

**Floyd Valley Hospital
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2007

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Floyd Valley Hospital
OFFICIALS
June 30, 2007

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

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, 2007 and 2006, 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, 2007 and 2006, 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 October 2, 2007 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 considered in assessing 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
October 2, 2007

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, 2007, 2006 and 2005. 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 \$1.67 million from FY 2006 to \$25.8 million.
- Total net property and equipment increased by \$214 thousand from FY 2006.
- Fund equity increased by \$1.47 million from FY 2006.
- FY 2007 net patient service revenue increased by \$1.3 million, primarily due to increases in outpatient utilization as well as charge rate increases effective July 1, 2006. Floyd Valley Hospital also began employment of an orthopedic surgeon in July of 2006 which had a positive impact on revenues.
- FY 2007 expenses increased by \$1.3 million due to cost increases on supplies and staffing.
- Total margin for FY 2007 was 6.8%, compared to 7.1% for FY 2006 and 5.8% 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 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, 2007, 2006, and 2005 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2007	June 30, 2006	June 30, 2005
Current and other assets	\$13,713	\$12,254	\$10,694
Property and Equipment	\$12,099	\$11,885	\$12,290
Total Assets	\$25,812	\$24,139	\$22,984
Long term debt outstanding	\$ 6,129	\$ 6,789	\$ 7,416
Other liabilities	\$ 3,417	\$ 2,550	\$ 2,197
Total liabilities	\$ 9,546	\$ 9,339	\$ 9,613
Invested in Capital Assets	\$ 5,970	\$ 5,096	\$ 4,874
Restricted	\$ 1,773	\$ 1,694	\$ 1,646
Unrestricted	\$ 8,523	\$ 8,010	\$ 6,851
Total Fund Equity	\$16,266	\$14,800	\$13,371

As can be seen in Table 1, net assets increased by \$1.5 million to \$16.27 million in fiscal year 2007, up from \$14.8 million in fiscal year 2006 and \$13.37 million in fiscal year 2005. 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, 2007, 2006 and 2005

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

	2007	2006	2005
Total Revenue	\$21,438	\$20,114	\$17,480
Expenses	\$20,211	\$18,887	\$16,737
Operating Income	\$ 1,227	\$ 1,227	\$ 743
Non-Operating Gains (Losses)	\$ 168	\$ 147	\$ (63)
Excess of Revenues over expenses before contributions	\$ 1,395	\$ 1,374	\$ 680
Contributions	\$ 71	\$ 55	\$ 337
Changes in Fund Equity	\$ 1,466	\$ 1,429	\$ 1,017
Total Fund Equity, Beginning	\$14,800	\$13,371	\$12,354
Total Fund Equity, Ending	\$16,266	\$14,800	\$13,371

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2007, 2006 and 2005.

Volume: Inpatient admissions for fiscal year 2007 were 4% less than in 2006. Outpatient utilization was unchanged from the prior fiscal year. Skilled care admissions were down from the prior year by 17%, while Home Health visits were down by 12%. The number of births at the hospital was up by 4% from the prior fiscal year.

Net Patient Service Revenue: Due to a rate increase of 3.6% effective July 1, 2006, and the changes in services described above, net patient revenues increased by \$1.3 million or 6.8% in comparison to fiscal year 2006.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2007, 2006 and 2005.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2007	2006	2005
Medicare	44.0%	44.4%	46.5%
Wellmark Blue Cross	30.0%	28.4%	27.7%
Commercial	17.9%	18.5%	17.9%
Medicaid	5.1%	6.1%	4.8%
All others	3.0%	2.7%	3.1%

Nursing Service expenses increased by 10% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by 6% 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 2007, the hospital has invested \$12.1 million in capital assets as shown in Table 5.

Table 5
Capital Assets
(in thousands)

	June 30,		
	2007	2006	2005
Land & Land Improvements	\$ 807	\$ 807	\$ 780
Buildings	\$13,020	\$12,979	\$12,974
Major Moveable Equipment	\$ 5,612	\$ 5,565	\$ 5,022
Land & Buildings Leased to Others	\$ 2,958	\$ 2,958	\$ 2,955
Construction/Equipment Installs in Progress	\$ 1,064	\$ -	\$ 101
Subtotal	\$23,461	\$22,309	\$21,832
Less accumulated depreciation	(\$11,363)	(\$10,424)	(\$ 9,542)
Property, plant and equipment, net	\$12,098	\$11,885	\$12,290

Debt Administration:

At the end of fiscal year 2007, the hospital had \$6.1 million in debt related to Hospital Revenue Bonds. This has decreased by \$675 thousand from fiscal year 2006. 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 \$19.8 million which was equal to budget for fiscal year ended June 30, 2007.

