

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

FINANCIAL REPORT

June 30, 2013

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4-5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-10
FINANCIAL STATEMENTS	
Balance sheets	11-12
Statements of revenues, expenses, and changes in net position	13
Statements of cash flows	14-15
Statements of financial position	16
Statements of activities	17-18
Statements of cash flows	19
Notes to financial statements	20-34
REQUIRED SUPPLEMENTARY INFORMATION	35
Budgetary comparison schedule	36
Schedule of funding progress for the retiree health plan	37
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	38
SUPPLEMENTARY INFORMATION	
Age analysis of patient receivables	39
Analysis of allowance for uncollectible accounts	39
Inventories	40
Insurance coverage	41
Patient service revenue	42-43
Provision for contractual and other adjustments	44
Other revenue	44
Nursing service expenses	45
Other professional service expenses	46-47
General service expenses	48
Fiscal and administrative service and unassigned expenses	49
Comparative statistics	50
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	51-52
SCHEDULE OF FINDINGS	53-54

Floyd Valley Hospital
OFFICIALS
June 30, 2013

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
LeMars, Iowa

We have audited the accompanying financial statements of Floyd Valley Hospital, a component unit of the City of LeMars, Iowa, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents. We have also audited the accompanying financial statements of Floyd Valley Hospital Foundation, a component unit of Floyd Valley Hospital, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd Valley Hospital and Floyd Valley Hospital Foundation, as of June 30, 2013 and 2012, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule and the schedule of funding progress for the retiree health plan on pages 6-10, 36 and 37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 7, 2013

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, 2013, 2012 and 2011. 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 net position. 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, noncapital 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 \$142 thousand from FY 2012 to \$28.4 million, primarily related to increase in cash and patient receivables.
- Total net capital assets increased by \$540 thousand from FY 2012 as the Hospital invested in new equipment during the year that exceeded depreciation costs.
- Net position increased by \$361 thousand from FY 2012.
- FY 2013 net patient service revenue increased by \$982 thousand, primarily due to increase demand for outpatient services.
- FY 2013 expenses increased by \$1.8 million related to increased staffing and benefits costs, increases in depreciation and amortization as well as operating costs associated with the new EMR system.
- Total margin for FY 2013 was 1.1%, compared to .8% for FY 2012 and 1.5% for FY 2011.

Financial Analysis of the Hospital:

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in it. The Hospital's net position – 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 position 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, 2013, 2012, and 2011 are presented in Table 1 below:

Table 1
Condensed Balance Sheet
(in thousands)

	June 30, 2013	June 30, 2012	June 30, 2011
Current and other assets	\$16,904	\$17,302	\$16,072
Capital assets	\$11,547	\$11,007	\$11,183
Total Assets	\$28,451	\$28,309	\$27,255
Long term debt outstanding	\$ 3,773	\$ 4,125	\$ 4,456
Other liabilities	\$ 4,813	\$ 4,680	\$ 3,550
Total Liabilities	\$ 8,586	\$ 8,805	\$ 8,006
Invested in Capital Assets	\$ 7,774	\$ 6,883	\$ 6,727
Restricted	\$ 975	\$ 961	\$ 938
Unrestricted	\$11,116	\$11,660	\$11,584
Total Net Position	\$19,865	\$19,504	\$19,249

As can be seen in Table 1, net position increased by \$361 thousand to \$19.9 million in fiscal year 2013, up from \$19.5 million in fiscal year 2012 and \$19.2 million in fiscal year 2011. The change in net position results primarily from operating gains for the Hospital.

Revenues, Expenses, and Changes in Net Position:

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2013, 2012 and 2011.

Table 2
Condensed Statements of Revenue, Expenses, and Changes in Net Position
(In Thousands)

	2013	2012	2011
Total Revenue	\$33,257	\$31,302	\$29,843
Expenses	\$33,020	\$31,188	\$29,466
Operating Income	\$ 237	\$ 114	\$ 377
Non-Operating Gains (Losses)	\$ 53	\$ (33)	\$ (19)
Excess of Revenues over expenses before contributions	\$ 290	\$ 81	\$ 358
Contributions	\$ 71	\$ 174	\$ 94
Changes in Net position	\$ 361	\$ 255	\$ 452
Total Net position, Beginning	\$19,504	\$19,249	\$18,797
Total Net position, Ending	\$19,865	\$19,504	\$19,249

Operating and Financial Performance:

The following summarizes the Hospital's statements of revenue, expenses, and changes in net position between June 30, 2013, 2012 and 2011.

Volume: Inpatient admissions for fiscal year 2013 were 8% less than in 2012. Outpatient utilization was 5% greater than the prior fiscal year within the Hospital. Skilled care discharges were 25% less than the prior year, while Home Health visits were up by 9%. The number of clinic visits at the Family Medical Clinic was down by 5% from the prior fiscal year. Overall the increases in outpatient volumes were able to offset the declines in inpatient volumes. Specifically ER volumes saw significant increases over the prior year, lending the increase in outpatient services.

Net Patient Service Revenue: Due to rate increases, and the changes in services described above, net patient revenues increased by \$982 thousand or 3% in comparison to fiscal year 2012. Increases in outpatient volumes offset declines in inpatient volume to contribute to the overall growth of net revenues.

Payor Mix: The payor mix of the patients served has an impact on the net revenues of the Hospital because of different contractual payment rates for various payor types. Generally as a Critical Access Hospital the reimbursement is made based on the cost of providing the services. Other commercial payor's rates are determined by contracts based on fee schedules or percentage of charges billed.

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2013, 2012 and 2011.

Table 3
Payor Mix by Percentage

	Year Ended June 30		
	2013	2012	2011
Medicare	41.1%	42.6%	45.5%
Wellmark Blue Cross	29.6%	27.3%	23.0%
Commercial	19.3%	21.7%	22.4%
Medicaid	7.7%	6.2%	6.7%
All others	2.3%	2.2%	2.4%

Other Revenue: Floyd Valley Hospital receives various revenues from non-patient related services, the largest of which is the revenues associated with the assisted living facility - Park Place Estates. Revenues associated with the assisted living facility were 7% greater than a year ago due to higher charges for services and greater occupancy rates. The current fiscal year also was the first year of receiving federal reimbursement related to the installation of Electronic Medical Records computer system. Floyd Valley Hospital received \$507,099 of Meaningful Use revenues related to these certified EMR systems.

