

**Jefferson County Hospital
Fairfield, Iowa**

FINANCIAL REPORT

June 30, 2006

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**Jefferson County Hospital
OFFICIALS
June 30, 2006**

(Before January 2006)

BOARD OF TRUSTEES

Expiration of term

Officers

Bob Keller, Chair	December 31, 2010
Doug Johnson, Vice Chair	December 31, 2008
Dave Fredericks, Secretary/Treasurer	December 31, 2006

Members

Laurel Woody	December 31, 2010
Dorian Atwood	December 31, 2008
Grace Bogaards	December 31, 2008
Tom Kunkle	December 31, 2006

CHIEF EXECUTIVE OFFICER

Ralph Paulding III

CHIEF FINANCIAL OFFICER

Eugene Irwin

(After January 2006)

BOARD OF TRUSTEES

Expiration of term

Officers

Bob Keller, Chair	December 31, 2010
Doug Johnson, Vice Chair	December 31, 2008
Dave Fredericks, Secretary/Treasurer (Through June, 2006)	December 31, 2006
Grace Bogaards, Secretary/Treasurer (Effective June, 2006)	December 31, 2008

Members

Laurel Woody	December 31, 2010
Dorian Atwood	December 31, 2008
Randy Menke (Effective July, 2006)	December 31, 2006
Tom Kunkle	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, 2006 and 2005, 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, 2006 and 2005, 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 10, 2006, 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 28 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 10, 2006

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, 2006, 2005 and 2004. 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, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$882,086 from FY 2005 to \$20,877,161, following an increase in FY 2005 of \$2,913,480.
- Property and equipment decreased from FY 2005 by \$172,634, following an increase of \$951,963 in FY 2005.
- Total debt decreased from FY 2005 by \$262,263, following an increase of \$1,315,689 in FY 2005.
- Fund equity increased from FY 2005 by \$1,115,998 and \$1,454,775 in FY 2005.
- Net patient service revenue increased from FY 2005 by \$1,089,605 due to increased utilization and Critical Access Hospital status. This followed an increase in FY 2005 of \$2,607,138.
- Expenses increased from FY 2005 by \$866,217 or 5.3%.
- Total margin for FY 2006 was 6.0%, compared to 7.9% for FY 2005.

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, 2006, 2005 and 2004, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Dollar Change</u>	<u>Total % Change</u>	<u>June 30, 2004</u>
Current and other assets	\$11,414,034	\$10,359,314	\$1,054,720	10%	\$8,397,797
Capital assets	\$9,463,127	\$9,635,761	(\$172,634)	(2%)	\$8,683,798
Total Assets	<u>\$20,877,161</u>	<u>\$19,995,075</u>	<u>\$882,086</u>	<u>4%</u>	<u>\$17,081,595</u>
Long-term debt outstanding	\$2,030,374	\$2,304,442	(\$274,068)	(12%)	\$583,087
Other liabilities	\$2,496,109	\$2,455,953	\$40,156	2%	\$2,718,603
Total liabilities	<u>\$4,526,483</u>	<u>\$4,760,395</u>	<u>(\$233,912)</u>	<u>(5%)</u>	<u>\$3,301,690</u>
Total net assets	<u>\$16,350,678</u>	<u>\$15,234,680</u>	<u>\$1,115,998</u>	<u>7%</u>	<u>\$13,779,905</u>

As can be seen by Table 1, net assets increased by \$1,115,998 to \$16,350,678 in fiscal year 2006, up from \$15,234,680 in fiscal year 2005. The change in net assets results primarily from the improved financial performance the Hospital experienced in FY 2006.

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, 2006, 2005 and 2004.

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

	Year ended June 30,		
	2006	2005	2004
Total revenue	\$17,365,402	\$16,119,803	\$13,443,191
Expenses	17,197,814	16,331,597	14,644,391
Operating (loss)	167,588	(211,794)	(1,201,200)
Non-operating gains	932,836	1,615,319	724,642
Excess of revenues over expenses	1,100,424	1,403,525	(476,558)
Other changes in fund equity-contributions	15,574	51,250	29,701
Total fund equity, beginning	15,234,680	13,779,905	14,226,762
Total fund equity, ending	\$16,350,678	\$15,234,680	\$13,779,905

Operating and Financial Performance

Volume: Acute inpatient admissions for fiscal year 2006 were 569 compared to 722 in fiscal year 2005. Acute patient days decreased by 12% compared to FY 2005 because of a decrease in discharges. Swing bed admissions decreased by 3% for FY 2006 to a total of 298 admissions. Swing bed patient days decreased by 14% due to the increase in length of stay. Outpatient visits increased by 7% to 24,331 visits in FY 2006. Operating room procedures were 16% above FY 2005's level due to an increase in outpatient surgical procedures and scopes. Total operating room procedures in FY 2006 were 511 surgeries compared to 491 in FY 2005 with 78% of the surgeries being outpatient procedures.

