

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

FINANCIAL REPORT

June 30, 2009

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-9
FINANCIAL STATEMENTS	
Balance sheets	10-11
Statements of revenues, expenses, and changes in fund equity	12
Statements of cash flows	13-14
Statements of financial position	15
Statements of activities	16-17
Statements of cash flows	18
Notes to financial statements	19-34
REQUIRED SUPPLEMENTARY INFORMATION	35
Schedule of Funding Progress for the Retiree Health Plan	36
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	37
SUPPLEMENTARY INFORMATION	
Age analysis of patient receivables	38
Analysis of allowance for uncollectible accounts	38
Inventories	39
Insurance coverage	40
Patient service revenue	41-42
Provision for contractual and other adjustments	43
Other revenue	43
Nursing service expenses	44
Other professional service expenses	45-46
General service expenses	47
Fiscal and administrative service and unassigned expenses	48
Comparative statistics	49
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 <i>GOVERNMENT AUDITING STANDARDS</i>	50-51
SCHEDULE OF FINDINGS	52-53

Floyd Valley Hospital
OFFICIALS
June 30, 2009

Board of Trustees

Bill Rosacker, Chairman
Craig Bauerly, Vice Chairman
Jim Ryan, Treasurer
Larry Petersen, Secretary
William Young

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

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, 2009 and 2008, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. We have audited the statements of financial position of Floyd Valley Hospital Foundation, a component unit of Floyd Valley Hospital, as of June 30, 2009 and 2008 and the related statements of activities and cash flow 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, 2009 and 2008, 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 statements of financial position of the Floyd Valley Hospital Foundation presents fairly, in all material respects, its financial position as of June 30, 2009 and 2008, 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 November 5, 2009 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, and schedule of funding progress for the retiree health plan on page 36 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
November 5, 2009

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, 2009, 2008 and 2007. 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 \$436 thousand from FY 2008 to \$26.2 million.
- Total net property and equipment increased by \$297 thousand from FY 2008.
- Fund equity increased by \$947 thousand from FY 2008.
- FY 2009 net patient service revenue increased by \$755 thousand, primarily due to increases in outpatient utilization as well as charge rate increases effective July 1, 2008.
- FY 2009 expenses increased by \$1.4 million due to cost increases on supplies and staffing.
- Total margin for FY 2009 was 4.0%, compared to 4.4% for FY 2008 and 6.8% for FY 2007.

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, 2009, 2008, and 2007 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2009	June 30, 2008	June 30, 2007
Current and other assets	\$13,818	\$13,679	\$13,713
Property and Equipment	\$12,341	\$12,044	\$12,099
Total Assets	\$26,159	\$25,723	\$25,812
Long term debt outstanding	\$ 5,098	\$ 5,488	\$ 6,129
Other liabilities	\$ 2,850	\$ 2,971	\$ 3,417
Total liabilities	\$ 7,948	\$ 8,459	\$ 9,546
Invested in Capital Assets	\$ 7,243	\$ 6,596	\$ 5,970
Restricted	\$ 1,095	\$ 1,353	\$ 1,773
Unrestricted	\$ 9,873	\$ 9,315	\$ 8,523
Total Fund Equity	\$18,211	\$17,264	\$16,266

As can be seen in Table 1, net assets increased by \$947 thousand to \$18.21 million in fiscal year 2009, up from \$17.26 million in fiscal year 2008 and \$16.27 million in fiscal year 2007. 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, 2009, 2008 and 2007.

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

	2009	2008	2007
Total Revenue	\$23,621	\$22,571	\$21,438
Expenses	\$22,817	\$21,369	\$20,211
Operating Income	\$ 804	\$ 1,202	\$ 1,227
Non-Operating Gains (Losses)	\$ 28	\$ (256)	\$ 168
Excess of Revenues over expenses before contributions	\$ 832	\$ 946	\$ 1,395
Contributions	\$ 115	\$ 52	\$ 71
Changes in Fund Equity	\$ 947	\$ 998	\$ 1,466
Total Fund Equity, Beginning	\$17,264	\$16,266	\$14,800
Total Fund Equity, Ending	\$18,211	\$17,264	\$16,266

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2009, 2008 and 2007.

Volume: Inpatient admissions for fiscal year 2009 were 12% less than in 2008. Outpatient utilization was 4% greater than the prior fiscal year. Skilled care admissions were 6% less than the prior year, while Home Health visits were up by 1%. 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 4.1% effective July 1, 2008, and the changes in services described above, net patient revenues increased by \$755 thousand or 3.6% in comparison to fiscal year 2008.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2009, 2008 and 2007.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2009	2008	2007
Medicare	44.9%	44.2%	44.0%
Wellmark Blue Cross	21.8%	23.5%	30.0%
Commercial	23.7%	22.9%	17.9%
Medicaid	6.5%	6.0%	5.1%
All others	3.1%	3.4%	3.0%

Nursing Service expenses increased by 3.3% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by 4.7% 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 2009, the hospital has invested \$12.3 million in capital assets as shown in Table 4.

Table 4
Capital Assets
(in thousands)

	June 30,		
	2009	2008	2007
Land & Land Improvements	\$ 827	\$ 807	\$ 807
Buildings	\$ 14,538	\$ 14,509	\$ 13,020
Major Moveable Equipment	\$ 6,326	\$ 6,022	\$ 5,612
Land & Buildings Leased to Others	\$ 3,603	\$ 2,958	\$ 2,958
Construction/Equipment Installs in Progress	\$ —	\$ 119	\$ 1,064
Subtotal	\$ 25,294	\$ 24,415	\$ 23,461
Less accumulated depreciation	(\$12,952)	(\$12,370)	(\$11,363)
Property, plant and equipment, net	\$ 12,342	\$ 12,045	\$ 12,098

Debt Administration:

At the end of fiscal year 2009, the hospital had \$4.8 million in debt related to Hospital Revenue Bonds and additional debt of \$360 thousand that was issued in December of 2008 from the Northwest Rural Electric Cooperative Rural Economic Development Loan Fund. This \$360 thousand dollar loan was related to the construction of a new physician clinic building in Remsen, Iowa. 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 \$21.6 million which was 3% less than budget for fiscal year ended June 30, 2009.

