Financial Statements
June 30, 2011 and 2010

Van Buren County Hospital

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Van Buren County Hospital

Board of Trustees and Hospital Officials

Name	Board of Trustees	Term Expires
Lloyd Foster	Chairperson	December 31, 2012
George Manning	Vice-Chairperson	December 31, 2014
Benjamin Sherod	Treasurer	December 31, 2014
Jeanne Erickson	Secretary	December 31, 2014
Nancy Nelson	Member	December 31, 2016
Edward Spees	Member	December 31, 2016
Michael Thomas	Member	December 31, 2012
	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, 2011 and 2010, 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, 2011 and 2010, 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 January 30, 2012, on our consideration of the Hospital's internal control over financial reporting and on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on pages 31 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Dubuque, Iowa
January 30, 2012

This discussion and analysis of the financial performance of Van Buren County Hospital provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statements of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of $16,155,658, total liabilities of $4,934,001, and net assets of $11,221,657.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total net patient service revenue of $10,593,891 decreased 4.7% from the previous fiscal year, total operating expenses of $12,261,835 decreased 2.9% resulting in a loss from operations of $812,117. A net non-operating gain of $744,878 brings the excess of expenses over revenues to $67,239. The capital grants and contributions and the beneficial interest in net assets of the Arnold Trust totaled $1,072,496 bringing the increase in net assets to $1,005,257 for the year ended June 30, 2011.

Organization Highlights

The organization continued to make many positive changes over this last fiscal year, including:

- Continued customer service training
- Start of the Experience team concepts for Employees, Customers, Providers, Quality, Community and Paper/IT
- Recruitment of three new physicians
- Recruitment of new ER midlevels
- Start of the Community Center construction project on the VBCH campus
- Planning for Electronic Medical Record implementation

Condensed Financial Statements

Balance Sheets

	June 30, 2011	June 30, 2010	June 30, 2009
Assets			
Current Assets	$ 3,838,322	$ 3,464,809	$ 3,686,927
Assets Limited as to Use or Restricted	5,596,223	5,165,714	4,755,071
Capital Assets, Net	6,140,948	6,266,789	6,526,957
Other Assets	580,165	448,361	379,384
Total assets	$ 16,155,658	$ 15,345,673	$ 15,348,339
Liabilities and Net Assets			
Current Liabilities	$ 2,009,826	$ 2,098,775	$ 2,165,288
Long-Term Liabilities	2,924,175	3,030,498	3,195,415
Total liabilities	4,934,001	5,129,273	5,360,703
Net Assets			
Invested in capital assets, net of related debt	3,111,373	3,071,382	3,157,256
Restricted	1,382,759	783,982	783,982
Unrestricted	6,727,525	6,361,036	6,046,398
Total net assets	11,221,657	10,216,400	9,987,636
Total liabilites and net assets	$ 16,155,658	$ 15,345,673	$ 15,348,339

Statements of Revenues, Expenses, and Changes in Net Assets

	Years Ended June 30,		
	2011	2010	2009
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 10,593,891	$ 11,105,556	$ 11,349,198
Other operating revenues	855,827	910,032	844,713
Total Operating Revenues	11,449,718	12,015,588	12,193,911
Operating Expenses			
Salaries and wages	6,085,968	6,391,082	6,649,699
Supplies and other expenses	5,440,332	5,545,029	5,113,778
Depreciation and amortization	735,535	695,107	735,193
Total Operating Expenses	12,261,835	12,631,218	12,498,670
Operating Loss	(812,117)	(615,630)	(304,759)
Nonoperating Revenues (Expenses)			
County tax revenue	780,763	775,608	742,145
Noncapital grants and contributions	17,877	-	1,093
Investment income	87,028	101,765	147,690
Interest expense	(140,790)	(143,772)	(151,668)
Gain (loss) on disposal of equipment	-	4,311	(7,392)
Net Nonoperating Revenues	744,878	737,912	731,868
Revenue in Excess of (Less Than) Expenses	(67,239)	122,282	427,109
Change in Beneficial Interest in Net Assets of Arnold Trust	132,994	84,243	(136,970)
Capital Grants and Contributions	939,502	22,239	31,197
Increase in Net Assets	1,005,257	228,764	321,336
Net Assets Beginning of Year	10,216,400	9,987,636	9,666,300
Net Assets End of Year	$ 11,221,657	$ 10,216,400	$ 9,987,636

Capital Assets

Van Buren County Hospital is constructing a new community center, which includes the Hospital's child care center and offices for parents as teachers, job opportunities, occupational health, SEIDA Headstart, WIC, healthy villages and an eye clinic. Construction of this project is scheduled for completion in April of 2012. A master planning project is in the works that will involve remodeling and new construction of multiple departments in the facility. The Hospital is also reviewing options for health care information technology system in fiscal year ending 2012 through 2015.