Operating Expenses were \$20.2 million or 2% greater than budget expectations for the fiscal year ending June 30, 2007. Overall expenses matched closely with budget with no significant variances from the plan.

The following table compares fiscal year 2007 actual to budget information.

Table 6
Budget vs. Actual
(in thousands)

	FY 2007 Actual	FY 2007 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$26,223	\$25,308	\$ 915	4%
Contractual Adjustments & Bad Debt	\$ 6,453	\$ 6,020	\$ 433	7%
Net patient service revenue	\$19,770	\$19,288	\$ 482	3%
Other operating revenue	\$ 1,668	\$ 1,662	\$ 6	-%
Total operating revenue	\$21,438	\$20,950	\$ 488	2%
Operating Expenses	\$20,211	\$19,903	\$ 308	2%
Operating Gain/Loss	\$ 1,227	\$ 1,047	\$ 180	17%
Non-Operating Gains (Losses)	\$ 240	\$ 45	\$ 195	433%
Excess of Revenues over Expenses	\$ 1,467	\$ 1,092	\$ 375	34%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2008 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payers especially Wellmark Blue Cross and the shift in payer mix toward Wellmark Blue Cross.
- Cost of supplies including escalating drug costs
- Workforce shortages especially among nursing and impact on salary costs
- Regulatory changes
- Facility expansion and growth in demand for services

Contacting Floyd Valley Hospital's Management

This financial report is designed to provide our customers, government officials and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional information, contact the Floyd Valley Hospital at (712) 546-7871 or write care of: Director of Financial Services, Floyd Valley Hospital, P.O. Box 10, Le Mars, Iowa 51031.

**Floyd Valley Hospital
BALANCE SHEETS**

	June 30	
ASSETS	2007	2006
CURRENT ASSETS		
Cash	\$ 2,549,616	\$ 2,677,561
Assets whose use is limited, required for current liabilities	748,376	733,016
Patient receivables, less allowance for contractual adjustments and uncollectible accounts		
2007 \$1,778,129; 2006 \$1,286,843	3,213,821	2,309,076
Other current receivables	41,986	46,475
Inventories	319,097	303,310
Prepaid expenses	203,432	189,387
	<u>7,076,328</u>	<u>6,258,825</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	480,773	402,375
Certificates of deposit	4,607,554	4,157,890
Accrued interest receivable	22,176	20,261
	<u>5,110,503</u>	<u>4,580,526</u>
Restricted for payment of revenue notes and interest		
Cash	547,060	521,112
Certificates of deposit	783,774	783,774
	<u>1,330,834</u>	<u>1,304,886</u>
Restricted by donors for specific purpose		
Cash	442,235	388,789
Total assets whose use is limited	6,883,572	6,274,201
Less assets whose use is limited and that are required for current liabilities	748,376	733,016
Noncurrent assets whose use is limited	<u>6,135,196</u>	<u>5,541,185</u>
PROPERTY AND EQUIPMENT		
	23,461,339	22,309,077
Less accumulated depreciation	11,362,784	10,424,271
Total property and equipment	<u>12,098,555</u>	<u>11,884,806</u>
OTHER ASSETS		
Unamortized financing costs	39,985	50,240
Other receivable	12,500	31,250
Beneficial interest in remainder trust	220,000	174,100
Investment in Floyd Valley Associates	2,121	23,864
Investment in Northwest Iowa Diagnostics	35,485	34,670
Investment in Floyd Valley Home Medical Equipment	191,812	140,275
Total other assets	<u>501,903</u>	<u>454,399</u>
	<u>7,076,328</u>	<u>6,258,825</u>
Totals	<u>\$25,811,982</u>	<u>\$24,139,215</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND EQUITY		2007	2006
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 695,000	\$ 675,000
Accounts payable			
Trade		1,855,306	1,326,073
Construction and equipment		345,156	35,291
Accrued employee compensation		673,689	621,049
Security deposits		24,000	30,500
Payroll taxes and amounts withheld from employees		70,670	87,767
Accrued interest		53,376	58,016
Estimated third-party payor settlements		<u>395,000</u>	<u>391,627</u>
Total current liabilities		<u>4,112,197</u>	<u>3,225,323</u>
LONG-TERM DEBT , less current maturities		<u>5,433,660</u>	<u>6,114,353</u>
Total liabilities		<u>9,545,857</u>	<u>9,339,676</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		5,969,895	5,095,453
Restricted		1,773,069	1,693,675
Unrestricted		<u>8,523,161</u>	<u>8,010,411</u>
Total fund equity		<u>16,266,125</u>	<u>14,799,539</u>
Totals		<u>\$25,811,982</u>	<u>\$24,139,215</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2007	2006
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2007 \$517,392; 2006 \$411,725	\$19,769,985	\$18,503,629
OTHER REVENUE	<u>1,668,201</u>	<u>1,609,652</u>
Total revenue	<u>21,438,186</u>	<u>20,113,281</u>
EXPENSES		
Nursing service	6,418,330	5,817,043
Other professional service	6,130,695	5,811,162
General service	1,516,288	1,540,748
Fiscal and administrative service and unassigned expenses	4,964,374	4,577,543
Provision for depreciation	<u>1,181,370</u>	<u>1,141,082</u>
Total expenses	<u>20,211,057</u>	<u>18,887,578</u>
Operating income	<u>1,227,129</u>	<u>1,225,703</u>
NONOPERATING GAINS (LOSSES)		
Interest income	387,745	247,878
Interest and amortization expense	(354,095)	(379,711)
Unrestricted contributions	47,266	174,425
Equity in earnings of equity method investments	84,409	111,044
Gain (loss) on disposal of equipment	<u>2,792</u>	<u>(6,261)</u>
Total nonoperating gains (losses)	<u>168,117</u>	<u>147,375</u>
Excess of revenues over expenses before contributions	1,395,246	1,373,078
CONTRIBUTIONS		
Change in fund equity	<u>71,340</u>	<u>55,089</u>
	1,466,586	1,428,167
TOTAL FUND EQUITY		
Beginning	<u>14,799,539</u>	<u>13,371,372</u>
Ending	<u>\$16,266,125</u>	<u>\$14,799,539</u>

