

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

FINANCIAL REPORT

June 30, 2012

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**Floyd Valley Hospital
OFFICIALS
June 30, 2012**

Before January 2012

Board of Trustees

Bill Rosacker, Chairman
Craig Bauerly, Vice Chairman
Larry Petersen
William Young, Treasurer
Ralph Klemme, Secretary

Expiration of term

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

Administrator

Michael T. Donlin, FACHE

Director of Financial Services

Daryl J. Friedenbach

After January 2012

Board of Trustees

Craig Bauerly, Chairman
William Young, Vice Chairman
Ralph Klemme, Treasurer
Larry Petersen, Secretary
Bill Rosacker

Expiration of term

December, 2013
December, 2013
December, 2015
December, 2015
December, 2015

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, 2012 and 2011, 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, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd Valley Hospital as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 8, 2012 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.

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 8, 2012

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, 2012, 2011 and 2010. Please read it in conjunction with the hospital's financial statements, which follow this section.

Overview of the Financial Statements:

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

Required Financial Statements:

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

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

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

Financial Highlights:

- Total assets increased by \$1.1 million from FY 2011 to \$28.3 million, primarily related to increase in cash and patient receivables.
- Total net capital assets decreased by \$176 thousand from FY 2011 as depreciation costs exceeded acquisitions of new equipment.
- Fund equity increased by \$255 thousand from FY 2011.
- FY 2012 net patient service revenue increased by \$1.5 million, primarily due to additional patient services being offered, especially additional professional fees related to general surgery.
- FY 2012 expenses increased by \$1.7 million related to increased staffing costs and additional costs associated with new physicians added to the hospital under contract.
- Total margin for FY 2012 was .8%, compared to 1.5% for FY 2011 and 2.0% for FY 2010.

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, 2012, 2011, and 2010 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2012	June 30, 2011	June 30, 2010
Current and other assets	\$17,302	\$16,072	\$15,249
Capital assets	\$11,007	\$11,183	\$11,903
Total Assets	\$28,309	\$27,255	\$27,152
Long term debt outstanding	\$ 4,125	\$ 4,456	\$ 4,778
Other liabilities	\$ 4,680	\$ 3,550	\$ 3,577
Total liabilities	\$ 8,805	\$ 8,006	\$ 8,355
Invested in Capital Assets	\$ 6,883	\$ 6,727	\$ 7,125
Restricted	\$ 961	\$ 938	\$ 959
Unrestricted	\$11,660	\$11,584	\$10,713
Total Fund Equity	\$19,504	\$19,249	\$18,797

As can be seen in Table 1, net assets increased by \$255 thousand to \$19.5 million in fiscal year 2012, up from \$19.2 million in fiscal year 2011 and \$18.8 million in fiscal year 2010. 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, 2012, 2011 and 2010.

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

	2012	2011	2010
Total Revenue	\$31,302	\$29,843	\$29,326
Expenses	\$31,188	\$29,466	\$28,658
Operating Income	\$ 114	\$ 377	\$ 668
Non-Operating Gains (Losses)	\$ (33)	\$ (19)	\$ (111)
Excess of Revenues over expenses before contributions	\$ 81	\$ 358	\$ 557
Contributions	\$ 174	\$ 94	\$ 29
Changes in Fund Equity	\$ 255	\$ 452	\$ 586
Total Fund Equity, Beginning	\$19,249	\$18,797	\$18,211
Total Fund Equity, Ending	\$19,504	\$19,249	\$18,797

Operating and Financial Performance:

The following summarizes the hospital's statements of revenue, expenses, and changes in fund equity between June 30, 2012, 2011 and 2010.

Volume: Inpatient admissions for fiscal year 2012 were 11% less than in 2011. Outpatient utilization was 1% less than the prior fiscal year within the hospital. Skilled care discharges were 9% less than the prior year, while Home Health visits were down by 3%. The number of clinic visits at the Family Medical Clinic was down by 5% from the prior fiscal year. Several physicians were added as contracted providers during fiscal year 2012 including a family practice physician, a part time radiologist and a general surgeon. These increased the amount of professional fee billing occurring through Floyd Valley Hospital.

Net Patient Service Revenue: Due to rate increases, and the changes in services described above, net patient revenues increased by \$1.5 million or 5% in comparison to fiscal year 2011.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2012, 2011 and 2010.

**Table 3
Payor Mix by Percentage**

	Year Ended June 30		
	2012	2011	2010
Medicare	42.6%	45.5%	42.8%
Wellmark Blue Cross	27.3%	23.0%	24.1%
Commercial	21.7%	22.4%	24.6%
Medicaid	6.2%	6.7%	6.2%
All others	2.2%	2.4%	2.3%

Nursing Service expenses increased by 10% primarily due to the market salary demands for nurses and other supply costs associated with patient care as well as the additional contract costs for a general surgeon added to the staff.

Other professional services increased by 6% primarily due to market demands for contracted services as well as additional radiologist contract service during the fiscal year.

Capital Assets:

At the end of fiscal year 2012, the hospital has invested \$11 million in capital assets as shown in Table 4.

**Table 4
Capital Assets
(in thousands)**

	June 30,		
	2012	2011	2010
Land & Land Improvements	\$ 1,058	\$ 1,059	\$ 1,054
Buildings	\$ 18,234	\$ 18,191	\$ 18,078
Major Moveable Equipment	\$ 7,203	\$ 7,087	\$ 6,693
Medical records	\$ 253	\$ 253	\$ 253
Construction/Equipment Installs in Progress	\$ 363	\$ 9	\$ 85
Subtotal	\$ 27,111	\$ 26,599	\$ 26,163
Less accumulated depreciation	\$(16,104)	\$(15,416)	\$(14,260)
Capital assets, net	\$ 11,007	\$ 11,183	\$ 11,903

Debt Administration:

At the end of fiscal year 2012, the hospital had \$3.9 million in debt related to Hospital Revenue Bonds and additional debt of \$180 thousand that was issued in December of 2009 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 \$29.2 million which was 3% less than budget for fiscal year ended June 30, 2012.