Expenses: Nursing Services expenses increased by 4% primarily due to the salary costs and other supply costs associated with patient care.

Other professional services increased by 6% primarily due to staffing cost increases. The annual maintenance and support costs for the new electronic medical records computer system is 32% greater than a year ago.

Capital Assets:

At the end of fiscal year 2013, the Hospital has invested approximately \$11.5 million in capital assets as shown in Table 4.

Table 4
Capital Assets
(in thousands)

	June 30,		
	2013	2012	2011
Land & Land Improvements	\$ 1,058	\$ 1,058	\$ 1,059
Buildings	\$ 18,239	\$ 18,234	\$ 18,191
Major Moveable Equipment	\$ 7,844	\$ 7,203	\$ 7,087
Medical records	\$ 253	\$ 253	\$ 253
Construction/Equipment Installs in Progress	\$ 1,229	\$ 363	\$ 9
Subtotal	\$ 28,623	\$ 27,111	\$ 26,599
Less accumulated depreciation	\$ (17,076)	\$ (16,104)	\$ (15,416)
Capital assets, net	\$ 11,547	\$ 11,007	\$ 11,183

Debt Administration:

At the end of fiscal year 2013, the Hospital had \$3.7 million in debt related to Hospital Revenue Bonds and additional debt of \$108 thousand that was issued in November of 2008 from the North West 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 \$30.2 million which was 6% less than budget for fiscal year ended June 30, 2013.

Operating Expenses were \$33.2 million which was 1% less than budget expectations for the fiscal year ending June 30, 2013. There were no other significant variances from the budget plan.

The following table compares fiscal year 2013 actual to budget information.

Table 5
Budget vs. Actual
(in thousands)

	FY 2013 Actual	FY 2013 Budget	Dollar Variance	Percent Variance
Gross patient service revenue	\$48,138	\$50,055	\$ (191)	(4)%
Contractual Adjustments & Bad Debt	\$17,901	\$17,952	\$ (51)	(1)%
Net patient service revenue	\$30,237	\$32,103	\$(1,866)	(6)%
Other operating revenue	\$ 3,021	\$ 2,195	\$ 826	38%
Total operating revenue	\$33,258	\$34,298	\$(1,040)	(3)%
Operating Expenses	\$33,021	\$33,440	\$ (419)	(1)%
Operating Gain/Loss	\$ 237	\$ 858	\$ (621)	(72)%
Non-Operating Gains (Losses)	\$ 53	\$ (104)	\$ 157	151%
Excess of Revenues over Expenses	\$ 290	\$ 754	\$ (464)	(62)%

Economic and Other Factors and Next Years Budget:

The Hospital's board and management considered many factors when setting the fiscal year 2014 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 system and continued compliance costs associated with the meaningful use of these systems

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	2013	2012
CURRENT ASSETS		
Cash	\$ 3,939,740	\$ 4,310,827
Assets whose use is limited, required for current liabilities	329,314	321,663
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2013 \$4,101,384; 2012 \$3,428,514	3,918,056	3,941,651
Other current receivables	104,436	69,022
Current portion of note receivable	35,000	275,000
Inventories	384,716	420,079
Prepaid expenses	216,789	222,087
Total current assets	<u>8,928,051</u>	<u>9,560,329</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	2,761,994	2,710,040
Certificates of deposit	3,790,282	3,786,831
Accrued interest receivable	2,351	4,079
	<u>6,554,627</u>	<u>6,500,950</u>
Restricted for payment of revenue notes and interest		
Cash	210,220	204,529
Certificates of deposit	668,124	668,124
	<u>878,344</u>	<u>872,653</u>
Restricted by donors for specific purpose		
Cash	96,875	88,326
Total assets whose use is limited	7,529,846	7,461,929
Less assets whose use is limited and that are required for current liabilities	329,314	321,663
Noncurrent assets whose use is limited	<u>7,200,532</u>	<u>7,140,266</u>
CAPITAL ASSETS		
	28,623,313	27,111,441
Less accumulated depreciation	17,076,146	16,104,042
Total capital assets	<u>11,547,167</u>	<u>11,007,399</u>
OTHER ASSETS		
Unamortized financing costs	15,708	18,220
Note receivable, net of current portion	49,583	52,084
Beneficial interest in remainder trust	551,000	408,000
Investment in Northwest Iowa Diagnostics	51,282	30,611
Investment in Floyd Valley Home Medical Equipment	108,260	92,679
Total other assets	<u>775,833</u>	<u>601,594</u>
Totals	<u>\$28,451,583</u>	<u>\$28,309,588</u>

See Notes to Financial Statements.

