

**FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

**VAN BUREN COUNTY HOSPITAL**

## VAN BUREN COUNTY HOSPITAL

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

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edward Spees	Chairperson	2011
Nancy Nelson	Co-Chairperson	2011
Paul Ovrom	Secretary	2012
Lloyd Foster	Treasurer	2012
Jeanne Erickson	Member	2008
David Sherod	Member	2008
Michael Thomas	Member	2012

Hospital Officials

Lisa Schnedler	Administrator
Kara McEntee	Chief Financial Officer



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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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, 2007 and 2006, 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Van Buren County Hospital as of June 30, 2007 and 2006, 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 November 28, 2007, 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. 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  
November 28, 2007

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**VAN BUREN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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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, 2007. 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 \$252,590 or 1.71%. A large portion of this is due to decreases in estimated third-party payor settlements and accounts receivable.
- There was an increase in investments of \$824,924 for the year.
- Van Buren County Hospital's assets exceeded liabilities by 9,333,844 at June 30, 2007.
- During the year, Van Buren County Hospital's total operating revenues decreased 1.4% to \$9,959,155, while the operating expenses increased 2.0% to \$10,828,334. Van Buren County Hospital had a loss from operations of \$(869,179) which is 8.7% 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, 2007, indicates total assets of \$14,514,954, total liabilities of \$5,181,110 and net assets of \$9,333,844.

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 \$9,959,155 and total operating expenses of \$10,828,334 during fiscal year 2007. The loss from operations was \$(869,179) in 2007, compared to a loss from operations of \$(519,457) in 2006.

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 increased from \$475,317 at July 1, 2006, to \$494,676 at June 30, 2007.

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 \$680,773 below budget and expenses were \$89,914 below budget.

## **Long-Term Debt**

At year-end, Van Buren County Hospital had \$3,342,465 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 on investing in new radiography and fluoro equipment, endoscopy/colonoscopy equipment, and information technology in fiscal years ending 2008 and 2009.

Van Buren County Hospital is also planning to begin a significant building and remodeling project in fiscal year 2010. 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 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 Street  
Keosauqua, IA 52565

**VAN BUREN COUNTY HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 494,676	\$ 475,317
Receivables		
Patient, net of estimated uncollectibles of \$925,000 in 2007 and \$1,235,000 in 2006	1,570,571	2,106,428
Estimated third-party payor settlements	-	418,000
Succeeding year property tax	706,517	690,386
Other	187,369	153,889
Supplies	221,159	208,314
Prepaid expense	101,944	94,031
	<u>3,282,236</u>	<u>4,146,365</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
By board for capital improvements	2,303,465	1,626,000
Under loan agreement	824,891	679,317
By donors for specific purposes	732,780	730,895
By donors for permanent endowment fund	53,087	53,087
	<u>3,914,223</u>	<u>3,089,299</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>6,694,008</u>	<u>6,926,544</u>
<b>OTHER ASSETS</b>		
Beneficial interest in net assets of Arnold Trust - Note 4	617,533	593,597
Notes receivable	6,954	11,739
	<u>624,487</u>	<u>605,336</u>
<b>Total other assets</b>	<u>624,487</u>	<u>605,336</u>
<b>Total assets</b>	<u>\$ 14,514,954</u>	<u>\$ 14,767,544</u>

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 7	\$ 120,638	\$ 194,725
Accounts payable		
Trade	136,846	241,753
Estimated third-party payor settlements	56,000	-
Accrued expenses		
Salaries and wages	378,317	390,962
Vacation	208,150	209,475
Payroll taxes and other	78,265	84,141
Interest	138,692	141,655
Village Terrace security deposits	15,220	14,905
Deferred revenue for succeeding year property tax receivable	<u>706,517</u>	<u>690,386</u>
 Total current liabilities	 <b>1,838,645</b>	 1,968,002
 LONG-TERM DEBT, less current maturities - Note 7	 <u>3,342,465</u>	 <u>3,465,989</u>
 Total liabilities	 <u><b>5,181,110</b></u>	 <u>5,433,991</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,230,905	3,265,830
Restricted - Note 6	783,982	783,982
Unrestricted	<u>5,318,957</u>	<u>5,283,741</u>
 Total net assets	 <u><b>9,333,844</b></u>	 <u>9,333,553</u>
  Total liabilities and net assets	  <u><b>\$ 14,514,954</b></u>	  <u>\$ 14,767,544</u>

