Financial Statements
June 30, 2013 and 2012

Van Buren County Hospital

Name	Board of Trustees	Term Expires
Lloyd Foster	Chairperson	December 31, 2018
Curtis Lee McIntosh	Vice-Chairperson	December 31, 2018
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, 2018
	Hospital Officials	
Kara McEntee	Chief Financial Officer	

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Van Buren County Hospital (Hospital), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

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, 2013 and 2012 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9 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 about 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Van Buren County Hospital's basic financial statements. The accompanying schedule of expenditures of federal awards as required by the U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2014, 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, 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 internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Eide Bailly LLP

Dubuque, Iowa
March 25, 2014

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, 2013, 2012, and 2011. 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 position, 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 position. 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 Position report the net position of the Hospital and the changes in it. The Hospital's net position - 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 position 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, 2013, indicates total assets of $18,736,584, total liabilities of $6,316,660, and net position of $12,419,924.
- The Statement of Revenues, Expenses, and Changes in Net Position indicates total net patient service revenue of $9,594,114 decreased 6.3% from the previous fiscal year, total operating expenses of $12,682,300 increased 2.3%, resulting in a loss from operations of $1,466,752. Net non-operating revenues of $1,757,362 brings the excess of revenues over expenses to $290,610. The capital grants and contributions and the change in beneficial interest in net assets of the Arnold Trust totaled $92,490 bringing the increase in net position to $383,100 for the year ended June 30, 2013.

Organization Highlights

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

- Continuation of the experience team concepts for Employees, Customers, Providers, Quality, Community and Paper/IT
- Recruitment of three new physicians including two family practice physicians and one surgeon
- Recruitment of new ER midlevels
- Implementation of the Electronic Medical record. The Hospital worked with the University of Iowa to install GE and EPIC
- Completion of and move into the Community Center on the Hospital campus.

Condensed Financial Statements

Balance Sheets

	June 30, 2013	June 30, 2012	June 30, 2011
Assets			
Current Assets	$ 4,695,782	$ 4,166,233	$ 3,838,322
Assets Limited as to Use or Restricted	5,100,714	4,902,086	5,596,223
Capital Assets, Net	8,235,445	8,070,669	6,140,948
Other Assets	704,643	645,986	580,165
Total assets	$ 18,736,584	$ 17,784,974	$ 16,155,658
Liabilities and Net Position			
Current Liabilities	$ 2,366,914	$ 2,600,541	$ 2,009,826
Long-Term Liabilities	3,949,746	3,147,609	2,924,175
Total liabilities	6,316,660	5,748,150	4,934,001
Net Position			
Net investment in capital assets	4,166,359	4,792,280	3,111,373
Restricted	1,566,355	1,566,354	1,382,759
Unrestricted	6,687,210	5,678,190	6,727,525
Total net position	12,419,924	12,036,824	11,221,657
Total liabilities and net position	$ 18,736,584	$ 17,784,974	$ 16,155,658

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2013	2012	2011
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 9,594,114	$ 10,237,471	$ 10,593,891
Other operating revenues	1,621,434	1,151,307	855,827
Total Operating Revenues	11,215,548	11,388,778	11,449,718
Operating Expenses			
Salaries and wages	6,358,516	6,257,339	6,085,968
Supplies and other expenses	5,409,487	5,371,237	5,440,331
Depreciation and amortization	914,297	767,027	735,535
Total Operating Expenses	12,682,300	12,395,603	12,261,834
Operating Loss	(1,466,752)	(1,006,825)	(812,116)
Nonoperating Revenues (Expenses)			
County tax revenue	796,084	774,651	780,762
Noncapital grants and contributions	985,346	-	17,877
Investment income	60,291	102,617	87,028
Interest expense	(151,878)	(130,602)	(140,790)
Gain on disposal of equipment	67,519	6,253	-
Net Nonoperating Revenues	1,757,362	752,919	744,877
Revenue in Excess of (Less Than) Expenses	290,610	(253,906)	(67,239)
Capital Grants and Contributions	32,000	1,005,086	939,502
Change in Beneficial Interest in Net Assets of Arnold Trust	60,490	63,987	132,994
Increase in Net Position	383,100	815,167	1,005,257
Net Position Beginning of Year	12,036,824	11,221,657	10,216,400
Net Position End of Year	$ 12,419,924	$ 12,036,824	$ 11,221,657

Capital Assets

Van Buren County Hospital completed 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 is implementing a health care information technology system.

