

**Floyd Valley Hospital
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2005

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Floyd Valley Hospital
OFFICIALS
June 30, 2005

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

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, 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 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, 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 11, 2005 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 11, 2005

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, 2005, 2004 and 2003. 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, 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 decreased by \$800 thousand from FY 2004 to \$23 million.
- Total net property and equipment increased by \$131 thousand from FY 2004.
- Fund equity increased by \$1,017,428 from FY 2004.
- FY 2005 net patient service revenue increased by \$1.3 million, primarily due to increases in outpatient utilization as well as charge rate increases effective July 1, 2004.
- FY 2005 expenses increased by \$1.4 million due to cost increases on supplies and staffing.
- Total margin for FY 2005 was 5.8%, compared to 5.0% for FY 2004 and 5.9% for FY 2003.

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, 2005, 2004, and 2003 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2005	June 30, 2004	June 30, 2003
Current and other assets	\$10,694	\$11,605	\$11,507
Property and Equipment	\$12,290	\$12,159	\$ 9,860
Total Assets	\$22,984	\$23,764	\$21,367
Long term debt outstanding	\$ 7,416	\$ 8,716	\$ 8,103
Other liabilities	\$ 2,197	\$ 2,694	\$ 1,711
Total liabilities	\$ 9,613	\$11,410	\$ 9,814
Invested in Capital Assets	\$ 4,874	\$ 4,484	\$ 4,762
Restricted	\$ 1,646	\$ 2,065	\$ 1,222
Unrestricted	\$ 6,851	\$ 5,805	\$ 5,569
Total Fund Equity	\$13,371	\$12,354	\$11,553

As can be seen in Table 1, net assets increased by \$1.02 million to \$13.37 million in fiscal year 2005, up from \$12.35 million in fiscal year 2004 and \$11.55 million in fiscal year 2003. The change in net assets results primarily from operating profits for the hospital.

During fiscal year 2005 work continues on the construction project of the outpatient addition that began during fiscal year 2003 was completed. The total cost of the project was \$3.6 million. The project was financed with Hospital Revenue Notes issued during fiscal year 2003. The project was completed in November of 2004.

In November of 2004 the 1996 Taxable Revenue Notes were retired with proceeds from the Hospital Revenue Refunding notes issued in June of 2004. This resulted in a reduction of \$715 thousand of the total reduction in long term debt of \$1.3 million.

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, 2005, 2004 and 2003

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

	2005	2004	2003
Total Revenue	\$17,480	\$16,127	\$15,464
Expenses	\$16,737	\$15,311	\$14,555
Operating Income	\$ 743	\$ 816	\$ 909
Non-Operating (Losses)	\$ (63)	\$ (40)	\$ (59)
Excess of Revenues over expenses before contributions	\$ 680	\$ 776	\$ 850
Contributions	\$ 337	\$ 25	\$ 55
Changes in Fund Equity	\$ 1,017	\$ 801	\$ 905
Total Fund Equity, Beginning	\$12,354	\$11,553	\$10,648
Total Fund Equity, Ending	\$13,371	\$12,354	\$11,553

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2005, 2004 and 2003.

Volume: Inpatient admissions for fiscal year 2005 were 1% greater than in 2004. Outpatient utilization remained the same as the prior fiscal year. Skilled care admissions were down from the prior year by 13%, while Home Health visits were up by 1%. The number of births at the hospital was down by 4% from the prior fiscal year.

Net Patient Service Revenue: Due to a rate increase of 3.6% effective July 1, 2004, and the changes in services described above, net patient revenues increased by \$1.33 million or 9.2% in comparison to fiscal year 2004. The hospital converted to Critical Access Status effective February 1st, of 2005. Critical Access Status converts the reimbursement system from the Medicare program to cost based reimbursement rather than prospective payment systems and fixed fee schedules. This conversion impacted the contractual adjustments by providing a reduction in adjustments compared to the prior fiscal year despite greater patient revenues.

The following table presents the relative percentages of gross charges billed 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	46.5%	44.5%	47.3%
Wellmark Blue Cross	27.7%	27.3%	17.5%
Commercial	17.9%	20.1%	27.5%
Medicaid	4.8%	5.4%	4.7%
All others	3.1%	2.6%	3.0%

Nursing Service expenses increased by 12% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by \$196,442 or 4% due to salary costs and benefits due to market demands as well as supply costs and contracted services.

Capital Assets:

At the end of fiscal year 2005, the hospital has invested \$12.3 million in capital assets as shown in Table 5. The increase in capital assets since 2003 is a result of the construction of the outpatient building addition and remodeling.

