

**FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Thomas	Chairperson	December 31, 2012
Lloyd Foster	Vice Chairperson	December 31, 2012
George Manning	Secretary	December 31, 2014
David Sherod	Treasurer	December 31, 2014
Jeanne Erickson	Member	December 31, 2014
Nancy Nelson	Member	December 31, 2010
Edward Spees	Member	December 31, 2010

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, 2009 and 2008, 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, 2009 and 2008, and the changes in 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 16, 2009, 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.

Dubuque, Iowa  
November 16, 2009

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**VAN BUREN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009**

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This section of Van Buren County Hospital (VBCH)'s annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2009. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

**Financial Highlights**

- Van Buren County Hospital's total net assets increased by \$321,336 at June 30, 2009 from 2008.
- Total assets increased \$151,976 or 1% in 2009 from 2008. This is due to an increase in cash and accounts receivable. Total liabilities decreased \$169,360 due to a decrease in accrued salaries, accrued wages and long term debt.
- There was an increase in investments of \$511,376 for the year.
- Cash flows increased by \$308,466 due to operating activities and receipt of patient service revenue.
- During the year, Van Buren County Hospital's total operating revenues increased 11% to \$12,193,911; while the operating expenses increased 9% to \$12,498,670. Van Buren County Hospital had a loss from operations of (\$304,759) which is 2.5% 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, 2009, indicates total liabilities of \$5,360,703 and net assets of \$9,987,636.

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 \$12,193,911 and total operating expenses of \$12,498,670 during fiscal year 2009. The loss from operations was (\$304,759) in 2009, compared to a loss from operations of (\$482,111) during fiscal year 2008.

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 to \$308,466 at June 30, 2009. This is due primarily to the increase in operating activities 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 County Budget Variations**

Expenses were \$284,445 below the County budget filed with an amendment with the Department of Revenue.

### **Long-Term Debt**

At year-end, Van Buren County Hospital had \$3,195,415 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 two significant building and remodeling projects in fiscal year 2010 and 2011. One project is the building of a Child Care Center and offices for Parents as Teachers and Job Opportunities. The other project will involve new construction of a dietary and cafeteria department as well as the remodeling 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 years ending 2010 and 2011.

### **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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 308,466	\$ -
Receivables		
Patient, net of estimated uncollectibles		
of \$1,498,000 in 2009 and \$1,104,000 in 2008	2,033,123	1,874,025
Estimated third-party payor settlements	-	330,000
Succeeding year property tax	759,617	719,208
Other	218,302	298,657
Supplies	229,435	240,570
Prepaid expense	<u>137,984</u>	<u>141,340</u>
 Total current assets	 <u>3,686,927</u>	 <u>3,603,800</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
Designated by board for capital improvements	3,276,901	2,727,455
Restricted under loan agreement	689,427	728,715
Restricted by donors for specific purposes	735,656	734,438
Restricted by donors for permanent endowment fund	<u>53,087</u>	<u>53,087</u>
 Total assets limited as to use or restricted	 <u>4,755,071</u>	 <u>4,243,695</u>
<b>CAPITAL ASSETS, net - Note 5</b>	<u>6,526,957</u>	<u>6,835,171</u>
<b>OTHER ASSETS</b>		
Beneficial interest in net assets of Arnold Trust - Note 4	365,043	502,013
Notes receivable	<u>14,341</u>	<u>11,684</u>
 Total other assets	 <u>379,384</u>	 <u>513,697</u>
 Total assets	 <u>\$ 15,348,339</u>	 <u>\$ 15,196,363</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Excess of outstanding checks over bank balance	\$ -	\$ 44,167
Current maturities of long-term debt - Note 7	<b>174,286</b>	163,383
Accounts payable		
Trade	<b>349,409</b>	344,620
Estimated third-party payor settlements	<b>50,000</b>	-
Accrued expenses		
Salaries and wages	<b>361,632</b>	374,834
Vacation	<b>250,062</b>	246,290
Payroll taxes and other	<b>70,737</b>	121,956
Interest	<b>133,890</b>	136,451
Village Terrace security deposits	<b>15,655</b>	12,640
Deferred revenue for succeeding year property tax receivable	<b>759,617</b>	719,208
	<u>2,165,288</u>	2,163,549
LONG-TERM DEBT, less current maturities - Note 7	<u>3,195,415</u>	3,366,514
Total liabilities	<u>5,360,703</u>	5,530,063
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	<b>3,157,256</b>	3,305,274
Restricted - Note 6	<b>783,982</b>	783,982
Unrestricted	<b>6,046,398</b>	5,577,044
	<u>9,987,636</u>	9,666,300
Total liabilities and net assets	<u>\$ 15,348,339</u>	<u>\$ 15,196,363</u>

