

**Floyd Valley Hospital
and Floyd Valley Hospital Foundation
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2008

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**Floyd Valley Hospital
OFFICIALS
June 30, 2008**

After January, 2008

Board of Trustees

Bill Rosacker, Chairman
Craig Bauerly, Vice Chairman
Jim Ryan, Treasurer
Larry Petersen, Secretary
William Young (appointed April, 2008)
Margaret Moir (resigned April, 2008)

Expiration of term

December, 2011
December, 2009
December, 2011
December, 2011
December, 2009

Administrator

Michael T. Donlin, FACHE

Director of Financial Services

Daryl J. Friedenbach

Before January, 2008

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, FACHE

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, 2008 and 2007, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. We have audited the statement of financial position of Floyd Valley Hospital Foundation, a component unit of Floyd Valley Hospital, as of June 30, 2008 and the related statements of activities and cash flow for the year 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, 2008 and 2007, 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. Also, in our opinion, the accompanying statement of financial position of the Floyd Valley Hospital Foundation presents fairly, in all material respects, its financial position as of June 30, 2008, and the results of its operations and its cash flows for the year 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 22, 2008 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 22, 2008

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, 2008, 2007 and 2006. Please read it in conjunction with the hospital's financial statements, which follow this section.

Overview of the Financial Statements:

This annual report includes management's discussion and analysis report, the independent auditors report and the basic financial statements of the hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements:

The financial statements of the hospital report information of the hospital using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The balance sheet includes all of the hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Floyd Valley Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the hospital and assessing the liquidity and the financial flexibility of the hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the hospital's operations over the past year and can be used to determine whether the hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights:

- Total assets decreased by \$89 thousand from FY 2007 to \$25.7 million.
- Total net property and equipment decreased by \$54 thousand from FY 2007.
- Fund equity increased by \$998 thousand from FY 2007.
- FY 2008 net patient service revenue increased by \$1.1 million, primarily due to increases in outpatient utilization in outpatient surgery as well as charge rate increases effective July 1, 2007.
- FY 2008 expenses increased by \$1.1 million due to cost increases on supplies and staffing.
- Total margin for FY 2008 was 4.4%, compared to 6.8% for FY 2007 and 7.1% for FY 2006.

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, 2008, 2007, and 2006 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Current and other assets	\$13,679	\$13,713	\$12,254
Property and Equipment	\$12,044	\$12,099	\$11,885
Total Assets	\$25,723	\$25,812	\$24,139
Long term debt outstanding	\$ 5,488	\$ 6,129	\$ 6,789
Other liabilities	\$ 2,971	\$ 3,417	\$ 2,550
Total liabilities	\$ 8,459	\$ 9,546	\$ 9,339
Invested in Capital Assets	\$ 6,596	\$ 5,970	\$ 5,096
Restricted	\$ 1,353	\$ 1,773	\$ 1,694
Unrestricted	\$ 9,315	\$ 8,523	\$ 8,010
Total Fund Equity	\$17,264	\$16,266	\$14,800

As can be seen in Table 1, net assets increased by \$998 thousand to \$17.26 million in fiscal year 2008, up from \$16.27 million in fiscal year 2007 and \$14.8 million in fiscal year 2006. 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, 2008, 2007 and 2006

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

	2008	2007	2006
Total Revenue	\$22,571	\$21,438	\$20,114
Expenses	\$21,369	\$20,211	\$18,887
Operating Income	\$ 1,202	\$ 1,227	\$ 1,227
Non-Operating Gains (Losses)	\$ (256)	\$ 168	\$ 147
Excess of Revenues over expenses before contributions	\$ 946	\$ 1,395	\$ 1,374
Contributions	\$ 52	\$ 71	\$ 55
Changes in Fund Equity	\$ 998	\$ 1,466	\$ 1,429
Total Fund Equity, Beginning	\$16,266	\$14,800	\$13,371
Total Fund Equity, Ending	\$17,264	\$16,266	\$14,800

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2008, 2007 and 2006.

Volume: Inpatient admissions for fiscal year 2008 were 9% less than in 2007. Outpatient utilization was 1% less than the prior fiscal year. Skilled care admissions were up from the prior year by 6%, while Home Health visits were up by 4%. The number of births at the hospital was down by 3% from the prior fiscal year.

Net Patient Service Revenue: Due to a rate increase of 4.4% effective July 1, 2007, and the changes in services described above, net patient revenues increased by \$1.1 million or 5.4% in comparison to fiscal year 2007.

The following table presents the relative percentages of gross charges billed for patient services by payer for the years ended June 30, 2008, 2007 and 2006.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2008	2007	2006
Medicare	44.2%	44.0%	44.4%
Wellmark Blue Cross	23.5%	30.0%	28.4%
Commercial	22.9%	17.9%	18.4%
Medicaid	6.0%	5.1%	6.1%
All others	3.4%	3.0%	2.7%

Nursing Service expenses increased by 4.7% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by 5.3% 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 2008, the hospital has invested \$12.1 million in capital assets as shown in Table 4.