Operating Expenses were \$31.2 million which was 2% less than budget expectations for the fiscal year ending June 30, 2012. There were no significant variances from the budget plan.

The following table compares fiscal year 2012 actual to budget information.

Table 5
Budget vs. Actual
(in thousands)

	FY 2012 Actual	FY 2012 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$45,340	\$46,709	\$(1,369)	(3)%
Contractual Adjustments & Bad Debt	\$16,086	\$16,515	\$ (429)	(3)%
Net patient service revenue	\$29,254	\$30,194	\$ (940)	(3)%
Other operating revenue	\$ 2,048	\$ 2,069	\$ (21)	(1)%
Total operating revenue	\$31,302	\$32,263	\$ (961)	(3)%
Operating Expenses	\$31,188	\$31,676	\$ (488)	(2)%
Operating Gain/Loss	\$ 114	\$ 587	\$ (473)	(80)%
Non-Operating Gains (Losses)	\$ 141	\$ 132	\$ 9	7%
Excess of Revenues over Expenses	\$ 255	\$ 719	\$ (464)	(65)%

Economic and Other Factors and Next Years Budget:

The hospital's board and management considered many factors when setting the fiscal year 2013 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 including healthcare reform
- Facility expansion and growth in demand for services and the need to make significant capital improvements to aging plant and equipment
- Physician recruitment, especially family practice physicians
- Cost associated with implementation of an Electronic Medical Record

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	2012	2011
CURRENT ASSETS		
Cash	\$ 4,310,827	\$ 3,555,712
Assets whose use is limited, required for current liabilities	321,663	303,793
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2012 \$3,428,514; 2011 \$2,832,871	3,941,651	3,510,321
Other current receivables	69,022	31,536
Current portion of note receivable	275,000	250,000
Inventories	420,079	406,435
Prepaid expenses	222,087	214,563
Total current assets	<u>9,560,329</u>	<u>8,272,360</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	2,710,040	2,640,194
Certificates of deposit	3,786,831	3,780,116
Accrued interest receivable	4,079	5,137
	<u>6,500,950</u>	<u>6,425,447</u>
Restricted for payment of revenue notes and interest		
Cash	204,529	192,066
Certificates of deposit	668,124	668,124
	<u>872,653</u>	<u>860,190</u>
Restricted by donors for specific purpose		
Cash	88,326	78,023
Total assets whose use is limited	7,461,929	7,363,660
Less assets whose use is limited and that are required for current liabilities	321,663	303,793
Noncurrent assets whose use is limited	<u>7,140,266</u>	<u>7,059,867</u>
CAPITAL ASSETS		
Less accumulated depreciation	27,111,441	26,599,059
Total capital assets	<u>16,104,042</u>	<u>15,416,067</u>
Total capital assets	<u>11,007,399</u>	<u>11,182,992</u>
OTHER ASSETS		
Unamortized financing costs	18,220	20,731
Note receivable, net of current portion	52,084	250,000
Beneficial interest in remainder trust	408,000	324,000
Investment in Northwest Iowa Diagnostics	30,611	44,056
Investment in Floyd Valley Home Medical Equipment	92,679	101,447
Total other assets	<u>601,594</u>	<u>740,234</u>
Totals	<u>\$28,309,588</u>	<u>\$27,255,453</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND FUND EQUITY		2012	2011
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 357,000	\$ 337,000
Accounts payable			
Trade		2,622,485	2,078,045
Construction and equipment		201,085	23,045
Accrued employee compensation		1,261,085	1,064,017
Security deposits		19,500	17,500
Payroll taxes and amounts withheld from employees		178,485	134,057
Accrued interest		36,663	38,793
Estimated third-party payor settlements		361,509	194,501
Total current liabilities		<u>5,037,812</u>	<u>3,886,958</u>
LONG-TERM DEBT , less current maturities		<u>3,767,500</u>	<u>4,119,200</u>
Total liabilities		<u>8,805,312</u>	<u>8,006,158</u>
COMMITMENTS AND CONTINGENCIES			
FUND EQUITY			
Invested in capital assets, net of related debt		6,882,899	6,726,792
Restricted		960,979	938,213
Unrestricted		<u>11,660,398</u>	<u>11,584,290</u>
Total fund equity		<u>19,504,276</u>	<u>19,249,295</u>
Totals		<u>\$28,309,588</u>	<u>\$27,255,453</u>

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

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2012 \$911,630; 2011 \$793,040	\$29,254,032	\$27,744,334
OTHER REVENUE	<u>2,047,840</u>	<u>2,099,309</u>
Total revenue	<u>31,301,872</u>	<u>29,843,643</u>
EXPENSES		
Nursing service	8,202,323	7,445,679
Other professional service	12,236,220	11,589,823
General service	1,750,293	1,704,055
Fiscal and administrative service and unassigned expenses	7,698,349	7,387,838
Provision for depreciation	<u>1,300,870</u>	<u>1,339,301</u>
Total expenses	<u>31,188,055</u>	<u>29,466,696</u>
Operating income	<u>113,817</u>	<u>376,947</u>
NONOPERATING GAINS (LOSSES)		
Interest income	96,742	118,730
Interest and amortization expense	(232,047)	(244,337)
Unrestricted contribution	185	2,875
Change in value of split-interest agreement	84,000	64,000
Equity in earnings of equity method investments	16,787	43,167
(Loss) on disposal of equipment	<u>1,072</u>	<u>(3,117)</u>
Total nonoperating gains (losses)	<u>(33,261)</u>	<u>(18,682)</u>
Excess of revenues over expenses before contributions	80,556	358,265
RESTRICTED CONTRIBUTIONS	<u>174,425</u>	<u>93,827</u>
Change in fund equity	254,981	452,092
TOTAL FUND EQUITY		
Beginning	<u>19,249,295</u>	<u>18,797,203</u>
Ending	<u>\$19,504,276</u>	<u>\$19,249,295</u>

