

**FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

VAN BUREN COUNTY HOSPITAL

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>	
Michael Thomas	Chairperson	2006
Edward Spees	Vice-Chairperson	2011
Blain Smith	Treasurer	2006
Nancy Nelson	Secretary	2011
Jeanne Erickson	Member	2008
Lloyd Foster	Member	2006
David Sherod	Member	2008
	<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, 2006 and 2005, 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, 2006 and 2005, 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 September 7, 2006, 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 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 pages 24 and 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 required 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
September 7, 2006

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**VAN BUREN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

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, 2006. 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 \$258,807 or 1.72%. A major portion of this is due to a decrease in cash.
- Van Buren County Hospital's assets exceeded liabilities by 9,333,553 at June 30, 2006.
- During the year, Van Buren County Hospital's total operating revenues increased 2.39% to \$10,098,019, while the operating expenses increased 4.97% to \$10,617,476. Van Buren County Hospital had a loss from operations of \$(519,457), which is 5.14% of total operating revenue.

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, 2006, indicates total liabilities of \$5,433,991 and net assets of \$9,333,553.

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 \$10,098,019 and total operating expenses of \$10,617,476 during fiscal year 2006. The loss from operations was \$(519,457) in 2006, compared to a loss from operations of \$(253,168) in 2005.

The statement of cash flows provides information about Van Buren County Hospital's cash from operating, investing and financing activities. As reported in this statement, cash and cash equivalents decreased from \$685,109 at July 1, 2005, to \$475,317 at June 30, 2006.

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

Both revenue and expenses varied significantly from the budget. Revenue was \$872,419 below budget and expenses were \$602,501 below budget.

Long-Term Debt

At year-end, Van Buren County Hospital had \$3,465,989 in long-term debt. Long-term debt consists of revenue notes, 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 2008. The project will involve a new building for Community Service (Child Care, Job Opportunities, Parents as Teachers [PAT], etc.) and the construction of a new dietary department.

Requests for Information

Questions regarding the information provided in this report or request 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 Street
Keosauqua, IA 52565

VAN BUREN COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 475,317	\$ 685,109
Receivables		
Patient, net of estimated uncollectibles		
of \$1,235,000 in 2006 and \$1,205,000 in 2005	2,106,428	2,355,661
Estimated third-party payor settlements	418,000	-
Succeeding year property tax	690,386	690,386
Other	153,889	157,417
Supplies	208,314	157,915
Prepaid expense	94,031	125,506
	<u>4,146,365</u>	<u>4,171,994</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board for capital improvements	1,626,000	1,576,282
Under loan agreement	679,317	519,691
By donors for specific purposes	730,895	730,225
By donors for permanent endowment fund	53,087	53,087
	<u>3,089,299</u>	<u>2,879,285</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>6,926,544</u>	<u>7,383,638</u>
OTHER ASSETS		
Beneficial interest in net assets of Arnold Trust - Note 4	593,597	568,572
Patient charts	-	12,123
Notes receivable	11,739	10,739
	<u>605,336</u>	<u>591,434</u>
Total assets	<u>\$ 14,767,544</u>	<u>\$ 15,026,351</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 8	\$ 194,725	\$ 180,672
Accounts payable		
Trade	241,753	230,898
Estimated third-party payor settlements	-	120,000
Accrued expenses		
Salaries and wages	390,962	526,096
Vacation	209,475	188,314
Payroll taxes and other	84,141	79,824
Interest	141,655	144,036
Village Terrace security deposits	14,905	15,250
Deferred revenue for succeeding year property tax receivable	<u>690,386</u>	<u>690,386</u>
 Total current liabilities	 1,968,002	 2,175,476
 LONG-TERM DEBT, less current maturities - Note 8	 <u>3,465,989</u>	 <u>3,655,642</u>
 Total liabilities	 <u>5,433,991</u>	 <u>5,831,118</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,265,830	3,547,324
Unrestricted	5,283,741	4,864,597
Restricted - Note 6	<u>783,982</u>	<u>783,312</u>
 Total net assets	 <u>9,333,553</u>	 <u>9,195,233</u>
 Total liabilities and net assets	 <u>\$ 14,767,544</u>	 <u>\$ 15,026,351</u>

