



Financial Statements
June 30, 2010 and 2009

Van Buren County Hospital

VAN BUREN COUNTY HOSPITAL

Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-4
BASIC FINANCIAL STATEMENTS	
Balance Sheets	5
Statements of Revenues, Expenses, and Changes in Net Assets	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-23
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	24
Notes to Required Supplementary Information – Budgetary Reporting	25
OTHER SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Supplementary Information Schedules	26
Net Patient Service Revenue	27-28
Other Operating Revenues	29
Operating Expenses	30-34
Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics	35
Supplies and Prepaid Expense	36
Community Service/Outreach Unreimbursed Services Provided by the Hospital to the Community	37
Statistical Information (Unaudited)	38
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	39-40
SCHEDULE OF FINDINGS AND RESPONSES	41-44

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

<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



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, 2010 and 2009, 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2010, 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 24 and 25 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

Dubuque, Iowa
December 13, 2010

**VAN BUREN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

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, 2010. 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 \$228,764 at June 30, 2010 from 2009.
- Total assets decreased \$2,666 in 2010 from 2009. This is due to a decrease in cash and accounts receivable despite the large increase in investments and the value of the Arnold Trust. Total liabilities decreased \$231,430 due to a decrease in estimated third-party payor settlements and long term debt.
- There was an increase in investments of \$410,643 for the year.
- Cash flows decreased by \$200,081 due to operating activities including lower receipts of patient service revenue and payments for supplies and other expenses.
- During the year, Van Buren County Hospital's total operating revenues decreased 2% to \$12,015,588; while the operating expenses increased 1% to \$12,631,218. Van Buren County Hospital had a loss from operations of \$(615,630) which is 5.1% of total operating revenue. Van Buren County Hospital had a gain in net income of \$228,764 which is 2% of 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, 2010, indicates total liabilities of \$5,129,273 and net assets of \$10,216,400.

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 \$12,015,588 and total operating expenses of \$12,631,218 during fiscal year 2010. The loss from operations was \$(615,630) in 2010, compared to a loss from operations of \$(304,759) in 2009. This statement also indicates a gain in net assets of \$228,764 compared to a gain in net assets of \$321,336 in 2009.

The statement of cash flows provides information about Van Buren County Hospital's cash from operating, investing and financing activities. As reported in this statement, cash and cash equivalents decreased to \$200,081 at June 30, 2010. This is due primarily to the decrease in cash for operating activities. Van Buren County Hospital also strives to ensure all excess cash is put into the investment reserve money market account to maximize investment income.

There are eleven 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 \$466,291 below the County budget filed with the Department of Revenue for June 30, 2010.

Long-Term Debt

At year-end, Van Buren County Hospital had \$3,030,498 in long-term debt. Long-term debt consists of revenue notes and bank notes.

Factors Bearing on Financial Future

Van Buren County Hospital is planning on investing in two significant building and remodeling projects in fiscal years 2011 and 2012. One project is the building of a Community Center which includes a Child Care Center and offices for Parents as Teachers, Job Opportunities, Occupational Health, SEIDA Headstart and an eye clinic. The other project will involve new construction of a dietary and cafeteria department and a new physical therapy and rehabilitation area. This project also includes 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 health care information technology system in fiscal years ending 2011 through 2014.