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$18,868,613	\$18,752,034
Cash paid to employees for service	(9,698,949)	(8,567,516)
Cash paid to suppliers for goods and services	(8,795,794)	(8,950,986)
Other operating revenue received	<u>1,684,940</u>	<u>1,629,338</u>
Net cash provided by operating activities	<u>2,058,810</u>	<u>2,862,870</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	1,366	325
Contributions restricted for property and equipment, net	<u>71,340</u>	<u>86,702</u>
Net cash provided by noncapital financing activities	<u>72,706</u>	<u>87,027</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,088,687)	(754,164)
Proceeds from sale of property and equipment	6,226	1,816
Principal paid on long-term debt	(675,000)	(640,000)
Interest paid on long-term debt	<u>(334,174)</u>	<u>(360,369)</u>
Net cash (used in) capital and related financing activities	<u>(2,091,635)</u>	<u>(1,752,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,271,108)	(4,315,004)
Proceeds from maturities of certificates of deposit	4,821,444	4,546,700
Distribution from Floyd Valley Associates	25,000	14,000
Distribution from Northwest Iowa Diagnostics	28,800	48,000
Distribution from Floyd Valley Home Medical Equipment	-	13,500
Interest received	<u>385,830</u>	<u>239,966</u>
Net cash provided by (used in) investing activities	<u>(10,034)</u>	<u>547,162</u>
NET INCREASE IN CASH	29,847	1,744,342
CASH		
Beginning	<u>3,989,837</u>	<u>2,245,495</u>
Ending	<u>\$ 4,019,684</u>	<u>\$ 3,989,837</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$1,227,129	\$1,225,703
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,181,370	1,141,082
Change in assets and liabilities		
(Increase) decrease in patient receivables	(904,745)	201,778
Decrease in other current receivables	4,489	2,185
(Increase) in inventories	(15,787)	(29,779)
(Increase) in prepaid expenses	(14,045)	(57,724)
Decrease in other receivable	18,750	15,001
Increase in estimated third-party payor settlements	3,373	46,627
Increase in accounts payable, net of amounts for property and equipment	529,233	252,380
Increase in accrued employee compensation	52,640	54,046
Increase (decrease) in security deposits	(6,500)	2,500
Increase (decrease) in payroll taxes and withholdings	<u>(17,097)</u>	<u>9,071</u>
Net cash provided by operating activities	<u>\$2,058,810</u>	<u>\$2,862,870</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$2,549,616	\$2,677,561
Assets whose use is limited		
Designated by board for plant expansion	480,773	402,375
Restricted for payment of revenue notes and interest	547,060	521,112
Restricted by donors for specific purpose	<u>442,235</u>	<u>388,789</u>
Total per statements of cash flows	<u>\$4,019,684</u>	<u>\$3,989,837</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Increase in beneficial interest in remainder trust	<u>\$ 45,900</u>	<u>\$ 174,100</u>

See Notes to Financial Statements.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is the municipal hospital of the City of Le Mars, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or property. The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

Reporting Entity

For financial reporting purposes, Floyd Valley Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. Floyd Valley Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Hospital is includable as a component unit within the City of Le Mars, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Investments and Investment Income

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

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.

