

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

FINANCIAL REPORT

June 30, 2010

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**Floyd Valley Hospital
OFFICIALS
June 30, 2010**

After January 2010

Board of Trustees

Bill Rosacker, Chairman
Craig Bauerly, Vice Chairman
Jim Ryan, (Resigned May 24, 2010)
Larry Petersen
William Young, Treasurer
Ralph Klemme, Secretary *

Expiration of term

December, 2011
December, 2013
December, 2011
December, 2011
December, 2013
December, 2011

Administrator

Michael T. Donlin, FACHE

Director of Financial Services

Daryl J. Friedenbach

Before January, 2010

Board of Trustees

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

Expiration of term

December, 2011
December, 2010
December, 2011
December, 2011
December, 2010

Administrator

Michael T. Donlin, FACHE

Director of Financial Services

Daryl J. Friedenbach

*Appointed to replace Jim Ryan for remaining term on May 24, 2010.

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, 2010 and 2009, 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, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 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, budgetary comparison schedule on page 35, and schedule of funding progress for the retiree health plan on page 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 15, 2010

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, 2010, 2009 and 2008. 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 \$993 thousand from FY 2009 to \$27.2 million.
- Floyd Valley Hospital acquired the family practice group owned by Medical Associates, PC on July 1, 2009 and began operating this practice as a department of the hospital. This practice included a clinic in Le Mars and Remsen, Iowa. The clinic the hospital operated in Marcus, Iowa continues to be operated as a part of the overall family practice clinics which have been renamed; Floyd Valley Hospital Family Medicine Clinics. The family practice clinic in Le Mars was designated as a provider based clinic effective January 1, 2010 by the Medicare program.
- Total net capital assets decreased by \$438 thousand from FY 2009 as depreciation costs exceeded acquisitions of new equipment.
- Fund equity increased by \$586 thousand from FY 2009.
- FY 2010 net patient service revenue increased by \$5.9 million, primarily due to the acquisition and operation of the family medicine clinic from Medical Associates, PC.
- FY 2010 expenses increased by \$5.8 million related to the operation of the family medicine clinic.
- Total margin for FY 2010 was 2.0%, compared to 4.0% for FY 2009 and 4.4% for FY 2008.

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, 2010, 2009, and 2008 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2010	June 30, 2009	June 30, 2008
Current and other assets	\$15,249	\$13,818	\$13,679
Capital assets	\$11,903	\$12,341	\$12,044
Total Assets	\$27,152	\$26,159	\$25,723
Long term debt outstanding	\$ 4,778	\$ 5,098	\$ 5,488
Other liabilities	\$ 3,577	\$ 2,850	\$ 2,971
Total liabilities	\$ 8,355	\$ 7,948	\$ 8,459
Invested in Capital Assets	\$ 7,125	\$ 7,243	\$ 6,596
Restricted	\$ 959	\$ 1,095	\$ 1,353
Unrestricted	\$ 10,713	\$ 9,873	\$ 9,315
Total Fund Equity	\$18,797	\$18,211	\$17,264

As can be seen in Table 1, net assets increased by \$586 thousand to \$18.80 million in fiscal year 2010, up from \$18.21 million in fiscal year 2009 and \$17.26 million in fiscal year 2008. 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, 2010, 2009 and 2008.

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

	2010	2009	2008
Total Revenue	\$29,326	\$23,621	\$22,571
Expenses	\$28,658	\$22,817	\$21,369
Operating Income	\$ 668	\$ 804	\$ 1,202
Non-Operating Gains (Losses)	\$ (111)	\$ 28	\$ (256)
Excess of Revenues over expenses before contributions	\$ 557	\$ 832	\$ 946
Contributions	\$ 29	\$ 115	\$ 52
Changes in Fund Equity	\$ 586	\$ 947	\$ 998
Total Fund Equity, Beginning	\$18,211	\$17,264	\$16,266
Total Fund Equity, Ending	\$18,797	\$18,211	\$17,264

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2010, 2009 and 2008.

Volume: Inpatient admissions for fiscal year 2010 were 9% less than in 2009. Outpatient utilization was 4% greater than the prior fiscal year within the hospital, while the addition of the family medicine clinic provided an additional 38,200 clinic visits. Skilled care admissions were 19% greater than the prior year, while Home Health visits were up by 54%. The number of births at the hospital was down by 15% from the prior fiscal year.

Net Patient Service Revenue: Due to a rate increase of 4.24% effective July 1, 2009, and the changes in services described above, net patient revenues increased by \$5.9 million or 27.3% in comparison to fiscal year 2009.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2010, 2009 and 2008.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2010	2009	2008
Medicare	42.8%	44.9%	44.2%
Wellmark Blue Cross	24.1%	21.8%	23.5%
Commercial	24.6%	23.7%	22.9%
Medicaid	6.2%	6.5%	6.0%
All others	2.3%	3.1%	3.4%

Nursing Service expenses increased by 3.6% primarily due to the market salary demands for nurses and other supply costs associated with patient care.

Other professional services increased by \$4.8 million primarily as a result of the acquisition and operation of the family medicine clinic and related costs.

Capital Assets:

At the end of fiscal year 2010, the hospital has invested \$11.9 million in capital assets as shown in Table 4.