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$508,443 in 2006 and \$277,144 in 2005) - Notes 2 and 3	\$ 9,487,447	\$ 9,195,390
Other operating revenues	<u>610,572</u>	<u>666,641</u>
TOTAL OPERATING REVENUES	<u>10,098,019</u>	<u>9,862,031</u>
OPERATING EXPENSES		
Salaries and wages	5,719,046	5,213,103
Supplies and other expenses	4,136,954	4,119,043
Depreciation and amortization	<u>761,476</u>	<u>783,053</u>
TOTAL OPERATING EXPENSES	<u>10,617,476</u>	<u>10,115,199</u>
OPERATING LOSS	<u>(519,457)</u>	<u>(253,168)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	688,802	689,756
Noncapital grants and contributions	11,692	17,167
Investment income	74,765	80,268
Interest expense	(167,000)	(218,600)
Gain on disposal of equipment	<u>2,150</u>	<u>-</u>
NET NONOPERATING REVENUES	<u>610,409</u>	<u>568,591</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF ARNOLD TRUST	90,952	315,423
OTHER CHANGES IN NET ASSETS		
Capital contributions	22,343	10,836
Change in beneficial interest in net assets of Arnold Trust	<u>25,025</u>	<u>10,597</u>
INCREASE IN NET ASSETS	138,320	336,856
NET ASSETS BEGINNING OF YEAR	<u>9,195,233</u>	<u>8,858,377</u>
NET ASSETS END OF YEAR	<u>\$ 9,333,553</u>	<u>\$ 9,195,233</u>

See notes to financial statements.

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 9,197,680	\$ 8,696,805
Other receipts	614,100	680,100
Payments of salaries and wages	(5,833,019)	(5,184,554)
Payments of supplies and other expenses	(4,141,051)	(4,150,069)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(162,290)</u>	<u>42,282</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	688,802	689,756
Noncapital grants and contributions received	11,692	17,167
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>700,494</u>	<u>706,923</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(295,858)	(465,496)
Capital contributions received	22,343	10,836
Payment of principal on debt	(175,600)	(668,791)
Payment of interest on debt	(169,381)	(204,403)
Proceeds from sale of equipment	5,749	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(612,747)</u>	<u>(1,327,854)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in assets limited as to use or restricted	(210,014)	221,407
Investment income received	74,765	80,268
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(135,249)</u>	<u>301,675</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(209,792)	(276,974)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>685,109</u>	<u>962,083</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 475,317</u>	<u>\$ 685,109</u>

(continued)

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating loss	\$ (519,457)	\$ (253,168)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation and amortization	761,476	783,053
Provision for bad debts	508,443	277,144
Changes in assets and liabilities		
Receivables	(256,682)	(782,270)
Supplies	(50,399)	16,884
Prepaid expense	31,475	(11,892)
Accounts payable	10,855	(33,682)
Estimated third-party payor settlements	(538,000)	20,000
Village Terrace security deposits	(345)	6,800
Accrued expenses	<u>(109,656)</u>	<u>19,413</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (162,290)</u>	<u>\$ 42,282</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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). The accompanying financial statements have been prepared on the accrual basis of accounting. 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, 2006 AND 2005

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 \$29,298 and \$28,184 for advertising costs for the years ended June 30, 2006 and 2005, 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, 2006 AND 2005

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, 2006.

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, 2006 AND 2005

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 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. The amounts of charges forgone for services and supplies furnished under its charity care policy during the years ended June 30, 2006 and 2005, were \$33,120 and \$7,700, respectively, which is included in the provision for bad debts.