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$412,419 in 2009 and \$327,251 in 2008) - Notes 2 and 3	<b>\$ 11,349,198</b>	\$ 10,114,746
Other operating revenues	<b>844,713</b>	870,192
<b>TOTAL OPERATING REVENUES</b>	<b><u>12,193,911</u></b>	<u>10,984,938</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	<b>6,649,699</b>	6,024,134
Supplies and other expenses	<b>5,113,778</b>	4,673,746
Depreciation and amortization	<b>735,193</b>	769,169
<b>TOTAL OPERATING EXPENSES</b>	<b><u>12,498,670</u></b>	<u>11,467,049</u>
<b>OPERATING LOSS</b>	<b><u>(304,759)</u></b>	<u>(482,111)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
County tax revenue	<b>742,145</b>	706,599
Noncapital grants and contributions	<b>1,093</b>	533
Investment income	<b>147,690</b>	187,253
Interest expense	<b>(151,668)</b>	(152,503)
Loss on disposal of equipment	<b>(7,392)</b>	(2,295)
<b>NET NONOPERATING REVENUES</b>	<b><u>731,868</u></b>	<u>739,587</u>
<b>REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND CHANGE IN BENEFICIAL INTEREST IN NET ASSETS OF ARNOLD TRUST</b>	<b>427,109</b>	257,476
<b>OTHER CHANGES IN NET ASSETS</b>		
Capital grants and contributions	<b>31,197</b>	190,500
Change in beneficial interest in net assets of Arnold Trust	<b>(136,970)</b>	(115,520)
<b>INCREASE IN NET ASSETS</b>	<b>321,336</b>	332,456
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>9,666,300</u></b>	<u>9,333,844</u>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 9,987,636</u></b>	<u>\$ 9,666,300</u>

See notes to financial statements.

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 11,567,443	\$ 9,420,562
Payments of salaries and wages	(6,659,129)	(5,989,477)
Payments of supplies and other expenses	(5,186,869)	(4,439,501)
Other receipts and payments, net	<u>925,068</u>	<u>758,904</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u><b>646,513</b></u>	<u>(249,512)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax revenue received	<u>742,145</u>	706,599
Noncapital grants and contributions received	<u>1,093</u>	<u>533</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>743,238</b></u>	<u>707,132</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(434,371)	(916,227)
Capital grants and contributions received	31,197	190,500
Payment of principal on debt	(180,957)	(133,206)
Payment of interest on debt	(154,229)	(154,744)
Proceeds from issuance of long-term debt	20,761	200,000
Proceeds from sale of equipment	<u>-</u>	<u>3,600</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(717,599)</b></u>	<u>(810,077)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in assets limited as to use or restricted	(511,376)	(329,472)
Investment income received	<u>147,690</u>	<u>187,253</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u><b>(363,686)</b></u>	<u>(142,219)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>308,466</b>	(494,676)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>-</u>	<u>494,676</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 308,466</b></u>	<u>\$ -</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating loss	\$ (304,759)	\$ (482,111)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation and amortization	735,193	769,169
Provision for bad debts	412,419	327,251
Changes in assets and liabilities		
Receivables	(493,819)	(746,723)
Supplies	11,135	(19,411)
Prepaid expense	3,356	(39,396)
Accounts payable	(39,378)	251,941
Estimated third-party payor settlements	380,000	(386,000)
Village Terrace security deposits	3,015	(2,580)
Accrued expenses	(60,649)	78,348
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 646,513</u>	<u>\$ (249,512)</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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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 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 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, 2009 AND 2008**

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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 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, 2009 AND 2008**

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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. 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.

*Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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. Such amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized. The estimated useful lives of capital assets 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, 2009 AND 2008**

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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 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, 2009.

*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 statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and nonexchange 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 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 \$61,769 and \$45,901 for advertising costs for the years ended June 30, 2009 and 2008, respectively.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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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.

*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.

*Subsequent Events*

The Hospital has evaluated subsequent events through November 16, 2009, the date which the financial statements were available to be issued.

*Reclassification*

Certain items from the 2008 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 AND COMMUNITY BENEFITS**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$84,686 and \$78,516 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon the cost-to-charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$57,000 and \$58,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**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, 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, 2006.