Net Patient Service Revenue: Due to an average rate increase of 6% effective July 1, 2005, and the first full year of Critical Access Hospital status, net patient service revenues increased by \$1,089,605 or 7% compared to fiscal year 2005. During the fiscal year, Jefferson County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payors) increased by 7%. The majority of the increase came from Wellmark and Medicaid reimbursement increases.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2006, 2005 and 2004.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2006	2005	2004
Medicare	52%	50%	49%
Wellmark	20%	19%	18%
Other Commercial Insurance	14%	13%	12%
Medicaid	8%	8%	6%
All other	6%	10%	15%
Total	100.0%	100.0%	100.0%

Significant changes in operations from FY 2005:

Other Operating Revenue: FY 2006 showed a 43%, or \$155,994, increase in other operating revenue compared to FY 2005. The reasons for the increase in Other Operating Revenue are increased rental income and recovery of physician recruitment fees.

Employee Benefits: FY 2006 showed a \$62,263 increase in Employee Benefit expense when compared to FY 2005. This is a 4% increase in cost. The primary reason for the increase is due to an increase in workers compensation premiums.

Interest Expense: There was a \$26,310 increase in interest expense during FY 2006. This is attributed to a full year of interest expense on new borrowings in FY 2005.

CAPITAL ASSETS

At the end of fiscal year 2006, the Jefferson County Hospital has invested \$9,463,127 in capital assets. The decrease in capital assets is primarily a result of decreases in land and construction progress (CIP). Land changes were \$44,696 due to the selling of a five acre property. CIP decreased by \$594,757 due to the completion of the Living Care Center remodeling.

The following table summarizes Jefferson County Hospital's capital assets as of June 30, 2006, 2005 and 2004.

Table 4
Capital Assets
(in Thousands)

	June 30,			
	2006	2005	Change	2004
Land	\$544.6	\$589.3	(\$44.7)	\$424.0
Land improvements	564.5	532.9	31.6	522.6
Buildings	14,093.8	13,218.2	875.6	12,505.2
Major moveable equipment	8,290.7	7,498.8	791.9	6,923.2
Construction in progress	82.3	677.1	(594.8)	65.3
Subtotal	23,575.9	22,516.3	1,059.6	20,440.3
Less accumulated depreciation	(14,112.8)	(12,880.5)	(1,232.3)	(11,756.5)
Property, plant and equipment, net	\$9,463.1	\$9,635.8	(\$172.7)	\$8,683.8

DEBT ADMINISTRATION

Long-Term Debt

At year-end, Jefferson County Hospital had \$2,304,442 in short- and long-term debt related to a Hospital Revenue Note and financing for an information technology upgrade. This has decreased from \$2,566,705 in fiscal year 2005. No new financing occurred during the fiscal year. More detailed information about Jefferson County Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 14% of Jefferson County Hospital's equity as of year-end.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were \$16,849,593 or 2% over budget for the fiscal year ended June 30, 2006.

Operating expenses were \$83,199 or 0.5% under budget for the year with salaries and benefits being 22% below budget. The rest of the operating expenses reflect increased depreciation expense resulting from capital purchases and increased overall operating expenses.

Total non-operating gains were \$111,896 over budget due to an increase in investment income.

The following table compares fiscal year 2006 actual to budget information.

Table 5
Budget vs. Actual
(In Thousands)

	FY 2006 Budget	FY 2006 Actual	Dollar Variance	Percent Variance
Gross patient service revenue	\$25,882.9	\$25,061.7	(\$821.2)	(3.2%)
Contractual adjustments	9,160.9	8,212.1	(948.8)	(10.4%)
Net patient service revenue	16,722.0	16,849.6	127.6	0.8%
Other operating revenue	300.8	515.8	215.0	71.5%
Total operating revenue	\$17,022.8	\$17,365.4	\$342.6	2.0%
Operating expenses	17,330.2	17,197.8	(132.4)	0.8%
Operating income	(\$307.4)	\$167.6	\$475.0	154.5%
Income from investments	157.0	212.5	55.5	35.4%
Other non-operating gains	663.9	720.3	56.4	8.5%
Excess of revenues over expenses	\$513.5	\$1,100.4	\$586.9	114.3%

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

Jefferson County Hospital's Board and management considered many factors when setting the fiscal year 2007 budget. Of primary importance in setting the 2007 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	2006	2005
CURRENT ASSETS		
Cash	\$ 4,115,051	\$ 2,702,869
Patient receivables, less allowance for contractual adjustments and uncollectibles 2006 \$874,000; 2005 \$988,000	2,815,698	3,035,955
Other receivables	70,257	144,670
Estimated third-party payor settlements	-	149,522
Inventories	123,362	134,249
Prepaid expenses	287,529	319,208
Succeeding year property tax receivable	<u>746,069</u>	<u>746,611</u>
Total current assets	<u>8,157,966</u>	<u>7,233,084</u>
 ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Certificates of deposit	2,886,877	2,778,893
Interest receivable	<u>23,067</u>	<u>21,886</u>
	<u>2,909,944</u>	<u>2,800,779</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	44,864	41,273
Certificates of deposit	<u>157,750</u>	<u>154,047</u>
	<u>202,614</u>	<u>195,320</u>
Total assets whose use is limited	<u>3,112,558</u>	<u>2,996,099</u>
 PROPERTY AND EQUIPMENT	23,575,905	22,516,220
Less accumulated depreciation	<u>14,112,778</u>	<u>12,880,459</u>
Total property and equipment	<u>9,463,127</u>	<u>9,635,761</u>
 OTHER ASSET		
Investment in joint ventures	<u>143,510</u>	<u>130,131</u>
 Totals	<u>\$20,877,161</u>	<u>\$19,995,075</u>