Table 4
Capital Assets
(in thousands)

	June 30,		
	2008	2007	2006
Land & Land Improvements	\$ 807	\$ 807	\$ 807
Buildings	\$14,509	\$13,020	\$12,979
Major Moveable Equipment	\$ 6,022	\$ 5,612	\$ 5,565
Land & Buildings Leased to Others	\$ 2,958	\$ 2,958	\$ 2,958
Construction/Equipment Installs in Progress	\$ 119	\$ 1,064	\$ -
Subtotal	\$24,415	\$23,461	\$22,309
Less accumulated depreciation	(\$12,370)	(\$11,363)	(\$10,424)
Property, plant and equipment, net	\$12,045	\$12,098	\$11,885

Debt Administration:

At the end of fiscal year 2008, the hospital had \$5.4 million in debt related to Hospital Revenue Notes. This has decreased by \$680 thousand from fiscal year 2007. 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 \$20.8 million which was 2% above budget for fiscal year ended June 30, 2008.

Operating Expenses were \$21.3 million which met budget expectations for the fiscal year ending June 30, 2008. Overall expenses matched closely with budget with no significant variances from the plan.

The following table compares fiscal year 2008 actual to budget information.

Table 5
Budget vs. Actual
(in thousands)

	FY 2008 Actual	FY 2008 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$28,084	\$27,356	\$ 728	3%
Contractual Adjustments & Bad Debt	\$ 7,244	\$ 6,932	\$ 312	5%
Net patient service revenue	\$20,840	\$20,424	\$ 416	2%
Other operating revenue	\$ 1,731	\$ 1,746	(15)	(1)%
Total operating revenue	\$22,571	\$22,170	\$ 401	2%
Operating Expenses	\$21,369	\$21,295	\$ 74	-%
Operating Gain/Loss	\$ 1,202	\$ 875	\$ 327	17%
Non-Operating Gains (Losses)	\$ (204)	\$ 126	\$ (330)	(261)%
Excess of Revenues over Expenses	\$ 998	\$ 1,001	\$ (3)	-%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2009 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	2008	2007
CURRENT ASSETS		
Cash	\$ 3,185,621	\$ 2,549,616
Assets whose use is limited, required for current liabilities	773,505	748,376
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2008 \$1,947,277; 2007 \$1,778,129	2,616,397	3,213,821
Estimated third party payor settlements	115,000	-
Other current receivables	39,663	41,986
Inventories	312,742	319,097
Prepaid expenses	199,657	203,432
Total current assets	<u>7,242,585</u>	<u>7,076,328</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,287,447	480,773
Certificates of deposit	4,107,554	4,607,554
Accrued interest receivable	7,468	22,176
	<u>5,402,469</u>	<u>5,110,503</u>
Restricted for payment of revenue notes and interest		
Cash	456,321	547,060
Certificates of deposit	783,774	783,774
	<u>1,240,095</u>	<u>1,330,834</u>
Restricted by donors for specific purpose		
Cash	112,324	442,235
Total assets whose use is limited	6,754,888	6,883,572
Less assets whose use is limited and that are required for current liabilities	773,505	748,376
Noncurrent assets whose use is limited	<u>5,981,383</u>	<u>6,135,196</u>
PROPERTY AND EQUIPMENT	24,415,070	23,461,339
Less accumulated depreciation	12,370,406	11,362,784
Total property and equipment	<u>12,044,664</u>	<u>12,098,555</u>
OTHER ASSETS		
Unamortized financing costs	30,524	39,985
Other receivable	-	12,500
Beneficial interest in remainder trust	212,000	220,000
Investment in Floyd Valley Associates	-	2,121
Investment in Northwest Iowa Diagnostics	49,034	35,485
Investment in Floyd Valley Home Medical Equipment	163,105	191,812
Total other assets	<u>454,663</u>	<u>501,903</u>
 Totals	 <u>\$25,723,295</u>	 <u>\$25,811,982</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND EQUITY		2008	2007
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 725,000	\$ 695,000
Accounts payable			
Trade		1,800,412	1,855,306
Construction and equipment		88,941	345,156
Accrued employee compensation		740,683	673,689
Security deposits		25,750	24,000
Payroll taxes and amounts withheld from employees		81,557	70,670
Accrued interest		48,505	53,376
Estimated third-party payor settlements		<u>225,000</u>	<u>395,000</u>
Total current liabilities		<u>3,735,848</u>	<u>4,112,197</u>
LONG-TERM DEBT , less current maturities		<u>4,723,241</u>	<u>5,433,660</u>
Total liabilities		<u>8,459,089</u>	<u>9,545,857</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		6,596,423	5,969,895
Restricted		1,352,419	1,773,069
Unrestricted		<u>9,315,364</u>	<u>8,523,161</u>
Total fund equity		<u>17,264,206</u>	<u>16,266,125</u>
Totals		<u>\$25,723,295</u>	<u>\$25,811,982</u>

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

	Year ended June 30	
	2008	2007
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2008 \$600,672; 2007 \$517,392	\$20,839,950	\$19,769,985
OTHER REVENUE	<u>1,731,494</u>	<u>1,668,201</u>
Total revenue	<u>22,571,444</u>	<u>21,438,186</u>
EXPENSES		
Nursing service	6,721,307	6,418,330
Other professional service	6,455,184	6,130,695
General service	1,698,411	1,516,288
Fiscal and administrative service and unassigned expenses	5,268,622	4,964,374
Provision for depreciation	<u>1,225,405</u>	<u>1,181,370</u>
Total expenses	<u>21,368,929</u>	<u>20,211,057</u>
Operating income	<u>1,202,515</u>	<u>1,227,129</u>
NONOPERATING GAINS (LOSSES)		
Interest income	365,589	387,745
Interest and amortization expense	(324,812)	(354,095)
Unrestricted contribution	325	1,366
Transfer to related foundation	(340,105)	-
Change in value of split-interest agreement	(8,000)	45,900
Equity in earnings of equity method investments	56,155	84,409
Gain (loss) on disposal of equipment	<u>(5,580)</u>	<u>2,792</u>
Total nonoperating gains (losses)	<u>(256,428)</u>	<u>168,117</u>
Excess of revenues over expenses before contributions	946,087	1,395,246
RESTRICTED CONTRIBUTIONS	<u>51,994</u>	<u>71,340</u>
Change in fund equity	998,081	1,466,586
TOTAL FUND EQUITY		
Beginning	<u>16,266,125</u>	<u>14,799,539</u>
Ending	<u>\$17,264,206</u>	<u>\$16,266,125</u>