Operating Expenses were \$22.9 million which met budget expectations for the fiscal year ending June 30, 2009. Overall expenses matched closely with budget with no significant variances from the plan.

The following table compares fiscal year 2009 actual to budget information.

Table 5
Budget vs. Actual
(in thousands)

	FY 2009 Actual	FY 2009 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$29,635	\$29,196	\$439	2%
Contractual Adjustments & Bad Debt	\$8,040	\$7,377	\$663	9%
Net patient service revenue	\$21,595	\$21,819	\$(224)	(1)%
Other operating revenue	\$2,026	\$1,856	\$170	9%
Total operating revenue	\$23,621	\$23,675	\$(54)	-%
Operating Expenses	\$22,817	\$22,888	\$(71)	-%
Operating Gain/Loss	\$804	\$787	\$17	2%
Non-Operating Gains (Losses)	\$143	\$346	\$(203)	(59)%
Excess of Revenues over Expenses	\$947	\$1,133	\$(186)	(16)%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2010 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors especially Wellmark Blue Cross, which is a significant payor.
- 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	2009	2008
CURRENT ASSETS		
Cash	\$ 2,981,259	\$ 3,185,621
Assets whose use is limited, required for current liabilities	332,882	773,505
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2009 \$2,116,630; 2008 \$1,947,277	2,861,354	2,616,397
Estimated third party payor settlements	85,000	115,000
Other current receivables	39,895	39,663
Current portion of note receivable	250,000	-
Inventories	337,450	312,742
Prepaid expenses	187,628	199,657
Total current assets	7,075,468	7,242,585
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,163,406	1,287,447
Certificates of deposit	3,607,554	4,107,554
Accrued interest receivable	4,797	7,468
	4,775,757	5,402,469
Restricted for payment of revenue notes and interest		
Cash	205,223	456,321
Certificates of deposit	783,774	783,774
	988,997	1,240,095
Restricted by donors for specific purpose		
Cash	106,300	112,324
Total assets whose use is limited	5,871,054	6,754,888
Less assets whose use is limited and that are required for current liabilities	332,882	773,505
Noncurrent assets whose use is limited	5,538,172	5,981,383
PROPERTY AND EQUIPMENT	25,293,581	24,415,070
Less accumulated depreciation	12,952,105	12,370,406
Total property and equipment	12,341,476	12,044,664
OTHER ASSETS		
Unamortized financing costs	25,754	30,524
Note receivable, net of current portion	750,000	-
Beneficial interest in remainder trust	262,000	212,000
Investment in Northwest Iowa Diagnostics	40,766	49,034
Investment in Floyd Valley Home Medical Equipment	125,705	163,105
Total other assets	1,204,225	454,663
Totals	\$26,159,341	\$25,723,295

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND EQUITY		2009	2008
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 326,000	\$ 725,000
Accounts payable			
Trade		1,629,983	1,800,412
Construction and equipment		40,533	88,941
Accrued employee compensation		825,689	740,683
Security deposits		16,250	25,750
Payroll taxes and amounts withheld from employees		94,322	81,557
Accrued interest		42,882	48,505
Estimated third-party payor settlements		200,000	225,000
		<u>3,175,659</u>	<u>3,735,848</u>
LONG-TERM DEBT , less current maturities		<u>4,772,300</u>	<u>4,723,241</u>
Total liabilities		<u>7,947,959</u>	<u>8,459,089</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		7,243,176	6,596,423
Restricted		1,095,297	1,352,419
Unrestricted		<u>9,872,909</u>	<u>9,315,364</u>
Total fund equity		<u>18,211,382</u>	<u>17,264,206</u>
Totals		<u>\$26,159,341</u>	<u>\$25,723,295</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2009	2008
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2009 \$723,816; 2008 \$600,672	\$21,594,713	\$20,839,950
OTHER REVENUE	<u>2,026,378</u>	<u>1,731,494</u>
Total revenue	<u>23,621,091</u>	<u>22,571,444</u>
EXPENSES		
Nursing service	6,943,761	6,721,307
Other professional service	6,760,484	6,455,184
General service	1,790,873	1,698,411
Fiscal and administrative service and unassigned expenses	6,010,239	5,268,622
Provision for depreciation	<u>1,311,222</u>	<u>1,225,405</u>
Total expenses	<u>22,816,579</u>	<u>21,368,929</u>
Operating income	<u>804,512</u>	<u>1,202,515</u>
NONOPERATING GAINS (LOSSES)		
Interest income	241,231	365,589
Interest and amortization expense	(288,364)	(324,812)
Unrestricted contribution	200	325
Transfer to related foundation	-	(340,105)
Change in value of split-interest agreement	50,000	(8,000)
Equity in earnings of equity method investments	19,832	56,155
Gain (loss) on disposal of equipment	<u>4,698</u>	<u>(5,580)</u>
Total nonoperating gains (losses)	<u>27,597</u>	<u>(256,428)</u>
Excess of revenues over expenses before contributions	832,109	946,087
RESTRICTED CONTRIBUTIONS	<u>115,067</u>	<u>51,994</u>
Change in fund equity	947,176	998,081
TOTAL FUND EQUITY		
Beginning	<u>17,264,206</u>	<u>16,266,125</u>
Ending	<u>\$18,211,382</u>	<u>\$17,264,206</u>

