

FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

AFFILIATED WITH UNIVERSITY OF IOWA HOSPITALS & CLINICS



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>
Nancy Nelson	Chairperson	December 31, 2010
Michael Thomas	Vice Chairperson	December 31, 2012
Lloyd Foster	Secretary	December 31, 2012
George Manning	Treasurer	December 31, 2012
Jeanne Erickson	Member	December 31, 2008
David Sherod	Member	December 31, 2008
Edward Spees	Member	December 31, 2010

Hospital Officials

Lisa Schnedler	Administrator
Kara McEntee	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, 2008 and 2007, 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, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, 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 audits.

Management's Discussion and Analysis on pages 3 and 4 and the Budgetary Comparison Information on pages 23 and 24 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
October 22, 2008

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**VAN BUREN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

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, 2008. 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 increased by \$681,409 or 4.70%. A large portion of this is due to an increase in estimated third-party payor settlements, and an increase in Accounts Receivable.
- There was an increase in investments of \$329,472 for the year.
- Cash flow decreased by \$494,676 due to operating activities through the increase of accounts receivable and the maximization of investment income.
- Van Buren County Hospital's assets exceeded liabilities by \$9,666,300 at June 30, 2008.
- During the year, Van Buren County Hospital's total operating revenues decreased 10.30% to \$10,984,938, while the operating expenses increased 5.90% to \$11,467,049. Van Buren County Hospital had a loss from operations of \$(482,111) which is 4.39% 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, 2008, indicates total liabilities of \$5,530,063 and net assets of \$9,666,300.

The statements of revenues, expenses, and changes in net assets provides information on the Hospital's revenues and expenses. This statement indicates total operating revenues of \$10,984,938 and total operating expenses of \$11,467,047 during fiscal year 2008. The loss from operations was \$(482,111) in 2008, compared to a loss from operations of \$(869,179) in 2007.

The statements 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 \$494,676 at July 1, 2007, to \$0 at June 30, 2008. This is due primarily to the increase in accounts receivable and investments. VBCH also strives to ensure all excess cash is put into the investment reserve money market account to maximize investment income.

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 operating budget on a cash basis. Revenue was \$6,822 below budget and operating expenses were \$158,464 above budget. The expenses did exceed the county budget expenses as indicated specifically in the audit report. The decrease in net assets for the year was \$165,204 below budget.

Long-Term Debt

At year-end, Van Buren County Hospital had \$3,366,514 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 a significant building and remodeling project in fiscal year 2009 and 2010. The project will involve new construction of a dietary and cafeteria department as well as a remodel of the Keosauqua Clinic. New services included in this expansion include an infusion center and a resistance pool for rehabilitation.

Van Buren County Hospital is also reviewing options for a healthcare information technology system in fiscal year ending 2009 and 2010.

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ -	\$ 494,676
Receivables		
Patient, net of estimated uncollectibles		
of \$1,104,000 in 2008 and \$925,000 in 2007	1,874,025	1,570,571
Estimated third-party payor settlements	330,000	-
Succeeding year property tax	719,208	706,517
Other	298,657	187,369
Supplies	240,570	221,159
Prepaid expense	141,340	101,944
	<u>3,603,800</u>	<u>3,282,236</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board for capital improvements	2,727,455	2,303,465
Under loan agreement	728,715	824,891
By donors for specific purposes	734,438	732,780
By donors for permanent endowment fund	53,087	53,087
	<u>4,243,695</u>	<u>3,914,223</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>6,835,171</u>	<u>6,694,008</u>
OTHER ASSETS		
Beneficial interest in net assets of Arnold Trust - Note 4	502,013	617,533
Notes receivable	11,684	6,954
	<u>513,697</u>	<u>624,487</u>
Total other assets	<u>513,697</u>	<u>624,487</u>
Total assets	<u>\$ 15,196,363</u>	<u>\$ 14,514,954</u>

See notes to financial statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Excess of outstanding checks over bank balance	\$ 44,167	\$ -
Current maturities of long-term debt - Note 7	163,383	120,638
Accounts payable		
Trade	344,620	136,846
Estimated third-party payor settlements	-	56,000
Accrued expenses		
Salaries and wages	374,834	378,317
Vacation	246,290	208,150
Payroll taxes and other	121,956	78,265
Interest	136,451	138,692
Village Terrace security deposits	12,640	15,220
Deferred revenue for succeeding year property tax receivable	<u>719,208</u>	<u>706,517</u>
 Total current liabilities	 2,163,549	 1,838,645
 LONG-TERM DEBT, less current maturities - Note 7	 <u>3,366,514</u>	 <u>3,342,465</u>
 Total liabilities	 <u>5,530,063</u>	 <u>5,181,110</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,305,274	3,230,905
Restricted - Note 6	783,982	783,982
Unrestricted	<u>5,577,044</u>	<u>5,318,957</u>
 Total net assets	 <u>9,666,300</u>	 <u>9,333,844</u>
 Total liabilities and net assets	 <u>\$ 15,196,363</u>	 <u>\$ 14,514,954</u>