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, 2007 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:

	June 30	
	2007	2006
Receivable from patients	\$1,576,718	\$1,364,433
Receivable from insurance carriers	1,927,940	1,144,381
Receivable from Medicare	1,221,968	922,563
Receivable from Medicaid	<u>265,324</u>	<u>164,542</u>
Total patient receivables	4,991,950	3,595,919
Less allowances for contractual and other adjustments	<u>(1,778,129)</u>	<u>(1,286,843)</u>
 Totals	 <u>\$3,213,821</u>	 <u>\$2,309,076</u>

NOTE 4 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2007 and 2006 follows:

	Balance July 1, 2006	Additions	Deletions	Transfers	Ending June 30, 2007
Land	\$ 103,274	\$ -	\$ -	\$ -	\$ 103,274
Land improvements	703,637	-	-	-	703,637
Buildings and fixed equipment	12,979,119	20,270	-	21,239	13,020,628
Major movable equipment	5,565,467	127,056	(246,290)	166,292	5,612,525
Land and buildings leased to others	2,957,580	-	-	-	2,957,580
Construction and equipment installations in progress	<u>-</u>	<u>1,251,226</u>	<u>-</u>	<u>(187,531)</u>	<u>1,063,695</u>
Totals	22,309,077	1,398,552	(246,290)	-	23,461,339
Less accumulated depreciation and amortization	<u>(10,424,271)</u>	<u>(1,181,370)</u>	<u>242,857</u>	<u>-</u>	<u>(11,362,784)</u>
 Net property and equipment	 <u>\$11,884,806</u>	 <u>\$ 217,182</u>	 <u>\$ (3,433)</u>	 <u>\$ -</u>	 <u>\$12,098,555</u>
	Balance July 1, 2005	Additions	Deletions	Transfers	Ending June 30, 2006
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
Construction and 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>

Depreciation expense for the years ended June 30, 2007 and 2006 amounted to \$1,181,370 and \$1,141,082, respectively.

During the year ended June 30, 2007, the Hospital entered into a construction contract for renovations to the Hospital in the amount of \$1,211,000. At June 30, 2007, approximately \$548,000 remain to be completed on that contract. The renovations are funded by existing Hospital funds.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 5 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$18,733 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, 2007 and 2006 includes gross rental income of \$225,578 and \$217,716, respectively, for these leases.

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

Year ending June 30

2008	\$ 101,915
2009	<u>2,692</u>
Total	<u>\$ 104,607</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, 2007 and 2006.

	<u>Reserve Fund</u>	<u>Sinking Fund</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	783,774	521,112
Transfers from current asset cash	-	1,018,520
Interest income	-	16,602
Payment of notes and interest	<u>-</u>	<u>(1,009,174)</u>
Balance, June 30, 2007	<u>\$ 783,774</u>	<u>\$ 547,060</u>

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 \$3,257 and \$16,965 for the years ended June 30, 2007 and 2006, respectively.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

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 \$29,615 and \$48,212 for the years ended June 30, 2007 and 2006, respectively.

Northwest Iowa Diagnostics is an entity formed under chapter 28E of the Iowa Code. The Hospital is a contributing member. The Hospital leases one Hospital employee to provide services for Northwest Iowa Diagnostics. During the years ended June 30, 2007 and 2006, the Hospital received \$118,618 and \$122,452, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$133,500 and \$145,450 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2007 and 2006, 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 \$51,537 and \$45,867 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, the Hospital received \$90,779 and \$81,398, 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 5.8% 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.

Outstanding June 30	
2007	2006

\$ 61,185	\$ 91,778
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Hospital Revenue Refunding Notes, Series 1998

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 an annual rate of 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.

231,475	453,100
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**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2007	2006
Hospital Revenue Notes, Series 1999		
<p>The City Council of Le Mars adopted a resolution authorizing the issuance of \$320,000 of Hospital Revenue Notes dated December 1, 1999, to finance computer upgrades, x-ray equipment, and improvements to the sprinkler system. The notes mature serially through November 1, 2006, with interest coupons payable on May 1 and November 1 at an annual rate of 5.5%.</p>	\$	\$ 53,900
Hospital Revenue Notes, Series 2002A		
<p>The City Council of Le Mars adopted a resolution authorizing the issuance of \$1,800,000 of Hospital Revenue Notes dated July 1, 2002, to finance the acquisition of an assisted living facility in Le Mars. The notes mature serially through November 1, 2017, with interest coupons payable on May 1 and November 1 at annual rates varying from 4.2% to 5.45%. Notes maturing in 2012 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2011, or on any date thereafter at par and accrued interest at the coupon rate.</p>	1,396,500	1,494,500
Hospital Revenue Notes, Series 2002B		
<p>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 3.7% 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.</p>	3,689,700	3,709,300
Hospital Revenue Notes, Series 2003		
<p>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 3.0% to 3.35%. The notes are not subject to redemption prior to maturity.</p>	237,600	351,450