		June 30	
LIABILITIES AND NET POSITION		2013	2012
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 367,000	\$ 357,000
Accounts payable			
Trade		2,694,888	2,622,485
Construction and equipment		315,946	201,085
Accrued employee compensation		1,302,830	1,261,085
Security deposits		20,500	19,500
Payroll taxes and amounts withheld from employees		256,818	178,485
Accrued interest		34,314	36,663
Estimated third-party payor settlements		187,643	361,509
Total current liabilities		<u>5,179,939</u>	<u>5,037,812</u>
LONG-TERM DEBT , less current maturities		<u>3,406,200</u>	<u>3,767,500</u>
Total liabilities		<u>8,586,139</u>	<u>8,805,312</u>
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Invested in capital assets, net of related debt		7,773,967	6,882,899
Restricted		975,219	960,979
Unrestricted		<u>11,116,258</u>	<u>11,660,398</u>
Total net position		<u>19,865,444</u>	<u>19,504,276</u>
Totals		<u>\$28,451,583</u>	<u>\$28,309,588</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30	
	2013	2012
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2013 \$864,211; 2012 \$911,630	\$30,236,349	\$29,254,032
OTHER REVENUE	<u>3,020,958</u>	<u>2,047,840</u>
Total revenue	<u>33,257,307</u>	<u>31,301,872</u>
EXPENSES		
Nursing service	8,535,707	8,202,323
Other professional service	12,929,558	12,236,220
General service	1,730,779	1,750,293
Fiscal and administrative service and unassigned expenses	8,288,620	7,698,349
Provision for depreciation	<u>1,536,094</u>	<u>1,300,870</u>
Total expenses	<u>33,020,758</u>	<u>31,188,055</u>
Operating income	<u>236,549</u>	<u>113,817</u>
NONOPERATING GAINS (LOSSES)		
Interest income	65,274	96,742
Interest and amortization expense	(218,790)	(232,047)
Unrestricted contribution	275	185
Change in value of split-interest agreement	143,000	84,000
Equity in earnings of equity method investments	59,752	16,787
Gain on disposal of equipment	<u>3,801</u>	<u>1,072</u>
Total nonoperating gains (losses)	<u>53,312</u>	<u>(33,261)</u>
Excess of revenues over expenses before contributions	289,861	80,556
RESTRICTED CONTRIBUTIONS	<u>71,307</u>	<u>174,425</u>
Change in net position	361,168	254,981
TOTAL NET POSITION		
Beginning	<u>19,504,276</u>	<u>19,249,295</u>
Ending	<u>\$19,865,444</u>	<u>\$19,504,276</u>

See Notes to Financial Statements.

**Floyd Valley Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$30,086,078	\$28,989,710
Cash paid to employees for service	(15,561,996)	(14,665,341)
Cash paid to suppliers for goods and services	(15,447,025)	(14,184,159)
Other operating revenue received	<u>2,986,544</u>	<u>1,912,354</u>
Net cash provided by operating activities	<u>2,063,601</u>	<u>2,052,564</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	275	185
Contributions restricted for capital assets, net	<u>71,307</u>	<u>174,425</u>
Net cash provided by noncapital financing activities	<u>71,582</u>	<u>174,610</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,969,041)	(958,147)
Proceeds from sale of capital assets	11,841	11,980
Principal paid on long-term debt	(357,000)	(337,000)
Interest paid on long-term debt	<u>(212,927)</u>	<u>(226,365)</u>
Net cash (used in) capital and related financing activities	<u>(2,527,127)</u>	<u>(1,509,532)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,236,862)	(4,204,955)
Proceeds from maturities of certificates of deposit	4,233,411	4,198,240
Distribution from Floyd Valley Home Medical Equipment	23,500	39,000
Interest received	<u>67,002</u>	<u>97,800</u>
Net cash provided by investing activities	<u>87,051</u>	<u>130,085</u>
NET INCREASE (DECREASE) IN CASH	(304,893)	847,727
CASH		
Beginning	<u>7,313,722</u>	<u>6,465,995</u>
Ending	<u>\$ 7,008,829</u>	<u>\$ 7,313,722</u>

See Notes to Financial Statements.

Floyd Valley Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 236,549	\$ 113,817
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation and amortization	1,536,094	1,300,870
Forgive note receivable	282,501	272,917
Change in assets and liabilities		
(Increase) decrease in patient receivables	23,595	(431,330)
(Increase) in other current receivables	(35,414)	(37,486)
(Increase) decrease in inventories	35,363	(13,644)
(Increase) decrease in prepaid expenses	5,298	(7,524)
(Increase) in note receivable	(40,000)	(100,000)
Increase (decrease) in estimated third-party payor settlements	(173,866)	167,008
Increase in accounts payable, net of amounts for capital assets	72,403	544,440
Increase in accrued employee compensation	41,745	197,068
Increase in security deposits	1,000	2,000
Increase in payroll taxes and withholdings	78,333	44,428
Net cash provided by operating activities	<u>\$2,063,601</u>	<u>\$2,052,564</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$3,939,740	\$4,310,827
Assets whose use is limited		
Designated by board for plant expansion	2,761,994	2,710,040
Restricted for payment of revenue notes and interest	210,220	204,529
Restricted by donors for specific purpose	96,875	88,326
Total per statements of cash flows	<u>\$7,008,829</u>	<u>\$7,313,722</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES		
Increase in beneficial interest in remainder trust	<u>\$ 143,000</u>	<u>\$ 84,000</u>

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

	June 30	
ASSETS	2013	2012
Interest in the net assets of Avera Health Investment Pool	\$ 441,026	\$ 293,291
Contributions receivable	1,674	1,463
TOTAL ASSETS	\$ 442,700	\$ 294,754
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 43,114	\$ 254
NET ASSETS		
Unrestricted		
Designated by Board for endowment	61,693	57,377
Undesignated	147,275	162,059
Temporarily restricted	177,141	62,087
Permanently restricted	13,477	12,977
Total net assets	399,586	294,500
TOTAL LIABILITIES AND NET ASSETS	\$ 442,700	\$ 294,754

See Notes to Financial Statements.

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

	Year ended June 30, 2013			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
REVENUES AND OTHER SUPPORT				
Contributions	\$ 3,382	\$ 6,150	\$ 500	\$ 10,032
Special event	61,288	145,062	-	206,350
Investment gain (loss)	17,130	18,365	-	35,495
	<u>81,800</u>	<u>169,577</u>	<u>500</u>	<u>251,877</u>
Net assets released from restrictions				
Satisfaction of purpose	54,523	(54,523)	-	-
Total revenue and support	136,323	115,054	500	251,877
EXPENSES				
Program services				
Floyd Valley Hospital Employee Assistance	1,156	-	-	1,156
Capital Campaign	44,102	-	-	44,102
Pediatrics, cost of direct benefit to donors	6,757	-	-	6,757
Health education	33	-	-	33
Caring for life, cost of direct benefit to donors	89,347	-	-	89,347
Medical records	1,338	-	-	1,338
Endowment	-	-	-	-
Park Place	-	-	-	-
Musson Scholarships	500	-	-	500
Total program services	<u>143,233</u>	<u>-</u>	<u>-</u>	<u>143,233</u>
Supporting service				
Administrative services	3,558	-	-	3,558
Total expenses	<u>146,791</u>	<u>-</u>	<u>-</u>	<u>146,791</u>
CHANGE IN NET ASSETS	(10,468)	115,054	500	105,086
NET ASSETS , beginning of year	<u>219,436</u>	<u>62,087</u>	<u>12,977</u>	<u>294,500</u>
NET ASSETS , end of year	<u>\$ 208,968</u>	<u>\$ 177,141</u>	<u>\$ 13,477</u>	<u>\$ 399,586</u>

See Notes to Financial Statements.

