

VAN BUREN COUNTY HOSPITAL
KEOSAUQUA, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

VAN BUREN COUNTY HOSPITAL

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**VAN BUREN COUNTY HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Lloyd Foster	Chairperson	2006
Michael Thomas	Vice-Chairperson	2006
Nancy Nelson	Treasurer	2011
Edward Spees	Secretary	2011
Jeanne Erickson	Member	2008
David Sherod	Member	2008
Blain Smith	Member	2006
	<u>Hospital Officials</u>	
Lisa Schnedler	Administrator	
Helen Holland	Chief Financial Officer	



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

We have audited the accompanying balance sheets of **Van Buren County Hospital** as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Van Buren County Hospital** as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005, on our consideration of **Van Buren County 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 and 4 and the Budgetary Comparison Information on page 25 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
August 31, 2005

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**VAN BUREN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

This section of Van Buren County Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2005. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- Van Buren County Hospital's total assets decreased by approximately \$307,028, or 2.002%. A major portion of this is due to decreases in investments; cash; and land, buildings, and equipment.
- Van Buren County Hospital's assets exceeded liabilities by \$9,195,233 at June 30, 2005.
- During the year, Van Buren County Hospital's total operating revenues increased approximately 7.541% to \$9,862,031, while the operating expenses increased approximately 8.206% to \$10,115,199. Van Buren County Hospital had a loss from operations of \$(253,168), which is approximately 2.567% of total operating revenue.
- Van Buren County Hospital's Assets Limited as to Use or Restricted decreased by approximately \$221,000 during the fiscal year.

Overview of the Financial Statements

The basic financial statements of Van Buren County Hospital report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheet provides information about the nature and amounts of Van Buren County Hospital's assets and liabilities. The balance sheet at June 30, 2005, indicates total liabilities of \$5,831,118, and net assets of \$9,195,233.

The statement of revenues, expenses, and changes in net assets provides information on the Hospital's revenues and expenses. This statement indicates total operating revenues of \$9,862,031 and total operating expenses of \$10,115,199 during fiscal year 2005. The loss from operations was \$(253,168) in 2005, compared to a loss from operations of \$(177,623) in 2004.

The statement of cash flows provides information about Van Buren County Hospital's cash from operations, investing and financing activities. As reported in this statement, cash and cash equivalents decreased from \$962,083 at July 1, 2004, to \$685,109 at June 30, 2005.

There are 11 notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of Van Buren County Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Significant Budget Variations

The most significant budget variance occurred in operating expenses. Van Buren County Hospital budgeted \$10,125,000, but expenditures were actually \$10,609,385.

Long-Term Debt

At year-end, Van Buren County Hospital had \$3,655,642 in long-term debt. Long term debt consists of Rural Economic Development Service, bank notes, and capitalized leases.

Factors Bearing on Financial Future

Van Buren County Hospital is planning to begin a significant building and remodeling project in fiscal year 2006. The project will update and expand most of the rural health clinics and is scheduled to be completed in two to three years.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Van Buren County Hospital
304 Franklin
Keosauqua, Iowa 52565

VAN BUREN COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 685,109	\$ 962,083
Receivables		
Patient, net of estimated uncollectibles		
of \$1,205,000 in 2005 and \$1,420,000 in 2004	2,355,661	1,839,237
Succeeding year property tax receivable	690,386	692,207
Other	157,417	170,876
Supplies	157,915	174,799
Prepaid expenses	<u>125,506</u>	<u>113,614</u>
 Total current assets	 <u>4,171,994</u>	 <u>3,952,816</u>
 ASSETS LIMITED AS TO USE OR RESTRICTED - Note 3		
Investments		
By board for capital improvements	1,576,282	1,796,904
Under loan agreement	519,691	369,517
By donors for specific purposes	730,225	881,184
By donors for permanent endowment fund	<u>53,087</u>	<u>53,087</u>
 Total assets limited as to use or restricted	 <u>2,879,285</u>	 <u>3,100,692</u>
 LAND, BUILDINGS, AND EQUIPMENT, net - Note 4	 <u>7,383,638</u>	 <u>7,688,944</u>
 OTHER ASSETS		
Beneficial interest in net assets of Arnold Trust - Note 3	568,572	557,975
Patient charts	12,123	24,374
Notes receivable	<u>10,739</u>	<u>8,578</u>
 Total other assets	 <u>591,434</u>	 <u>590,927</u>
 Total assets	 <u>\$ 15,026,351</u>	 <u>\$ 15,333,379</u>