		June 30	
LIABILITIES AND FUND EQUITY		2006	2005
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 274,068	\$ 262,263
Accounts payable		635,988	753,910
Accrued employee compensation		592,356	584,267
Payroll taxes and withholdings		115,628	108,902
Estimated third-party payor settlements		132,000	-
Deferred revenue for succeeding year property tax receivable		746,069	746,611
Total current liabilities		<u>2,496,109</u>	<u>2,455,953</u>
 LONG-TERM DEBT			
Less current maturities		2,304,442	2,566,705
Total long-term debt		<u>274,068</u>	<u>262,263</u>
		<u>2,030,374</u>	<u>2,304,442</u>
 COMMITMENTS AND CONTINGENCIES			
 FUND EQUITY			
Invested in capital assets, net of related debt		7,158,685	7,069,056
Restricted			
For specific purpose by donors		202,614	195,320
Unrestricted		<u>8,989,379</u>	<u>7,970,304</u>
Total fund equity		<u>16,350,678</u>	<u>15,234,680</u>
Totals		<u>\$20,877,161</u>	<u>\$19,995,075</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2006 \$610,403; 2005 \$473,121	\$16,849,593	\$15,759,988
OTHER REVENUE	<u>515,809</u>	<u>359,815</u>
Total revenue	<u>17,365,402</u>	<u>16,119,803</u>
EXPENSES		
Nursing service	4,846,163	4,472,567
Other professional service	5,428,881	5,265,630
General service	2,115,801	1,934,834
Fiscal and administrative service and unassigned expenses	3,568,760	3,533,908
Provision for depreciation	<u>1,238,209</u>	<u>1,124,658</u>
Total expenses	<u>17,197,814</u>	<u>16,331,597</u>
Operating income (loss)	<u>167,588</u>	<u>(211,794)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	771,527	763,477
Investment income	212,549	97,491
Interest expense	(105,657)	(79,347)
Equity in income (losses) of joint venture investments	33,533	18,021
Unrestricted contributions	29,468	813,817
Gain (loss) on disposal of equipment	<u>(8,584)</u>	<u>1,860</u>
Total nonoperating gains (losses)	<u>932,836</u>	<u>1,615,319</u>
Excess of revenues over expenses before contributions	<u>1,100,424</u>	<u>1,403,525</u>
CONTRIBUTIONS	<u>15,574</u>	<u>51,250</u>
Change in fund equity	1,115,998	1,454,775
TOTAL FUND EQUITY		
Beginning	<u>15,234,680</u>	<u>13,779,905</u>
Ending	<u>\$16,350,678</u>	<u>\$15,234,680</u>

**Jefferson County Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$17,351,372	\$14,719,209
Cash paid to suppliers for goods and services	(8,947,180)	(8,224,797)
Cash paid to employees for services	(7,072,966)	(6,778,355)
Other operating revenue received	590,650	393,056
Net cash provided by operating activities	1,921,876	109,113
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	771,099	762,431
Unrestricted contributions received	29,468	813,817
Scholarships awarded	(2,000)	(1,468)
Net cash provided by noncapital financing activities	798,567	1,574,780
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment and construction in progress	(1,125,575)	(2,076,621)
Principal payments on long-term debt	(262,263)	(812,665)
Proceeds on issuance of debt	-	2,128,354
Proceeds from investments	-	487,169
Proceeds from sale of property and equipment	51,416	1,860
Interest paid on long-term debt	(105,657)	(79,347)
Contributions restricted for purchase of property and equipment	15,574	47,299
Net cash (used in) capital and related financing activities	(1,426,505)	(303,951)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(111,687)	(65,639)
Contributions to investments in joint ventures	(150)	(50,188)
Investment income received	233,672	107,269
Net cash provided by (used in) investing activities	121,835	(8,558)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,415,773	1,371,384
CASH AND CASH EQUIVALENTS		
Beginning	2,744,142	1,372,758
Ending	\$ 4,159,915	\$ 2,744,142

See Notes to Financial Statements.

Jefferson County Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 167,588	\$ (211,794)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Provision for depreciation	1,238,209	1,124,658
Amortization of financing costs	-	10,668
Change in assets and liabilities		
(Increase) decrease in patient receivables	220,257	(816,257)
Decrease in other receivables, net of noncapital financing activities	74,841	33,241
Decrease in inventories	10,887	7,869
(Increase) decrease in prepaid expenses	31,679	(24,950)
Increase (decrease) in accounts payable	(117,922)	87,026
Increase in accrued employee compensation	8,089	67,657
Increase in payroll taxes and withholdings	6,726	55,517
Increase (decrease) in net estimated third-party payor settlements	<u>281,522</u>	<u>(224,522)</u>
Net cash provided by operating activities	<u>\$ 1,921,876</u>	<u>\$ 109,113</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$ 4,115,051	\$ 2,702,869
Assets whose use is limited		
Restricted by donors for specific purpose	<u>44,864</u>	<u>41,273</u>
Total per statement of cash flows	<u>\$ 4,159,915</u>	<u>\$ 2,744,142</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 and mutual funds 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 Mutual Funds	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.

