



Financial Statements
June 30, 2012 and 2011

Van Buren County Hospital

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Van Buren County Hospital
Board of Trustees and Hospital Officials

<u>Name</u>	<u>Board of Trustees</u>	<u>Term Expires</u>
Lloyd Foster	Chairperson	December 31, 2012
George Manning	Vice-Chairperson	Resigned July 1, 2012
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
	<u>Hospital Officials</u>	
Lisa Schnedler	Administrator	
Kara McEntee	Chief Financial Officer	



Independent Auditor's Report

To the Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

We have audited the accompanying balance sheets of Van Buren County Hospital (Hospital) as of June 30, 2012 and 2011, 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 the Hospital as of June 30, 2012 and 2011, 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 21, 2013, 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 30 and 31 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 21, 2013

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, 2012, 2011, and 2010. 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, 2012, indicates total assets of \$17,422,974, total liabilities of \$5,748,150, and net assets of \$12,036,824.
- The Statement of Revenues, Expenses, and Changes in Net Assets indicates total net patient service revenue of \$10,237,471 decreased 3.4% from the previous fiscal year, total operating expenses of \$12,395,603 increased 1.1%, resulting in a loss from operations of \$1,006,825. A net non-operating gain of \$752,919 brings the excess of expenses over revenues to \$253,906. The capital grants and contributions and the change in beneficial interest in net assets of the Arnold Trust totaled \$1,069,073 bringing the increase in net assets to \$815,167 for the year ended June 30, 2012.

Organization Highlights

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

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

Condensed Financial Statements

Balance Sheets

	<u>June 30,</u> 2012	<u>June 30,</u> 2011	<u>June 30,</u> 2010
Assets			
Current Assets	\$ 4,166,233	\$ 3,838,322	\$ 3,464,809
Assets Limited as to Use or Restricted	4,902,086	5,596,223	5,165,714
Capital Assets, Net	8,070,669	6,140,948	6,266,789
Other Assets	<u>645,986</u>	<u>580,165</u>	<u>448,361</u>
Total assets	<u>\$ 17,784,974</u>	<u>\$ 16,155,658</u>	<u>\$ 15,345,673</u>
Liabilities and Net Assets			
Current Liabilities	\$ 2,600,541	\$ 2,009,826	\$ 2,098,775
Long-Term Liabilities	<u>3,147,609</u>	<u>2,924,175</u>	<u>3,030,498</u>
Total liabilities	<u>5,748,150</u>	<u>4,934,001</u>	<u>5,129,273</u>
Net Assets			
Invested in capital assets, net of related debt	4,792,280	3,111,373	3,071,382
Restricted	1,566,354	1,382,759	783,982
Unrestricted	<u>5,678,190</u>	<u>6,727,525</u>	<u>6,361,036</u>
Total net assets	<u>12,036,824</u>	<u>11,221,657</u>	<u>10,216,400</u>
Total liabilities and net assets	<u>\$ 17,784,974</u>	<u>\$ 16,155,658</u>	<u>\$ 15,345,673</u>

Statements of Revenues, Expenses, and Changes in Net Assets

	Years Ended June 30,		
	2012	2011	2010
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 10,237,471	\$ 10,593,891	\$ 11,105,556
Other operating revenues	1,151,307	855,827	910,032
Total Operating Revenues	11,388,778	11,449,718	12,015,588
Operating Expenses			
Salaries and wages	6,257,339	6,085,968	6,391,082
Supplies and other expenses	5,371,237	5,440,332	5,545,029
Depreciation and amortization	767,027	735,535	695,107
Total Operating Expenses	12,395,603	12,261,835	12,631,218
Operating Loss	(1,006,825)	(812,117)	(615,630)
Nonoperating Revenues (Expenses)			
County tax revenue	774,651	780,763	775,608
Noncapital grants and contributions	-	17,877	-
Investment income	102,617	87,028	101,765
Interest expense	(130,602)	(140,790)	(143,772)
Gain on disposal of equipment	6,253	-	4,311
Net Nonoperating Revenues	752,919	744,878	737,912
Revenue in Excess of (Less Than) Expenses	(253,906)	(67,239)	122,282
Capital Grants and Contributions	1,005,086	939,502	22,239
Change in Beneficial Interest in Net Assets of Arnold Trust	63,987	132,994	84,243
Increase in Net Assets	815,167	1,005,257	228,764
Net Assets Beginning of Year	11,221,657	10,216,400	9,987,636
Net Assets End of Year	\$ 12,036,824	\$ 11,221,657	\$ 10,216,400

Capital Assets

Van Buren County Hospital is nearing completion of 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 was completed in August 2012. A master planning project is in the works that will involve remodeling and new construction of multiple departments in the facility. The Hospital also will be implementing a health care information technology system in fiscal years ending 2012 through 2015.