See notes to financial statements.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 180,672	\$ 172,037
Accounts payable		
Trade	230,898	213,852
Estimated third-party payor settlements	120,000	100,000
Construction	-	50,728
Accrued expenses		
Salaries and wages	526,096	510,714
Vacation	188,314	175,147
Payroll taxes and other	79,824	88,960
Interest	144,036	129,839
Village Terrace security deposits	15,250	8,450
Deferred revenue for succeeding year property tax receivable	<u>690,386</u>	<u>692,207</u>
 Total current liabilities	 2,175,476	 2,141,934
 LONG-TERM DEBT, less current maturities - Note 7	 <u>3,655,642</u>	 <u>4,333,068</u>
 Total liabilities	 <u>5,831,118</u>	 <u>6,475,002</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,547,324	3,183,839
Unrestricted	4,864,597	4,740,267
Restricted - Note 5	<u>783,312</u>	<u>934,271</u>
 Total net assets	 <u>9,195,233</u>	 <u>8,858,377</u>
 Total liabilities and net assets	 <u>\$ 15,026,351</u>	 <u>\$ 15,333,379</u>

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$277,144 in 2005 and \$230,385 in 2004) - Note 2	\$ 9,195,390	\$ 8,610,796
Other operating revenues	<u>666,641</u>	<u>559,668</u>
TOTAL OPERATING REVENUES	<u>9,862,031</u>	<u>9,170,464</u>
OPERATING EXPENSES		
Salaries and wages	5,213,103	4,887,602
Supplies and other expenses	4,119,043	3,690,587
Depreciation and amortization	<u>783,053</u>	<u>769,898</u>
TOTAL OPERATING EXPENSES	<u>10,115,199</u>	<u>9,348,087</u>
LOSS FROM OPERATIONS	<u>(253,168)</u>	<u>(177,623)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	689,756	696,696
Noncapital grants and contributions	17,167	3,153
Investment income	80,268	67,579
Payment of interest	<u>(218,600)</u>	<u>(192,131)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>568,591</u>	<u>575,297</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF ARNOLD TRUST	315,423	397,674
OTHER CHANGES IN NET ASSETS		
Capital contributions	10,836	15,910
Change in beneficial interest in net assets of Arnold Trust	<u>10,597</u>	<u>65,665</u>
INCREASE IN NET ASSETS	336,856	479,249
NET ASSETS BEGINNING OF YEAR	<u>8,858,377</u>	<u>8,379,128</u>
NET ASSETS END OF YEAR	<u>\$ 9,195,233</u>	<u>\$ 8,858,377</u>

See notes to financial statements.

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 8,696,805	\$ 8,094,367
Other receipts	680,100	572,729
Payments of salaries and wages	(5,184,554)	(4,775,750)
Payments of supplies and other expenses	<u>(4,150,069)</u>	<u>(3,739,501)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>42,282</u>	<u>151,845</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	689,756	696,696
Noncapital grants and contributions received	<u>17,167</u>	<u>3,153</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>706,923</u>	<u>699,849</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(465,496)	(1,156,705)
Capital contributions received	10,836	15,910
Payment of principal on debt	(668,791)	(204,537)
Payment of interest on debt	(204,403)	(106,103)
Proceeds from issuance of long-term debt	<u>-</u>	<u>1,051,017</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,327,854)</u>	<u>(400,418)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use or restricted	221,407	(315,088)
Investment income received	<u>80,268</u>	<u>67,579</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>301,675</u>	<u>(247,509)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(276,974)	203,767
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>962,083</u>	<u>758,316</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 685,109</u>	<u>\$ 962,083</u>

(continued)

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF LOSS FROM OPERATIONS		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (253,168)	\$ (177,623)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	783,053	769,898
Provision for bad debts	277,144	230,385
Changes in assets and liabilities		
Receivables	(782,270)	(751,753)
Supplies	16,884	(3,544)
Prepaid expenses	(11,892)	6,062
Accounts payable	(33,682)	(75,300)
Estimated third party payor settlements	20,000	18,000
Village Terrace security deposits	6,800	(1,450)
Accrued expenses	<u>19,413</u>	<u>137,170</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 42,282</u>	<u>\$ 151,845</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Van Buren County Hospital (Hospital) is a 25-bed public hospital located in Keosauqua, Iowa, and is organized under Chapter 347 of the Iowa Code and governed by a seven member Board of Trustees elected for alternating terms of six years. The Hospital also operates Village Terrace, a 10-unit assisted living facility. The Hospital has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Reporting Entity

For financial reporting purposes Van Buren County Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also 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. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Basis of Accounting

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased, excluding assets limited as to use or restricted.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Notes Receivable

Notes receivable are stated at principal amounts plus accrued interest and are uncollateralized. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. Management reviews all notes receivable periodically and estimates a portion, if any, of the balance that will not be collected.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and debt retirement, over which the Board retains control and may, at its discretion, subsequently use for other purposes; and assets under loan agreement.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized.

The estimated useful lives of property and equipment are as follows:

Land improvements	10-30 years
Buildings and improvements	5-50 years
Equipment	3-25 years

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$28,184 and \$30,025 for advertising costs for the years ended June 30, 2005 and 2004, respectively.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Compensated Absences

Hospital employees accumulate a limited number of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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

To fulfill its mission of community service, 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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

Reclassifications

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 – 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: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the period ended June 30, 2002. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Medicaid: Inpatient and outpatient services rendered to Medicaid program 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 Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2002.