Table 4
Capital Assets
(in thousands)

	June 30,		
	2010	2009	2008
Land & Land Improvements	\$ 1,054	\$ 807	\$ 807
Buildings	\$ 18,078	\$ 14,538	\$ 13,020
Major Moveable Equipment	\$ 6,693	\$ 6,326	\$ 5,612
Land & Buildings Leased to Others	\$ -	\$ 3,603	\$ 2,958
Medical records	\$ 253	\$ -	\$ -
Construction/Equipment Installs in Progress	\$ 85	\$ -	\$ 119
Subtotal	\$ 26,163	\$ 25,294	\$ 24,415
Less accumulated depreciation	(\$14,260)	(\$12,952)	(\$12,370)
Property, plant and equipment, net	\$ 11,903	\$ 12,342	\$ 12,045

Debt Administration:

At the end of fiscal year 2010, the hospital had \$4.5 million in debt related to Hospital Revenue Bonds and additional debt of \$324 thousand that was issued in December of 2008 from the Northwest Rural Electric Cooperative Rural Economic Development Loan Fund. 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 \$27.5 million which was 3% greater than budget for fiscal year ended June 30, 2010.

Operating Expenses were \$28.7 million which met budget expectations for the fiscal year ending June 30, 2010. Overall expenses matched closely with budget with no significant variances from the plan.

The following table compares fiscal year 2010 actual to budget information.

Table 5
Budget vs. Actual
(in thousands)

	FY 2010 Actual	FY 2010 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$38,993	\$37,676	\$1,317	3%
Contractual Adjustments & Bad Debt	\$11,470	\$10,734	\$736	7%
Net patient service revenue	\$27,523	\$26,942	\$581	2%
Other operating revenue	\$1,803	\$1,944	\$(141)	(7)%
Total operating revenue	\$29,326	\$28,886	\$440	2%
Operating Expenses	\$28,658	\$28,886	\$(228)	(1)%
Operating Gain/Loss	\$668	\$ -	\$668	100%
Non-Operating Gains (Losses)	\$(82)	\$235	\$(317)	(135)%
Excess of Revenues over Expenses	\$586	\$235	\$351	149%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2011 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, 714 Lincoln Street NE, Le Mars, Iowa 51031.

**Floyd Valley Hospital
BALANCE SHEETS**

	June 30	
ASSETS	2010	2009
CURRENT ASSETS		
Cash	\$ 2,824,127	\$ 2,981,259
Assets whose use is limited, required for current liabilities	295,767	332,882
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2010 \$2,974,053; 2009 \$2,116,630	3,300,686	2,861,354
Estimated third party payor settlements	482,200	85,000
Other current receivables	19,757	39,895
Current portion of note receivable	250,000	250,000
Inventories	409,658	337,450
Prepaid expenses	218,130	187,628
Total current assets	7,800,325	7,075,468
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,488,440	1,163,406
Certificates of deposit	4,380,116	3,607,554
Accrued interest receivable	3,183	4,797
	5,871,739	4,775,757
Restricted for payment of revenue notes and interest		
Cash	185,591	205,223
Certificates of deposit	668,124	783,774
	853,715	988,997
Restricted by donors for specific purpose		
Cash	105,459	106,300
Total assets whose use is limited	6,830,913	5,871,054
Less assets whose use is limited and that are required for current liabilities	295,767	332,882
Noncurrent assets whose use is limited	6,535,146	5,538,172
CAPITAL ASSETS		
Less accumulated depreciation	26,163,488	25,293,581
Total capital assets	14,260,054	12,952,105
	11,903,434	12,341,476
OTHER ASSETS		
Unamortized financing costs	23,242	25,754
Note receivable, net of current portion	500,000	750,000
Beneficial interest in remainder trust	260,000	262,000
Investment in Northwest Iowa Diagnostics	27,828	40,766
Investment in Floyd Valley Home Medical Equipment	102,007	125,705
Total other assets	913,077	1,204,225
Totals	\$27,151,982	\$26,159,341

See Notes to Financial Statements.

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

	Year ended June 30	
	2010	2009
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2010 \$735,671; 2009 \$723,816	\$27,522,638	\$21,594,713
OTHER REVENUE	<u>1,803,260</u>	<u>2,026,378</u>
Total revenue	<u>29,325,898</u>	<u>23,621,091</u>
EXPENSES		
Nursing service	7,194,953	6,943,761
Other professional service	11,470,109	6,760,484
General service	1,704,906	1,790,873
Fiscal and administrative service and unassigned expenses	6,891,226	6,010,239
Provision for depreciation	<u>1,397,052</u>	<u>1,311,222</u>
Total expenses	<u>28,658,246</u>	<u>22,816,579</u>
Operating income	<u>667,652</u>	<u>804,512</u>
NONOPERATING GAINS (LOSSES)		
Interest income	151,531	241,231
Interest and amortization expense	(257,142)	(288,364)
Unrestricted contribution	395	200
Change in value of split-interest agreement	(2,000)	50,000
Equity in earnings of equity method investments	19,546	19,832
Gain (loss) on disposal of equipment	<u>(23,386)</u>	<u>4,698</u>
Total nonoperating gains (losses)	<u>(111,056)</u>	<u>27,597</u>
Excess of revenues over expenses before contributions	556,596	832,109
RESTRICTED CONTRIBUTIONS	<u>29,225</u>	<u>115,067</u>
Change in fund equity	585,821	947,176
TOTAL FUND EQUITY		
Beginning	<u>18,211,382</u>	<u>17,264,206</u>
Ending	<u>\$18,797,203</u>	<u>\$18,211,382</u>

See Notes to Financial Statements.

