

**Floyd Valley Hospital  
Le Mars, Iowa**

**FINANCIAL REPORT**

**June 30, 2006**

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Floyd Valley Hospital  
OFFICIALS  
June 30, 2006

After January 2006

**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, 2009  
December, 2007  
December, 2009

**Administrator**

Michael T. Donlin, C.H.E.

**Director of Financial Services**

Daryl J. Friedenbach

Before January 2006

**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, 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 Floyd Valley 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 18, 2006 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 18, 2006

## **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, 2006, 2005 and 2004. 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 increased by approximately \$1.1 million from FY 2005 to \$24.1 million.
- Total net property and equipment decreased by \$405 thousand from FY 2005.
- Fund equity increased by \$1.43 million from FY 2005.
- FY 2006 net patient service revenue increased by \$2.7 million, primarily due to increases in outpatient utilization as well as charge rate increases effective July 1, 2005 and the conversion to Critical Access Hospital Status under the Medicare program which positively impacted net reimbursements.
- FY 2006 expenses increased by \$2.2 million due to cost increases on supplies and staffing.
- Total margin for FY 2006 was 7.1%, compared to 5.8% for FY 2005 and 5.0% for FY 2004.

### **Financial Analysis of the Hospital:**

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of 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, 2006, 2005, and 2004 are presented in Table 1 below:

**Table 1**  
**Condensed Balance Sheet**  
**(in thousands)**

	June 30, 2006	June 30, 2005	June 30, 2004
Current and other assets	\$12,254	\$10,694	\$11,605
Property and Equipment	\$11,885	\$12,290	\$12,159
Total Assets	\$24,139	\$22,984	\$23,764
Long term debt outstanding	\$ 6,789	\$ 7,416	\$ 8,716
Other liabilities	\$ 2,550	\$ 2,197	\$ 2,694
Total liabilities	\$ 9,339	\$ 9,613	\$11,410
Invested in Capital Assets	\$ 5,096	\$ 4,874	\$ 4,484
Restricted	\$ 1,694	\$ 1,646	\$ 2,065
Unrestricted	\$ 8,010	\$ 6,851	\$ 5,805
Total Fund Equity	\$14,800	\$13,371	\$12,354

As can be seen in Table 1, net assets increased by \$1.4 million to \$14.80 million in fiscal year 2006, up from \$13.37 million in fiscal year 2005 and \$12.35 million in fiscal year 2004. The change in net assets results primarily from operating profits for the hospital.

**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, 2006, 2005 and 2004

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

	2006	2005	2004
Total Revenue	\$20,114	\$17,480	\$16,127
Expenses	\$18,887	\$16,737	\$15,311
Operating Income	\$ 1,227	\$ 743	\$ 816
Non-Operating Gains (Losses)	\$ 147	\$ (63)	\$ (40)
Excess of Revenues over expenses before contributions	\$ 1,374	\$ 680	\$ 776
Contributions	\$ 55	\$ 337	\$ 25
Changes in Fund Equity	\$ 1,429	\$ 1,017	\$ 801
Total Fund Equity, Beginning	\$13,371	\$12,354	\$11,553
Total Fund Equity, Ending	\$14,800	\$13,371	\$12,354

## Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2006, 2005 and 2004.

Volume: Inpatient admissions for fiscal year 2006 were 7.5% less than in 2005. Outpatient utilization was 5% greater than the prior fiscal year. Skilled care admissions were down from the prior year by 26%, while Home Health visits were up by 2%. The number of births at the hospital was down by 2% from the prior fiscal year.

**Net Patient Service Revenue:** Due to a rate increase of 3.6% effective July 1, 2005, and the changes in services described above, net patient revenues increased by \$2.7 million or 16.7% in comparison to fiscal year 2005. The hospital converted to Critical Access Hospital Status effective February 1, 2005. Critical Access Hospital 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 net patient revenue positively for fiscal year 2006 compared to fiscal year 2005 because the status was in effect for the full fiscal year.

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

**Table 3**  
**Payor Mix by Percentage**

	Year Ended June 30		
	2006	2005	2004
Medicare	44.4%	46.5%	44.5%
Wellmark Blue Cross	28.4%	27.7%	27.3%
Commercial	18.5%	17.9%	20.1%
Medicaid	6.1%	4.8%	5.4%
All others	2.7%	3.1%	2.6%

Nursing Service expenses increased by 13% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by 12% 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 2006, the hospital has invested \$11.9 million in capital assets as shown in Table 5.

**Table 5**  
**Capital Assets**  
**(in thousands)**

	June 30,		
	2006	2005	2004
Land & Land Improvements	\$ 807	\$ 780	\$ 631
Buildings	\$12,979	\$12,974	\$ 9,440
Major Moveable Equipment	\$ 5,565	\$ 5,022	\$ 4,837
Land & Buildings Leased to Others	\$ 2,958	\$ 2,955	\$ 2,955
Construction/Equipment Installs in Progress	\$ -	\$ 101	\$ 2,877
Subtotal	\$22,309	\$21,832	\$20,740
Less accumulated depreciation	(\$10,424)	(\$ 9,542)	(\$ 8,581)
Property, plant and equipment, net	\$11,885	\$12,290	\$ 12,159

**Debt Administration:**

At the end of fiscal year 2006, the hospital had \$6.8 million in debt related to Hospital Revenue Bonds. This has decreased by \$630 thousand from fiscal year 2005. 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 \$18.5 million or 6% greater than budget for fiscal year ended June 30, 2006.