NOTE 3 – 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, 2004. 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.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 13,820,303</u>	<u>\$ 12,913,323</u>
Contractual adjustments		
Medicare	(2,438,623)	(2,349,473)
Medicaid	(627,313)	(564,470)
Other	<u>(758,477)</u>	<u>(526,846)</u>
Total contractual adjustments	<u>(3,824,413)</u>	<u>(3,440,789)</u>
Net patient service revenue	9,995,890	9,472,534
Provision for bad debts	<u>(508,443)</u>	<u>(277,144)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,487,447</u>	<u>\$ 9,195,390</u>

NOTE 4 – CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2006 and 2005, 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.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

Investments are stated at fair value.

	<u>2006</u>	<u>2005</u>
By the board for capital improvements		
Certificates of deposit	\$ 443,058	\$ 502,978
Money market accounts	927,022	870,004
U.S. Treasury	49,930	-
Accrued interest receivable	6,507	3,817
Agency bonds	<u>199,483</u>	<u>199,483</u>
	<u>\$ 1,626,000</u>	<u>\$ 1,576,282</u>
Under loan agreement		
Certificates of deposit	\$ 289,748	\$ 255,186
Money market accounts	<u>389,569</u>	<u>264,505</u>
	<u>\$ 679,317</u>	<u>\$ 519,691</u>
By donors for specific purposes		
Certificates of deposit	\$ 41,993	\$ 41,323
Beneficial interest in net assets of Arnold Trust	513,250	513,250
Money market accounts	<u>175,652</u>	<u>175,652</u>
	<u>\$ 730,895</u>	<u>\$ 730,225</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>\$ 593,597</u>	<u>\$ 568,572</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, 2006 AND 2005

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2006 and 2005, was as follows:

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 117,628	\$ 61,601	\$ -	\$ -	\$ 179,229
Land improvements	91,618	-	-	-	91,618
Buildings and improvements	8,913,385	(33,110)	-	139,600	9,019,875
Construction in progress	10,416	199,074	-	(139,600)	69,890
Equipment	4,831,905	68,293	30,374	-	4,869,824
	<u>13,964,952</u>	<u>\$ 295,858</u>	<u>\$ 30,374</u>	<u>\$ -</u>	<u>14,230,436</u>
Accumulated depreciation					
Land improvements	68,317	\$ 2,823	\$ -	\$ -	71,140
Buildings and improvements	2,918,631	389,910	-	-	3,308,541
Equipment	3,594,366	356,619	26,774	-	3,924,211
	<u>6,581,314</u>	<u>\$ 749,352</u>	<u>\$ 26,774</u>	<u>\$ -</u>	<u>7,303,892</u>
Total land, buildings, and equipment, net	<u>\$ 7,383,638</u>				<u>\$ 6,926,544</u>
	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
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	4,590,012	241,893	-	-	4,831,905
	<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	3,207,650	386,716	-	-	3,594,366
	<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>\$ 7,383,638</u>

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

At June 30, 2006, construction in progress mainly consisted of costs for remodeling the Rural Health Clinics. Approximately \$50,000 of construction in progress is for the Birmingham Clinic, which is expected to be completed in October 2006, with an estimated total cost \$235,000. The remaining costs are associated with the remodeling of the Bonaparte Clinic and the construction of the Cantril Clinic. Both projects are expected to be completed during fiscal year 2007.