Year ended June 30, 2012			
Unrestricted	Temporarily restricted	Permanently restricted	Total
\$ 5,970	\$ 5,625	\$ -	\$ 11,595
68,590	15,081	-	83,671
<u>1,208</u>	<u>(11,118)</u>	<u>-</u>	<u>(9,910)</u>
<u>75,768</u>	<u>9,588</u>	<u>-</u>	<u>85,356</u>
<u>165,514</u>	<u>(165,514)</u>	<u>-</u>	<u>-</u>
241,282	(155,926)	-	85,356
3,100	-	-	3,100
-	-	-	-
2,857	-	-	2,857
2,150	-	-	2,150
25,413	-	-	25,413
156,651	-	-	156,651
2	-	-	2
150	-	-	150
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>190,323</u>	<u>-</u>	<u>-</u>	<u>190,323</u>
<u>4,555</u>	<u>-</u>	<u>-</u>	<u>4,555</u>
<u>194,878</u>	<u>-</u>	<u>-</u>	<u>194,878</u>
46,404	(155,926)	-	(109,522)
<u>173,032</u>	<u>218,013</u>	<u>12,977</u>	<u>404,022</u>
<u>\$ 219,436</u>	<u>\$ 62,087</u>	<u>\$ 12,977</u>	<u>\$ 294,500</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	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 105,086	\$ (109,522)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Increase) in contributions receivable	(211)	(8)
Increase in accounts payable	<u>42,860</u>	<u>223</u>
Net cash provided by (used in) operating activities	<u>147,735</u>	<u>(109,307)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase/redemption of the interest in the net assets of Avera Health Foundation	<u>147,735</u>	<u>109,307</u>
Net cash provided by investing activities	<u>147,735</u>	<u>109,307</u>
NET CHANGE IN CASH	-	-
CASH		
Beginning	<u>-</u>	<u>-</u>
Ending	<u>\$ -</u>	<u>\$ -</u>

Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

For financial reporting purposes, 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, 2013 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 16-19.

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 and are 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)

Net Position

Net position 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 net position

Restricted net position 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 net position

Unrestricted net position has no externally imposed restrictions on use.

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

Statements of Revenue, Expenses, and Changes in Net Position

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

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 2010, 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 7, 2013, 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, 2013 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. Fund not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and 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	
	2013	2012
Receivable from patients	\$2,870,902	\$2,500,925
Receivable from insurance carriers	2,632,604	3,000,093
Receivable from Medicare	2,142,337	1,510,185
Receivable from Medicaid	<u>373,597</u>	<u>358,962</u>
Total patient receivables	8,019,440	7,370,165
Less allowances for contractual and other adjustments	<u>(4,101,384)</u>	<u>(3,428,514)</u>
 Totals	 <u>\$3,918,056</u>	 <u>\$3,941,651</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. The Hospital has also entered into agreements with other physicians, with amounts to be forgiven over specified periods.

Notes receivable at June 30, 2013, are expected to be received as follows:

Year ending June 30,	
2014	\$ 35,000
2015	35,000
2016	12,083
2017	<u>2,500</u>
Total	<u>\$ 84,583</u>

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2013 and 2012 follows:

	Balance July 1, 2012	Additions	Deletions	Transfers	Ending June 30, 2013
Land	\$ 185,160	\$ —	\$ —	\$ —	\$ 185,160
Land improvements	873,519	—	—	—	873,519
Buildings and fixed equipment	18,234,568	19,394	(15,003)	—	18,238,959
Major movable equipment	7,202,707	505,796	(557,027)	692,637	7,844,113
Intangible					
Medical records	252,633	—	—	—	252,633
Construction and equipment installations in progress	<u>362,854</u>	<u>1,558,712</u>	<u>—</u>	<u>(692,637)</u>	<u>1,228,929</u>
Totals	27,111,441	2,083,902	(572,030)	—	28,623,313
Less accumulated depreciation and amortization	<u>(16,104,042)</u>	<u>(1,536,094)</u>	<u>563,990</u>	<u>—</u>	<u>(17,076,146)</u>
Net capital assets	<u>\$11,007,399</u>	<u>\$ 547,808</u>	<u>\$ (8,040)</u>	<u>\$ —</u>	<u>\$11,547,167</u>

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 CAPITAL ASSETS (continued)

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending June 30, 2012</u>
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>

Construction in progress at June 30, 2013 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 and a nurses call system.

NOTE 6 LAND AND BUILDINGS LEASED TO OTHERS

The Hospital leases space in various medical office buildings. The leases call for monthly rentals of \$3,259. 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, 2013 and 2012 includes gross rental income of \$51,163 and \$40,467, respectively, for these leases.

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

Year ending June 30

2014	\$ 29,196
2015	<u>2,836</u>
Total	<u>\$ 32,032</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, 2013 and 2012.

	<u>Reserve Fund</u>	<u>Sinking Fund</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	668,124	204,529
Transfers from current asset cash	-	502,244
Interest income	-	1,374
Payment of notes and interest	<u>-</u>	<u>(497,927)</u>
Balance, June 30, 2013	<u>\$ 668,124</u>	<u>\$ 210,220</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 \$20,671 and \$(13,386) for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, the Hospital received \$193,776 and \$195,800, respectively, in lease revenue from Northwest Iowa Diagnostics related to this agreement. The Hospital paid \$194,230 and \$171,045 to Northwest Iowa Diagnostics for ultrasound services rendered to the Hospital during the years ended June 30, 2013 and 2012, 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 \$39,081 and \$30,232 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, the Hospital received \$111,584 and \$110,241, 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	
2013	2012

Hospital Revenue Notes, Series 2002A

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 5.10% 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.