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$28,989,710	\$27,886,400
Cash paid to employees for service	(14,665,341)	(14,263,217)
Cash paid to suppliers for goods and services	(14,184,159)	(13,522,306)
Other operating revenue received	<u>1,912,354</u>	<u>2,090,530</u>
Net cash provided by operating activities	<u>2,052,564</u>	<u>2,191,407</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	185	2,875
Contributions restricted for capital assets, net	<u>174,425</u>	<u>93,827</u>
Net cash provided by noncapital financing activities	<u>174,610</u>	<u>96,702</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(958,147)	(604,306)
Proceeds from sale of capital assets	11,980	-
Principal paid on long-term debt	(337,000)	(327,000)
Interest paid on long-term debt	<u>(226,365)</u>	<u>(238,700)</u>
Net cash (used in) capital and related financing activities	<u>(1,509,532)</u>	<u>(1,170,006)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,204,955)	(3,776,696)
Proceeds from maturities of certificates of deposit	4,198,240	4,376,696
Distribution from Floyd Valley Home Medical Equipment	39,000	27,499
Interest received	<u>97,800</u>	<u>116,776</u>
Net cash provided by investing activities	<u>130,085</u>	<u>744,275</u>
NET INCREASE IN CASH	847,727	1,862,378
CASH		
Beginning	<u>6,465,995</u>	<u>4,603,617</u>
Ending	<u>\$ 7,313,722</u>	<u>\$ 6,465,995</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 113,817	\$ 376,947
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,300,870	1,339,301
Forgive note receivable	272,917	250,000
Change in assets and liabilities		
(Increase) in patient receivables	(431,330)	(209,635)
(Increase) in other current receivables	(37,486)	(11,779)
(Increase) decrease in inventories	(13,644)	3,223
(Increase) decrease in prepaid expenses	(7,524)	3,567
(Increase) in note receivable	(100,000)	-
Increase in estimated third-party payor settlements	167,008	351,701
Increase (decrease) in accounts payable, net of amounts for capital assets	544,440	(32,380)
Increase in accrued employee compensation	197,068	103,915
Increase in security deposits	2,000	3,000
Increase in payroll taxes and withholdings	<u>44,428</u>	<u>13,547</u>
Net cash provided by operating activities	<u>\$2,052,564</u>	<u>\$2,191,407</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$4,310,827	\$3,555,712
Assets whose use is limited		
Designated by board for plant expansion	2,710,040	2,640,194
Restricted for payment of revenue notes and interest	204,529	192,066
Restricted by donors for specific purpose	<u>88,326</u>	<u>78,023</u>
Total per statements of cash flows	<u>\$7,313,722</u>	<u>\$6,465,995</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Increase in beneficial interest in remainder trust	<u>\$ 84,000</u>	<u>\$ 64,000</u>

See Notes to Financial Statements.

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

	June 30	
ASSETS	2012	2011
Interest in the net assets of Avera Health Investment Pool	\$ 293,291	\$ 402,598
Contributions receivable	<u>1,463</u>	<u>1,455</u>
TOTAL ASSETS	<u>\$ 294,754</u>	<u>\$ 404,053</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ <u>254</u>	\$ <u>31</u>
NET ASSETS		
Unrestricted		
Designated by Board for endowment	57,377	57,876
Undesignated	162,059	115,156
Temporarily restricted	62,087	218,013
Permanently restricted	<u>12,977</u>	<u>12,977</u>
Total net assets	<u>294,500</u>	<u>404,022</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 294,754</u>	<u>\$ 404,053</u>

See Notes to Financial Statements.

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

	Year ended June 30, 2012			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
REVENUES AND OTHER SUPPORT				
Contributions	\$ 5,970	\$ 5,625	\$ —	\$ 11,595
Special event	68,590	15,081	—	83,671
Investment gain (loss)	1,208	(11,118)	—	(9,910)
	75,768	9,588	—	85,356
Net assets released from restrictions				
Satisfaction of purpose	165,514	(165,514)	—	—
Total revenue and support	241,282	(155,926)	—	85,356
EXPENSES				
Program services				
Floyd Valley Hospital Employee Assistance	3,100	—	—	3,100
Pediatrics, cost of direct benefit to donors	2,857	—	—	2,857
Health education	2,150	—	—	2,150
Caring for life, cost of direct benefit to donors	25,413	—	—	25,413
Medical records	156,651	—	—	156,651
Endowment	2	—	—	2
Park Place	150	—	—	150
Total program services	190,323	—	—	190,323
Supporting service				
Administrative services	4,555	—	—	4,555
Total expenses	194,878	—	—	194,878
CHANGE IN NET ASSETS	46,404	(155,926)	—	(109,522)
NET ASSETS , beginning of year	173,032	218,013	12,977	404,022
NET ASSETS , end of year	\$ 219,436	\$ 62,087	\$ 12,977	\$ 294,500

See Notes to Financial Statements.