Long-Term Debt

At year end, Van Buren County Hospital had $3,029,575 in short-term and long-term debt. The debt consists of revenue notes, bank notes, and capitalized leases.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management consider many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Technology advances
- Medical staff issues
- Lower return on investments

Summary

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 184 employees provides to every person they serve. We would also like to thank each member of the Hospital's Medical Staff for their dedication and support provided.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Van Buren County Hospital
304 Franklin Street
Keosauqua, IA 52565

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 246,144	$ 108,385
Receivables		
Patient, net of estimated uncollectibles of $375,000 in 2011 and $370,000 in 2010	2,119,252	1,759,563
Estimated third-party payor settlements	144,539	300,000
Succeeding year property tax	764,365	763,088
Other	173,819	182,419
Supplies	277,557	249,218
Prepaid expenses	112,646	102,136
Total current assets	3,838,322	3,464,809
Assets Limited as to Use or Restricted - Note 4		
Designated by board for capital improvements	3,851,574	3,671,742
Restricted under loan agreement	954,227	703,989
Restricted by donors for specific purposes	736,803	736,555
Restricted by donors for permanent endowment fund	53,619	53,428
Total assets limited as to use or restricted	5,596,223	5,165,714
Capital Assets - Note 5		
Capital assets not being depreciated	426,990	260,986
Depreciable capital assets, net of accumulated depreciation	5,713,958	6,005,803
Total capital assets, net	6,140,948	6,266,789
Other Assets		
Beneficial interest in net assets of Arnold Trust - Note 4	565,824	432,830
Notes receivable	14,341	15,531
Total other assets	580,165	448,361
Total assets	$ 16,155,658	$ 15,345,673

See Notes to Financial Statements

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	$ 105,400	$ 164,909
Accounts payable		
Trade	393,662	341,878
Construction	42,095	-
Accrued expenses		
Salaries and wages	239,238	376,789
Vacation	238,705	235,455
Payroll taxes and other	76,555	73,297
Interest	133,146	130,939
Village Terrace security deposits	16,660	12,420
Deferred revenue for succeeding year property tax receivable	764,365	763,088
Total current liabilities	2,009,826	2,098,775
Long-Term Debt, Less Current Maturities - Note 7	2,924,175	3,030,498
Total liabilities	4,934,001	5,129,273
Net Assets		
Invested in capital assets, net of related debt	3,111,373	3,071,382
Restricted - Note 6		
Nonexpendable contributions	1,382,759	783,982
Unrestricted	6,727,525	6,361,036
Total net assets	11,221,657	10,216,400
Total liabilities and net assets	$ 16,155,658	$ 15,345,673

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $439,460 in 2011 and $330,724 in 2010) - Notes 2 and 3	$ 10,593,891	$ 11,105,556
Other operating revenues	855,827	910,032
Total Operating Revenues	11,449,718	12,015,588
Operating Expenses		
Salaries and wages	6,085,968	6,391,082
Supplies and other expenses	5,440,332	5,545,029
Depreciation and amortization	735,535	695,107
Total Operating Expenses	12,261,835	12,631,218
Operating Loss	(812,117)	(615,630)
Nonoperating Revenues (Expenses)		
County tax revenue	780,763	775,608
Noncapital grants and contributions	17,877	-
Investment income	87,028	101,765
Interest expense	(140,790)	(143,772)
Gain on disposal of equipment	-	4,311
Net Nonoperating Revenues	744,878	737,912
Revenues in Excess of (Less Than) Expenses	(67,239)	122,282
Capital Grants and Contributions	939,502	22,239
Change in Beneficial Interest in Net Assets of Arnold Trust	132,994	84,243
Increase in Net Assets	1,005,257	228,764
Net Assets, Beginning of Year	10,216,400	9,987,636
Net Assets, End of Year	$ 11,221,657	$ 10,216,400

	2011	2010
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 10,390,853	$ 11,027,926
Payments of salaries and wages	(6,220,269)	(6,390,532)
Payments of supplies and other expenses	(5,419,899)	(5,537,170)
Other receipts and payments, net	864,427	945,915
Net Cash Provided by (used for) Operating Activities	(384,888)	46,139
Cash Flows from Noncapital Financing Activities		
County tax revenue received	780,763	775,608
Noncapital grants and contributions received	17,877	-
Net Cash Provided by Noncapital Financing Activities	798,640	775,608
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(567,599)	(419,374)
Capital grants and contributions received	939,502	22,239
Payment of principal on debt	(165,832)	(174,294)
Payment of interest on debt	(138,583)	(146,723)
Proceeds from sale of equipment	-	5,202
Net Cash Provided by (used for) Capital and Related Financing Activities	67,488	(712,950)
Cash Flows from Investing Activities		
Purchase of investments	(4,153,490)	(2,494,174)
Proceeds from sale of investments	3,722,981	2,083,531
Investment income received	87,028	101,765
Net Cash used for Investing Activities	(343,481)	(308,878)
Net Increase (Decrease) in Cash and Cash Equivalents	137,759	(200,081)
Cash and Cash Equivalents at Beginning of Year	108,385	308,466
Cash and Cash Equivalents at End of Year	$ 246,144	$ 108,385