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$304,629 in 2007 and \$475,323 in 2006) - Notes 2 and 3	<b>\$ 9,234,815</b>	\$ 9,487,447
Other operating revenues	<b><u>724,340</u></b>	<u>610,572</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>9,959,155</u></b>	<u>10,098,019</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	<b>5,810,369</b>	5,719,046
Supplies and other expenses	<b>4,277,949</b>	4,136,954
Depreciation and amortization	<b><u>740,016</u></b>	<u>761,476</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>10,828,334</u></b>	<u>10,617,476</u>
<b>OPERATING LOSS</b>	<b><u>(869,179)</u></b>	<u>(519,457)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
County tax revenue	<b>690,386</b>	688,802
Noncapital grants and contributions	<b>1,065</b>	11,692
Investment income	<b>218,772</b>	74,765
Interest expense	<b>(155,524)</b>	(167,000)
Gain (loss) on disposal of equipment	<b><u>(7,665)</u></b>	<u>2,150</u>
<b>NET NONOPERATING REVENUES</b>	<b><u>747,034</u></b>	<u>610,409</u>
<b>REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF ARNOLD TRUST</b>	<b>(122,145)</b>	90,952
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital contributions	<b>98,500</b>	22,343
Change in beneficial interest in net assets of Arnold Trust	<b><u>23,936</u></b>	<u>25,025</u>
<b>INCREASE IN NET ASSETS</b>	<b>291</b>	138,320
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>9,333,553</u></b>	<u>9,195,233</u>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 9,333,844</u></b>	<u>\$ 9,333,553</u>

See notes to financial statements.

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 10,249,457	\$ 9,197,680
Payments of salaries and wages	(5,824,339)	(5,833,019)
Payments of supplies and other expenses	(4,409,175)	(4,141,051)
Other receipts and payments, net	<u>690,860</u>	<u>614,100</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u><b>706,803</b></u>	<u>(162,290)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax revenue received	<u>690,386</u>	688,802
Noncapital grants and contributions received	<u>1,065</u>	<u>11,692</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>691,451</b></u>	<u>700,494</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(516,709)	(295,858)
Capital contributions received	98,500	22,343
Payment of principal on debt	(197,611)	(175,600)
Payment of interest on debt	(158,487)	(169,381)
Proceeds from sale of equipment	<u>1,564</u>	<u>5,749</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(772,743)</b></u>	<u>(612,747)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in assets limited as to use or restricted	(824,924)	(210,014)
Investment income received	<u>218,772</u>	<u>74,765</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u><b>(606,152)</b></u>	<u>(135,249)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>19,359</b>	(209,792)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>475,317</b></u>	<u>685,109</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 494,676</b></u>	<u>\$ 475,317</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating loss	\$ (869,179)	\$ (519,457)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation and amortization	740,016	761,476
Provision for bad debts	304,629	475,323
Changes in assets and liabilities		
Receivables	202,533	(223,562)
Supplies	(12,845)	(50,399)
Prepaid expense	(7,913)	31,475
Accounts payable	(104,907)	10,855
Estimated third-party payor settlements	474,000	(538,000)
Village Terrace security deposits	315	(345)
Accrued expenses	<u>(19,846)</u>	<u>(109,656)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 706,803</u>	<u>\$ (162,290)</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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**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).

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

*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, 2007 AND 2006**

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*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.

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 original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

*Patient Receivables*

Patient receivables are uncollateralized patient 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. Management also reviews accounts to determine if classification as charity care is appropriate.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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*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.

*Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date 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. 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.

*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 or restricted include assets which have been internally designated by the Hospital Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

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. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in nonoperating revenues to the extent expended within the period.

*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 class of 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

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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*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, 2007.

*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.

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$35,566 and \$29,298 for advertising costs for the years ended June 30, 2007 and 2006, respectively.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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*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 items from the 2006 financial statements have been reclassified to conform to the current year presentation.

*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, 2007 and 2006, were \$92,947 and \$33,120, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years ended June 30, 2007 and 2006, were \$57,761 and \$20,582, respectively.

**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 year ended June 30, 2005. 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.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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**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.