Table 5
Capital Assets
(in thousands)

	June 30,		
	2005	2004	2003
Land & Land Improvements	\$ 780	\$ 631	\$ 631
Buildings	\$12,974	\$ 9,440	\$ 9,155
Major Moveable Equipment	\$ 5,022	\$ 4,837	\$ 4,619
Land & Buildings Leased to Others	\$ 2,955	\$ 2,955	\$ 2,952
Construction/Equipment Installs in Progress	\$ 101	\$ 2,877	\$ 556
Subtotal	\$21,832	\$20,740	\$17,913
Less accumulated depreciation	(\$ 9,542)	(\$ 8,581)	(\$ 8,053)
Property, plant and equipment, net	\$12,290	\$ 12,159	\$ 9,860

Debt Administration:

At the end of fiscal year 2005, the hospital had \$7.42 million in debt related to Hospital Revenue Bonds. This has decreased by \$1.3 million from fiscal year 2004 following the retirement of outstanding debt including \$715 thousand in the advanced refunding of the 1996 Taxable Hospital Revenue Notes. More detailed information regarding the hospital's debt is presented in the Notes to the Financial Statements.

Performance Compared to Budget:

Net patient revenues were \$15.8 million or 2% greater than budget for fiscal year ended June 30, 2005. This improvement from budget was related primarily to the conversion to the Critical Access Status with the Medicare program which improved reimbursements from the Medicare program. Impact from the conversion to Critical Access was not included in the budget assumptions. This conversion to Critical Access occurred effective February 1, 2005.

Operating Expenses were \$16.7 million or 1% less than budget expectations for the fiscal year ending June 30, 2005. Overall expenses matched closely with budget with no significant variances from the plan.

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

Table 6
Budget vs. Actual
(in thousands)

	FY 2005 Actual	FY 2005 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$21,513	\$21,748	(\$235)	(1%)
Contractual Adjustments & Bad Debt	\$ 5,679	\$ 6,292	(\$613)	(10%)
Net patient service revenue	\$15,834	\$15,456	\$378	2%
Other operating revenue	\$ 1,646	\$ 1,614	\$ 32	2%
Total operating revenue	\$17,480	\$17,070	\$410	2%
Operating Expenses	\$16,737	\$16,573	\$164	1%
Operating Gain/Loss	\$ 743	\$ 497	\$246	50%
Non-Operating Gains (Losses)	\$ (63)	\$ (184)	\$121	(66%)
Excess of Revenues over Expenses Before Contributions	\$ 680	\$ 313	\$367	117%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2006 budget. Of primary importance 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
- 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**

	June 30	
ASSETS	2005	2004
CURRENT ASSETS		
Cash	\$ 1,460,601	\$ 2,716,082
Assets whose use is limited, required for current liabilities	702,107	1,060,843
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2005 \$1,037,281; 2004 \$1,513,586	2,510,854	1,516,640
Other current receivables	45,160	45,425
Inventories	273,531	233,654
Prepaid expenses	131,663	103,094
Total current assets	<u>5,123,916</u>	<u>5,675,738</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	212,134	413,382
Certificates of deposit	4,131,275	3,096,914
Accrued interest receivable	12,349	3,803
	<u>4,355,758</u>	<u>3,514,099</u>
Restricted for construction and payment of revenue notes and interest		
Cash	494,855	2,227,866
Certificates of deposit	783,774	802,230
	<u>1,278,629</u>	<u>3,030,096</u>
Restricted by donors for specific purpose		
Cash	77,905	75,514
Other receivables	31,613	-
Investment in Avera Health Investment Pool	258,313	-
	<u>367,831</u>	<u>75,514</u>
Total assets whose use is limited	6,002,218	6,619,709
Less assets whose use is limited and that are required for current liabilities	702,107	1,060,843
Noncurrent assets whose use is limited	<u>5,300,111</u>	<u>5,558,866</u>
PROPERTY AND EQUIPMENT	21,832,166	20,740,525
Less accumulated depreciation	9,541,806	8,581,158
Total property and equipment	<u>12,290,360</u>	<u>12,159,367</u>
OTHER ASSETS		
Unamortized financing costs	60,494	68,119
Other receivable	46,251	121,849
Investment in Floyd Valley Associates	20,899	16,564
Investment in Northwest Iowa Diagnostics	34,457	74,158
Investment in Floyd Valley Home Medical Equipment	107,908	89,342
Total other assets	<u>270,009</u>	<u>370,032</u>
Totals	<u>\$22,984,396</u>	<u>\$23,764,003</u>

See Notes to Financial Statements.

		June 30	
		2005	2004
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 640,000	\$ 595,000
Accounts payable			
Trade		1,073,693	1,183,907
Construction and equipment		42,350	473,582
Accrued employee compensation		567,003	713,666
Security deposits		28,000	29,750
Payroll taxes and amounts withheld from employees		78,696	74,379
Accrued interest		62,107	73,375
Estimated third-party payor settlements		<u>345,000</u>	<u>145,000</u>
Total current liabilities		<u>2,836,849</u>	<u>3,288,659</u>
LONG-TERM DEBT , less current maturities		<u>6,776,175</u>	<u>8,121,400</u>
Total liabilities		<u>9,613,024</u>	<u>11,410,059</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		4,874,186	4,483,718
Restricted		1,646,460	2,064,859
Unrestricted		<u>6,850,726</u>	<u>5,805,367</u>
Total fund equity		<u>13,371,372</u>	<u>12,353,944</u>
Totals		<u>\$22,984,396</u>	<u>\$23,764,003</u>

See Notes to Financial Statements.

