,607,138</u>

<u>Inpatient</u>			<u>Outpatient</u>		
<u>Year ended June 30</u>		<u>Increase</u>	<u>Year ended June 30</u>		<u>Increase</u>
<u>2005</u>	<u>2004</u>	<u>(decrease)</u>	<u>2005</u>	<u>2004</u>	<u>(decrease)</u>
\$ 1,773,855	\$1,536,793	\$ 237,062			
52,775	48,230	4,545			
881,324	837,596	43,728			
<u>1,384,820</u>	<u>1,205,503</u>	<u>179,317</u>			
<u>4,092,774</u>	<u>3,628,122</u>	<u>464,652</u>			
1,184,657	1,165,251	19,406	\$ 1,873,529	\$1,696,950	\$ 176,579
243,407	319,312	(75,905)	6,524	33,476	(26,952)
<u>148,625</u>	<u>239,319</u>	<u>(90,694)</u>	<u>3,007,330</u>	<u>2,402,248</u>	<u>605,082</u>
<u>1,576,689</u>	<u>1,723,882</u>	<u>(147,193)</u>	<u>4,887,383</u>	<u>4,132,674</u>	<u>754,709</u>
455,101	565,264	(110,163)	1,428,258	1,131,198	297,060
27,883	45,364	(17,481)	300,127	301,556	(1,429)
128,096	205,829	(77,733)	1,871,400	1,684,503	186,897
195,881	242,887	(47,006)	1,571,045	1,177,453	393,592
76,820	39,263	37,557	1,332,603	992,886	339,717
792,767	977,581	(184,814)	889,011	806,491	82,520
141,705	139,560	2,145	351,955	305,460	46,495
496,481	551,878	(55,397)	79,716	78,654	1,062
300,328	294,784	5,544	922,661	845,449	77,212
30,880	26,408	4,472	28,860	33,447	(4,587)
128,212	97,155	31,057	187,307	205,949	(18,642)
-	-	-	114,396	-	114,396
-	-	-	<u>1,107,782</u>	<u>918,861</u>	<u>188,921</u>
<u>2,774,154</u>	<u>3,185,973</u>	<u>(411,819)</u>	<u>10,185,121</u>	<u>8,481,907</u>	<u>1,703,214</u>
<u>\$ 8,443,617</u>	<u>\$8,537,977</u>	<u>\$ (94,360)</u>	<u>\$15,072,504</u>	<u>\$12,614,581</u>	<u>\$2,457,923</u>

Jefferson County Hospital
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2005</u>	<u>2004</u>	
Contractual adjustments			
Medicare	\$4,683,079	\$5,462,534	\$ (779,455)
Medicaid	736,448	693,311	43,137
Blue Cross	1,026,317	756,144	270,173
Provision for bad debts	473,121	527,912	(54,791)
Discounts and other adjustments	<u>667,372</u>	<u>459,066</u>	<u>208,306</u>
 Totals	 <u>\$7,586,337</u>	 <u>\$7,898,967</u>	 <u>\$ (312,630)</u>

OTHER REVENUE

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2005</u>	<u>2004</u>	
Employee and guest meals	\$ 151,696	\$ 149,093	\$ 2,603
Lifeline	56,869	58,219	(1,350)
Clinic, echocardiology	36,209	44,345	(8,136)
Rental income, net	35,471	8,320	27,151
Miscellaneous, net	<u>79,570</u>	<u>30,364</u>	<u>49,206</u>
 Totals	 <u>\$ 359,815</u>	 <u>\$ 290,341</u>	 <u>\$ 69,474</u>