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation with no effect on the change in fund equity.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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, 2006 are as follows:

Fair value

Mutual fund		\$ <u>44,864</u>
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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:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Receivable from patients	\$ 495,967	\$ 675,639
Receivable from insurance carriers	1,664,849	1,598,990
Receivable from Medicare	1,278,616	1,435,597
Receivable from Medicaid	<u>250,266</u>	<u>313,729</u>
Total patient receivables	3,689,698	4,023,955
Less allowances for contractual and other adjustments	<u>(874,000)</u>	<u>(988,000)</u>
 Totals	 <u>\$2,815,698</u>	 <u>\$3,035,955</u>

Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS

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 the period ended October 31, 2004.

Other

The Hospital has also entered into payment agreements with Wellmark 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, 2006 and 2005 follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2006</u>
Land	\$ 589,297	\$ 15,304	\$ (60,000)	\$ -	\$ 544,601
Land improvements	532,884	-	-	31,617	564,501
Buildings	13,218,216	42,489	-	833,133	14,093,838
Equipment	7,498,771	215,638	(5,890)	582,151	8,290,670
Construction and equipment installations in progress	<u>677,052</u>	<u>852,144</u>	<u>-</u>	<u>(1,446,901)</u>	<u>82,295</u>
Totals	22,516,220	1,125,575	(65,890)	-	23,575,905
Less accumulated depreciation and amortization	<u>(12,880,459)</u>	<u>(1,238,209)</u>	<u>5,890</u>	<u>-</u>	<u>(14,112,778)</u>
Net property and equipment	<u>\$ 9,635,761</u>	<u>\$ (112,634)</u>	<u>\$ (60,000)</u>	<u>\$ -</u>	<u>\$ 9,463,127</u>
	<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	<u>(11,756,509)</u>	<u>(1,124,658)</u>	<u>708</u>	<u>-</u>	<u>(12,880,459)</u>
Net property and equipment	<u>\$ 8,683,798</u>	<u>\$ 993,755</u>	<u>\$ (41,792)</u>	<u>\$ -</u>	<u>\$ 9,635,761</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT (continued)

Construction and equipment installations in progress at June 30, 2006 consists of costs incurred related to a proposed building project. As of June 30, 2006, the Hospital has entered into an agreement with a construction manager for approximately \$1,200,000.

NOTE 6 LONG TERM DEBT

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 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 agreement contains certain covenants regarding the operation of the Hospital. The Hospital is in substantial compliance with these covenants.

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, 2006 are summarized as follows:

Year ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 274,068	\$ 93,854	\$ 367,922
2008	286,370	81,738	368,108
2009	263,250	68,771	332,021
2010	150,961	59,849	210,810
2011	116,115	54,276	170,391
2012-2016	660,562	191,393	851,955
2017-2020	<u>553,116</u>	<u>43,143</u>	<u>596,259</u>
Totals	<u>\$2,304,442</u>	<u>\$ 593,024</u>	<u>\$2,897,466</u>

A summary of changes in long-term debt for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Note	\$1,841,903	\$ —	\$ 93,920	\$1,747,983	\$ 97,991
Equipment notes	<u>724,802</u>	<u>—</u>	<u>168,343</u>	<u>556,459</u>	<u>176,077</u>
Totals	<u>\$2,566,705</u>	<u>\$ —</u>	<u>\$ 262,263</u>	<u>\$2,304,442</u>	<u>\$ 274,068</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG TERM DEBT (continued)

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>

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, 2006 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, 2006, 2005 and 2004 were \$403,116, \$417,271 and \$319,431, respectively, equal to the required contributions for each year.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

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, 2006 and 2005.

	2006	2005
Charges foregone, based on established rates	\$ <u>212,296</u>	\$ <u>169,796</u>
Equivalent percentage of charity care patients to all patients served	<u>0.8%</u>	<u>0.7%</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 \$735,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2006 and 2005 was \$499,663 and \$558,489, respectively.

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, 2006, the balance of the fund was being maintained in mutual funds with a total balance of \$44,864.

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 \$33,533 in 2006 and \$18,021 in 2005.

Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS

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

2007	\$ 53,100
2008	53,100
2009	53,100
2010	53,100
2011	53,100
Thereafter	<u>185,850</u>
Total	<u>\$ 451,350</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, 2006 and 2005 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 10, 2006

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson County Hospital
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2006

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	\$ 771,527	\$ -	\$ 771,527	\$ -	\$ 771,527	\$ 746,611
Other revenue/ receipts	<u>17,640,648</u>	<u>9,294</u>	<u>17,649,942</u>	<u>(7,294)</u>	<u>17,642,648</u>	<u>17,246,531</u>
	18,412,175	9,294	18,421,469	(7,294)	18,414,175	17,993,142
Expenses/ expenditures	<u>17,303,471</u>	<u>2,000</u>	<u>17,305,471</u>	<u>262,343</u>	<u>17,567,814</u>	<u>18,539,850</u>
Net	1,108,704	7,294	1,115,998	(269,637)	846,361	(546,708)
Balance, beginning	<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>6,613,572</u>
Balance, ending	<u>\$16,148,064</u>	<u>\$ 202,614</u>	<u>\$16,350,678</u>	<u>\$(7,380,485)</u>	<u>\$ 8,970,193</u>	<u>\$ 6,066,864</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 is not recorded as an expenditure 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 – 30 days (includes patients in Hospital at end of year)	\$1,726,911	\$1,755,581	48.09%	46.32%
31 – 60 days	760,283	706,627	21.17	18.64
61 – 90 days	363,813	306,704	10.13	8.10
Over 90 days	<u>740,139</u>	<u>1,021,002</u>	<u>20.61</u>	<u>26.94</u>
	<u>3,591,146</u>	<u>3,789,914</u>	<u>100.00%</u>	<u>100.00%</u>
Physician Clinic	<u>98,552</u>	<u>234,041</u>		
Total receivables	<u>3,689,698</u>	<u>4,023,955</u>		
Allowances				
Contractual				
Medicare	510,000	630,000		
Medicaid and Blue Cross	242,000	150,000		
Uncollectibles	83,000	115,000		
Physician Clinic	<u>39,000</u>	<u>93,000</u>		
Total allowances	<u>874,000</u>	<u>988,000</u>		
Totals	<u>\$2,815,698</u>	<u>\$3,035,955</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
BALANCE , beginning	\$ 115,000	\$ 338,788		
ADD				
Provision for bad debts	610,403	473,121	3.62%	3.00%
DEDUCT				
Accounts written off	<u>(642,403)</u>	<u>(696,909)</u>	3.81	4.42
BALANCE , ending	<u>\$ 83,000</u>	<u>\$ 115,000</u>		