**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.

Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2007, and 43% and 5%, respectively, of the Hospital's net patient service revenue, for the year ended June 30, 2006.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Total patient service revenue	<u>\$ 13,378,490</u>	<u>\$ 13,787,183</u>
Contractual adjustments		
Medicare	(2,506,312)	(2,438,623)
Medicaid	(538,758)	(627,313)
Other	<u>(793,976)</u>	<u>(758,477)</u>
Total contractual adjustments	<u>(3,839,046)</u>	<u>(3,824,413)</u>
Net patient service revenue	<u>9,539,444</u>	9,962,770
Provision for bad debts	<u>(304,629)</u>	<u>(475,323)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,234,815</u>	<u>\$ 9,487,447</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 4 – CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2007 and 2006, 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.

Investments are stated at fair value.

	<u>2007</u>	<u>2006</u>
By the board for capital improvements		
Money market accounts	\$ 1,571,175	\$ 927,022
Certificates of deposit	477,260	443,058
U.S. Treasury	49,930	49,930
Accrued interest receivable	5,617	6,507
Agency bonds	<u>199,483</u>	<u>199,483</u>
	<u>\$ 2,303,465</u>	<u>\$ 1,626,000</u>
Under loan agreement		
Money market accounts	\$ 520,311	\$ 389,569
Certificates of deposit	<u>304,580</u>	<u>289,748</u>
	<u>\$ 824,891</u>	<u>\$ 679,317</u>
By donors for specific purposes		
Money market accounts	\$ 175,652	\$ 175,652
Certificates of deposit	43,878	41,993
Beneficial interest in net assets of Arnold Trust	<u>513,250</u>	<u>513,250</u>
	<u>\$ 732,780</u>	<u>\$ 730,895</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>\$ 617,533</u>	<u>\$ 593,597</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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.

**NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment activity for the years ended June 30, 2007 and 2006, was as follows:

	June 30, 2006				June 30, 2007
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 179,229	\$ -	\$ 2,000	\$ -	\$ 177,229
Land improvements	91,618	17,345	-	-	108,963
Buildings and improvements	9,019,875	375,282	23,359	69,890	9,441,688
Construction in progress	69,890	23,012	-	(69,890)	23,012
Equipment	<u>4,869,824</u>	<u>101,467</u>	<u>-</u>	<u>-</u>	<u>4,971,291</u>
	<u>14,230,436</u>	<u>\$ 517,106</u>	<u>\$ 25,359</u>	<u>\$ -</u>	<u>14,722,183</u>
Accumulated depreciation					
Land improvements	71,140	\$ 3,264	\$ -	\$ -	74,404
Buildings and improvements	3,308,541	400,066	15,733	-	3,692,874
Equipment	<u>3,924,211</u>	<u>336,686</u>	<u>-</u>	<u>-</u>	<u>4,260,897</u>
	<u>7,303,892</u>	<u>\$ 740,016</u>	<u>\$ 15,733</u>	<u>\$ -</u>	<u>8,028,175</u>
Total land, buildings, and equipment, net	<u>\$ 6,926,544</u>				<u>\$ 6,694,008</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	June 30, 2005				June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
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	<u>4,831,905</u>	<u>68,293</u>	<u>30,374</u>	<u>-</u>	<u>4,869,824</u>
	<u>13,964,952</u>	<u>\$ 328,968</u>	<u>\$ 63,484</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	<u>3,594,366</u>	<u>356,619</u>	<u>26,774</u>	<u>-</u>	<u>3,924,211</u>
	<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>

At June 30, 2007, construction in progress represents costs for remodeling the Cantril Clinic. The project is expected to be completed in the spring of 2008 at an estimated total cost of \$330,000. The project will be financed through a \$100,000 USDA grant and the Hospital's cash reserves.

**NOTE 6 – RESTRICTED NET ASSETS**

Restricted net assets consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Leffler Fund	\$ 25,000	\$ 25,000
Israel Fund	30,954	30,954
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>\$ 783,982</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, 2007 and 2006, there were no expenditures from the fund.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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.

	June 30	
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 21,369	\$ 97,037
Certificate of deposit	85,000	100,000
Marketable equity securities	<u>1,024,414</u>	<u>909,810</u>
Total assets	<u>\$ 1,130,783</u>	<u>\$ 1,106,847</u>
Net assets		
Unrestricted	\$ 617,533	\$ 593,597
Restricted	<u>513,250</u>	<u>513,250</u>
Total net assets	<u>\$ 1,130,783</u>	<u>\$ 1,106,847</u>
Interest and dividend income	\$ 33,033	\$ 27,068
Realized gains	56,401	56,388
Unrealized gains	52,760	(28,776)
Investment fees	(5,125)	(5,125)
Distributions to the Hospital	<u>(113,133)</u>	<u>(24,530)</u>
Change in beneficial interest in net assets of Arnold Trust	23,936	25,025
Net assets, beginning of year	<u>1,106,847</u>	<u>1,081,822</u>
Net assets, end of year	<u>\$ 1,130,783</u>	<u>\$ 1,106,847</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 7 – LONG-TERM DEBT**