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$26,811,106	\$21,354,756
Cash paid to employees for service	(13,702,018)	(11,145,084)
Cash paid to suppliers for goods and services	(12,770,843)	(11,451,572)
Other operating revenue received	<u>1,821,648</u>	<u>2,022,608</u>
Net cash provided by operating activities	<u>2,159,893</u>	<u>780,708</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	395	200
Contributions restricted for capital assets, net	<u>29,225</u>	<u>151,538</u>
Net cash provided by noncapital financing activities	<u>29,620</u>	<u>151,738</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,023,456)	(1,714,267)
Proceeds from sale of capital assets	5,903	26,053
Principal paid on long-term debt	(326,000)	(725,000)
Proceeds from issuance of long-term debt	-	360,000
Interest paid on long-term debt	<u>(250,945)</u>	<u>(274,159)</u>
Net cash (used in) capital and related financing activities	<u>(1,594,498)</u>	<u>(2,327,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,048,240)	(4,680,354)
Proceeds from maturities of certificates of deposit	4,391,328	5,180,354
Distribution from Northwest Iowa Diagnostics	16,000	16,000
Distribution from Floyd Valley Home Medical Equipment	40,181	49,500
Interest received	<u>153,145</u>	<u>243,902</u>
Net cash provided by (used in) investing activities	<u>(447,586)</u>	<u>809,402</u>
NET INCREASE (DECREASE) IN CASH	147,429	(585,525)
CASH		
Beginning	<u>4,456,188</u>	<u>5,041,713</u>
Ending	<u>\$ 4,603,617</u>	<u>\$ 4,456,188</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 667,652	\$ 804,512
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,397,052	1,311,222
Change in assets and liabilities		
(Increase) in patient receivables	(439,332)	(244,957)
(Increase) decrease in other current receivables	20,138	(232)
(Increase) in inventories	(72,208)	(24,708)
(Increase) decrease in prepaid expenses	(30,502)	12,029
(Increase) decrease in note receivable	250,000	(1,000,000)
Increase (decrease) in estimated third-party payor settlements	(272,200)	5,000
Increase (decrease) in accounts payable, net of amounts for capital assets	480,442	(170,429)
Increase in accrued employee compensation	134,413	85,006
(Decrease) in security deposits	(1,750)	(9,500)
Increase in payroll taxes and withholdings	26,188	12,765
Net cash provided by operating activities	\$2,159,893	\$ 780,708
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$2,824,127	\$2,981,259
Assets whose use is limited		
Designated by board for plant expansion	1,488,440	1,163,406
Restricted for payment of revenue notes and interest	185,591	205,223
Restricted by donors for specific purpose	105,459	106,300
Total per statements of cash flows	\$4,603,617	\$4,456,188
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Increase (decrease) in beneficial interest in remainder trust	\$ <u>(2,000)</u>	\$ <u>50,000</u>

See Notes to Financial Statements.

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

	June 30	
ASSETS	2010	2009
Interest in the net assets of Avera Health Investment Pool	\$ 414,598	\$ 384,612
Contributions receivable	<u>1,152</u>	<u>3,303</u>
TOTAL ASSETS	<u>\$ 415,750</u>	<u>\$ 387,915</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ <u>176</u>	\$ <u>234</u>
NET ASSETS		
Unrestricted		
Designated by Board for endowment	50,961	46,620
Undesignated	91,116	77,990
Temporarily restricted	260,520	250,094
Permanently restricted	<u>12,977</u>	<u>12,977</u>
Total net assets	<u>415,574</u>	<u>387,681</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 415,750</u>	<u>\$ 387,915</u>

See Notes to Financial Statements.

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

	Year ended June 30, 2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
REVENUES AND OTHER SUPPORT				
Contributions	\$ 25,189	\$ 7,918	\$ —	\$ 33,107
Special event	16,803	14,143	—	30,946
Investment gain (loss)	7,313	16,885	—	24,198
	<u>49,305</u>	<u>38,946</u>	<u>—</u>	<u>88,251</u>
Net assets released from restrictions				
Satisfaction of purpose	28,520	(28,520)	—	—
Total revenue and support	77,825	10,426	—	88,251
EXPENSES				
Program services				
Floyd Valley Hospital Employee Assistance	4,080	—	—	4,080
Pediatrics, cost of direct benefit to donors	12,658	—	—	12,658
Health education	19,677	—	—	19,677
Caring for life, cost of direct benefit to donors	10,366	—	—	10,366
Scholarship	7,888	—	—	7,888
Total program services	<u>54,669</u>	<u>—</u>	<u>—</u>	<u>54,669</u>
Supporting service				
Administrative services	5,689	—	—	5,689
Total expenses	<u>60,358</u>	<u>—</u>	<u>—</u>	<u>60,358</u>
CHANGE IN NET ASSETS	17,467	10,426	—	27,893
NET ASSETS , beginning of year	<u>124,610</u>	<u>250,094</u>	<u>12,977</u>	<u>387,681</u>
NET ASSETS , end of year	<u>\$ 142,077</u>	<u>\$ 260,520</u>	<u>\$ 12,977</u>	<u>\$ 415,574</u>

See Notes to Financial Statements.