Long-Term Debt

At year end, Van Buren County Hospital had \$3,278,389 in short-term and long-term debt. The debt consists of revenue notes and an interest free loan through Keosauqua Light and Power.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management consider many factors when preparing the fiscal year 2013 budget. Of primary consideration in the 2013 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
- Recruitment of medical staff to rural areas
- 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 183 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

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 116,988	\$ 246,144
Receivables		
Patient, net of estimated uncollectibles of \$374,000 in 2012 and \$375,000 in 2011	1,965,793	2,119,252
Estimated third-party payor settlements	460,000	144,539
Succeeding year property tax	782,363	764,365
Other	503,488	173,819
Supplies	255,224	277,557
Prepaid expenses	82,377	112,646
Total current assets	<u>4,166,233</u>	<u>3,838,322</u>
Assets Limited as to Use or Restricted - Note 3		
Designated by board for capital improvements	3,164,924	3,851,574
Restricted under loan agreement	943,672	954,227
Restricted by donors for specific purposes	739,902	736,803
Restricted by donors for permanent endowment fund	53,588	53,619
Total assets limited as to use or restricted	<u>4,902,086</u>	<u>5,596,223</u>
Capital Assets - Note 4		
Capital assets not being depreciated	2,934,075	426,990
Depreciable capital assets, net of accumulated depreciation	5,136,594	5,713,958
Total capital assets, net	<u>8,070,669</u>	<u>6,140,948</u>
Other Assets		
Beneficial interest in net assets of Arnold Trust - Note 6	629,811	565,824
Notes receivable	16,175	14,341
Total other assets	<u>645,986</u>	<u>580,165</u>
Total assets	<u>\$ 17,784,974</u>	<u>\$ 16,155,658</u>

See Notes to Financial Statements

Van Buren County Hospital
Balance Sheets
June 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 5	\$ 130,780	\$ 105,400
Accounts payable		
Trade	374,109	393,662
Construction	554,807	42,095
Accrued expenses		
Salaries and wages	235,654	239,238
Vacation	260,403	238,705
Payroll taxes and other	113,404	76,555
Interest	130,311	133,146
Village Terrace security deposits	18,710	16,660
Deferred revenue for succeeding year property tax receivable	782,363	764,365
	2,600,541	2,009,826
Total current liabilities		
Long-Term Debt, Less Current Maturities - Note 5	3,147,609	2,924,175
	5,748,150	4,934,001
Total liabilities		
Net Assets		
Invested in capital assets, net of related debt	4,792,280	3,111,373
Restricted - Note 6		
Expendable contributions	1,513,267	1,329,672
Nonexpendable contributions	53,087	53,087
Unrestricted	5,678,190	6,727,525
	12,036,824	11,221,657
Total net assets		
Total liabilities and net assets	\$ 17,784,974	\$ 16,155,658

Van Buren County Hospital
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$473,294 in 2012 and \$439,460 in 2011) - Note 2	\$ 10,237,471	\$ 10,593,891
Other operating revenues	1,151,307	855,827
Total Operating Revenues	11,388,778	11,449,718
Operating Expenses		
Salaries and wages	6,257,339	6,085,968
Supplies and other expenses	5,371,237	5,440,332
Depreciation and amortization	767,027	735,535
Total Operating Expenses	12,395,603	12,261,835
Operating Loss	(1,006,825)	(812,117)
Nonoperating Revenues (Expenses)		
County tax revenue	774,651	780,763
Noncapital grants and contributions	-	17,877
Investment income	102,617	87,028
Interest expense	(130,602)	(140,790)
Gain on disposal of equipment	6,253	-
Net Nonoperating Revenues	752,919	744,878
Revenues Less Than Expenses	(253,906)	(67,239)
Capital Grants and Contributions	1,005,086	939,502
Change in Beneficial Interest in Net Assets of Arnold Trust	63,987	132,994
Increase in Net Assets	815,167	1,005,257
Net Assets, Beginning of Year	11,221,657	10,216,400
Net Assets, End of Year	\$ 12,036,824	\$ 11,221,657

Van Buren County Hospital
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 10,073,635	\$ 10,390,853
Payments of salaries and wages	(6,239,225)	(6,220,269)
Payments of supplies and other expenses	(5,299,289)	(5,419,899)
Other receipts and payments, net	821,638	864,427
Net Cash used for Operating Activities	(643,241)	(384,888)
Cash Flows from Noncapital Financing Activities		
County tax revenue received	774,651	780,763
Noncapital grants and contributions received	-	17,877
Net Cash provided by Noncapital Financing Activities	774,651	798,640
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,184,036)	(567,599)
Proceeds from sale of equipment	6,253	-
Capital grants and contributions received	1,005,086	939,502
Payment of principal on debt	(111,186)	(165,832)
Proceeds from issuance of long-term debt	360,000	-
Payment of interest on debt	(133,437)	(138,583)
Net Cash provided by (used for) Capital and Related Financing Activities	(1,057,320)	67,488
Cash Flows from Investing Activities		
Purchase of investments	(1,367,995)	(4,153,490)
Proceeds from sale of investments	2,062,132	3,722,981
Investment income received	102,617	87,028
Net Cash provided by (used for) Investing Activities	796,754	(343,481)
Net Increase (Decrease) in Cash and Cash Equivalents	(129,156)	137,759
Cash and Cash Equivalents at Beginning of Year	246,144	108,385
Cash and Cash Equivalents at End of Year	\$ 116,988	\$ 246,144

Van Buren County Hospital
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (1,006,825)	\$ (812,117)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	767,027	735,535
Provision for bad debts	473,294	439,460
Changes in operating assets and liabilities		
Receivables	(651,338)	(789,359)
Supplies	22,333	(28,339)
Prepaid expenses	30,269	(10,510)
Accounts payable	(19,553)	51,784
Estimated third-party payor settlements	(315,461)	155,461
Village Terrace security deposits	2,050	4,240
Accrued expenses	54,963	(131,043)
Net Cash used for Operating Activities	\$ (643,241)	\$ (384,888)

Note 1 - Organization and Significant Accounting Policies

Organization

Van Buren County Hospital (Hospital) is a 25-bed public hospital located in Keosauqua, Iowa, and is organized under Chapter 347 of the Iowa Code and is governed by a seven member Board of Trustees elected for alternating terms of six years. The Hospital also operates Village Terrace, a 10-unit assisted living facility. The Hospital primarily earns revenues by providing inpatient and outpatient services to patients in Keosauqua, Iowa, and the surrounding area.