A schedule of changes in the Hospital's long-term debt for 2007 follows:

	<u>June 30,</u> <u>2006</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2007</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	\$ 1,102,241	\$ -	\$ 19,632	<b>\$ 1,082,609</b>	\$ 17,461
Hospital revenue note, Series 1997A, 4.80% adjustable rate, due in annual payments of \$80,181 through February 2007	76,550	-	76,550	-	-
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	222,868	-	3,872	<b>218,996</b>	4,079
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	-	16,515	<b>1,483,485</b>	17,217
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	-	6,741	<b>343,259</b>	7,027
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	65,611	-	7,203	<b>58,408</b>	7,505
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	340,638	-	64,292	<b>276,346</b>	67,349

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	June 30, 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<b>June 30, 2007 Balance</b>	Amounts Due Within One Year
Capitalized lease obligations	\$ 2,806	\$ -	\$ 2,806	\$ -	\$ -
	<u>\$ 3,660,714</u>	<u>\$ -</u>	<u>\$ 197,611</u>	<b><u>3,463,103</u></b>	<u>\$ 120,638</u>
Less current maturities				<b><u>(120,638)</u></b>	
Long-term debt, less current maturities				<b><u>\$ 3,342,465</u></b>	

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 120,638	\$ 149,408	\$ 270,046
2009	126,182	143,865	270,047
2010	132,013	138,033	270,046
2011	124,902	131,989	256,891
2012	63,149	127,966	191,115
2013-2017	327,015	597,810	924,825
2018-2022	382,380	523,255	905,635
2023-2027	473,381	432,254	905,635
2028-2032	586,907	319,448	906,355
2033-2037	589,161	187,664	776,825
2038-2042	387,498	77,201	464,699
2043	<u>149,877</u>	<u>10,199</u>	<u>160,076</u>
	<u>\$ 3,463,103</u>	<u>\$ 2,839,092</u>	<u>\$ 6,302,195</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, 2007, the Hospital had \$824,891 in the reserve account. The amount required to be on deposit at June 30, 2007 is \$582,592.

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

	June 30, 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2006 <u>Balance</u>	Amounts Due Within One Year
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

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	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>
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
Capitalized lease obligations	<u>18,969</u>	<u>-</u>	<u>16,163</u>	<u>2,806</u>	<u>2,806</u>
	<u>\$ 3,836,314</u>	<u>\$ -</u>	<u>\$ 175,600</u>	3,660,714	<u>\$ 194,725</u>
Less current maturities				<u>(194,725)</u>	
Long-term debt, less current maturities				<u>\$ 3,465,989</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.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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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, 2007, 2006, and 2005. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$327,762, \$307,893, and \$290,743, respectively, equal to the required contributions for each year.

**NOTE 9 – 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 the 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 regulatory actions unknown or unasserted at this time.

**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, 2007 AND 2006**

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**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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	<b>23%</b>	29%
Medicaid	<b>9</b>	10
Commercial insurance	<b>21</b>	20
Other third-party payors and patients	<u><b>47</b></u>	<u>41</u>
	<u><b>100%</b></u>	<u>100%</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**VAN BUREN COUNTY HOSPITAL**

**VAN BUREN COUNTY HOSPITAL**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)**  
**YEAR ENDED JUNE 30, 2007**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 690,386	\$ -	\$ 690,386	\$ 690,386	\$ -
Estimated other revenues/receipts	<u>10,301,428</u>	<u>958,790</u>	<u>11,260,218</u>	<u>10,579,445</u>	<u>680,773</u>
	10,991,814	958,790	11,950,604	11,269,831	680,773
Expenses/disbursements	<u>10,991,523</u>	<u>114,798</u>	<u>11,106,321</u>	<u>11,196,235</u>	<u>89,914</u>
Net	291	843,992	844,283	73,596	<u>\$ 770,687</u>
Balance beginning of year	<u>9,333,553</u>	<u>(5,768,937)</u>	<u>3,564,616</u>	<u>9,417,014</u>	
Balance end of year	<u>\$ 9,333,844</u>	<u>\$ (4,924,945)</u>	<u>\$ 4,408,899</u>	<u>\$ 9,490,610</u>	

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2007**

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**NOTE 1 – BUDGETARY COMPARISON**

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, 2007.