Clinics:

The clinics are designated as Certified (Provider Based) Rural Health Clinics by the Medicare and Medicaid programs. As a result, clinical services rendered to Medicare and Medicaid program beneficiaries are reimbursed at cost.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Other Payors:

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Total patient service revenue	\$ 12,913,323	\$ 11,406,789
Contractual adjustments		
Medicare	(2,349,473)	(1,792,794)
Medicaid	(564,470)	(357,260)
Other	<u>(526,846)</u>	<u>(415,554)</u>
Total contractual adjustments	<u>(3,440,789)</u>	<u>(2,565,608)</u>
Net patient service revenue	9,472,534	8,841,181
Provision for bad debts	<u>(277,144)</u>	<u>(230,385)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,195,390</u>	<u>\$ 8,610,796</u>

NOTE 3 – CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 and 2004, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This 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, and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. With the exception of the assets held in trust, the Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital's assets held in trust are category 2 which means that some of the assets may be uninsured and unregistered securities that are held by a trust department or agent in the Hospital's name.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Investments are stated at fair value.

	<u>2005</u>	<u>2004</u>
By the board for capital improvements		
Certificates of deposit	\$ 502,978	\$ 416,493
Money market accounts	870,004	1,183,328
Accrued interest receivable	3,817	3,153
Agency bonds	<u>199,483</u>	<u>193,930</u>
	<u>\$ 1,576,282</u>	<u>\$ 1,796,904</u>
Under loan agreement		
Certificates of deposit	\$ 255,186	\$ 226,416
Money market accounts	<u>264,505</u>	<u>143,101</u>
	<u>\$ 519,691</u>	<u>\$ 369,517</u>
By donors for specific purposes		
Certificates of deposit	\$ 41,323	\$ 192,282
Beneficial interest in net assets of Arnold Trust	513,250	513,250
Money market	<u>175,652</u>	<u>175,652</u>
	<u>\$ 730,225</u>	<u>\$ 881,184</u>
By donors for permanent endowment fund		
Certificates of deposit	<u>\$ 53,087</u>	<u>\$ 53,087</u>
Beneficial interest in net assets of Arnold Trust	<u>\$ 568,572</u>	<u>\$ 557,975</u>

A significant amount of the above mentioned certificates of deposit have a maturity date of less than one year.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. Safety – Safety and preservation of principal in the overall portfolio.
2. Liquidity – Maintaining the necessary liquidity to match expected liabilities.
3. Return – Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2005 and 2004, was as follows:

	June 30, 2004				June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 52,551	\$ 65,077	\$ -	\$ -	\$ 117,628
Land improvements	91,618	-	-	-	91,618
Buildings and improvements	8,623,103	6,097	-	284,185	8,913,385
Construction in progress	142,172	152,429	-	(284,185)	10,416
Equipment	<u>4,590,012</u>	<u>241,893</u>	<u>-</u>	<u>-</u>	<u>4,831,905</u>
	<u>13,499,456</u>	<u>465,496</u>	<u>-</u>	<u>-</u>	<u>13,964,952</u>
Accumulated depreciation					
Land improvements	65,493	2,824	-	-	68,317
Buildings and improvements	2,537,369	381,262	-	-	2,918,631
Equipment	<u>3,207,650</u>	<u>386,716</u>	<u>-</u>	<u>-</u>	<u>3,594,366</u>
	<u>5,810,512</u>	<u>770,802</u>	<u>-</u>	<u>-</u>	<u>6,581,314</u>
Total land, buildings, and equipment, net	<u>\$ 7,688,944</u>	<u>\$ (305,306)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,383,638</u>
	June 30, 2003				June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 54,231	\$ 6,000	\$ 7,680	\$ -	\$ 52,551
Land improvements	91,618	-	-	-	91,618
Buildings and improvements	6,960,525	503,159	-	1,159,419	8,623,103
Construction in progress	1,301,591	-	-	(1,159,419)	142,172
Equipment	<u>4,257,497</u>	<u>728,981</u>	<u>396,466</u>	<u>-</u>	<u>4,590,012</u>
	<u>12,665,462</u>	<u>1,238,140</u>	<u>404,146</u>	<u>-</u>	<u>13,499,456</u>
Accumulated depreciation					
Land improvements	62,670	2,823	-	-	65,493
Buildings and improvements	2,171,760	365,609	-	-	2,537,369
Equipment	<u>3,141,082</u>	<u>389,278</u>	<u>322,710</u>	<u>-</u>	<u>3,207,650</u>
	<u>5,375,512</u>	<u>757,710</u>	<u>322,710</u>	<u>-</u>	<u>5,810,512</u>
Total land, buildings, and equipment, net	<u>\$ 7,289,950</u>	<u>\$ 480,430</u>	<u>\$ 81,436</u>	<u>\$ -</u>	<u>\$ 7,688,944</u>