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, the 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/amortization 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, 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.

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 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 depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest 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, 2012 and 2011.

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.

Net 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 and Community Benefits

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.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$204,958 and \$47,999 for the years ended June 30, 2012 and 2011, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost-to-charge ratio calculation, for the years ended June 30, 2012 and 2011, were \$154,000 and \$36,000, 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.

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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$73,162 and \$70,045 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

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.

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.

Reclassifications

Reclassifications have been made to the June 30, 2011, financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - 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 acute care services at cost plus one percent 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 audited by the Medicare fiscal intermediary through the year ended June 30, 2010. Clinical services are paid on a cost basis or fixed fee schedule.

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, 2009.

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, 2012, and 47% and 11%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011. 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 net patient service revenue for the years ended June 30, 2012 and 2011, increased approximately \$149,000 and \$227,000, respectively, 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.

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, 2012 and 2011, is as follows:

	2012	2011
Total Patient Service Revenue	\$ 15,578,595	\$ 16,081,577
Contractual Adjustments		
Medicare	(2,224,408)	(2,830,717)
Medicaid	(803,990)	(840,895)
Other	(1,839,432)	(1,376,614)
Total contractual adjustments	(4,867,830)	(5,048,226)
Net Patient Service Revenue	10,710,765	11,033,351
Provision for Bad Debts	(473,294)	(439,460)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 10,237,471	\$ 10,593,891

Note 3 - Cash and Investments

The Hospital's deposits in banks at June 30, 2012 and 2011, 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.

	2012	2011
Designated by Board for Capital Improvements		
Money market accounts	\$ 1,366,153	\$ 1,329,388
Certificates of deposit	1,592,519	2,313,919
U.S. Treasury	199,983	199,983
Accrued interest receivable	6,269	8,284
	\$ 3,164,924	\$ 3,851,574
Restricted Under Loan Agreement		
Money market accounts	\$ 185,375	\$ 223,263
Certificates of deposit	758,297	730,964
	\$ 943,672	\$ 954,227
Restricted by Donors for Specific Purposes		
Certificates of deposit	\$ 226,652	\$ 223,553
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	\$ 739,902	\$ 736,803
Restricted by Donors for Permanent Endowment Fund		
Certificates of deposit	\$ 53,588	\$ 53,619
Beneficial Interest in Net Assets of Arnold Trust	\$ 629,811	\$ 565,824

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 4 - Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011, was as follow:

	June 30, 2011			June 30, 2012
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 202,104	\$ -	\$ -	\$ 202,104
Construction in progress	224,886	2,507,085	-	2,731,971
Total capital assets not being depreciated	<u>426,990</u>	<u>2,507,085</u>	<u>-</u>	<u>2,934,075</u>
Capital Assets Being Depreciated:				
Land improvements	108,963	-	-	108,963
Buildings and improvements	9,773,334	-	-	9,773,334
Equipment	5,694,450	195,862	15,500	5,874,812
Total capital assets being depreciated	<u>15,576,747</u>	<u>195,862</u>	<u>15,500</u>	<u>15,757,109</u>
Less Accumulated Depreciation for:				
Land improvements	86,449	3,008	-	89,457
Buildings and improvements	5,271,047	386,874	-	5,657,921
Equipment	4,505,293	377,144	9,300	4,873,137
Total accumulated depreciation	<u>9,862,789</u>	<u>767,026</u>	<u>9,300</u>	<u>10,620,515</u>
Total Capital Assets Being Depreciated, Net	<u>5,713,958</u>	<u>(571,164)</u>	<u>6,200</u>	<u>5,136,594</u>
Total Capital Assets, Net	<u>\$ 6,140,948</u>	<u>\$ 1,935,921</u>	<u>\$ 6,200</u>	<u>\$ 8,070,669</u>

Construction in progress at June 30, 2012, consists of costs related to the Community Center project and other various projects around the Hospital. The Community Center project was capitalized in July 2012 with a completion cost of \$2,278,552 and is funded through various USDA grants and loans. The Hospital expansion project, which has an estimated completion cost of \$4,071,000 is funded through various USDA grants and loans and has an anticipated completion date of two to three years.