NOTE 6 – RESTRICTED NET ASSETS

Restricted net assets consist of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Leffler Fund	\$ 25,000	\$ 25,000
Israel Fund	30,954	30,284
Douthart Fund	186,691	186,691
De Voss Fund	28,087	28,087
Arnold Trust	<u>513,250</u>	<u>513,250</u>
 Total restricted net assets	 <u>\$ 783,982</u>	 <u>\$ 783,312</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, 2006 and 2005, 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 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>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 97,037	\$ 27,554
Certificate of deposit	100,000	103,564
Marketable equity securities	<u>909,810</u>	<u>950,704</u>
 Total assets	 <u>\$ 1,106,847</u>	 <u>\$ 1,081,822</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

	June 30	
	<u>2006</u>	<u>2005</u>
Net assets		
Unrestricted	\$ 593,597	\$ 568,572
Restricted	<u>513,250</u>	<u>513,250</u>
Total net assets	<u>\$ 1,106,847</u>	<u>\$ 1,081,822</u>
Change in unrealized gains and losses	\$ 25,025	\$ 10,597
Net assets, beginning of year	<u>1,081,822</u>	<u>1,071,225</u>
Net assets, end of year	<u>\$ 1,106,847</u>	<u>\$ 1,081,822</u>

NOTE 7 – 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, 2006 and 2005, consist of:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 271,614	\$ 271,614
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(264,370)</u>	<u>(249,882)</u>
	<u>\$ 7,244</u>	<u>\$ 21,732</u>

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

<u>Year Ending June 30,</u>	
2007	\$ 2,822
Less interest	<u>(16)</u>
Present value of minimum lease payments – Note 8	<u>\$ 2,806</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 8 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2006 follows:

	<u>June 30,</u> <u>2005</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2006</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,116,745	\$ -	\$ 14,504	\$ 1,102,241	\$ 16,750
Hospital revenue note, Series 1997A, 4.80% adjustable rate, due in annual payments of \$80,181 through February 2007	149,557	-	73,007	76,550	76,550
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	226,543	-	3,675	222,868	3,872
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	16,515
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	7,199
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	72,517	-	6,906	65,611	6,741
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	401,983	-	61,345	340,638	64,292

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

	June 30, 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2006 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Capitalized lease obligations – Note 7	\$ 18,969	\$ -	\$ 16,163	\$ 2,806	\$ 2,806
	<u>\$ 3,836,314</u>	<u>\$ -</u>	<u>\$ 175,600</u>	<u>3,660,714</u>	<u>\$ 194,725</u>
Less current maturities				<u>(194,725)</u>	
Long-term debt, less current maturities				<u>\$ 3,465,989</u>	

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 194,725	\$ 156,200	\$ 350,925
2008	120,638	149,408	270,046
2009	126,182	143,865	270,047
2010	132,013	138,033	270,046
2011	124,901	131,989	256,890
2012-2016	322,481	611,796	934,277
2017-2021	366,386	539,249	905,635
2022-2026	453,585	452,050	905,635
2027-2031	561,646	343,989	905,635
2032-2036	601,412	213,545	814,957
2037-2041	435,985	95,587	531,572
2042-2043	220,760	19,581	240,341
	<u>\$ 3,660,714</u>	<u>\$ 2,995,292</u>	<u>\$ 6,656,006</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, 2006, the Hospital had \$679,317 in the reserve account. The amount required to be on deposit at June 30, 2006 is \$453,330.

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

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

	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 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
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	<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>	

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 9 – 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, 2006, 2005, and 2004. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$307,893, \$290,419, and \$259,788, respectively, equal to the required contributions for each year.

NOTE 10 – CONTINGENCIES

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.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

NOTE 11 – 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, 2006 AND 2005

NOTE 12 – 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, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	29%	35%
Medicaid	10	12
Commercial insurance	20	17
Other third-party payors and patients	41	36
	<u>100%</u>	<u>100%</u>