\$ 730,100	\$ 857,500
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Hospital Revenue Notes, Series 2002B

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 5.0% to 5.9%. Notes maturing in 2013 and thereafter may be called for redemption, in whole or in part in any order of maturity on November 1, 2012, or on any date thereafter at par and accrued interest at the coupon rate.

2,935,100	3,087,000
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Rural Economic Development Loan

The Hospital entered into a note payable obligation with North West Rural Electric Cooperative on November 6, 2008. This note calls for quarterly principal only payments of \$18,000 beginning fifteen months following the date of the first advance of funds. The interest rate is -0-%.

Totals	108,000	180,000
	3,773,200	4,124,500
Less current maturities	(367,000)	(357,000)
Total long-term debt	\$3,406,200	\$3,767,500

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, 2013 the remaining principal and interest on the Notes was \$4,995,124. 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, 2013 and 2012:

Year ended June 30	
2013	2012

Change in net position	\$ 361,168	\$ 254,981
Provision for depreciation	1,536,094	1,300,870
Interest and amortization expense	218,790	232,047
Pledged net revenues	\$2,116,052	\$1,787,898
Principal and interest requirements	\$ 497,927	\$ 491,365

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 \$74,800 and \$80,500 as of June 30, 2013 and 2012, 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					
2014	\$ 72,000	\$ -	\$ 295,000	\$ 198,437	\$ 565,437
2015	36,000	-	305,000	183,183	524,183
2016	-	-	325,000	166,883	491,883
2017	-	-	340,000	149,347	489,347
2018	-	-	360,000	130,536	490,536
2019 to 2023	-	-	<u>2,115,000</u>	<u>318,738</u>	<u>2,433,738</u>
Totals	<u>108,000</u>	-	<u>3,740,000</u>	<u>1,147,124</u>	<u>4,995,124</u>
Less unamortized discount	<u>-</u>	<u>-</u>	<u>(74,800)</u>	<u>-</u>	<u>(74,800)</u>
Totals	<u>\$ 108,000</u>	<u>\$ -</u>	<u>\$ 3,665,200</u>	<u>\$ 1,147,124</u>	<u>\$ 4,920,324</u>

Long-term debt activity for the years ended June 30, 2013 and 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2013					
Hospital revenue notes	\$4,025,000	\$ -	\$ 285,000	\$3,740,000	\$ 295,000
Rural economic development note	<u>180,000</u>	<u>-</u>	<u>72,000</u>	<u>108,000</u>	<u>72,000</u>
Totals	<u>\$4,205,000</u>	<u>\$ -</u>	<u>\$ 357,000</u>	<u>\$3,848,000</u>	<u>\$ 367,000</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>

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, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Charges foregone, based on established rates	<u>\$ 409,676</u>	<u>\$ 296,063</u>
Equivalent percentage of charity care patients to all patients served	<u>.8%</u>	<u>.6%</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 5.78% of their annual salary and the Hospital is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$953,409, \$853,675 and \$694,896, 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 \$3,006,000 in the aggregate. Expense under this self-insurance program for the years ended June 30, 2013 and 2012 was \$2,564,914 and \$2,336,176, 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 276 active and -0- 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, 2013, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 5,397
Interest on net OPEB obligation	(1,062)
Adjustment to annual required contribution	<u>1,382</u>
Annual OPEB cost	5,717
Contributions made	<u>—</u>
Increase in net OPEB obligation	5,717
Net OPEB obligation, beginning of year	<u>(21,243)</u>
Net OPEB obligation, end of year	<u>\$ (15,526)</u>

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, 2013.

**Floyd Valley Hospital
NOTES TO FINANCIAL STATEMENTS**

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

For the year ended June 30, 2013, the Hospital contributed \$-0- 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, 2013 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, 2011	\$ <u>8,000</u>	<u>163%</u>	\$ <u>(16,643)</u>
June 30, 2012	\$ <u>8,400</u>	<u>155%</u>	\$ <u>(21,243)</u>
June 30, 2013	\$ <u>5,717</u>	<u>0%</u>	\$ <u>(15,526)</u>

As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$38,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$38,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$10,004,000, and the ratio of the UAAL to the covered payroll was .4%. As of June 30, 2013, 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, 2013 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 6%. 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 \$1,167 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, 2013 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, 2011.

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 \$143,000 and \$84,000 for the years ended June 30, 2013 and 2012, respectively, from the split-interest agreement in its statements of revenues, expenses and changes in net position.

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, 2013 and 2012, and audited statements of activities and cash flows for the year then ended, are included on pages 16-19.

**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, 2013 and 2012, the valuation of investment within Avera Health Pooled Investments was as follows:

	<u>2013</u>	<u>2012</u>
Fair value - Level 1 inputs	27.9%	23.6%
Fair value - Level 2 inputs	57.8%	62.5%
Fair value - Level 3 inputs	14.3%	13.1%
Cost basis or equity method	<u>0.0%</u>	<u>.8%</u>
	<u>100.0%</u>	<u>100.0%</u>

The investment allocation at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Non-publicly traded stocks, trusts, and partnerships (alternative investments)	14.3%	13.9%
US Treasury and Agency obligations	4.4%	8.7%
Foreign stocks and other	5.7%	5.9%
Institutional mutual funds	0.0%	0.0%
Publicly traded equity securities	10.7%	12.0%
Cash and short-term investments	5.6%	11.9%
Corporate bonds	8.5%	8.1%
Publicly traded mutual funds	<u>50.8%</u>	<u>39.5%</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, 2013 and 2012 are as follows:

	2013	2012
Interest, dividends and net realized gains and losses	\$ 13,623	\$ 9,552
Net unrealized gains (losses)	21,872	(19,462)
Investment income (loss), net	\$ 35,495	\$ (9,910)

NOTE 21 FLOYD VALLEY HOSPITAL FOUNDATION NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2013 and 2012 follows:

	2013	2012
Medical records equipment	\$ 1,390	\$ 1,390
Capital campaign	91,917	-
Pediatric equipment	58,284	40,552
Employee assistance	18,911	17,412
EMS training scholarship	2,274	2,274
Endowment	1,481	456
Park Place Estates	2,884	3
	\$ 177,141	\$ 62,087

Permanently restricted net assets are available to provide support for the EMS training scholarship and total \$13,477 and \$12,977 at June 30, 2013 and 2012, 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, 2013 and 2012 the Foundation did not have a deficiency in donor-restricted funds.