**Jefferson County Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2005</u>	<u>2004</u>	<u>(decrease)</u>
ADMINISTRATIVE			
Salaries	\$ 206,867	\$ 190,350	\$ 16,517
Supplies and expense	<u>17,885</u>	<u>14,154</u>	<u>3,731</u>
	<u>224,752</u>	<u>204,504</u>	<u>20,248</u>
MEDICAL AND SURGICAL AND OBSTETRIC			
Salaries	1,049,590	932,649	116,941
Supplies and expense	<u>80,537</u>	<u>94,141</u>	<u>(13,604)</u>
	<u>1,130,127</u>	<u>1,026,790</u>	<u>103,337</u>
CRITICAL CARE UNIT			
Salaries	14,613	22,145	(7,532)
Supplies and expense	<u>644</u>	<u>2,413</u>	<u>(1,769)</u>
	<u>15,257</u>	<u>24,558</u>	<u>(9,301)</u>
LONG TERM CARE			
Salaries	759,019	651,509	107,510
Supplies and expense	<u>27,105</u>	<u>27,384</u>	<u>(279)</u>
	<u>786,124</u>	<u>678,893</u>	<u>107,231</u>
OPERATING AND RECOVERY ROOMS			
Salaries	210,506	181,095	29,411
Supplies and expense	<u>531,139</u>	<u>479,882</u>	<u>51,257</u>
	<u>741,645</u>	<u>660,977</u>	<u>80,668</u>
CENTRAL SUPPLY			
Supplies and expense	<u>117,208</u>	<u>43,238</u>	<u>73,970</u>
EMERGENCY SERVICES			
Salaries	669,640	586,451	83,189
Professional fees	715,506	656,143	59,363
Supplies and expense	<u>72,308</u>	<u>84,204</u>	<u>(11,896)</u>
	<u>1,457,454</u>	<u>1,326,798</u>	<u>130,656</u>
Totals	<u>\$4,472,567</u>	<u>\$3,965,758</u>	<u>\$ 506,809</u>

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2005</u>	<u>2004</u>	
LABORATORY AND BLOOD BANK			
Salaries	\$ 287,163	\$ 268,377	\$ 18,786
Professional fees	97,205	84,545	12,660
Supplies and expense	278,685	246,198	32,487
	<u>663,053</u>	<u>599,120</u>	<u>63,933</u>
ELECTROCARDIOLOGY			
Salaries	50,962	44,014	6,948
Professional fees	3,936	3,456	480
Supplies and expense	7,285	5,683	1,602
	<u>62,183</u>	<u>53,153</u>	<u>9,030</u>
RADIOLOGY			
Salaries	343,284	333,146	10,138
Professional fees	193,588	201,019	(7,431)
Supplies and expense	134,794	237,353	(102,559)
	<u>671,666</u>	<u>771,518</u>	<u>(99,852)</u>
CT SCANS			
Professional fees	50	-	50
Supplies and expense	108,557	27,802	80,755
	<u>108,607</u>	<u>27,802</u>	<u>80,805</u>
MAGNETIC RESONANCE IMAGING			
Professional fees	395,430	346,950	48,480
Supplies and expenses	12,098	9,854	2,244
	<u>407,528</u>	<u>356,804</u>	<u>50,724</u>
PHARMACY			
Salaries	33,715	31,230	2,485
Professional fees	276,680	266,694	9,986
Drugs	619,252	593,351	25,901
Supplies and expense	3,164	3,727	(563)
	<u>932,811</u>	<u>895,002</u>	<u>37,809</u>
ANESTHESIOLOGY			
Salaries	210,611	-	210,611
Professional fees	63,631	287,689	(224,058)
Supplies and expense	18,731	21,659	(2,928)
	<u>292,973</u>	<u>309,348</u>	<u>(16,375)</u>
RESPIRATORY THERAPY			
Salaries	34,192	30,343	3,849
Oxygen	17,272	18,595	(1,323)
Supplies and expense	8,594	12,137	(3,543)
	<u>60,058</u>	<u>61,075</u>	<u>(1,017)</u>
PHYSICAL THERAPY			
Salaries	23,823	22,897	926
Professional fees	496,425	428,721	67,704
Supplies and expense	23,048	14,326	8,722
	<u>543,296</u>	<u>465,944</u>	<u>77,352</u>
SPEECH THERAPY			
Professional fees	57,280	43,611	13,669