(continued on next page)

Van Buren County Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 5 – RESTRICTED NET ASSETS

Restricted net assets consist of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Leffler Fund	\$ 25,000	\$ 25,000
Israel Fund	30,284	29,806
Douthart Fund	186,691	186,691
Plowman Fund	-	101,437
Ruebel Fund	-	50,000
De Voss Fund	28,087	28,087
Arnold Trust	<u>513,250</u>	<u>513,250</u>
 Total restricted net assets	 <u>\$ 783,312</u>	 <u>\$ 934,271</u>

The Leffler Fund is an endowment fund with interest being available to be applied to patient accounts if the patient is unable to pay. The principal portion of the fund, which is \$25,000, cannot be expended.

The Israel Fund is restricted to expenditures for the comfort and convenience of visitors to the Hospital. During the years ended June 30, 2005 and 2004, there were no expenditures from the fund.

The Douthart Fund is restricted for the purchase of medical equipment as designated by the medical staff.

The Plowman and Ruebel Funds were restricted for improvements to the Hospital. These funds were released from restriction during fiscal year 2005.

The De Voss Fund is an endowment fund with interest being available to be applied to patient accounts if the patient is unable to pay. The principal portion of the fund, which is \$28,087, cannot be expended.

The Arnold Trust provides that its funds be held or distributed for the benefit of Van Buren County Hospital. The Trust is to be held in trust for a period of 25 years, which ends July 2019. The income from the trust shall be distributed to the Hospital on a yearly basis during the 25-year period. Unrealized gains of the Trust are unrestricted.

A summary of the Trust's assets, net assets, and changes in net assets follows. The Hospital's interest in the net assets of the Trust is reported as a non-current asset in the balance sheets.

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 27,554	\$ 28,523
Certificate of deposit	103,564	101,172
Marketable equity securities	<u>950,704</u>	<u>941,530</u>
 Total assets	 <u>\$ 1,081,822</u>	 <u>\$ 1,071,225</u>

Van Buren County Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Net assets		
Unrestricted	\$ 568,572	\$ 557,975
Restricted	<u>513,250</u>	<u>513,250</u>
Total net assets	<u>\$ 1,081,822</u>	<u>\$ 1,071,225</u>
Change in unrealized gains and losses	\$ 10,597	\$ 65,665
Net assets, beginning of year	<u>1,071,225</u>	<u>1,005,560</u>
Net assets, end of year	<u>\$ 1,081,822</u>	<u>\$ 1,071,225</u>

NOTE 6 – LEASES

The Hospital leases equipment under noncancellable long-term lease agreements. Two leases have been recorded as capitalized leases. The capitalized leased assets at June 30, 2005 and 2004, consist of:

	<u>2005</u>	<u>2004</u>
Equipment	\$ 271,614	\$ 271,614
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(249,882)</u>	<u>(222,946)</u>
	<u>\$ 21,732</u>	<u>\$ 48,668</u>

Minimum future lease payments for the capital leases are as follows:

<u>Year Ending June 30,</u>	
2006	\$ 16,932
2007	<u>2,822</u>
Total minimum lease payments	19,754
Less interest	<u>(785)</u>
Present value of minimum lease payments – Note 7	<u>\$ 18,969</u>

Van Buren County Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2005 follows:

	June 30 2004 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2005 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,131,249	\$ -	\$ 14,504	\$ 1,116,745	\$ 16,067
Hospital revenue note, Series 1997A, 4.80% adjustable rate, due in annual payments of \$80,181 through February 2007	219,218	-	69,661	149,557	76,508
Hospital revenue note, Series 1997A, 7.08% adjustable rate, interest only due through February 2007, principal and interest due February 2008, through February 2017	500,000	-	500,000	-	-
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	230,000	-	3,457	226,543	3,675
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	1,500,000	-	-	1,500,000	-
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of \$21,616 due July 2006 through 2033	350,000	-	-	350,000	-
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	80,000	-	7,483	72,517	6,906

(continued on next page)

Van Buren County Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	June 30 2004			June 30 2005	Amounts Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>One Year</u>
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	\$ 460,519	\$ -	\$ 58,536	\$ 401,983	\$ 61,346
Capitalized lease obligations – Note 6	<u>34,119</u>	<u>-</u>	<u>15,150</u>	<u>18,969</u>	<u>16,170</u>
	<u>\$ 4,505,105</u>	<u>\$ -</u>	<u>\$ 668,791</u>	3,836,314	<u>\$ 180,672</u>
Less current maturities				<u>(180,672)</u>	
Long-term debt, less current maturities				<u>\$ 3,655,642</u>	