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$21,354,756	\$21,152,374
Cash paid to employees for service	(11,145,084)	(10,304,408)
Cash paid to suppliers for goods and services	(11,451,572)	(9,805,999)
Other operating revenue received	<u>2,022,608</u>	<u>1,735,567</u>
Net cash provided by operating activities	<u>780,708</u>	<u>2,777,534</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	200	325
Contributions restricted for property and equipment, net	151,538	156,920
Transfer to related foundation	<u>—</u>	<u>(340,105)</u>
Net cash provided by (used in) noncapital financing activities	<u>151,738</u>	<u>(182,860)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,714,267)	(1,435,923)
Proceeds from sale of property and equipment	26,053	—
Principal paid on long-term debt	(725,000)	(695,000)
Proceeds from issuance of long-term debt	360,000	—
Interest paid on long-term debt	<u>(274,159)</u>	<u>(305,640)</u>
Net cash (used in) capital and related financing activities	<u>(2,327,373)</u>	<u>(2,436,563)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,680,354)	(8,506,978)
Proceeds from maturities of certificates of deposit	5,180,354	8,916,978
Distribution from Floyd Valley Associates	—	2,121
Distribution from Northwest Iowa Diagnostics	16,000	—
Distribution from Floyd Valley Home Medical Equipment	49,500	71,500
Interest received	<u>243,902</u>	<u>380,297</u>
Net cash provided by investing activities	<u>809,402</u>	<u>863,918</u>
NET INCREASE (DECREASE) IN CASH	(585,525)	1,022,029
CASH		
Beginning	<u>5,041,713</u>	<u>4,019,684</u>
Ending	<u>\$ 4,456,188</u>	<u>\$ 5,041,713</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2009	2008
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 804,512	\$1,202,515
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,311,222	1,225,405
Change in assets and liabilities		
(Increase) decrease in patient receivables	(244,957)	597,424
(Increase) decrease in other current receivables	(232)	2,323
(Increase) decrease in inventories	(24,708)	6,355
Decrease in prepaid expenses	12,029	3,775
(Increase) in note receivable	(1,000,000)	-
Increase (decrease) in estimated third-party payor settlements	5,000	(285,000)
(Decrease) in accounts payable, net of amounts for property and equipment	(170,429)	(54,894)
Increase in accrued employee compensation	85,006	66,994
Increase (decrease) in security deposits	(9,500)	1,750
Increase in payroll taxes and withholdings	<u>12,765</u>	<u>10,887</u>
Net cash provided by operating activities	<u>\$ 780,708</u>	<u>\$2,777,534</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$2,981,259	\$3,185,621
Assets whose use is limited		
Designated by board for plant expansion	1,163,406	1,287,447
Restricted for payment of revenue notes and interest	205,223	456,321
Restricted by donors for specific purpose	<u>106,300</u>	<u>112,324</u>
Total per statements of cash flows	<u>\$4,456,188</u>	<u>\$5,041,713</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Increase (decrease) in beneficial interest in remainder trust	<u>\$ 50,000</u>	<u>\$ (8,000)</u>

See Notes to Financial Statements.

Floyd Valley Hospital Foundation
(A Component Unit of Floyd Valley Hospital)
STATEMENTS OF FINANCIAL POSITION

	June 30	
ASSETS	2009	2008
Interest in the net assets of Avera Health Investment Pool	\$ 384,612	\$ 393,804
Contributions receivable	<u>3,303</u>	<u>2,658</u>
TOTAL ASSETS	<u>\$ 387,915</u>	<u>\$ 396,462</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ <u>234</u>	\$ <u>257</u>
NET ASSETS		
Unrestricted		
Designated by Board for endowment	46,620	52,223
Undesignated	77,990	64,187
Temporarily restricted	250,094	266,868
Permanently restricted	<u>12,977</u>	<u>12,927</u>
Total net assets	<u>387,681</u>	<u>396,205</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 387,915</u>	<u>\$ 396,462</u>

See Notes to Financial Statements.

Floyd Valley Hospital Foundation
(A Component Unit of Floyd Valley Hospital)
STATEMENTS OF ACTIVITIES

	Year ended June 30, 2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions	\$ 23,085	\$ 5,938	\$ 50	\$ 29,073
Special event	17,278	14,003	-	31,281
Investment gain (loss)	(11,995)	(27,493)	-	(39,488)
	<u>28,368</u>	<u>(7,552)</u>	<u>50</u>	<u>20,866</u>
Net assets released from restrictions				
Satisfaction of purpose	9,222	(9,222)	-	-
Total revenue and support	<u>37,590</u>	<u>(16,774)</u>	<u>50</u>	<u>20,866</u>
EXPENSES				
Program services				
Floyd Valley Hospital Employee Assistance	3,086	-	-	3,086
Pediatrics, cost of direct benefit to donors	3,037	-	-	3,037
Health education	15,504	-	-	15,504
Caring for life, cost of direct benefit to donors	3,339	-	-	3,339
Scholarship	-	-	-	-
Total program services	<u>24,966</u>	<u>-</u>	<u>-</u>	<u>24,966</u>
Supporting service				
Administrative services	4,424	-	-	4,424
Total expenses	<u>29,390</u>	<u>-</u>	<u>-</u>	<u>29,390</u>
Change in net assets before transfer from Floyd Valley Hospital	8,200	(16,774)	50	(8,524)
Transfer from Floyd Valley Hospital	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	8,200	(16,774)	50	(8,524)
NET ASSETS , beginning of year	<u>116,410</u>	<u>266,868</u>	<u>12,927</u>	<u>396,205</u>
NET ASSETS , end of year	<u>\$ 124,610</u>	<u>\$ 250,094</u>	<u>\$ 12,977</u>	<u>\$ 387,681</u>

See Notes to Financial Statements.