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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 108,385	\$ 308,466
Receivables		
Patient, net of estimated uncollectibles		
of \$1,512,000 in 2010 and \$1,498,000 in 2009	1,759,563	2,033,123
Estimated third-party payor settlements	300,000	-
Succeeding year property tax	763,088	759,617
Other	182,419	218,302
Supplies	249,218	229,435
Prepaid expense	102,136	137,984
	<u>3,464,809</u>	<u>3,686,927</u>
Total current assets		
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
Designated by board for capital improvements	3,671,742	3,276,901
Restricted under loan agreement	703,989	689,427
Restricted by donors for specific purposes	736,555	735,656
Restricted by donors for permanent endowment fund	53,428	53,087
	<u>5,165,714</u>	<u>4,755,071</u>
Total assets limited as to use or restricted		
CAPITAL ASSETS, net - Note 5	<u>6,266,789</u>	<u>6,526,957</u>
OTHER ASSETS		
Beneficial interest in net assets of Arnold Trust - Note 4	432,830	365,043
Notes receivable	15,531	14,341
	<u>448,361</u>	<u>379,384</u>
Total other assets		
Total assets	<u>\$ 15,345,673</u>	<u>\$ 15,348,339</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 164,909	\$ 174,286
Accounts payable		
Trade	341,878	349,409
Estimated third-party payor settlements	-	50,000
Accrued expenses		
Salaries and wages	376,789	361,632
Vacation	235,455	250,062
Payroll taxes and other	73,297	70,737
Interest	130,939	133,890
Village Terrace security deposits	12,420	15,655
Deferred revenue for succeeding year property tax receivable	<u>763,088</u>	<u>759,617</u>
 Total current liabilities	 2,098,775	 2,165,288
 LONG-TERM DEBT, less current maturities - Note 7	 <u>3,030,498</u>	 <u>3,195,415</u>
 Total liabilities	 <u>5,129,273</u>	 <u>5,360,703</u>
 NET ASSETS		
Invested in capital assets, net of related debt	3,071,382	3,157,256
Restricted - Note 6		
Nonexpendable contributions	783,982	783,982
Unrestricted	<u>6,361,036</u>	<u>6,046,398</u>
 Total net assets	 <u>10,216,400</u>	 <u>9,987,636</u>
 Total liabilities and net assets	 <u>\$ 15,345,673</u>	 <u>\$ 15,348,339</u>

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$330,724 in 2010 and \$412,419 in 2009) - Notes 2 and 3	\$ 11,105,556	\$ 11,349,198
Other operating revenues	<u>910,032</u>	<u>844,713</u>
TOTAL OPERATING REVENUES	<u>12,015,588</u>	<u>12,193,911</u>
OPERATING EXPENSES		
Salaries and wages	6,391,082	6,649,699
Supplies and other expenses	5,545,029	5,113,778
Depreciation and amortization	<u>695,107</u>	<u>735,193</u>
TOTAL OPERATING EXPENSES	<u>12,631,218</u>	<u>12,498,670</u>
OPERATING LOSS	<u>(615,630)</u>	<u>(304,759)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	775,608	742,145
Noncapital grants and contributions	-	1,093
Investment income	101,765	147,690
Interest expense	(143,772)	(151,668)
Gain (loss) on disposal of equipment	<u>4,311</u>	<u>(7,392)</u>
NET NONOPERATING REVENUES	<u>737,912</u>	<u>731,868</u>
REVENUES IN EXCESS OF EXPENSES BEFORE OTHER CHANGES IN NET ASSETS	122,282	427,109
OTHER CHANGES IN NET ASSETS		
Capital grants and contributions	22,239	31,197
Change in beneficial interest in net assets of Arnold Trust	<u>84,243</u>	<u>(136,970)</u>
INCREASE IN NET ASSETS	228,764	321,336
NET ASSETS, BEGINNING OF YEAR	<u>9,987,636</u>	<u>9,666,300</u>
NET ASSETS, END OF YEAR	<u>\$ 10,216,400</u>	<u>\$ 9,987,636</u>

See notes to financial statements.

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 11,027,926	\$ 11,567,443
Payments of salaries and wages	(6,390,532)	(6,659,129)
Payments of supplies and other expenses	(5,537,170)	(5,186,869)
Other receipts and payments, net	<u>945,915</u>	<u>925,068</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>46,139</u>	<u>646,513</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	775,608	742,145
Noncapital grants and contributions received	<u>-</u>	<u>1,093</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>775,608</u>	<u>743,238</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(419,374)	(437,971)
Capital grants and contributions received	22,239	31,197
Payment of principal on debt	(174,294)	(180,957)
Payment of interest on debt	(146,723)	(154,229)
Proceeds from issuance of long-term debt	-	20,761
Proceeds from sale of equipment	<u>5,202</u>	<u>3,600</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(712,950)</u>	<u>(717,599)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in assets limited as to use or restricted	(410,643)	(511,376)
Investment income received	<u>101,765</u>	<u>147,690</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(308,878)</u>	<u>(363,686)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(200,081)	308,466
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>308,466</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 108,385</u>	<u>\$ 308,466</u>

(continued)

VAN BUREN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (615,630)	\$ (304,759)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	695,107	735,193
Provision for bad debts	330,724	412,419
Changes in assets and liabilities		
Receivables	(22,471)	(493,819)
Supplies	(19,783)	11,135
Prepaid expense	35,848	3,356
Accounts payable	(7,531)	(39,378)
Estimated third-party payor settlements	(350,000)	380,000
Village Terrace security deposits	(3,235)	3,015
Accrued expenses	<u>3,110</u>	<u>(60,649)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 46,139</u>	<u>\$ 646,513</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 is 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). However, the Hospital would be subject to federal income tax on any unrelated business taxable income.