**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 54% and 9%, respectively, of the Hospital’s net patient service revenue for the year ended June 30, 2009, and 52% and 8%, respectively, of the Hospital’s net patient service revenue for the year ended June 30, 2008.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 17,285,590</u>	<u>\$ 14,395,124</u>
Contractual adjustments		
Medicare	(3,457,728)	(2,551,676)
Medicaid	(672,003)	(544,533)
Other	(1,394,242)	(856,918)
Total contractual adjustments	<u>(5,523,973)</u>	<u>(3,953,127)</u>
Net patient services revenue	11,761,617	10,441,997
Provision for bad debts	<u>(412,419)</u>	<u>(327,251)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,349,198</u>	<u>\$ 10,114,746</u>

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 4 – CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2009 and 2008, 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>2009</u>	<u>2008</u>
Designated by board for capital improvements		
Money market accounts	\$ 986,496	\$ 537,316
Certificates of deposit	2,077,237	1,986,206
U.S. Treasury	199,983	199,983
Accrued interest receivable	13,185	3,950
	<u>\$ 3,276,901</u>	<u>\$ 2,727,455</u>
Restricted under loan agreement		
Money market accounts	\$ 195,703	\$ 260,234
Certificates of deposit	493,724	468,481
	<u>\$ 689,427</u>	<u>\$ 728,715</u>
Restricted by donors for specific purposes		
Certificates of deposit	\$ 222,406	\$ 221,188
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	<u>\$ 735,656</u>	<u>\$ 734,438</u>
Restricted by donors for permanent endowment fund		
Certificates of deposit	\$ 53,087	\$ 53,087
	<u>\$ 53,087</u>	<u>\$ 53,087</u>
Beneficial interest in net assets of Arnold Trust	<u>\$ 365,043</u>	<u>\$ 502,013</u>

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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 – CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2009 and 2008, was as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 177,229	\$ 14,000	\$ -	\$ -	\$ 191,229
Land improvements	108,963	-	-	-	108,963
Buildings and improvements	9,738,700	-	26,991	-	9,711,709
Construction in progress	5,800	34,170	-	-	39,970
Equipment	5,514,774	386,201	824,399	-	5,076,576
	<u>15,545,466</u>	<u>\$ 434,371</u>	<u>\$ 851,390</u>	<u>\$ -</u>	<u>15,128,447</u>
Accumulated depreciation					
Land improvements	77,423	\$ 3,008	\$ -	\$ -	80,431
Buildings and improvements	4,090,271	407,173	19,599	-	4,477,845
Equipment	4,542,601	325,012	824,399	-	4,043,214
	<u>8,710,295</u>	<u>\$ 735,193</u>	<u>\$ 843,998</u>	<u>\$ -</u>	<u>8,601,490</u>
Total capital assets, net	<u>\$ 6,835,171</u>				<u>\$ 6,526,957</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

	June 30, 2007				June 30, 2008
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
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	<u>4,971,291</u>	<u>615,923</u>	<u>72,440</u>	<u>-</u>	<u>5,514,774</u>
	<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	<u>4,260,897</u>	<u>354,229</u>	<u>72,525</u>	<u>-</u>	<u>4,542,601</u>
	<u>8,028,175</u>	<u>\$ 769,169</u>	<u>\$ 87,049</u>	<u>\$ -</u>	<u>8,710,295</u>
Total capital assets, net	<u>\$ 6,694,008</u>				<u>\$ 6,835,171</u>

**NOTE 6 – RESTRICTED NET ASSETS**

Restricted net assets consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</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, 2009 and 2008, there were no expenditures from the fund.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 78,923	\$ 36,328
Certificates of deposit	80,000	80,000
Marketable equity securities	<u>719,370</u>	<u>898,935</u>
 Total assets	 <u>\$ 878,293</u>	 <u>\$ 1,015,263</u>
 Net Assets		
Unrestricted	\$ 365,043	\$ 502,013
Restricted	<u>513,250</u>	<u>513,250</u>
 Total net assets	 <u>\$ 878,293</u>	 <u>\$ 1,015,263</u>
 Interest and dividend income	 \$ 25,098	 \$ 31,308
Realized losses	-	(15,955)
Unrealized losses	(139,839)	(99,951)
Investment fees	(590)	(5,225)
Taxes paid	(12,501)	-
Distributions to the Hospital	<u>(9,138)</u>	<u>(25,697)</u>
 Change in beneficial interest in net assets of Arnold Trust	 (136,970)	 (115,520)
Net assets, beginning of year	<u>1,015,263</u>	<u>1,130,783</u>
 Net assets, end of year	 <u>\$ 878,293</u>	 <u>\$ 1,015,263</u>

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

**NOTE 7 – LONG-TERM DEBT**

A schedule of changes in the Hospital’s long-term debt for 2009 follows:

	June 30, 2008 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<b>June 30, 2009 Balance</b>	Amounts Due Within <u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,064,646	\$ -	\$ 18,386	<b>\$1,046,260</b>	\$ 18,977
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	214,919	-	4,353	<b>210,566</b>	4,525
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	1,466,266	-	17,948	<b>1,448,318</b>	18,711
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of \$21,616 due July 2006 through 2033	336,232	-	7,327	<b>328,905</b>	7,638
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	50,907	-	7,829	<b>43,078</b>	8,157
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	208,997	-	70,613	<b>138,384</b>	74,005
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of \$3,706 through February 2013	187,930	-	37,200	<b>150,730</b>	38,813
Note payable, 0.00%, due in an installment of \$3,460 in July 2009	-	20,761	17,301	<b>3,460</b>	3,460
	<u>\$ 3,529,897</u>	<u>\$ 20,761</u>	<u>\$ 180,957</u>	<b><u>3,369,701</u></b>	<u>\$ 174,286</u>
Less current maturities				<b><u>174,286</u></b>	
Long-term debt, less current maturities				<b><u>\$ 3,195,415</u></b>	

(continued on next page)

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 174,286	\$ 143,689	\$ 317,975
2011	165,399	135,963	301,362
2012	105,399	128,186	233,585
2013	95,027	125,718	220,745
2014	67,419	122,371	189,790
2015-2019	336,988	568,936	905,924
2020-2024	416,453	487,546	903,999
2025-2029	515,605	389,490	905,095
2030-2034	622,580	267,073	889,653
2035-2039	516,571	137,835	654,406
2040-2044	353,974	46,897	400,871
	<u>\$ 3,369,701</u>	<u>\$ 2,553,704</u>	<u>\$ 5,923,405</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, 2009, the Hospital had \$689,427 in the reserve account. The amount required to be on deposit at June 30, 2009 is \$660,472.

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

	<u>June 30,</u> <u>2007</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2008</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	\$ 1,082,609	\$ -	\$ 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

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

	June 30, 2007 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2008 <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	\$ 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>	3,529,897	<u>\$ 163,383</u>
Less current maturities				<u>(163,383)</u>	
Long-term debt, less current maturities				<u>\$ 3,366,514</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 4.10% of their annual covered salary, and the Hospital is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Hospital was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$424,885, \$356,104, and \$329,095, respectively, equal to the required contributions for each year.

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

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**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. This coverage has not changed significantly from the previous year. 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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	46%	38%
Medicaid	6	6
Commercial insurance	19	23
Other third-party payors and patients	<u>29</u>	<u>33</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, 2009**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 742,145	\$ -	\$ 742,145	\$ 742,092	\$ 53
Estimated other revenues/receipts	<u>12,373,891</u>	<u>319,361</u>	<u>12,693,252</u>	<u>10,964,438</u>	<u>1,728,814</u>
	13,116,036	319,361	13,435,397	11,706,530	1,728,867
Expenses/disbursements	<u>12,794,700</u>	<u>(179,145)</u>	<u>12,615,555</u>	<u>12,900,000</u>	<u>284,445</u>
Net	321,336	498,506	819,842	(1,193,470)	<u>\$ 2,013,312</u>
Balance, beginning of year	<u>9,666,300</u>	<u>(5,422,605)</u>	<u>4,243,695</u>	<u>9,333,844</u>	
Balance, end of year	<u>\$ 9,987,636</u>	<u>\$ (4,924,099)</u>	<u>\$ 5,063,537</u>	<u>\$ 8,140,374</u>	

**VAN BUREN COUNTY HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2009**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective 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 amended during the year ended June 30, 2009.

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted.

AFFILIATED WITH UNIVERSITY OF IOWA HOSPITALS & CLINICS





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 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