	Year ended June 30, 2013			
	Endowment Funds			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 57,377	\$ 62,087	\$ 12,977	\$ 132,441
Investment return				
Investment income	4,833	18,365	-	23,198
Contributions and special events	100	151,212	500	151,813
Appropriation of endowment assets for expenditure	(617)	(54,523)	-	(55,141)
Endowment assets, end of year	<u>\$ 61,693</u>	<u>\$ 177,141</u>	<u>\$ 13,477</u>	<u>\$ 252,311</u>
	Year ended June 30, 2012			
	Endowment Funds			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 57,876	\$ 218,013	\$ 12,977	\$ 288,866
Investment return				
Investment (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, 2013**

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, 2013 totals	<u>\$33,020,758</u>	<u>\$1,121,735</u>	<u>\$34,142,493</u>	<u>\$36,400,000</u>	<u>\$ —</u>	<u>\$2,257,507</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>
2011	June 30, 2010	\$ <u>—</u>	\$ <u>59</u>	\$ <u>59</u>	<u>0.0%</u>	\$ <u>8,973</u>	<u>.7%</u>
2012	June 30, 2010	\$ <u>—</u>	\$ <u>59</u>	\$ <u>59</u>	<u>0.0%</u>	\$ <u>10,747</u>	<u>.5%</u>
2013	June 30, 2013	\$ <u>—</u>	\$ <u>38</u>	\$ <u>38</u>	<u>0.0%</u>	\$ <u>10,004</u>	<u>.4%</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, 2013 and 2012, and have issued our report thereon dated October 7, 2013, which contains an unmodified opinion on those financial statements. Our audits were performed 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, the supplementary 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 7, 2013

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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
0 - 60 days	\$4,459,885	\$4,074,935	55.61%	55.29%
61 - 90 days	732,495	948,730	9.13	12.87
91 - 180 days	1,035,129	917,384	12.91	12.45
Over 6 months	<u>1,791,931</u>	<u>1,429,116</u>	<u>22.35</u>	<u>19.39</u>
Totals	<u>8,019,440</u>	<u>7,370,165</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	1,519,708	1,381,010		
Contractual allowances	<u>2,581,676</u>	<u>2,047,504</u>		
Total allowances	<u>4,101,384</u>	<u>3,428,514</u>		
Totals	<u>\$3,918,056</u>	<u>\$3,941,651</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
BALANCE , beginning	\$1,381,010	\$1,096,380
ADD		
Provision for bad debts	864,211	911,630
Recoveries of accounts previously written off	136,265	102,487
LESS		
Accounts written off	<u>(861,778)</u>	<u>(729,487)</u>
BALANCE , ending	<u>\$1,519,708</u>	<u>\$1,381,010</u>

**Floyd Valley Hospital
INVENTORIES**

	<u>June 30</u>	
	<u>2013</u>	<u>2012</u>
General stores	\$ 143,440	\$ 171,514
Pharmacy	178,081	184,799
Operating room	59,321	59,815
Intravenous solutions	<u>3,874</u>	<u>3,951</u>
Totals	<u>\$ 384,716</u>	<u>\$ 420,079</u>

**Floyd Valley Hospital
INSURANCE COVERAGE**

Avera (policy expiration December 31, 2013)	
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	 \$5,000,000/\$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	\$29,194,186
Personal property	\$8,852,432
Earnings and extra expense	\$22,611,766 \$10,000 deductible
 Farm Bureau (policy expiration November 1, 2013)	
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>2013</u>	<u>2012</u>
DAILY PATIENT SERVICES		
Medical, surgical and obstetric	\$ 2,775,905	\$ 2,568,644
Long term care	508,325	520,980
Nursery	131,575	97,580
	<u>3,415,805</u>	<u>3,187,204</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	5,998,754	5,391,670
Delivery and labor room	308,671	194,210
Central service and supply	2,080,632	2,193,688
Emergency service	6,230,301	5,220,530
Home health services	1,031,406	1,018,204
	<u>15,649,764</u>	<u>14,018,302</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	7,794,274	7,104,855
Electrocardiology	1,043,821	1,069,517
Radiology	7,211,695	7,242,042
Pharmacy	2,745,199	2,596,948
Anesthesiology	1,746,761	2,109,008
Respiratory therapy	751,559	559,022
Physical therapy	1,628,637	1,307,241
Occupational therapy	245,885	258,885
Speech therapy	383,504	354,690
Enterostomy	334,973	304,546
Audiology	1,920	1,938
Clinics	5,489,761	5,414,416
Cardiac rehabilitation	104,320	107,800
	<u>29,482,309</u>	<u>28,430,908</u>
	48,547,878	45,636,414
Charity care charges foregone, based on established rates	<u>(409,676)</u>	<u>(296,063)</u>
Total gross patient service revenue	48,138,202	45,340,351
Provisions for contractual and other adjustments	<u>(17,901,853)</u>	<u>(16,086,319)</u>
Net patient service revenue	<u>\$30,236,349</u>	<u>\$29,254,032</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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
\$2,775,905	\$2,568,644	\$ -	\$ -	\$ -	\$ -
-	-	-	-	508,325	520,980
<u>131,575</u>	<u>97,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2,907,480</u>	<u>2,666,224</u>	<u>-</u>	<u>-</u>	<u>508,325</u>	<u>520,980</u>
1,509,374	1,395,166	4,486,341	3,996,226	3,039	278
247,097	152,834	61,574	41,376	-	-
1,019,342	1,196,189	986,319	879,880	74,971	117,619
99,027	102,855	6,120,332	5,111,695	10,942	5,980
-	-	<u>1,031,406</u>	<u>1,018,204</u>	<u>-</u>	<u>-</u>
<u>2,874,840</u>	<u>2,847,044</u>	<u>12,685,972</u>	<u>11,047,381</u>	<u>88,952</u>	<u>123,877</u>
573,363	671,500	7,153,475	6,329,505	67,436	103,850
60,506	80,358	975,891	982,926	7,424	6,233
244,946	290,040	6,940,401	6,920,046	26,348	31,956
742,753	732,255	1,779,434	1,537,833	223,012	326,860
530,801	669,271	1,214,894	1,437,942	1,066	1,795
300,936	230,460	328,902	220,618	121,721	107,944
82,219	86,007	1,442,198	1,134,419	104,220	86,815
24,801	26,870	182,284	197,583	38,800	34,432
8,480	9,838	335,842	329,475	39,182	15,377
15,729	23,620	301,138	253,716	18,106	27,210
1,485	1,230	435	708	-	-
-	-	5,489,761	5,414,416	-	-
-	-	<u>104,320</u>	<u>107,800</u>	<u>-</u>	<u>-</u>
<u>2,586,019</u>	<u>2,821,449</u>	<u>26,248,975</u>	<u>24,866,987</u>	<u>647,315</u>	<u>742,472</u>
<u>\$8,368,339</u>	<u>\$8,334,717</u>	<u>\$38,934,947</u>	<u>\$35,914,368</u>	<u>\$1,244,592</u>	<u>\$1,387,329</u>