**Jefferson County Hospital
INVENTORIES**

	<u>June 30</u>		<u>Increase</u>
	<u>2006</u>	<u>2005</u>	<u>(decrease)</u>
Storeroom	\$ 45,713	\$ 46,437	\$ (724)
Uniforms and linen	65,851	61,718	4,133
Dietary	<u>11,798</u>	<u>26,094</u>	<u>(14,296)</u>
Totals	<u>\$ 123,362</u>	<u>\$ 134,249</u>	<u>\$ (10,887)</u>

**Jefferson County Hospital
INSURANCE COVERAGE
June 30, 2006**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Fireman's Fund	Directors and officers	July 2005 to July 2006	\$2,000,000
Ringewalt & Liesche	Courtesy Van	August 2005 to August 2006	\$1,000,000
Westport Insurance	Employee Honesty Bond	July 2003 to September 2007	\$50,000/employee
Midwest Medical Insurance	Physician Liability Coverage	January 2006 to January 2007	\$2,000,000 \$4,000,000
Midwest Medical Insurance	Hospital General Liability/ Medical Professional Liability	May 2006 to May 2007	
	Each claim		\$1,000,000
	Total facility		\$3,000,000
Midwest Medical Insurance	Umbrella Excess Liability	May 2006 to May 2007	\$3,000,000 \$3,000,000
St. Paul/Travelers	Business Auto	May 2006 to May 2007	\$1,000,000
St. Paul/Travelers	Building and Contents Business Interruption	May 2006 to May 2007	\$30,815,000 \$5,762,000

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		
	2006	2005	
DAILY PATIENT SERVICES			
Medical and surgical	\$ 1,600,701	\$ 1,773,855	\$ (173,154)
Critical care unit	48,900	52,775	(3,875)
Swing bed	997,868	881,324	116,544
Long term care	1,381,067	1,384,820	(3,753)
	<u>4,028,536</u>	<u>4,092,774</u>	<u>(64,238)</u>
OTHER NURSING SERVICES			
Operating and recovery rooms	3,339,711	3,058,186	281,525
Central supply	268,804	249,931	18,873
Emergency services	<u>3,794,270</u>	<u>3,155,955</u>	<u>638,315</u>
	<u>7,402,785</u>	<u>6,464,072</u>	<u>938,713</u>
OTHER PROFESSIONAL SERVICES			
Laboratory and blood bank	2,170,964	1,883,359	287,605
Electrocardiology	383,231	328,010	55,221
Radiology	2,146,619	1,999,496	147,123
CT scans	1,756,471	1,766,926	(10,455)
Magnetic resonance imaging	1,432,405	1,409,423	22,982
Pharmacy	2,082,676	1,681,778	400,898
Anesthesiology	599,410	493,660	105,750
Respiratory therapy	489,840	576,197	(86,357)
Physical therapy	1,337,515	1,222,989	114,526
Speech therapy	55,188	59,740	(4,552)
Occupational therapy	330,682	315,519	15,163
Medical arts	272,387	114,396	157,991
Physician clinic	659,097	1,107,782	(448,685)
Peasley clinic	126,205	-	126,205
	<u>13,842,690</u>	<u>12,959,275</u>	<u>883,415</u>
	25,274,011	23,516,121	1,757,890
Charity care charges foregone, based on established rates	<u>(212,296)</u>	<u>(169,796)</u>	<u>(42,500)</u>
Total gross patient service revenue	25,061,715	23,346,325	1,715,390
Provisions for contractual adjustments and bad debts	<u>(8,212,122)</u>	<u>(7,586,337)</u>	<u>(625,785)</u>
Net patient service revenue	<u>\$16,849,593</u>	<u>\$15,759,988</u>	<u>\$1,089,605</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>2006</u>	<u>2005</u>	<u>(decrease)</u>	<u>2006</u>	<u>2005</u>	<u>(decrease)</u>
\$ 1,600,701	\$ 1,773,855	\$ (173,154)			
48,900	52,775	(3,875)			
997,868	881,324	116,544			
<u>1,381,067</u>	<u>1,384,820</u>	<u>(3,753)</u>			
<u>4,028,536</u>	<u>4,092,774</u>	<u>(64,238)</u>			
1,221,627	1,184,657	36,970	\$ 2,118,084	\$ 1,873,529	\$ 244,555
265,655	243,407	22,248	3,149	6,524	(3,375)
<u>141,857</u>	<u>148,625</u>	<u>(6,768)</u>	<u>3,652,413</u>	<u>3,007,330</u>	<u>645,083</u>
<u>1,629,139</u>	<u>1,576,689</u>	<u>52,450</u>	<u>5,773,646</u>	<u>4,887,383</u>	<u>886,263</u>
426,403	455,101	(28,698)	1,744,561	1,428,258	316,303
25,620	27,883	(2,263)	357,611	300,127	57,484
144,002	128,096	15,906	2,002,617	1,871,400	131,217
181,264	195,881	(14,617)	1,575,207	1,571,045	4,162
71,633	76,820	(5,187)	1,360,772	1,332,603	28,169
791,522	792,767	(1,245)	1,291,154	889,011	402,143
144,150	141,705	2,445	455,260	351,955	103,305
428,209	496,481	(68,272)	61,631	79,716	(18,085)
382,838	300,328	82,510	954,677	922,661	32,016
29,112	30,880	(1,768)	26,076	28,860	(2,784)
133,313	128,212	5,101	197,369	187,307	10,062
-	-	-	272,387	114,396	157,991
-	-	-	659,097	1,107,782	(448,685)
-	-	-	<u>126,205</u>	<u>-</u>	<u>126,205</u>
<u>2,758,066</u>	<u>2,774,154</u>	<u>(16,088)</u>	<u>11,084,624</u>	<u>10,185,121</u>	<u>899,503</u>
<u>\$ 8,415,741</u>	<u>\$ 8,443,617</u>	<u>\$ (27,876)</u>	<u>\$16,858,270</u>	<u>\$15,072,504</u>	<u>\$1,785,766</u>