	2011	2010
Reconciliation of Operating Loss to Net Cash		
Provided by (used for) Operating Activities		
Operating loss	$ (812,117)	$ (615,630)
Adjustments to reconcile operating loss to net cash		
provided by (used for) operating activities		
Depreciation and amortization	735,535	695,107
Provision for bad debts	439,460	330,724
Changes in assets and liabilities		
Receivables	(789,359)	(22,471)
Supplies	(28,339)	(19,783)
Prepaid expenses	(10,510)	35,848
Accounts payable	51,784	(7,531)
Estimated third-party payor settlements	155,461	(350,000)
Village Terrace security deposits	4,240	(3,235)
Accrued expenses	(131,043)	3,110
Net Cash Provided by (used for) Operating Activities	$ (384,888)	$ 46,139

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.

Tax Exempt Status

The Hospital is organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal revenue Code Section 501(c)(3). The Hospital is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Hospital believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hospital would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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.

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'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 (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.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply the provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

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. Estimates also affect 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.

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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. 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

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, based on rates of pay in effect at June 30, 2011 and 2010.

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 $70,045 and $64,510 for advertising costs for the years ended June 30, 2011 and 2010, respectively.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

County Tax Revenue

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

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

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 $47,999 and $53,305 for the years ended June 30, 2011 and 2010, respectively. The estimated costs of the charges foregone, based upon the cost-to-charge ratio calculation, for the years ended June 30, 2011 and 2010, were $34,000 and $37,000, respectively.

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

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

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, 2010.

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, 2008.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 47% and 11%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011, and 52% and 11%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010. The net patient service revenue for the year ended June 30, 2011 increased approximately $227,000 due to prior year retroactive adjustments in excess of amounts previously estimated and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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.

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, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	$ 16,081,577	$ 16,921,102
Contractual Adjustments		
Medicare	(2,830,717)	(3,264,844)
Medicaid	(840,895)	(776,757)
Other	(1,376,614)	(1,443,221)
Total contractual adjustments	(5,048,226)	(5,484,822)
Net Patient Service Revenue	11,033,351	11,436,280
Provision for Bad Debts	(439,460)	(330,724)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 10,593,891	$ 11,105,556

Note 4 - Cash and Investments

The Hospital's deposits in banks at June 30, 2011 and 2010, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

Investments are stated at fair value.

	2011	2010
Designated by Board for Capital Improvements		
Money market accounts	$ 1,329,388	$ 1,012,110
Certificates of deposit	2,313,919	2,450,585
U.S. Treasury	199,983	199,983
Accrued interest receivable	8,284	9,064
	$ 3,851,574	$ 3,671,742
Restricted Under Loan Agreement		
Money market accounts	$ 223,263	$ 209,628
Certificates of deposit	730,964	494,361
	$ 954,227	$ 703,989
Restricted by Donors for Specific Purposes		
Certificates of deposit	$ 223,553	$ 223,305
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	$ 736,803	$ 736,555
Restricted by Donors for Permanent Endownment Fund		
Certificates of deposit	$ 53,619	$ 53,428
Beneficial Interest in Net Assets of Arnold Trust	$ 565,824	$ 432,830

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

1. **Safety:** Safety and preservation of principal in the overall portfolio.

2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.

3. **Return:** Obtaining a reasonable return.

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

Note 5 - Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2010 Balance	Additions	Deductions	Transfers	June 30, 2011 Balance
Capital Assets Not Being Depreciated:					
Land	$ 202,104	$ -	$ -	$ -	$ 202,104
Construction in progress	58,882	166,004	-	-	224,886
Total capital assets not being depreciated	260,986	166,004	-	-	426,990
Capital Assets Being Depreciated:					
Land improvements	108,963	-	-	-	108,963
Buildings and improvements	9,773,334	-	-	-	9,773,334
Equipment	5,250,760	443,690	-	-	5,694,450
Total capital assets being depreciated	15,133,057	443,690	-	-	15,576,747
Less Accumulated Depreciation for:					
Land improvements	83,440	3,009	-	-	86,449
Buildings and improvements	4,881,256	389,791	-	-	5,271,047
Equipment	4,162,558	342,735	-	-	4,505,293
Total accumulated depreciation	9,127,254	735,535	-	-	9,862,789
Total Capital Assets Being Depreciated, Net	6,005,803	(291,845)	-	-	5,713,958
Total Capital Assets, Net	$ 6,266,789	$ (125,841)	$ -	$ -	$ 6,140,948

Construction in progress at June 30, 2011, consists of costs related to the Day Care project which has an estimated completion cost of $2,200,000 and is funded through various USDA grants and loans and has an anticipated completion date of April 1, 2012, as well as the Hospital expansion project which has an estimated completion cost of $4,071,000 and is funded through various USDA grants and loans and has an anticipated completion date of two to three years.