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$327,251 in 2008 and \$304,629 in 2007) - Notes 2 and 3	\$ 10,114,746	\$ 9,234,815
Other operating revenues	870,192	724,340
TOTAL OPERATING REVENUES	<u>10,984,938</u>	<u>9,959,155</u>
OPERATING EXPENSES		
Salaries and wages	6,024,134	5,810,369
Supplies and other expenses	4,673,746	4,277,949
Depreciation and amortization	769,169	740,016
TOTAL OPERATING EXPENSES	<u>11,467,049</u>	<u>10,828,334</u>
OPERATING LOSS	<u>(482,111)</u>	<u>(869,179)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	706,599	690,386
Noncapital grants and contributions	533	1,065
Investment income	187,253	218,772
Interest expense	(152,503)	(155,524)
Loss on disposal of equipment	(2,295)	(7,665)
NET NONOPERATING REVENUES	<u>739,587</u>	<u>747,034</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF ARNOLD TRUST	257,476	(122,145)
OTHER CHANGES IN NET ASSETS		
Capital grants and contributions	190,500	98,500
Change in beneficial interest in net assets of Arnold Trust	(115,520)	23,936
INCREASE IN NET ASSETS	332,456	291
NET ASSETS, BEGINNING OF YEAR	<u>9,333,844</u>	<u>9,333,553</u>
NET ASSETS, END OF YEAR	<u>\$ 9,666,300</u>	<u>\$ 9,333,844</u>

See notes to financial statements.

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 9,420,562	\$ 10,249,457
Payments of salaries and wages	(5,989,477)	(5,824,339)
Payments of supplies and other expenses	(4,439,501)	(4,409,175)
Other receipts and payments, net	<u>758,904</u>	<u>690,860</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(249,512)</u>	<u>706,803</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	<u>706,599</u>	690,386
Noncapital grants and contributions received	<u>533</u>	<u>1,065</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>707,132</u>	<u>691,451</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(916,227)	(516,709)
Capital grants and contributions received	190,500	98,500
Payment of principal on debt	(133,206)	(197,611)
Payment of interest on debt	(154,744)	(158,487)
Proceeds from issuance of long-term debt	200,000	-
Proceeds from sale of equipment	<u>3,600</u>	<u>1,564</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(810,077)</u>	<u>(772,743)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in assets limited as to use or restricted	(329,472)	(824,924)
Investment income received	<u>187,253</u>	<u>218,772</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(142,219)</u>	<u>(606,152)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(494,676)	19,359
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>494,676</u>	<u>475,317</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ -</u>	<u>\$ 494,676</u>

(continued)

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating loss	\$ (482,111)	\$ (869,179)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation and amortization	769,169	740,016
Provision for bad debts	327,251	304,629
Changes in assets and liabilities		
Receivables	(746,723)	202,533
Supplies	(19,411)	(12,845)
Prepaid expense	(39,396)	(7,913)
Accounts payable	251,941	(104,907)
Estimated third-party payor settlements	(386,000)	474,000
Village Terrace security deposits	(2,580)	315
Accrued expenses	78,348	(19,846)
	<u>78,348</u>	<u>(19,846)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (249,512)</u>	<u>\$ 706,803</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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 sheets display 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, 2008 AND 2007

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 U.S. 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 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, 2008 AND 2007

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. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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.

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 are 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 land, buildings, 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, 2008 AND 2007

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 payments 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, 2008.