Floyd Valley 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 \$284,392; 2004 \$253,673	\$15,833,768	\$14,503,439
OTHER REVENUE	<u>1,645,920</u>	<u>1,623,160</u>
Total revenue	<u>17,479,688</u>	<u>16,126,599</u>
EXPENSES		
Nursing service	4,565,279	4,061,149
Other professional service	5,244,716	5,048,274
General service	1,466,599	1,342,730
Fiscal and administrative service and unassigned expenses	4,437,465	3,890,738
Provision for depreciation	<u>1,022,680</u>	<u>967,918</u>
Total expenses	<u>16,736,739</u>	<u>15,310,809</u>
Operating income	<u>742,949</u>	<u>815,790</u>
NONOPERATING GAINS (LOSSES)		
Interest income	166,870	136,416
Interest and amortization expense	(315,391)	(253,581)
Unrestricted contributions	1,052	6,036
Equity in earnings of equity method investments	84,755	70,750
Gain (loss) on disposal of equipment	<u>(170)</u>	<u>160</u>
Total nonoperating gains (losses)	<u>(62,884)</u>	<u>(40,219)</u>
Excess of revenues over expenses before contributions	680,065	775,571
CONTRIBUTIONS		
Change in fund equity	<u>337,363</u>	<u>24,884</u>
	1,017,428	800,455
TOTAL FUND EQUITY		
Beginning	<u>12,353,944</u>	<u>11,553,489</u>
Ending	<u>\$13,371,372</u>	<u>\$12,353,944</u>

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$15,039,554	\$15,081,556
Cash paid to suppliers for goods and services	(7,522,134)	(7,725,929)
Cash paid to employees for services	(8,512,931)	(6,226,322)
Other operating revenue received	<u>1,720,033</u>	<u>1,478,584</u>
Net cash provided by operating activities	<u>724,522</u>	<u>2,607,889</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	1,052	6,036
Contributions restricted for property and equipment, net	<u>305,750</u>	<u>24,884</u>
Net cash provided by noncapital financing activities	<u>306,802</u>	<u>30,920</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,580,729)	(2,821,015)
Principal paid on long-term debt	(1,310,000)	(712,596)
Payment of deferred financing costs	-	(17,705)
Proceeds from revenue notes, net of discount	-	1,326,075
Interest paid on long-term debt	<u>(314,434)</u>	<u>(314,517)</u>
Net cash (used in) capital and related financing activities	<u>(3,205,163)</u>	<u>(2,539,758)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,000,716)	(3,574,144)
Proceeds from maturities of certificates of deposit	3,726,497	3,285,427
Distribution from Floyd Valley Associates	14,000	14,000
Distribution from Northwest Iowa Diagnostics	88,386	-
Interest received	<u>158,323</u>	<u>207,326</u>
Net cash (used in) investing activities	<u>(1,013,510)</u>	<u>(67,391)</u>
NET INCREASE (DECREASE) IN CASH	(3,187,349)	31,660
CASH		
Beginning	<u>5,432,844</u>	<u>5,401,184</u>
Ending	<u>\$ 2,245,495</u>	<u>\$ 5,432,844</u>

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 742,949	\$ 815,790
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,022,680	967,918
Change in assets and liabilities		
(Increase) decrease in patient receivables	(994,214)	388,117
(Increase) decrease in other current receivables	265	(32,250)
(Increase) in inventories	(39,877)	(6,710)
(Increase) decrease in prepaid expenses	(28,569)	5,115
(Increase) decrease in other receivable	75,598	(110,201)
Increase in estimated third-party payor settlements	200,000	190,000
Increase (decrease) in accounts payable, net of amounts for property and equipment	(110,214)	334,607
Increase (decrease) in accrued employee compensation	(146,663)	62,930
(Decrease) in security deposits	(1,750)	(2,125)
Increase (decrease) in payroll taxes and withholdings	<u>4,317</u>	<u>(5,302)</u>
Net cash provided by operating activities	<u>\$ 724,522</u>	<u>\$2,607,889</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$1,460,601	\$2,716,082
Assets whose use is limited		
Designated by board for plant expansion	212,134	413,382
Restricted for construction and payment of revenue notes and interest	494,855	2,227,866
Restricted by donors for specific purpose	<u>77,905</u>	<u>75,514</u>
Total per statements of cash flows	<u>\$2,245,495</u>	<u>\$5,432,844</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 include nonnegotiable certificates of deposit reported at cost as well as an interest in the Avera Health Investment Pool reported at fair value.