Floyd Valley Hospital
PROVISION FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Contractual adjustments	\$16,861,613	\$14,898,976
Employee and other allowances	176,029	275,713
Provision for bad debts	<u>864,211</u>	<u>911,630</u>
Totals	<u>\$17,901,853</u>	<u>\$16,086,319</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Cafeteria	\$ 110,294	\$ 109,302
Rental income	96,948	90,337
Park Place Estates	1,233,301	1,153,281
Lifeline	65,324	67,329
Electronic health records meaningful use incentive revenue	507,099	-
Other	<u>1,007,992</u>	<u>627,591</u>
Totals	<u>\$3,020,958</u>	<u>\$2,047,840</u>

**Floyd Valley Hospital
NURSING SERVICE EXPENSES**

	Year ended June 30	
	2013	2012
NURSING ADMINISTRATION		
Salaries	\$ 172,892	\$ 191,078
Supplies and expenses	<u>2,423</u>	<u>2,181</u>
	<u>175,315</u>	<u>193,259</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,674,316	1,644,706
Supplies and expenses	<u>117,107</u>	<u>96,637</u>
	<u>1,791,423</u>	<u>1,741,343</u>
NURSERY		
Salaries	50,770	37,723
Supplies and expenses	<u>3,342</u>	<u>6,944</u>
	<u>54,112</u>	<u>44,667</u>
OPERATING AND RECOVERY ROOMS		
Salaries	450,410	440,171
Professional fees	1,528,267	1,515,150
Supplies and expenses	<u>192,077</u>	<u>194,679</u>
	<u>2,170,754</u>	<u>2,150,000</u>
DELIVERY AND LABOR ROOM		
Salaries	60,344	43,027
Supplies and expenses	<u>10,429</u>	<u>4,645</u>
	<u>70,773</u>	<u>47,672</u>
CENTRAL SERVICE AND SUPPLY		
Salaries	127,108	122,999
Purchased services	44,580	8,500
Supplies and expenses	<u>1,085,927</u>	<u>1,095,889</u>
	<u>1,257,615</u>	<u>1,227,388</u>
EMERGENCY SERVICE		
Salaries	946,126	816,809
Professional fees	1,100,202	1,056,677
Supplies and expenses	<u>78,515</u>	<u>59,831</u>
	<u>2,124,843</u>	<u>1,933,317</u>
HOME HEALTH		
Salaries	727,721	732,438
Purchased services	49,824	43,048
Supplies and expenses	<u>113,327</u>	<u>89,191</u>
	<u>890,872</u>	<u>864,677</u>
Totals	<u>\$8,535,707</u>	<u>\$8,202,323</u>

**Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES**

	Year ended June 30	
	2013	2012
LABORATORY		
Salaries	\$ 705,115	\$ 688,601
Professional fees	7,022	11,660
Purchased services	347,901	220,683
Supplies and expenses	518,524	514,512
Blood	56,851	72,607
	<u>1,635,413</u>	<u>1,508,063</u>
ELECTROCARDIOLOGY		
Salaries	11,745	10,998
Purchased services	115,787	108,773
Supplies and expenses	3,084	2,835
	<u>130,616</u>	<u>122,606</u>
RADIOLOGY		
Salaries	700,408	672,929
Professional fees	804,653	810,530
Purchased services	518,383	470,761
Supplies and expenses	302,411	301,095
	<u>2,325,855</u>	<u>2,255,315</u>
PHARMACY		
Salaries	282,895	271,379
Purchased services	163,390	73,437
Drugs	703,128	737,478
Intravenous solutions and supplies	13,279	15,044
Supplies and expenses	33,320	8,174
	<u>1,196,012</u>	<u>1,105,512</u>
ANESTHESIOLOGY		
Purchased services	657,000	645,837
Supplies and expenses	21,459	10,571
	<u>678,459</u>	<u>656,408</u>
RESPIRATORY THERAPY		
Salaries	174,405	175,136
Supplies and expenses	2,590	3,566
	<u>176,995</u>	<u>178,702</u>
PHYSICAL THERAPY		
Salaries	130,812	125,710
Purchased services	800,677	643,155
Supplies and expenses	23,983	25,275
	<u>955,472</u>	<u>794,138</u>
OCCUPATIONAL THERAPY		
Purchased services	135,237	142,579
Supplies and expenses	143	36
	<u>135,380</u>	<u>142,615</u>
OCCUPATIONAL HEALTH		
Salaries	3,765	3,910
Supplies and expense	2,766	4,732
	<u>6,531</u>	<u>8,642</u>