For the year ended June 30, 2007, the Hospital's expenditures did not exceed the amount budgeted.

**VAN BUREN COUNTY HOSPITAL**



CPAs & BUSINESS ADVISORS

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

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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, except for the Schedule of Statistical Information on page 38 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  
November 28, 2007

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**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine services	\$ 2,156,500	\$ 2,155,820
Nursery	34,548	31,236
Operating rooms	179,425	196,558
Delivery and labor rooms	46,194	37,180
Central services and supply	442,274	490,601
Emergency service	1,365,943	1,508,928
Laboratory	1,639,499	1,586,652
Electrocardiology	188,204	193,898
Radiology	2,057,822	2,221,669
Pharmacy	1,533,601	1,544,286
Anesthesiology	109,765	117,317
Respiratory therapy	308,234	340,416
Physical therapy	587,253	631,855
Speech therapy	10,733	3,236
Ambulance service	403,187	361,255
Cardiopulmonary rehab	129,230	143,800
Durable medical equipment	47,442	20,636
Home health care	212,038	259,296
Medical staff	585,726	577,251
Rural health clinics:		
Douds	78,648	100,549
Birmingham	128,080	73,456
Cantril	27,719	26,647
Stockport	9,781	26,977
Keosauqua	911,457	876,095
Bonaparte	113,314	119,505
Farmington	164,820	175,184
	<u>13,471,437</u>	<u>13,820,303</u>
Charity care	<u>(92,947)</u>	<u>(33,120)</u>
 Total patient service revenue*	 <u>\$ 13,378,490</u>	 <u>\$ 13,787,183</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 4,693,266	\$ 4,784,515
Outpatient revenue	8,778,171	9,035,788
Charity care	<u>(92,947)</u>	<u>(33,120)</u>
Total patient service revenue	<b>13,378,490</b>	13,787,183
 DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(3,839,046)</u>	<u>(3,824,413)</u>
 NET PATIENT SERVICE REVENUE	<b>9,539,444</b>	9,962,770
PROVISION FOR BAD DEBTS	<u>(304,629)</u>	<u>(475,323)</u>
 NET PATIENT SERVICE REVENUE (Net of provision for bad debts)	<u><b>\$ 9,234,815</b></u>	<u>\$ 9,487,447</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Village Terrace	\$ 199,293	\$ 125,030
Continuous family support system grant	166,737	126,871
Job opportunities	111,719	145,394
Day care center	97,374	101,187
Occupational health	51,277	41,067
Diabetic grant	27,695	-
Tobacco-free grant	19,202	6,581
Rent	12,832	10,833
Cafeteria	11,312	11,728
Private duty nursing	3,519	8,107
Medical records transcript fees	1,721	1,126
Wellmark Grant - Tobacco Risk Awareness	-	6,010
Wellmark Grant - Women	-	1,218
Cardiovascular risk	-	358
Other	<u>21,659</u>	<u>25,062</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 724,340</u>	 <u>\$ 610,572</u>

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 113,151	\$ 110,056
Supplies and other expenses	<u>5,358</u>	<u>5,182</u>
	<u>118,509</u>	<u>115,238</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	921,942	914,484
Supplies and other expenses	<u>69,525</u>	<u>70,047</u>
	<u>991,467</u>	<u>984,531</u>
<b>NURSERY</b>		
Salaries and wages	627	392
Supplies and other expenses	<u>245</u>	<u>281</u>
	<u>872</u>	<u>673</u>
<b>OPERATING ROOMS</b>		
Salaries and wages	39,462	41,013
Supplies and other expenses	<u>14,053</u>	<u>7,119</u>
	<u>53,515</u>	<u>48,132</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	36,553	46,174
Supplies and other expenses	<u>141,625</u>	<u>159,981</u>
	<u>178,178</u>	<u>206,155</u>
<b>EMERGENCY SERVICE</b>		
Salaries and wages	396,420	409,973
Supplies and other expenses	<u>46,202</u>	<u>7,131</u>
	<u>442,622</u>	<u>417,104</u>
<b>LABORATORY</b>		
Salaries and wages	185,582	195,205
Supplies and other expenses	<u>318,710</u>	<u>270,678</u>
	<u>504,292</u>	<u>465,883</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	<u>13,710</u>	<u>14,201</u>
<b>RADIOLOGY</b>		
Salaries and wages	208,065	195,168
Supplies and other expenses	<u>314,890</u>	<u>331,610</u>
	<u>522,955</u>	<u>526,778</u>