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 180,672	\$ 163,230	\$ 343,902
2007	191,217	156,200	347,417
2008	120,638	149,408	270,046
2009	126,182	143,864	270,046
2010	132,013	138,033	270,046
2011-2015	383,013	627,027	1,010,040
2016-2020	351,108	554,528	905,636
2021-2025	434,601	471,033	905,634
2026-2030	538,139	367,496	905,635
2031-2035	612,328	239,999	852,327
2036-2040	477,650	115,850	593,500
2041-2043	<u>288,753</u>	<u>31,853</u>	<u>320,606</u>
	<u>\$ 3,836,314</u>	<u>\$ 3,158,521</u>	<u>\$ 6,994,835</u>

Under the terms of the Hospital Revenue Note, Series 1997B, the Hospital is required to make monthly transfers to a reserve account. At June 30, 2005, the Hospital had \$519,691 in the reserve account. The amount required to be on deposit at June 30, 2005 is \$396,738.

A schedule of changes in the Hospital's long-term debt for 2004 follows:

	June 30 2003			June 30 2004	Amounts Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,131,249	\$ -	\$ -	\$ 1,131,249	\$ 14,897

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	June 30 2003 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2004 <u>Balance</u>	<u>Amounts Due Within One Year</u>
Hospital revenue note, Series 1997A, 4.80% adjustable rate, due in annual payments of \$80,181 through February 2007	\$ 285,653	\$ -	\$ 66,435	\$ 219,218	\$ 73,004
Hospital revenue note, Series 1997A, 7.08% adjustable rate, interest only due through February 2007, principal and interest due February 2008, through February 2017	500,000	-	-	500,000	-
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	-	230,000	-	230,000	3,456
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	-	1,500,000	-	1,500,000	-
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of \$21,616 due July 2006 through 2033	-	350,000	-	350,000	-
Hospital revenue note, Series 2003C, 4.25% due in annual payments of \$9,988 through 2013	-	80,000	-	80,000	7,482
Note payable to bank, 4.70% Due in monthly payments of \$6,578 through April 2011, secured by equipment	-	470,000	9,481	460,519	58,534
Note payable to bank, 5.5%, due in monthly payments of \$6,341 through September 2004, secured by equipment	91,676	-	91,676	-	-

(continued on next page)

Van Buren County Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	June 30 2003			June 30 2004	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	
Construction loans to bank, 4.5%, due November 1, 2003.	\$ 1,578,982	\$ -	\$ 1,578,982	\$ -	\$ -
Capitalized lease obligations	<u>71,065</u>	<u>-</u>	<u>36,946</u>	<u>34,119</u>	<u>14,664</u>
	<u>\$ 3,658,625</u>	<u>\$ 2,630,000</u>	<u>\$ 1,783,520</u>	4,505,105	<u>\$ 172,037</u>
Less current maturities				<u>(172,037)</u>	
Long-term debt, less current maturities				<u>\$ 4,333,068</u>	

NOTE 8 – PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004, and 2003. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$290,419, \$259,788, and \$243,838, respectively, equal to the required contributions for each year.

NOTE 9 – MALPRACTICE INSURANCE

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

NOTE 10 – 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 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.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 11 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Medicare	35%	34%
Medicaid	12	14
Commercial insurance	17	19
Other third-party payors and patients	<u>36</u>	<u>33</u>
	<u>100%</u>	<u>100%</u>



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
August 31, 2005

VAN BUREN COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2005

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 689,756	\$ -	\$ 689,756	\$ 692,207	\$ (2,451)
Estimated other revenues/receipts	<u>9,970,063</u>	<u>(559,651)</u>	<u>9,410,412</u>	<u>9,416,419</u>	<u>(6,007)</u>
	10,659,819	(559,651)	10,100,168	10,108,626	(8,458)
Expenses/disbursements	<u>10,333,799</u>	<u>275,586</u>	<u>10,609,385</u>	<u>10,125,000</u>	<u>(484,385)</u>
Net	326,020	(835,237)	(509,217)	(16,374)	<u>\$ (492,843)</u>
Balance beginning of year	8,858,377	(4,795,602)	4,062,775	8,574,773	
Capital contributions	<u>10,836</u>	<u>-</u>	<u>10,836</u>	<u>-</u>	
Balance end of year	<u>\$ 9,195,233</u>	<u>\$ (5,630,839)</u>	<u>\$ 3,564,394</u>	<u>\$ 8,558,399</u>	