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$21,152,374	\$18,868,613
Cash paid to employees for service	(10,304,408)	(9,698,949)
Cash paid to suppliers for goods and services	(9,805,999)	(8,795,794)
Other operating revenue received	<u>1,735,567</u>	<u>1,684,940</u>
Net cash provided by operating activities	<u>2,777,534</u>	<u>2,058,810</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	325	1,366
Contributions restricted for property and equipment, net	156,920	71,340
Transfer to related foundation	<u>(340,105)</u>	<u>—</u>
Net cash provided by (used in) noncapital financing activities	<u>(182,860)</u>	<u>72,706</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,435,923)	(1,088,687)
Proceeds from sale of property and equipment	—	6,226
Principal paid on long-term debt	(695,000)	(675,000)
Interest paid on long-term debt	<u>(305,640)</u>	<u>(334,174)</u>
Net cash (used in) capital and related financing activities	<u>(2,436,563)</u>	<u>(2,091,635)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,506,978)	(5,271,108)
Proceeds from maturities of certificates of deposit	8,916,978	4,821,444
Distribution from Floyd Valley Associates	2,121	25,000
Distribution from Northwest Iowa Diagnostics	—	28,800
Distribution from Floyd Valley Home Medical Equipment	71,500	—
Interest received	<u>380,297</u>	<u>385,830</u>
Net cash provided by (used in) investing activities	<u>863,918</u>	<u>(10,034)</u>
NET INCREASE IN CASH	1,022,029	29,847
CASH		
Beginning	<u>4,019,684</u>	<u>3,989,837</u>
Ending	<u>\$ 5,041,713</u>	<u>\$ 4,019,684</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$1,202,515	\$1,227,129
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,225,405	1,181,370
Change in assets and liabilities		
(Increase) decrease in patient receivables	597,424	(904,745)
Decrease in other current receivables	2,323	4,489
(Increase) decrease in inventories	6,355	(15,787)
(Increase) decrease in prepaid expenses	3,775	(14,045)
Decrease in other receivable	-	18,750
Increase (decrease) in estimated third-party payor settlements	(285,000)	3,373
Increase (decrease) in accounts payable, net of amounts for property and equipment	(54,894)	529,233
Increase in accrued employee compensation	66,994	52,640
Increase (decrease) in security deposits	1,750	(6,500)
Increase (decrease) in payroll taxes and withholdings	<u>10,887</u>	<u>(17,097)</u>
Net cash provided by operating activities	<u>\$2,777,534</u>	<u>\$2,058,810</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$3,185,621	\$2,549,616
Assets whose use is limited		
Designated by board for plant expansion	1,287,447	480,773
Restricted for payment of revenue notes and interest	456,321	547,060
Restricted by donors for specific purpose	<u>112,324</u>	<u>442,235</u>
Total per statements of cash flows	<u>\$5,041,713</u>	<u>\$4,019,684</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Increase (decrease) in beneficial interest in remainder trust	\$ <u>(8,000)</u>	\$ <u>45,900</u>

See Notes to Financial Statements.

Floyd Valley Hospital Foundation
(A Component Unit of Floyd Valley Hospital)
STATEMENT OF FINANCIAL POSITION
June 30, 2008

ASSETS

Interest in the net assets of Avera Health Investment Pool	\$ 393,804
Contributions	<u>2,658</u>
TOTAL ASSETS	\$ <u>396,462</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	\$ <u>257</u>
NET ASSETS	
Unrestricted	
Designated by Board for endowment	52,223
Undesignated	64,187
Temporarily restricted	266,868
Permanently restricted	<u>12,927</u>
Total net assets	<u>396,205</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>396,462</u>

Floyd Valley Hospital Foundation
(A Component Unit of Floyd Valley Hospital)
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Contributions	\$ 12,358	\$ 3,349	\$ 500	\$ 16,207
Special event	-	13,081	-	13,081
Investment return	10,390	21,357	-	31,747
	<u>22,748</u>	<u>37,787</u>	<u>500</u>	<u>61,035</u>
Net assets released from restrictions				
Satisfaction of purpose	4,935	(4,935)	-	-
Total revenue and support	27,683	32,852	500	61,035
PROGRAM EXPENSES				
Floyd Valley Hospital Employee Assistance	1,500	-	-	1,500
Pediatrics, cost of direct benefit to donors	3,035	-	-	3,035
Scholarship	400	-	-	400
Total program expenses	<u>4,935</u>	<u>-</u>	<u>-</u>	<u>4,935</u>
Change in net assets before transfer from Floyd Valley Hospital	22,748	32,852	500	56,100
Transfer from Floyd Valley Hospital	<u>93,662</u>	<u>234,016</u>	<u>12,427</u>	<u>340,105</u>
CHANGE IN NET ASSETS	116,410	266,868	12,927	396,205
NET ASSETS , beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS , end of year	<u>\$ 116,410</u>	<u>\$ 266,868</u>	<u>\$ 12,927</u>	<u>\$ 396,205</u>

See Notes to Financial Statements.