Van Buren County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

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

Note 5 - Long-Term Debt

A summary of changes in the Hospital's long-term debt for 2012 follows:

	June 30, 2011 Balance	Additions	Payments	June 30, 2012 Balance	Amounts Due Within One Year
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of \$66,492 through 2037	\$ 1,006,566	\$ -	\$ (20,284)	\$ 986,282	\$ 21,501
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of \$15,795 through 2032	201,640	-	(5,022)	196,618	5,262
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of \$80,265 due July 2006 through 2043	1,410,010	-	(20,336)	1,389,674	21,199
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of \$21,616 due July 2006 through 2033	313,306	-	(8,301)	305,005	8,653
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of \$9,988 through 2013	26,417	-	(8,530)	17,887	9,242
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of \$3,706 through February 2013	71,636	-	(42,713)	28,923	28,923
Keosauqua Light and Power Interest free loan, due in monthly payments of \$3,000 through April 2022	-	360,000	(6,000)	354,000	36,000
	<u>\$ 3,029,575</u>	<u>\$ 360,000</u>	<u>\$ (111,186)</u>	3,278,389 (130,780)	<u>\$ 130,780</u>
Less current maturities Long-term debt, less current maturities				<u>\$ 3,147,609</u>	

Van Buren County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 130,780	\$ 125,718	\$ 256,498
2014	103,753	122,371	226,124
2015	97,682	120,204	217,886
2016	100,369	116,758	217,127
2017	103,147	113,980	217,127
2018-2022	556,380	521,790	1,078,170
2023-2027	473,381	431,833	905,214
2028-2032	586,187	318,908	905,095
2033-2037	581,709	187,664	769,373
2038-2042	386,561	77,511	464,072
2043-2045	158,440	10,199	168,639
	<u>\$ 3,278,389</u>	<u>\$ 2,146,936</u>	<u>\$ 5,425,325</u>

Under the terms of the Hospital Revenue Note, Series 1997B, the Hospital is required to make monthly transfers to a reserve account. At June 30, 2012, the Hospital had \$943,672 in the reserve account. The amount required to be on deposit at June 30, 2012, is \$780,950.

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

	<u>June 30, 2010 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2011 Balance</u>	<u>Amounts Due Within One Year</u>
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

Van Buren County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

	June 30, 2010 Balance	Additions	Payments	June 30, 2011 Balance	Amounts Due Within One Year
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	<u>111,669</u>	<u>-</u>	<u>(40,033)</u>	<u>71,636</u>	<u>42,251</u>
	<u>\$ 3,195,407</u>	<u>\$ -</u>	<u>\$ (165,832)</u>	3,029,575 (105,400)	<u>\$ 105,400</u>
Less current maturities Long-term debt, less current maturities				<u>\$ 2,924,175</u>	

Note 6 - Restricted Net Assets

Restricted net assets consist of the following at June 30, 2012 and 2011:

	2012	2011
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	782,372	598,777
Arnold Trust	<u>513,250</u>	<u>513,250</u>
Total restricted net assets	<u>\$ 1,566,354</u>	<u>\$ 1,382,759</u>

The Leffler Fund is an endowment fund with interest 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, 2012 and 2011, 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 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	
	2012	2011
Cash and Cash Equivalents	\$ 60,252	\$ 53,992
Certificates of Deposit	80,000	80,000
Marketable Equity Securities	1,002,809	945,082
Total assets	\$ 1,143,061	\$ 1,079,074
Net Assets		
Unrestricted	\$ 629,811	\$ 565,824
Restricted	513,250	513,250
Total net assets	\$ 1,143,061	\$ 1,079,074
	June 30	
	2012	2011
Interest and Dividend Income	\$ 12,807	\$ 12,411
Realized Gains	16,293	12,301
Unrealized Gains	62,522	118,874
Taxes Paid	(27,635)	(10,592)
Change in Beneficial Interest in Net Assets of Arnold Trust	63,987	132,994
Net Assets, Beginning of Year	1,079,074	946,080
Net Assets, End of Year	\$ 1,143,061	\$ 1,079,074

Note 7 - 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 5.38% of their annual covered salary, and the Hospital is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Plan members were required to contribute 4.50% and 4.30% of their annual covered salary, and the Hospital was required to contribute 6.95% and 6.65% of annual covered payroll for the years ended June 30, 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$504,538, \$430,045, and \$426,530, respectively, equal to the required contributions for each year.

Note 8 - 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, 2012 and 2011, was as follows:

	2012	2011
Medicare	30%	34%
Medicaid	12%	6%
Commercial Insurance	22%	27%
Other Third-Party Payors and Patients	36%	33%
	100%	100%

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 Disputes

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

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.

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 - Subsequent Events

The Hospital has evaluated subsequent events through January 21, 2013, the date which the financial statements were available to be issued.

Van Buren County Hospital received Medicaid EHR incentive payments of \$184,600 in November of 2012. These incentive payments will be recognized as revenue in the Hospital's fiscal year end 2013 financial statements.