Operating Expenses were \$18.9 million or 4% greater than budget expectations for the fiscal year ending June 30, 2006. Overall expenses matched closely with budget with no significant variances from the plan.

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

**Table 6**  
**Budget vs. Actual**  
**(in thousands)**

	<b>FY 2006 Actual</b>	<b>FY 2006 Budget</b>	<b>Dollar Variance</b>	<b>Percent Variance</b>
Gross patient service revenue	\$23,927	\$22,710	\$1,217	(5%)
Contractual Adjustments & Bad Debt	\$ 5,423	\$ 5,211	\$ 212	(4%)
Net patient service revenue	\$18,504	\$17,499	\$1,005	6%
Other operating revenue	\$ 1,610	\$ 1,684	\$ (74)	4%
Total operating revenue	\$20,114	\$19,183	\$ 931	5%
Operating Expenses	\$18,887	\$18,173	\$ 714	4%
Operating Gain/Loss	\$ 1,227	\$ 1,010	\$ 217	21%
Non-Operating Gains (Losses)	\$ 202	\$ (164)	\$ 366	223%
Excess of Revenues over Expenses	\$ 1,429	\$ 846	\$ 583	69%

**Economic and Other Factors and Next Years Budget:**

The hospital's board and management considered many factors when setting the fiscal year 2007 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**

ASSETS	June 30	
	2006	2005
<b>CURRENT ASSETS</b>		
Cash	\$ 2,677,561	\$ 1,460,601
Assets whose use is limited, required for current liabilities	733,016	702,107
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2006 \$1,286,843; 2005 \$1,037,281	2,309,076	2,510,854
Other current receivables	46,475	45,160
Inventories	303,310	273,531
Prepaid expenses	189,387	131,663
Total current assets	6,258,825	5,123,916
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	402,375	212,134
Certificates of deposit	4,157,890	4,131,275
Accrued interest receivable	20,261	12,349
	4,580,526	4,355,758
Restricted for payment of revenue notes and interest		
Cash	521,112	494,855
Certificates of deposit	783,774	783,774
	1,304,886	1,278,629
Restricted by donors for specific purpose		
Cash	388,789	77,905
Other receivables	-	31,613
Investment in Avera Health Investment Pool	-	258,313
	388,789	367,831
Total assets whose use is limited	6,274,201	6,002,218
Less assets whose use is limited and that are required for current liabilities	733,016	702,107
Noncurrent assets whose use is limited	5,541,185	5,300,111
<b>PROPERTY AND EQUIPMENT</b>		
	22,309,077	21,832,166
Less accumulated depreciation	10,424,271	9,541,806
Total property and equipment	11,884,806	12,290,360
<b>OTHER ASSETS</b>		
Unamortized financing costs	50,240	60,494
Other receivable	31,250	46,251
Beneficial interest in remainder trust	174,100	-
Investment in Floyd Valley Associates	23,864	20,899
Investment in Northwest Iowa Diagnostics	34,670	34,457
Investment in Floyd Valley Home Medical Equipment	140,275	107,908
Total other assets	454,399	270,009
Totals	\$24,139,215	\$22,984,396

See Notes to Financial Statements.

		<u>June 30</u>	
<b>LIABILITIES AND FUND EQUITY</b>		<u>2006</u>	<u>2005</u>
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 675,000	\$ 640,000
Accounts payable			
Trade		1,326,073	1,073,693
Construction and equipment		35,291	42,350
Accrued employee compensation		621,049	567,003
Security deposits		30,500	28,000
Payroll taxes and amounts withheld from employees		87,767	78,696
Accrued interest		58,016	62,107
Estimated third-party payor settlements		<u>391,627</u>	<u>345,000</u>
Total current liabilities		<u>3,225,323</u>	<u>2,836,849</u>
<b>LONG-TERM DEBT</b> , less current maturities		<u>6,114,353</u>	<u>6,776,175</u>
Total liabilities		<u>9,339,676</u>	<u>9,613,024</u>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND EQUITY</b>			
Invested in capital assets, net of related debt		5,095,453	4,874,186
Restricted		1,693,675	1,646,460
Unrestricted		<u>8,010,411</u>	<u>6,850,726</u>
Total fund equity		<u>14,799,539</u>	<u>13,371,372</u>
Totals		<u>\$24,139,215</u>	<u>\$22,984,396</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provisions for bad debts 2006 \$411,725; 2005 \$284,392	\$18,503,629	\$15,833,768
<b>OTHER REVENUE</b>	<u>1,609,652</u>	<u>1,645,920</u>
Total revenue	<u>20,113,281</u>	<u>17,479,688</u>
<b>EXPENSES</b>		
Nursing service	5,817,043	4,565,279
Other professional service	5,811,162	5,244,716
General service	1,540,748	1,466,599
Fiscal and administrative service and unassigned expenses	4,577,543	4,437,465
Provision for depreciation	<u>1,141,082</u>	<u>1,022,680</u>
Total expenses	<u>18,887,578</u>	<u>16,736,739</u>
Operating income	<u>1,225,703</u>	<u>742,949</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Interest income	247,878	166,870
Interest and amortization expense	(379,711)	(315,391)
Unrestricted contributions	174,425	1,052
Equity in earnings of equity method investments	111,044	84,755
(Loss) on disposal of equipment	<u>(6,261)</u>	<u>(170)</u>
Total nonoperating gains (losses)	<u>147,375</u>	<u>(62,884)</u>
Excess of revenues over expenses before contributions	1,373,078	680,065
<b>CONTRIBUTIONS</b>		
Change in fund equity	<u>55,089</u>	<u>337,363</u>
	1,428,167	1,017,428
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>13,371,372</u>	<u>12,353,944</u>
Ending	<u>\$14,799,539</u>	<u>\$13,371,372</u>