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2007	2006
Hospital Revenue Notes, Series 2004		
The City Council of Le Mars adopted a resolution authorizing the issuance of \$755,000 of Hospital Revenue Refunding Notes dated June 1, 2004, for the purpose of crossover advance refunding of the City's outstanding Hospital Revenue Notes, Series 1996B. 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 4.65% to 5.15%. The notes are not subject to redemption prior to maturity.	<u>512,200</u>	<u>635,325</u>
Totals	6,128,660	6,789,353
Less current maturities	<u>(695,000)</u>	<u>(675,000)</u>
 Total long-term debt	 <u>\$5,433,660</u>	 <u>\$6,114,353</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. 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 \$126,340 and \$140,647 as of June 30, 2007 and 2006, respectively.

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

	Revenue notes payable	
	Principal	Interest
Year ending June 30		
2008	\$ 695,000	\$ 305,641
2009	725,000	274,160
2010	290,000	250,945
2011	255,000	238,678
2012	265,000	226,365
2013 to 2017	1,550,000	910,777
2018 to 2022	2,005,000	435,409
2023	<u>470,000</u>	<u>13,865</u>
Total	6,255,000	2,655,840
Less unamortized discount	<u>(126,340)</u>	<u>—</u>
 Totals	 <u>\$6,128,660</u>	 <u>\$2,655,840</u>

NOTE 10 LONG-TERM DEBT (continued)

Long-term debt activity for the years ended June 30, 2007 and 2006 follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2007					
Hospital revenue notes	<u>\$6,930,000</u>	<u>\$ —</u>	<u>\$ 675,000</u>	<u>\$6,255,000</u>	<u>\$ 695,000</u>
2006					
Hospital revenue notes	<u>\$7,570,000</u>	<u>\$ —</u>	<u>\$ 640,000</u>	<u>\$6,930,000</u>	<u>\$ 675,000</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 11 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2007 and 2006.

	2007	2006
Charges foregone, based on established rates	\$ <u>115,827</u>	\$ <u>84,865</u>
Equivalent percentage of charity care patients to all patients served	<u>.4%</u>	<u>.4%</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, 2007, 2006 and 2005 were \$408,811, \$384,815 and \$352,411, 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 \$1,766,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2007 and 2006 was \$1,334,326 and \$1,131,417, respectively, which includes program administration expenses.

NOTE 14 CONTINGENCIES

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Incidents occurring through June 30, 2007 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 15 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 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:

	Operating expenses (GAAP basis)	Budget basis adjustment	Budget basis	Budget
Year ended June 30, 2007 totals	<u>\$20,211,057</u>	<u>\$1,246,277</u>	<u>\$21,457,334</u>	<u>\$22,500,000</u>

NOTE 17 HOSPITAL RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

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 contribution revenue of \$174,100 for the year ended June 30, 2006 and a change in value of \$45,900 for the year ended June 30, 2007 from the split-interest agreement 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 2007 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 2007 and 2006 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
October 2, 2007