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. Depreciation is 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 reduced by the outstanding balances of the revenue notes 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.

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.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 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.

The Hospital had investments at June 30, 2005 in the Avera Health Investment Pool (Pool) which are valued at a fair value of \$258,313. This value is determined by the total funds transferred to the Pool from the Hospital, increased by the Hospital's proportionate share of income and decreased by the Hospital's proportionate share of expenses. Income and expenses are allocated monthly based on each Pool participants' account balance.

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended during a current budget year or within fifteen months of receipt) to instruments that mature within 397 days. Fund not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

The Hospital's investments in the Avera Health Investment Pool at June 30, 2005 are not rated.

The Hospital's investment policy limits the amount that may be invested in any one issuer to 5% of the Hospital's investment portfolio at the time of purchase.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 PATIENT RECEIVABLES

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

	June 30	
	2005	2004
Receivable from patients	\$1,132,818	\$1,082,163
Receivable from insurance carriers	1,238,636	1,053,568
Receivable from Medicare	953,783	731,577
Receivable from Medicaid	<u>222,898</u>	<u>162,918</u>
Total patient receivables	3,548,135	3,030,226
Less allowances for contractual and other adjustments	<u>(1,037,281)</u>	<u>(1,513,586)</u>
 Totals	 <u>\$2,510,854</u>	 <u>\$1,516,640</u>

NOTE 4 PROPERTY AND EQUIPMENT

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

	Balance July 1, 2004	Additions	Deletions	Transfers	Ending June 30, 2005
Land	\$ 103,274	\$ -	\$ -	\$ -	\$ 103,274
Land improvements	527,221	4,892	-	144,114	676,227
Buildings and fixed equipment	9,441,044	34,025	(56,903)	3,555,450	12,973,616
Major movable equipment	4,836,610	190,801	(21,674)	16,539	5,022,276
Land and buildings leased to others	2,955,297	-	-	-	2,955,297
Equipment installations in progress	-	264,263	-	(162,787)	101,476
Construction in progress	<u>2,877,079</u>	<u>682,406</u>	<u>(6,169)</u>	<u>(3,553,316)</u>	<u>-</u>
Totals	20,740,525	1,176,387	(84,746)	-	21,832,166
Less accumulated depreciation and amortization	<u>(8,581,158)</u>	<u>(1,022,680)</u>	<u>62,032</u>	<u>-</u>	<u>(9,541,806)</u>
 Net property and equipment	 <u>\$12,159,367</u>	 <u>\$ 153,707</u>	 <u>\$ (22,714)</u>	 <u>\$ -</u>	 <u>\$12,290,360</u>
	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>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 4 PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2005 and 2004 amounted to \$1,022,680 and \$967,918, respectively. Interest capitalized during the years ended June 30, 2005 and 2004 was \$101,404 and \$203,162 net of interest income of \$6,168 and \$57,980 for a net total of \$95,236 and \$145,182, 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 \$17,742 as well as an annual payment of \$1,890. The leases expire at various times through 2008 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, 2005 and 2004 includes gross rental income of \$205,138 and \$215,741, respectively, for these leases.

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

Year ending June 30

2006	\$ 208,129
2007	176,193
2008	<u>72,315</u>
Total	<u>\$ 456,637</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, 2005 and 2004.

	<u>Reserve Fund</u>	<u>Sinking Fund</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>(879,108)</u>
Balance, June 30, 2004	802,230	460,233
Transfers from (to) current asset cash	(18,456)	1,019,282
Interest income	-	8,327
Transfers from cash restricted for construction and payment of revenue notes and interest	-	729,581
Payment of notes and interest	-	(992,987)
Refunding of Series 1996B bonds	<u>-</u>	<u>(729,581)</u>
Balance, June 30, 2005	<u>\$ 783,774</u>	<u>\$ 494,855</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 \$18,566 and \$14,188 for the years ended June 30, 2005 and 2004, respectively.

NOTE 8 INVESTMENT IN NORTHWEST IOWA DIAGNOSTICS

The Hospital has a 32% 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 \$47,852 and \$38,153 for the years ended June 30, 2005 and 2004, 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, 2005 and 2004, the Hospital received \$130,178 and \$153,183, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$130,690 and \$128,380 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2005 and 2004, 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 of \$18,566 and \$18,407 for the years ended June 30, 2005 and 2004, 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, 2005 and 2004, the Hospital received \$66,743 and \$58,886, 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 5.7% 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	
2005	2004

	\$ 118,000	\$ 166,900
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**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2005	2004
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 8.2% to 8.4%. Notes maturing in 2005 and thereafter were called for redemption on November 1, 2004 at par and accrued interest at the coupon rate.</p>	\$	-
		\$ 783,700
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 4.4% 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>	669,800	871,725
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 5.4% 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>	102,900	151,900
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 3.75% 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>	1,587,600	1,675,800