**Floyd Valley Hospital  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$18,752,034	\$15,039,554
Cash paid to suppliers for goods and services	(8,567,516)	(7,522,134)
Cash paid to employees for services	(8,950,986)	(8,512,931)
Other operating revenue received	<u>1,629,338</u>	<u>1,720,033</u>
Net cash provided by operating activities	<u>2,862,870</u>	<u>724,522</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Unrestricted contributions received	325	1,052
Contributions restricted for property and equipment, net	<u>86,702</u>	<u>305,750</u>
Net cash provided by noncapital financing activities	<u>87,027</u>	<u>306,802</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(754,164)	(1,580,729)
Proceeds from sale of property and equipment	1,816	-
Principal paid on long-term debt	(640,000)	(1,310,000)
Interest paid on long-term debt	<u>(360,369)</u>	<u>(314,434)</u>
Net cash (used in) capital and related financing activities	<u>(1,752,717)</u>	<u>(3,205,163)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(4,315,004)	(5,000,716)
Proceeds from maturities of certificates of deposit	4,546,700	3,726,497
Distribution from Floyd Valley Associates	14,000	14,000
Distribution from Northwest Iowa Diagnostics	48,000	88,386
Distribution from Floyd Valley Home Medical Equipment	13,500	-
Interest received	<u>239,966</u>	<u>158,323</u>
Net cash provided by (used in) investing activities	<u>547,162</u>	<u>(1,013,510)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,744,342	(3,187,349)
<b>CASH</b>		
Beginning	<u>2,245,495</u>	<u>5,432,844</u>
Ending	<u>\$ 3,989,837</u>	<u>\$ 2,245,495</u>

See Notes to Financial Statements.

**Floyd Valley Hospital**  
**STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$1,225,703	\$ 742,949
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,141,082	1,022,680
Change in assets and liabilities		
(Increase) decrease in patient receivables	201,778	(994,214)
(Increase) decrease in other current receivables, net of amounts for property and equipment	2,185	265
(Increase) in inventories	(29,779)	(39,877)
(Increase) in prepaid expenses	(57,724)	(28,569)
Decrease in other receivable	15,001	75,598
Increase in estimated third-party payor settlements	46,627	200,000
Increase (decrease) in accounts payable, net of amounts for property and equipment	252,380	(110,214)
Increase (decrease) in accrued employee compensation	54,046	(146,663)
Increase (decrease) in security deposits	2,500	(1,750)
Increase in payroll taxes and withholdings	9,071	4,317
Net cash provided by operating activities	<b><u>\$2,862,870</u></b>	<b><u>\$ 724,522</u></b>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets	\$2,677,561	\$1,460,601
Assets whose use is limited		
Designated by board for plant expansion	402,375	212,134
Restricted for payment of revenue notes and interest	521,112	494,855
Restricted by donors for specific purpose	388,789	77,905
Total per statements of cash flows	<b><u>\$3,989,837</u></b>	<b><u>\$2,245,495</u></b>
<b>SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Contribution of beneficial interest in remainder trust	<b><u>\$ 174,100</u></b>	<b><u>\$ —</u></b>

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.