Year ended June 30, 2008

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
\$ 12,358	\$ 3,349	\$ 500	\$ 16,207
—	13,081	—	13,081
<u>10,390</u>	<u>21,357</u>	<u>—</u>	<u>31,747</u>
<u>22,748</u>	<u>37,787</u>	<u>500</u>	<u>61,035</u>
<u>4,935</u>	<u>(4,935)</u>	<u>—</u>	<u>—</u>
27,683	32,852	500	61,035
1,500	—	—	1,500
3,035	—	—	3,035
—	—	—	—
—	—	—	—
<u>400</u>	<u>—</u>	<u>—</u>	<u>400</u>
<u>4,935</u>	<u>—</u>	<u>—</u>	<u>4,935</u>
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>4,935</u>	<u>—</u>	<u>—</u>	<u>4,935</u>
22,748	32,852	500	56,100
<u>93,662</u>	<u>234,016</u>	<u>12,427</u>	<u>340,105</u>
116,410	266,868	12,927	396,205
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<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)
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,524)	\$ 56,100
Unrealized loss on investment	43,665	-
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
(Increase) in contributions receivable	(645)	(2,658)
Increase (decrease) in accounts payable	(23)	257
Net cash provided by operating activities	34,473	53,699
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of the interest in the net assets of Avera Health Foundation	(34,473)	(393,804)
Net cash (used in) investing activities	(34,473)	(393,804)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer from Floyd Valley Hospital	-	340,105
Net cash provided by financing activities	-	340,105
NET CHANGE IN CASH	-	-
CASH		
Beginning	-	-
Ending	\$ -	\$ -

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 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, 2009 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 15-18.

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.

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

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 21)

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

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 notes payable 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.

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.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements of Foundation Interest in Avera Health Investment Pool

The Foundation, based on information received from Avera Pooled Investment Fund, has determined the fair value of its interest in accordance with the provisions of Financial Accounting Standards Board Statement No. 157, Fair Value Measurements (SFAS 157), which provides a framework for measuring fair value under generally accepted accounting principles.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Income Taxes

In July 2006, Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for nonpublic entities until years beginning after December 15, 2008. The Foundation has elected to defer implementation of FIN 48, as allowable.

Subsequent Events

The Foundation has evaluated subsequent events through November 5, 2009, which was the date the financial statements were available to be issued.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2009 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.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 3 PATIENT RECEIVABLES

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

	June 30	
	2009	2008
Receivable from patients	\$2,079,327	\$1,904,956
Receivable from insurance carriers	1,561,179	1,387,272
Receivable from Medicare	1,024,222	1,059,907
Receivable from Medicaid	313,256	211,539
Total patient receivables	4,977,984	4,563,674
Less allowances for contractual and other adjustments	<u>(2,116,630)</u>	<u>(1,947,277)</u>
 Totals	 <u>\$2,861,354</u>	 <u>\$2,616,397</u>

NOTE 4 NOTE RECEIVABLE

The Hospital entered into an agreement with Avera McKennan to provide physician services for a four year term. As an inducement the Hospital, in the form of a note, advanced Avera McKennan \$1,000,000 which will be forgiven over a four year period with an interest rate of 2.76%. In the event of a default principal and interest immediately payable.

Notes receivable at June 30, 2009, are expected to be received as follows:

Year ending December 31,	
2010	\$ 250,000
2011	250,000
2012	250,000
2013	<u>250,000</u>
 Total	 <u>\$1,000,000</u>

NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2009 and 2008 follows:

	Balance July 1, 2008	Additions	Deletions	Transfers	Ending June 30, 2009
Land	\$ 103,274	\$ -	\$ -	\$ -	\$ 103,274
Land improvements	703,637	-	-	20,419	724,056
Buildings and fixed equipment	14,509,214	14,033	-	14,378	14,537,625
Major movable equipment	6,022,336	287,022	(744,086)	760,400	6,325,672
Land and buildings leased to others	2,957,580	-	(43,263)	688,637	3,602,954
Construction and equipment installations in progress	119,029	1,364,805	-	(1,483,834)	-
Totals	<u>24,415,070</u>	<u>1,665,860</u>	<u>(787,349)</u>	<u>-</u>	<u>25,293,581</u>
Less accumulated depreciation and amortization	<u>(12,370,406)</u>	<u>(1,311,222)</u>	<u>729,523</u>	<u>-</u>	<u>(12,952,105)</u>
 Net property and equipment	 <u>\$12,044,664</u>	 <u>\$ 354,638</u>	 <u>\$ (57,826)</u>	 <u>\$ -</u>	 <u>\$12,341,476</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (continued)

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending June 30, 2008</u>
Land	\$ 103,274	\$ -	\$ -	\$ -	\$ 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>

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$1,311,222 and \$1,225,405, respectively.

NOTE 6 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$3,305 as well as an annual payment of \$1,890. The leases expire at various times through 2012 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, 2009 and 2008 includes gross rental income of \$233,752 and \$227,155, respectively, for these leases.

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

Year ending June 30

2010	\$ 28,032
2011	15,936
2012	<u>2,656</u>
Total	<u>\$ 46,624</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 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, 2009 and 2008.

	<u>Reserve Fund</u>	<u>Sinking Fund</u>
Balance, June 30, 2007	\$ 783,774	\$ 547,060
Transfers from current asset cash	-	897,705
Interest income	-	12,196
Payment of notes and interest	<u>-</u>	<u>(1,000,640)</u>
Balance, June 30, 2008	783,774	456,321
Transfers from current asset cash	-	472,598
Interest income	-	5,463
Payment of notes and interest	<u>-</u>	<u>(729,159)</u>
Balance, June 30, 2009	<u>\$ 783,774</u>	<u>\$ 205,223</u>

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 \$7,732 and \$13,549 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, the Hospital received \$158,019 and \$106,501, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$120,340 and \$127,440 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2009 and 2008, 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 \$12,100 and \$42,794 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, the Hospital received \$119,443 and \$102,839, respectively, in lease revenue from Floyd Valley Home Medical Equipment related to this agreement.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT

	Outstanding June 30	
	2009	2008
Hospital Revenue Notes, Series 1996A		
<p>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%.</p>	\$	– \$ 30,591
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 4.50% 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>	1,195,600	1,298,500
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 4.3% 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>	3,542,700	3,616,200
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
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