Year ended June 30, 2009

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
\$ 23,085	\$ 5,938	\$ 50	\$ 29,073
17,278	14,003	—	31,281
(11,995)	(27,493)	—	(39,488)
<u>28,368</u>	<u>(7,552)</u>	<u>50</u>	<u>20,866</u>
9,222	(9,222)	—	—
<u>37,590</u>	<u>(16,774)</u>	<u>50</u>	<u>20,866</u>
3,086	—	—	3,086
3,037	—	—	3,037
15,504	—	—	15,504
3,339	—	—	3,339
—	—	—	—
<u>24,966</u>	<u>—</u>	<u>—</u>	<u>24,966</u>
4,424	—	—	4,424
<u>29,390</u>	<u>—</u>	<u>—</u>	<u>29,390</u>
8,200	(16,774)	50	(8,524)
<u>116,410</u>	<u>266,868</u>	<u>12,927</u>	<u>396,205</u>
<u>\$ 124,610</u>	<u>\$ 250,094</u>	<u>\$ 12,977</u>	<u>\$ 387,681</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	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 27,893	\$ (8,524)
Unrealized (gain) loss on investment	(18,080)	43,665
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
(Increase) decrease in contributions receivable	2,151	(645)
(Decrease) in accounts payable	(58)	(23)
Net cash provided by operating activities	11,906	34,473
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of the interest in the net assets of Avera Health Foundation	(11,906)	(34,473)
Net cash (used in) investing activities	(11,906)	(34,473)
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, 2010 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 Statements of Not-for-Profit Organizations Topic of the *FASB Accounting Standards Codification*. Under Financial Statements of Not-for-Profit Organizations Topic of the *FASB Accounting Standards Codification*, 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. Certain alternative held within Avera Pooled Investment Fund include liquidity and redemption limitations. Alternative investments representing less than 3% ownership interest are carried at cost. Alternative investments representing greater than 3% ownership interest are recorded using the equity method. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants of the Avera Pooled Investment Fund. (See Note 20)

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Capital Assets

Capital assets acquisitions are recorded at cost. Capital assets 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
Medical records	5 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.

When both restricted and unrestricted fund equity are available for use, generally it is the Hospital's policy to use restricted fund equity first.

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 The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification*, which provides a framework for measuring fair value under generally accepted accounting principles.

The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification* 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. It requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It 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

Effective July 1, 2009, the Foundation has adopted the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the *FASB Accounting Standards Codification*. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's federal income tax returns since 2007, the year of inception, open by statute, are subject to examination by the tax authorities. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through October 15, 2010, 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, 2010 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	
	2010	2009
Receivable from patients	\$2,258,569	\$2,079,327
Receivable from insurance carriers	2,125,696	1,561,179
Receivable from Medicare	1,704,044	1,024,222
Receivable from Medicaid	<u>186,430</u>	<u>313,256</u>
Total patient receivables	6,274,739	4,977,984
Less allowances for contractual and other adjustments	<u>(2,974,053)</u>	<u>(2,116,630)</u>
 Totals	 <u>\$3,300,686</u>	 <u>\$2,861,354</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 are immediately payable.

Notes receivable at June 30, 2010, are expected to be received as follows:

Year ending June 30,	
2011	\$ 250,000
2012	250,000
2013	<u>250,000</u>
Total	<u>\$ 750,000</u>

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 and 2009 follows:

	Balance July 1, 2009	Additions	Deletions	Transfers	Ending June 30, 2010
Land	\$ 103,274	\$ -	\$ -	\$ 81,886	\$ 185,160
Land improvements	724,056	25	-	144,527	868,608
Buildings and fixed equipment	14,537,625	89,886	-	3,450,809	18,078,320
Major movable equipment	6,325,672	456,458	(118,392)	29,804	6,693,542
Intangible					
Medical records	-	252,633	-		252,633
Land and buildings leased to others	3,602,954	-	-	(3,602,954)	-
Construction and equipment installations in progress	<u>-</u>	<u>189,297</u>	<u>-</u>	<u>(104,072)</u>	<u>85,225</u>
Totals	25,293,581	988,299	(118,392)	-	26,163,488
Less accumulated depreciation and amortization	<u>(12,952,105)</u>	<u>(1,397,052)</u>	<u>89,103</u>	<u>-</u>	<u>(14,260,054)</u>
Net capital assets	<u>\$12,341,476</u>	<u>\$ (408,753)</u>	<u>\$ (29,289)</u>	<u>\$ -</u>	<u>\$11,903,434</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 CAPITAL ASSETS (continued)

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending June 30, 2009</u>
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	<u>119,029</u>	<u>1,364,805</u>	<u>-</u>	<u>(1,483,834)</u>	<u>-</u>
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 capital assets	<u>\$12,044,664</u>	<u>\$ 354,638</u>	<u>\$ (57,826)</u>	<u>\$ -</u>	<u>\$12,341,476</u>

NOTE 6 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$3,319 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, 2010 and 2009 includes gross rental income of \$38,950 and \$233,752, respectively, for these leases.

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

Year ending June 30

2011	\$ 28,116
2012	<u>2,656</u>
Total	<u>\$ 30,772</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, 2010 and 2009.

	<u>Reserve Fund</u>	<u>Sinking Fund</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	783,774	205,223
Transfers from (to) current asset cash	(115,650)	519,471
Interest income	-	1,842
Payment of notes and interest	<u>-</u>	<u>(540,945)</u>
Balance, June 30, 2010	<u>\$ 668,124</u>	<u>\$ 185,591</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 \$3,062 and \$7,732 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, the Hospital received \$169,800 and \$158,019, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$124,570 and \$120,340 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2010 and 2009, 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 \$16,484 and \$12,100 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, the Hospital received \$123,485 and \$119,443, 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	
	2010	2009
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 4.70% 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>	\$1,087,800	\$1,195,600
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 4.6% 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>	3,366,300	3,542,700
Rural Economic Development Loan		
<p>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-%.</p>	324,000	360,000
Totals	4,778,100	5,098,300
Less current maturities	(327,000)	(326,000)
Total long-term debt	<u>\$4,451,100</u>	<u>\$4,772,300</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, 2022. As of June 30, 2010 the remaining principal and interest on the Notes was \$6,369,994. 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, 2010 and 2009:

	Year ended June 30	
	2010	2009
Change in fund equity	\$ 585,821	\$ 947,176
Provision for depreciation	1,397,052	1,311,222
Interest and amortization expense	<u>257,142</u>	<u>288,364</u>
Pledged net revenues	<u>\$2,240,015</u>	<u>\$2,546,762</u>
Principal and interest requirements	<u>\$ 540,945</u>	<u>\$ 999,160</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 10 LONG-TERM DEBT (continued)

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 \$668,124 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 \$90,900 and \$96,700 as of June 30, 2010 and 2009, respectively.