Year ended June 30, 2011

Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 11,010	\$ 8,079	\$ -	\$ 19,089
33,739	14,546	-	48,285
<u>21,972</u>	<u>31,869</u>	<u>-</u>	<u>53,841</u>
<u>66,721</u>	<u>54,494</u>	<u>-</u>	<u>121,215</u>
<u>97,001</u>	<u>(97,001)</u>	<u>-</u>	<u>-</u>
163,722	(42,507)	-	121,215
6,658	-	-	6,658
23,168	-	-	23,168
4,827	-	-	4,827
28,351	-	-	28,351
60,913	-	-	60,913
1,442	-	-	1,442
<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
<u>127,859</u>	<u>-</u>	<u>-</u>	<u>127,859</u>
<u>4,908</u>	<u>-</u>	<u>-</u>	<u>4,908</u>
<u>132,767</u>	<u>-</u>	<u>-</u>	<u>132,767</u>
30,955	(42,507)	-	(11,552)
<u>142,077</u>	<u>260,520</u>	<u>12,977</u>	<u>415,574</u>
<u>\$ 173,032</u>	<u>\$ 218,013</u>	<u>\$ 12,977</u>	<u>\$ 404,022</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	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (109,522)	\$ (11,552)
Unrealized (gain) on investment	-	(40,643)
Adjustments to reconcile change in net assets to net cash (used in) operating activities		
(Increase) in contributions receivable	(8)	(303)
Increase (decrease) in accounts payable	<u>223</u>	<u>(145)</u>
Net cash (used in) operating activities	<u>(109,307)</u>	<u>(52,643)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase/redemption of the interest in the net assets of Avera Health Foundation	<u>109,307</u>	<u>52,643</u>
Net cash provided by investing activities	<u>109,307</u>	<u>52,643</u>
NET CHANGE IN CASH	-	-
CASH		
Beginning	<u>-</u>	<u>-</u>
Ending	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

For financial reporting purposes, the 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, 2012 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

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

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 investments 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

The Foundation follows 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 2009, 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 8, 2012, which was the date the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2012 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 uses 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	
	2012	2011
Receivable from patients	\$2,500,925	\$2,287,982
Receivable from insurance carriers	3,000,093	2,309,119
Receivable from Medicare	1,510,185	1,475,746
Receivable from Medicaid	<u>358,962</u>	<u>270,345</u>
Total patient receivables	7,370,165	6,343,192
Less allowances for contractual and other adjustments	<u>(3,428,514)</u>	<u>(2,832,871)</u>
 Totals	 <u>\$3,941,651</u>	 <u>\$3,510,321</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, 2012, are expected to be received as follows:

Year ending June 30,	
2013	\$ 275,000
2014	<u>52,084</u>
Total	<u>\$ 327,084</u>

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012 and 2011 follows:

	Balance July 1, 2011	Additions	Deletions	Transfers	Ending June 30, 2012
Land	\$ 185,160	\$ —	\$ —	\$ —	\$ 185,160
Land improvements	873,519	—	—	—	873,519
Buildings and fixed equipment	18,190,794	7,352	(30,086)	66,508	18,234,568
Major movable equipment	7,087,680	251,083	(589,507)	453,451	7,202,707
Intangible					
Medical records	252,633	—	—	—	252,633
Construction and equipment installations in progress	<u>9,273</u>	<u>877,752</u>	<u>(4,212)</u>	<u>(519,959)</u>	<u>362,854</u>
Totals	26,599,059	1,136,187	(623,805)	—	27,111,441
Less accumulated depreciation and amortization	<u>(15,416,067)</u>	<u>(1,300,870)</u>	<u>612,895</u>	<u>—</u>	<u>(16,104,042)</u>
Net capital assets	<u>\$11,182,992</u>	<u>\$ (164,683)</u>	<u>\$ (10,910)</u>	<u>\$ —</u>	<u>\$11,007,399</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (continued)

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending June 30, 2011</u>
Land	\$ 185,160	\$ -	\$ -	\$ -	\$ 185,160
Land improvements	868,608	-	-	4,911	873,519
Buildings and fixed equipment	18,078,320	99,874	-	12,600	18,190,794
Major movable equipment	6,693,542	69,564	(186,416)	510,990	7,087,680
Intangible					
Medical records	252,633	-	-	-	252,633
Construction and equipment installations in progress	<u>85,225</u>	<u>452,549</u>	<u>-</u>	<u>(528,501)</u>	<u>9,273</u>
Totals	26,163,488	621,987	(186,416)	-	26,599,059
Less accumulated depreciation and amortization	<u>(14,260,054)</u>	<u>(1,339,301)</u>	<u>183,288</u>	<u>-</u>	<u>(15,416,067)</u>
Net capital assets	<u>\$11,903,434</u>	<u>\$ (717,314)</u>	<u>\$ (3,128)</u>	<u>\$ -</u>	<u>\$11,182,992</u>

Construction in progress at June 30, 2012 consists of costs incurred related to a proposed addition to the current hospital and remodeling of hospital space. Equipment installations in progress consists of costs related to an electronic medical record software upgrade.

NOTE 6 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$3,249. The leases expire at various times through August 2014 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, 2012 and 2011 includes gross rental income of \$40,467 and \$38,382, respectively, for these leases.

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

Year ending June 30

2013	\$ 29,176
2014	17,016
2015	<u>2,836</u>
Total	<u>\$ 49,028</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, 2012 and 2011.

	<u>Reserve Fund</u>	<u>Sinking Fund</u>
Balance, June 30, 2010	\$ 668,124	\$ 185,591
Transfers from current asset cash	-	498,524
Interest income	-	1,629
Payment of notes and interest	<u>-</u>	<u>(493,678)</u>
Balance, June 30, 2011	668,124	192,066
Transfers from current asset cash	-	501,967
Interest income	-	1,861
Payment of notes and interest	<u>-</u>	<u>(491,365)</u>
Balance, June 30, 2012	<u>\$ 668,124</u>	<u>\$ 204,529</u>

NOTE 8 INVESTMENT IN NORTHWEST IOWA DIAGNOSTICS

The Hospital has a 44% 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 (loss) of \$(13,386) and \$16,228 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, the Hospital received \$195,800 and \$188,389, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$171,045 and \$133,560 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2012 and 2011, 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 \$30,232 and \$26,939 for the years ended June 30, 2012 and 2011, respectively.