	June 30, 2009 Balance	Additions	Deductions	Transfers	June 30, 2010 Balance
Capital Assets Not Being Depreciated:					
Land	$ 191,229	$ 10,875	$ -	$ -	$ 202,104
Construction in progress	39,970	18,912	-	-	58,882
Total capital assets not being depreciated	231,199	29,787	-	-	260,986
Capital Assets Being Depreciated:					
Land improvements	108,963	-	-	-	108,963
Buildings and improvements	9,711,709	61,625	-	-	9,773,334
Equipment	5,076,576	344,617	170,433	-	5,250,760
Total capital assets being depreciated	14,897,248	406,242	170,433	-	15,133,057
Less Accumulated Depreciation for:					
Land improvements	80,431	3,009	-	-	83,440
Buildings and improvements	4,477,845	403,411	-	-	4,881,256
Equipment	4,043,214	288,687	169,343	-	4,162,558
Total accumulated depreciation	8,601,490	695,107	169,343	-	9,127,254
Total Capital Assets Being Depreciated, Net	6,295,758	(288,865)	1,090	-	6,005,803
Total Capital Assets, Net	$ 6,526,957	$ (259,078)	$ 1,090	$ -	$ 6,266,789

Note 6 - Restricted Net Assets

Restricted net assets consist of the following at June 30, 2011 and 2010:

	2011	2010
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
Morrison Estate	598,777	-
Arnold Trust	513,250	513,250
Total restricted net assets	$ 1,382,759	$ 783,982

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, 2011 and 2010, 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 Morrison Estate is restricted for the purchase of capital equipment. The Hospital used $250,000 on a telemetry system in the fiscal year 2011. The remaining balance is held as restricted for capital purchases.

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 Arnold Trust's assets, net assets, and changes in net assets follows. The Hospital's interest in the net assets of the Trust is reported under other assets in the balance sheets.

	June 30	
	2011	2010
Cash and Cash Equivalents	$ 53,992	$ 45,381
Certificates of Deposit	80,000	80,000
Marketable Equity Securities	945,082	820,699
Total assets	$ 1,079,074	$ 946,080
Net Assets		
Unrestricted	$ 565,824	$ 432,830
Restricted	513,250	513,250
Total net assets	$ 1,079,074	$ 946,080

	June 30	
	2011	2010
Interest and Dividend Income	$ 12,411	$ 14,382
Realized Gains	12,301	3,280
Unrealized Gains	118,874	52,958
Taxes Paid	(10,592)	(2,833)
Change in Beneficial Interest in Net Assets of Arnold Trust	132,994	67,787
Net Assets, Beginning of Year	946,080	878,293
Net Assets, End of Year	$ 1,079,074	$ 946,080

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2011 follows:

	June 30, 2010 Balance	Additions	Payments	June 30, 2011 Balance	Amounts Due Within One Year
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of $66,492 through 2037	$ 1,026,850	$ -	$ (20,284)	$ 1,006,566	$ 20,625
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of $15,795 through 2032	206,407	-	(4,767)	201,640	5,022
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of $80,265 due July 2006 through 2043	1,429,607	-	(19,597)	1,410,010	20,336
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of $21,616 due July 2006 through 2033	321,268	-	(7,962)	313,306	8,301
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of $9,988 through 2013	34,921	-	(8,504)	26,417	8,865
Note payable to bank, 4.70% due in monthly payments of $6,578 through April 2011, secured by equipment	64,685	-	(64,685)	-	-
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of $3,706 through February 2013	111,669	-	(40,033)	71,636	42,251
	$ 3,195,407	$ -	$ (165,832)	3,029,575	$ 105,400
Less current maturities				(105,400)	
Long-term debt, less current maturities				$ 2,924,175	

Long-term debt maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 105,400	$ 131,583	$ 236,983
2013	94,779	125,718	220,497
2014	67,418	122,371	189,789
2015	61,682	120,204	181,886
2016	64,369	116,758	181,127
2017-2021	366,386	538,316	904,702
2022-2026	453,586	451,097	904,683
2027-2031	561,646	343,449	905,095
2032-2036	601,692	213,545	815,237
2037-2041	431,485	95,897	527,382
2042-2044	221,132	19,581	240,713
	$ 3,029,575	$ 2,278,519	$ 5,308,094

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, 2011, the Hospital had $954,227 in the reserve account. The amount required to be on deposit at June 30, 2011, is $743,150.