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2005	2004
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 3.1% 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.	\$3,728,900	\$3,748,500
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 2.2% to 3.35%. The notes are not subject to redemption prior to maturity.	465,300	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 Refunding 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%. Proceeds from the refunding notes were placed in an escrow trust account to be used to pay the interest on the refunding notes to the date of refunding, as well as, for the cost of the refunding, on November 1, 2004 their earliest date of call. The refunding was completed during the year ended June 30, 2005. The notes are not subject to redemption prior to maturity.	<u>743,675</u>	<u>743,675</u>
Totals	7,416,175	8,716,400
Less current maturities	<u>(640,000)</u>	<u>(595,000)</u>
Total long-term debt	<u>\$6,776,175</u>	<u>\$8,121,400</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 \$783,774 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 \$153,825 and \$163,600 as of June 30, 2005 and 2004, 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		
2006	\$ 640,000	\$ 360,370
2007	675,000	334,176
2008	695,000	305,642
2009	725,000	274,160
2010	790,000	250,945
2011 to 2015	1,375,000	1,059,590
2016 to 2020	1,335,000	645,493
2021 to 2023	<u>1,335,000</u>	<u>120,010</u>
Total	7,570,000	3,350,386
Less unamortized discount	<u>(153,825)</u>	<u>—</u>
Totals	<u>\$7,416,175</u>	<u>\$3,350,386</u>

Long-term debt activity for the years ended June 30, 2005 and 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2005					
Hospital revenue notes	\$8,880,000	\$ —	\$1,310,000	\$7,570,000	\$ 640,000
	<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>

The Hospital's interest expense under these agreements totaled \$398,601 and \$443,118 for the years ended June 30, 2005 and 2004, respectively, with \$101,404 capitalized in 2005 and \$203,162 in 2004.

**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, 2005 and 2004.

	2005	2004
Charges foregone, based on established rates	\$ <u>112,476</u>	\$ <u>49,477</u>
Equivalent percentage of charity care patients to all patients served	<u>.5%</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, 2005, 2004 and 2003 were \$352,411, \$328,791 and \$316,597, 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 \$1,305,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2005 and 2004 was \$1,090,016 and \$926,444, 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, 2005 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 and Medicaid

Effective February 1, 2005, the Hospital became designated a Critical Access Hospital. As a Critical Access Hospital, most services 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 programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

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 BUDGET AND BUDGETARY ACCOUNTING

The Hospital annually adopts a budget and presents it to the City Council for inclusion in the City's annual budget, which is adopted following required public notice and hearings for all funds. The City's 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 is that interest expense, property and equipment additions, and debt service principal amounts are included in operating expenditures on the budget basis.

The following is a comparison of reported expenses to budget:

	Operating expenses (GAAP basis)	Budget basis adjustment	Budget basis	Budget
Year ended June 30, 2005 totals	<u>\$16,736,739</u>	<u>\$1,779,098</u>	<u>\$18,515,837</u>	<u>\$18,950,000</u>

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 2005 and 2004 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

West Des Moines, Iowa
August 11, 2005

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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
0 - 60 days	\$2,198,962	\$1,948,127	61.98%	64.29%
61 - 90 days	316,267	210,262	8.91	6.94
91 - 180 days	505,399	367,439	14.24	12.13
Over 6 months	<u>527,507</u>	<u>504,398</u>	<u>14.87</u>	<u>16.64</u>
Totals	<u>3,548,135</u>	<u>3,030,226</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	518,728	473,552		
Contractual adjustments	<u>518,553</u>	<u>1,040,034</u>		
Total allowances	<u>1,037,281</u>	<u>1,513,586</u>		
Totals	<u>\$2,510,854</u>	<u>\$1,516,640</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
BALANCE , beginning	\$ 473,552	\$ 500,870
ADD		
Provision for bad debts	284,392	253,673
Recoveries of accounts previously written off	208,181	185,322
LESS		
Accounts written off	<u>(447,397)</u>	<u>(466,313)</u>
BALANCE , ending	<u>\$ 518,728</u>	<u>\$ 473,552</u>