This budgetary comparison is presented as Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 2,202,279	\$ 1,783,266
Nursery	23,099	22,684
Operating rooms	196,903	262,446
Delivery and labor rooms	25,685	14,275
Central services and supply	558,896	654,831
Emergency service	1,081,507	994,546
Laboratory	1,452,040	1,246,281
Electrocardiology	184,968	117,338
Radiology	2,252,218	1,508,955
Pharmacy	1,584,715	1,309,468
Anesthesiology	100,640	109,368
Respiratory therapy	307,265	347,826
Physical therapy	647,331	660,054
Speech therapy	6,917	9,913
Ambulance service	353,670	319,486
Cardiopulmonary rehab	93,013	132,567
Durable medical equipment	33,787	62,660
Home health care	272,322	277,889
Medical staff	430,178	521,578
Rural health clinics:		
Douds	93,745	82,153
Birmingham	48,636	42,378
Cantril	31,728	18,736
Stockport	30,301	25,444
Keosauqua	670,414	694,034
Bonaparte	85,369	89,957
Farmington	145,697	98,656
	<u>\$ 12,913,323</u>	<u>\$ 11,406,789</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 5,144,629	\$ 4,490,120
Outpatient revenue	<u>7,768,694</u>	<u>6,916,669</u>
Total patient service revenue	12,913,323	11,406,789
DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(3,440,789)</u>	<u>(2,565,608)</u>
NET PATIENT SERVICE REVENUE	9,472,534	8,841,181
PROVISION FOR BAD DEBTS	<u>(277,144)</u>	<u>(230,385)</u>
NET PATIENT SERVICE REVENUE (Net of provision for bad debts)	<u>\$ 9,195,390</u>	<u>\$ 8,610,796</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OTHER OPERATING REVENUES		
Job opportunities	\$ 160,036	\$ 165,745
Village Terrace	143,856	78,852
Day care center	124,048	119,824
Continuous family support system grant	95,023	77,902
Occupational health	29,730	24,220
Rent	21,143	23,279
Wellmark Grant - CORP	20,499	28,699
Wellmark Grant - Tobacco Risk Awareness	18,032	17,506
Tobacco-free grant	15,962	6,738
Cafeteria	11,534	11,678
HRSA grant	8,901	-
Cardiovascular risk	3,792	1,528
Medical records transcript fees	1,407	1,923
Other	<u>12,678</u>	<u>1,774</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 666,641</u>	 <u>\$ 559,668</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 110,708	\$ 124,585
Supplies and other expenses	<u>5,633</u>	<u>4,952</u>
	<u>116,341</u>	<u>129,537</u>
ROUTINE SERVICES		
Salaries and wages	911,510	832,618
Supplies and other expenses	<u>67,431</u>	<u>127,346</u>
	<u>978,941</u>	<u>959,964</u>
NURSERY		
Salaries and wages	807	107
Supplies and other expenses	<u>1,304</u>	<u>43</u>
	<u>2,111</u>	<u>150</u>
OPERATING ROOMS		
Salaries and wages	44,036	47,076
Supplies and other expenses	<u>1,404</u>	<u>6,034</u>
	<u>45,440</u>	<u>53,110</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	53,954	67,871
Supplies and other expenses	<u>236,324</u>	<u>214,308</u>
	<u>290,278</u>	<u>282,179</u>
EMERGENCY SERVICE		
Salaries and wages	274,020	267,558
Supplies and other expenses	<u>20,288</u>	<u>23,334</u>
	<u>294,308</u>	<u>290,892</u>
LABORATORY		
Salaries and wages	169,132	160,357
Supplies and other expenses	<u>253,679</u>	<u>217,574</u>
	<u>422,811</u>	<u>377,931</u>
ELECTROCARDIOLOGY		
Salaries and wages	<u>11,516</u>	<u>9,836</u>
RADIOLOGY		
Salaries and wages	169,344	136,969
Supplies and other expenses	<u>364,063</u>	<u>312,972</u>
	<u>533,407</u>	<u>449,941</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
PHARMACY		
Salaries and wages	\$ 20,586	\$ 16,249
Supplies and other expenses	<u>308,743</u>	<u>266,426</u>
	<u>329,329</u>	<u>282,675</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>76,187</u>	<u>82,753</u>
RESPIRATORY THERAPY		
Salaries and wages	133,553	118,704
Supplies and other expenses	<u>12,766</u>	<u>16,571</u>
	<u>146,319</u>	<u>135,275</u>
PHYSICAL THERAPY		
Salaries and wages	255,339	256,817
Supplies and other expenses	<u>25,363</u>	<u>26,568</u>
	<u>280,702</u>	<u>283,385</u>
OCCUPATIONAL THERAPY		
Salaries and wages	-	1,975
Supplies and other expenses	<u>5</u>	<u>552</u>
	<u>5</u>	<u>2,527</u>
SPEECH THERAPY		
Supplies and other expenses	<u>1,826</u>	<u>3,672</u>
AMBULANCE SERVICE		
Salaries and wages	141,733	142,078
Supplies and other expenses	<u>29,851</u>	<u>27,910</u>
	<u>171,584</u>	<u>169,988</u>
CARDIOPULMONARY REHAB		
Salaries and wages	56,373	56,818
Supplies and other expenses	<u>4,001</u>	<u>5,091</u>
	<u>60,374</u>	<u>61,909</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	8,541	5,849
Supplies and other expenses	<u>5,576</u>	<u>5,695</u>
	<u>14,117</u>	<u>11,544</u>
HOME HEALTH CARE		
Salaries and wages	145,420	139,900
Supplies and other expenses	<u>25,626</u>	<u>23,968</u>
	<u>171,046</u>	<u>163,868</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
MEDICAL STAFF		
Salaries and wages	\$ 362,853	\$ 361,404
Supplies and other expenses	<u>3,032</u>	<u>7,364</u>
	<u>365,885</u>	<u>368,768</u>
RURAL HEALTH CLINIC - DOUDS		
Salaries and wages	45,037	40,709
Supplies and other expenses	<u>21,085</u>	<u>19,352</u>
	<u>66,122</u>	<u>60,061</u>
RURAL HEALTH CLINIC - BIRMINGHAM		
Salaries and wages	32,494	28,473
Supplies and other expenses	<u>13,586</u>	<u>12,552</u>
	<u>46,080</u>	<u>41,025</u>
RURAL HEALTH CLINIC - CANTRIL		
Salaries and wages	35,776	21,599
Supplies and other expenses	<u>14,103</u>	<u>13,621</u>
	<u>49,879</u>	<u>35,220</u>
RURAL HEALTH CLINIC - STOCKPORT		
Salaries and wages	45,923	37,819
Supplies and other expenses	<u>15,298</u>	<u>14,674</u>
	<u>61,221</u>	<u>52,493</u>
RURAL HEALTH CLINIC - KEOSAUQUA		
Salaries and wages	590,754	546,822
Supplies and other expenses	<u>98,843</u>	<u>71,215</u>
	<u>689,597</u>	<u>618,037</u>
RURAL HEALTH CLINIC - BONAPARTE		
Salaries and wages	72,996	79,322
Supplies and other expenses	<u>33,663</u>	<u>26,479</u>
	<u>106,659</u>	<u>105,801</u>
RURAL HEALTH CLINIC - FARMINGTON		
Salaries and wages	105,491	75,829
Supplies and other expenses	<u>36,667</u>	<u>33,348</u>
	<u>142,158</u>	<u>109,177</u>
CONTINUOUS FAMILY SUPPORT SYSTEM		
Salaries and wages	63,602	46,162
Supplies and other expenses	<u>25,210</u>	<u>21,594</u>
	<u>88,812</u>	<u>67,756</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
WELLMARK GRANT - WOMEN		
Supplies and other expenses	\$ -	\$ 75
WELLMARK GRANT - TOBACCO RISK AWARENESS		
Salaries and wages	9,648	11,456
Supplies and other expenses	<u>2,308</u>	<u>10,489</u>
	<u>11,956</u>	<u>21,945</u>
TOBACCO-FREE PROGRAM		
Salaries and wages	8,842	4,236
Supplies and other expenses	<u>3,856</u>	<u>1,028</u>
	<u>12,698</u>	<u>5,264</u>
DIETARY		
Salaries and wages	115,027	106,883
Supplies and other expenses	<u>113,129</u>	<u>86,955</u>
	<u>228,156</u>	<u>193,838</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	137,432	133,264
Supplies and other expenses	<u>258,032</u>	<u>253,196</u>
	<u>395,464</u>	<u>386,460</u>
HOUSEKEEPING		
Salaries and wages	120,284	110,234
Supplies and other expenses	<u>34,275</u>	<u>18,108</u>
	<u>154,559</u>	<u>128,342</u>
LAUNDRY AND LINEN		
Salaries and wages	28,704	29,721
Supplies and other expenses	<u>15,415</u>	<u>16,842</u>
	<u>44,119</u>	<u>46,563</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	619,169	576,617
Supplies and other expenses	<u>673,979</u>	<u>508,259</u>
	<u>1,293,148</u>	<u>1,084,876</u>
DAY CARE CENTER		
Salaries and wages	120,571	108,995
Supplies and other expenses	<u>31,645</u>	<u>33,735</u>
	<u>152,216</u>	<u>142,730</u>