Jefferson County Hospital
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2006</u>	<u>2005</u>	
Contractual adjustments			
Medicare	\$4,766,938	\$4,683,079	\$ 83,859
Medicaid	899,109	736,448	162,661
Wellmark	1,242,108	1,026,317	215,791
Provision for bad debts	610,403	473,121	137,282
Discounts and other adjustments	<u>693,564</u>	<u>667,372</u>	<u>26,192</u>
 Totals	 <u>\$8,212,122</u>	 <u>\$7,586,337</u>	 <u>\$ 625,785</u>

OTHER REVENUE

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2006</u>	<u>2005</u>	
Employee and guest meals	\$ 153,866	\$ 151,696	\$ 2,170
Lifeline	57,467	56,869	598
Clinic, echocardiology	37,541	36,209	1,332
Rental income, net	52,749	35,471	17,278
Miscellaneous, net	<u>214,186</u>	<u>79,570</u>	<u>134,616</u>
 Totals	 <u>\$ 515,809</u>	 <u>\$ 359,815</u>	 <u>\$ 155,994</u>

**Jefferson County Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2006</u>	<u>2005</u>	
ADMINISTRATIVE			
Salaries	\$ 218,050	\$ 206,867	\$ 11,183
Supplies and expense	17,579	17,885	(306)
	<u>235,629</u>	<u>224,752</u>	<u>10,877</u>
MEDICAL AND SURGICAL AND OBSTETRIC			
Salaries	1,124,898	1,049,590	75,308
Supplies and expense	104,336	80,537	23,799
	<u>1,229,234</u>	<u>1,130,127</u>	<u>99,107</u>
CRITICAL CARE UNIT			
Salaries	17,240	14,613	2,627
Supplies and expense	59	644	(585)
	<u>17,299</u>	<u>15,257</u>	<u>2,042</u>
LONG TERM CARE			
Salaries	780,444	759,019	21,425
Supplies and expense	38,722	27,105	11,617
	<u>819,166</u>	<u>786,124</u>	<u>33,042</u>
OPERATING AND RECOVERY ROOMS			
Salaries	210,118	210,506	(388)
Supplies and expense	564,386	531,139	33,247
	<u>774,504</u>	<u>741,645</u>	<u>32,859</u>
CENTRAL SUPPLY			
Salaries	23,817	-	23,817
Supplies and expense	115,352	117,208	(1,856)
	<u>139,169</u>	<u>117,208</u>	<u>21,961</u>
EMERGENCY SERVICES			
Salaries	749,931	669,640	80,291
Professional fees	773,412	715,506	57,906
Supplies and expense	107,819	72,308	35,511
	<u>1,631,162</u>	<u>1,457,454</u>	<u>173,708</u>
Totals	<u>\$4,846,163</u>	<u>\$4,472,567</u>	<u>\$ 373,596</u>