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

	<u>Rural economic development loan</u>		<u>Revenue notes payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June 30					
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	36,000	—	305,000	183,183	524,183
2016 to 2020	—	—	1,805,000	556,953	2,361,953
2021 to 2023	—	—	<u>1,335,000</u>	<u>208,550</u>	<u>1,543,550</u>
Total	<u>324,000</u>	—	<u>4,545,000</u>	<u>1,824,994</u>	<u>6,693,994</u>
Less unamortized discount	<u>—</u>	<u>—</u>	<u>(90,900)</u>	<u>—</u>	<u>(90,900)</u>
Totals	<u>\$ 324,000</u>	<u>\$ —</u>	<u>\$ 4,454,100</u>	<u>\$ 1,824,994</u>	<u>\$ 6,603,094</u>

Long-term debt activity for the years ended June 30, 2010 and 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2010					
Hospital revenue notes	\$4,835,000	\$ —	\$ 290,000	\$4,545,000	\$ 255,000
Rural economic development note	<u>360,000</u>	<u>—</u>	<u>36,000</u>	<u>324,000</u>	<u>72,000</u>
Total	<u>\$5,195,000</u>	<u>\$ —</u>	<u>\$ 326,000</u>	<u>\$4,869,000</u>	<u>\$ 327,000</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>

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, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Charges foregone, based on established rates	<u>\$ 225,622</u>	<u>\$ 200,492</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.7%</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

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 4.30% of their annual salary and the Hospital is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$645,934, \$511,725 and \$462,007, 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 \$1,950,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2010 and 2009 was \$2,312,113 and \$1,668,069, respectively, which includes program administration expenses.

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 254 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, 2010, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 12,400
Interest on net OPEB obligation	(300)
Adjustment to annual required contribution	<u>400</u>
Annual OPEB cost	12,500
Contributions made	<u>(18,500)</u>
Decrease in net OPEB obligation	(6,000)
Net OPEB obligation, beginning of year	<u>(6,000)</u>
Net OPEB obligation, end of year	<u>\$ (12,000)</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

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

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, 2010.

For the year ended June 30, 2010, the Hospital contributed \$18,500 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, 2010 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, 2010	<u>\$ 13,000</u>	<u>146%</u>	<u>\$ (12,000)</u>

As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, 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 \$9,958,000, and the ratio of the UAAL to the covered payroll was 1.3%. As of June 30, 2010, 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.

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, 2009 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, 2010 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 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, 2007.

Other

The Hospital has payment agreements with Wellmark, other commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

NOTE 17 HOSPITAL RISK MANAGEMENT

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

NOTE 18 SPLIT INTEREST AGREEMENT

The Hospital is a party of 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 \$(2,000) and \$50,000 for the years ended June 30, 2010 and 2009, 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 19 FLOYD VALLEY HOSPITAL FOUNDATION

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Floyd Valley Hospital Foundation is a component unit of the Hospital. The Floyd Valley Hospital Foundation was established 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, 2010 and 2009, 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 20 ASSETS HELD AT THE AVERA HEALTH FOUNDATION

The Floyd Valley Hospital Foundation (FVHF) has 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 The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification*. 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.

The fair value measurement literature established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets and Level 3 inputs have the lowest priority. The AH uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the AH measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

As of June 30, 2010, the valuation of investment within Avera Health Pooled Investments was as follows:

Fair value - Level 1 inputs	74.2%
Fair value - Level 2 inputs	6.8%
Fair value - Level 3 inputs	0.0%
Cost basis or equity method	<u>19.0%</u>
	<u>100.0%</u>

The investment allocation at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Non-publicly traded stocks, trusts, and partnerships (alternative investments)	16.6%	23.1%
US Treasury and Agency obligations	18.9%	20.4%
Foreign stocks and other	7.5%	10.6%
Institutional mutual funds	6.9%	11.5%
Publicly traded equity securities	12.9%	8.8%
Cash and short-term investments	10.3%	13.4%
Corporate bonds	8.7%	9.2%
Publicly traded mutual funds	<u>18.2%</u>	<u>3.0%</u>
	<u>100.0%</u>	<u>100.0%</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

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

Investment income, realized and unrealized gains and losses, 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, 2010 and 2009 are as follows:

	2010	2009
Interest, dividends and net realized gains and losses	\$ 6,118	\$ 4,177
Net unrealized gains	18,080	(43,665)
Investment income, net	\$ 24,198	\$ (39,488)

NOTE 21 FLOYD VALLEY HOSPITAL FOUNDATION NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009 follows:

	2010	2009
Medical records equipment	\$ 210,533	\$ 208,275
Pediatric equipment	32,279	29,106
Employee assistance	16,166	11,899
EMS training scholarship	1,542	814
	\$ 260,520	\$ 250,094

Permanently restricted net assets are available to provide support for the EMS training scholarship and total \$12,977 and \$12,977 at June 30, 2010 and 2009, respectively.

NOTE 22 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.