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2005</u>	<u>2004</u>	<u>(decrease)</u>
OCCUPATIONAL THERAPY			
Professional fees	\$ 133,232	\$ 125,279	\$ 7,953
Supplies and expense	<u>4,947</u>	<u>2,101</u>	<u>2,846</u>
	<u>138,179</u>	<u>127,380</u>	<u>10,799</u>
PHYSICIANS CLINIC			
Salaries	534,345	545,226	(10,881)
Supplies and expense	<u>55,291</u>	<u>60,058</u>	<u>(4,767)</u>
	<u>589,636</u>	<u>605,284</u>	<u>(15,648)</u>
SOCIAL SERVICES			
Salaries	<u>16,070</u>	<u>22,952</u>	<u>(6,882)</u>
MEDICAL RECORDS			
Salaries	254,180	236,894	17,286
Supplies and expense	<u>47,830</u>	<u>27,077</u>	<u>20,753</u>
	<u>302,010</u>	<u>263,971</u>	<u>38,039</u>
QUALITY ASSURANCE			
Salaries	150,841	132,938	17,903
Supplies and expense	<u>10,591</u>	<u>7,024</u>	<u>3,567</u>
	<u>161,432</u>	<u>139,962</u>	<u>21,470</u>
CROSSROADS			
Salaries	(135)	50,129	(50,264)
Supplies and expense	<u>3,623</u>	<u>1,937</u>	<u>1,686</u>
	<u>3,488</u>	<u>52,066</u>	<u>(48,578)</u>
MEDICAL ARTS			
Salaries	136,787	-	136,787
Supplies and expense	<u>118,573</u>	<u>-</u>	<u>118,573</u>
	<u>255,360</u>	<u>-</u>	<u>255,360</u>
Totals	<u>\$5,265,630</u>	<u>\$4,794,992</u>	<u>\$ 470,638</u>

**Jefferson County Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2005</u>	<u>2004</u>	<u>(decrease)</u>
DIETARY			
Salaries	\$ 405,986	\$ 347,102	\$ 58,884
Food	267,152	238,216	28,936
Professional fees	2,815	34,109	(31,294)
Supplies and expense	<u>86,002</u>	<u>93,420</u>	<u>(7,418)</u>
	<u>761,955</u>	<u>712,847</u>	<u>49,108</u>
PLANT OPERATION AND MAINTENANCE			
Salaries	269,464	243,276	26,188
Utilities	356,100	304,954	51,146
Supplies and expense	<u>124,699</u>	<u>86,292</u>	<u>38,407</u>
	<u>750,263</u>	<u>634,522</u>	<u>115,741</u>
HOUSEKEEPING			
Salaries	281,535	268,091	13,444
Supplies and expense	<u>41,827</u>	<u>45,250</u>	<u>(3,423)</u>
	<u>323,362</u>	<u>313,341</u>	<u>10,021</u>
LAUNDRY AND LINEN			
Salaries	65,448	58,496	6,952
Supplies and expense	<u>33,806</u>	<u>21,745</u>	<u>12,061</u>
	<u>99,254</u>	<u>80,241</u>	<u>19,013</u>
Totals	<u>\$1,934,834</u>	<u>\$1,740,951</u>	<u>\$ 193,883</u>

**Jefferson County Hospital
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2005</u>	<u>2004</u>	<u>(decrease)</u>
FISCAL AND ADMINISTRATIVE SERVICE			
Salaries			
Administrative	\$ 228,300	\$ 284,934	\$ (56,634)
Fiscal and accounting	437,905	279,240	158,665
Purchasing and stores	58,816	56,255	2,561
Public relations	41,346	38,527	2,819
Data processing	71,139	108,960	(37,821)
Data processing expense	223,317	142,926	80,391
Professional fees	119,816	68,331	51,485
Office supplies and expenses	298,869	267,958	30,911
Telephone	46,024	46,838	(814)
Collection fees	53,942	57,875	(3,933)
Purchasing and stores expense	14,736	12,789	1,947
Public relations expense	15,099	15,550	(451)
UNASSIGNED EXPENSES			
Physician recruiting	65,876	51,995	13,881
Insurance	205,159	181,812	23,347
Employee benefits			
FICA	481,146	432,300	48,846
IPERS	417,271	319,431	97,840
Group health insurance	558,489	561,600	(3,111)
Group disability insurance	58,314	49,756	8,558
Workers' compensation	108,893	89,198	19,695
Unemployment compensation	14,831	8,194	6,637
Other employee benefits	3,952	5,888	(1,936)
Amortization of financing costs	<u>10,668</u>	<u>14,425</u>	<u>(3,757)</u>
Totals	<u>\$3,533,908</u>	<u>\$3,094,782</u>	<u>\$ 439,126</u>