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

Reporting Entity

For financial reporting purposes, Van Buren County Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

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

- *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:*
 - *Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
 - *Expendable* – Expendable 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's 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, 2010 AND 2009

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 Trustees 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 Trustees 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, 2010 AND 2009

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, 2010 and 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 \$64,510 and \$61,769 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

Accounting for Uncertainty in Taxes

The Hospital has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Hospital will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent Events

The Hospital has evaluated subsequent events through December 13, 2010, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

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 \$53,305 and \$84,686 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon the cost-to-charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$37,000 and \$57,000, respectively.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

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, 2008.

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, 2007.

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 11%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010, and 54% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 16,921,102</u>	<u>\$ 17,285,590</u>
Contractual adjustments		
Medicare	(3,264,844)	(3,457,728)
Medicaid	(776,757)	(672,003)
Other	(1,443,221)	(1,394,242)
Total contractual adjustments	<u>(5,484,822)</u>	<u>(5,523,973)</u>
Net patient service revenue	<u>11,436,280</u>	11,761,617
Provision for bad debts	<u>(330,724)</u>	<u>(412,419)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 11,105,556</u>	<u>\$ 11,349,198</u>

NOTE 4 – CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2010 and 2009, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

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

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Investments are stated at fair value.

	<u>2010</u>	<u>2009</u>
Designated by board for capital improvements		
Money market accounts	\$ 1,012,110	\$ 986,496
Certificates of deposit	2,450,585	2,077,237
U.S. Treasury	199,983	199,983
Accrued interest receivable	9,064	13,185
	<u>\$ 3,671,742</u>	<u>\$ 3,276,901</u>
Restricted under loan agreement		
Money market accounts	\$ 209,628	\$ 195,703
Certificates of deposit	494,361	493,724
	<u>\$ 703,989</u>	<u>\$ 689,427</u>
Restricted by donors for specific purposes		
Certificates of deposit	\$ 223,305	\$ 222,406
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	<u>\$ 736,555</u>	<u>\$ 735,656</u>
Restricted by donors for permanent endowment fund		
Certificates of deposit	\$ 53,428	\$ 53,087
	<u>\$ 53,428</u>	<u>\$ 53,087</u>
Beneficial interest in net assets of Arnold Trust	<u>\$ 432,830</u>	<u>\$ 365,043</u>

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

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

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

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 191,229	\$ 10,875	\$ -	\$ -	\$ 202,104
Land improvements	108,963	-	-	-	108,963
Buildings and improvements	9,711,709	61,625	-	-	9,773,334
Construction in progress	39,970	18,912	-	-	58,882
Equipment	<u>5,076,576</u>	<u>344,617</u>	<u>170,433</u>	-	<u>5,250,760</u>
	<u>15,128,447</u>	<u>\$ 436,029</u>	<u>\$ 170,433</u>	<u>\$ -</u>	<u>15,394,043</u>
Accumulated depreciation					
Land improvements	80,431	3,009	-	-	83,440
Buildings and improvements	4,477,845	403,411	-	-	4,881,256
Equipment	<u>4,043,214</u>	<u>288,687</u>	<u>169,343</u>	-	<u>4,162,558</u>
	<u>8,601,490</u>	<u>\$ 695,107</u>	<u>\$ 169,343</u>	<u>\$ -</u>	<u>9,127,254</u>
Total capital assets, net	<u>\$ 6,526,957</u>				<u>\$ 6,266,789</u>
	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	<u>5,514,774</u>	<u>386,201</u>	<u>824,399</u>	-	<u>5,076,576</u>
	<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	<u>4,542,601</u>	<u>325,012</u>	<u>824,399</u>	-	<u>4,043,214</u>
	<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>

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 6 – RESTRICTED NET ASSETS

Restricted net assets consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</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, 2010 and 2009, there were no expenditures from the fund.