Required Supplementary Information
June 30, 2012 and 2011

Van Buren County Hospital

Van Buren County Hospital
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets -
 Budget and Actual (Accrual Basis)
 Required Supplementary Information
 Year Ended June 30, 2012

	<u>Actual Accrual Basis</u>	<u>Adopted Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Estimated Amount to be Raised by Taxation	\$ 774,651	\$ 781,505	\$ (6,854)
Estimated Other Revenues/ Receipts	<u>12,560,468</u>	<u>11,934,001</u>	<u>626,467</u>
	13,335,119	12,715,506	619,613
Expenses/Disbursements	<u>12,519,952</u>	<u>12,698,366</u>	<u>178,414</u>
Net	815,167	17,140	<u>\$ 798,027</u>
Balance, Beginning of Year	<u>11,221,657</u>	<u>9,333,844</u>	
Balance, End of Year	<u>\$ 12,036,824</u>	<u>\$ 9,350,984</u>	

Note 1 - Budgetary Comparison

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2012.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information
June 30, 2012 and 2011

Van Buren County Hospital



Independent Auditor's Report on Supplementary Information

To the Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

We have audited the financial statements of Van Buren County Hospital (Hospital) as of and for the year ended June 30, 2012 and 2011, and have issued our report thereon dated January 21, 2013, which expressed an unqualified opinion on those financial statements, appears on page 2. Our audits were performed for the purpose of forming an opinion on the 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 financial statements. Such information is the responsibility of management and was derived from and relates 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

Dubuque, Iowa
January 21, 2013

Van Buren County Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2012 and 2011

	2012	2011
Patient Service Revenue		
Routine services	\$ 2,215,595	\$ 2,512,584
Nursery	30,070	23,715
Operating rooms	493,772	572,076
Delivery and labor rooms	38,410	34,790
Central services and supply	236,999	257,050
Emergency service	1,851,800	1,785,098
Laboratory	2,349,266	2,225,982
Electrocardiology	207,318	195,170
Radiology	2,708,022	2,551,193
Pharmacy	1,066,212	1,412,135
Anesthesiology	358,020	359,403
Respiratory therapy	468,034	477,502
Physical therapy	518,743	521,850
Occupational therapy	39,414	71,779
Speech therapy	10,407	15,692
Ambulance service	651,069	660,082
Cardiopulmonary rehab	109,502	121,741
Home health care	49,841	68,265
Medical staff	472,257	553,825
Rural health clinics:		
Douds	164,278	220,443
Birmingham	260,446	200,975
Cantril	146,513	127,378
Keosauqua	979,147	892,271
Bonaparte	185,971	119,941
Farmington	172,447	148,636
	<u>15,783,553</u>	<u>16,129,576</u>
Charity care	<u>(204,958)</u>	<u>(47,999)</u>
Total patient service revenue*	<u>15,578,595</u>	<u>16,081,577</u>

Van Buren County Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2012 and 2011

	2012	2011
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	\$ 3,612,007	\$ 4,458,882
Outpatient revenue	12,171,546	11,670,694
Charity care	(204,958)	(47,999)
Total patient service revenue	15,578,595	16,081,577
Deductions from Patient Service Revenue		
Contractual Adjustments	(4,867,830)	(5,048,226)
Net Patient Service Revenue	10,710,765	11,033,351
Provision for Bad Debts	(473,294)	(439,460)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 10,237,471	\$ 10,593,891

Van Buren County Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2012 and 2011

	2012	2011
Other Operating Revenues		
Village Terrace	\$ 245,350	\$ 198,014
Continuous family support system grant	179,947	177,644
Day care center	177,336	140,840
Wellmark grant - CORP	169,071	425
Job opportunities	131,449	131,428
Harkin grant	96,190	37,962
Occupational health	78,084	77,537
Rent	26,219	19,499
Cafeteria	15,865	16,059
HRSA grant	13,592	13,807
Tobacco-free grant	7,449	12,257
Medical records transcript fees	3,382	1,589
Health wellness	360	-
Other	7,013	28,766
	\$ 1,151,307	\$ 855,827
Total Other Operating Revenues		

Van Buren County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012	2011
Nursing Administration		
Salaries and wages	\$ 162,450	\$ 169,027
Supplies and other expenses	8,667	12,393
	<u>171,117</u>	<u>181,420</u>
Routine Services		
Salaries and wages	836,207	917,123
Supplies and other expenses	123,369	154,777
	<u>959,576</u>	<u>1,071,900</u>
Nursery		
Salaries and wages	2,247	913
Supplies and other expenses	29	3,197
	<u>2,276</u>	<u>4,110</u>
Operating Rooms		
Salaries and wages	93,476	96,788
Supplies and other expenses	82,701	128,743
	<u>176,177</u>	<u>225,531</u>
Delivery and Labor Rooms		
Salaries and wages	23,077	26,826
Supplies and other expenses	802	820
	<u>23,879</u>	<u>27,646</u>
Central Services and Supply		
Salaries and wages	26,556	22,954
Supplies and other expenses	81,312	40,893
	<u>107,868</u>	<u>63,847</u>
Emergency Service		
Salaries and wages	557,193	443,174
Supplies and other expenses	194,503	376,494
	<u>751,696</u>	<u>819,668</u>
Laboratory		
Salaries and wages	196,109	221,656
Supplies and other expenses	298,145	285,269
	<u>494,254</u>	<u>506,925</u>
Electrocardiology		
Salaries and wages	1,040	-
	<u>1,040</u>	<u>-</u>
Radiology		
Salaries and wages	275,914	254,600
Supplies and other expenses	397,345	408,435
	<u>673,259</u>	<u>663,035</u>