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

	Outstanding June 30	
	2009	2008
Rural Economic Development Loan		
The Hospital entered into a note payable obligation with North West Rural Electric Cooperative on November 6, 2008. This note calls for quarterly principal only payments of \$18,000 beginning fifteen months following the date of the first advance of funds. The interest rate is -0-%.		
Totals	360,000	—
Less current maturities	(326,000)	(725,000)
 Total long-term debt	 <u>\$4,772,300</u>	 <u>\$4,723,241</u>

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, 2009 the remaining principal and interest on the Notes was \$6,910,939. 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, 2009 and 2008:

	Year ended June 30	
	2009	2008
Change in fund equity	\$ 941,214	\$ 998,081
Provision for depreciation	1,311,222	1,225,405
Interest and amortization expense	<u>288,364</u>	<u>324,812</u>
 Pledged net revenues	 <u>\$2,540,800</u>	 <u>\$2,548,298</u>
 Principal and interest requirements	 <u>\$ 999,160</u>	 <u>\$1,000,640</u>

The revenue 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 \$96,700 and \$111,759 as of June 30, 2009 and 2008, respectively.

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

	Rural economic development loan		Revenue notes payable		Total
	Principal	Interest	Principal	Interest	
Year ending June 30					
2010	\$ 36,000	\$ —	\$ 290,000	\$ 250,945	\$ 576,945
2011	72,000	—	255,000	238,678	565,678
2012	72,000	—	265,000	226,365	563,365
2013	72,000	—	285,000	212,928	569,928
2014	72,000	—	295,000	198,337	565,337
2015 to 2019	36,000	—	1,715,000	740,136	2,491,136
2020 to 2024	—	—	<u>1,730,000</u>	<u>208,550</u>	<u>1,938,550</u>
 Total	 360,000	 —	 4,835,000	 2,075,939	 <u>\$7,270,939</u>
Less unamortized discount	<u>—</u>	<u>—</u>	<u>(96,700)</u>	<u>—</u>	
 Totals	 <u>\$ 360,000</u>	 <u>\$ —</u>	 <u>\$4,738,300</u>	 <u>\$2,075,939</u>	

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 LONG-TERM DEBT (continued)

Long-term debt activity for the years ended June 30, 2009 and 2008 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2009					
Hospital revenue notes	\$5,560,000	\$ —	\$ 725,000	\$4,835,000	\$ 290,000
Rural economic development note	<u>—</u>	<u>360,000</u>	<u>—</u>	<u>360,000</u>	<u>36,000</u>
Total	<u>\$5,560,000</u>	<u>\$ 360,000</u>	<u>\$ 725,000</u>	<u>\$5,195,000</u>	<u>\$ 326,000</u>
2008					
Hospital revenue notes	<u>\$6,255,000</u>	<u>\$ —</u>	<u>\$ 695,000</u>	<u>\$5,560,000</u>	<u>\$ 725,000</u>

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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Charges foregone, based on established rates	<u>\$ 200,492</u>	<u>\$ 195,581</u>
Equivalent percentage of charity care patients to all patients served	<u>.7%</u>	<u>.7%</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 4.10% of their annual salary and the Hospital is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$511,725, \$462,007 and \$408,811, 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 \$1,780,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2009 and 2008 was \$1,668,069 and \$1,386,578, respectively, which includes program administration expenses.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 14 OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 261 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 102% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, ARC, of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2009, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 13,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>13,000</u>
Contributions made	<u>19,000</u>
Decrease in net OPEB obligation	(6,000)
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ (6,000)</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2009, the Hospital contributed \$19,000 to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2009	<u>\$ 13,000</u>	<u>146%</u>	<u>\$ (6,000)</u>

As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was \$132,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$132,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,622,000, and the ratio of the UAAL to the covered payroll was 1.5%. As of June 30, 2009, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 14 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,250 per month for retirees. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 15 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, 2009 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 16 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, 2006.

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.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 17 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:

	<u>Operating expenses (GAAP basis)</u>	<u>Budget basis adjustment</u>	<u>Budget basis</u>	<u>Budget</u>
Year ended June 30, 2009 totals	\$22,816,579	\$1,368,002	\$24,184,581	\$26,200,000

NOTE 18 HOSPITAL RISK MANAGEMENT

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

NOTE 19 SPLIT INTEREST AGREEMENT

The Hospital is a party of a split-interest agreement. The Hospital reports separately the fair value of the assets of the split-interest agreement in its balance sheet and a change in value of \$50,000 and (\$8,000) for the years ended June 30, 2009 and 2008, respectively, 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 2003 life expectancy tables (published by the National Center of Health Statistics) and a 6% discount rate were used.

NOTE 20 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, 2009 and 2008, and audited statements of activities and cash flows for the year then ended, are included on pages 15-18.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 21 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. Avera Health Pooled Investments includes investments in securities that are measured at fair value using inputs under the guidance provided by SFAS 157. Avera Health Pooled Investments also includes investments that are recorded at historic cost, subject to an annual impairment test, or under the equity method as described in the investment policy.

As of June 30, 2009, the valuation of investment within Avera Health Pooled Investments was as follows:

Fair value - Level 1 inputs	62.6%
Fair value - Level 2 inputs	11.4%
Fair value - Level 3 inputs	0.0%
Cost basis or equity method	<u>26.0%</u>
	<u>100.0%</u>

The investment allocation at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Non-publicly traded stocks, trusts, and partnerships (alternative investments)	23.1%	22.3%
US Treasury and Agency obligations	20.4%	22.0%
Foreign stocks and other	10.6%	15.0%
Institutional mutual funds	11.5%	14.4%
Publicly traded equity securities	8.8%	10.7%
Cash and short-term investments	13.4%	5.5%
Corporate bonds	9.2%	5.1%
Publicly traded mutual funds	<u>3.0%</u>	<u>5.0%</u>
	<u>100.0%</u>	<u>100.0%</u>

Investment income, realized and unrealized gains and losses, 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, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Interest, dividends and net realized gains and losses	\$ 4,177	\$ 15,085
Net unrealized gains	<u>(43,665)</u>	<u>16,662</u>
Investment income, net	\$ <u>(39,488)</u>	\$ <u>31,747</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 22 FLOYD VALLEY HOSPITAL FOUNDATION NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2009 and 2008 follows:

	2009	2008
Medical records equipment	\$ 208,275	\$ 233,307
Pediatric equipment	29,106	20,288
Employee assistance	11,899	12,580
EMS training scholarship	814	693
	\$ 250,094	\$ 266,868

Permanently restricted net assets are available to provide support for the EMS training scholarship and total \$12,977 and \$12,927 at June 30, 2009 and 2008, respectively.