**Floyd Valley Hospital
INVENTORIES**

	June 30	
	<u>2005</u>	<u>2004</u>
General stores	\$ 113,842	\$ 101,008
Pharmacy	108,999	91,849
Operating room	42,962	34,910
Intravenous solutions	3,695	2,874
Marcus clinic	<u>4,033</u>	<u>3,013</u>
Totals	<u>\$ 273,531</u>	<u>\$ 233,654</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Midwest Medical Insurance Company (policy expiration January 1, 2006)	
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, 2006)	
Umbrella excess liability	\$20,000,000
AIG Insurance Company (policy expiration January 1, 2006)	
Umbrella excess liability	\$4,000,000
Unitrin, Milwaukee Insurance Company (policy expiration January 1, 2006)	
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, 2006)	
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, 2006)	
Building and contents, fire and extended coverage (100% co-insurance, replace value)	\$2,819,324/21,424,134 \$10,000 deductible
Blanket earnings and expense	Included
The Hartford, Inc. (policy expiration January 1, 2006)	
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
	\$25,000 deductible each loss
Farm Bureau Mutual Insurance Company (policy expiration November 1, 2005)	
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>2005</u>	<u>2004</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 1,575,355	\$ 1,448,626
Long term care	248,293	281,673
Nursery	43,555	41,065
	<u>1,867,203</u>	<u>1,771,364</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	1,452,689	1,295,893
Delivery and labor room	88,753	87,438
Central service and supply	1,482,713	1,474,604
Emergency service	1,967,110	1,880,465
Home health services	832,436	805,850
	<u>5,823,701</u>	<u>5,544,250</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	3,099,004	2,737,966
Electrocardiology	623,823	541,484
Radiology	4,645,670	4,389,131
Pharmacy	2,353,832	2,251,925
Anesthesiology	1,123,055	1,092,185
Respiratory therapy	276,497	265,631
Physical therapy	1,064,545	957,141
Occupational therapy	158,806	130,560
Speech therapy	168,664	136,356
Enterostomy	94,075	76,914
Audiology	3,206	3,096
Marcus clinic	141,657	119,828
Cardiac rehabilitation	69,021	57,104
	<u>13,821,855</u>	<u>12,759,321</u>
	21,512,759	20,074,935
Charity care charges foregone, based on established rates	<u>(112,476)</u>	<u>(49,477)</u>
Total gross patient service revenue	21,400,283	20,025,458
Provisions for contractual and other adjustments	<u>(5,566,515)</u>	<u>(5,522,019)</u>
Net patient service revenue	<u>\$15,833,768</u>	<u>\$14,503,439</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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
\$1,575,355	\$1,448,626	\$ -	\$ -	\$ -	\$ -
-	-	-	-	248,293	281,673
43,555	41,065	-	-	-	-
<u>1,618,910</u>	<u>1,489,691</u>	<u>-</u>	<u>-</u>	<u>248,293</u>	<u>281,673</u>
621,232	591,064	831,457	704,829	-	-
76,627	73,830	12,126	13,608	-	-
914,798	916,845	422,079	399,337	145,836	158,422
149,430	141,995	1,816,240	1,735,577	1,440	2,893
-	-	832,436	805,850	-	-
<u>1,762,087</u>	<u>1,723,734</u>	<u>3,914,338</u>	<u>3,659,201</u>	<u>147,276</u>	<u>161,315</u>
1,011,269	869,776	2,021,947	1,794,833	65,788	73,357
136,291	114,748	479,377	420,110	8,155	6,626
792,243	693,738	3,818,100	3,660,549	35,327	34,844
1,098,847	1,019,141	1,011,159	974,859	243,826	257,925
475,301	480,961	645,554	604,411	2,200	6,813
162,564	137,641	61,853	62,993	52,080	64,997
50,470	37,611	930,665	839,800	83,410	79,730
11,676	6,021	101,083	86,305	46,047	38,234
16,400	20,242	105,464	86,095	46,800	30,019
8,547	6,027	77,950	62,523	7,578	8,364
1,453	1,673	1,753	1,423	-	-
-	-	141,657	119,828	-	-
-	-	69,021	55,942	-	1,162
<u>3,765,061</u>	<u>3,387,579</u>	<u>9,465,583</u>	<u>8,769,671</u>	<u>591,211</u>	<u>602,071</u>
<u>\$7,146,068</u>	<u>\$6,601,004</u>	<u>\$13,379,921</u>	<u>\$12,428,872</u>	<u>\$ 986,780</u>	<u>\$1,045,059</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Contractual adjustments	\$5,148,132	\$5,175,336
Employee and other allowances	103,960	67,176
Clinic discounts and adjustments	30,031	25,834
Provision for bad debts	<u>284,392</u>	<u>253,673</u>
Totals	<u>\$5,566,515</u>	<u>\$5,522,019</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Cafeteria	\$ 116,862	\$ 112,694
Meals on Wheels	21,356	10,504
Rental income	266,481	279,255
Park Place Estates	901,332	865,719
Other	<u>339,889</u>	<u>354,988</u>
Totals	<u>\$1,645,920</u>	<u>\$1,623,160</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
NURSING ADMINISTRATION		
Salaries	\$ 135,761	\$ 127,260
Supplies and expenses	<u>3,702</u>	<u>3,292</u>
	<u>139,463</u>	<u>130,552</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,223,983	1,130,535