Dubuque, Iowa  
November 16, 2009

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 2,675,932	\$ 2,257,583
Nursery	20,223	26,838
Operating rooms	571,332	207,637
Delivery and labor rooms	33,551	30,582
Central services and supply	643,643	503,895
Emergency service	1,826,443	1,487,339
Laboratory	2,133,252	1,809,355
Electrocardiology	254,414	197,824
Radiology	2,381,242	2,038,044
Pharmacy	1,997,597	1,563,092
Anesthesiology	322,261	202,398
Respiratory therapy	472,538	419,461
Physical therapy	666,154	612,268
Speech therapy	7,018	4,550
Ambulance service	505,940	457,045
Cardiopulmonary rehab	135,786	120,682
Durable medical equipment	124,886	115,526
Home health care	310,593	256,158
Medical staff	654,647	611,092
Rural health clinics:		
Douds	138,956	82,579
Birmingham	196,991	145,727
Cantril	105,203	41,755
Keosauqua	977,660	1,052,371
Bonaparte	60,972	92,748
Farmington	153,042	135,972
Stockport	-	1,119
	<u>17,370,276</u>	<u>14,473,640</u>
Charity care	<u>(84,686)</u>	<u>(78,516)</u>
 Total patient service revenue*	 <u>\$ 17,285,590</u>	 <u>\$ 14,395,124</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 5,785,560	\$ 4,516,551
Outpatient revenue	11,584,716	9,957,089
Charity care	<u>(84,686)</u>	<u>(78,516)</u>
Total patient service revenue	17,285,590	14,395,124
 DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(5,523,973)</u>	<u>(3,953,127)</u>
 NET PATIENT SERVICE REVENUE	11,761,617	10,441,997
PROVISION FOR BAD DEBTS	<u>(412,419)</u>	<u>(327,251)</u>
 NET PATIENT SERVICE REVENUE (NET FOR PROVISION FOR BAD DEBTS)	 <u>\$ 11,349,198</u>	 <u>\$ 10,114,746</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Village Terrace	\$ 175,653	\$ 198,348
Continuous family support system grant	172,142	176,243
Job opportunities	153,800	163,348
Day care center	152,881	119,523
Occupational health	40,799	52,063
Harkin grant	30,891	-
Rent	22,287	33,522
Cafeteria	16,601	14,899
Tobacco-free grant	14,021	22,678
HRSA grant	8,337	10,325
Wellmark grant - CORP	5,555	17,077
Private duty nursing	3,311	6,270
Medical records transcript fees	2,240	2,773
Diabetic grant	-	18,448
Other	<u>46,195</u>	<u>34,675</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 844,713</u>	 <u>\$ 870,192</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 142,145	\$ 123,682
Supplies and other expenses	<u>7,350</u>	<u>9,168</u>
	<b>149,495</b>	<b>132,850</b>
<b>ROUTINE SERVICES</b>		
Salaries and wages	<b>1,032,303</b>	934,989
Supplies and other expenses	<u>92,203</u>	<u>77,106</u>
	<b>1,124,506</b>	<b>1,012,095</b>
<b>NURSERY</b>		
Salaries and wages	-	381
Supplies and other expenses	<u>613</u>	<u>171</u>
	<b>613</b>	<b>552</b>
<b>OPERATING ROOMS</b>		
Salaries and wages	<b>79,212</b>	39,870
Supplies and other expenses	<u>9,724</u>	<u>32,549</u>
	<b>88,936</b>	<b>72,419</b>
<b>DELIVERY AND LABOR ROOMS</b>		
Supplies and other expenses	<u>85</u>	<u>-</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	<b>46,000</b>	39,358
Supplies and other expenses	<u>276,108</u>	<u>166,629</u>
	<b>322,108</b>	<b>205,987</b>
<b>EMERGENCY SERVICE</b>		
Salaries and wages	<b>483,806</b>	379,274
Supplies and other expenses	<u>88,588</u>	<u>34,457</u>
	<b>572,394</b>	<b>413,731</b>
<b>LABORATORY</b>		
Salaries and wages	<b>214,166</b>	194,263
Supplies and other expenses	<u>324,797</u>	<u>289,639</u>
	<b>538,963</b>	<b>483,902</b>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	-	4,689
Supplies and other expenses	<u>2,835</u>	<u>-</u>
	<b>2,835</b>	<b>4,689</b>
<b>RADIOLOGY</b>		
Salaries and wages	<b>240,350</b>	223,758
Supplies and other expenses	<u>424,888</u>	<u>373,537</u>
	<b>665,238</b>	<b>597,295</b>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>PHARMACY</b>		
Salaries and wages	\$ 17,920	\$ 18,187
Supplies and other expenses	<u>330,710</u>	<u>262,636</u>
	<u>348,630</u>	<u>280,823</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>210,876</u>	<u>144,400</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	160,679	160,311
Supplies and other expenses	<u>55,540</u>	<u>69,117</u>
	<u>216,219</u>	<u>229,428</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	295,105	278,571
Supplies and other expenses	<u>20,714</u>	<u>16,088</u>
	<u>315,819</u>	<u>294,659</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>5,457</u>	<u>2,503</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>3,093</u>	<u>-</u>
<b>AMBULANCE SERVICE</b>		
Salaries and wages	207,033	167,701
Supplies and other expenses	<u>45,253</u>	<u>47,813</u>
	<u>252,286</u>	<u>215,514</u>
<b>CARDIOPULMONARY REHAB</b>		
Salaries and wages	66,985	74,245
Supplies and other expenses	<u>2,499</u>	<u>4,663</u>
	<u>69,484</u>	<u>78,908</u>
<b>EMERGENCY PREPAREDNESS</b>		
Salaries and wages	-	12
Supplies and other expenses	<u>11,087</u>	<u>3,390</u>
	<u>11,087</u>	<u>3,402</u>
<b>DURABLE MEDICAL EQUIPMENT</b>		
Salaries and wages	14,484	7,240
Supplies and other expenses	<u>29,047</u>	<u>24,688</u>
	<u>43,531</u>	<u>31,928</u>