NOTE 23 ENDOWMENT

The Foundation's endowment funds consist of Board designated assets, temporarily restricted net assets which are available for a variety of purposes and permanently restricted net assets which provide that the principal be invested in perpetuity and the income only be used. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Because of the timing of the issuance of FASB Staff Position 117-1, "Endowments of Not-for-Profit Organizations", and the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), which was adopted as law in the State of Iowa during 2008, the Board of Directors of the Foundation has not as yet fully reviewed and interpreted the provisions of UPMIFA. At the present time, the Foundation has adopted the practice of preserving the fair value of the original gift as of the gift date of the permanently restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Use of the investment income from the assets may be unrestricted and used as the Foundation deems necessary for the purposes for which the original restricted gift was received. Currently, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 23 ENDOWMENT FUNDS (continued)

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets. As of June 30, 2009 and 2008 the Foundation did not have a deficiency in donor-restricted funds.

	<u>Endowment Funds</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Endowment net assets, beginning of year	\$ 52,223	\$ 266,868	\$ 12,927	\$ 332,018
Investment return (loss)				
Investment income	<u>(5,603)</u>	<u>(27,493)</u>	<u>—</u>	<u>(33,096)</u>
Contributions and special events	—	19,941	50	19,991
Appropriation of endowment assets for expenditure	<u>—</u>	<u>(9,222)</u>	<u>—</u>	<u>(9,222)</u>
Endowment assets, end of year	<u>\$ 46,620</u>	<u>\$ 250,094</u>	<u>\$ 12,977</u>	<u>\$ 309,961</u>

NOTE 24 SUBSEQUENT EVENT

On July 1, 2009 the Hospital purchased the equipment, inventory, accounts receivable and medical records of a multi-physician clinic for \$1,066,135 and assumed lease liabilities totaling approximately \$89,000 which expire over the next twelve to fifty-four months.

REQUIRED SUPPLEMENTARY INFORMATION

Floyd Valley Hospital
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b - a)/c)</u>
July 1, 2008	\$ <u>—</u>	\$ <u>132</u>	<u>132</u>	<u>0.0%</u>	\$ <u>8,622</u>	<u>1.5%</u>

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

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 2009 and 2008 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
November 5, 2009