(continued)

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PHARMACY</b>		
Salaries and wages	\$ 21,655	\$ 23,208
Supplies and other expenses	<u>277,925</u>	<u>300,372</u>
	<u>299,580</u>	<u>323,580</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>76,058</u>	<u>76,504</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	137,833	138,510
Supplies and other expenses	<u>58,827</u>	<u>37,273</u>
	<u>196,660</u>	<u>175,783</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	246,128	258,951
Supplies and other expenses	<u>17,626</u>	<u>25,312</u>
	<u>263,754</u>	<u>284,263</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>4,334</u>	<u>1,004</u>
<b>AMBULANCE SERVICE</b>		
Salaries and wages	154,270	143,410
Supplies and other expenses	<u>49,446</u>	<u>29,295</u>
	<u>203,716</u>	<u>172,705</u>
<b>CARDIOPULMONARY REHAB</b>		
Salaries and wages	52,924	54,966
Supplies and other expenses	<u>1,047</u>	<u>4,336</u>
	<u>53,971</u>	<u>59,302</u>
<b>DERMATOLOGY</b>		
Salaries and wages	<u>122</u>	<u>-</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	6,198	3,798
Supplies and other expenses	<u>15,849</u>	<u>3,151</u>
	<u>22,047</u>	<u>6,949</u>
<b>HOME HEALTH CARE</b>		
Salaries and wages	130,186	144,207
Supplies and other expenses	<u>14,891</u>	<u>23,556</u>
	<u>145,077</u>	<u>167,763</u>

(continued)

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>MEDICAL STAFF</b>		
Salaries and wages	\$ 291,300	\$ 404,485
Supplies and other expenses	<u>5,994</u>	<u>4,557</u>
	<u>297,294</u>	<u>409,042</u>
<b>RURAL HEALTH CLINIC - DOUDS</b>		
Salaries and wages	<u>64,038</u>	53,095
Supplies and other expenses	<u>29,761</u>	<u>21,930</u>
	<u>93,799</u>	<u>75,025</u>
<b>RURAL HEALTH CLINIC - BIRMINGHAM</b>		
Salaries and wages	<u>86,544</u>	44,987
Supplies and other expenses	<u>32,244</u>	<u>15,824</u>
	<u>118,788</u>	<u>60,811</u>
<b>RURAL HEALTH CLINIC - CANTRIL</b>		
Salaries and wages	<u>34,332</u>	28,466
Supplies and other expenses	<u>21,148</u>	<u>16,403</u>
	<u>55,480</u>	<u>44,869</u>
<b>RURAL HEALTH CLINIC - STOCKPORT</b>		
Salaries and wages	<u>14,547</u>	47,922
Supplies and other expenses	<u>11,651</u>	<u>15,879</u>
	<u>26,198</u>	<u>63,801</u>
<b>RURAL HEALTH CLINIC - KEOSAUQUA</b>		
Salaries and wages	<u>893,003</u>	775,569
Supplies and other expenses	<u>147,693</u>	<u>132,475</u>
	<u>1,040,696</u>	<u>908,044</u>
<b>RURAL HEALTH CLINIC - BONAPARTE</b>		
Salaries and wages	<u>90,069</u>	83,103
Supplies and other expenses	<u>41,152</u>	<u>35,617</u>
	<u>131,221</u>	<u>118,720</u>
<b>RURAL HEALTH CLINIC - FARMINGTON</b>		
Salaries and wages	<u>147,259</u>	107,747
Supplies and other expenses	<u>28,036</u>	<u>35,229</u>
	<u>175,295</u>	<u>142,976</u>
<b>CONTINUOUS FAMILY SUPPORT SYSTEM</b>		
Salaries and wages	<u>107,165</u>	78,685
Supplies and other expenses	<u>41,863</u>	<u>35,118</u>
	<u>149,028</u>	<u>113,803</u>

(continued)