(continued)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>HOME HEALTH CARE</b>		
Salaries and wages	\$ 153,764	\$ 140,661
Supplies and other expenses	<u>14,847</u>	<u>15,282</u>
	<u>168,611</u>	<u>155,943</u>
<b>MEDICAL STAFF</b>		
Salaries and wages	311,128	302,626
Supplies and other expenses	<u>36,387</u>	<u>164,224</u>
	<u>347,515</u>	<u>466,850</u>
<b>RURAL HEALTH CLINIC - DOUDS</b>		
Salaries and wages	97,890	73,352
Supplies and other expenses	<u>19,015</u>	<u>22,182</u>
	<u>116,905</u>	<u>95,534</u>
<b>RURAL HEALTH CLINIC - BIRMINGHAM</b>		
Salaries and wages	127,949	107,315
Supplies and other expenses	<u>29,875</u>	<u>34,677</u>
	<u>157,824</u>	<u>141,992</u>
<b>RURAL HEALTH CLINIC - CANTRIL</b>		
Salaries and wages	80,746	42,989
Supplies and other expenses	<u>25,944</u>	<u>20,488</u>
	<u>106,690</u>	<u>63,477</u>
<b>RURAL HEALTH CLINIC - KEOSAUQUA</b>		
Salaries and wages	846,514	832,290
Supplies and other expenses	<u>145,169</u>	<u>163,640</u>
	<u>991,683</u>	<u>995,930</u>
<b>RURAL HEALTH CLINIC - BONAPARTE</b>		
Salaries and wages	97,724	88,774
Supplies and other expenses	<u>20,056</u>	<u>23,394</u>
	<u>117,780</u>	<u>112,168</u>
<b>RURAL HEALTH CLINIC - FARMINGTON</b>		
Salaries and wages	163,446	159,449
Supplies and other expenses	<u>30,525</u>	<u>23,963</u>
	<u>193,971</u>	<u>183,412</u>
<b>RURAL HEALTH CLINIC - STOCKPORT</b>		
Salaries and wages	546	1,662
Supplies and other expenses	<u>137</u>	<u>1,547</u>
	<u>683</u>	<u>3,209</u>

(continued)

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CONTINUOUS FAMILY SUPPORT SYSTEM</b>		
Salaries and wages	\$ 112,479	\$ 107,955
Supplies and other expenses	<u>27,227</u>	<u>35,519</u>
	<u>139,706</u>	<u>143,474</u>
<b>HARKIN GRANT</b>		
Salaries and wages	19,128	-
Supplies and other expenses	<u>17,607</u>	<u>-</u>
	<u>36,735</u>	<u>-</u>
<b>TOBACCO-FREE PROGRAM</b>		
Salaries and wages	6,507	15,444
Supplies and other expenses	<u>2,452</u>	<u>3,477</u>
	<u>8,959</u>	<u>18,921</u>
<b>DIETARY</b>		
Salaries and wages	119,029	137,208
Supplies and other expenses	<u>109,320</u>	<u>105,345</u>
	<u>228,349</u>	<u>242,553</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	161,387	166,705
Supplies and other expenses	<u>348,574</u>	<u>345,590</u>
	<u>509,961</u>	<u>512,295</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	116,698	108,155
Supplies and other expenses	<u>32,118</u>	<u>13,918</u>
	<u>148,816</u>	<u>122,073</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	33,667	31,843
Supplies and other expenses	<u>4,721</u>	<u>8,364</u>
	<u>38,388</u>	<u>40,207</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	857,979	748,331
Supplies and other expenses	<u>643,621</u>	<u>656,088</u>
	<u>1,501,600</u>	<u>1,404,419</u>
<b>DAY CARE CENTER</b>		
Salaries and wages	151,684	128,918
Supplies and other expenses	<u>28,605</u>	<u>41,178</u>
	<u>180,289</u>	<u>170,096</u>
<b>FARM HEALTH AND SAFETY</b>		
Supplies and other expenses	<u>12</u>	<u>-</u>