**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**

Unamortized 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, 2006 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'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. Funds 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 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:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Receivable from patients	\$1,364,433	\$1,132,818
Receivable from insurance carriers	1,144,381	1,238,636
Receivable from Medicare	922,563	953,783
Receivable from Medicaid	<u>164,542</u>	<u>222,898</u>
Total patient receivables	3,595,919	3,548,135
Less allowances for contractual and other adjustments	<u>(1,286,843)</u>	<u>(1,037,281)</u>
 Totals	 <u>\$2,309,076</u>	 <u>\$2,510,854</u>

**NOTE 4 PROPERTY AND EQUIPMENT**

A summary of changes in property and equipment for the year ended June 30, 2006 and 2005 follows:

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending June 30, 2006</b>
Land	\$ 103,274	\$ -	\$ -	\$ -	\$ 103,274
Land improvements	676,227	-	(640)	28,050	703,637
Buildings and fixed equipment	12,973,616	18,018	(12,515)	-	12,979,119
Major movable equipment	5,022,276	217,564	(257,040)	582,667	5,565,467
Land and buildings leased to others	2,955,297	-	-	2,283	2,957,580
Equipment installations in progress	<u>101,476</u>	<u>511,524</u>	<u>-</u>	<u>(613,000)</u>	<u>-</u>
Totals	21,832,166	747,106	(270,195)	-	22,309,077
Less accumulated depreciation and amortization	<u>(9,541,806)</u>	<u>(1,141,082)</u>	<u>258,617</u>	<u>-</u>	<u>(10,424,271)</u>
 Net property and equipment	 <u>\$12,290,360</u>	 <u>\$ (393,976)</u>	 <u>\$ (11,578)</u>	 <u>\$ -</u>	 <u>\$11,884,806</u>

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending June 30, 2005</b>
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>

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 PROPERTY AND EQUIPMENT (continued)**

Depreciation expense for the years ended June 30, 2006 and 2005 amounted to \$1,141,082 and \$1,022,680, respectively. Interest capitalized during the years ended June 30, 2006 and 2005 was \$-0- and \$101,404 net of interest income of \$-0- and \$6,168 for a net total of \$-0- and \$95,236, 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 \$18,503 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, 2006 and 2005 includes gross rental income of \$217,716 and \$213,121, respectively, for these leases.

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

**Year ending June 30**

2007	\$ 205,433
2008	89,131
2009	<u>2,692</u>
Total	<u>\$ 297,256</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, 2006 and 2005.

	<u>Reserve Fund</u>	<u>Sinking Fund</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	783,774	494,855
Transfers from current asset cash	-	1,013,432
Interest income	-	13,194
Payment of notes and interest	<u>-</u>	<u>(1,000,369)</u>
Balance, June 30, 2006	<u>\$ 783,774</u>	<u>\$ 521,112</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 \$16,965 and \$18,566 for the years ended June 30, 2006 and 2005, 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 \$48,212 and \$47,852 for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, the Hospital received \$122,452 and \$130,178, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$145,450 and \$130,690 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2006 and 2005, 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 \$45,867 and \$18,566 for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, the Hospital received \$81,398 and \$66,743, 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 5.75% to 5.9%. The notes may be called for redemption, in whole or in part in any order of maturity at par and accrued interest at the coupon rate.

<b>Outstanding June 30</b>	
<b>2006</b>	<b>2005</b>

	\$ 91,778	\$ 118,000
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**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 LONG-TERM DEBT (continued)**

	<b>Outstanding June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Hospital Revenue Refunding Notes, Series 1998</b>		
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 4.45% to 4.5%. The notes may be called for redemption in whole or in part in any order of maturity at par and accrued interest at the coupon rate.	\$ 453,100	\$ 669,800
<b>Hospital Revenue Notes, Series 1999</b>		
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 an annual rate of 5.5%. The notes may be called for redemption, in whole or in part in any order of maturity at par and accrued interest at the coupon rate.	53,900	102,900
<b>Hospital Revenue Notes, Series 2002A</b>		
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 4.0% 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.	1,494,500	1,587,600
<b>Hospital Revenue Notes, Series 2002B</b>		
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 3.4% 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.	3,709,300	3,728,900
<b>Hospital Revenue Notes, Series 2003</b>		
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 2.6% to 3.35%. The notes are not subject to redemption prior to maturity.	351,450	465,300

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 LONG-TERM DEBT (continued)**

	<b>Outstanding June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Hospital Revenue Notes, Series 2004</b>		
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 4.1% 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.		
Totals	<u>635,325</u>	<u>743,675</u>
Less current maturities	<u>(675,000)</u>	<u>(640,000)</u>
Total long-term debt	<u>\$6,114,353</u>	<u>\$6,776,175</u>

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 \$140,647 and \$153,825 as of June 30, 2006 and 2005, respectively.

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

	<b>Revenue notes payable</b>	
	<b>Principal</b>	<b>Interest</b>
Year ending June 30		
2007	\$ 675,000	\$ 334,176
2008	695,000	305,641
2009	725,000	274,160
2010	290,000	250,945
2011	255,000	238,678
2012 to 2016	1,475,000	987,798
2017 to 2021	1,900,000	544,120
2022 to 2023	<u>915,000</u>	<u>54,500</u>
Total	6,930,000	2,990,018
Less unamortized discount	<u>(140,647)</u>	<u>—</u>
Totals	<u>\$6,789,353</u>	<u>\$2,990,018</u>

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 LONG-TERM DEBT (continued)**

Long-term debt activity for the years ended June 30, 2006 and 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<b>2006</b>					
Hospital revenue notes	\$ <u>7,570,000</u>	\$ <u>—</u>	\$ <u>640,000</u>	\$ <u>6,930,000</u>	\$ <u>675,000</u>
<b>2005</b>					
Hospital revenue notes	\$ <u>8,880,000</u>	\$ <u>—</u>	\$ <u>1,310,000</u>	\$ <u>7,570,000</u>	\$ <u>640,000</u>

The Hospital's interest expense under these agreements totaled \$356,278 and \$398,601 for the years ended June 30, 2006 and 2005, respectively, with \$-0- capitalized in 2006 and \$101,404 in 2005.