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>WELLMARK GRANT - WOMEN</b>		
Supplies and other expenses	\$ <b>39</b>	\$ -
<b>WELLMARK GRANT - TOBACCO RISK AWARENESS</b>		
Salaries and wages	-	6,187
Supplies and other expenses	-	434
	<u>-</u>	<u>6,621</u>
<b>TOBACCO-FREE PROGRAM</b>		
Salaries and wages	<b>10,930</b>	4,157
Supplies and other expenses	<b>1,242</b>	611
	<u>12,172</u>	<u>4,768</u>
<b>DIETARY</b>		
Salaries and wages	<b>113,208</b>	113,173
Supplies and other expenses	<b>91,142</b>	88,006
	<u>204,350</u>	<u>201,179</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	<b>156,812</b>	140,815
Supplies and other expenses	<b>316,517</b>	308,206
	<u>473,329</u>	<u>449,021</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	<b>105,675</b>	106,310
Supplies and other expenses	<b>28,651</b>	29,780
	<u>134,326</u>	<u>136,090</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	<b>27,897</b>	28,339
Supplies and other expenses	<b>11,950</b>	6,772
	<u>39,847</u>	<u>35,111</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	<b>715,897</b>	688,143
Supplies and other expenses	<b>555,463</b>	569,648
	<u>1,271,360</u>	<u>1,257,791</u>
<b>DAY CARE CENTER</b>		
Salaries and wages	<b>111,645</b>	118,531
Supplies and other expenses	<b>20,102</b>	41,095
	<u>131,747</u>	<u>159,626</u>

(continued)

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>FARM HEALTH AND SAFETY</b>		
Supplies and other expenses	\$ -	\$ 13
<b>JOB OPPORTUNITIES</b>		
Salaries and wages	<b>82,503</b>	113,116
Supplies and other expenses	<b>11,140</b>	16,956
	<u><b>93,643</b></u>	<u>130,072</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries and wages	<b>31,002</b>	27,555
Supplies and other expenses	<b>19,556</b>	16,059
	<u><b>50,558</b></u>	<u>43,614</u>
<b>VILLAGE TERRACE</b>		
Salaries and wages	<b>61,715</b>	54,945
Supplies and other expenses	<b>30,175</b>	31,476
	<u><b>91,890</b></u>	<u>86,421</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation and amortization	<b>740,016</b>	761,476
Insurance	<b>201,106</b>	191,737
Employee benefits	<b>1,204,713</b>	1,170,297
	<u><b>2,145,835</b></u>	<u>2,123,510</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>\$ 10,828,334</b></u>	<u>\$ 10,617,476</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL**  
**ACCOUNTS, AND COLLECTION STATISTICS**  
**JUNE 30, 2007 AND 2006**

**ANALYSIS OF AGING**

<u>Days Since Discharge</u>	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
90 days or less	\$ 1,330,795	53.32%	\$ 1,844,216	55.19%
91 to 150 days	156,193	6.26	214,835	6.43
151 to 180 days	277,003	11.10	414,652	12.41
181 days and over	731,647	29.32	867,725	25.97
	<u>2,495,638</u>	<u>100.00%</u>	<u>3,341,428</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	220,728		235,000	
Allowance for contractual adjustments	704,339		1,000,000	
Net	<u>\$ 1,570,571</u>		<u>\$ 2,106,428</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	\$ 235,000	\$ 235,000
Add: Provision for bad debts	304,629	475,323
Recoveries of accounts written off	140,783	67,213
Less: Accounts written off	<u>(459,684)</u>	<u>(542,536)</u>
BALANCE, END OF YEAR	<u>\$ 220,728</u>	<u>\$ 235,000</u>

	<u>2007</u>	<u>2006</u>
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients	\$ 1,570,571	\$ 2,106,428
Number of days charges outstanding (1)	68	82
Uncollectible accounts (2)	\$ 348,610	\$ 533,703
Percentage of uncollectible accounts to total charges	2.6%	3.9%

- (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**  
**SCHEDULES OF SUPPLIES/PREPAID EXPENSE**  
**JUNE 30, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
<b>SUPPLIES</b>		
General supplies	\$ 122,981	\$ 113,738
Pharmacy	71,706	85,682
Office	17,720	-
Dietary	<u>8,752</u>	<u>8,894</u>
	<u>\$ 221,159</u>	<u>\$ 208,314</u>
<b>PREPAID EXPENSE</b>		
Insurance	\$ 40,581	\$ 38,522
Dues	6,195	6,100
Maintenance agreements and other	<u>55,168</u>	<u>49,409</u>
	<u>\$ 101,944</u>	<u>\$ 94,031</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULE OF COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES**  
**PROVIDED BY THE HOSPITAL TO THE COMMUNITY**  
**YEAR ENDED JUNE 30, 2007**

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SERVICE	
Provision for bad debts	\$ 304,629
Charity care	92,947
Day care loss	34,373
Parents as teachers in kind	21,000
CPR and AED training	4,000
Outside advocacy boards and councils	3,750
Hospital facilities for meetings	3,200
Blood pressure screening/free vaccinations	2,500
Tobacco free in kind	1,920
First aid classes for volunteer groups	1,000
Ambulance in community	1,000
Adopt-A-Highway	760
Presentations/booths/fairs	<u>1,350</u>
	<u>\$ 472,429</u>

Van Buren County Hospital also had \$3,839,046 in adjustments to revenue based on third party payor agreements.