Supplies and expenses	<u>47,367</u>	<u>42,404</u>
	<u>1,271,350</u>	<u>1,172,939</u>
SWING BED		
Salaries	<u>199,636</u>	<u>221,944</u>
NURSERY		
Salaries	33,208	26,729
Supplies and expenses	<u>6,847</u>	<u>2,800</u>
	<u>40,055</u>	<u>29,529</u>
OPERATING AND RECOVERY ROOMS		
Salaries	356,265	330,360
Supplies and expenses	<u>270,838</u>	<u>104,897</u>
	<u>627,103</u>	<u>435,257</u>
DELIVERY AND LABOR ROOM		
Salaries	40,270	40,993
Supplies and expenses	<u>5,298</u>	<u>4,967</u>
	<u>45,568</u>	<u>45,960</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	89,164	84,102
Purchased services	18,046	15,376
Supplies and expenses	<u>398,077</u>	<u>389,454</u>
	<u>505,287</u>	<u>488,932</u>
EMERGENCY SERVICE		
Salaries	415,730	344,246
Professional fees	606,756	512,983
Supplies and expenses	<u>45,394</u>	<u>33,660</u>
	<u>1,067,880</u>	<u>890,889</u>
HOME HEALTH		
Salaries	544,490	509,474
Purchased services	37,465	49,448
Supplies and expenses	<u>86,982</u>	<u>86,225</u>
	<u>668,937</u>	<u>645,147</u>
Totals	<u>\$4,565,279</u>	<u>\$4,061,149</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
LABORATORY		
Salaries	\$ 326,128	\$ 298,749
Professional fees	8,284	9,052
Purchased services	125,030	123,243
Supplies and expenses	235,927	211,488
Blood	79,460	62,025
	<u>774,829</u>	<u>704,557</u>
ELECTROCARDIOLOGY		
Salaries	11,131	9,294
Purchased services	151,933	119,741
Supplies and expenses	1,177	2,094
	<u>164,241</u>	<u>131,129</u>
RADIOLOGY		
Salaries	358,467	350,259
Professional fees	554,413	488,570
Purchased services	457,263	481,736
Supplies and expenses	189,449	194,048
	<u>1,559,592</u>	<u>1,514,613</u>
PHARMACY		
Salaries	172,066	157,740
Purchased services	718	7,603
Drugs	514,058	589,626
Intravenous solutions and supplies	16,428	16,086
Supplies and expenses	4,911	28,955
	<u>708,181</u>	<u>800,010</u>
ANESTHESIOLOGY		
Purchased services	385,766	421,257
Supplies and expenses	8,011	11,547
	<u>393,777</u>	<u>432,804</u>
RESPIRATORY THERAPY		
Salaries	112,122	110,522
Supplies and expenses	7,191	6,349
	<u>119,313</u>	<u>116,871</u>
PHYSICAL THERAPY		
Salaries	96,564	88,990
Purchased services	537,225	495,066
Supplies and expenses	29,462	19,239
	<u>663,251</u>	<u>603,295</u>
OCCUPATIONAL THERAPY		
Purchased services	83,018	63,121
Supplies and expenses	8	285
	<u>83,026</u>	<u>63,406</u>
OCCUPATIONAL HEALTH		
Salaries	4,916	2,903
Supplies and expense	4,513	1,959
	<u>9,429</u>	<u>4,862</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2005	2004
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 56,575	\$ 49,897
Supplies and expenses	<u>1,492</u>	<u>2,149</u>
	<u>58,067</u>	<u>52,046</u>
SPEECH THERAPY		
Purchased services	134,931	109,085
Supplies and expenses	<u>189</u>	<u>350</u>
	<u>135,120</u>	<u>109,435</u>
ENTEROSTOMY		
Salaries	77,121	61,834
Supplies and expenses	<u>3,149</u>	<u>2,540</u>
	<u>80,270</u>	<u>64,374</u>
AUDIOLOGY		
Salaries	1,282	1,057
Purchased services	1,154	913
Supplies and expenses	<u>-</u>	<u>287</u>
	<u>2,436</u>	<u>2,257</u>
MARCUS CLINIC		
Salaries	41,432	39,028
Professional fees	104,467	88,371
Purchased services	4,267	4,676
Supplies and expenses	<u>16,897</u>	<u>15,230</u>
	<u>167,063</u>	<u>147,305</u>
CARDIAC REHABILITATION		
Salaries	52,863	50,433
Supplies and expenses	<u>1,968</u>	<u>1,948</u>
	<u>54,831</u>	<u>52,381</u>
LIFELINE		
Salaries	4,759	3,198
Supplies and expenses	<u>1,789</u>	<u>1,335</u>
	<u>6,548</u>	<u>4,533</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	57,230	43,878
Supplies and expenses	<u>2,329</u>	<u>984</u>
	<u>59,559</u>	<u>44,862</u>
MEDICAL RECORDS		
Salaries	125,850	142,541
Purchased services	26,372	17,500
Supplies and expenses	<u>52,961</u>	<u>37,040</u>
	<u>205,183</u>	<u>197,081</u>
SOCIAL SERVICE		
Salaries	<u>-</u>	<u>2,453</u>
Totals	<u>\$5,244,716</u>	<u>\$5,048,274</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
DIETARY		
Salaries	\$ 299,775	\$ 285,974
Food	202,344	195,838
Purchased services	40,757	35,518
Supplies and expenses	<u>44,583</u>	<u>39,319</u>
	<u>587,459</u>	<u>556,649</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	197,452	182,260
Utilities	249,830	218,978
Purchased services	24,289	32,615
Supplies and expenses	<u>133,581</u>	<u>98,752</u>
	<u>605,152</u>	<u>532,605</u>
HOUSEKEEPING		
Salaries	172,662	159,499
Purchased services	1,683	1,473
Supplies and expenses	<u>25,012</u>	<u>20,459</u>
	<u>199,357</u>	<u>181,431</u>
LAUNDRY AND LINEN		
Purchased services	62,621	60,093
Linens	10,547	10,519
Supplies and expenses	<u>1,463</u>	<u>1,433</u>
	<u>74,631</u>	<u>72,045</u>
Totals	<u>\$1,466,599</u>	<u>\$1,342,730</u>