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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
0 - 60 days	\$3,057,822	\$2,758,590	61.44%	60.45%
61 - 90 days	403,420	390,270	8.10	8.55
91 - 180 days	591,661	644,230	11.88	14.11
Over 6 months	<u>925,081</u>	<u>770,584</u>	<u>18.58</u>	<u>16.89</u>
Totals	<u>4,977,984</u>	<u>4,563,674</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	858,466	790,295		
Contractual adjustments	<u>1,258,164</u>	<u>1,156,982</u>		
Total allowances	<u>2,116,630</u>	<u>1,947,277</u>		
Totals	<u>\$2,861,354</u>	<u>\$2,616,397</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
BALANCE , beginning	\$ 790,295	\$ 672,872
ADD		
Provision for bad debts	723,816	600,672
Recoveries of accounts previously written off	144,438	213,726
LESS		
Accounts written off	<u>(800,083)</u>	<u>(696,975)</u>
BALANCE , ending	<u>\$ 858,466</u>	<u>\$ 790,295</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
General stores	\$ 138,670	\$ 121,594
Pharmacy	137,232	127,907
Operating room	51,623	55,162
Intravenous solutions	4,201	3,086
Marcus clinic	<u>5,724</u>	<u>4,993</u>
Totals	<u>\$ 337,450</u>	<u>\$ 312,742</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Avera (policy expiration December 31, 2009)	
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	 \$34,000,000
 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	\$27,195,232
Personal property	\$6,757,925
Earnings and extra expense	\$13,718,265 \$10,000 deductible
 Farm Bureau (policy expiration November 1, 2009)	
Workers' 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>2009</u>	<u>2008</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 1,536,681	\$ 1,470,011
Long term care	295,960	302,252
Nursery	53,460	51,678
	<u>1,886,101</u>	<u>1,823,941</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	3,230,722	3,243,257
Delivery and labor room	114,942	112,874
Central service and supply	1,666,789	1,704,610
Emergency service	3,457,817	3,220,291
Home health services	997,053	948,356
	<u>9,467,323</u>	<u>9,229,388</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	4,485,263	3,998,328
Electrocardiology	960,913	953,509
Radiology	6,336,505	5,740,192
Pharmacy	2,463,682	2,512,941
Anesthesiology	1,884,954	1,849,842
Respiratory therapy	266,689	253,580
Physical therapy	1,110,744	1,064,236
Occupational therapy	164,881	127,882
Speech therapy	212,907	155,693
Enterostomy	150,124	158,939
Audiology	3,249	2,703
Marcus clinic	166,920	120,898
Cardiac rehabilitation	89,568	99,915
	<u>18,296,399</u>	<u>17,038,658</u>
	29,649,823	28,091,987
Charity care charges foregone, based on established rates	<u>(200,492)</u>	<u>(195,581)</u>
Total gross patient service revenue	29,449,331	27,896,406
Provisions for contractual and other adjustments	<u>(7,854,618)</u>	<u>(7,056,456)</u>
Net patient service revenue	<u>\$21,594,713</u>	<u>\$20,839,950</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
\$1,536,681	\$1,470,011	\$ -	\$ -	\$ -	\$ -
-	-	-	-	295,960	302,252
53,460	51,678	-	-	-	-
<u>1,590,141</u>	<u>1,521,689</u>	<u>-</u>	<u>-</u>	<u>295,960</u>	<u>302,252</u>
1,104,558	1,213,848	2,126,164	2,029,409	-	-
96,786	93,052	18,156	19,822	-	-
929,798	967,193	601,740	605,314	135,251	132,103
64,419	87,351	3,393,349	3,129,544	49	3,396
-	-	997,053	948,356	-	-
<u>2,195,561</u>	<u>2,361,444</u>	<u>7,136,462</u>	<u>6,732,445</u>	<u>135,300</u>	<u>135,499</u>
705,152	708,526	3,700,573	3,211,258	79,538	78,544
89,489	90,685	862,562	852,581	8,862	10,243
469,359	436,364	5,828,934	5,246,785	38,212	57,043
790,476	832,097	1,370,640	1,415,994	302,566	264,850
705,692	727,789	1,178,325	1,116,265	937	5,788
121,154	123,260	86,731	70,820	58,804	59,500
60,406	54,218	964,956	916,062	85,382	93,956
12,635	11,634	120,100	70,974	32,146	45,274
16,010	22,348	180,255	111,020	16,642	22,325
11,356	8,881	127,579	130,779	11,189	19,279
1,125	1,260	2,111	1,443	13	-
-	-	166,920	120,898	-	-
-	-	89,568	99,915	-	-
<u>2,982,854</u>	<u>3,017,062</u>	<u>14,679,254</u>	<u>13,364,794</u>	<u>634,291</u>	<u>656,802</u>
<u>\$6,768,556</u>	<u>\$6,900,195</u>	<u>\$21,815,716</u>	<u>\$20,097,239</u>	<u>\$1,065,551</u>	<u>\$1,094,553</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments	\$6,875,013	\$6,235,978
Employee and other allowances	213,747	179,691
Clinic discounts and adjustments	42,042	40,115
Provision for bad debts	<u>723,816</u>	<u>600,672</u>
Totals	<u>\$7,854,618</u>	<u>\$7,056,456</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 102,228	\$ 105,480
Rental income	275,129	269,445
Park Place Estates	1,034,982	960,306
Lifeline	64,594	-
Other	<u>549,445</u>	<u>396,263</u>
Totals	<u>\$2,026,378</u>	<u>\$1,731,494</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries	\$ 174,608	\$ 157,555
Supplies and expenses	<u>2,970</u>	<u>4,939</u>
	<u>177,578</u>	<u>162,494</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,369,595	1,304,627
Supplies and expenses	<u>54,433</u>	<u>101,350</u>
	<u>1,424,028</u>	<u>1,405,977</u>
SWING BED		
Salaries	<u>210,251</u>	<u>210,260</u>
NURSERY		
Salaries	39,804	36,422
Supplies and expenses	<u>2,861</u>	<u>3,367</u>
	<u>42,665</u>	<u>39,789</u>
OPERATING AND RECOVERY ROOMS		
Salaries	418,455	430,037
Professional fees	1,114,874	968,709
Supplies and expenses	<u>155,139</u>	<u>174,117</u>
	<u>1,688,468</u>	<u>1,572,863</u>
DELIVERY AND LABOR ROOM		
Salaries	45,832	44,101
Supplies and expenses	<u>6,436</u>	<u>4,235</u>
	<u>52,268</u>	<u>48,336</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	116,305	115,726
Purchased services	5,769	16,547
Supplies and expenses	<u>614,473</u>	<u>640,256</u>
	<u>736,547</u>	<u>772,529</u>
EMERGENCY SERVICE		
Salaries	713,632	679,493
Professional fees	994,820	967,405
Supplies and expenses	<u>49,931</u>	<u>66,118</u>
	<u>1,758,383</u>	<u>1,713,016</u>
HOME HEALTH		
Salaries	713,775	668,272
Purchased services	35,552	15,474
Supplies and expenses	<u>104,246</u>	<u>112,297</u>
	<u>853,573</u>	<u>796,043</u>
Totals	<u>\$6,943,761</u>	<u>\$6,721,307</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
LABORATORY		
Salaries	\$ 429,365	\$ 386,980
Professional fees	8,867	6,512
Purchased services	229,297	176,151
Supplies and expenses	322,834	304,511
Blood	110,864	72,815
	<u>1,101,227</u>	<u>946,969</u>
ELECTROCARDIOLOGY		
Salaries	9,505	11,294
Purchased services	144,769	153,832
Supplies and expenses	1,318	1,069
	<u>155,592</u>	<u>166,195</u>
RADIOLOGY		
Salaries	575,450	506,431
Professional fees	758,197	731,874
Purchased services	576,562	557,936
Supplies and expenses	157,492	198,240
	<u>2,067,701</u>	<u>1,994,481</u>
PHARMACY		
Salaries	234,769	208,047
Purchased services	670	1,150
Drugs	497,099	668,321
Intravenous solutions and supplies	15,707	16,321
Supplies and expenses	35,087	5,215
	<u>783,332</u>	<u>899,054</u>
ANESTHESIOLOGY		
Purchased services	616,466	610,304
Supplies and expenses	11,417	13,187
	<u>627,883</u>	<u>623,491</u>
RESPIRATORY THERAPY		
Salaries	154,423	131,910
Purchased services	795	293
Supplies and expenses	9,684	14,867
	<u>164,902</u>	<u>147,070</u>
PHYSICAL THERAPY		
Salaries	115,908	113,537
Purchased services	546,665	524,061
Supplies and expenses	20,713	23,296
	<u>683,286</u>	<u>660,894</u>
OCCUPATIONAL THERAPY		
Purchased services	86,151	62,662
Supplies and expenses	82	83
	<u>86,233</u>	<u>62,745</u>
OCCUPATIONAL HEALTH		
Salaries	4,405	40,756
Supplies and expense	3,769	6,873
	<u>8,174</u>	<u>47,629</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2009	2008
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 102,226	\$ 87,506
Supplies and expenses	<u>1,770</u>	<u>3,158</u>
	<u>103,996</u>	<u>90,664</u>
SPEECH THERAPY		
Purchased services	143,232	105,872
Supplies and expenses	<u>3,048</u>	<u>396</u>
	<u>146,280</u>	<u>106,268</u>
ENTEROSTOMY		
Salaries	164,687	135,066
Supplies and expenses	<u>7,765</u>	<u>8,121</u>
	<u>172,452</u>	<u>143,187</u>
AUDIOLOGY		
Salaries	1,268	1,618
Purchased services	263	133
Supplies and expenses	<u>1,314</u>	<u>1,029</u>
	<u>2,845</u>	<u>2,780</u>
MARCUS CLINIC		
Salaries	127,944	89,635
Professional fees	39,230	42,328
Purchased services	4,561	3,975
Supplies and expenses	<u>22,668</u>	<u>21,363</u>
	<u>194,403</u>	<u>157,301</u>
CARDIAC REHABILITATION		
Salaries	70,416	67,766
Supplies and expenses	<u>3,698</u>	<u>2,836</u>
	<u>74,114</u>	<u>70,602</u>
LIFELINE		
Salaries	9,280	12,297
Purchased services	33,730	-
Supplies and expenses	<u>9,136</u>	<u>2,763</u>
	<u>52,146</u>	<u>15,060</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	87,298	76,155
Supplies and expenses	<u>1,630</u>	<u>2,682</u>
	<u>88,928</u>	<u>78,837</u>
MEDICAL RECORDS		
Salaries	79,428	135,906
Purchased services	104,592	46,442
Supplies and expenses	<u>62,970</u>	<u>59,609</u>
	<u>246,990</u>	<u>241,957</u>
Totals	<u>\$6,760,484</u>	<u>\$6,455,184</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
DIETARY		
Salaries	\$ 405,929	\$ 377,015
Food	269,241	249,132
Purchased services	56,436	44,802
Supplies and expenses	<u>74,724</u>	<u>64,650</u>
	<u>806,330</u>	<u>735,599</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	261,384	244,763
Utilities	274,577	276,227
Purchased services	30,164	34,282
Supplies and expenses	<u>119,972</u>	<u>103,818</u>
	<u>686,097</u>	<u>659,090</u>
HOUSEKEEPING		
Salaries	190,936	189,717
Purchased services	4,099	1,145
Supplies and expenses	<u>30,144</u>	<u>30,956</u>
	<u>225,179</u>	<u>221,818</u>
LAUNDRY AND LINEN		
Purchased services	58,411	63,017
Linens	13,501	17,768
Supplies and expenses	<u>1,355</u>	<u>1,119</u>
	<u>73,267</u>	<u>81,904</u>
 Totals	 <u>\$1,790,873</u>	 <u>\$1,698,411</u>