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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
0 - 60 days	\$3,186,478	\$2,320,232	63.83%	64.52%
61 - 90 days	493,628	281,127	9.89	7.82
91 - 180 days	628,568	449,895	12.59	12.51
Over 6 months	<u>683,276</u>	<u>544,665</u>	<u>13.69</u>	<u>15.15</u>
Totals	<u>4,991,950</u>	<u>3,595,919</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	672,872	559,240		
Contractual adjustments	<u>1,105,257</u>	<u>727,603</u>		
Total allowances	<u>1,778,129</u>	<u>1,286,843</u>		
Totals	<u>\$3,213,821</u>	<u>\$2,309,076</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
BALANCE , beginning	\$ 559,240	\$ 518,728
ADD		
Provision for bad debts	517,392	411,725
Recoveries of accounts previously written off	232,544	199,289
LESS		
Accounts written off	<u>(636,304)</u>	<u>(570,502)</u>
BALANCE , ending	<u>\$ 672,872</u>	<u>\$ 559,240</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
General stores	\$ 129,007	\$ 130,317
Pharmacy	120,863	110,723
Operating room	61,555	54,373
Intravenous solutions	3,112	3,550
Marcus clinic	<u>4,560</u>	<u>4,347</u>
Totals	<u>\$ 319,097</u>	<u>\$ 303,310</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Midwest Medical Insurance Company (policy expiration January 1, 2008)	
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, 2008)	
Umbrella excess liability	\$20,000,000
Unitrin, Milwaukee Insurance Company (policy expiration January 1, 2008)	
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, 2008)	
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, 2008)	
Building and contents, fire and extended coverage (100% co-insurance, replace value)	\$3,569,324/24,783,747 \$10,000 deductible
Blanket earnings and expense	Included
The Hartford, Inc. (policy expiration January 1, 2008)	
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, 2007)	
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>2007</u>	<u>2006</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 1,451,925	\$ 1,463,378
Long term care	203,366	220,096
Nursery	<u>50,052</u>	<u>45,640</u>
	<u>1,705,343</u>	<u>1,729,114</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	2,792,893	2,187,335
Delivery and labor room	95,961	92,763
Central service and supply	1,695,166	1,705,908
Emergency service	2,881,939	2,417,387
Home health services	<u>838,474</u>	<u>789,581</u>
	<u>8,304,433</u>	<u>7,192,974</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	3,706,556	3,330,000
Electrocardiology	767,692	775,913
Radiology	5,426,830	5,061,110
Pharmacy	2,756,163	2,221,315
Anesthesiology	1,512,055	1,446,812
Respiratory therapy	287,668	275,446
Physical therapy	1,099,063	1,257,298
Occupational therapy	155,899	186,379
Speech therapy	150,301	177,216
Enterostomy	137,661	145,505
Audiology	2,992	3,609
Marcus clinic	130,287	130,113
Cardiac rehabilitation	<u>79,674</u>	<u>78,922</u>
	<u>16,212,841</u>	<u>15,089,638</u>
	26,222,617	24,011,726
Charity care charges foregone, based on established rates	<u>(115,827)</u>	<u>(84,865)</u>
Total gross patient service revenue	26,106,790	23,926,861
Provisions for contractual and other adjustments	<u>(6,336,805)</u>	<u>(5,423,232)</u>
Net patient service revenue	<u>\$19,769,985</u>	<u>\$18,503,629</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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
\$1,451,925	\$1,463,378	\$ -	\$ -	\$ -	\$ -
-	-	-	-	203,366	220,096
<u>50,052</u>	<u>45,640</u>	-	-	-	-
<u>1,501,977</u>	<u>1,509,018</u>	-	-	<u>203,366</u>	<u>220,096</u>
1,078,541	880,188	1,714,352	1,307,147	-	-
78,681	76,838	17,280	15,925	-	-
1,034,047	1,101,190	565,480	476,417	95,639	128,301
86,979	129,463	2,789,840	2,281,899	5,120	6,025
-	-	<u>838,474</u>	<u>789,581</u>	-	-
<u>2,278,248</u>	<u>2,187,679</u>	<u>5,925,426</u>	<u>4,870,969</u>	<u>100,759</u>	<u>134,326</u>
727,979	826,839	2,919,328	2,442,360	59,249	60,801
93,276	110,986	671,410	657,598	3,006	7,329
575,597	728,118	4,807,155	4,277,844	44,078	55,148
1,067,255	1,036,152	1,520,477	943,801	168,431	241,362
745,466	685,327	764,536	761,005	2,053	480
146,713	147,180	84,192	83,366	56,763	44,900
57,297	57,458	975,889	1,130,960	65,877	68,880
15,550	16,276	106,058	132,074	34,291	38,029
16,030	24,466	115,817	98,756	18,454	53,994
9,876	11,129	119,638	123,673	8,147	10,703
1,565	1,423	1,427	2,186	-	-
-	-	130,287	130,113	-	-
-	-	<u>79,674</u>	<u>78,922</u>	-	-
<u>3,456,604</u>	<u>3,645,354</u>	<u>12,295,888</u>	<u>10,862,658</u>	<u>460,349</u>	<u>581,626</u>
<u>\$7,236,829</u>	<u>\$7,342,051</u>	<u>\$18,221,314</u>	<u>\$15,733,627</u>	<u>\$ 764,474</u>	<u>\$ 936,048</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contractual adjustments	\$5,685,480	\$4,894,252
Employee and other allowances	96,726	86,220
Clinic discounts and adjustments	37,207	31,035
Provision for bad debts	<u>517,392</u>	<u>411,725</u>
Totals	<u>\$6,336,805</u>	<u>\$5,423,232</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 106,540	\$ 107,661
Rental income	270,818	273,606
Park Place Estates	928,018	921,529
