

October 10, 2001

Mr. Michael Davenport, Esq.
Willson & Pechacek, P.L.C.
421 West Broadway, Suite 200
Council Bluffs, IA. 51503

RE: Orange City Hospital and Clinic v. Sioux County Board of Review;
EQCV019485
File No.: 0076.01

I have examined financial and actuarial issues related to the case of Orange City Hospital and Clinic v. Sioux County Board of Review in terms of a review of court pleadings, answers to interrogatories, financial statements, resident handbooks, occupancy agreements, market studies, the prospectus on the Hospital Revenue Refunding Capital Loan Notes for Orange City Hospital and the Landsmeer Ridge, and brochures for the Landsmeer Ridge Retirement Community Apartments. Based on my investigation of currently available information, my findings are as follows:

1. Landsmeer Ridge Retirement Community Apartments (Bates # 203) consist of 20 independent living apartments and 28 assisted living suites (Bates # 004 and 0168) situated on 39 acres north of the municipal golf course in an area separate from Orange City Hospital. The retirement community apartments are built on 13 of those acres with the remaining 26 acres held by the Hospital Foundation for future development (Bates # 05303). Landsmeer Ridge, as a division of Orange City Health System, offers these apartments to individuals 62 and older (Bates # 6148). All apartments are leased on a month-to-month basis with no buy-in (Bates # 6148).
2. At the Landsmeer Ridge Retirement Community Apartments rental rates (Bates # 247 and 253) are assessed according to per diem charges that range from \$1,035 to \$1,890 on a 30-day month basis (Bates # 207 and 214). The apartments/suites come unfurnished (Bates # 208 and 215). For an additional fee, residents may park their car in a separate garage (Bates # 208 and 216). Medicare/Medicaid does not cover the cost of Assisted Living suites (Bates #215). Landsmeer Ridge is not a nursing facility and does not accept those who need daily nursing care (Bates # 215). Studios/Apartments are leased month-to-month and Landsmeer Ridge may adjust the rent during a month-to-month occupancy by giving written notice of such adjustments 30 days in advance of the rental due date (Bates # 247 and 253). By paying a separate fee, residents may obtain other services according to a published rate schedule (Bates # 0019). Examples of such services are: catering, photocopying/fax, hair salon services, maintenance services for special requests, personal laundry, and ironing. According to the Landsmeer Ridge Philosophy Statement: "All services will focus on independence. Our role is not to "do for," but to "assist with" each resident's identified needs (Bates # 0020). No mention is made in this philosophy statement about providing charitable care.
3. Landsmeer Ridge established an administrative policy on April 19, 1999, "to provide guidance to the staff in determining eligibility of a prospective resident for residency." According to that policy (Bates #0039), a prospective resident must have

the financial resources to pay the assessed fees (policy 2. b.). In addition, Landsmeer Ridge instituted an administrative policy procedure on April 19, 1999 entitled: Residency, Termination due to Nonpayment. This procedure outlines steps taken leading up to termination of a resident due to nonpayment (Bate # 5928) along with Intent to Take Legal Action Regarding Termination of Residency for Nonpayment (Bate # 5929). Nowhere in these policies or procedures is there mention of charitable funds for those unable to make payment to Landsmeer Ridge.

4. An analysis of Landsmeer Ridge occupancy rates, since its opening in 1999, shows that the apartment/studio complex has been able to maintain high occupancy in the year following completion of construction (see attached Exhibit 1) The average monthly occupancy rate for the independent living apartments was 99.5% based on reported occupancy in the Orange City Hospital Board Minutes. The average monthly occupancy rate for the assisted living studio apartments was 86.1% based on reported occupancy in the Orange City Hospital Board Minutes. In addition, the Landsmeer Ridge Retirement Community Apartments have been able to easily meet their age requirement of residents who must be 62 or older. The average age of male residents is 88, while the average age of female residents is 84.5, based on demographic information for April 11, 2000. The average age of all residents is 85.6. On April 11, 2000 there were more than twice as many female residents at Landsmeer Ridge (26) as men (11).

5. On September 19, 1997, Excel Management & Development Services prepared a financial forecast for Orange City Hospital & Clinic and Ruan Securities on the Landsmeer Ridge Retirement Community (Bates # 5232-5253). It appears that these forecasts were for the benefit of prospective investors and lenders to the Landsmeer Ridge project, and that the analysis was intended to be "informative for decision making purposes" (Bates #5233). While accuracy of the forecasts can vary over time due to changing economic, legislative or other circumstances, the projections provide some direction as to the perceived value Landsmeer Ridge might offer to Orange City Hospital and other lenders or investors in the project. In their report, Excel provided a 15 year forecast of income (losses) on the Landsmeer Ridge Retirement Community. Projected net income (losses) were as follows:

Year	Forecast Net Income(Loss)
1	(\$252,279)
2	\$35,987
3	\$55,716
4	\$63,305
5	\$71,198
6	\$79,418
7	\$87,992
8	\$101,847
9	\$116,311
10	\$123,526
11	\$177,407
12	\$194,318
13	\$212,010
14	\$230,532
15	\$239,752

In all but the first year, the financial forecast was for Landsmeer Ridge to generate positive and ever increasing net income for the investors and lenders to the project. In addition, Excel completed a forecast of cash flow from the Landsmeer Ridge project (Bates # 5239), and this analysis showed ever increasing cash being generated from years 1 through 15. Finally, Excel ran an internal rate of return calculation to show what type of return Orange City Hospital might anticipate from a \$600,000 equity investment in Landsmeer Ridge (Bates # 5240). According to this analysis, the project was forecast to provide a 14.7% internal rate of return to Orange City Hospital over a 15 year time frame. These financial forecasts, commissioned by Orange City Hospital and Ruan Securities, appear to demonstrate that Landsmeer Ridge Retirement Community was expected to be a profitable investment for Orange City Hospital and other investors and lenders. It may also indicate the intention of the owners of Landmeer Ridge to operate the facility with the goal of producing profits over the long haul.