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 22 ENDOWMENT (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 are reported in unrestricted net assets. As of June 30, 2010 and 2009 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	\$ 46,620	\$ 250,094	\$ 12,977	\$ 309,691
Investment return (loss)				
Investment income	<u>2,937</u>	<u>16,885</u>	<u>—</u>	<u>19,822</u>
Contributions and special events	2,125	22,061	—	24,186
Appropriation of endowment assets for expenditure	<u>(721)</u>	<u>(28,520)</u>	<u>—</u>	<u>(29,241)</u>
Endowment assets, end of year	<u>\$ 50,961</u>	<u>\$ 260,520</u>	<u>\$ 12,977</u>	<u>\$ 324,458</u>

NOTE 23 COMMITMENTS

On May 20, 2010 the Hospital committed to purchasing equipment for approximately \$340,000. As of June 30, 2010 approximately \$83,000 has been deposited with the suppliers with the remainder due on delivery of the equipment.

REQUIRED SUPPLEMENTARY INFORMATION

**Floyd Valley Hospital
Budgetary Comparison Schedule
Year ended June 30, 2010**

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. 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 basis is that interest expense, property and equipment additions, and debt service principal amounts are included in operating expenditures on the budget basis.

The following is a comparison of reported expenses to budget:

	Operating expenses (GAAP basis)	Budget basis adjustment	Budget basis	Budgeted Amounts		Final to actual budget variance
				<u>Original</u>	<u>Amended</u>	
Year ended June 30, 2010 totals	<u>\$28,658,246</u>	<u>\$ 174,388</u>	<u>\$28,832,634</u>	<u>\$25,850,000</u>	<u>\$33,150,000</u>	<u>\$ 4,317,366</u>

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

Required Supplementary Information

<u>Fiscal year ended</u>	<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>
2009	July 1, 2009	\$ <u>—</u>	\$ <u>132</u>	<u>132</u>	<u>0.0%</u>	\$ <u>8,622</u>	<u>1.5%</u>
2010	July 1, 2010	\$ <u>—</u>	\$ <u>132</u>	<u>132</u>	<u>0.0%</u>	\$ <u>9,958</u>	<u>1.3%</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 2010 and 2009 appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 15, 2010