(continued)

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
FARM HEALTH AND SAFETY		
Salaries and wages	\$ 104	\$ -
Supplies and other expenses	<u>347</u>	<u>193</u>
	<u>451</u>	<u>193</u>
JOB OPPORTUNITIES		
Salaries and wages	122,793	120,634
Supplies and other expenses	<u>25,534</u>	<u>23,717</u>
	<u>148,327</u>	<u>144,351</u>
CARDIOVASCULAR RISK		
Salaries and wages	469	1,117
Supplies and other expenses	<u>100</u>	<u>282</u>
	<u>569</u>	<u>1,399</u>
OCCUPATIONAL HEALTH		
Salaries and wages	20,996	21,344
Supplies and other expenses	<u>11,958</u>	<u>12,250</u>
	<u>32,954</u>	<u>33,594</u>
VILLAGE TERRACE		
Salaries and wages	47,566	39,595
Supplies and other expenses	<u>17,231</u>	<u>33,889</u>
	<u>64,797</u>	<u>73,484</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	783,053	769,898
Insurance	171,759	168,510
Employee benefits	<u>1,057,918</u>	<u>937,091</u>
	<u>2,012,730</u>	<u>1,875,499</u>
TOTAL OPERATING EXPENSES	<u>\$ 10,115,199</u>	<u>\$ 9,348,087</u>