Van Buren County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012	2011
Pharmacy		
Salaries and wages	\$ 17,135	\$ 17,813
Supplies and other expenses	203,080	198,120
	<u>220,215</u>	<u>215,933</u>
Anesthesiology		
Supplies and other expenses	<u>194,103</u>	<u>202,092</u>
Respiratory Therapy		
Salaries and wages	86,324	98,036
Supplies and other expenses	49,620	58,887
	<u>135,944</u>	<u>156,923</u>
Physical Therapy		
Salaries and wages	254,019	294,229
Supplies and other expenses	11,384	12,959
	<u>265,403</u>	<u>307,188</u>
Occupational Therapy		
Supplies and other expenses	<u>26,482</u>	<u>46,033</u>
Speech Therapy		
Supplies and other expenses	<u>5,308</u>	<u>6,976</u>
Ambulance Service		
Salaries and wages	195,233	201,348
Supplies and other expenses	52,892	41,205
	<u>248,125</u>	<u>242,553</u>
Cardiopulmonary Rehab		
Salaries and wages	60,417	59,775
Supplies and other expenses	1,283	2,538
	<u>61,700</u>	<u>62,313</u>
Emergency Preparedness		
Supplies and other expenses	<u>20,254</u>	<u>13,807</u>
Home Health Care		
Salaries and wages	2,655	-
Supplies and other expenses	22,563	13,210
	<u>25,218</u>	<u>13,210</u>

Van Buren County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012	2011
Medical Staff		
Salaries and wages	\$ 251,310	\$ 317,501
Supplies and other expenses	1,049	2,601
	<u>252,359</u>	<u>320,102</u>
Rural Health Clinic - Douds		
Salaries and wages	80,114	91,726
Supplies and other expenses	20,939	15,032
	<u>101,053</u>	<u>106,758</u>
Rural Health Clinic - Birmingham		
Salaries and wages	178,233	141,188
Supplies and other expenses	26,718	17,017
	<u>204,951</u>	<u>158,205</u>
Rural Health Clinic - Cantril		
Salaries and wages	100,322	93,965
Supplies and other expenses	17,344	16,500
	<u>117,666</u>	<u>110,465</u>
Rural Health Clinic - Keosauqua		
Salaries and wages	865,770	712,032
Supplies and other expenses	290,760	364,340
	<u>1,156,530</u>	<u>1,076,372</u>
Rural Health Clinic - Bonaparte		
Salaries and wages	139,031	95,630
Supplies and other expenses	17,930	13,525
	<u>156,961</u>	<u>109,155</u>
Rural Health Clinic - Farmington		
Salaries and wages	134,117	131,917
Supplies and other expenses	16,809	18,239
	<u>150,926</u>	<u>150,156</u>
Continuous Family Support System		
Salaries and wages	121,974	116,412
Supplies and other expenses	23,436	25,597
	<u>145,410</u>	<u>142,009</u>
Harkin Grant		
Salaries and wages	26,370	32,400
Supplies and other expenses	18,689	4,329
	<u>45,059</u>	<u>36,729</u>
Wellmark Grant - Tobacco Risk Awareness		
Salaries and wages	17,822	15,369

Van Buren County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012	2011
Tobacco-Free Program		
Salaries and wages	\$ 7,147	\$ 7,751
Supplies and other expenses	739	1,615
	<u>7,886</u>	<u>9,366</u>
Dietary		
Salaries and wages	107,500	109,663
Supplies and other expenses	111,935	107,831
	<u>219,435</u>	<u>217,494</u>
Plant Operation and Maintenance		
Salaries and wages	169,421	169,690
Supplies and other expenses	387,045	390,276
	<u>556,466</u>	<u>559,966</u>
Housekeeping		
Salaries and wages	128,516	123,670
Supplies and other expenses	22,683	29,956
	<u>151,199</u>	<u>153,626</u>
Laundry and Linen		
Salaries and wages	29,851	30,561
Supplies and other expenses	5,254	8,269
	<u>35,105</u>	<u>38,830</u>
Administrative Services		
Salaries and wages	770,517	734,133
Supplies and other expenses	833,262	766,574
	<u>1,603,779</u>	<u>1,500,707</u>
Day Care Center		
Salaries and wages	137,028	126,364
Supplies and other expenses	29,294	25,969
	<u>166,322</u>	<u>152,333</u>
Job Opportunities		
Salaries and wages	101,686	96,361
Supplies and other expenses	8,424	15,693
	<u>110,110</u>	<u>112,054</u>
Occupational Health		
Salaries and wages	27,479	30,808
Supplies and other expenses	16,978	19,492
	<u>44,457</u>	<u>50,300</u>
Lifeline		
Supplies and other expenses	<u>-</u>	<u>52</u>

Van Buren County Hospital
 Schedules of Operating Expenses
 Years Ended June 30, 2012 and 2011

	2012	2011
Village Terrace		
Salaries and wages	\$ 73,079	\$ 84,565
Supplies and other expenses	35,699	37,825
	108,778	122,390
Unassigned Expenses		
Depreciation and amortization	767,027	735,535
Insurance	208,972	149,088
Employee benefits	1,503,436	1,403,664
	2,479,435	2,288,287
 Total Operating Expenses	 \$ 12,395,603	 \$ 12,261,835

Van Buren County Hospital
Schedules of Patient Receivables, Allowance for Doubtful
Accounts, and Collection Statistics (Unaudited)
June 30, 2012 and 2011