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

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 133,294	\$ 114,150
Management fee	412,113	315,801
Telephone	49,613	41,352
Postage	37,106	38,503
Supplies and expenses	198,614	102,926
Freight	24,143	19,685
Organization dues	21,234	16,732
Public relations	9,154	6,444
Activities	3,049	4,228
Marketing	<u>53,050</u>	<u>44,553</u>
	<u>941,370</u>	<u>704,374</u>
Business office		
Salaries	364,263	350,486
Supplies and expenses	<u>137,993</u>	<u>116,805</u>
	<u>502,256</u>	<u>467,291</u>
Data processing		
Salaries	106,859	103,486
Supplies and expenses	<u>103,473</u>	<u>116,221</u>
	<u>210,332</u>	<u>219,707</u>
Human resources		
Salaries	76,665	72,529
Supplies and expenses	<u>57,117</u>	<u>46,274</u>
	<u>133,782</u>	<u>118,803</u>
Education		
Salaries	68,659	78,123
Supplies and expenses	<u>20,587</u>	<u>19,269</u>
	<u>89,246</u>	<u>97,392</u>
Park Place Estates		
Salaries	278,752	258,601
Purchased services	10,352	11,537
Supplies and expenses	<u>70,787</u>	<u>61,273</u>
	<u>359,891</u>	<u>331,411</u>
Endowment		
Salaries	19,518	19,272
Supplies and expenses	<u>2,756</u>	<u>1,730</u>
	<u>22,274</u>	<u>21,002</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	805,719	755,936
Group health insurance	1,090,016	926,444
Life and disability insurance	89,609	77,518
Tuition assistance	6,116	8,520
Insurance	<u>186,854</u>	<u>162,340</u>
	<u>2,178,314</u>	<u>1,930,758</u>
Totals	<u>\$4,437,465</u>	<u>\$3,890,738</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Acute	3,261	3,153
Special care	46	53
Nursery	281	283
Swing bed		
Skilled nursing care	1,415	1,623
Intermediate care	<u>19</u>	<u>101</u>
Totals	<u>5,022</u>	<u>5,213</u>
ADMISSIONS	1,239	1,231
DISCHARGES	1,239	1,232
AVERAGE LENGTH OF STAY , acute and special care	2.67	2.6
BEDS	25	44
OCCUPANCY PERCENT	35.9%	30.6%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$43,380	\$39,627
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	58.80	38.27

**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, 2005, and have issued our report thereon dated August 11, 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and that is described in the accompanying schedule of findings as item 05-II-F.

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 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

West Des Moines, Iowa
August 11, 2005

**Floyd Valley 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.

**Floyd Valley 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 QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

05-II-C TRAVEL EXPENSES

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

05-II-D BUSINESS TRANSACTIONS

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

05-II-E BOARD MINUTES

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

05-II-F DEPOSITS AND INVESTMENTS

Comment

We noted that the Hospital has invested public funds in the Avera Investment Pool. This investment may violate Section 5 of the Hospital's investment policy which does not provide for this specific type of investment. Additionally, this investment may violate Chapter 12B of the Code of Iowa in that the Pool does not appear to be operated in accordance with 17 G.F.R. Section 270.2a-7 or registered with the Federal Securities and Exchange Commission.

Recommendation

We recommend the Hospital investment policy and Chapter 12B of the Code of Iowa be reviewed with the Hospital's attorney to determine if this is a permitted investment.

Response

We will review this matter with legal counsel to determine appropriate course of action.

Conclusion

Response accepted.