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

	June 30, 2009 Balance	Additions	Payments	June 30, 2010 Balance	Amounts Due Within One Year
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	3,460	-	(3,460)	-	-
	$ 3,369,701	$ -	$ (174,294)	3,195,407	$ 164,909
Less current maturities				(164,909)	
Long-term debt, less current maturities				$ 3,030,498	

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 4.50% of their annual covered salary, and the Hospital is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Hospital was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute. The Hospital’s contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were $430,014, $425,751, and $424,885, 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 be resolved without material adverse effects to the Hospital's financial position or results of operations.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that the Hospital is in substantial compliance with current laws and regulations.

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, 2011 and 2010, was as follows:

	2011	2010
Medicare	34%	32%
Medicaid	6%	8%
Commercial Insurance	27%	21%
Other Third-Party Payors and Patients	33%	39%
	100%	100%

Note 12 - Subsequent Events

The Hospital has evaluated subsequent events through January 30, 2012, the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2011 and 2010

Van Buren County Hospital

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 780,763	$ -	$ 780,763	$ 781,505	$ (742)
Estimated Other Revenues/ Receipts	12,627,119	(327,432)	12,299,687	12,757,188	(457,501)
	13,407,882	(327,432)	13,080,450	13,538,693	(458,243)
Expenses/Disbursements	12,402,625	109,557	12,512,182	13,538,693	1,026,511
Net	1,005,257	(436,989)	568,268	-	$ 568,268
Balance, Beginning of Year	10,216,400	(4,942,301)	5,274,099	9,333,844	
Balance, End of Year	$ 11,221,657	$ (5,379,290)	$ 5,842,367	$ 9,333,844	

Note 1 - Budgetary Comparison

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary 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, 2011.

For the year ended June 30, 2011, the Hospital’s expenditures did not exceed the amount budgeted.

Other Supplementary Information
June 30, 2011 and 2010

Van Buren County Hospital

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

We have audited the financial statements of Van Buren County Hospital as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon dated January 30, 2012, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables, allowance for doubtful accounts, and collection statistics, supplies and prepaid expenses, community service/outreach unreimbursed services provided by the Hospital to the community, and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenues, operating expenses, and supplies and prepaid expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, and collection statistics, community service/outreach unreimbursed services provided by the Hospital to the community, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Dubuque, Iowa
January 30, 2012

3999 Pennsylvania Ave., Ste. 100 | Dubuque, IA 52002-2273 | T 563.556.1790 | F 563.557.7842 | EOE

	2011	2010
Patient Service Revenue		
Routine services	$ 2,512,584	$ 2,807,747
Nursery	23,715	27,405
Operating rooms	572,076	622,965
Delivery and labor rooms	34,790	45,161
Central services and supply	257,050	268,280
Emergency service	1,785,098	1,731,854
Laboratory	2,225,982	2,162,911
Electrocardiology	195,170	206,103
Radiology	2,551,193	2,603,267
Pharmacy	1,412,135	1,871,093
Anesthesiology	359,403	389,550
Respiratory therapy	477,502	496,708
Physical therapy	521,850	548,665
Occupational therapy	71,779	-
Speech therapy	15,692	16,251
Ambulance service	660,082	648,707
Cardiopulmonary rehab	121,741	101,252
Durable medical equipment	-	63,496
Home health care	68,265	137,983
Medical staff	553,825	710,268
Rural health clinics:		
Douds	220,443	147,333
Birmingham	200,975	207,932
Cantril	127,378	110,640
Keosauqua	892,271	851,310
Bonaparte	119,941	71,241
Farmington	148,636	126,285
	16,129,576	16,974,407
Charity care	(47,999)	(53,305)
Total patient service revenue*	$ 16,081,577	$ 16,921,102

	2011	2010
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	$ 4,458,882	$ 5,302,976
Outpatient revenue	11,670,694	11,671,431
Charity care	(47,999)	(53,305)
Total patient service revenue	16,081,577	16,921,102
Deductions from Patient Service Revenue		
Contractual adjustments	(5,048,226)	(5,484,822)
Net Patient Service Revenue	11,033,351	11,436,280
Provision for Bad Debts	(439,460)	(330,724)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 10,593,891	$ 11,105,556

	2011	2010
Other Operating Revenues		
Village Terrace	$ 198,014	$ 226,201
Continuous family support system grant	177,644	177,883
Day care center	140,840	126,236
Job opportunities	131,428	157,389
Occupational health	77,537	74,303
Harkin grant	37,962	69,644
HRSA grant	13,807	18,136
Rent	19,499	17,210
Cafeteria	16,059	15,086
Wellmark grant - CORP	425	7,540
Tobacco-free grant	12,257	6,398
Private duty nursing	-	3,218
Medical records transcript fees	1,589	1,601
Other	28,766	9,187
Total Other Operating Revenues	$ 855,827	$ 910,032