Floyd Valley Hospital Foundation
(A Component Unit of Floyd Valley Hospital)
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 56,100
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
(Increase) in accounts and contributions receivable	(2,658)
Increase in accounts payable	<u>257</u>
Net cash provided by operating activities	<u>53,699</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net purchase of the interest in the net assets of Avera Health Foundation	(393,804)
Net cash (used in) investing activities	<u>(393,804)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Transfer from Floyd Valley Hospital	<u>340,105</u>
Net cash provided by financing activities	<u>340,105</u>

NET CHANGE IN CASH

-

CASH

Beginning	<u> -</u>
Ending	<u>\$ <u> -</u></u>

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 that are not legally separate. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital has 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. For the fiscal year ended June 30, 2008 Floyd Valley Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Floyd Valley Hospital Foundation. The Foundation's financial statements are separately presented on pages 15-17.

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.

Floyd Valley Hospital Foundation's financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Standards (continued)

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

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.

Assets held by Avera Health Investment Pool by the Floyd Valley Hospital Foundation with readily determinable market values are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national and foreign securities exchanges.

The Foundation participates in the Avera Pooled Investment Fund, a fund administered by Avera Health. The Pooled Investment Fund has a portion of its holdings in alternative investments, which are not readily marketable. These alternative investments include partnerships and other interests that invest in hedge funds, real asset funds, and private equity/venture capital funds, among others. Alternative investments representing less than 3% ownership interest are carried at cost. Alternative investments representing greater than 3% ownership interest are recorded using the equity method. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants of the Avera Pooled Investment Fund. (See Note 20)

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

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

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.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity (continued)

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.

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, 2008 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.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND INVESTMENTS (continued)

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

NOTE 3 PATIENT RECEIVABLES

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

	June 30	
	2008	2007
Receivable from patients	\$1,904,956	\$1,576,718
Receivable from insurance carriers	1,387,272	1,927,940
Receivable from Medicare	1,059,907	1,221,968
Receivable from Medicaid	<u>211,539</u>	<u>265,324</u>
Total patient receivables	4,563,674	4,991,950
Less allowances for contractual and other adjustments	<u>(1,947,277)</u>	<u>(1,778,129)</u>
Totals	<u>\$2,616,397</u>	<u>\$3,213,821</u>

NOTE 4 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2008 and 2007 follows:

	Balance July 1, 2007	Additions	Deletions	Transfers	Ending June 30, 2008
	Land	\$ 103,274	\$ -	\$ -	\$ -
Land improvements	703,637	-	-	-	703,637
Buildings and fixed equipment	13,020,628	3,947	(11,197)	1,495,836	14,509,214
Major movable equipment	5,612,525	241,719	(214,780)	382,872	6,022,336
Land and buildings leased to others	2,957,580	-	-	-	2,957,580
Construction and equipment installations in progress	<u>1,063,695</u>	<u>934,042</u>	<u>-</u>	<u>(1,878,708)</u>	<u>119,029</u>
Totals	23,461,339	1,179,708	(225,977)	-	24,415,070
Less accumulated depreciation and amortization	<u>(11,362,784)</u>	<u>(1,225,405)</u>	<u>217,783</u>	<u>-</u>	<u>(12,370,406)</u>
Net property and equipment	<u>\$12,098,555</u>	<u>\$ (45,697)</u>	<u>\$ (8,194)</u>	<u>\$ -</u>	<u>\$12,044,664</u>
	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>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended June 30, 2008 and 2007 amounted to \$1,225,405 and \$1,181,370, respectively.

During the year ended June 30, 2008 the Hospital began a renovation of the LeMars, Iowa, medical office building and construction of a new medical office building in Remsen, Iowa. The renovation and construction are funded by existing Hospital funds. (See Note 22)

NOTE 5 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$19,047 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, 2008 and 2007 includes gross rental income of \$227,155 and \$225,578, respectively, for these leases.

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

Year ending June 30

2009	\$ <u>90,236</u>
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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, 2008 and 2007.

	Reserve Fund	Sinking Fund
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	-	(1,009,174)
Balance, June 30, 2007	783,774	547,060
Transfers from current asset cash	-	897,705
Interest income	-	12,196
Payment of notes and interest	-	(1,000,640)
Balance, June 30, 2008	\$ <u>783,774</u>	\$ <u>456,321</u>

NOTE 7 INVESTMENT IN FLOYD VALLEY ASSOCIATES

The Hospital had a 50% investment interest in Floyd Valley Associates, an entity engaged in providing bone densitometry testing services. The investment was accounted for using the equity method. The Hospital had recorded its share of the entity's income of \$-0- and \$3,257 for the years ended June 30, 2008 and 2007, respectively. In October 2007, the investment in Floyd Valley Associates was terminated.

**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 \$13,549 and \$29,615 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, the Hospital received \$106,501 and \$118,618, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$127,440 and \$133,500 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2008 and 2007, 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 \$42,794 and \$51,537 for the years ended June 30, 2008 and 2007, 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 two 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, 2008 and 2007, the Hospital received \$102,839 and \$90,779, 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 an annual rate of 5.9%.