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

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

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

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

	<u>June 30</u>	
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 45,381	\$ 78,923
Certificates of deposit	80,000	80,000
Marketable equity securities	<u>820,699</u>	<u>719,370</u>
 Total assets	 <u>\$ 946,080</u>	 <u>\$ 878,293</u>
 Net Assets		
Unrestricted	\$ 432,830	\$ 365,043
Restricted	<u>513,250</u>	<u>513,250</u>
 Total net assets	 <u>\$ 946,080</u>	 <u>\$ 878,293</u>

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	June 30	
	2010	2009
Interest and dividend income	\$ 14,382	\$ 25,098
Realized gains	3,280	-
Unrealized gains (losses)	52,958	(139,839)
Investment fees	-	(590)
Taxes paid	(2,833)	(12,501)
Distributions to the Hospital	-	(9,138)
Change in beneficial interest in net assets of Arnold Trust	67,787	(136,970)
Net assets, beginning of year	878,293	1,015,263
Net assets, end of year	<u>\$ 946,080</u>	<u>\$ 878,293</u>

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2010 follows:

	June 30, 2009 Balance	Additions	Payments	June 30, 2010 Balance	Amounts Due Within One Year
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,046,260	\$ -	\$ 19,410	\$ 1,026,850	\$ 19,784
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	210,566	-	4,159	206,407	4,767
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	1,448,318	-	18,711	1,429,607	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	328,905	-	7,637	321,268	7,962

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	June 30, 2009 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2010 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	\$ 43,078	\$ -	\$ 8,157	\$ 34,921	\$ 8,504
Note payable to bank, 4.70% due in monthly payments of \$6,578 through April 2011, secured by equipment	138,384	-	73,699	64,685	64,685
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of \$3,706 through February 2013	150,730	-	39,061	111,669	40,496
Note payable, 0.00%, due in an installment of \$3,460 in July 2009	<u>3,460</u>	<u>-</u>	<u>3,460</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,369,701</u>	<u>\$ -</u>	<u>\$ 174,294</u>	<u>3,195,407</u>	<u>\$ 164,909</u>
Less current maturities				<u>(164,909)</u>	
Long-term debt, less current maturities				<u>\$ 3,030,498</u>	

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 164,909	\$ 135,963	\$ 300,872
2012	106,195	128,186	234,381
2013	94,780	125,718	220,498
2014	67,418	122,371	189,789
2015	61,682	120,204	181,886
2016-2020	351,107	553,983	905,090
2021-2025	434,602	469,692	904,294
2026-2030	538,139	366,956	905,095
2031-2035	612,610	239,999	852,609
2036-2040	475,212	116,120	591,332
2041-2044	288,753	31,853	320,606
	<u>\$ 3,195,407</u>	<u>\$ 2,411,045</u>	<u>\$ 5,606,452</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, 2010, the Hospital had \$703,989 in the reserve account. The amount required to be on deposit at June 30, 2010, is \$704,262.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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>	June 30, 2009 <u>Balance</u>	Amounts Due Within <u>One Year</u>
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,064,646	\$ -	\$ 18,386	\$ 1,046,260	\$ 18,977
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	214,919	-	4,353	210,566	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	1,448,318	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	328,905	7,638
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	50,907	-	7,829	43,078	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	138,384	74,005
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of \$3,706 through February 2013	187,930	-	37,200	150,730	38,813
Note payable, 0.00%, due in an installment of \$3,460 in July 2009	-	20,761	17,301	3,460	3,460
	<u>\$ 3,529,897</u>	<u>\$ 20,761</u>	<u>\$ 180,957</u>	3,369,701	<u>\$ 174,286</u>
Less current maturities				(174,286)	
Long-term debt, less current maturities				<u>\$ 3,195,415</u>	

(continued on next page)

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 4.30% of their annual covered salary, and the Hospital is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Hospital was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$426,530, \$424,291, and \$356,104, respectively, equal to the required contributions for each year.

NOTE 9 – CONTINGENCIES

Malpractice Insurance

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

Litigations, Claims, and Other Disputes

The Hospital is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Hospital.

Health Care Legislation and Regulation

The health care 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 health care 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 health care providers. Violation of these laws and regulations could result in expulsion from government health care 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.