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 \$45,901 and \$35,566 for advertising costs for the years ended June 30, 2008 and 2007, respectively.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassifications

Certain items from the 2007 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, 2008 and 2007, were \$78,516 and \$92,947, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio calculation, for the years ended June 30, 2008 and 2007, were \$58,000 and \$70,000, 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, 2006. 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, 2008 AND 2007

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, 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 8%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2008, and 45% and 5%, respectively, of the Hospital's net patient service revenue, for the year ended June 30, 2007.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Total patient service revenue	<u>\$ 14,395,124</u>	<u>\$ 13,378,490</u>
Contractual adjustments		
Medicare	(2,551,676)	(2,506,312)
Medicaid	(544,533)	(538,758)
Other	<u>(856,918)</u>	<u>(793,976)</u>
Total contractual adjustments	<u>(3,953,127)</u>	<u>(3,839,046)</u>
Net patient service revenue	<u>10,441,997</u>	9,539,444
Provision for bad debts	<u>(327,251)</u>	<u>(304,629)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 10,114,746</u>	<u>\$ 9,234,815</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 4 – CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2008 and 2007, 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>2008</u>	<u>2007</u>
By the board for capital improvements		
Money market accounts	\$ 537,316	\$ 1,571,175
Certificates of deposit	1,986,206	477,260
U.S. Treasury	199,983	49,930
Accrued interest receivable	3,950	5,617
Agency bonds	-	199,483
	<u>\$ 2,727,455</u>	<u>\$ 2,303,465</u>
Under loan agreement		
Money market accounts	\$ 260,234	\$ 520,311
Certificates of deposit	468,481	304,580
	<u>\$ 728,715</u>	<u>\$ 824,891</u>
By donors for specific purposes		
Money market accounts	\$ -	\$ 175,652
Certificates of deposit	221,198	43,878
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	<u>\$ 734,438</u>	<u>\$ 732,780</u>
By donors for permanent endowment fund		
Certificates of deposit	\$ 53,087	\$ 53,087
Beneficial interest in net assets of Arnold Trust	<u>\$ 502,013</u>	<u>\$ 617,533</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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, 2008 and 2007, was as follows:

	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 177,229	\$ -	\$ -	\$ -	\$ 177,229
Land improvements	108,963	-	-	-	108,963
Buildings and improvements	9,441,688	300,304	20,504	17,212	9,738,700
Construction in progress	23,012	-	-	(17,212)	5,800
Equipment	4,971,291	615,923	72,440	-	5,514,774
	<u>14,722,183</u>	<u>\$ 916,227</u>	<u>\$ 92,944</u>	<u>\$ -</u>	<u>15,545,466</u>
Accumulated depreciation					
Land improvements	74,404	\$ 3,019	\$ -	\$ -	77,423
Buildings and improvements	3,692,874	411,921	14,524	-	4,090,271
Equipment	4,260,897	354,229	72,525	-	4,542,601
	<u>8,028,175</u>	<u>\$ 769,169</u>	<u>\$ 87,049</u>	<u>\$ -</u>	<u>8,710,295</u>
Total land, buildings, and equipment, net	<u>\$ 6,694,008</u>				<u>\$ 6,835,171</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

	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>

NOTE 6 – RESTRICTED NET ASSETS

Restricted net assets consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</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, 2008 and 2007, there were no expenditures from the fund.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 36,328	\$ 21,369
Certificate of deposit	80,000	85,000
Marketable equity securities	<u>898,935</u>	<u>1,024,414</u>
Total assets	<u>\$ 1,015,263</u>	<u>\$ 1,130,783</u>
Net assets		
Unrestricted	\$ 502,013	\$ 617,533
Restricted	<u>513,250</u>	<u>513,250</u>
Total net assets	<u>\$ 1,015,263</u>	<u>\$ 1,130,783</u>
Interest and dividend income	\$ 31,308	\$ 33,033
Realized gains (losses)	(15,955)	56,401
Unrealized gains (losses)	(99,951)	52,760
Investment fees	(5,225)	(5,125)
Distributions to the Hospital	<u>(25,697)</u>	<u>(113,133)</u>
Change in beneficial interest in net assets of Arnold Trust	(115,520)	23,936
Net assets, beginning of year	<u>1,130,783</u>	<u>1,106,847</u>
Net assets, end of year	<u>\$ 1,015,263</u>	<u>\$ 1,130,783</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Hospital’s long-term debt for 2008 follows:

	June 30, 2007 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2008 Balance	Amounts Due Within <u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,082,609	\$ -	\$ 17,963	\$ 1,064,646	\$ 18,204
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	218,996	-	4,077	214,919	4,265
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	1,483,485	-	17,219	1,466,266	17,949
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of \$21,616 due July 2006 through 2033	343,259	-	7,027	336,232	7,326
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	58,408	-	7,501	50,907	7,824
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	276,346	-	67,349	208,997	70,614
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of \$3,706 through February 2013	<u>-</u>	<u>200,000</u>	<u>12,070</u>	<u>187,930</u>	<u>37,201</u>
	<u>\$ 3,463,103</u>	<u>\$ 200,000</u>	<u>\$ 133,206</u>	<u>3,529,897</u>	<u>\$ 163,383</u>
Less current maturities				<u>(163,383)</u>	
Long-term debt, less current maturities				<u>\$ 3,366,514</u>	