VAN BUREN COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 688,802	\$ -	\$ 688,802	\$ 690,386	\$ (1,584)
Estimated other revenues/receipts	<u>10,211,651</u>	<u>(285,322)</u>	<u>9,926,329</u>	<u>10,798,748</u>	<u>(872,419)</u>
	10,900,453	(285,322)	10,615,131	11,489,134	(874,003)
Expenses/disbursements	<u>10,784,476</u>	<u>(147,224)</u>	<u>10,637,252</u>	<u>11,239,753</u>	<u>602,501</u>
Net	115,977	(138,098)	(22,121)	249,381	<u>\$ (271,502)</u>
Balance beginning of year	9,195,233	(5,630,839)	3,564,394	9,668,304	
Capital contributions	<u>22,343</u>	<u>-</u>	<u>22,343</u>	<u>-</u>	
Balance end of year	<u>\$ 9,333,553</u>	<u>\$ (5,768,937)</u>	<u>\$ 3,564,616</u>	<u>\$ 9,917,685</u>	

VAN BUREN COUNTY HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

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. The budget was not amended during the year ended June 30, 2006.



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. Other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the schedule of statistical information on page 37 marked "unaudited," 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
September 7, 2006

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 2,155,820	\$ 2,202,279
Nursery	31,236	23,099
Operating rooms	196,558	196,903
Delivery and labor rooms	37,180	25,685
Central services and supply	490,601	558,896
Emergency service	1,508,928	1,081,507
Laboratory	1,586,652	1,452,040
Electrocardiology	193,898	184,968
Radiology	2,221,669	2,252,218
Pharmacy	1,544,286	1,584,715
Anesthesiology	117,317	100,640
Respiratory therapy	340,416	307,265
Physical therapy	631,855	647,331
Speech therapy	3,236	6,917
Ambulance service	361,255	353,670
Cardiopulmonary rehab	143,800	93,013
Durable medical equipment	20,636	33,787
Home health care	259,296	272,322
Medical staff	577,251	430,178
Rural health clinics:		
Douds	100,549	93,745
Birmingham	73,456	48,636
Cantril	26,647	31,728
Stockport	26,977	30,301
Keosauqua	876,095	670,414
Bonaparte	119,505	85,369
Farmington	175,184	145,697
Total patient service revenue*	<u>\$ 13,820,303</u>	<u>\$ 12,913,323</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 4,784,515	\$ 5,144,629
Outpatient revenue	<u>9,035,788</u>	<u>7,768,694</u>
Total patient service revenue	13,820,303	12,913,323
DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(3,824,413)</u>	<u>(3,440,789)</u>
NET PATIENT SERVICE REVENUE	9,995,890	9,472,534
PROVISION FOR BAD DEBTS	<u>(508,443)</u>	<u>(277,144)</u>
NET PATIENT SERVICE REVENUE (Net of provision for bad debts)	<u>\$ 9,487,447</u>	<u>\$ 9,195,390</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Job opportunities	\$ 145,394	\$ 160,036
Continuous family support system grant	126,871	95,023
Village Terrace	125,030	143,856
Day care center	101,187	124,048
Occupational health	41,067	29,730
Cafeteria	11,728	11,534
Rent	10,833	21,143
Private duty nursing	8,107	6,082
Tobacco-free grant	6,581	15,962
Wellmark Grant - Tobacco Risk Awareness	6,010	18,032
Wellmark Grant - Women	1,218	-
Medical records transcript fees	1,126	1,407
Cardiovascular risk	358	3,792
Wellmark Grant - CORP	-	20,499
HRSA grant	-	8,901
Other	<u>25,062</u>	<u>6,596</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 610,572</u>	 <u>\$ 666,641</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 110,056	\$ 110,708
Supplies and other expenses	<u>5,182</u>	<u>5,633</u>
	<u>115,238</u>	<u>116,341</u>
ROUTINE SERVICES		
Salaries and wages	914,484	911,510
Supplies and other expenses	<u>70,047</u>	<u>67,431</u>
	<u>984,531</u>	<u>978,941</u>
NURSERY		
Salaries and wages	392	807
Supplies and other expenses	<u>281</u>	<u>1,304</u>
	<u>673</u>	<u>2,111</u>
OPERATING ROOMS		
Salaries and wages	41,013	44,036
Supplies and other expenses	<u>7,119</u>	<u>1,404</u>
	<u>48,132</u>	<u>45,440</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	46,174	53,954
Supplies and other expenses	<u>159,981</u>	<u>236,324</u>
	<u>206,155</u>	<u>290,278</u>
EMERGENCY SERVICE		
Salaries and wages	409,973	274,020
Supplies and other expenses	<u>7,131</u>	<u>20,288</u>
	<u>417,104</u>	<u>294,308</u>
LABORATORY		
Salaries and wages	195,205	169,132