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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 - 60 days	\$3,718,315	\$3,057,822	59.26%	61.44%
61 - 90 days	423,641	403,420	6.75	8.10
91 - 180 days	802,816	591,661	12.79	11.88
Over 6 months	<u>1,329,967</u>	<u>925,081</u>	<u>21.20</u>	<u>18.58</u>
Totals	<u>6,274,739</u>	<u>4,977,984</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	1,030,146	858,466		
Contractual adjustments	<u>1,943,907</u>	<u>1,258,164</u>		
Total allowances	<u>2,974,053</u>	<u>2,116,630</u>		
Totals	<u>\$3,300,686</u>	<u>\$2,861,354</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
BALANCE , beginning	\$ 858,466	\$ 790,295
ADD		
Provision for bad debts	735,671	723,816
Recoveries of accounts previously written off	200,974	144,438
LESS		
Accounts written off	<u>(764,965)</u>	<u>(800,083)</u>
BALANCE , ending	<u>\$1,030,146</u>	<u>\$ 858,466</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2010</u>	<u>2009</u>
General stores	\$ 160,710	\$ 144,394
Pharmacy	189,364	137,232
Operating room	54,795	51,623
Intravenous solutions	<u>4,789</u>	<u>4,201</u>
Totals	<u>\$ 409,658</u>	<u>\$ 337,450</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Avera (policy expiration December 31, 2010)	
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, 2010)	
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>2010</u>	<u>2009</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 1,599,015	\$ 1,536,681
Long term care	354,283	295,960
Nursery	50,076	53,460
	<u>2,003,374</u>	<u>1,886,101</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	3,491,064	3,230,722
Delivery and labor room	108,215	114,942
Central service and supply	2,060,509	1,666,789
Emergency service	3,495,838	3,457,817
Home health services	1,068,958	997,053
	<u>10,224,584</u>	<u>9,467,323</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	6,521,241	4,485,263
Electrocardiology	942,155	960,913
Radiology	6,971,988	6,336,505
Pharmacy	2,876,949	2,463,682
Anesthesiology	2,115,866	1,884,954
Respiratory therapy	379,340	266,689
Physical therapy	1,339,916	1,110,744
Occupational therapy	207,763	164,881
Speech therapy	250,492	212,907
Enterostomy	167,930	150,124
Audiology	2,498	3,249
Clinics	5,101,339	166,920
Cardiac rehabilitation	112,893	89,568
	<u>26,990,370</u>	<u>18,296,399</u>
	39,218,328	29,649,823
Charity care charges foregone, based on established rates	<u>(225,622)</u>	<u>(200,492)</u>
Total gross patient service revenue	38,992,706	29,449,331
Provisions for contractual and other adjustments	<u>(11,470,068)</u>	<u>(7,854,618)</u>
Net patient service revenue	<u>\$27,522,638</u>	<u>\$21,594,713</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
\$1,599,015	\$1,536,681	\$ -	\$ -	\$ -	\$ -
-	-	-	-	354,283	295,960
<u>50,076</u>	<u>53,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,649,091</u>	<u>1,590,141</u>	<u>-</u>	<u>-</u>	<u>354,283</u>	<u>293,620</u>
1,039,826	1,104,558	2,448,837	2,126,164	2,401	-
86,602	96,786	21,613	18,156	-	-
1,144,586	929,798	790,584	601,740	125,339	135,251
36,241	64,419	3,456,804	3,393,349	2,793	49
-	-	<u>1,068,958</u>	<u>997,053</u>	<u>-</u>	<u>-</u>
<u>2,307,255</u>	<u>2,195,561</u>	<u>7,786,796</u>	<u>7,136,462</u>	<u>130,533</u>	<u>135,300</u>
697,461	705,152	5,719,210	3,700,573	104,570	79,538
91,738	89,489	845,151	862,562	5,266	8,862
437,864	469,359	6,496,729	5,828,934	37,395	38,212
821,919	790,476	1,779,909	1,370,640	275,121	302,566
722,921	705,692	1,389,991	1,178,325	2,954	937
162,879	121,154	132,697	86,731	83,764	58,804
83,333	60,406	1,160,402	964,956	96,181	85,382
23,305	12,635	145,679	120,100	38,779	32,146
6,329	16,010	222,522	180,255	21,641	16,642
9,681	11,356	142,625	127,579	15,624	11,189
1,035	1,125	1,463	2,111	-	13
-	-	5,101,239	166,920	-	-
-	-	<u>112,893</u>	<u>89,568</u>	<u>-</u>	<u>-</u>
<u>3,058,465</u>	<u>2,982,854</u>	<u>23,250,610</u>	<u>14,679,254</u>	<u>681,295</u>	<u>634,291</u>
<u>\$7,014,811</u>	<u>\$6,768,556</u>	<u>\$31,037,406</u>	<u>\$21,815,716</u>	<u>\$1,166,111</u>	<u>\$1,065,551</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments	\$10,562,464	\$6,917,055
Employee and other allowances	171,933	213,747
Provision for bad debts	<u>735,671</u>	<u>723,816</u>
Totals	<u>\$11,470,068</u>	<u>\$7,854,618</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Cafeteria	\$ 93,355	\$ 102,228
Rental income	92,940	275,129
Park Place Estates	1,092,528	1,034,982
Lifeline	66,751	64,594
Other	<u>457,686</u>	<u>549,445</u>
Totals	<u>\$1,803,260</u>	<u>\$2,026,378</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries	\$ 177,804	\$ 174,608
Supplies and expenses	<u>3,633</u>	<u>2,970</u>
	<u>181,437</u>	<u>177,578</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,327,696	1,369,595
Supplies and expenses	<u>68,054</u>	<u>54,433</u>
	<u>1,395,750</u>	<u>1,424,028</u>
SWING BED		
Salaries	<u>225,355</u>	<u>210,251</u>
NURSERY		
Salaries	35,127	39,804
Supplies and expenses	<u>1,979</u>	<u>2,861</u>
	<u>37,106</u>	<u>42,665</u>
OPERATING AND RECOVERY ROOMS		
Salaries	396,223	418,455
Professional fees	1,066,688	1,114,874
Supplies and expenses	<u>232,856</u>	<u>155,139</u>
	<u>1,695,767</u>	<u>1,688,468</u>
DELIVERY AND LABOR ROOM		
Salaries	35,872	45,832
Supplies and expenses	<u>3,276</u>	<u>6,436</u>
	<u>39,148</u>	<u>52,268</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	119,352	116,305
Purchased services	1,247	5,769
Supplies and expenses	<u>926,087</u>	<u>614,473</u>
	<u>1,046,686</u>	<u>736,547</u>
EMERGENCY SERVICE		
Salaries	723,032	713,632
Professional fees	927,398	994,820
Supplies and expenses	<u>52,648</u>	<u>49,931</u>
	<u>1,703,078</u>	<u>1,758,383</u>
HOME HEALTH		
Salaries	740,941	713,775
Purchased services	36,995	35,552
Supplies and expenses	<u>92,690</u>	<u>104,246</u>
	<u>870,626</u>	<u>853,573</u>
Totals	<u>\$7,194,953</u>	<u>\$6,943,761</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
LABORATORY		
Salaries	\$ 567,665	\$ 429,365
Professional fees	7,576	8,867
Purchased services	260,850	229,297
Supplies and expenses	447,694	322,834
Blood	87,325	110,864
	<u>1,371,110</u>	<u>1,101,227</u>
ELECTROCARDIOLOGY		
Salaries	9,278	9,505
Purchased services	125,439	144,769
Supplies and expenses	1,038	1,318
	<u>135,755</u>	<u>155,592</u>
RADIOLOGY		
Salaries	640,901	575,450
Professional fees	611,809	758,197
Purchased services	559,409	576,562
Supplies and expenses	249,939	157,492
	<u>2,062,058</u>	<u>2,067,701</u>
PHARMACY		
Salaries	249,060	234,769
Purchased services	760	670
Drugs	839,384	497,099
Intravenous solutions and supplies	17,536	15,707
Supplies and expenses	9,171	35,087
	<u>1,115,911</u>	<u>783,332</u>
ANESTHESIOLOGY		
Purchased services	638,654	616,466
Supplies and expenses	14,374	11,417
	<u>653,028</u>	<u>627,883</u>
RESPIRATORY THERAPY		
Salaries	154,442	154,423
Purchased services	-	795
Supplies and expenses	8,693	9,684
	<u>163,135</u>	<u>164,902</u>
PHYSICAL THERAPY		
Salaries	114,345	115,908
Purchased services	659,109	546,665
Supplies and expenses	36,948	20,713
	<u>810,402</u>	<u>683,286</u>
OCCUPATIONAL THERAPY		
Purchased services	114,270	86,151
Supplies and expenses	250	82
	<u>114,520</u>	<u>86,233</u>
OCCUPATIONAL HEALTH		
Salaries	3,363	4,405
Supplies and expense	4,077	3,769
	<u>7,440</u>	<u>8,174</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 104,877	\$ 102,226
Supplies and expenses	<u>2,244</u>	<u>1,770</u>
	<u>107,121</u>	<u>103,996</u>
SPEECH THERAPY		
Purchased services	170,335	143,232
Supplies and expenses	<u>727</u>	<u>3,048</u>
	<u>171,062</u>	<u>146,280</u>
ENTEROSTOMY		
Salaries	163,654	164,687
Supplies and expenses	<u>4,704</u>	<u>7,765</u>
	<u>168,358</u>	<u>172,452</u>
AUDIOLOGY		
Salaries	1,499	1,268
Purchased services	140	263
Supplies and expenses	<u>1,315</u>	<u>1,314</u>
	<u>2,954</u>	<u>2,845</u>
CLINICS		
Salaries	1,726,397	127,944
Professional fees	1,747,665	39,230
Purchased services	82,704	4,561
Supplies and expenses	<u>550,686</u>	<u>22,668</u>
	<u>4,107,452</u>	<u>194,403</u>
CARDIAC REHABILITATION		
Salaries	68,620	70,416
Supplies and expenses	<u>12,044</u>	<u>3,698</u>
	<u>80,664</u>	<u>74,114</u>
LIFELINE		
Salaries	8,177	9,280
Purchased services	36,535	33,730
Supplies and expenses	<u>12,847</u>	<u>9,136</u>
	<u>57,559</u>	<u>52,146</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	79,399	87,298
Supplies and expenses	<u>197</u>	<u>1,630</u>
	<u>79,596</u>	<u>88,928</u>
MEDICAL RECORDS		
Salaries	72,701	79,428
Purchased services	126,923	104,592
Supplies and expenses	<u>62,360</u>	<u>62,970</u>
	<u>261,984</u>	<u>246,990</u>
Totals	<u>\$11,470,109</u>	<u>\$6,760,484</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
DIETARY		
Salaries	\$ 398,690	\$ 405,929
Food	242,644	269,241
Purchased services	67,232	56,436
Supplies and expenses	<u>50,709</u>	<u>74,724</u>
	<u>759,275</u>	<u>806,330</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	232,715	261,384
Utilities	271,833	274,577
Purchased services	26,896	30,164
Supplies and expenses	<u>122,863</u>	<u>119,972</u>
	<u>654,307</u>	<u>686,097</u>
HOUSEKEEPING		
Salaries	186,895	190,936
Purchased services	2,600	4,099
Supplies and expenses	<u>31,045</u>	<u>30,144</u>
	<u>220,540</u>	<u>225,179</u>
LAUNDRY AND LINEN		
Purchased services	60,016	58,411
Linens	9,631	13,501
Supplies and expenses	<u>1,137</u>	<u>1,355</u>
	<u>70,784</u>	<u>73,267</u>
 Totals	 <u>\$1,704,906</u>	 <u>\$1,790,873</u>