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 163,383	\$ 151,134	\$ 314,517
2010	170,826	143,689	314,515
2011	165,398	135,963	301,361
2012	105,399	130,186	235,585
2013	95,027	125,718	220,745
2014-2018	331,259	583,583	914,842
2019-2023	399,051	506,584	905,635
2024-2028	494,045	411,590	905,635
2029-2033	612,518	293,830	906,348
2034-2038	576,457	162,387	738,844
2039-2043	340,554	61,371	401,925
2044	75,980	3,229	79,209
	<u>\$ 3,529,897</u>	<u>\$ 2,709,264</u>	<u>\$ 6,239,161</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, 2008, the Hospital had \$728,715 in the reserve account. The amount required to be on deposit at June 30, 2008 is \$621,532.

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

	<u>June 30,</u>			<u>June 30,</u>	<u>Amounts</u>
	<u>2006</u>			<u>2007</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,102,241	\$ -	\$ 19,632	\$ 1,082,609	\$ 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	218,996	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	1,483,485	17,217

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

	June 30, 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2007 <u>Balance</u>	Amounts Due Within <u>One Year</u>
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	\$ 343,259	\$ 7,027
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	65,611	-	7,203	58,408	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	276,346	67,349
Capitalized lease obligations	<u>2,806</u>	<u>-</u>	<u>2,806</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,660,714</u>	<u>\$ -</u>	<u>\$ 197,611</u>	3,463,103	<u>\$ 120,638</u>
Less current maturities				<u>(120,638)</u>	
Long-term debt, less current maturities				<u>\$ 3,342,465</u>	

NOTE 8 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.90% of their annual covered salary, and the Hospital is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members were required to contribute 3.70% of their annual covered salary, and the Hospital was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$356,104, \$327,762, and \$307,893, respectively, equal to the required contributions for each year.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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.

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, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	38%	23%
Medicaid	6	9
Commercial insurance	23	21
Other third-party payors and patients	<u>33</u>	<u>47</u>
	<u>100%</u>	<u>100%</u>

REQUIRED SUPPLEMENTARY INFORMATION

AFFILIATED WITH UNIVERSITY OF IOWA HOSPITALS & CLINICS



VAN BUREN COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2008

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 706,599	\$ -	\$ 706,599	\$ 706,517	\$ 82
Estimated other revenues/receipts	<u>11,247,704</u>	<u>(486,352)</u>	<u>10,761,352</u>	<u>10,768,174</u>	<u>(6,822)</u>
	11,954,303	(486,352)	11,467,951	11,474,691	(6,740)
Expenses/disbursements	<u>11,621,847</u>	<u>11,308</u>	<u>11,633,155</u>	<u>11,474,691</u>	<u>(158,464)</u>
Net	332,456	(497,660)	(165,204)	-	<u>\$ (165,204)</u>
Balance, beginning of year	<u>9,333,844</u>	<u>(4,924,945)</u>	<u>4,408,899</u>	<u>9,333,553</u>	
Balance, end of year	<u>\$ 9,666,300</u>	<u>\$ (5,422,605)</u>	<u>\$ 4,243,695</u>	<u>\$ 9,333,553</u>	

VAN BUREN COUNTY HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

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, 2008.

For the year ended June 30, 2008, the Hospital's expenditures exceeded the amount budgeted.

AFFILIATED WITH UNIVERSITY OF IOWA HOSPITALS & CLINICS





CPAs & BUSINESS ADVISORS

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

The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 37 marked "unaudited," on which we express no opinion, 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
October 22, 2008

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VAN BUREN COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 2,257,583	\$ 2,156,500
Nursery	26,838	34,548
Operating rooms	207,637	179,425
Delivery and labor rooms	30,582	46,194
Central services and supply	503,895	442,274
Emergency service	1,487,339	1,365,943
Laboratory	1,809,355	1,639,499
Electrocardiology	197,824	188,204
Radiology	2,038,044	2,057,822
Pharmacy	1,563,092	1,533,601
Anesthesiology	202,398	109,765
Respiratory therapy	419,461	308,234
Physical therapy	612,268	587,253
Speech therapy	4,550	10,733
Ambulance service	457,045	403,187
Cardiopulmonary rehab	120,682	129,230
Durable medical equipment	115,526	47,442
Home health care	256,158	212,038
Medical staff	611,092	585,726
Rural health clinics:		
Douds	82,579	78,648
Birmingham	145,727	128,080
Cantril	41,755	27,719
Stockport	1,119	9,781
Keosauqua	1,052,371	911,457
Bonaparte	92,748	113,314
Farmington	135,972	164,820
	<u>14,473,640</u>	<u>13,471,437</u>
Charity care	<u>(78,516)</u>	<u>(92,947)</u>
Total patient service revenue*	<u>\$ 14,395,124</u>	<u>\$ 13,378,490</u>