VAN BUREN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	32%	46%
Medicaid	8	6
Commercial insurance	21	19
Other third-party payors and patients	<u>39</u>	<u>29</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

Van Buren County Hospital

VAN BUREN COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 775,608	\$ -	\$ 775,608	\$ 781,505	\$ (5,897)
Estimated other revenues/receipts	<u>12,139,592</u>	<u>(36,545)</u>	<u>12,103,047</u>	<u>12,373,640</u>	<u>(270,593)</u>
	12,915,200	(36,545)	12,878,655	13,155,145	(276,490)
Expenses/disbursements	<u>12,686,436</u>	<u>(18,343)</u>	<u>12,668,093</u>	<u>13,155,145</u>	<u>487,052</u>
Net	228,764	(18,202)	210,562	-	<u>\$ 210,562</u>
Balance, beginning of year	<u>9,987,636</u>	<u>(4,924,099)</u>	<u>5,063,537</u>	<u>9,333,844</u>	
Balance, end of year	<u>\$ 10,216,400</u>	<u>\$ (4,942,301)</u>	<u>\$ 5,274,099</u>	<u>\$ 9,333,844</u>	

VAN BUREN COUNTY HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
JUNE 30, 2010

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, 2010.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2010 and 2009

Van Buren County Hospital



**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 38 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
December 13, 2010

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 2,807,747	\$ 2,675,932
Nursery	27,405	20,223
Operating rooms	622,965	571,332
Delivery and labor rooms	45,161	33,551
Central services and supply	268,280	643,643
Emergency service	1,731,854	1,826,443
Laboratory	2,162,911	2,133,252
Electrocardiology	206,103	254,414
Radiology	2,603,267	2,381,242
Pharmacy	1,871,093	1,997,597
Anesthesiology	389,550	322,261
Respiratory therapy	496,708	472,538
Physical therapy	548,665	666,154
Speech therapy	16,251	7,018
Ambulance service	648,707	505,940
Cardiopulmonary rehab	101,252	135,786
Durable medical equipment	63,496	124,886
Home health care	137,983	310,593
Medical staff	710,268	654,647
Rural health clinics:		
Douds	147,333	138,956
Birmingham	207,932	196,991
Cantril	110,640	105,203
Keosauqua	851,310	977,660
Bonaparte	71,241	60,972
Farmington	126,285	153,042
	<u>16,974,407</u>	<u>17,370,276</u>
Charity care	<u>(53,305)</u>	<u>(84,686)</u>
 Total patient service revenue*	 <u><u>\$ 16,921,102</u></u>	 <u><u>\$ 17,285,590</u></u>

(continued)