**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, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Charges foregone, based on established rates	\$ <u>84,865</u>	\$ <u>112,476</u>
Equivalent percentage of charity care patients to all patients served	<u>.4%</u>	<u>.5%</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, 2006, 2005 and 2004 were \$384,815, \$352,411 and \$328,791, 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 \$50,000 per person and approximately \$1,670,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2006 and 2005 was \$1,131,417 and \$1,090,016, respectively, which includes program administration expenses.

**Floyd Valley Hospital  
NOTES TO FINANCIAL STATEMENTS**

**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, 2006 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.

**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 January 31, 2005.

**Other**

The Hospital has payment agreements with Wellmark, 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:

	<b>Operating expenses (GAAP basis)</b>	<b>Budget basis adjustment</b>	<b>Budget basis</b>	<b>Budget</b>
Year ended June 30, 2006 totals	<u>\$18,887,578</u>	<u>\$ 625,736</u>	<u>\$19,513,314</u>	<u>\$21,000,000</u>

**Floyd Valley Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**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.

**NOTE 18 SPLIT INTEREST AGREEMENT**

The Hospital is a party of split-interest agreement. The Hospital reports separately the assets of the split-interest agreement in its balance sheet and it reported a contribution revenue from split-interest agreement of \$174,100 in its statements of revenues, expenses and changes in fund equity.

Charitable remainder unitrust are arrangements between a donor, who establishes the trust, and the Hospital as beneficiary. The donor contributed assets to the trust in exchange for a promise from the trust to pay donor the lesser of a fixed percentage amount of 5% of net fair value of the assets of the trust or trust income, for the life of the donor. Assets received have been recognized at fair value. Unrestricted contribution revenue is recognized at the same value because trust income and expense are expected to be the same. To calculate the present value of the charitable remainder unitrust, the 2006 life expectancy tables (published by the National Center of Health Statistics) and a 6% discount rate were used.

**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 2006 and 2005 appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 18, 2006

**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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 - 60 days	\$2,320,232	\$2,198,962	64.52%	61.98%
61 - 90 days	281,127	316,267	7.82	8.91
91 - 180 days	449,895	505,399	12.51	14.24
Over 6 months	<u>544,665</u>	<u>527,507</u>	<u>15.15</u>	<u>14.87</u>
Totals	<u>3,595,919</u>	<u>3,548,135</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	559,240	518,728		
Contractual adjustments	<u>727,603</u>	<u>518,553</u>		
Total allowances	<u>1,286,843</u>	<u>1,037,281</u>		
Totals	<u>\$2,309,076</u>	<u>\$2,510,854</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
<b>BALANCE</b> , beginning	\$ 518,728	\$ 473,552
<b>ADD</b>		
Provision for bad debts	411,725	284,392
Recoveries of accounts previously written off	199,289	208,181
<b>LESS</b>		
Accounts written off	<u>(570,502)</u>	<u>(447,397)</u>
<b>BALANCE</b> , ending	<u>\$ 559,240</u>	<u>\$ 518,728</u>

**Floyd Valley Hospital  
INVENTORIES**

	<b>June 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
General stores	\$ 130,317	\$ 113,842
Pharmacy	110,723	108,999
Operating room	54,373	42,962
Intravenous solutions	3,550	3,695
Marcus clinic	<u>4,347</u>	<u>4,033</u>
Totals	<u>\$ 303,310</u>	<u>\$ 273,531</u>