(continued)

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 4,516,551	\$ 4,693,266
Outpatient revenue	9,957,089	8,778,171
Charity care	<u>(78,516)</u>	<u>(92,947)</u>
Total patient service revenue	14,395,124	13,378,490
 DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(3,953,127)</u>	<u>(3,839,046)</u>
 NET PATIENT SERVICE REVENUE	10,441,997	9,539,444
PROVISION FOR BAD DEBTS	<u>(327,251)</u>	<u>(304,629)</u>
 NET PATIENT SERVICE REVENUE (Net of provision for bad debts)	<u>\$ 10,114,746</u>	<u>\$ 9,234,815</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OTHER OPERATING REVENUES		
Village Terrace	\$ 198,348	\$ 199,293
Continuous family support system grant	176,243	166,737
Job opportunities	163,348	111,719
Day care center	119,523	97,374
Occupational health	52,063	51,277
Rent	33,522	12,832
Tobacco-free grant	22,678	19,202
Diabetic grant	18,448	27,695
Wellmark Grant - CORP	17,077	-
Cafeteria	14,899	11,312
HRSA grant	10,325	-
Private duty nursing	6,270	3,519
Medical records transcript fees	2,773	1,721
Other	<u>34,675</u>	<u>21,659</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 870,192</u>	 <u>\$ 724,340</u>