(continued)

**VAN BUREN COUNTY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>JOB OPPORTUNITIES</b>		
Salaries and wages	\$ 95,447	\$ 93,952
Supplies and other expenses	<u>21,584</u>	<u>20,449</u>
	<u>117,031</u>	<u>114,401</u>
<b>CARDIOVASCULAR RISK</b>		
Salaries and wages	<u>-</u>	<u>84</u>
<b>OCCUPATIONAL HEALTH</b>		
Salaries and wages	17,097	19,340
Supplies and other expenses	<u>11,781</u>	<u>19,020</u>
	<u>28,878</u>	<u>38,360</u>
<b>LIFELINE</b>		
Supplies and other expenses	<u>173</u>	<u>-</u>
<b>VILLAGE TERRACE</b>		
Salaries and wages	78,702	70,550
Supplies and other expenses	<u>32,943</u>	<u>34,914</u>
	<u>111,645</u>	<u>105,464</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation and amortization	735,193	769,169
Insurance	167,558	183,086
Employee benefits	<u>1,402,060</u>	<u>1,178,847</u>
	<u>2,304,811</u>	<u>2,131,102</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 12,498,670</u></u>	<u><u>\$ 11,467,049</u></u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL**  
**ACCOUNTS, AND COLLECTION STATISTICS**  
**JUNE 30, 2009 AND 2008**

**ANALYSIS OF AGING**

<u>Days Since Discharge</u>	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
90 days or less	\$ 2,618,289	74.14%	\$ 1,980,805	66.52%
91 to 150 days	155,617	4.40	273,869	9.20
151 to 180 days	161,829	4.58	194,517	6.53
181 days and over	595,568	16.88	528,353	17.75
	<u>3,531,303</u>	<u>100.00%</u>	2,977,544	<u>100.00%</u>
Less: Allowance for doubtful accounts	330,929		230,728	
Allowance for contractual adjustments	<u>1,167,251</u>		<u>872,791</u>	
Net	<u>\$ 2,033,123</u>		<u>\$ 1,874,025</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
BALANCE, BEGINNING OF YEAR	\$ 230,728	\$ 220,728
Add: Provision for bad debts	412,419	327,251
Recoveries of accounts written off	94,115	144,822
Less: Accounts written off	<u>(406,333)</u>	<u>(462,073)</u>
BALANCE, END OF YEAR	<u>\$ 330,929</u>	<u>\$ 230,728</u>

	<u>2009</u>	<u>2008</u>
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients	\$ 2,033,123	\$ 1,874,025
Number of days charges outstanding (1)	59	65
Uncollectible accounts (2)	\$ 437,762	\$ 355,163
Percentage of uncollectible accounts to total charges	2.5%	2.5%

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

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF SUPPLIES AND PREPAID EXPENSE**  
**JUNE 30, 2009 AND 2008**

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	<u>2009</u>	<u>2008</u>
<b>SUPPLIES</b>		
General supplies	\$ 124,128	\$ 127,010
Pharmacy	86,433	96,434
Dietary	9,969	9,006
Office	<u>8,905</u>	<u>8,120</u>
	<u>\$ 229,435</u>	<u>\$ 240,570</u>
<b>PREPAID EXPENSE</b>		
Insurance	\$ 71,382	\$ 81,762
Maintenance agreements, dues, and other	<u>66,602</u>	<u>59,578</u>
	<u>\$ 137,984</u>	<u>\$ 141,340</u>

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULE OF COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES**  
**PROVIDED BY THE HOSPITAL TO THE COMMUNITY**  
**YEAR ENDED JUNE 30, 2009**

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SERVICE		
Provision for bad debts	\$	412,419
Ambulance service		225,541
Charity care		84,686
Day care loss		48,426
Education/other health professions		26,237
Parents as Teachers in-kind		17,019
Outside advocacy board and councils		9,824
Hospital facilities for meetings		8,298
Screening blood pressure and school/free vaccinations		8,241
Ambulance in community (HS games, fair, kids fair)		4,420
Delivery of medications		1,762
Support groups		1,570
Community support/disaster readiness (over requirement)		1,355
Health fair		990
CPR and AED training		571
Baby sitting classes		484
Lectures at local schools		315
Environmental improvements		270
Women's health education		<u>122</u>
	\$	<u>852,550</u>

Van Buren County Hospital also had \$5,523,973 in adjustments to revenue based on third-party payor agreements (commercial insurance, etc.)