**Jefferson County Hospital
COMPARATIVE REVENUES AND EXPENSES**

	Year ended June 30			
	2005	2004	2003	2002
NET PATIENT SERVICE REVENUE	\$15,759,988	\$13,152,850	\$12,236,300	\$12,166,333
OTHER REVENUE	<u>359,815</u>	<u>290,341</u>	<u>298,072</u>	<u>222,602</u>
Total revenue	<u>16,119,803</u>	<u>13,443,191</u>	<u>12,534,372</u>	<u>12,388,935</u>
EXPENSES				
Salaries	6,846,012	5,967,226	5,246,049	5,114,748
Supplies, professional fees and other expenses	8,360,927	7,629,257	6,889,061	6,705,061
Provision for depreciation	<u>1,124,658</u>	<u>1,047,908</u>	<u>999,898</u>	<u>944,218</u>
Total expenses	<u>16,331,597</u>	<u>14,644,391</u>	<u>13,135,008</u>	<u>12,764,027</u>
Operating (loss)	<u>(211,794)</u>	<u>(1,201,200)</u>	<u>(600,636)</u>	<u>(375,092)</u>
NONOPERATING GAINS (LOSSES)				
County taxes	763,477	766,405	786,854	799,170
Investment income and equity in net income (losses) of joint venture investments	115,512	(9,919)	95,292	163,717
Unrestricted contributions	813,817	15,393	634	100
Interest expense	(79,347)	(52,775)	(81,741)	(121,087)
Gain (loss) on sale of property and equipment	<u>1,860</u>	<u>5,538</u>	<u>1,805</u>	<u>5,021</u>
Total nonoperating gains (losses)	<u>1,615,319</u>	<u>724,642</u>	<u>802,844</u>	<u>846,921</u>
Excess (deficiency) of revenues over expenses before contributions	1,403,525	(476,558)	202,208	471,829
CONTRIBUTIONS	<u>51,250</u>	<u>29,701</u>	<u>26,633</u>	<u>28,392</u>
Change in fund equity	<u>\$ 1,454,775</u>	<u>\$ (446,857)</u>	<u>\$ 228,841</u>	<u>\$ 500,221</u>

**Jefferson County Hospital
COMPARATIVE STATISTICS**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Adult and pediatric	<u>2,331</u>	<u>2,240</u>
Swing bed		
Skilled nursing care	2,377	2,509
Intermediate nursing care	<u>—</u>	<u>6,782</u>
	<u>2,377</u>	<u>9,291</u>
Long term care	<u>13,027</u>	<u>5,330</u>
Total patient days	<u>17,735</u>	<u>16,861</u>
ADMISSIONS		
Adult and pediatric	722	741
Swing bed	307	347
Long term care	<u>16</u>	<u>40</u>
Total admissions	<u>1,045</u>	<u>1,128</u>
DISCHARGES		
Adult and pediatric	720	744
Swing bed—skilled	311	344
Long term care	<u>16</u>	<u>41</u>
Total discharges	<u>1,047</u>	<u>1,129</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.23	3.02
Swing bed	7.64	7.23
BEDS		
Adult and pediatric (changed effective November 1, 2004)	25	51
Long term care	36	16
OCCUPANCY PERCENT		
Adult and pediatric	18.92%	12.00%
Swing bed	26.05%	49.77%
Long term care	99.14%	91.02%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$43,178	\$35,937
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	70	62

**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**

To the Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

We have audited the financial statements of Jefferson County Hospital as of and for the year ended June 30, 2005, and have issued our report thereon dated August 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Jefferson 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 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 Jefferson County Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented 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 Jefferson County and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 4, 2005

**Jefferson County Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

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.

**Jefferson County Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

Part II—Findings Related to Required Statutory Reporting

05-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, 2005.

05-II-B CERTIFIED BUDGET

Based on a comparison of actual operating expenses with budget basis expenditures, it appears the Hospital did not exceed its budget for the year ended June 30, 2005.

05-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

05-II-D TRAVEL EXPENSES

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

05-II-E BUSINESS TRANSACTIONS

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

05-II-F BOARD MINUTES

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

05-II-G 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.