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 123,682	\$ 113,151
Supplies and other expenses	<u>9,168</u>	<u>5,358</u>
	<u>132,850</u>	<u>118,509</u>
ROUTINE SERVICES		
Salaries and wages	934,989	921,942
Supplies and other expenses	<u>77,106</u>	<u>69,525</u>
	<u>1,012,095</u>	<u>991,467</u>
NURSERY		
Salaries and wages	381	627
Supplies and other expenses	<u>171</u>	<u>245</u>
	<u>552</u>	<u>872</u>
OPERATING ROOMS		
Salaries and wages	39,870	39,462
Supplies and other expenses	<u>32,549</u>	<u>14,053</u>
	<u>72,419</u>	<u>53,515</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	39,358	36,553
Supplies and other expenses	<u>166,629</u>	<u>141,625</u>
	<u>205,987</u>	<u>178,178</u>
EMERGENCY SERVICE		
Salaries and wages	379,274	396,420
Supplies and other expenses	<u>34,457</u>	<u>46,202</u>
	<u>413,731</u>	<u>442,622</u>
LABORATORY		
Salaries and wages	194,263	185,582
Supplies and other expenses	<u>289,639</u>	<u>318,710</u>
	<u>483,902</u>	<u>504,292</u>
ELECTROCARDIOLOGY		
Salaries and wages	<u>4,689</u>	<u>13,710</u>
RADIOLOGY		
Salaries and wages	223,758	208,065
Supplies and other expenses	<u>373,537</u>	<u>314,890</u>
	<u>597,295</u>	<u>522,955</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
PHARMACY		
Salaries and wages	\$ 18,187	\$ 21,655
Supplies and other expenses	<u>262,636</u>	<u>277,925</u>
	<u>280,823</u>	<u>299,580</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>144,400</u>	<u>76,058</u>
RESPIRATORY THERAPY		
Salaries and wages	160,311	137,833
Supplies and other expenses	<u>69,117</u>	<u>58,539</u>
	<u>229,428</u>	<u>196,372</u>
PHYSICAL THERAPY		
Salaries and wages	278,571	246,128
Supplies and other expenses	<u>16,088</u>	<u>17,626</u>
	<u>294,659</u>	<u>263,754</u>
SPEECH THERAPY		
Supplies and other expenses	<u>2,503</u>	<u>4,334</u>
AMBULANCE SERVICE		
Salaries and wages	167,701	154,270
Supplies and other expenses	<u>47,813</u>	<u>49,446</u>
	<u>215,514</u>	<u>203,716</u>
CARDIOPULMONARY REHAB		
Salaries and wages	74,245	52,924
Supplies and other expenses	<u>4,663</u>	<u>1,047</u>
	<u>78,908</u>	<u>53,971</u>
DERMATOLOGY		
Salaries and wages	12	122
Supplies and other expenses	<u>3,390</u>	<u>288</u>
	<u>3,402</u>	<u>410</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	7,240	6,198
Supplies and other expenses	<u>24,688</u>	<u>15,849</u>
	<u>31,928</u>	<u>22,047</u>
HOME HEALTH CARE		
Salaries and wages	140,661	130,186
Supplies and other expenses	<u>15,282</u>	<u>14,891</u>
	<u>155,943</u>	<u>145,077</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
MEDICAL STAFF		
Salaries and wages	\$ 302,626	\$ 291,300
Supplies and other expenses	<u>164,224</u>	<u>5,304</u>
	<u>466,850</u>	<u>296,604</u>
RURAL HEALTH CLINIC - DOUDS		
Salaries and wages	73,352	64,038
Supplies and other expenses	<u>22,182</u>	<u>29,761</u>
	<u>95,534</u>	<u>93,799</u>
RURAL HEALTH CLINIC - BIRMINGHAM		
Salaries and wages	107,315	86,544
Supplies and other expenses	<u>34,677</u>	<u>32,244</u>
	<u>141,992</u>	<u>118,788</u>
RURAL HEALTH CLINIC - CANTRIL		
Salaries and wages	42,989	34,332
Supplies and other expenses	<u>20,488</u>	<u>21,148</u>
	<u>63,477</u>	<u>55,480</u>
RURAL HEALTH CLINIC - STOCKPORT		
Salaries and wages	1,662	14,547
Supplies and other expenses	<u>1,547</u>	<u>11,651</u>
	<u>3,209</u>	<u>26,198</u>
RURAL HEALTH CLINIC - KEOSAUQUA		
Salaries and wages	832,290	893,003
Supplies and other expenses	<u>163,640</u>	<u>147,693</u>
	<u>995,930</u>	<u>1,040,696</u>
RURAL HEALTH CLINIC - BONAPARTE		
Salaries and wages	88,774	90,069
Supplies and other expenses	<u>23,394</u>	<u>41,152</u>
	<u>112,168</u>	<u>131,221</u>
RURAL HEALTH CLINIC - FARMINGTON		
Salaries and wages	159,449	147,259
Supplies and other expenses	<u>23,963</u>	<u>28,036</u>
	<u>183,412</u>	<u>175,295</u>
CONTINUOUS FAMILY SUPPORT SYSTEM		
Salaries and wages	107,955	107,165
Supplies and other expenses	<u>35,519</u>	<u>41,863</u>
	<u>143,474</u>	<u>149,028</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
WELLMARK GRANT - WOMEN		
Supplies and other expenses	\$ -	\$ 39
TOBACCO-FREE PROGRAM		
Salaries and wages	15,444	10,930
Supplies and other expenses	3,477	1,242
	<u>18,921</u>	<u>12,172</u>
DIETARY		
Salaries and wages	137,208	113,208
Supplies and other expenses	105,345	91,142
	<u>242,553</u>	<u>204,350</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	166,705	156,812
Supplies and other expenses	345,590	317,207
	<u>512,295</u>	<u>474,019</u>
HOUSEKEEPING		
Salaries and wages	108,155	105,675
Supplies and other expenses	13,918	28,651
	<u>122,073</u>	<u>134,326</u>
LAUNDRY AND LINEN		
Salaries and wages	31,843	27,897
Supplies and other expenses	8,364	11,950
	<u>40,207</u>	<u>39,847</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	748,331	715,897
Supplies and other expenses	656,088	555,463
	<u>1,404,419</u>	<u>1,271,360</u>
DAY CARE CENTER		
Salaries and wages	128,918	111,645
Supplies and other expenses	41,178	20,102
	<u>170,096</u>	<u>131,747</u>
JOB OPPORTUNITIES		
Salaries and wages	93,952	82,503
Supplies and other expenses	20,449	11,140
	<u>114,401</u>	<u>93,643</u>
CARDIOVASCULAR RISK		
Salaries and wages	84	-

(continued)