Floyd Valley Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2013	2012
FLOYD VALLEY HOME MEDICAL EQUIPMENT		
Salaries	69,441	\$ 70,376
Supplies and expenses	<u>3,200</u>	<u>3,249</u>
	<u>72,641</u>	<u>73,625</u>
SPEECH THERAPY		
Purchased services	230,102	205,686
Supplies and expenses	<u>1,271</u>	<u>3,073</u>
	<u>231,373</u>	<u>208,759</u>
ENTEROSTOMY		
Salaries	177,648	163,192
Supplies and expenses	<u>5,018</u>	<u>4,414</u>
	<u>182,666</u>	<u>167,606</u>
AUDIOLOGY		
Salaries	760	1,444
Purchased services	935	1,634
Supplies and expenses	<u>-</u>	<u>105</u>
	<u>1,695</u>	<u>3,183</u>
CLINICS		
Salaries	2,026,576	1,881,335
Professional fees	2,044,860	1,984,060
Purchased services	73,707	82,006
Supplies and expenses	<u>551,621</u>	<u>550,608</u>
	<u>4,696,764</u>	<u>4,498,009</u>
CARDIAC REHABILITATION		
Salaries	70,614	69,652
Supplies and expenses	<u>4,324</u>	<u>7,676</u>
	<u>74,938</u>	<u>77,328</u>
LIFELINE		
Salaries	9,056	8,667
Purchased services	34,609	38,290
Supplies and expenses	<u>5,555</u>	<u>3,753</u>
	<u>49,220</u>	<u>50,710</u>
UTILIZATION AND QUALITY ASSURANCE		
Salaries	84,391	82,498
Supplies and expenses	<u>1,176</u>	<u>5,086</u>
	<u>85,567</u>	<u>87,584</u>
MEDICAL RECORDS		
Salaries	73,040	75,504
Purchased services	137,077	151,203
Supplies and expenses	<u>37,397</u>	<u>27,481</u>
	<u>247,514</u>	<u>254,188</u>
SOCIAL SERVICES		
Salaries	45,689	42,176
Supplies and expenses	<u>758</u>	<u>1,051</u>
	<u>46,447</u>	<u>43,227</u>
Totals	<u>\$12,929,558</u>	<u>\$12,236,220</u>

**Floyd Valley Hospital
GENERAL SERVICE EXPENSES**

	Year ended June 30	
	2013	2012
DIETARY		
Salaries	\$ 421,069	\$ 410,274
Food	305,820	303,461
Purchased services	42,092	45,672
Supplies and expenses	59,583	71,639
	<u>828,564</u>	<u>831,046</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	243,221	240,646
Utilities	261,116	270,667
Purchased services	25,648	28,933
Supplies and expenses	80,183	87,177
	<u>610,168</u>	<u>627,423</u>
HOUSEKEEPING		
Salaries	194,769	192,762
Purchased services	3,045	3,763
Supplies and expenses	33,403	32,350
	<u>231,217</u>	<u>228,875</u>
LAUNDRY AND LINEN		
Purchased services	59,645	61,005
Supplies and expenses	1,185	1,944
	<u>60,830</u>	<u>62,949</u>
 Totals	 <u>\$1,730,779</u>	 <u>\$1,750,293</u>

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

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administration		
Salaries	\$ 146,167	\$ 126,573
Management fee	442,689	540,519
Telephone	47,451	45,382
Postage	48,596	44,425
Supplies and expenses	141,234	160,549
Freight	32,266	36,826
Organization dues	640	22,583
Public relations	16,830	17,069
Marketing	<u>136,810</u>	<u>119,294</u>
	<u>1,012,683</u>	<u>1,113,220</u>
Business office		
Salaries	567,464	583,699
Supplies and expenses	<u>186,272</u>	<u>170,108</u>
	<u>753,736</u>	<u>753,807</u>
Data processing		
Salaries	114,584	115,376
Supplies and expenses	<u>712,571</u>	<u>537,524</u>
	<u>827,155</u>	<u>652,900</u>
Human resources		
Salaries	116,889	111,111
Supplies and expenses	<u>58,099</u>	<u>56,892</u>
	<u>174,988</u>	<u>168,003</u>
Risk management		
Salaries	40,807	54,301
Supplies and expenses	<u>134,418</u>	<u>126,946</u>
	<u>175,225</u>	<u>181,247</u>
Education		
Salaries	145,655	143,362
Purchased services	13,860	8,640
Supplies and expenses	<u>28,676</u>	<u>24,677</u>
	<u>188,191</u>	<u>176,679</u>
Foundation		
Salaries	61,563	2,328
Supplies and expenses	<u>18,844</u>	<u>20</u>
	<u>80,407</u>	<u>2,348</u>
Park Place Estates		
Salaries	412,351	394,305
Purchased services	19,750	17,008
Supplies and expenses	<u>91,787</u>	<u>79,190</u>
	<u>523,888</u>	<u>490,503</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,749,573	1,616,654
Group health insurance	2,564,914	2,336,176
Life and disability insurance	127,001	119,657
Insurance	<u>110,859</u>	<u>87,155</u>
	<u>4,552,347</u>	<u>4,159,642</u>
Totals	<u>\$8,288,620</u>	<u>\$7,698,349</u>

**Floyd Valley Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
PATIENT DAYS		
Acute	2,067	2,178
Special care	-	4
Nursery	277	240
Swing bed		
Skilled nursing care	935	1,150
Intermediate care	<u>12</u>	<u>1</u>
Totals	<u>3,291</u>	<u>3,573</u>
ADMISSIONS	672	719
DISCHARGES	666	725
AVERAGE LENGTH OF STAY, acute and special care	3.10	3.01
BEDS	25	25
OCCUPANCY PERCENT, ACUTE	22.65%	23.8%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$82,839	\$79,929
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	47.30	49.31

**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**

Board of Trustees
Floyd Valley Hospital and Floyd Valley Hospital Foundation
LeMars, Iowa

We have audited, 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, the financial statements of Floyd Valley Hospital and its component unit, Floyd Valley Hospital Foundation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's and Foundation's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation's internal control.

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 functions, 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 Hospital's and Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and Foundation. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's and Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's and Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 7, 2013

**Floyd Valley Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2013**

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, 2013**

Part II—Findings Related to Required Statutory Reporting

13-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

13-II-B TRAVEL EXPENSES

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

13-II-C BUSINESS TRANSACTIONS

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

13-II-D BOARD MINUTES

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

13-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.