Long-Term Debt

At year end, Van Buren County Hospital had $4,069,086 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 2014 budget. Of primary consideration in the 2014 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 181 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

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ -	$ 116,988
Receivables		
Patient, net of estimated uncollectibles of $1,128,000 in 2013 and $560,000 in 2012	2,534,240	1,965,793
Estimated third-party payor settlements	838,000	460,000
Succeeding year property tax	866,170	782,363
Other	163,309	503,488
Supplies	217,614	255,224
Prepaid expenses	76,449	82,377
Total current assets	4,695,782	4,166,233
Assets Limited as to Use or Restricted - Note 3		
Designated by board for capital improvements	3,340,957	3,164,924
Restricted under loan agreement	965,947	943,672
Restricted by donors for specific purposes	739,902	739,902
Restricted by donors for permanent endowment fund	53,908	53,588
Total assets limited as to use or restricted	5,100,714	4,902,086
Capital Assets - Note 4		
Capital assets not being depreciated	426,800	2,934,075
Depreciable capital assets, net of accumulated depreciation	7,808,645	5,136,594
Total capital assets, net	8,235,445	8,070,669
Other Assets		
Beneficial interest in net assets of Arnold Trust - Note 6	690,301	629,811
Notes receivable	14,342	16,175
Total other assets	704,643	645,986
Total assets	$ 18,736,584	$ 17,784,974

See Notes to Financial Statements

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Checks issued but not presented for payment	$ 43,214	$ -
Current maturities of long-term debt - Note 5	119,340	130,780
Accounts payable		
Trade	569,778	374,109
Construction	-	554,807
Accrued expenses		
Salaries and wages	262,755	235,654
Vacation	278,086	260,403
Payroll taxes and other	59,724	113,404
Interest	148,287	130,311
Village Terrace security deposits	19,560	18,710
Deferred revenue for succeeding year property tax receivable	866,170	782,363
Total current liabilities	2,366,914	2,600,541
Long-Term Debt, Less Current Maturities - Note 5	3,949,746	3,147,609
Total liabilities	6,316,660	5,748,150
Net Position		
Net investment in capital assets	4,166,359	4,792,280
Restricted - Note 6		
Expendable contributions	1,513,268	1,513,267
Nonexpendable contributions	53,087	53,087
Unrestricted	6,687,210	5,678,190
Total net position	12,419,924	12,036,824
Total liabilities and net position	$ 18,736,584	$ 17,784,974

	2013	2012
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $756,442 in 2013 and $473,294 in 2012) - Note 2	$ 9,594,114	$ 10,237,471
Other operating revenues	1,621,434	1,151,307
Total Operating Revenues	11,215,548	11,388,778
Operating Expenses		
Salaries and wages	6,358,516	6,257,339
Supplies and other expenses	5,409,487	5,371,237
Depreciation and amortization	914,297	767,027
Total Operating Expenses	12,682,300	12,395,603
Operating Loss	(1,466,752)	(1,006,825)
Nonoperating Revenues (Expenses)		
County tax revenue	796,084	774,651
Noncapital grants and contributions	985,346	-
Investment income	60,291	102,617
Interest expense	(151,878)	(130,602)
Gain on disposal of equipment	67,519	6,253
Net Nonoperating Revenues	1,757,362	752,919
Revenues In Excess of (Less Than) Expenses	290,610	(253,906)
Capital Grants and Contributions	32,000	1,005,086
Change in Beneficial Interest in Net Assets of Arnold Trust	60,490	63,987
Increase in Net Position	383,100	815,167
Net Position, Beginning of Year	12,036,824	11,221,657
Net Position, End of Year	$ 12,419,924	$ 12,036,824

	2013	2012
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 8,649,500	$ 10,073,635
Payments of salaries and wages	(6,313,732)	(6,239,225)
Payments of supplies and other expenses	(5,179,896)	(5,299,289)
Other receipts and payments, net	1,961,613	821,638
Net Cash used for Operating Activities	(882,515)	(643,241)
Cash Flows from Noncapital Financing Activities		
County tax revenue received	796,084	774,651
Noncapital grants and contributions received	985,346	-
Net Cash provided by Noncapital Financing Activities	1,781,430	774,651
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,651,230)	(2,184,036)
Proceeds from sale of equipment	84,869	6,253
Capital grants and contributions received	32,000	1,005,086
Payment of principal on debt	(153,303)	(111,186)
Proceeds from issuance of long-term debt	944,000	360,000
Payment of interest on debt	(133,902)	(133,437)
Net Cash used for Capital and Related Financing Activities	(877,566)	(1,057,320)
Cash Flows from Investing Activities		
Purchase of investments	(4,897,130)	(1,367,995)
Proceeds from sale of investments	4,698,502	2,062,132
Investment income received	60,291	102,617
Net Cash provided by (used for) Investing Activities	(138,337)	796,754
Net Decrease in Cash and Cash Equivalents	(116,988)	(129,156)
Cash and Cash Equivalents at Beginning of Year	116,988	246,144
Cash and Cash Equivalents at End of Year	$ -	$ 116,988