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PATIENT DAYS</b>		
Acute	<b>1,599</b>	1,654
Swing-bed	<b>2,995</b>	2,448
Newborn	<b>96</b>	92
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENTAGE OF OCCUPANCY (excluding newborn)</b>	<b>50%</b>	45%
<b>DISCHARGES</b>		
Acute	<b>517</b>	542
Swing-bed	<b>228</b>	234
<b>AVERAGE LENGTH OF STAY</b>		
Acute	<b>3.09</b>	3.05
Swing-bed	<b>13.14</b>	10.46
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Private rooms	<b>\$ 600.00</b>	\$ 520.00
Nursery	<b>360.00</b>	343.25



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**

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The Board of Trustees  
Van Buren County Hospital  
Keosauqua, Iowa

We have audited the accompanying balance sheets of Van Buren County Hospital (Hospital) as of June 30, 2007 and 2006, 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 November 28, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the Hospital 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings. 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.

Van Buren County Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit Van Buren County Hospital's responses, and accordingly, we express no opinion on them.

We also noted an additional matter that we reported to management in a separate letter dated November 28, 2007.

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  
November 28, 2007

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2007**

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**Part I: Findings Related to the Financial Statements**

**SIGNIFICANT DEFICIENCIES:**

I-A-07      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 – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07      Preparation of Financial Statements – As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements in accordance with generally accepted accounting principles.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, the Hospital's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

**VAN BUREN COUNTY HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007**

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**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-07      Certified Budget – Hospital disbursements during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07      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-07      Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-07      Business Transactions – Business transactions between the Hospital and Hospital officials are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Connie Johnson, Nurse, spouse of construction worker for Custom Construction	Demolition services	\$ 27,934
Linda Goldstein, Manager of Business Office, spouse of employee of Gold Rush Advertising	Advertising	8,782
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self-employed	Landscaping	12,365
Sandy Bartholomew, Rural Health Clinic Receptionist, spouse of Gary Bartholomew, self-employed	Mowing	300
Barbie Winslow, Rural Health Clinic CMA, spouse of Mike Winslow, self-employed	Mowing	4,080
Kasha Kite, Transcriptionist/Insurance Clerk, spouse of Brad Kite, owner Brad Kite Construction	Construction	6,885

- II-E-07      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07      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-07      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 published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.



CPAs & BUSINESS ADVISORS

The Board of Trustees  
Van Buren County Hospital  
Keosauqua, Iowa

We have audited the financial statements of Van Buren County Hospital (Hospital) for the year ended June 30, 2007, and have issued our report thereon dated November 28, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated May 11, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Hospital. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Van Buren County Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the Hospital during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors.

Management’s estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

**Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Hospital’s financial reporting process (that is, cause future financial statements to be materially misstated). All of the adjustments we proposed were posted by the Hospital.

We discussed all adjustments to the financial statements with the Hospital’s staff during the audit. The following adjustments were made during the fiscal year 2007 audit:

Increase in net assets prior to audit adjustments	\$	1,175
To adjust estimated third-party payor settlements		(93,469)
To adjust the Arnold Trust to fair market value		62,780
To adjust health insurance withholdings		11,976
To accrue additional accounts payable		(12,191)
Other adjustments		<u>30,020</u>
 Increase in net assets as reported	\$	<u>291</u>

There were no significant passed adjustments.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Hospital’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

**Other Comment**

We have included an additional comment regarding the Hospital’s operations.

This information is intended solely for the use of the officials, employees, and constituents of Van Buren County Hospital and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Van Buren County Hospital.

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

Dubuque, Iowa  
November 28, 2007

xc: Ms. Lisa Schnedler

# VAN BUREN COUNTY HOSPITAL

YEAR ENDED JUNE 30, 2007

OTHER COMMENT

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## **Risk Assessment Audit Standards**

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have an impact on the Hospital's audit.