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2006</u>	<u>2005</u>	
LABORATORY AND BLOOD BANK			
Salaries	\$ 319,918	\$ 287,163	\$ 32,755
Professional fees	95,218	97,205	(1,987)
Supplies and expense	<u>252,263</u>	<u>278,685</u>	<u>(26,422)</u>
	<u>667,399</u>	<u>663,053</u>	<u>4,346</u>
ELECTROCARDIOLOGY			
Salaries	58,125	50,962	7,163
Professional fees	3,360	3,936	(576)
Supplies and expense	<u>7,402</u>	<u>7,285</u>	<u>117</u>
	<u>68,887</u>	<u>62,183</u>	<u>6,704</u>
RADIOLOGY			
Salaries	366,365	343,284	23,081
Professional fees	181,497	193,588	(12,091)
Supplies and expense	<u>156,726</u>	<u>134,794</u>	<u>21,932</u>
	<u>704,588</u>	<u>671,666</u>	<u>32,922</u>
CT SCANS			
Professional fees	-	50	(50)
Supplies and expense	<u>120,677</u>	<u>108,557</u>	<u>12,120</u>
	<u>120,677</u>	<u>108,607</u>	<u>12,070</u>
MAGNETIC RESONANCE IMAGING			
Professional fees	397,660	395,430	2,230
Supplies and expenses	<u>14,409</u>	<u>12,098</u>	<u>2,311</u>
	<u>412,069</u>	<u>407,528</u>	<u>4,541</u>
PHARMACY			
Salaries	33,888	33,715	173
Professional fees	286,975	276,680	10,295
Drugs	675,217	619,252	55,965
Supplies and expense	<u>9,859</u>	<u>3,164</u>	<u>6,695</u>
	<u>1,005,939</u>	<u>932,811</u>	<u>73,128</u>
ANESTHESIOLOGY			
Salaries	191,143	210,611	(19,468)
Professional fees	131,780	63,631	68,149
Supplies and expense	<u>23,254</u>	<u>18,731</u>	<u>4,523</u>
	<u>346,177</u>	<u>292,973</u>	<u>53,204</u>
RESPIRATORY THERAPY			
Salaries	35,739	34,192	1,547
Oxygen	18,244	17,272	972
Supplies and expense	<u>10,146</u>	<u>8,594</u>	<u>1,552</u>
	<u>64,129</u>	<u>60,058</u>	<u>4,071</u>
PHYSICAL THERAPY			
Salaries	21,766	23,823	(2,057)
Professional fees	545,922	496,425	49,497
Supplies and expense	<u>28,336</u>	<u>23,048</u>	<u>5,288</u>
	<u>596,024</u>	<u>543,296</u>	<u>52,728</u>
SPEECH THERAPY			
Professional fees	<u>46,679</u>	<u>57,280</u>	<u>(10,601)</u>

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2006</u>	<u>2005</u>	<u>(decrease)</u>
OCCUPATIONAL THERAPY			
Professional fees	\$ 137,247	\$ 133,232	\$ 4,015
Supplies and expense	<u>4,574</u>	<u>4,947</u>	<u>(373)</u>
	<u>141,821</u>	<u>138,179</u>	<u>3,642</u>
PHYSICIANS CLINIC			
Salaries	308,832	534,345	(225,513)
Supplies and expense	<u>43,993</u>	<u>55,291</u>	<u>(11,298)</u>
	<u>352,825</u>	<u>589,636</u>	<u>(236,811)</u>
PEASLEY CLINIC			
Supplies and expense	<u>35,365</u>	<u>—</u>	<u>35,365</u>
SOCIAL SERVICES			
Salaries	<u>—</u>	<u>16,070</u>	<u>(16,070)</u>
MEDICAL RECORDS			
Salaries	259,582	254,180	5,402
Supplies and expense	<u>54,571</u>	<u>47,830</u>	<u>6,741</u>
	<u>314,153</u>	<u>302,010</u>	<u>12,143</u>
QUALITY ASSURANCE			
Salaries	167,883	150,841	17,042
Supplies and expense	<u>19,441</u>	<u>10,591</u>	<u>8,850</u>
	<u>187,324</u>	<u>161,432</u>	<u>25,892</u>
CROSSROADS			
Salaries	—	(135)	135
Supplies and expense	<u>—</u>	<u>3,623</u>	<u>(3,623)</u>
	<u>—</u>	<u>3,488</u>	<u>(3,488)</u>
MEDICAL ARTS			
Salaries	160,934	136,787	24,147
Supplies and expense	<u>203,891</u>	<u>118,573</u>	<u>85,318</u>
	<u>364,825</u>	<u>255,360</u>	<u>109,465</u>
Totals	<u>\$5,428,881</u>	<u>\$5,265,630</u>	<u>\$ 163,251</u>

**Jefferson County Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2006</u>	<u>2005</u>	<u>(decrease)</u>
DIETARY			
Salaries	\$ 476,283	\$ 405,986	\$ 70,297
Food	307,586	267,152	40,434
Professional fees	-	2,815	(2,815)
Supplies and expense	<u>67,819</u>	<u>86,002</u>	<u>(18,183)</u>
	<u>851,688</u>	<u>761,955</u>	<u>89,733</u>
PLANT OPERATION AND MAINTENANCE			
Salaries	294,734	269,464	25,270
Utilities	409,321	356,100	53,221
Supplies and expense	<u>118,341</u>	<u>124,699</u>	<u>(6,358)</u>
	<u>822,396</u>	<u>750,263</u>	<u>72,133</u>
BIO MEDICAL			
Supplies and expense	<u>13,356</u>	<u>-</u>	<u>13,356</u>
HOUSEKEEPING			
Salaries	303,154	281,535	21,619
Supplies and expense	<u>41,268</u>	<u>41,827</u>	<u>(559)</u>
	<u>344,422</u>	<u>323,362</u>	<u>21,060</u>
LAUNDRY AND LINEN			
Salaries	68,820	65,448	3,372
Supplies and expense	<u>15,119</u>	<u>33,806</u>	<u>18,687</u>
	<u>83,939</u>	<u>99,254</u>	<u>15,315</u>
Totals	<u>\$2,115,801</u>	<u>\$1,934,834</u>	<u>\$ 180,967</u>