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 5,302,976	\$ 5,785,560
Outpatient revenue	11,671,431	11,584,716
Charity care	<u>(53,305)</u>	<u>(84,686)</u>
Total patient service revenue	16,921,102	17,285,590
 DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments	<u>(5,484,822)</u>	<u>(5,523,973)</u>
 NET PATIENT SERVICE REVENUE	11,436,280	11,761,617
PROVISION FOR BAD DEBTS	<u>(330,724)</u>	<u>(412,419)</u>
 NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 11,105,556</u>	<u>\$ 11,349,198</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Village Terrace	\$ 226,201	\$ 175,653
Continuous family support system grant	177,883	172,142
Job opportunities	157,389	153,800
Day care center	126,236	152,881
Occupational health	74,303	40,799
Harkin grant	69,644	30,891
HRSA grant	18,136	8,337
Rent	17,210	22,287
Cafeteria	15,086	16,601
Wellmark grant - CORP	7,540	5,555
Tobacco-free grant	6,398	14,021
Private duty nursing	3,218	3,311
Medical records transcript fees	1,601	2,240
Other	<u>9,187</u>	<u>46,195</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 910,032</u>	 <u>\$ 844,713</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 150,331	\$ 142,145
Supplies and other expenses	<u>23,649</u>	<u>7,350</u>
	<u>173,980</u>	<u>149,495</u>
ROUTINE SERVICES		
Salaries and wages	1,044,013	1,032,303
Supplies and other expenses	<u>209,082</u>	<u>174,567</u>
	<u>1,253,095</u>	<u>1,206,870</u>
NURSERY		
Salaries and wages	925	-
Supplies and other expenses	<u>157</u>	<u>613</u>
	<u>1,082</u>	<u>613</u>
OPERATING ROOMS		
Salaries and wages	82,810	79,212
Supplies and other expenses	<u>103,197</u>	<u>118,449</u>
	<u>186,007</u>	<u>197,661</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	20,850	-
Supplies and other expenses	<u>859</u>	<u>85</u>
	<u>21,709</u>	<u>85</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	29,773	46,000
Supplies and other expenses	<u>147,657</u>	<u>93,737</u>
	<u>177,430</u>	<u>139,737</u>
EMERGENCY SERVICE		
Salaries and wages	423,856	483,806
Supplies and other expenses	<u>320,040</u>	<u>79,870</u>
	<u>743,896</u>	<u>563,676</u>
LABORATORY		
Salaries and wages	222,591	214,166
Supplies and other expenses	<u>334,772</u>	<u>324,797</u>
	<u>557,363</u>	<u>538,963</u>
ELECTROCARDIOLOGY		
Supplies and other expenses	<u>72</u>	<u>2,835</u>
RADIOLOGY		
Salaries and wages	241,184	240,350
Supplies and other expenses	<u>407,333</u>	<u>424,888</u>
	<u>648,517</u>	<u>665,238</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
PHARMACY		
Salaries and wages	\$ 19,104	\$ 17,920
Supplies and other expenses	<u>269,613</u>	<u>330,710</u>
	<u>288,717</u>	<u>348,630</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>236,214</u>	<u>210,876</u>
RESPIRATORY THERAPY		
Salaries and wages	96,271	160,679
Supplies and other expenses	<u>44,351</u>	<u>55,540</u>
	<u>140,622</u>	<u>216,219</u>
PHYSICAL THERAPY		
Salaries and wages	285,930	295,105
Supplies and other expenses	<u>13,971</u>	<u>20,714</u>
	<u>299,901</u>	<u>315,819</u>
SPEECH THERAPY		
Supplies and other expenses	<u>7,435</u>	<u>5,457</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>125</u>	<u>3,093</u>
AMBULANCE SERVICE		
Salaries and wages	193,892	207,033
Supplies and other expenses	<u>49,502</u>	<u>45,253</u>
	<u>243,394</u>	<u>252,286</u>
CARDIOPULMONARY REHAB		
Salaries and wages	60,490	66,985
Supplies and other expenses	<u>284</u>	<u>2,499</u>
	<u>60,774</u>	<u>69,484</u>
EMERGENCY PREPAREDNESS		
Supplies and other expenses	<u>11,198</u>	<u>11,087</u>
DURABLE MEDICAL EQUIPMENT		
Salaries and wages	6,880	14,484
Supplies and other expenses	<u>7,543</u>	<u>29,047</u>
	<u>14,423</u>	<u>43,531</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
HOME HEALTH CARE		
Salaries and wages	\$ 72,973	\$ 153,764
Supplies and other expenses	6,959	14,847
	<u>79,932</u>	<u>168,611</u>
MEDICAL STAFF		
Salaries and wages	278,565	311,128
Supplies and other expenses	157,900	36,387
	<u>436,465</u>	<u>347,515</u>
RURAL HEALTH CLINIC - DOUDS		
Salaries and wages	97,170	97,890
Supplies and other expenses	19,405	19,015
	<u>116,575</u>	<u>116,905</u>
RURAL HEALTH CLINIC - BIRMINGHAM		
Salaries and wages	132,115	127,949
Supplies and other expenses	20,266	29,875
	<u>152,381</u>	<u>157,824</u>
RURAL HEALTH CLINIC - CANTRIL		
Salaries and wages	103,047	80,746
Supplies and other expenses	20,085	25,944
	<u>123,132</u>	<u>106,690</u>
RURAL HEALTH CLINIC - KEOSAUQUA		
Salaries and wages	794,922	846,514
Supplies and other expenses	143,345	145,169
	<u>938,267</u>	<u>991,683</u>
RURAL HEALTH CLINIC - BONAPARTE		
Salaries and wages	111,098	97,724
Supplies and other expenses	16,582	20,056
	<u>127,680</u>	<u>117,780</u>
RURAL HEALTH CLINIC - FARMINGTON		
Salaries and wages	140,893	163,446
Supplies and other expenses	16,234	30,525
	<u>157,127</u>	<u>193,971</u>
RURAL HEALTH CLINIC - STOCKPORT		
Salaries and wages	-	546
Supplies and other expenses	59	137
	<u>59</u>	<u>683</u>

(continued)

**VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CONTINUOUS FAMILY SUPPORT SYSTEM		
Salaries and wages	\$ 118,954	\$ 112,479
Supplies and other expenses	<u>25,201</u>	<u>27,227</u>
	<u>144,155</u>	<u>139,706</u>
HARKIN GRANT		
Salaries and wages	32,158	19,128
Supplies and other expenses	<u>15,684</u>	<u>17,607</u>
	<u>47,842</u>	<u>36,735</u>
TOBACCO-FREE PROGRAM		
Salaries and wages	5,941	6,507
Supplies and other expenses	<u>1,064</u>	<u>2,452</u>
	<u>7,005</u>	<u>8,959</u>
DIETARY		
Salaries and wages	119,640	119,029
Supplies and other expenses	<u>104,460</u>	<u>109,320</u>
	<u>224,100</u>	<u>228,349</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	164,403	161,387
Supplies and other expenses	<u>336,733</u>	<u>348,574</u>
	<u>501,136</u>	<u>509,961</u>
HOUSEKEEPING		
Salaries and wages	123,924	116,698
Supplies and other expenses	<u>27,029</u>	<u>32,118</u>
	<u>150,953</u>	<u>148,816</u>
LAUNDRY AND LINEN		
Salaries and wages	30,789	33,667
Supplies and other expenses	<u>5,769</u>	<u>4,721</u>
	<u>36,558</u>	<u>38,388</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	842,864	857,979
Supplies and other expenses	<u>736,706</u>	<u>643,621</u>
	<u>1,579,570</u>	<u>1,501,600</u>
DAY CARE CENTER		
Salaries and wages	139,297	151,684
Supplies and other expenses	<u>24,412</u>	<u>28,605</u>
	<u>163,709</u>	<u>180,289</u>
FARM HEALTH AND SAFETY		
Supplies and other expenses	<u>-</u>	<u>12</u>

(continued)

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
JOB OPPORTUNITIES		
Salaries and wages	\$ 99,760	\$ 95,447
Supplies and other expenses	<u>31,127</u>	<u>21,584</u>
	<u>130,887</u>	<u>117,031</u>
CARDIOVASCULAR RISK		
Salaries and wages	<u>1,248</u>	<u>-</u>
OCCUPATIONAL HEALTH		
Salaries and wages	23,987	17,097
Supplies and other expenses	<u>22,931</u>	<u>11,781</u>
	<u>46,918</u>	<u>28,878</u>
LIFELINE		
Supplies and other expenses	<u>-</u>	<u>173</u>
VILLAGE TERRACE		
Salaries and wages	78,434	78,702
Supplies and other expenses	<u>29,344</u>	<u>32,943</u>
	<u>107,778</u>	<u>111,645</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	695,107	735,193
Insurance	150,587	167,558
Employee benefits	<u>1,446,218</u>	<u>1,402,060</u>
	<u>2,291,912</u>	<u>2,304,811</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,631,343</u>	<u>\$ 12,498,670</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL
ACCOUNTS, AND COLLECTION STATISTICS
JUNE 30, 2010 AND 2009

ANALYSIS OF AGING

<u>Days Since Discharge</u>	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
90 days or less	\$ 1,981,967	60.58%	\$ 2,618,289	74.14%
91 to 180 days	317,557	9.71	317,446	8.99
180 to 365 days	425,918	13.02	182,853	5.18
Over one year	545,841	16.69	412,715	11.69
	<u>3,271,283</u>	<u>100.00%</u>	<u>3,531,303</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	369,720		330,929	
Allowance for contractual adjustments	<u>1,142,000</u>		<u>1,167,251</u>	
Net	<u>\$ 1,759,563</u>		<u>\$ 2,033,123</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
BALANCE, BEGINNING OF YEAR	\$ 330,929	\$ 230,728
Add: Provision for bad debts	330,724	412,419
Recoveries of accounts written off	47,660	94,115
Less: Accounts written off	<u>(339,593)</u>	<u>(406,333)</u>
BALANCE, END OF YEAR	<u>\$ 369,720</u>	<u>\$ 330,929</u>