Floyd Valley Home Medical Equipment is an entity formed under chapter 28E of the Iowa Code. The Hospital is a contributing member. The Hospital leases two Hospital employees to provide services for Floyd Valley Home Medical Equipment as well as office space in the Hospital's facility. During the years ended June 30, 2012 and 2011, the Hospital received \$110,241 and \$79,900, 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	
	2012	2011
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 5.00% to 5.45%. Notes maturing in 2012 and thereafter may be called for redemption, in whole or in part in any order of maturity after November 1, 2011, or on any date thereafter at par and accrued interest at the coupon rate.</p>	\$ 857,500	\$ 975,100
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 4.9% 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>	3,087,000	3,229,100
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>	180,000	252,000
<p>Totals</p>	4,124,500	4,456,200
<p>Less current maturities</p>	(357,000)	(337,000)
<p>Total long-term debt</p>	<u>\$3,767,500</u>	<u>\$4,119,200</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, 2012 the remaining principal and interest on the Notes was \$5,564,952. 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, 2012 and 2011:

	Year ended June 30	
	2012	2011
Change in fund equity	\$ 254,981	\$ 452,092
Provision for depreciation	1,300,870	1,339,301
Interest and amortization expense	<u>232,047</u>	<u>244,337</u>
Pledged net revenues	<u>\$1,787,898</u>	<u>\$2,035,730</u>
Principal and interest requirements	<u>\$ 491,365</u>	<u>\$ 493,678</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 \$80,500 and \$85,800 as of June 30, 2012 and 2011, 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					
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	—	—	325,000	166,883	491,883
2017	—	—	340,000	149,347	489,347
2018 to 2022	—	—	2,005,000	435,409	2,440,409
2023	—	—	<u>470,000</u>	<u>13,865</u>	<u>483,865</u>
Totals	<u>180,000</u>	—	<u>4,025,000</u>	<u>1,359,952</u>	<u>5,564,952</u>
Less unamortized discount	<u>—</u>	<u>—</u>	<u>(80,500)</u>	<u>—</u>	<u>(80,500)</u>
Totals	<u>\$ 180,000</u>	<u>\$ —</u>	<u>\$3,944,500</u>	<u>\$1,359,952</u>	<u>\$5,484,452</u>

Long-term debt activity for the years ended June 30, 2012 and 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2012					
Hospital revenue notes	\$4,290,000	\$ —	\$ 265,000	\$4,025,000	\$ 285,000
Rural economic development note	<u>252,000</u>	<u>—</u>	<u>72,000</u>	<u>180,000</u>	<u>72,000</u>
Totals	<u>\$4,542,000</u>	<u>\$ —</u>	<u>\$ 337,000</u>	<u>\$4,205,000</u>	<u>\$ 357,000</u>
2011					
Hospital revenue notes	\$4,545,000	\$ —	\$ 255,000	\$4,290,000	\$ 265,000
Rural economic development note	<u>324,000</u>	<u>—</u>	<u>72,000</u>	<u>252,000</u>	<u>72,000</u>
Totals	<u>\$4,869,000</u>	<u>\$ —</u>	<u>\$ 327,000</u>	<u>\$4,542,000</u>	<u>\$ 337,000</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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Charges foregone, based on established rates	<u>\$ 296,063</u>	<u>\$ 189,153</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.5%</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 5.38% of their annual salary and the Hospital is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$853,675, \$694,896 and \$645,934, 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 \$2,876,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2012 and 2011 was \$2,336,176 and \$2,525,090, respectively, which includes program administration expenses.

NOTE 14 OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 272 active and 1 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. 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, 2012, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 8,200
Interest on net OPEB obligation	(600)
Adjustment to annual required contribution	<u>800</u>
Annual OPEB cost	8,400
Contributions made	<u>13,000</u>
Decrease in net OPEB obligation	(4,600)
Net OPEB obligation, beginning of year	<u>(16,643)</u>
Net OPEB obligation, end of year	<u>\$ (21,243)</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, 2010. 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, 2012.

For the year ended June 30, 2012, the Hospital contributed \$13,000 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, 2012 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, 2012	<u>\$ 8,400</u>	<u>155%</u>	<u>\$ (21,243)</u>

As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$59,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$59,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,747,000, and the ratio of the UAAL to the covered payroll was .5%. As of June 30, 2012, 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, 2010 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 8%. 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 \$1,337 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, 2012 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, 2010.

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 \$84,000 and \$64,000 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, the valuation of investment within Avera Health Pooled Investments was as follows:

	<u>2012</u>	<u>2011</u>
Fair value - Level 1 inputs	23.6%	56.7%
Fair value - Level 2 inputs	62.5%	27.9%
Fair value - Level 3 inputs	13.1%	0.0%
Cost basis or equity method	<u>.8%</u>	<u>15.4%</u>
	<u>100.0%</u>	<u>100.0%</u>

The investment allocation at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Non-publicly traded stocks, trusts, and partnerships (alternative investments)	13.9%	15.5%
US Treasury and Agency obligations	8.7%	13.4%
Foreign stocks and other	5.9%	8.5%
Institutional mutual funds	0.0%	6.5%
Publicly traded equity securities	12.0%	13.2%
Cash and short-term investments	11.9%	6.7%
Corporate bonds	8.1%	7.9%
Publicly traded mutual funds	<u>39.5%</u>	<u>28.3%</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 (loss) is as follows for the year ended June 30, 2012 and 2011 are as follows:

	2012	2011
Interest, dividends and net realized gains and losses	\$ 9,552	\$ 13,198
Net unrealized gains (losses)	(19,462)	40,643
Investment income (loss), net	\$ (9,910)	\$ 53,841

NOTE 21 FLOYD VALLEY HOSPITAL FOUNDATION NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011 follows:

	2012	2011
Medical records equipment	\$ 1,390	\$ 171,136
Pediatric equipment	40,552	27,470
Employee assistance	17,412	17,299
EMS training scholarship	2,274	1,564
Endowment	455	541
Park Place Estates	3	3
	\$ 62,086	\$ 218,013

Permanently restricted net assets are available to provide support for the EMS training scholarship and total \$12,977 at June 30, 2012 and 2011.