Outstanding June 30	
2008	2007
\$ 30,591	\$ 61,185

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%.

-	231,475
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**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2008	2007
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 4.35% 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>	1,298,500	1,396,500
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 4.0% 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>	3,616,200	3,689,700
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 an annual rate of 3.35%. The notes are not subject to redemption prior to maturity.</p>	118,800	237,600
Hospital Revenue Notes, Series 2004		
<p>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 through November 1, 2008, with interest coupons payable on May 1 and November 1 at an annual rate of 5.15%. The notes are not subject to redemption prior to maturity.</p>	384,150	512,200
Totals	5,448,241	6,128,660
Less current maturities	(725,000)	(695,000)
Total long-term debt	\$4,723,241	\$5,433,660

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

As to the above Hospital Revenue Notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Notes were issued to finance capital improvements of the Hospital. The net revenues are pledged through November, 2023. As of June 30, 2008 the remaining principal and interest on the Notes was \$7,910,999. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2008 and 2007:

	Year ended June 30	
	2008	2007
Change in fund equity	\$ 998,081	\$1,466,586
Provision for depreciation	1,225,405	\$1,181,370
Interest and amortization expense	324,812	354,095
 Pledged net revenues	 \$2,548,298	 \$3,002,051
 Principal and interest requirements	 \$1,000,640	 \$1,009,174

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. These notes are reported net of unamortized discount of \$111,759 and \$126,340 as of June 30, 2008 and 2007, respectively.

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

	Revenue notes payable		
	Principal	Interest	Total
Year ending June 30			
2009	\$ 725,000	\$ 274,160	\$ 999,160
2010	290,000	250,945	540,945
2011	255,000	238,678	493,678
2012	265,000	226,365	491,365
2013	285,000	212,928	497,928
2014 to 2018	1,625,000	828,385	2,453,385
2019 to 2023	2,115,000	318,738	2,433,738
 Total	 5,560,000	 2,350,199	 \$7,910,199
Less unamortized discount	(111,759)	—	
 Totals	 \$5,448,241	 \$2,350,199	

Long-term debt activity for the years ended June 30, 2008 and 2007 follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2008					
Hospital revenue notes	\$6,255,000	\$ —	\$ 695,000	\$5,560,000	\$ 725,000
2007					
Hospital revenue notes	\$6,930,000	\$ —	\$ 675,000	\$6,255,000	\$ 695,000

**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, 2008 and 2007.

	2008	2007
Charges foregone, based on established rates	\$ <u>195,581</u>	\$ <u>115,827</u>
Equivalent percentage of charity care patients to all patients served	<u>.7%</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 3.90% of their annual salary and the Hospital is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$462,007, \$408,811 and \$384,815, 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, 2008 and 2007 was \$1,386,578 and \$1,334,326, 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, 2008 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, 2008 totals	<u>\$21,368,929</u>	<u>\$ 974,115</u>	<u>\$22,343,044</u>	<u>\$24,600,000</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 a split-interest agreement. The Hospital reports separately the assets of the split-interest agreement in its balance sheet and it reported contribution revenue of \$220,000 for the year ended June 30, 2007 and a change in value of \$(8,000) for the year ended June 30, 2008 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 the 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 2008 life expectancy tables (published by the National Center of Health Statistics) and a 6% discount rate were used.

NOTE 19 FLOYD VALLEY HOSPITAL FOUNDATION

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Floyd Valley Hospital Foundation is a component unit of the Hospital. The Floyd Valley Hospital Foundation was established in January 2006 and became active January 2008 to raise funds to support the operations and other activities of the Floyd Valley Hospital. And as such, the Foundation is considered to be a component unit of the Hospital based on the related benefits to the Hospital. The Foundation's audited statement of financial position as of June 30, 2008, and audited statements of activities and cash flows for the year then ended, are included on pages 15-17.

NOTE 20 ASSETS HELD AT THE AVERA HEALTH FOUNDATION

In 2008, the Floyd Valley Hospital Foundation (FVHF) transferred assets to the Avera Health (AH) to be part of a common investment fund, Avera Health Pooled Investments (AHPI).

Amounts reported in the statement of financial position of FVHF as interest in the net assets of AHPI represents the net cumulative transfers by FVHF to AHPI as well as earnings net of disbursements. Distributions may be requested from time to time from the investment fund to meet the requirements FVHF has established for its charitable, educational or scientific purposes. Generally, FVHF can request payment for all or any part of its funds upon thirty day notice to AH.

The assets transferred to AHPI are invested in a pooled investment fund at the direction of AHPI Committee. The objective of the fund is optimum total return consistent with a high degree of liquidity and reasonable safety of principal. The investment allocation at June 30, 2008 was as follows:

Non-publicly traded stocks, trusts, and partnerships (alternative investments)	22.3%
US Treasury and Agency obligations	22.0%
Foreign stocks and other	15.0%
Institutional equity mutual funds	14.4%
Publicly traded equity securities	10.7%
Cash and short-term investments	5.5%
Corporate bonds and other fixed income	5.1%
Publicly traded mutual funds	5.0%
Institutional equity mutual funds - foreign	<u>0.0%</u>
	<u>100.0%</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 20 ASSETS HELD AT THE AVERA HEALTH FOUNDATION (continued)

Investment income, realized and unrealized gains and losses, and trustee fees of the investment pool are allocated to the FVHF based on the pooled assets value. Allocation of investment income is as follows for the year ended June 30, 2008:

Interest, dividends and net realized gains and losses	\$ 15,085
Net unrealized gains	<u>16,662</u>
Investment income, net	<u>\$ 31,747</u>

NOTE 21 FLOYD VALLEY HOSPITAL FOUNDATION NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2008:

Medical records equipment	\$ 233,307
Pediatric equipment	20,288
Employee assistance	12,580
EMS training scholarship	<u>693</u>
	<u>\$ 266,868</u>

Permanently restricted net assets are available to provide support for the EMS training scholarship and total \$12,927.