	<u>2010</u>	<u>2009</u>
COLLECTION STATISTICS		
Net accounts receivable – patients	\$ 1,759,563	\$ 2,033,123
Number of days charges outstanding (1)	56	59
Uncollectible accounts (2)	\$ 363,828	\$ 437,762
Percentage of uncollectible accounts to total charges	2.2%	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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
SUPPLIES		
General supplies	\$ 136,422	\$ 124,128
Pharmacy	95,592	86,433
Dietary	9,969	9,969
Office	<u>7,235</u>	<u>8,905</u>
	<u>\$ 249,218</u>	<u>\$ 229,435</u>
PREPAID EXPENSE		
Insurance	\$ 43,248	\$ 71,382
Maintenance agreements, dues, and other	<u>58,888</u>	<u>66,602</u>
	<u>\$ 102,136</u>	<u>\$ 137,984</u>

VAN BUREN COUNTY HOSPITAL
SCHEDULE OF COMMUNITY SERVICE/OUTREACH UNREIMBURSED SERVICES
PROVIDED BY THE HOSPITAL TO THE COMMUNITY
YEAR ENDED JUNE 30, 2010

Community service/outreach unreimbursed services provided by the Hospital to the Community:

Provisions for bad debts	\$ 330,724
Ambulance service	162,567
Charity care	53,305
Day care loss	37,473
Parents as Teachers in-kind	33,728
Screening blood pressure and school/free vaccinations	10,334
Community support/disaster readiness (over requirement)	7,575
Hospital facilities for meetings	6,166
Education/other health professions	5,520
Outside advocacy board and councils	5,194
Ambulance in community (HS games, fair, kids fair)	4,820
Delivery of medications	4,142
Health fair	2,867
Enrollment assistance/public medical programs	2,857
Education/physicians and medical students	2,692
CPR and AED training	1,860
Lectures at local schools	1,560
Support groups	910
Environmental improvements	810
Prenatal/family planning	630
School based health education program	294
Women's health education	186
	<u>\$ 676,214</u>

Van Buren County Hospital also had \$5,484,822 in adjustments to revenue based on third-party payor arrangements (commercial insurance, etc.). The ambulance service loss includes positions that are affected by covering ambulance services.

VAN BUREN COUNTY HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	1,391	1,905
Swing-bed	1,582	1,794
Newborn	67	53
NUMBER OF BEDS	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)	33%	41%
DISCHARGES		
Acute	468	543
Swing-bed	199	207
AVERAGE LENGTH OF STAY		
Acute	2.97	3.51
Swing-bed	7.95	8.67
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private rooms	\$ 830	\$ 830
Nursery	435	405



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, 2010 and 2009, 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 December 13, 2010. 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 an 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. 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.

The 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 the Hospital's responses, and accordingly, we express no opinion on them.

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 the 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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
December 13, 2010

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-10 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-10 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, 2010**

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.

**VAN BUREN COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Required Statutory Reporting

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 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-10 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-10 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	\$ 9,381
Carolyn DeHart, Ward Clerk, Spouse of Larry Dehart, self-employed	Landscaping	\$ 4,517
Dr. Matt Manning, physician, Spouse of Judy Manning, self-employed	Landscaping	\$ 367
Wes Wiley, Maintenance, Brother of Randy’s Plumbing employee	Plumbing	\$ 1,195
Wendy Ward, Clinic Receptionist/CMA, Daughter of Christie’s Custom Crew Cuts Employee	Mowing	\$ 360

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, 2010**

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

- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 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-10 Publication of Bills Allowed and Salaries – Chapter 347.13(11) 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.



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, 2010. 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 June 18, 2010. 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. The Hospital adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009, as disclosed in the financial statements. Other than the adoption of ASC 740-10, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2010. 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 – The 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.

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, the 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 2010 audit:

To adjust interest expense	\$	(7,477)
To adjust allowance for contractals		126,188
To adjust depreciation expense		89,618
To adjust property taxes payable		(5,897)
To adjust for the sale of DME equipment		5,400
To adjust physicians payable		(57,834)

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 December 13, 2010.

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.

This information is intended solely for the use of the Board of Trustees and management 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
December 13, 2010

xc: Ms. Lisa Schnedler, Administrator



The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

In planning and performing our audit of the financial statements of Van Buren County Hospital as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Van Buren County Hospital's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Van Buren County Hospital's internal control to be significant deficiencies:

Preparation of Financial Statements

A properly designed system of internal control over financial reporting includes the preparation of an Hospital'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 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. 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. 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.

Segregation of Duties

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

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dubuque, Iowa
December 13, 2010

xc: Ms. Lisa Schnedler, Administrator