Analysis of Aging

Days Since Discharge	June 30, 2012		June 30, 2011	
	Amount	Percent to Total	Amount	Percent to Total
90 days or less	\$ 2,164,744	58.81%	\$ 2,394,677	59.87%
91 to 180 days	680,964	18.50%	514,058	12.85%
180 to 365 days	246,613	6.70%	467,031	11.68%
Over one year	588,651	15.99%	624,126	15.60%
	3,680,972	100.00%	3,999,892	100.00%
Less:				
Allowance for doubtful accounts	374,259		374,720	
Allowance for contractual adjustments	1,340,920		1,505,920	
Net	<u>\$ 1,965,793</u>		<u>\$ 2,119,252</u>	

Allowance for Doubtful Accounts

	Years Ended June 30,	
	2012	2011
Balance, Beginning of Year	\$ 374,720	\$ 369,720
Add:		
Provision for bad debts	473,294	439,460
Recoveries of accounts written off	50,346	21,720
Less:		
Accounts written off	(524,101)	(456,180)
Balance, End of Year	<u>\$ 374,259</u>	<u>\$ 374,720</u>

	2012	2011
Collection Statistics		
Net Accounts Receivable - Patients	\$ 1,965,793	\$ 2,119,252
Number of Days Charges Outstanding (1)	70	74
Uncollectible Accounts (2)	\$ 508,703	\$ 469,323
Percentage of Uncollectible Accounts to Total Charges	3.2%	2.9%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes provision for bad debts and collection expense.

Van Buren County Hospital
Schedules of Supplies and Prepaid Expenses
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Supplies		
General supplies	\$ 131,069	\$ 144,943
Pharmacy	101,817	110,775
Dietary	8,442	10,164
Office	13,896	11,675
	<u>\$ 255,224</u>	<u>\$ 277,557</u>
 Prepaid Expenses		
Insurance	\$ 28,839	\$ 48,806
Maintenance agreements, dues, and other	53,538	63,840
	<u>\$ 82,377</u>	<u>\$ 112,646</u>

Van Buren County Hospital
 Schedule of Community Service/Outreach Unreimbursed Services
 Provided by the Hospital to the Community (Unaudited)
 Year Ended June 30, 2012

Community Service/Outreach Unreimbursed Services Provided by the Hospital to the Community:

Provisions for Bad Debts	\$	473,294
Ambulance Service		217,408
Charity Care		204,958
Parents as Teachers In-Kind		45,803
Speakers Bureau		21,055
In-Kind Portion of Healthy Villages		16,100
Screening Blood Pressure and School/Free Vaccinations		13,405
Daycare Loss		9,271
Delivery of Medications		9,088
Education/Other Health Professions		6,830
Outside Advocacy Board and Councils		6,526
Enrollment Assistance/Public Medical Programs		6,067
CPR and AED Training		4,280
Hospital Facilities for Meetings		3,120
Health Fairs		1,639
Ambulance in Community (HS Games, Fair, Kids Fair)		1,500
Environmental Improvements		1,410
Community Support/Disaster Readiness (Over Requirement)		500
Prenatal/Family Planning		457
Women's Health Education		100
		100
	\$	1,042,811

Van Buren County Hospital also had \$4,867,830 in adjustments to revenue based on third-party payor arrangements (commercial insurance, etc.). The ambulance service loss includes positions that are affected by covering ambulance services.

Van Buren County Hospital
 Schedules of Statistical Information (Unaudited)
 Years Ended June 30, 2012 and 2011

	2012	2011
Patient Days		
Acute	1,055	1,115
Swing-bed	800	1,413
Newborn	64	51
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	20%	28%
Discharges		
Acute	364	363
Swing-bed	108	166
Average Length of Stay		
Acute	2.90	3.07
Swing-bed	7.41	8.51
Most Recent Year End Routine Service Rates		
Private Rooms	\$ 925	\$ 890
Nursery	485	465



**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***

To 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, 2012, 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 January 21, 2013. 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as II-A-12, II-B-12, and II-C-12, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 Board of Trustees and management of Van Buren County Hospital, and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Eide Sallie LLP".

Dubuque, Iowa
January 21, 2013



**Independent Auditor's Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

Compliance

We have audited Van Buren County Hospital's (Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2012. The Hospital's major federal programs are identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of Van Buren County Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Van Buren County Hospital as of and for the year ended June 30, 2012, and have issued our report thereon dated January 21, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

This report is intended solely for the information and use of the Board of Trustees and management of Van Buren County Hospital, and other parties to whom Van Buren County Hospital may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
January 21, 2013

Van Buren County Hospital
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Direct program:			
Community Facilities Loans and Grants	10.766		\$ 100,000
Community Facilities Loans and Grants	10.766		744,200
Community Facilities Loans and Grants	10.766		200,000
Pass-through program from:			
Keosauqua Light & Power:			
Rural Economic Development Loans and Grants	10.854		<u>360,000</u>
Total U.S. Department of Agriculture			<u>1,404,200</u>
U.S. Department of Housing and Urban Development:			
Pass-through program from:			
Van Buren County:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	09-CF-015	<u>516,000</u>
U.S. Department of Health and Human Services:			
Pass-through program from:			
Iowa Department of Public Health:			
Small Rural Hospital Improvement Grant Program	93.301	5882SH75	6,905
Community Transformation Grant Community Projects	93.531	5882HP21	27,814
National Bioterrorism Hospital Preparedness Program	93.889	5882BHP93	4,698
Rural Health Care Services Outreach and Rural Health Network Development Program	93.912	H9CRH22887	<u>155,378</u>
Total U.S. Department of Health and Human Services			<u>194,795</u>
			<u>\$ 2,114,995</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Van Buren County Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The purpose of the SEFA is to present a summary of those activities of Van Buren County Hospital for the year ended June 30, 2012, which the United States government has financed. For the purpose of the SEFA, federal awards include all federal assistance entered into directly between Van Buren County Hospital and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. Since the SEFA presents only a selected portion of the activities of Van Buren County Hospital, it is not intended to, and does not, present the financial position, results of operations, changes in net assets, and cash flows of Van Buren County Hospital.