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

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 140,467	\$ 137,094
Management fee	393,821	418,830
Telephone	51,473	39,594
Postage	39,342	43,970
Supplies and expenses	200,004	110,584
Freight	29,647	30,663
Organization dues	24,850	23,706
Public relations	7,528	11,914
Activities	2,818	4,387
Marketing	<u>93,959</u>	<u>85,941</u>
	<u>983,909</u>	<u>906,683</u>
Business office		
Salaries	524,438	469,583
Supplies and expenses	<u>122,898</u>	<u>133,563</u>
	<u>647,336</u>	<u>603,146</u>
Data processing		
Salaries	96,663	94,286
Supplies and expenses	<u>292,055</u>	<u>131,906</u>
	<u>388,718</u>	<u>226,192</u>
Human resources		
Salaries	107,610	98,283
Supplies and expenses	<u>77,900</u>	<u>78,341</u>
	<u>185,510</u>	<u>176,624</u>
Risk management		
Salaries	55,379	49,850
Supplies and expenses	<u>131,043</u>	<u>128,698</u>
	<u>186,422</u>	<u>178,548</u>
Education		
Salaries	135,659	119,919
Purchased services	10,895	10,054
Supplies and expenses	<u>39,569</u>	<u>23,024</u>
	<u>186,123</u>	<u>152,997</u>
Park Place Estates		
Salaries	344,437	331,146
Purchased services	13,038	13,138
Supplies and expenses	<u>69,384</u>	<u>59,912</u>
	<u>426,859</u>	<u>404,196</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,116,099	1,030,273
Group health insurance	1,668,069	1,386,578
Life and disability insurance	96,915	99,071
Tuition assistance	19,506	12,027
Insurance	<u>104,773</u>	<u>92,287</u>
	<u>3,005,362</u>	<u>2,620,236</u>
Totals	<u>\$6,010,239</u>	<u>\$5,268,622</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	2,344	2,486
Special care	35	42
Nursery	243	261
Swing bed		
Skilled nursing care	1,135	1,281
Intermediate care	<u>—</u>	<u>2</u>
Totals	<u>3,757</u>	<u>4,072</u>
ADMISSIONS	860	992
DISCHARGES	864	992
AVERAGE LENGTH OF STAY, acute and special care	2.75	2.55
BEDS	25	25
OCCUPANCY PERCENT, ACUTE	25.7%	27.6%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$59,160	\$56,940
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	48.37	45.95

**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, 2009, and have issued our report thereon dated November 5, 2009. 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, 2009 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
November 5, 2009

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2009**

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, 2009**

Part II—Findings Related to Required Statutory Reporting

09-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

09-II-B TRAVEL EXPENSES

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

09-II-C BUSINESS TRANSACTIONS

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

09-II-D BOARD MINUTES

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

09-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.