NOTE 22 COMMITMENTS

The Hospital has financial commitments relating to a construction project for the Remsen Medical Office Building estimated to be approximately \$568,000 in total. As of June 30, 2008 \$37,400 had been incurred.

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 2008 and 2007 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 22, 2008

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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
0 - 60 days	\$2,758,590	\$3,186,478	60.45%	63.83%
61 - 90 days	390,270	493,628	8.55	9.89
91 - 180 days	644,230	628,568	14.11	12.59
Over 6 months	<u>770,584</u>	<u>683,276</u>	<u>16.89</u>	<u>13.69</u>
Totals	<u>4,563,674</u>	<u>4,991,950</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	790,295	672,872		
Contractual adjustments	<u>1,156,982</u>	<u>1,105,257</u>		
Total allowances	<u>1,947,277</u>	<u>1,778,129</u>		
Totals	<u>\$2,616,397</u>	<u>\$3,213,821</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
BALANCE , beginning	\$ 672,872	\$ 559,240
ADD		
Provision for bad debts	600,672	517,392
Recoveries of accounts previously written off	213,726	232,544
LESS		
Accounts written off	<u>(696,975)</u>	<u>(636,304)</u>
BALANCE , ending	<u>\$ 790,295</u>	<u>\$ 672,872</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
General stores	\$ 121,594	\$ 129,007
Pharmacy	127,907	120,863
Operating room	55,162	61,555
Intravenous solutions	3,086	3,112
Marcus clinic	<u>4,993</u>	<u>4,560</u>
Totals	<u>\$ 312,742</u>	<u>\$ 319,097</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Farm Bureau Mutual Insurance Company (policy expiration November 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/shared limit	 \$35,000,000
 Automobiles	
Liability	\$1,000,000
Collision	\$500 deductible
Uninsured/under insured motorist	\$1,000,000
Medical payments	\$5,000
 Directors' and officers' liability	 \$15,000,000 \$250,000 deductible
 Employee dishonesty liability	 \$1,000,000 \$25,000 deductible
 Employed physician's liability	 \$1,000,000/3,000,000
 Commercial property	
Real property	\$25,279,422
Personal property	\$3,569,324
Earnings and extra expense	\$12,450,347 \$10,000 deductible