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

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 141,247	\$ 140,467
Management fee	397,086	393,821
Telephone	43,303	51,473
Postage	38,759	39,342
Supplies and expenses	172,332	200,004
Freight	34,939	29,647
Organization dues	26,657	24,850
Public relations	15,609	7,528
Activities	2,617	2,818
Marketing	<u>106,119</u>	<u>93,959</u>
	<u>978,668</u>	<u>983,909</u>
Business office		
Salaries	513,504	524,438
Supplies and expenses	<u>153,952</u>	<u>122,898</u>
	<u>667,456</u>	<u>647,336</u>
Data processing		
Salaries	97,997	96,663
Supplies and expenses	<u>310,316</u>	<u>292,055</u>
	<u>408,313</u>	<u>388,718</u>
Human resources		
Salaries	112,349	107,610
Supplies and expenses	<u>55,664</u>	<u>77,900</u>
	<u>168,013</u>	<u>185,510</u>
Risk management		
Salaries	54,269	55,379
Supplies and expenses	<u>133,388</u>	<u>131,043</u>
	<u>187,657</u>	<u>186,422</u>
Education		
Salaries	127,440	135,659
Purchased services	9,810	10,895
Supplies and expenses	<u>19,339</u>	<u>39,569</u>
	<u>156,589</u>	<u>186,123</u>
Park Place Estates		
Salaries	347,603	344,437
Purchased services	14,679	13,038
Supplies and expenses	<u>58,118</u>	<u>69,384</u>
	<u>420,400</u>	<u>426,859</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,370,407	1,116,099
Group health insurance	2,312,113	1,668,069
Life and disability insurance	124,392	96,915
Tuition assistance	3,479	19,506
Memberships	35	-
Insurance	<u>93,704</u>	<u>104,773</u>
	<u>3,904,130</u>	<u>3,005,362</u>
Totals	<u>\$6,891,226</u>	<u>\$6,010,239</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	2,303	2,344
Special care	27	35
Nursery	214	243
Swing bed		
Skilled nursing care	1,309	1,135
Intermediate care	<u>1</u>	<u>—</u>
Totals	<u>3,854</u>	<u>3,757</u>
ADMISSIONS	782	860
DISCHARGES	785	864
AVERAGE LENGTH OF STAY, acute and special care	2.97	2.75
BEDS	25	25
OCCUPANCY PERCENT, ACUTE	25.2%	25.7%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$75,404	\$59,160
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	43.83	48.37

**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, 2010, and have issued our report thereon dated October 15, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, 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, 2010 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Hospital and Foundation. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 15, 2010

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

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, 2010**

Part II—Findings Related to Required Statutory Reporting

10-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

10-II-B TRAVEL EXPENSES

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

10-II-C BUSINESS TRANSACTIONS

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

10-II-D BOARD MINUTES

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

10-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.