Supplies and other expenses	<u>270,678</u>	<u>253,679</u>
	<u>465,883</u>	<u>422,811</u>
ELECTROCARDIOLOGY		
Salaries and wages	<u>14,201</u>	<u>11,516</u>
RADIOLOGY		
Salaries and wages	195,168	169,344
Supplies and other expenses	<u>331,610</u>	<u>364,063</u>
	<u>526,778</u>	<u>533,407</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
PHARMACY		
Salaries and wages	\$ 23,208	\$ 20,586
Supplies and other expenses	<u>300,372</u>	<u>308,743</u>
	<u>323,580</u>	<u>329,329</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>76,504</u>	<u>76,187</u>
RESPIRATORY THERAPY		
Salaries and wages	138,510	133,553
Supplies and other expenses	<u>37,273</u>	<u>12,766</u>
	<u>175,783</u>	<u>146,319</u>
PHYSICAL THERAPY		
Salaries and wages	258,951	255,339
Supplies and other expenses	<u>25,312</u>	<u>25,368</u>
	<u>284,263</u>	<u>280,707</u>
SPEECH THERAPY		
Supplies and other expenses	<u>1,004</u>	<u>1,826</u>
AMBULANCE SERVICE		
Salaries and wages	143,410	141,733
Supplies and other expenses	<u>29,295</u>	<u>29,851</u>
	<u>172,705</u>	<u>171,584</u>
CARDIOPULMONARY REHAB		
Salaries and wages	54,966	56,373
Supplies and other expenses	<u>4,336</u>	<u>4,001</u>
	<u>59,302</u>	<u>60,374</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	3,798	8,541
Supplies and other expenses	<u>3,151</u>	<u>5,576</u>
	<u>6,949</u>	<u>14,117</u>
HOME HEALTH CARE		
Salaries and wages	144,207	145,420
Supplies and other expenses	<u>23,556</u>	<u>25,626</u>
	<u>167,763</u>	<u>171,046</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
MEDICAL STAFF		
Salaries and wages	\$ 404,485	\$ 362,853
Supplies and other expenses	<u>4,557</u>	<u>3,032</u>
	<u>409,042</u>	<u>365,885</u>
RURAL HEALTH CLINIC - DOUDS		
Salaries and wages	53,095	45,037
Supplies and other expenses	<u>21,930</u>	<u>21,085</u>
	<u>75,025</u>	<u>66,122</u>
RURAL HEALTH CLINIC - BIRMINGHAM		
Salaries and wages	44,987	32,494
Supplies and other expenses	<u>15,824</u>	<u>13,586</u>
	<u>60,811</u>	<u>46,080</u>
RURAL HEALTH CLINIC - CANTRIL		
Salaries and wages	28,466	35,776
Supplies and other expenses	<u>16,403</u>	<u>14,103</u>
	<u>44,869</u>	<u>49,879</u>
RURAL HEALTH CLINIC - STOCKPORT		
Salaries and wages	47,922	45,923
Supplies and other expenses	<u>15,879</u>	<u>15,298</u>
	<u>63,801</u>	<u>61,221</u>
RURAL HEALTH CLINIC - KEOSAUQUA		
Salaries and wages	775,569	590,754
Supplies and other expenses	<u>132,475</u>	<u>98,843</u>
	<u>908,044</u>	<u>689,597</u>
RURAL HEALTH CLINIC - BONAPARTE		
Salaries and wages	83,103	72,996
Supplies and other expenses	<u>35,617</u>	<u>33,663</u>
	<u>118,720</u>	<u>106,659</u>
RURAL HEALTH CLINIC - FARMINGTON		
Salaries and wages	107,747	105,491
Supplies and other expenses	<u>35,229</u>	<u>36,667</u>
	<u>142,976</u>	<u>142,158</u>
CONTINUOUS FAMILY SUPPORT SYSTEM		
Salaries and wages	78,685	63,602
Supplies and other expenses	<u>35,118</u>	<u>25,210</u>
	<u>113,803</u>	<u>88,812</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
WELLMARK GRANT - TOBACCO RISK AWARENESS		
Salaries and wages	\$ 6,187	\$ 9,648
Supplies and other expenses	<u>434</u>	<u>2,308</u>
	<u>6,621</u>	<u>11,956</u>
TOBACCO-FREE PROGRAM		
Salaries and wages	4,157	8,842
Supplies and other expenses	<u>611</u>	<u>3,856</u>
	<u>4,768</u>	<u>12,698</u>
DIETARY		
Salaries and wages	113,173	115,027
Supplies and other expenses	<u>88,006</u>	<u>113,129</u>
	<u>201,179</u>	<u>228,156</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	140,815	137,432
Supplies and other expenses	<u>308,206</u>	<u>258,032</u>
	<u>449,021</u>	<u>395,464</u>
HOUSEKEEPING		
Salaries and wages	106,310	120,284
Supplies and other expenses	<u>29,780</u>	<u>34,275</u>
	<u>136,090</u>	<u>154,559</u>
LAUNDRY AND LINEN		
Salaries and wages	28,339	28,704
Supplies and other expenses	<u>6,772</u>	<u>15,415</u>
	<u>35,111</u>	<u>44,119</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	688,143	619,169
Supplies and other expenses	<u>569,648</u>	<u>673,979</u>
	<u>1,257,791</u>	<u>1,293,148</u>
DAY CARE CENTER		
Salaries and wages	118,531	120,571
Supplies and other expenses	<u>41,095</u>	<u>31,645</u>
	<u>159,626</u>	<u>152,216</u>