	2011	2010
Nursing Administration		
Salaries and wages	$ 169,027	$ 150,331
Supplies and other expenses	12,393	23,649
	181,420	173,980
Routine Services		
Salaries and wages	917,123	1,044,013
Supplies and other expenses	154,777	209,082
	1,071,900	1,253,095
Nursery		
Salaries and wages	913	925
Supplies and other expenses	3,197	157
	4,110	1,082
Operating Rooms		
Salaries and wages	96,788	82,810
Supplies and other expenses	128,743	103,197
	225,531	186,007
Delivery and Labor Rooms		
Salaries and wages	26,826	20,850
Supplies and other expenses	820	859
	27,646	21,709
Central Services and Supply		
Salaries and wages	22,954	29,773
Supplies and other expenses	40,893	147,657
	63,847	177,430
Emergency Service		
Salaries and wages	443,174	423,856
Supplies and other expenses	376,494	320,040
	819,668	743,896
Laboratory		
Salaries and wages	221,656	222,591
Supplies and other expenses	285,269	334,772
	506,925	557,363
Electrocardiology		
Supplies and other expenses	-	72
Radiology		
Salaries and wages	254,600	241,184
Supplies and other expenses	408,435	407,333
	663,035	648,517

	2011	2010
Pharmacy		
Salaries and wages	$ 17,813	$ 19,104
Supplies and other expenses	198,120	269,613
	215,933	288,717
Anesthesiology		
Supplies and other expenses	202,092	236,214
Respiratory Therapy		
Salaries and wages	98,036	96,271
Supplies and other expenses	58,887	44,351
	156,923	140,622
Physical Therapy		
Salaries and wages	294,229	285,930
Supplies and other expenses	12,959	13,971
	307,188	299,901
Speech Therapy		
Supplies and other expenses	6,976	7,435
Occupational Therapy		
Supplies and other expenses	46,033	125
Ambulance Service		
Salaries and wages	201,348	193,892
Supplies and other expenses	41,205	49,502
	242,553	243,394
Cardiopulmonary Rehab		
Salaries and wages	59,775	60,490
Supplies and other expenses	2,538	284
	62,313	60,774
Emergency Preparedness		
Supplies and other expenses	13,807	11,198
Durable Medical Equipment		
Salaries and wages	-	6,880
Supplies and other expenses	-	7,543
	-	14,423

	2011	2010
Home Health Care		
Salaries and wages	$ -	$ 72,973
Supplies and other expenses	13,210	6,959
	13,210	79,932
Medical Staff		
Salaries and wages	317,501	278,565
Supplies and other expenses	2,601	157,900
	320,102	436,465
Rural Health Clinic - Douds		
Salaries and wages	91,726	97,170
Supplies and other expenses	15,032	19,405
	106,758	116,575
Rural Health Clinic - Birmingham		
Salaries and wages	141,188	132,115
Supplies and other expenses	17,017	20,266
	158,205	152,381
Rural Health Clinic - Cantril		
Salaries and wages	93,965	103,047
Supplies and other expenses	16,500	20,085
	110,465	123,132
Rural Health Clinic - Keosauqua		
Salaries and wages	712,032	794,922
Supplies and other expenses	364,340	143,345
	1,076,372	938,267
Rural Health Clinic - Bonaparte		
Salaries and wages	95,630	111,098
Supplies and other expenses	13,525	16,582
	109,155	127,680
Rural Health Clinic - Farmington		
Salaries and wages	131,917	140,893
Supplies and other expenses	18,239	16,234
	150,156	157,127
Rural Health Clinic - Stockport		
Supplies and other expenses	-	59

	2011	2010
Continuous Family Support System		
Salaries and wages	$ 116,412	$ 118,954
Supplies and other expenses	25,597	25,201
	142,009	144,155
Harkin Grant		
Salaries and wages	32,400	32,158
Supplies and other expenses	4,329	15,684
	36,729	47,842
Tobacco-Free Program		
Salaries and wages	7,751	5,941
Supplies and other expenses	1,615	1,064
	9,366	7,005
Dietary		
Salaries and wages	109,663	119,640
Supplies and other expenses	107,831	104,460
	217,494	224,100
Plant Operation and Maintenance		
Salaries and wages	169,690	164,403
Supplies and other expenses	390,276	336,733
	559,966	501,136
Housekeeping		
Salaries and wages	123,670	123,924
Supplies and other expenses	29,956	27,029
	153,626	150,953
Laundry and Linen		
Salaries and wages	30,561	30,789
Supplies and other expenses	8,269	5,769
	38,830	36,558
Administrative Services		
Salaries and wages	749,502	842,864
Supplies and other expenses	766,574	736,706
	1,516,076	1,579,570
Day Care Center		
Salaries and wages	126,364	139,297
Supplies and other expenses	25,969	24,412
	152,333	163,709