**Floyd Valley Hospital  
INSURANCE COVERAGE**

Midwest Medical Insurance Company (policy expiration January 1, 2007)	
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	\$14,000,000
CNA Insurance Company (policy expiration January 1, 2007)	
Umbrella excess liability	\$20,000,000
Unitrin, Milwaukee Insurance Company (policy expiration January 1, 2007)	
Automobiles	
Liability	\$1,000,000
Collision	\$500 deductible
Uninsured/under insured motorist	\$1,000,000
Medical payments	\$5,000
Chubb Insurance Company (policy expiration January 1, 2007)	
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, 2007)	
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, 2007)	
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
	\$50,000 deductible each loss
Farm Bureau Mutual Insurance Company (policy expiration November 1, 2006)	
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>2006</u>	<u>2005</u>
<b>DAILY PATIENT SERVICES</b>		
Medical, surgical and obstetric	\$ 1,463,378	\$ 1,575,355
Long term care	220,096	248,293
Nursery	45,640	43,555
	<u>1,729,114</u>	<u>1,867,203</u>
<b>OTHER NURSING SERVICES</b>		
Operating and recovery rooms	2,187,335	1,452,689
Delivery and labor room	92,763	88,753
Central service and supply	1,705,908	1,482,713
Emergency service	2,417,387	1,967,110
Home health services	789,581	832,436
	<u>7,192,974</u>	<u>5,823,701</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Laboratory	3,330,000	3,099,004
Electrocardiology	775,913	623,823
Radiology	5,061,110	4,645,670
Pharmacy	2,221,315	2,353,832
Anesthesiology	1,446,812	1,123,055
Respiratory therapy	275,446	276,497
Physical therapy	1,257,298	1,064,545
Occupational therapy	186,379	158,806
Speech therapy	177,216	168,664
Enterostomy	145,505	94,075
Audiology	3,609	3,206
Marcus clinic	130,113	141,657
Cardiac rehabilitation	78,922	69,021
	<u>15,089,638</u>	<u>13,821,855</u>
	24,011,726	21,512,759
Charity care charges foregone, based on established rates	<u>(84,865)</u>	<u>(112,476)</u>
Total gross patient service revenue	23,926,861	21,400,283
Provisions for contractual and other adjustments	<u>(5,423,232)</u>	<u>(5,566,515)</u>
Net patient service revenue	<u>\$18,503,629</u>	<u>\$15,833,768</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
\$1,463,378	\$1,575,355	\$ -	\$ -	\$ -	\$ -
-	-	-	-	220,096	248,293
45,640	43,555	-	-	-	-
<u>1,509,018</u>	<u>1,618,910</u>	<u>-</u>	<u>-</u>	<u>220,096</u>	<u>248,293</u>
880,188	621,232	1,307,147	831,457	-	-
76,838	76,627	15,925	12,126	-	-
1,101,190	914,798	476,417	422,079	128,301	145,836
129,463	149,430	2,281,899	1,816,240	6,025	1,440
-	-	789,581	832,436	-	-
<u>2,187,679</u>	<u>1,762,087</u>	<u>4,870,969</u>	<u>3,914,338</u>	<u>134,326</u>	<u>147,276</u>
826,839	1,011,269	2,442,360	2,021,947	60,801	65,788
110,986	136,291	657,598	479,377	7,329	8,155
728,118	792,243	4,277,844	3,818,100	55,148	35,327
1,036,152	1,098,847	943,801	1,011,159	241,362	243,826
685,327	475,301	761,005	645,554	480	2,200
147,180	162,564	83,366	61,853	44,900	52,080
57,458	50,470	1,130,960	930,665	68,880	83,410
16,276	11,676	132,074	101,083	38,029	46,047
24,466	16,400	98,756	105,464	53,994	46,800
11,129	8,547	123,673	77,950	10,703	7,578
1,423	1,453	2,186	1,753	-	-
-	-	130,113	141,657	-	-
-	-	78,922	69,021	-	-
<u>3,645,354</u>	<u>3,765,061</u>	<u>10,862,688</u>	<u>9,465,583</u>	<u>581,626</u>	<u>591,211</u>
<u>\$7,342,051</u>	<u>\$7,146,068</u>	<u>\$15,733,627</u>	<u>\$13,379,921</u>	<u>\$ 936,048</u>	<u>\$ 986,780</u>

**Floyd Valley Hospital**  
**PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments	\$4,894,252	\$5,148,132
Employee and other allowances	86,220	103,960
Clinic discounts and adjustments	31,035	30,031
Provision for bad debts	<u>411,725</u>	<u>284,392</u>
Totals	<u>\$5,423,232</u>	<u>\$5,566,515</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 107,661	\$ 138,218
Rental income	273,606	266,481
Park Place Estates	921,529	901,332
Other	<u>306,856</u>	<u>339,889</u>
Totals	<u>\$1,609,652</u>	<u>\$1,645,920</u>

**Floyd Valley Hospital  
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
<b>NURSING ADMINISTRATION</b>		
Salaries	\$ 128,218	\$ 135,761
Supplies and expenses	<u>4,024</u>	<u>3,702</u>
	<u>132,242</u>	<u>139,463</u>
<b>MEDICAL, SURGICAL AND OBSTETRIC</b>		
Salaries	1,300,143	1,223,983
Supplies and expenses	<u>50,931</u>	<u>47,367</u>
	<u>1,351,074</u>	<u>1,271,350</u>
<b>SWING BED</b>		
Salaries	<u>196,184</u>	<u>199,636</u>
<b>NURSERY</b>		
Salaries	31,252	33,208
Supplies and expenses	<u>2,468</u>	<u>6,847</u>
	<u>33,720</u>	<u>40,055</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries	365,175	356,265
Professional fees	719,484	165,478
Supplies and expenses	<u>82,806</u>	<u>105,360</u>
	<u>1,167,465</u>	<u>627,103</u>
<b>DELIVERY AND LABOR ROOM</b>		
Salaries	38,491	40,270
Supplies and expenses	<u>6,296</u>	<u>5,298</u>
	<u>44,787</u>	<u>45,568</u>
<b>CENTRAL SERVICE AND SUPPLY</b>		
Salaries	96,061	89,164
Purchased services	10,339	18,046
Supplies and expenses	<u>547,065</u>	<u>398,077</u>
	<u>653,465</u>	<u>505,287</u>
<b>EMERGENCY SERVICE</b>		
Salaries	536,338	415,730
Professional fees	935,025	602,913
Supplies and expenses	<u>56,991</u>	<u>49,237</u>
	<u>1,528,354</u>	<u>1,067,880</u>
<b>HOME HEALTH</b>		
Salaries	598,128	544,490
Purchased services	14,075	37,465
Supplies and expenses	<u>97,549</u>	<u>86,982</u>
	<u>709,752</u>	<u>668,937</u>
Totals	<u>\$5,817,043</u>	<u>\$4,565,279</u>