Other	<u>362,825</u>	<u>306,856</u>
Totals	<u>\$1,668,201</u>	<u>\$1,609,652</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
NURSING ADMINISTRATION		
Salaries	\$ 151,870	\$ 128,218
Supplies and expenses	<u>4,069</u>	<u>4,024</u>
	<u>155,939</u>	<u>132,242</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,296,839	1,300,143
Supplies and expenses	<u>55,372</u>	<u>50,931</u>
	<u>1,352,211</u>	<u>1,351,074</u>
SWING BED		
Salaries	<u>183,133</u>	<u>196,184</u>
NURSERY		
Salaries	38,701	31,252
Supplies and expenses	<u>2,251</u>	<u>2,468</u>
	<u>40,952</u>	<u>33,720</u>
OPERATING AND RECOVERY ROOMS		
Salaries	379,098	365,175
Professional fees	1,020,827	719,484
Supplies and expenses	<u>171,424</u>	<u>82,806</u>
	<u>1,571,349</u>	<u>1,167,465</u>
DELIVERY AND LABOR ROOM		
Salaries	38,774	38,491
Supplies and expenses	<u>5,712</u>	<u>6,296</u>
	<u>44,486</u>	<u>44,787</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	107,232	96,061
Purchased services	18,643	10,339
Supplies and expenses	<u>631,233</u>	<u>547,065</u>
	<u>757,108</u>	<u>653,465</u>
EMERGENCY SERVICE		
Salaries	639,501	536,338
Professional fees	898,956	935,025
Supplies and expenses	<u>55,063</u>	<u>56,991</u>
	<u>1,593,520</u>	<u>1,528,354</u>
HOME HEALTH		
Salaries	607,024	598,128
Purchased services	13,673	14,075
Supplies and expenses	<u>98,935</u>	<u>97,549</u>
	<u>719,632</u>	<u>709,752</u>
Totals	<u>\$6,418,330</u>	<u>\$5,817,043</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
LABORATORY		
Salaries	\$ 363,655	\$ 335,601
Professional fees	4,946	8,930
Purchased services	149,069	145,381
Supplies and expenses	253,330	263,521
Blood	61,111	65,290
	<u>832,111</u>	<u>818,723</u>
ELECTROCARDIOLOGY		
Salaries	11,582	10,425
Purchased services	155,200	205,925
Supplies and expenses	1,238	4,279
	<u>168,020</u>	<u>220,629</u>
RADIOLOGY		
Salaries	473,658	421,375
Professional fees	725,011	739,353
Purchased services	527,243	458,862
Supplies and expenses	200,506	198,602
	<u>1,926,418</u>	<u>1,818,192</u>
PHARMACY		
Salaries	193,276	177,786
Purchased services	905	3,067
Drugs	676,203	475,722
Intravenous solutions and supplies	16,503	17,160
Supplies and expenses	11,779	3,568
	<u>898,666</u>	<u>677,303</u>
ANESTHESIOLOGY		
Purchased services	456,548	432,505
Supplies and expenses	6,868	6,879
	<u>463,416</u>	<u>439,384</u>
RESPIRATORY THERAPY		
Salaries	129,217	115,674
Supplies and expenses	11,456	7,676
	<u>140,673</u>	<u>123,350</u>
PHYSICAL THERAPY		
Salaries	109,153	105,380
Purchased services	541,218	619,276
Supplies and expenses	22,456	31,232
	<u>672,827</u>	<u>755,888</u>
OCCUPATIONAL THERAPY		
Purchased services	76,391	91,755
Supplies and expenses	245	99
	<u>76,636</u>	<u>91,854</u>
OCCUPATIONAL HEALTH		
Salaries	48,189	8,567
Supplies and expense	8,753	4,158
	<u>56,942</u>	<u>12,725</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2007	2006
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 74,148	\$ 68,825
Supplies and expenses	<u>2,899</u>	<u>2,047</u>
	<u>77,047</u>	<u>70,872</u>
SPEECH THERAPY		
Purchased services	102,204	132,376
Supplies and expenses	<u>268</u>	<u>148</u>
	<u>102,472</u>	<u>132,524</u>
ENTEROSTOMY		
Salaries	140,340	114,921
Supplies and expenses	<u>13,833</u>	<u>5,684</u>
	<u>154,173</u>	<u>120,605</u>
AUDIOLOGY		
Salaries	2,308	1,586
Purchased services	160	-
Supplies and expenses	<u>1,239</u>	<u>906</u>
	<u>3,707</u>	<u>2,492</u>
MARCUS CLINIC		
Salaries	87,193	56,994
Professional fees	46,218	80,601
Purchased services	4,235	4,714
Supplies and expenses	<u>20,318</u>	<u>27,939</u>
	<u>157,964</u>	<u>170,248</u>
CARDIAC REHABILITATION		
Salaries	63,473	59,843
Supplies and expenses	<u>2,264</u>	<u>3,992</u>
	<u>65,737</u>	<u>63,835</u>
LIFELINE		
Salaries	10,781	6,371
Supplies and expenses	<u>2,210</u>	<u>1,962</u>
	<u>12,991</u>	<u>8,333</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	65,138	59,913
Supplies and expenses	<u>2,362</u>	<u>1,648</u>
	<u>67,500</u>	<u>61,561</u>
MEDICAL RECORDS		
Salaries	135,382	129,097
Purchased services	55,008	35,847
Supplies and expenses	<u>63,005</u>	<u>56,830</u>
	<u>253,395</u>	<u>221,774</u>
SOCIAL SERVICE		
Salaries	<u>-</u>	<u>870</u>
Totals	<u>\$6,130,695</u>	<u>\$5,811,162</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
DIETARY		
Salaries	\$ 339,336	\$ 313,589
Food	208,851	204,410
Purchased services	39,250	43,945
Supplies and expenses	<u>55,522</u>	<u>49,274</u>
	<u>642,959</u>	<u>611,218</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	206,068	204,476
Utilities	249,484	280,667
Purchased services	33,641	29,810
Supplies and expenses	<u>105,667</u>	<u>123,108</u>
	<u>594,860</u>	<u>638,061</u>
HOUSEKEEPING		
Salaries	180,416	187,958
Purchased services	637	2,067
Supplies and expenses	<u>26,987</u>	<u>28,132</u>
	<u>208,040</u>	<u>218,157</u>
LAUNDRY AND LINEN		
Purchased services	59,686	62,025
Linens	9,825	9,695
Supplies and expenses	<u>918</u>	<u>1,592</u>
	<u>70,429</u>	<u>73,312</u>
 Totals	 <u>\$1,516,288</u>	 <u>\$1,540,748</u>