Note 2 - Community Facilities Loans and Grants (#10.776) and Rural Economic Development Loans and Grants (#10.854)

The financing for this building project consists of three different components. These components are as follows:

USDA Hospital Revenue Bonds Payable	\$	744,000
USDA Guaranteed Loan		200,000
Rural Economic Development Loan		360,000
		\$ 1,304,000

Part I: Summary of the Independent Auditor's Results:

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies	Yes (Part II)
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiency	None reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants
10.854	Rural Economic Development Loans and Grants
14.228	Community Development Block Grants State's Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee	No

Part II: Findings Related to the Financial Statements:

Significant Deficiencies:

II-A-12 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.

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

II-B-12 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.

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

II-C-12 Significant Adjusting Journal Entries

Criteria – It is important that management exercises effective oversight and review of general ledger account reconciliations by accounting staff to identify and prevent potential misstatements.

Condition – Management should review significant reconciliations and transactions, such as the capitalization of computer equipment for the EHR project and the proper recording of grants receivable, to ensure accurate accounting, reporting, and reconciliation to the general ledger.

Cause – An internal review process that verifies on an annual basis the accuracy of general ledger account balances was not implemented. Management has been tracking the EHR expenditures but did not properly include them in construction in progress at year end. We also noted the grant receivable related to the Community Center building was not properly accrued. Journal entries were necessary during the audit to adjust these accounts to their proper balances.

Effect – Failure to periodically review account balances can result in errors on interim financial statements and represents a weakness in internal control in the accounting system.

Recommendation – Management should review all general ledger account reconciliations on a monthly basis and trace the detail to the general ledger activity to ensure that significant entries are not necessary at month-end and at year-end.

Response – Management agrees with the finding. The Hospital’s accountant and Chief Financial Officer will work collectively to ensure reconciliation of these accounts.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012, did not exceed the amount budgeted.

III-B-12 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.

III-C-12 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-D-12 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	\$ 7,946
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self-employed	Landscaping	\$ 3,849
Wes Wiley, Maintenance, brother of Randy's Plumbing employee	Landscaping	\$ 3,514
Barbie Winslow, Clinic CMA, spouse of owner of Mike's Collision and Tire	Auto Repair	\$ 504
Douds Kwik Stop, owner is son of Gary and J.D. Debner - employees	Convenience Items	\$ 150

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

III-E-12 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-F-12 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.

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

III-G-12 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.

Name and address of independent public accounting firm: Eide Bailly LLP
3999 Pennsylvania Ave., Ste. 100
Dubuque, IA 52002-2273

Audit Period: July 1, 2011 to June 30, 2012

The findings from the 2012 schedule of findings and questioned cost are discussed below.

Findings Relating to the Financial Statement Audit

Finding II-A-12 Segregation of Duties

Van Buren County Hospital does not have adequate segregation of duties.

Responsible Individual: Kara McEntee, Chief Financial Officer

Corrective Action Plan: 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.

Anticipated Completion Date: Ongoing analysis

Finding II-B-12 Preparation of Financial Statements

Van Buren County Hospital does not have an internal control system designed to provide for the preparation of the annual financial statements and related footnotes being audited in accordance with generally accepted accounting principles (GAAP) in the United States. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Responsible Individual: Kara McEntee, Chief Financial Officer

Corrective Action Plan: 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.

Anticipated Completion Date: Ongoing analysis

Finding II-C-12 Significant Adjusting Journal Entries

Van Buren County Hospital had significant adjusting journal entries during the June 30, 2012 audit.

Responsible Individual: Kara McEntee, Chief Financial Officer

Corrective Action Plan: Management agrees with the finding and will review accounts on a monthly basis.

Anticipated Completion Date: Ongoing analysis



January 21, 2013

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, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, and OMB Circular A-133, 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 8, 2012. 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, 2012. 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 and the amounts either owed to or receivable from third-party payors.

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.

We evaluated the key factors and assumptions used to develop the above estimates related to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors 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 clearly 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 2012 audit.

To capitalize computer equipment for EHR project	\$	101,964
To accrue grant receivable		100,000
To adjust the value of the Arnold Trust investments		(59,019)
To accrue additional liability		(50,000)
To adjust equipment purchases released from restriction		39,999
To adjust Arnold Trust and Van Buren Trust receivables		(24,271)
To adjust payroll accrual for physician bonus		22,817
To adjust depreciation expense		(21,920)
Other		10,115

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 21, 2013.

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 Matters

Following is an additional comment for informational purposes only:

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 in the 4th quarter 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.

After the announcement of the new exposure draft, the timeline for an effective date of the final standard is unknown, but speculation is an effective date in 2015 or 2016.

We recommend that you review the proposed guidance and consider its impact on future financial reporting of the Hospital.

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