	2011	2010
Job Opportunities		
Salaries and wages	$ 96,361	$ 99,760
Supplies and other expenses	15,693	31,127
	112,054	130,887
Cardiovascular Risk		
Salaries and wages	-	1,248
Occupational Health		
Salaries and wages	30,808	23,987
Supplies and other expenses	19,492	22,931
	50,300	46,918
Lifeline		
Supplies and other expenses	52	-
Village Terrace		
Salaries and wages	84,565	78,434
Supplies and other expenses	37,825	29,344
	122,390	107,778
Unassigned Expenses		
Depreciation and amortization	735,535	695,107
Insurance	149,088	150,587
Employee benefits	1,403,664	1,446,093
	2,288,287	2,291,787
Total Operating Expenses	$ 12,261,835	$ 12,631,218

Analysis of Aging

	June 30, 2011		June 30, 2010	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
90 days or less	$ 2,394,677	59.87%	$ 1,981,967	60.58%
91 to 180 days	514,058	12.85%	317,557	9.71%
180 to 365 days	467,031	11.68%	425,918	13.02%
Over one year	624,126	15.60%	545,841	16.69%
	3,999,892	100.00%	3,271,283	100.00%
Less:				
Allowance for doubtful accounts	374,720		369,720	
Allowance for contractual adjustments	1,505,920		1,142,000	
Net	$ 2,119,252		$ 1,759,563	

Allowance for Doubtful Accounts
Years Ended June 30, 2011 and 2010

	2011	2010
Balance, Beginning of Year	$ 369,720	$ 330,929
Add:		
Provision for bad debts	439,460	330,724
Recoveries of accounts written off	21,720	47,660
Less:		
Accounts written off	(456,180)	(339,593)
Balance, End of Year	$ 374,720	$ 369,720

	2011	2010
Collection Statistics		
Net Accounts Receivable - Patients	$ 2,119,252	$ 1,759,563
Number of Days Charges Outstanding (1)	74	56
Uncollectible Accounts (2)	$ 469,323	$ 363,828
Percentage of Uncollectible Accounts to Total Charges	2.9%	2.2%

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

	2011	2010
Supplies		
General supplies	$ 144,943	$ 136,422
Pharmacy	110,775	95,592
Dietary	10,164	9,969
Office	11,675	7,235
	$ 277,557	$ 249,218
Prepaid Expenses		
Insurance	$ 48,806	$ 43,248
Maintenance agreements, dues, and other	63,840	58,888
	$ 112,646	$ 102,136

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

Provisions for Bad Debts	$	439,460
Ambulance Service		148,063
Charity Care		47,999
Parents as Teachers In-Kind		42,375
Daycare Loss		29,630
In-Kind Portion of Healthy Villages		16,070
Screening Blood Pressure and School/Free Vaccinations		13,459
Education/Other Health Professions		8,328
CPR and AED Training		6,900
Delivery of Medications		6,495
Outside Advocacy Board and Councils		6,428
Enrollment Assistance/Public Medical Programs		5,199
Speakers Bureau		4,912
Ambulance in Community (HS Games, Fair, Kids Fair)		3,500
Health Fairs		3,218
Hospital Facilities for Meetings		3,200
Education/Physicians and Medical Students		1,844
Community Support/Disaster Readiness (Over Requirement)		1,540
Environmental Improvements		1,038
School Based Health Education Program		547
Prenatal/Family Planning		448
Women's Health Education		430
Immunizations/Flu Shot		360
	$	791,443

Van Buren County Hospital also had $5,048,226 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.

		2011		2010
Patient Days				
Acute		1,115		1,391
Swing-bed		1,413		1,582
Newborn		51		67
Number of Beds		25		25
Percentage of Occupancy (Excluding Newborn)		28%		33%
Discharges				
Acute		363		468
Swing-bed		166		199
Average Length of Stay				
Acute		3.07		2.97
Swing-bed		8.51		7.95
Most Recent Year End Routine Service Rates				
Private Rooms	$	890	$	830
Nursery		465		435

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 sheet of Van Buren County Hospital (Hospital) as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated December 13, 2011. We conducted our audit 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 entity'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 Part I of the accompanying Schedule of Findings and Responses as items I-A-11 and I-B-11 that we consider 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.

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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, noncompliance 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 noncompliance 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, 2011, 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.

Eide Bailly LLP

Dubuque, Iowa
January 30, 2012

Part I: Findings Related to the Financial Statements

Significant Deficiencies:

I-A-11 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.

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

I-B-11 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).

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.

Part II: Other Findings Related to Required Statutory Reporting

II-A-11 **Certified Budget** – Disbursements during the year ended June 30, 2011, did not exceed the amount budgeted.