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

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2006</u>	<u>2005</u>	
FISCAL AND ADMINISTRATIVE SERVICE			
Salaries			
Administrative	\$ 217,926	\$ 228,300	\$ (10,374)
Fiscal and accounting	461,944	437,905	24,039
Purchasing and stores	61,660	58,816	2,844
Public relations	49,981	41,346	8,635
Data processing	97,880	71,139	26,741
Data processing expense	221,995	223,317	(1,322)
Professional fees	48,271	119,816	(71,545)
Office supplies and expenses	392,966	298,869	94,097
Telephone	50,430	46,024	4,406
Collection fees	48,687	53,942	(5,255)
Purchasing and stores expense	16,000	14,736	1,264
Public relations expense	12,460	15,099	(2,639)
UNASSIGNED EXPENSES			
Physician recruiting	45,436	65,876	(20,440)
Insurance	187,193	205,159	(17,966)
Employee benefits			
FICA	504,058	481,146	22,912
IPERS	403,116	417,271	(14,155)
Group health insurance	499,663	558,489	(58,826)
Group disability insurance	64,756	58,314	6,442
Workers' compensation	162,952	108,893	54,059
Unemployment compensation	19,334	14,831	4,503
Other employee benefits	2,052	3,952	(1,900)
Amortization of financing costs	—	10,668	(10,668)
Totals	<u>\$3,568,760</u>	<u>\$3,533,908</u>	<u>\$ 34,852</u>

Jefferson County Hospital
COMPARATIVE REVENUES AND EXPENSES

	Year ended June 30			
	2006	2005	2004	2003
NET PATIENT SERVICE REVENUE	\$16,849,593	\$15,759,988	\$13,152,850	\$12,236,300
OTHER REVENUE	<u>515,809</u>	<u>359,815</u>	<u>290,341</u>	<u>298,072</u>
Total revenue	<u>17,365,402</u>	<u>16,119,803</u>	<u>13,443,191</u>	<u>12,534,372</u>
EXPENSES				
Salaries	7,081,055	6,846,012	5,967,226	5,246,049
Supplies, professional fees and other expenses	8,878,550	8,360,927	7,629,257	6,889,061
Provision for depreciation	<u>1,238,209</u>	<u>1,124,658</u>	<u>1,047,908</u>	<u>999,898</u>
Total expenses	<u>17,197,814</u>	<u>16,331,597</u>	<u>14,644,391</u>	<u>13,135,008</u>
Operating income (loss)	<u>167,588</u>	<u>(211,794)</u>	<u>(1,201,200)</u>	<u>(600,636)</u>
NONOPERATING GAINS (LOSSES)				
County taxes	771,527	763,477	766,405	786,854
Investment income and equity in net income (losses) of joint venture investments	246,082	115,512	(9,919)	95,292
Unrestricted contributions	29,468	813,817	15,393	634
Interest expense	(105,657)	(79,347)	(52,775)	(81,741)
Gain (loss) on sale of property and equipment	<u>(8,584)</u>	<u>1,860</u>	<u>5,538</u>	<u>1,805</u>
Total nonoperating gains (losses)	<u>932,836</u>	<u>1,615,319</u>	<u>724,642</u>	<u>802,844</u>
Excess (deficiency) of revenues over expenses before contributions	1,100,424	1,403,525	(476,558)	202,208
CONTRIBUTIONS	<u>15,574</u>	<u>51,250</u>	<u>29,701</u>	<u>26,633</u>
Change in fund equity	<u>\$ 1,115,998</u>	<u>\$ 1,454,775</u>	<u>\$ (446,857)</u>	<u>\$ 228,841</u>

**Jefferson County Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Adult and pediatric	<u>2,050</u>	<u>2,331</u>
Swing bed		
Skilled nursing care	<u>2,699</u>	<u>2,377</u>
Long term care	<u>12,927</u>	<u>13,027</u>
Total patient days	<u>17,676</u>	<u>17,735</u>
ADMISSIONS		
Adult and pediatric	569	722
Swing bed	298	307
Long term care	<u>19</u>	<u>16</u>
Total admissions	<u>886</u>	<u>1,045</u>
DISCHARGES		
Adult and pediatric	572	720
Swing bed—skilled	296	311
Long term care	<u>18</u>	<u>16</u>
Total discharges	<u>886</u>	<u>1,047</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.58	3.23
Swing bed	9.12	7.64
BEDS		
Adult and pediatric	25	25
Long term care	36	36
OCCUPANCY PERCENT		
Adult and pediatric	22.47%	18.92%
Swing bed	29.58%	26.05%
Long term care	98.38%	99.14%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$46,163	\$43,178
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	61	70

**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, 2006, and have issued our report thereon dated August 10, 2006. 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, 2006 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

West Des Moines, Iowa
August 10, 2006

**Jefferson County Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

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, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A 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, 2006.

06-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

06-II-C TRAVEL EXPENSES

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

06-II-D BUSINESS TRANSACTIONS

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

06-II-E BOARD MINUTES

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

06-II-F DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.