(continued)

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
FARM HEALTH AND SAFETY		
Salaries and wages	\$ -	\$ 104
Supplies and other expenses	<u>13</u>	<u>347</u>
	<u>13</u>	<u>451</u>
JOB OPPORTUNITIES		
Salaries and wages	113,116	122,793
Supplies and other expenses	<u>16,956</u>	<u>25,534</u>
	<u>130,072</u>	<u>148,327</u>
CARDIOVASCULAR RISK		
Salaries and wages	-	469
Supplies and other expenses	<u>-</u>	<u>100</u>
	<u>-</u>	<u>569</u>
OCCUPATIONAL HEALTH		
Salaries and wages	27,555	20,996
Supplies and other expenses	<u>16,059</u>	<u>11,958</u>
	<u>43,614</u>	<u>32,954</u>
VILLAGE TERRACE		
Salaries and wages	54,945	47,566
Supplies and other expenses	<u>31,476</u>	<u>17,231</u>
	<u>86,421</u>	<u>64,797</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	761,476	783,053
Insurance	191,737	171,759
Employee benefits	<u>1,170,297</u>	<u>1,057,918</u>
	<u>2,123,510</u>	<u>2,012,730</u>
TOTAL OPERATING EXPENSES	<u>\$ 10,617,476</u>	<u>\$ 10,115,199</u>

VAN BUREN COUNTY HOSPITAL
PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,
AND COLLECTION STATISTICS
JUNE 30, 2006 AND 2005