VAN BUREN COUNTY HOSPITAL
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2005 AND 2004

ANALYSIS OF AGING

<u>Days Since Discharge</u>	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 days or less	\$ 1,165,117	32.72%	\$ 1,009,529	30.97%
31 to 90 days	767,549	21.56	613,318	18.82
91 to 180 days	313,798	8.81	399,598	12.26
181 days and over	<u>1,314,197</u>	<u>36.91</u>	<u>1,236,792</u>	<u>37.95</u>
	3,560,661	<u>100.00%</u>	3,259,237	<u>100.00%</u>
Less: Allowance for doubtful accounts	235,000		230,000	
Allowance for contractual adjustments	<u>970,000</u>		<u>1,190,000</u>	
Net	<u>\$ 2,355,661</u>		<u>\$ 1,839,237</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
BALANCE, BEGINNING OF YEAR	\$ 230,000	\$ 190,000
Add: Provision for bad debts	277,144	230,385
Recoveries of accounts written off	45,007	51,112
Less: Accounts written off	<u>(317,151)</u>	<u>(241,497)</u>
BALANCE, END OF YEAR	<u>\$ 235,000</u>	<u>\$ 230,000</u>

VAN BUREN COUNTY HOSPITAL
SUPPLIES/PREPAID EXPENSES
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
SUPPLIES		
General supplies	\$ 79,069	\$ 103,444
Pharmacy	71,329	64,100
Dietary	6,305	7,255
Day care	<u>1,212</u>	<u>-</u>
	<u>\$ 157,915</u>	<u>\$ 174,799</u>
 PREPAID EXPENSES		
Insurance	\$ 37,451	\$ 25,485
Dues	5,995	4,514
Maintenance agreements and other	<u>82,060</u>	<u>83,615</u>
	<u>\$ 125,506</u>	<u>\$ 113,614</u>

**VAN BUREN COUNTY HOSPITAL
COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES PROVIDED BY THE
HOSPITAL TO THE COMMUNITY
YEAR ENDED JUNE 30, 2005**

SERVICE	
Contractual adjustments	\$ 3,440,789
Provision for bad debts	277,144
Day care loss	28,168
Blood pressure screening/free vaccinations	5,840 *
Occupational health	3,224
Hospital facilities for meetings	2,500 *
Adopt-A-Highway	<u>400 *</u>
	<u>\$ 3,758,065</u>

* Represents estimated dollar value of volunteer hours.

VAN BUREN COUNTY HOSPITAL
STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
PATIENT DAYS		
Acute	1,812	1,985
Swing-bed	3,242	3,487
Newborn	71	69
NUMBER OF BEDS		
	25	25
PERCENT OF OCCUPANCY		
	55%	60%
DISCHARGES		
Acute	550	635
Swing-bed	277	267
AVERAGE LENGTH OF STAY		
Acute	3.29	3.13
Swing-bed	11.70	13.06
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private rooms	\$ 500.00	\$ 425.00
2-bed rooms	500.00	415.00
Nursery	330.00	328.75
COLLECTION STATISTICS		
Net accounts receivable – patients	\$ 2,355,661	\$ 1,839,237
Number of days charges outstanding (1)	96	85
Uncollectible accounts (2)	\$ 336,500	\$ 290,879
Percentage of uncollectible accounts to total charges	2.6%	2.5%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes provision for bad debts and collection expense.



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

We have audited the accompanying balance sheets of **Van Buren County Hospital** as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated August 31, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **Van Buren County Hospital's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **Van Buren County Hospital's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as item I-A-05, in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We also noted other matters involving the Hospital's operations that we have reported to management in a separate letter dated August 31, 2005. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Van Buren County Hospital's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Van Buren County Hospital** and other parties to whom **Van Buren County Hospital** may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Van Buren County Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 31, 2005

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITION:

I-A-05 Segregation of Duties - One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Hospital should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the situation and will continually review the assignment of duties to obtain the maximum control possible under the circumstances.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - Hospital disbursements during the year ended June 30, 2005, exceeded amounts budgeted by \$484,385.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-05 Questionable Expenditures - We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-E-05 Business Transactions - The Hospital had transactions with businesses owned by spouses of employees as follows:

Advertising	\$	12,222
Demolition services		5,676
Computer equipment		24,636

VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

- II-F-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.