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

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 123,047	\$ 187,377
Management fee	321,508	391,164
Telephone	49,518	51,420
Postage	37,824	41,108
Supplies and expenses	176,084	111,512
Freight	26,119	25,437
Organization dues	22,668	22,116
Public relations	8,757	5,793
Activities	3,232	4,552
Marketing	<u>68,029</u>	<u>56,286</u>
	<u>836,786</u>	<u>896,765</u>
Business office		
Salaries	442,071	394,343
Supplies and expenses	<u>141,593</u>	<u>119,803</u>
	<u>583,664</u>	<u>514,146</u>
Data processing		
Salaries	88,653	97,338
Supplies and expenses	<u>139,425</u>	<u>121,514</u>
	<u>228,078</u>	<u>218,852</u>
Human resources		
Salaries	84,862	79,723
Supplies and expenses	<u>68,861</u>	<u>69,736</u>
	<u>153,723</u>	<u>149,459</u>
Risk management		
Salaries	38,068	-
Supplies and expenses	<u>127,479</u>	<u>-</u>
	<u>165,547</u>	<u>-</u>
Education		
Salaries	108,152	77,207
Purchased services	13,962	-
Supplies and expenses	<u>29,351</u>	<u>20,171</u>
	<u>151,465</u>	<u>97,378</u>
Park Place Estates		
Salaries	313,509	293,469
Purchased services	11,820	12,694
Supplies and expenses	<u>59,137</u>	<u>63,087</u>
	<u>384,466</u>	<u>369,250</u>
Endowment		
Salaries	-	20,295
Supplies and expenses	<u>-</u>	<u>3,101</u>
	<u>-</u>	<u>23,396</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	933,393	883,152
Group health insurance	1,334,326	1,131,417
Life and disability insurance	96,971	90,446
Tuition assistance	10,047	7,727
Insurance	<u>85,908</u>	<u>195,555</u>
	<u>2,460,645</u>	<u>2,308,297</u>
Totals	<u>\$4,964,374</u>	<u>\$4,577,543</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2007</u>	<u>2006</u>
PATIENT DAYS		
Acute	2,846	3,005
Special care	42	51
Nursery	291	280
Swing bed		
Skilled nursing care	984	1,186
Intermediate care	<u>10</u>	<u>4</u>
Totals	<u>4,173</u>	<u>4,526</u>
ADMISSIONS	1,091	1,146
DISCHARGES	1,091	1,146
AVERAGE LENGTH OF STAY, acute and special care	2.65	2.67
BEDS	25	25
OCCUPANCY PERCENT, ACUTE	31.6%	33.5%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$54,164	\$50,695
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	59.34	45.55

**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**

The Board of Trustees
Floyd Valley Hospital
LeMars, Iowa

We have audited the financial statements of Floyd Valley Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated October 2, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007 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 the City of LeMars, Iowa and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 2, 2007

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part II—Findings Related to Required Statutory Reporting

07-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

07-II-B TRAVEL EXPENSES

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

07-II-C BUSINESS TRANSACTIONS

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

07-II-D BOARD MINUTES

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

07-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.