**Floyd Valley Hospital  
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
<b>LABORATORY</b>		
Salaries	\$ 335,601	\$ 326,128
Professional fees	8,930	8,284
Purchased services	145,381	125,030
Supplies and expenses	263,521	235,927
Blood	65,290	79,460
	<u>818,723</u>	<u>774,829</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries	10,425	11,131
Purchased services	205,925	151,933
Supplies and expenses	4,279	1,177
	<u>220,629</u>	<u>164,241</u>
<b>RADIOLOGY</b>		
Salaries	421,375	358,467
Professional fees	739,353	554,413
Purchased services	458,862	457,263
Supplies and expenses	198,602	189,449
	<u>1,818,192</u>	<u>1,559,592</u>
<b>PHARMACY</b>		
Salaries	177,786	172,066
Purchased services	3,067	718
Drugs	475,722	514,058
Intravenous solutions and supplies	17,160	16,428
Supplies and expenses	3,568	4,911
	<u>677,303</u>	<u>708,181</u>
<b>ANESTHESIOLOGY</b>		
Purchased services	432,505	385,766
Supplies and expenses	6,879	8,011
	<u>439,384</u>	<u>393,777</u>
<b>RESPIRATORY THERAPY</b>		
Salaries	115,674	112,122
Supplies and expenses	7,676	7,191
	<u>123,350</u>	<u>119,313</u>
<b>PHYSICAL THERAPY</b>		
Salaries	105,380	96,564
Purchased services	619,276	537,225
Supplies and expenses	31,232	29,462
	<u>755,888</u>	<u>663,251</u>
<b>OCCUPATIONAL THERAPY</b>		
Purchased services	91,755	83,018
Supplies and expenses	99	8
	<u>91,854</u>	<u>83,026</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries	8,567	4,916
Supplies and expense	4,158	4,513
	<u>12,725</u>	<u>9,429</u>

**Floyd Valley Hospital**  
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>FLOYD VALLEY HOME MEDICAL EQUIPMENT</b>		
Salaries	\$ 68,825	\$ 56,575
Supplies and expenses	<u>2,047</u>	<u>1,492</u>
	<u>70,872</u>	<u>58,067</u>
<b>SPEECH THERAPY</b>		
Purchased services	132,376	134,931
Supplies and expenses	<u>148</u>	<u>189</u>
	<u>132,524</u>	<u>135,120</u>
<b>ENTEROSTOMY</b>		
Salaries	114,921	77,121
Supplies and expenses	<u>5,684</u>	<u>3,149</u>
	<u>120,605</u>	<u>80,270</u>
<b>AUDIOLOGY</b>		
Salaries	1,586	1,282
Purchased services	-	1,154
Supplies and expenses	<u>906</u>	<u>-</u>
	<u>2,492</u>	<u>2,436</u>
<b>MARCUS CLINIC</b>		
Salaries	56,994	41,432
Professional fees	80,601	104,467
Purchased services	4,714	4,267
Supplies and expenses	<u>27,939</u>	<u>16,897</u>
	<u>170,248</u>	<u>167,063</u>
<b>CARDIAC REHABILITATION</b>		
Salaries	59,843	52,863
Supplies and expenses	<u>3,992</u>	<u>1,968</u>
	<u>63,835</u>	<u>54,831</u>
<b>LIFELINE</b>		
Salaries	6,371	4,759
Supplies and expenses	<u>1,962</u>	<u>1,789</u>
	<u>8,333</u>	<u>6,548</u>
<b>UTILIZATION AND QUALITY ASSURANCE</b>		
Salaries	59,913	57,230
Supplies and expenses	<u>1,648</u>	<u>2,329</u>
	<u>61,561</u>	<u>59,559</u>
<b>MEDICAL RECORDS</b>		
Salaries	129,097	125,850
Purchased services	35,847	26,372
Supplies and expenses	<u>56,830</u>	<u>52,961</u>
	<u>221,774</u>	<u>205,183</u>
<b>SOCIAL SERVICE</b>		
Salaries	<u>870</u>	<u>-</u>
Totals	<u>\$5,811,162</u>	<u>\$5,244,716</u>