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, 2012 and 2011 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	\$ 57,876	\$ 218,013	\$ 12,977	\$ 288,866
Investment return				
Investment income (loss)	(472)	(11,118)	—	(11,590)
Contributions and special events	605	20,706	—	21,311
Appropriation of endowment assets for expenditure	(632)	(165,514)	—	(166,146)
Endowment assets, end of year	<u>\$ 57,377</u>	<u>\$ 62,087</u>	<u>\$ 12,977</u>	<u>\$ 132,441</u>

REQUIRED SUPPLEMENTARY INFORMATION

**Floyd Valley Hospital
Budgetary Comparison Schedule
Year ended June 30, 2012**

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, 2012 totals	<u>\$31,188,055</u>	<u>\$ 404,364</u>	<u>\$31,592,419</u>	<u>\$35,600,000</u>	<u>\$ —</u>	<u>\$4,007,581</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>
2010	July 1, 2009	\$ <u>—</u>	\$ <u>132</u>	\$ <u>132</u>	<u>0.0%</u>	\$ <u>9,958</u>	<u>1.3%</u>
2011	July 1, 2010	\$ <u>—</u>	\$ <u>59</u>	\$ <u>59</u>	<u>0.0%</u>	\$ <u>8,973</u>	<u>.7%</u>
2012	July 1, 2010	\$ <u>—</u>	\$ <u>59</u>	\$ <u>59</u>	<u>0.0%</u>	\$ <u>10,747</u>	<u>.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

We have audited the financial statements of Floyd Valley Hospital as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 8, 2012, which appears on page 4. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 8, 2012

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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
0 - 60 days	\$4,074,935	\$3,701,644	55.29%	58.35%
61 - 90 days	948,730	497,733	12.87	7.85
91 - 180 days	917,384	776,279	12.45	12.24
Over 6 months	<u>1,429,116</u>	<u>1,367,536</u>	<u>19.39</u>	<u>21.56</u>
Totals	<u>7,370,165</u>	<u>6,343,192</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	1,381,010	1,096,380		
Contractual allowances	<u>2,047,504</u>	<u>1,736,491</u>		
Total allowances	<u>3,428,514</u>	<u>2,832,871</u>		
Totals	<u>\$3,941,651</u>	<u>\$3,510,321</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
BALANCE , beginning	\$1,096,380	\$1,030,146
ADD		
Provision for bad debts	911,630	793,040
Recoveries of accounts previously written off	102,487	206,213
LESS		
Accounts written off	<u>(729,487)</u>	<u>(933,019)</u>
BALANCE , ending	<u>\$1,381,010</u>	<u>\$1,096,380</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
General stores	\$ 171,514	\$ 164,700
Pharmacy	184,799	178,870
Operating room	59,815	58,788
Intravenous solutions	<u>3,951</u>	<u>4,077</u>
Totals	<u>\$ 420,079</u>	<u>\$ 406,435</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Avera (policy expiration December 31, 2012)	
Professional liability	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Employee benefits liability	\$1,000,000/3,000,000 \$1,000 deductible
 Umbrella/shared limit	 \$35,000,000
 Automobiles	
Liability	\$1,000,000
Collision	\$500 deductible
Uninsured/under insured motorist	\$1,000,000
Medical payments	\$5,000
 Directors' and officers' liability	 \$15,000,000 \$50,000 deductible
 Employee dishonesty liability	 \$1,000,000 \$25,000 deductible
 Employed physician's liability	 \$1,000,000/3,000,000
 Commercial property	
Real property	\$28,905,134
Personal property	\$8,764,784
Earnings and extra expense	\$18,902,860 \$10,000 deductible
 Farm Bureau (policy expiration November 1, 2012)	
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>2012</u>	<u>2011</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 2,568,644	\$ 1,846,711
Long term care	520,980	378,156
Nursery	97,580	60,750
	<u>3,187,204</u>	<u>2,285,617</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	5,391,670	3,971,400
Delivery and labor room	194,210	139,260
Central service and supply	2,193,688	2,075,010
Emergency service	5,220,530	4,044,176
Home health services	<u>1,018,204</u>	<u>1,080,537</u>
	<u>14,018,302</u>	<u>11,310,383</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	7,104,855	6,983,678
Electrocardiology	1,069,517	1,173,004
Radiology	7,242,042	6,492,907
Pharmacy	2,596,948	2,686,870
Anesthesiology	2,109,008	2,176,976
Respiratory therapy	559,022	421,688
Physical therapy	1,307,241	1,272,197
Occupational therapy	258,885	227,302
Speech therapy	354,690	302,920
Enterostomy	304,546	202,623
Audiology	1,938	2,680
Clinics	5,414,416	5,343,876
Cardiac rehabilitation	<u>107,800</u>	<u>129,360</u>
	<u>28,430,908</u>	<u>27,416,081</u>
	45,636,414	41,012,081
Charity care charges foregone, based on established rates	<u>(296,063)</u>	<u>(189,153)</u>
Total gross patient service revenue	45,340,351	40,822,928
Provisions for contractual and other adjustments	<u>(16,086,319)</u>	<u>(13,078,594)</u>
Net patient service revenue	<u>\$29,254,032</u>	<u>\$27,744,334</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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
\$2,568,644	\$1,846,711	\$ -	\$ -	\$ -	\$ -
-	-	-	-	520,980	378,156
97,580	60,750	-	-	-	-
<u>2,666,224</u>	<u>1,907,461</u>	<u>-</u>	<u>-</u>	<u>520,980</u>	<u>378,156</u>
1,395,166	1,206,486	3,996,226	2,756,767	278	8,147
152,834	117,804	41,376	21,456	-	-
1,196,189	1,190,999	879,880	765,910	117,619	118,101
102,855	82,106	5,111,695	3,962,070	5,980	-
-	-	<u>1,018,204</u>	<u>1,080,537</u>	-	-
<u>2,847,044</u>	<u>2,597,395</u>	<u>11,047,381</u>	<u>8,586,740</u>	<u>123,877</u>	<u>126,248</u>
671,500	779,612	6,329,505	6,090,147	103,850	113,919
80,358	102,400	982,926	1,066,072	6,233	4,532
290,040	355,539	6,920,046	6,098,753	31,956	38,615
732,255	793,023	1,537,833	1,559,714	326,860	334,133
669,271	752,992	1,437,942	1,420,279	1,795	3,705
230,460	188,154	220,618	139,414	107,944	94,120
86,007	84,092	1,134,419	1,090,660	86,815	97,445
26,870	25,201	197,583	159,872	34,432	42,229
9,838	9,473	329,475	268,856	15,377	24,591
23,620	13,124	253,716	175,016	27,210	14,483
1,230	1,109	708	1,571	-	-
-	-	5,414,416	5,343,876	-	-
-	-	<u>107,800</u>	<u>129,360</u>	-	-
<u>2,821,449</u>	<u>3,104,719</u>	<u>24,866,987</u>	<u>23,543,590</u>	<u>742,472</u>	<u>767,772</u>
<u>\$8,334,717</u>	<u>\$7,609,575</u>	<u>\$35,914,368</u>	<u>\$32,130,330</u>	<u>\$1,387,329</u>	<u>\$1,272,176</u>

**Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Contractual adjustments	\$14,898,976	\$12,023,661
Employee and other allowances	275,713	261,893
Provision for bad debts	<u>911,630</u>	<u>793,040</u>
Totals	<u>\$16,086,319</u>	<u>\$13,078,594</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 109,302	\$ 102,132
Rental income	90,337	91,422
Park Place Estates	1,153,281	1,120,481
Lifeline	67,329	66,819
Other	<u>627,591</u>	<u>718,455</u>
Totals	<u>\$2,047,840</u>	<u>\$2,099,309</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	Year ended June 30	
	2012	2011
NURSING ADMINISTRATION		
Salaries	\$ 191,078	\$ 180,666
Supplies and expenses	<u>2,181</u>	<u>3,423</u>
	<u>193,259</u>	<u>184,089</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,644,706	1,595,044
Supplies and expenses	<u>96,637</u>	<u>53,009</u>
	<u>1,741,343</u>	<u>1,648,053</u>
NURSERY		
Salaries	37,723	35,133
Supplies and expenses	<u>6,944</u>	<u>2,336</u>
	<u>44,667</u>	<u>37,469</u>
OPERATING AND RECOVERY ROOMS		
Salaries	440,171	420,487
Professional fees	1,515,150	1,177,269
Supplies and expenses	<u>194,679</u>	<u>181,739</u>
	<u>2,150,000</u>	<u>1,779,495</u>
DELIVERY AND LABOR ROOM		
Salaries	43,027	46,835
Supplies and expenses	<u>4,645</u>	<u>11,388</u>
	<u>47,672</u>	<u>58,223</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	122,999	118,573
Purchased services	8,500	2,362
Supplies and expenses	<u>1,095,889</u>	<u>979,579</u>
	<u>1,227,388</u>	<u>1,100,514</u>
EMERGENCY SERVICE		
Salaries	816,809	704,646
Professional fees	1,056,677	993,887
Supplies and expenses	<u>59,831</u>	<u>62,689</u>
	<u>1,933,317</u>	<u>1,761,222</u>
HOME HEALTH		
Salaries	732,438	730,489
Purchased services	43,048	50,799
Supplies and expenses	<u>89,191</u>	<u>95,326</u>
	<u>864,677</u>	<u>876,614</u>
Totals	<u>\$8,202,323</u>	<u>\$7,445,679</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	Year ended June 30	
	2012	2011
LABORATORY		
Salaries	\$ 688,601	\$ 617,606
Professional fees	11,660	6,000
Purchased services	220,683	228,944
Supplies and expenses	514,512	465,738
Blood	72,607	113,307
	<u>1,508,063</u>	<u>1,431,595</u>
ELECTROCARDIOLOGY		
Salaries	10,998	11,797
Purchased services	108,773	144,044
Supplies and expenses	2,835	1,413
	<u>122,606</u>	<u>157,254</u>
RADIOLOGY		
Salaries	672,929	635,787
Professional fees	810,530	607,596
Purchased services	470,761	528,174
Supplies and expenses	301,095	227,507
	<u>2,255,315</u>	<u>1,999,064</u>
PHARMACY		
Salaries	271,379	259,549
Purchased services	73,437	26,352
Drugs	737,478	766,930
Intravenous solutions and supplies	15,044	16,224
Supplies and expenses	8,174	9,428
	<u>1,105,512</u>	<u>1,078,483</u>
ANESTHESIOLOGY		
Purchased services	645,837	683,537
Supplies and expenses	10,571	19,362
	<u>656,408</u>	<u>702,899</u>
RESPIRATORY THERAPY		
Salaries	175,136	160,457
Supplies and expenses	3,566	9,968
	<u>178,702</u>	<u>170,425</u>
PHYSICAL THERAPY		
Salaries	125,710	114,506
Purchased services	643,155	625,977
Supplies and expenses	25,275	15,232
	<u>794,138</u>	<u>755,715</u>
OCCUPATIONAL THERAPY		
Purchased services	142,579	125,016
Supplies and expenses	36	24
	<u>142,615</u>	<u>125,040</u>
OCCUPATIONAL HEALTH		
Salaries	3,910	2,292
Supplies and expense	4,732	2,945
	<u>8,642</u>	<u>5,237</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2012	2011
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	\$ 70,376	\$ 66,088
Supplies and expenses	<u>3,249</u>	<u>3,170</u>
	<u>73,625</u>	<u>69,258</u>
SPEECH THERAPY		
Purchased services	205,686	205,986
Supplies and expenses	<u>3,073</u>	<u>837</u>
	<u>208,759</u>	<u>206,823</u>
ENTEROSTOMY		
Salaries	163,192	154,986
Supplies and expenses	<u>4,414</u>	<u>4,916</u>
	<u>167,606</u>	<u>159,902</u>
AUDIOLOGY		
Salaries	1,444	1,191
Purchased services	1,634	1,315
Supplies and expenses	<u>105</u>	<u>76</u>
	<u>3,183</u>	<u>2,582</u>
CLINICS		
Salaries	1,881,335	1,844,409
Professional fees	1,984,060	1,786,128
Purchased services	82,006	94,862
Supplies and expenses	<u>550,608</u>	<u>551,396</u>
	<u>4,498,009</u>	<u>4,276,795</u>
CARDIAC REHABILITATION		
Salaries	69,652	69,336
Supplies and expenses	<u>7,676</u>	<u>6,239</u>
	<u>77,328</u>	<u>75,575</u>
LIFELINE		
Salaries	8,667	8,048
Purchased services	38,290	38,407
Supplies and expenses	<u>3,753</u>	<u>4,559</u>
	<u>50,710</u>	<u>51,014</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	82,498	81,935
Supplies and expenses	<u>5,086</u>	<u>1,101</u>
	<u>87,584</u>	<u>83,036</u>
MEDICAL RECORDS		
Salaries	75,504	73,771
Purchased services	151,203	128,455
Supplies and expenses	<u>27,481</u>	<u>35,449</u>
	<u>254,188</u>	<u>237,675</u>
SOCIAL SERVICES		
Salaries	42,176	-
Supplies and expenses	<u>1,051</u>	<u>1,451</u>
	<u>43,227</u>	<u>1,451</u>
Totals	<u>\$12,236,220</u>	<u>\$11,589,823</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
DIETARY		
Salaries	\$ 410,274	\$ 402,501
Food	303,461	262,116
Purchased services	45,672	49,311
Supplies and expenses	<u>71,639</u>	<u>63,189</u>
	<u>831,046</u>	<u>777,117</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	240,646	222,445
Utilities	270,667	272,960
Purchased services	28,933	41,162
Supplies and expenses	<u>87,177</u>	<u>87,247</u>
	<u>627,423</u>	<u>623,814</u>
HOUSEKEEPING		
Salaries	192,762	193,073
Purchased services	3,763	3,198
Supplies and expenses	<u>32,350</u>	<u>34,006</u>
	<u>228,875</u>	<u>230,277</u>
LAUNDRY AND LINEN		
Purchased services	61,005	60,226
Linens	-	11,011
Supplies and expenses	<u>1,944</u>	<u>1,610</u>
	<u>62,949</u>	<u>72,847</u>
 Totals	 <u>\$1,750,293</u>	 <u>\$1,704,055</u>