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>2008</u>	<u>2007</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 1,470,011	\$ 1,451,925
Long term care	302,252	203,366
Nursery	51,678	50,052
	<u>1,823,941</u>	<u>1,705,343</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	3,243,257	2,792,893
Delivery and labor room	112,874	95,961
Central service and supply	1,704,610	1,695,166
Emergency service	3,220,291	2,881,939
Home health services	940,646	838,474
	<u>9,221,678</u>	<u>8,304,433</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	3,998,328	3,706,556
Electrocardiology	953,509	767,692
Radiology	5,740,192	5,426,830
Pharmacy	2,512,941	2,756,163
Anesthesiology	1,849,842	1,512,055
Respiratory therapy	253,580	287,668
Physical therapy	1,064,236	1,099,063
Occupational therapy	127,882	155,899
Speech therapy	155,693	150,301
Enterostomy	158,939	137,661
Audiology	2,703	2,992
Marcus clinic	120,898	130,287
Cardiac rehabilitation	99,915	79,674
	<u>17,038,658</u>	<u>16,212,841</u>
	28,084,277	26,222,617
Charity care charges foregone, based on established rates	<u>(195,581)</u>	<u>(115,827)</u>
Total gross patient service revenue	27,888,696	26,106,790
Provisions for contractual and other adjustments	<u>(7,048,746)</u>	<u>(6,336,805)</u>
Net patient service revenue	<u>\$20,839,950</u>	<u>\$19,769,985</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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
\$1,470,011	\$1,451,925	\$ -	\$ -	\$ -	\$ -
-	-	-	-	302,252	203,366
51,678	50,052	-	-	-	-
<u>1,521,689</u>	<u>1,501,977</u>	<u>-</u>	<u>-</u>	<u>302,252</u>	<u>203,366</u>
1,213,848	1,078,541	2,029,409	1,714,352	-	-
93,052	78,681	19,822	17,280	-	-
967,193	1,034,047	605,314	565,480	132,103	95,639
87,351	86,979	3,129,544	2,789,840	3,396	5,120
-	-	940,646	838,474	-	-
<u>2,361,444</u>	<u>2,278,248</u>	<u>6,724,735</u>	<u>5,925,426</u>	<u>135,499</u>	<u>100,759</u>
708,526	727,979	3,211,258	2,919,328	78,544	59,249
90,685	93,276	852,581	671,410	10,243	3,006
436,364	575,597	5,246,785	4,807,155	57,043	44,078
832,097	1,067,255	1,415,994	1,520,477	264,850	168,431
727,789	745,466	1,116,265	764,536	5,788	2,053
123,260	146,713	70,820	84,192	59,500	56,763
54,218	57,297	916,062	975,889	93,956	65,877
11,634	15,550	70,974	106,058	45,274	34,291
22,348	16,030	111,020	115,817	22,325	18,454
8,881	9,876	130,779	119,638	19,279	8,147
1,260	1,565	1,443	1,427	-	-
-	-	120,898	130,287	-	-
-	-	99,915	79,674	-	-
<u>3,017,062</u>	<u>3,456,604</u>	<u>13,364,794</u>	<u>12,295,888</u>	<u>656,802</u>	<u>460,349</u>
<u>\$6,900,195</u>	<u>\$7,236,829</u>	<u>\$20,089,529</u>	<u>\$18,221,314</u>	<u>\$1,094,553</u>	<u>\$ 764,474</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Contractual adjustments	\$6,228,268	\$5,685,480
Employee and other allowances	179,691	96,726
Clinic discounts and adjustments	40,115	37,207
Provision for bad debts	<u>600,672</u>	<u>517,392</u>
Totals	<u>\$7,048,746</u>	<u>\$6,336,805</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Cafeteria	\$ 105,480	\$ 106,540
Rental income	269,445	270,818
Park Place Estates	960,306	928,018
Other	<u>396,263</u>	<u>362,825</u>
Totals	<u>\$1,731,494</u>	<u>\$1,668,201</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
NURSING ADMINISTRATION		
Salaries	\$ 157,555	\$ 151,870
Supplies and expenses	4,939	4,069
	<u>162,494</u>	<u>155,939</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,304,627	1,296,839
Supplies and expenses	101,350	55,372
	<u>1,405,977</u>	<u>1,352,211</u>
SWING BED		
Salaries	<u>210,260</u>	<u>183,133</u>
NURSERY		
Salaries	36,422	38,701
Supplies and expenses	3,367	2,251
	<u>39,789</u>	<u>40,952</u>
OPERATING AND RECOVERY ROOMS		
Salaries	430,037	379,098
Professional fees	968,709	1,020,827
Supplies and expenses	174,117	171,424
	<u>1,572,863</u>	<u>1,571,349</u>
DELIVERY AND LABOR ROOM		
Salaries	44,101	38,774
Supplies and expenses	4,235	5,712
	<u>48,336</u>	<u>44,486</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	115,726	107,232
Purchased services	16,547	18,643
Supplies and expenses	640,256	631,233
	<u>772,529</u>	<u>757,108</u>
EMERGENCY SERVICE		
Salaries	679,493	639,501
Professional fees	967,405	898,956
Supplies and expenses	66,118	55,063
	<u>1,713,016</u>	<u>1,593,520</u>
HOME HEALTH		
Salaries	668,272	607,024
Purchased services	15,474	13,673
Supplies and expenses	112,297	98,935
	<u>796,043</u>	<u>719,632</u>
Totals	<u>\$6,721,307</u>	<u>\$6,418,330</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
LABORATORY		
Salaries	\$ 386,980	\$ 363,655
Professional fees	6,512	4,946
Purchased services	176,151	149,069
Supplies and expenses	304,511	253,330
Blood	72,815	61,111
	<u>946,969</u>	<u>832,111</u>
ELECTROCARDIOLOGY		
Salaries	11,294	11,582
Purchased services	153,832	155,200
Supplies and expenses	1,069	1,238
	<u>166,195</u>	<u>168,020</u>
RADIOLOGY		
Salaries	506,431	473,658
Professional fees	731,874	725,011
Purchased services	557,936	527,243
Supplies and expenses	198,240	200,506
	<u>1,994,481</u>	<u>1,926,418</u>
PHARMACY		
Salaries	208,047	193,276
Purchased services	1,150	905
Drugs	668,321	676,203
Intravenous solutions and supplies	16,321	16,503
Supplies and expenses	5,215	11,779
	<u>899,054</u>	<u>898,666</u>
ANESTHESIOLOGY		
Purchased services	610,304	456,548
Supplies and expenses	13,187	6,868
	<u>623,491</u>	<u>463,416</u>
RESPIRATORY THERAPY		
Salaries	131,910	129,217
Purchased services	293	-
Supplies and expenses	14,867	11,456
	<u>147,070</u>	<u>140,673</u>
PHYSICAL THERAPY		
Salaries	113,537	109,153
Purchased services	524,061	541,218
Supplies and expenses	23,296	22,456
	<u>660,894</u>	<u>672,827</u>
OCCUPATIONAL THERAPY		
Purchased services	62,662	76,391
Supplies and expenses	83	245
	<u>62,745</u>	<u>76,636</u>
OCCUPATIONAL HEALTH		
Salaries	40,756	48,189
Supplies and expense	6,873	8,753
	<u>47,629</u>	<u>56,942</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2008	2007
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 87,506	\$ 74,148
Supplies and expenses	<u>3,158</u>	<u>2,899</u>
	<u>90,664</u>	<u>77,047</u>
SPEECH THERAPY		
Purchased services	105,872	102,204
Supplies and expenses	<u>396</u>	<u>268</u>
	<u>106,268</u>	<u>102,472</u>
ENTEROSTOMY		
Salaries	135,066	140,340
Supplies and expenses	<u>8,121</u>	<u>13,833</u>
	<u>143,187</u>	<u>154,173</u>
AUDIOLOGY		
Salaries	1,618	2,308
Purchased services	133	160
Supplies and expenses	<u>1,029</u>	<u>1,239</u>
	<u>2,780</u>	<u>3,707</u>
MARCUS CLINIC		
Salaries	89,635	87,193
Professional fees	42,328	46,218
Purchased services	3,975	4,235
Supplies and expenses	<u>21,363</u>	<u>20,318</u>
	<u>157,301</u>	<u>157,964</u>
CARDIAC REHABILITATION		
Salaries	67,766	63,473
Supplies and expenses	<u>2,836</u>	<u>2,264</u>
	<u>70,602</u>	<u>65,737</u>
LIFELINE		
Salaries	12,297	10,781
Supplies and expenses	<u>2,763</u>	<u>2,210</u>
	<u>15,060</u>	<u>12,991</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	76,155	65,138
Supplies and expenses	<u>2,682</u>	<u>2,362</u>
	<u>78,837</u>	<u>67,500</u>
MEDICAL RECORDS		
Salaries	135,906	135,382
Purchased services	46,442	55,008
Supplies and expenses	<u>59,609</u>	<u>63,005</u>
	<u>241,957</u>	<u>253,395</u>
Totals	<u>\$6,455,184</u>	<u>\$6,130,695</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
DIETARY		
Salaries	\$ 377,015	\$ 339,336
Food	249,132	208,851
Purchased services	44,802	39,250
Supplies and expenses	<u>64,650</u>	<u>55,522</u>
	<u>735,599</u>	<u>642,959</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	244,763	206,068
Utilities	276,227	249,484
Purchased services	34,282	33,641
Supplies and expenses	<u>103,818</u>	<u>105,667</u>
	<u>659,090</u>	<u>594,860</u>
HOUSEKEEPING		
Salaries	189,717	180,416
Purchased services	1,145	637
Supplies and expenses	<u>30,956</u>	<u>26,987</u>
	<u>221,818</u>	<u>208,040</u>
LAUNDRY AND LINEN		
Purchased services	63,017	59,686
Linens	17,768	9,825
Supplies and expenses	<u>1,119</u>	<u>918</u>
	<u>81,904</u>	<u>70,429</u>
 Totals	 <u>\$1,698,411</u>	 <u>\$1,516,288</u>