**VAN BUREN COUNTY HOSPITAL**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>PATIENT DAYS</b>		
Acute	<b>1,905</b>	1,475
Swing-bed	<b>1,794</b>	2,769
Newborn	<b>53</b>	72
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENTAGE OF OCCUPANCY (excluding newborn)</b>	<b>41%</b>	47%
<b>DISCHARGES</b>		
Acute	<b>543</b>	463
Swing-bed	<b>207</b>	181
<b>AVERAGE LENGTH OF STAY</b>		
Acute	<b>3.51</b>	3.19
Swing-bed	<b>8.67</b>	15.30
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Private rooms	<b>\$ 830.00</b>	\$ 630.00
Nursery	<b>405.00</b>	378.00



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**

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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, 2009 and 2008, 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 16, 2009. 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 Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, 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 November 16, 2009.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, 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 16, 2009

**VAN BUREN COUNTY HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-09      Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A 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.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

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-09      Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control 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  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

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

Condition – 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 GAAP. 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.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. 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 cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. 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.

I-C-09 Reconciliation of Bank Accounts

Criteria – Accurate reconciliation of bank accounts is an important aspect of cash management and internal control over cash and essential to prepare reliable financial statements.

Condition – Certain bank reconciliations did not reconcile to the general ledger on interim financial statements.

Cause – Variances were caused by the Hospital's general ledger software. During the monthly cash reconciliation process, accounting staff was not able to reconcile postings per the general ledger software to activity per the bank statement.

Effect – To correct the inaccuracies, the Hospital made a year-end audit adjustment of \$43,159 to increase cash balances.

**VAN BUREN COUNTY HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

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

Recommendation – We recommend Hospital management contact the Hospital’s general ledger software vendor to correct software inaccuracies. The Hospital’s staff accountant and Chief Financial Officer should work collectively in the preparation and review of bank reconciliations to correct any inaccuracies in a timely manner.

Response – Management agrees with the finding. The Hospital’s general ledger software vendor has been contacted to correct software inaccuracies. The Hospital’s staff accountant and Chief Financial Officer will work collectively in the preparation and review of bank reconciliations to correct any inaccuracies in a timely manner.

Conclusion – Response accepted.

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

II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.

II-B-09 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-09 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-09 Business Transactions – Business transactions between the Hospital and Hospital officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Linda Goldstein, Manager of Business Office, spouse of employee of Gold Rush Advertising	Advertising	\$ 6,053
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self- employed	Landscaping	7,147
Barbie Winslow, Rural Health Clinic CMA, spouse of Mike Winslow, self-employed	Mowing	3,170
Dr. Laura Hadden, physician, spouse of Matt Hadden, owner Matt Hadden Photography	Photography	547
Dr. Matt Manning, physician, Spouse of Judy Manning, self- employed	Landscaping	1,772

In addition, a Hospital board member is president of the bank where the Hospital has various checking, investment, and debt agreements.

**VAN BUREN COUNTY HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

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

- II-E-09      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-09      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-09      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, 2009, and have issued our report thereon dated November 16, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2009. Professional standards also require that we communicate to you the following information related to our audit.

### **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, 2009. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. 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 that 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.

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Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

*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 2009 audit:

Increase in net assets prior to audit adjustments	\$	258,597
To adjust estimated third-party payor settlements		50,000
To adjust prepaid expenses		(13,590)
To adjust investments		(11,039)
To adjust depreciation expense		39,098
Other adjustments		<u>(1,730)</u>
Increase in net assets as reported	\$	<u>321,336</u>

The net effect of the adjustments was to increase net assets by \$62,739.

*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 November 16, 2009.

*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. 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 Board of Trustees, management, 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 Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
November 16, 2009

xc: Ms. Lisa Schnedler

# **VAN BUREN COUNTY HOSPITAL**

**YEAR ENDED JUNE 30, 2009**

**OTHER COMMENTS**

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## **Capital Asset Depreciation Schedule**

The Hospital's depreciation schedule contained several outdated assets no longer used by the Hospital. If those assets are not removed from the schedule or the Hospital's financial records, they could overstate the Hospital's age of plant ratio. It is recommended that management distribute depreciation schedules annually to department heads to review fixed asset listings for obsolete and disposed items and remove those items from the schedule.

## **Conflict of Interest Policy**

It is our understanding that the Board of Trustees and senior management do not sign a conflict of interest policy. We recommend that a policy be adopted and that the Board of Trustees and senior management sign such a statement annually.

## **Approval of Employee Time Sheets**

It is our understanding that department heads approve employee time cards prior to payment. During review of the Hospital's time cards, we noted an instance where manager approval was not obtained. It is recommended that proper approval be obtained prior to processing payroll to avoid possible payment errors.