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OCCUPATIONAL HEALTH		
Salaries and wages	\$ 19,340	\$ 31,002
Supplies and other expenses	<u>19,020</u>	<u>19,556</u>
	<u>38,360</u>	<u>50,558</u>
VILLAGE TERRACE		
Salaries and wages	70,550	61,715
Supplies and other expenses	<u>34,914</u>	<u>30,175</u>
	<u>105,464</u>	<u>91,890</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	769,169	740,016
Insurance	183,086	201,106
Employee benefits	<u>1,178,847</u>	<u>1,204,713</u>
	<u>2,131,102</u>	<u>2,145,835</u>
TOTAL OPERATING EXPENSES	<u>\$ 11,467,049</u>	<u>\$ 10,828,334</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL
ACCOUNTS, AND COLLECTION STATISTICS
JUNE 30, 2008 AND 2007

ANALYSIS OF AGING

<u>Days Since Discharge</u>	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
90 days or less	\$ 1,980,805	66.52%	\$ 1,330,795	53.32%
91 to 150 days	273,869	9.20	156,193	6.26
151 to 180 days	194,517	6.53	277,003	11.10
181 days and over	528,353	17.75	731,647	29.32
	<u>2,977,544</u>	<u>100.00%</u>	2,495,638	<u>100.00%</u>
Less: Allowance for doubtful accounts	230,728		220,728	
Allowance for contractual adjustments	872,791		704,339	
Net	<u>\$ 1,874,025</u>		<u>\$ 1,570,571</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
BALANCE, BEGINNING OF YEAR	\$ 220,728	\$ 235,000
Add: Provision for bad debts	327,251	304,629
Recoveries of accounts written off	144,822	140,783
Less: Accounts written off	<u>(462,073)</u>	<u>(459,684)</u>
BALANCE, END OF YEAR	<u>\$ 230,728</u>	<u>\$ 220,728</u>

	<u>2008</u>	<u>2007</u>
COLLECTION STATISTICS		
Net accounts receivable – patients	\$ 1,874,025	\$ 1,570,571
Number of days charges outstanding (1)	65	68
Uncollectible accounts (2)	\$ 355,163	\$ 348,610
Percentage of uncollectible accounts to total charges	2.5%	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
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
SUPPLIES		
General supplies	\$ 127,010	\$ 122,981
Pharmacy	96,434	71,706
Dietary	9,006	8,752
Office	<u>8,120</u>	<u>17,720</u>
	<u>\$ 240,570</u>	<u>\$ 221,159</u>
PREPAID EXPENSE		
Insurance	\$ 81,762	\$ 40,581
Maintenance agreements, dues, and other	<u>59,578</u>	<u>61,363</u>
	<u>\$ 141,340</u>	<u>\$ 101,944</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULE OF COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES
PROVIDED BY THE HOSPITAL TO THE COMMUNITY
YEAR ENDED JUNE 30, 2008

SERVICE		
Provision for bad debts	\$	327,251
Ambulance service		89,000
Charity care		78,516
Day care loss		48,056
Parents as teachers in kind		31,086
Blood pressure screening/free vaccinations		18,968
Hospital facilities for meetings		8,418
Education/other health professions		8,229
CPR and AED training		6,200
Outside advocacy boards and councils		5,234
Ambulance in community		4,210
Community support/disaster readiness		1,650
Health fair		1,240
Support groups		1,200
Adopt-A-Highway		760
Lectures at local schools		410
Booth at county fair		150
Car seat safety		<u>101</u>
	\$	<u>630,679</u>

Van Buren County Hospital also had \$3,953,127 in adjustments to revenue based on third-party payor agreements.

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Acute	1,475	1,599
Swing-bed	2,769	2,995
Newborn	72	96
NUMBER OF BEDS	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)	47%	50%
DISCHARGES		
Acute	463	517
Swing-bed	181	228
AVERAGE LENGTH OF STAY		
Acute	3.19	3.09
Swing-bed	15.30	13.14
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private rooms	\$ 630.00	\$ 600.00
Nursery	378.00	360.00



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 (Hospital) as of June 30, 2008 and 2007, 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 October 22, 2008. 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 that 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 and Responses 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, of the significant deficiencies described above, we believe that none are material weaknesses.

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*. However, we noted a certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008, 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.

Van Buren County Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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 additional matters that we reported to management in a separate letter dated October 22, 2008.

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 Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 22, 2008

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-08 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. This is not an unusual condition in organizations of your size.

Recommendation – 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. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. 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 agrees with the finding and has reviewed the operating procedures of Van Buren County Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-08 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Van Buren County Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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, it is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of costs or other considerations.

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to the Financial Statements: (continued)

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-08 Certified Budget – Hospital disbursements during the year ended June 30, 2008, exceeded amounts budgeted by \$158,464.

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

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

Conclusion – Response accepted.