ANALYSIS OF AGING

<u>Days Since Discharge</u>	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
90 days or less	\$ 1,844,216	55.19%	\$ 1,932,666	54.28%
91 to 150 days	214,835	6.43	248,944	6.99
151 to 180 days	414,652	12.41	64,854	1.82
181 days and over	867,725	25.97	1,314,197	36.91
	<u>3,341,428</u>	<u>100.00%</u>	<u>3,560,661</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	235,000		235,000	
Allowance for contractual adjustments	<u>1,000,000</u>		<u>970,000</u>	
Net	<u>\$ 2,106,428</u>		<u>\$ 2,355,661</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
BALANCE, BEGINNING OF YEAR	\$ 235,000	\$ 230,000
Add: Provision for bad debts	508,443	277,144
Recoveries of accounts written off	67,213	45,007
Less: Accounts written off	<u>(575,656)</u>	<u>(317,151)</u>
BALANCE, END OF YEAR	<u>\$ 235,000</u>	<u>\$ 235,000</u>

	<u>2006</u>	<u>2005</u>
COLLECTION STATISTICS		
Net accounts receivable – patients	\$ 2,106,428	\$ 2,355,661
Number of days charges outstanding (1)	82	96
Uncollectible accounts (2)	\$ 566,823	\$ 336,500
Percentage of uncollectible accounts to total charges	4.1%	2.6%

- (1) Based on average daily net patient service revenue for April, May, and June.
(2) Includes provision for bad debts and collection expense.

VAN BUREN COUNTY HOSPITAL
SUPPLIES/PREPAID EXPENSE
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
SUPPLIES		
General supplies	\$ 113,738	\$ 79,069
Pharmacy	85,682	71,329
Dietary	8,894	6,305
Day care	<u>-</u>	<u>1,212</u>
	<u>\$ 208,314</u>	<u>\$ 157,915</u>
 PREPAID EXPENSE		
Insurance	\$ 38,522	\$ 37,451
Dues	6,100	5,995
Maintenance agreements and other	<u>49,409</u>	<u>82,060</u>
	<u>\$ 94,031</u>	<u>\$ 125,506</u>

VAN BUREN COUNTY HOSPITAL
COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES PROVIDED BY THE
HOSPITAL TO THE COMMUNITY
YEAR ENDED JUNE 30, 2006

SERVICE	
Contractual adjustments	\$ 3,824,413
Provision for bad debts (including charity care)	508,443
Day care loss	58,439
Blood pressure screening/free vaccinations	7,663 *
Occupational health	2,547
Hospital facilities for meetings	2,500 *
Adopt-A-Highway	<u>540 *</u>
	<u>\$ 4,404,545</u>

* Represents estimated dollar value of volunteer hours.

VAN BUREN COUNTY HOSPITAL
STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Acute	1,654	1,812
Swing-bed	2,448	3,242
Newborn	92	71
NUMBER OF BEDS	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)	45%	55%
DISCHARGES		
Acute	542	550
Swing-bed	234	277
AVERAGE LENGTH OF STAY		
Acute	3.05	3.29
Swing-bed	10.46	11.70
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private rooms	\$ 520.00	\$ 500.00
2-bed rooms	520.00	500.00
Nursery	343.25	330.00



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, 2006 and 2005, 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 September 7, 2006. 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 audits, 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-06, 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 over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. 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 a certain immaterial instance of non-compliance or other matters that is 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, 2006, 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
September 7, 2006

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006**

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITION:

I-A-06 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-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 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-C-06 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-06 Business Transactions – Business transactions between the Hospital and Hospital officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Connie Johnson, Nurse, spouse of construction worker for Custom Construction	Demolition services	\$ 19,868
Linda Goldstein, Manager of Business Office, spouse of employee of Gold Rush Advertising	Advertising	8,438
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self-employed	Landscaping	8,141
Sandy Bartholomew, Rural Health Clinic Receptionist, spouse of Gary Bartholomew, self-employed	Mowing	400

VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting (continued)

- II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.
- II-G-06 Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” The Hospital did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.