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

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 126,573	\$ 142,655
Management fee	540,519	421,068
Telephone	45,382	42,268
Postage	44,425	44,611
Supplies and expenses	160,549	170,329
Freight	36,826	33,929
Organization dues	22,583	25,444
Public relations	17,069	14,211
Activities	-	3,722
Marketing	<u>119,294</u>	<u>123,979</u>
	<u>1,113,220</u>	<u>1,022,216</u>
Business office		
Salaries	583,699	541,433
Supplies and expenses	<u>170,108</u>	<u>162,529</u>
	<u>753,807</u>	<u>703,962</u>
Data processing		
Salaries	115,376	104,697
Supplies and expenses	<u>537,524</u>	<u>398,537</u>
	<u>652,900</u>	<u>503,234</u>
Human resources		
Salaries	111,111	111,023
Supplies and expenses	<u>56,892</u>	<u>64,116</u>
	<u>168,003</u>	<u>175,139</u>
Risk management		
Salaries	54,301	56,871
Supplies and expenses	126,946	123,144
Purchased services	-	3,213
	<u>181,247</u>	<u>183,228</u>
Education		
Salaries	143,362	135,477
Purchased services	8,640	9,765
Supplies and expenses	<u>24,677</u>	<u>26,970</u>
	<u>176,679</u>	<u>172,212</u>
Foundation		
Salaries	2,328	-
Supplies and expenses	<u>20</u>	<u>-</u>
	<u>2,348</u>	<u>-</u>
Park Place Estates		
Salaries	394,305	359,100
Purchased services	17,008	14,058
Supplies and expenses	<u>79,190</u>	<u>76,916</u>
	<u>490,503</u>	<u>450,074</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,616,654	1,432,046
Group health insurance	2,336,176	2,525,090
Life and disability insurance	119,657	122,289
Tuition assistance	-	3,373
Insurance	<u>87,155</u>	<u>94,975</u>
	<u>4,159,642</u>	<u>4,177,773</u>
Totals	<u>\$7,698,349</u>	<u>\$7,387,838</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2012</u>	<u>2011</u>
PATIENT DAYS		
Acute	2,178	2,332
Special care	4	2
Nursery	240	225
Swing bed		
Skilled nursing care	1,150	1,232
Intermediate care	<u>1</u>	<u>10</u>
Totals	<u>3,573</u>	<u>3,801</u>
ADMISSIONS	719	819
DISCHARGES	725	816
AVERAGE LENGTH OF STAY, acute and special care	3.01	2.85
BEDS	25	25
OCCUPANCY PERCENT, ACUTE	23.8%	25.6%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$79,929	\$76,011
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	49.31	46.18

**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, 2012, and have issued our report thereon dated October 8, 2012. 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

The management of Floyd Valley Hospital and Floyd Valley Hospital Foundation is responsible for establishing and maintaining effective 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, 2012 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 8, 2012

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2012**

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, 2012**

Part II—Findings Related to Required Statutory Reporting

12-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

12-II-B TRAVEL EXPENSES

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

12-II-C BUSINESS TRANSACTIONS

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

12-II-D BOARD MINUTES

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

12-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.