II-B-08 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-08 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-08 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>
Linda Goldstein, Manager of Business Office, spouse of employee of Gold Rush Advertising	Advertising	\$ 4,016
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self-employed	Landscaping	7,705
Sandy Bartholomew, Rural Health Clinic Receptionist, spouse of Gary Bartholomew, self-employed	Mowing	225
Barbie Winslow, Rural Health Clinic CMA, spouse of Mike Winslow, self-employed	Mowing	4,485
Dr. Laura Hadden, physician, spouse of Matt Hadden, owner Matt Hadden Photography	Photography	341
Dr. Matt Manning, physician, spouse of Judy Manning, self-employed	Landscaping	1,315

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

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

- II-E-08 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-08 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-08 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 for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. 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 June 11, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Van Buren County 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 Van Buren County 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you and management on August 25, 2008, and in accordance to our engagement letter to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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, 2008. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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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.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 2008 audit:

Decrease in net assets prior to audit adjustments	\$ (36,914)
To adjust estimated third-party payor settlements	255,790
To adjust physician payables	65,000
To adjust depreciation expense	52,290
Other adjustments	<u>(3,710)</u>
 Increase in net assets as reported	 <u>\$ 332,456</u>

There were no significant passed adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2008.

Management 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.

Other Audit Findings or Issues

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.

Other Comments

We have included additional comments regarding the Hospital's operations as well as a comment for informational purposes only. These comments are not a result of in-depth study of any specific areas but are based on observations made during the course of our audit.

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
October 22, 2008

xc: Ms. Lisa Schnedler

VAN BUREN COUNTY HOSPITAL

YEAR ENDED JUNE 30, 2008

OTHER COMMENTS

Computer Controls

It is our understanding that the Hospital does not currently maintain a backup of Hospital computer data at an offsite location. To minimize the risk of loss of Hospital data, it is recommended that the Hospital perform periodic backups and store information at an offsite location.

Secondly, the Hospital does not have a written policy regarding user's access rights to the computer system. It is our understanding that when an employee is terminated or the employee's needs to access rights change, the change in employee status is not communicated timely to the information technology department. Consequently, the employee's user access rights are not updated in a timely manner. To reduce the risk of improper use of information, it is recommended that the Hospital implement a policy to monitor and update user access rights in a timely manner.

Thirdly, it is our understanding that the hospital does not have a change control policy in place. IT management should define and implement a problem management and change management tracking system to ensure that key compliance-related events and operational events that are not part of standard operation (incidents, problems, and errors) are recorded, analyzed, and resolved in a timely manner.

Review of General Ledger Activity and Monthly Account Reconciliations

Accounting staff are responsible for analyzing/reconciling certain accounts on the general ledger. However, we noted several accounts that are not being reconciled to the detail on a regular basis. All general ledger accounts should be reconciled to detail and reviewed on a regular basis.

Revised Guidelines on Good Governance for Tax Exempt Entities

The issue of corporate governance of tax exempt organizations has emerged as a major focal point for the Internal Revenue Service (IRS) and is a key factor addressed in the newly revised Form 990, Return of Organization Exempt from Income Tax effective for 2008. These guidelines can be found in the IRS document "Governance and Related Topics – 501(c)(3) Organizations," at the following link: http://www.irs.gov/pub/irs-tege/governance_practices.pdf. While tax law does not mandate the guidelines, they are a clear indication of the IRS' strong commitment to monitoring governance practices of the tax-exempt community. The IRS has indicated its belief that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets and serve charitable interests than one without some of the recommended guidelines. The IRS document is in line with the redesigned Form 990 governance questions and focuses on six specific topics:

- Mission
- Organizational Documents
- Governing Body
- Governance & Management Policies
- Financial Statements & Form 990 Reporting
- Transparency and Accountability

The IRS intends to monitor the organizations' practices by utilizing primarily yes/no questions and detailed descriptions of policies and procedures on the new Form 990.

VAN BUREN COUNTY HOSPITAL

YEAR ENDED JUNE 30, 2008

OTHER COMMENTS

Although these guidelines are directed towards 501(c)(3) organizations, all tax-exempt entities should consider the same governance practices. We recommend all tax-exempt organizations review the guidelines in detail, as well as the specific questions in Part VI of the 2008 Form 990 and consider whether current practices should be modified or new practices adopted. By reviewing the Hospital's governance practices now, Van Buren County Hospital will be prepared to respond to the governance-related questions on the 2008 Form 990, if applicable, and portray a positive image to the IRS and the public.