6. Prior to the issuance of revenue bonds on Orange City Hospital and the Landmeer Ridge Retirement Community complex in 1997, a bond prospectus was issued through the investment banker, Ruan Securities Corporation (Bates # 6164 - 6215). A portion of that report (Bates # 6183-6188) provides information to investors on expected revenues and expenses from the Landsmeer Ridge Retirement Community project (Bates # 6188). According to this forecast projection, Landsmeer Ridge was expected to generate the following net revenues:

	1998	1999	2000	2001	2002
Net Revenue	\$44,553	\$131,958	\$315,348	\$461,907	\$467,619

These figures indicate that Orange City Hospital and Landsmeer Ridge Retirement Community intended to profit from the Landsmeer Ridge apartment development, and they anticipated the returns to increase over time.

7. Financial analysis of operating cash flow generated from the Landsmeer Ridge Apartment/Studio Complex for years 1999 through 2001 reinforces the forecast results provided by Excel in 1997 (see Exhibit 2). Even though Landsmeer Ridge did not become fully operational until May 1999, the operating results for the complex may be useful in demonstrating a trend of profitability. Operating revenue has increased substantially over the past three years, moving up from \$137,205 in 1999 to \$909,736 in 2001. Net operating profit has increased as well, from being negative in 1999 (i.e., -\$112,368) during the first year of business to positive in 2000 (i.e., \$169,867) and 2001 (i.e., \$366,281). In addition, operating cash flow from the Landsmeer Apartments/Studio complex has also gone from being negative in 1999, to producing positive cash flow in 2000 and 2001. These results appear to be quite similar to those forecast by Excel in their report of September 19, 1997.

In light of these findings, it is my opinion that the Landsmeer Ridge Retirement Community Apartments/Studio complex is being managed towards making a profit for Orange City Hospital, investors and lenders. The absence of any provision for charitable funding to residents in need on Landsmeer Ridge's financial statements casts doubt as to the charitable purpose of this residential facility. Further clouding this issue is the absence of any information on financial assistance available for those in need in materials supplied to prospective or current residents (Handbook, Apartment/Studio Contract, or Move-in Information). To the contrary, Landsmeer

Ridge has comprehensive policies and procedures to collect rent in arrears and terminate residential housing should those collection efforts fail.

If you have any questions concerning this analysis, please feel free to contact me at (319) 266-9223.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Frank Thompson', with a long horizontal flourish extending to the right.

A. Frank Thompson, Ph.D
Professor of Finance

Exhibit 1
 Landsmeer Ridge Retirement Community Apartments/Studios
 Financial & Actuarial Analysis

Distribution of Landsmeer Ridge Tenants by Age and Sex as of May 11, 2000

Source:	Bates # 0057	
	Number of Residents	Average Age
Male:	11	88.2
Female:	26	84.5
Grand Average Age:		85.6

Landsmeer Ridge Monthly Occupancy Rates:

<u>Month/Year</u>	<u>Monthly Rate Apartments</u>	<u>Monthly Rate Studios</u>	<u>Source Bates #</u>
Jan-01	100.0%	88.6%	5432 <i>S/b 5482</i>
Jul-01	100.0%	84.9%	5506
Jun-00	100.0%	71.0%	5500
Aug-00	100.0%	89.4%	5509
Sep-00	100.0%	93.4%	5512
Oct-00	99.0%	93.6%	5515
Nov-00	97.6%	82.0%	5518
Average:	99.5%	86.1%	

Exhibit 2

Analysis of Operating Cash Flow Generated From
the Landsmeer Ridge Apartment/Studio Complex

Source of Information: =====>	Bates Number 5021	Bates Number 5033	Bates Number 5839
	-----Years of Operation-----		
	1999	2000	2001
Operating Revenue	\$137,205.90	\$631,334.80	\$909,736.99
Deductions:			
Medicare/Medicaid	\$0.00	\$0.00	\$0.00
Total Operating Revenue	\$137,205.90	\$631,334.80	\$909,736.99
Operating Expenses:			
Variable Costs			
Wages, Benefits & Services	\$136,605.69	\$311,780.36	\$360,257.16
Supplies	\$77,383.12	\$75,615.16	\$93,488.79
Other Operating Expenses	\$35,585.48	\$74,072.15	\$89,709.99
Total Variable Costs	\$249,574.29	\$461,467.67	\$543,455.94
Net Operating Profit	-\$112,368.39	\$169,867.13	\$366,281.05
Plus: Investment Income	\$0.00	\$0.00	\$0.00
Less: Interest Expense:	-\$107,559.40	-\$257,922.56	-\$254,808.39
Plus: Depreciation	\$47,508.96	\$144,464.45	\$179,550.96
Operating Cash Flow For Landsmeer Apts./Studio Complex	-\$172,418.83	\$56,409.02	\$291,023.62

Note: The figures above represent year-end totals covering Landsmeer's fiscal year of June 30th to July 1st for the years 1999, 2000, 2001. Landsmeer Ridge did not become fully operational until May 1999 and most of 1999 was spent completing construction and securing initial residents for the complex. During the past three years, annual resident revenues have increased dramatically from \$136,781.4 for the first year of operation (1999) to \$909,999.96 for the most recent year (2001). In each of these years the Landsmeer Ridge Apartment/Studio Complex did not write off any bad debt losses, nor were there any charitable expenses incurred on the income statements.