**Floyd Valley Hospital  
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
<b>DIETARY</b>		
Salaries	\$ 313,589	\$ 299,775
Food	204,410	202,344
Purchased services	43,945	40,757
Supplies and expenses	<u>49,274</u>	<u>44,583</u>
	<u>611,218</u>	<u>587,459</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries	204,476	197,452
Utilities	280,667	249,830
Purchased services	29,810	24,289
Supplies and expenses	<u>123,108</u>	<u>133,581</u>
	<u>638,061</u>	<u>605,152</u>
<b>HOUSEKEEPING</b>		
Salaries	187,958	172,662
Purchased services	2,067	1,683
Supplies and expenses	<u>28,132</u>	<u>25,012</u>
	<u>218,157</u>	<u>199,357</u>
<b>LAUNDRY AND LINEN</b>		
Purchased services	62,025	62,621
Linens	9,695	10,547
Supplies and expenses	<u>1,592</u>	<u>1,463</u>
	<u>73,312</u>	<u>74,631</u>
 Totals	 <u>\$1,540,748</u>	 <u>\$1,466,599</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>		
Administration		
Salaries	\$ 187,377	\$ 133,294
Management fee	391,164	412,113
Telephone	51,420	49,613
Postage	41,108	37,106
Supplies and expenses	111,512	198,614
Freight	25,437	24,143
Organization dues	22,116	21,234
Public relations	5,793	9,154
Activities	4,552	3,049
Marketing	<u>56,286</u>	<u>53,050</u>
	<u>896,765</u>	<u>941,370</u>
Business office		
Salaries	394,343	364,263
Supplies and expenses	<u>119,803</u>	<u>137,993</u>
	<u>514,146</u>	<u>502,256</u>
Data processing		
Salaries	97,338	106,859
Supplies and expenses	<u>121,514</u>	<u>103,473</u>
	<u>218,852</u>	<u>210,332</u>
Human resources		
Salaries	79,723	76,665
Supplies and expenses	<u>69,736</u>	<u>57,117</u>
	<u>149,459</u>	<u>133,782</u>
Education		
Salaries	77,207	68,659
Supplies and expenses	<u>20,171</u>	<u>20,587</u>
	<u>97,378</u>	<u>89,246</u>
Park Place Estates		
Salaries	293,469	278,752
Purchased services	12,694	10,352
Supplies and expenses	<u>63,087</u>	<u>70,787</u>
	<u>369,250</u>	<u>359,891</u>
Endowment		
Salaries	20,295	19,518
Supplies and expenses	<u>3,101</u>	<u>2,756</u>
	<u>23,396</u>	<u>22,274</u>
<b>UNASSIGNED EXPENSES</b>		
Employee benefits		
Payroll taxes	883,152	805,719
Group health insurance	1,131,417	1,090,016
Life and disability insurance	90,446	89,609
Tuition assistance	7,727	6,116
Insurance	<u>195,555</u>	<u>186,854</u>
	<u>2,308,297</u>	<u>2,178,314</u>
Totals	<u>\$4,577,543</u>	<u>\$4,437,465</u>

**Floyd Valley Hospital  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>PATIENT DAYS</b>		
Acute	3,005	3,261
Special care	51	46
Nursery	280	281
Swing bed		
Skilled nursing care	1,186	1,415
Intermediate care	<u>4</u>	<u>19</u>
Totals	<u>4,526</u>	<u>5,022</u>
<b>ADMISSIONS</b>	1,146	1,239
<b>DISCHARGES</b>	1,146	1,239
<b>AVERAGE LENGTH OF STAY</b> , acute and special care	2.67	2.67
<b>BEDS</b>	25	25
<b>OCCUPANCY PERCENT</b>	33.5%	35.9%
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	\$50,695	\$43,380
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR</b>	45.55	57.88

**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, 2006, and have issued our report thereon dated August 18, 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 Floyd Valley Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Floyd Valley Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that is described in Part II of the accompanying Findings Related to Required Statutory Reporting.

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.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the City of Le Mars, Iowa and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 18, 2006

**Floyd Valley 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.

**Floyd Valley Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2006**

**Part II—Findings Related to Required Statutory Reporting**

**06-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**06-II-B TRAVEL EXPENSES**

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

**06-II-C BUSINESS TRANSACTIONS**

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

**06-II-D BOARD MINUTES**

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

**06-II-E DEPOSITS AND INVESTMENTS**

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

**06-II-F DISPOSAL OF PROPERTY**

Three pieces of equipment were sold to another city hospital in the area for \$5,316. This transaction appears to violate Chapter 347.30 of the Code of Iowa which requires notice that sale of personal property be published for two consecutive weeks in a newspaper having general circulation in the county where the property is located.

**Recommendation**

The Hospital should publish the notice of sale of assets in accordance with Chapter 347.30 of the Code of Iowa.

**Response**

The Hospital will comply with the publication requirements set forth in Chapter 347.30 of the Code of Iowa in the future. However, the Hospital believed it was in compliance with sale of property provisions as stated in Chapter 392 of the Code of Iowa which is the Chapter it is organized under.

**Conclusion**

Response Accepted.