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

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 137,094	\$ 123,047
Management fee	418,830	321,508
Telephone	39,594	49,518
Postage	43,970	37,824
Supplies and expenses	110,584	176,084
Freight	30,663	26,119
Organization dues	23,706	22,668
Public relations	11,914	8,757
Activities	4,387	3,232
Marketing	<u>85,941</u>	<u>68,029</u>
	<u>906,683</u>	<u>836,786</u>
Business office		
Salaries	469,583	442,071
Supplies and expenses	<u>133,563</u>	<u>141,593</u>
	<u>603,146</u>	<u>583,664</u>
Data processing		
Salaries	94,286	88,653
Supplies and expenses	<u>131,906</u>	<u>139,425</u>
	<u>226,192</u>	<u>228,078</u>
Human resources		
Salaries	98,283	84,862
Supplies and expenses	<u>78,341</u>	<u>68,861</u>
	<u>176,624</u>	<u>153,723</u>
Risk management		
Salaries	49,850	42,169
Supplies and expenses	<u>128,698</u>	<u>123,378</u>
	<u>178,548</u>	<u>165,547</u>
Education		
Salaries	119,919	108,152
Purchased services	10,054	13,962
Supplies and expenses	<u>23,024</u>	<u>29,351</u>
	<u>152,997</u>	<u>151,465</u>
Park Place Estates		
Salaries	331,146	313,509
Purchased services	13,138	11,820
Supplies and expenses	<u>59,912</u>	<u>59,137</u>
	<u>404,196</u>	<u>384,466</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,030,273	933,393
Group health insurance	1,386,578	1,334,326
Life and disability insurance	99,071	96,971
Tuition assistance	12,027	10,047
Insurance	<u>92,287</u>	<u>85,908</u>
	<u>2,620,236</u>	<u>2,460,645</u>
Totals	<u>\$5,268,622</u>	<u>\$4,964,374</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Acute	2,486	2,846
Special care	42	42
Nursery	261	291
Swing bed		
Skilled nursing care	1,281	984
Intermediate care	<u>2</u>	<u>10</u>
Totals	<u>4,072</u>	<u>4,173</u>
ADMISSIONS	992	1,091
DISCHARGES	992	1,091
AVERAGE LENGTH OF STAY, acute and special care	2.55	2.65
BEDS	25	25
OCCUPANCY PERCENT, ACUTE	27.6%	31.6%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$56,940	\$54,164
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	45.95	59.34

**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 and
Floyd Valley Hospital Foundation
LeMars, Iowa

We have audited the financial statements of Floyd Valley Hospital and its component unit, Floyd Valley Hospital Foundation as of and for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's and Foundation'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 and Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation'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 Hospital's and Foundation'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 Hospital's and Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's and Foundation'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 Hospital's and Foundation'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 the Hospital's and Foundation'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 and Foundation's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Hospital and Foundation. Since our audits were 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 and Foundation 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 22, 2008

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2008**

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, 2008**

Part II—Findings Related to Required Statutory Reporting

08-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

08-II-B TRAVEL EXPENSES

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

08-II-C BUSINESS TRANSACTIONS

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

08-II-D BOARD MINUTES

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

08-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.