II-B-11 **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-11 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-11 **Business Transactions** – Business transactions between the Hospital and Hospital officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Linda Goldstein, Manager of Business Office, spouse of Employee of Gold Rush Advertising	Advertising	$ 7,217
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self-employed	Landscaping	$ 7,874
Dr. Matt Manning, physician, spouse of Judy Manning, self-employed	Landscaping	$ 85
Wes Wiley, Maintenance, brother of Randy's Plumbing employee	Plumbing	$ 3,169
Douds Kwik Stop, owner is son of Gary & J.D. Debner - employees	Pizza's	$ 524
Mike's Paint & Body, spouse to Teresa Dunkin - employee	Body Repair	$ 42
Van Buren Safe Coalition, Heidi Bainbridge - Director, sister to Melissa Bainbridge - employee	Tobacco Free Program	$ 3,029

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

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

II-E-11 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-11 **Deposits and Investments –** No instances of noncompliance 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-11 **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.

EideBailly

CPAs & BUSINESS ADVISORS

January 30, 2012

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, 2011. 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 28, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Van Buren County Hospital, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

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 the above 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.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

We discussed all adjustments to the financial statements with management during the audit. The following adjustments were made during the 2011 audit, with adjustments greater than $10,000 listed separately:

	Increase (Decrease) to Net Assets
To adjust estimated third-party payor settlements	$ 85,492
To reclass unrestricted contributions to operating income	17,877
To adjust Arnold Trust and VBCH Trust accounts receivables	(11,661)

The net effect of the adjustments was to increase net assets by $91,708.

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 January 30, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued Proposed Accounting Standards Update 1850-100, Leases. The joint committee received many comments regarding this proposal, and has made several revisions. Due to the changes made, the joint committee has made the decision to re-expose the proposal. The re-exposure draft was announced July 21, 2011, with an estimated release date within the first half of 2012. While changes have been made, the underlying fundamentals of the change to lease accounting remain unchanged. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be brought onto the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

The joint committee was expected to issue a final standard to be voted on by the FASB and IASB boards in 2011. If approved, it was anticipated that the effective date would have been for financial statements issued in calendar year 2013. After the announcement of the new exposure draft, the timeline for an effective date of the final standard is unknown.

Accounting for Insurance Claims

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-24: Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries.

The ASU addresses the diversity in accounting for insurance claims and recoveries, primarily relating to medical malpractice insurance. Most health care entities have netted the claim liability against the estimated recovery. However, some have presented the liability and receivable on a gross basis, causing a difference in practice among the industry. Based on this, the FASB has determined that netting is not appropriate for insurance claims and related anticipated insurance recoveries. The claim liability should be considered separately from the insurance recovery.

The ASU applies to all health care entities with exposure to risk of a malpractice claim, regardless of insurance coverage. When the incidents that give rise to a claim occur, an entity is required to evaluate its exposure to losses and potentially recognize a liability. The evaluation of exposure includes the ultimate cost of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims. An entity that has insurance coverage for the claim should recognize a receivable for insurance recoveries at the same time as the liability is recognized. It should be measured on the same basis as the liability. Receivables recorded for insurance recoveries are subject to a valuation allowance for uncollectible accounts.

The effective date of ASU No. 2010-24 is for the Hospital's June 30, 2012, financial statements. An entity will record a cumulative-effect adjustment to the opening net asset balance in the year of adoption if a difference exists between the liability and receivable recorded. The provisions of this ASU should be reviewed to determine the potential effect on financial reporting.

Tax Exempt Status and 501(r) Requirements

The Patient Protection and Affordable Care Act was enacted on March 23, 2010, which resulted in additional requirements in order for hospitals to maintain tax exempt status for tax years starting after March 22, 2010. The new 501(r) requirements for tax exempt status will be reported on Schedule H of the annual Form 990. Even though the Hospital is not required to file the annual Form 990, it is required, as a 501(c)(3), to adhere to the requirements of 501(r).

The Act requires the organization to address the following requirements to qualify for exemption under 501(c)(3):

- A community health needs assessment must be conducted at least once every three years. The first assessment must be completed before the tax year beginning after March 22, 2012.
- A written financial assistance policy must be in place with certain required components. In addition, the organization must have a policy that requires it to provide emergency medical care regardless of a patient's eligibility under the financial assistance policy.
- Charges for emergency or other medically necessary care for persons under the financial assistance policy must be not more than the lowest amounts charged to insured patients and gross charges may not be used.
- Extraordinary collection actions cannot be engaged in before making reasonable efforts to determine a patient's eligibility for free or discounted care.

We recommend that management assess and determine their current status for meeting the requirements of 501(r). While the Form 990 reporting for 501(r) compliance was deferred, meeting the requirements of the Act was not deferred. Guidance on how the requirements will be enforced have not been presently released, however, good faith efforts should be made by the organization to ensure the requirements have been addressed.

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) applies to all "Covered Entities," which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards. ICD-10-PCS (Procedure Coding System) applies to all hospital inpatients.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving the understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD-10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

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.

Sincerely,

EIDE BAILLY LLP

Eide Bailly LLP