	2013	2012
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (1,466,752)	$ (1,006,825)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	914,297	767,027
Provision for bad debts	756,442	473,294
Changes in operating assets and liabilities		
Receivables	(982,877)	(651,338)
Supplies	37,610	22,333
Prepaid expenses	5,928	30,269
Checks issued but not presented for payment	43,214	-
Accounts payable	195,669	(19,553)
Estimated third-party payor settlements	(378,000)	(315,461)
Village Terrace security deposits	850	2,050
Accrued expenses	(8,896)	54,963
Net Cash used for Operating Activities	$ (882,515)	$ (643,241)
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Accounts payable for construction	$ -	$ 554,807

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.

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.

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.

Basis of Presentation

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, capital lease obligations, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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.

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.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency in the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2012 to June 30, 2013. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors.

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 position 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, 2013 and 2012.

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 position distinguish 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 interest income, 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.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital records a provision for bad debts related to uninsured patients in the period the services are provided.

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. Because the Hospital does not pursue the collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care were $33,907 and $204,958 for the years ended June 30, 2013 and 2012. Total direct and indirect costs related to these foregone charges were $27,000 and $148,000 at June 30, 2013 and 2012 based on an average ratio of cost to gross charges.

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.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

Medicare

These incentive payments are available over the next three years. To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report. The Hospital recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments.

Medicaid

The Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year. The Hospital recognizes Medicaid EHR incentive payments in the year received.

EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

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 $77,601 and $73,162 for advertising costs for the years ended June 30, 2013 and 2012.

Investment Income

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

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, 2012, 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 position.

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: Van Buren County Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2011. 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, 2010.

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, Medicaid, and Blue Cross programs accounted for approximately 50%, 11%, and 24% of the Hospital's gross patient service revenue for the year ended June 30, 2013 and 47%, 11%, and 24% of the Hospital's gross patient service revenue for the year ended June 30, 2012. 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, 2013 and 2012 increased approximately $73,000 and $149,000, due to prior-year retroactive adjustments in excess of amounts previously estimated.

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, 2013 and 2012 follows:

	2013	2012
Total Patient Service Revenue	$ 14,093,786	$ 15,578,595
Contractual Adjustments	(3,743,230)	(4,867,830)
Net Patient Service Revenue	10,350,556	10,710,765
Provision for Bad Debts	(756,442)	(473,294)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 9,594,114	$ 10,237,471

Note 3 - Cash and Investments

The Hospital's deposits in banks at June 30, 2013 and 2012 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.

	2013	2012
Designated by Board for Capital Improvements		
Money market accounts	$ 2,196,686	$ 1,366,153
Certificates of deposit	1,142,881	1,592,519
U.S. Treasury	-	199,983
Accrued interest receivable	1,390	6,269
	$ 3,340,957	$ 3,164,924
Restricted Under Loan Agreement		
Money market accounts	$ 200,010	$ 185,375
Certificates of deposit	765,937	758,297
	$ 965,947	$ 943,672
Restricted by Donors for Specific Purposes		
Certificates of deposit	$ 226,652	$ 226,652
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	$ 739,902	$ 739,902
Restricted by Donors for Permanent Endowment Fund		
Certificates of deposit	$ 53,908	$ 53,588
Beneficial Interest in Net Assets of Arnold Trust	$ 690,301	$ 629,811

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, 2013 and 2012 was as follow:

	June 30, 2012 Balance	Additions	Deductions	June 30, 2013 Balance
Capital Assets Not Being Depreciated:				
Land	$ 202,104	$ -	$ (7,500)	$ 194,604
Construction in progress	2,731,971	444,224	(2,943,999)	232,196
Total capital assets not being depreciated	2,934,075	444,224	(2,951,499)	426,800
Capital Assets Being Depreciated:				
Land improvements	108,963	-	-	108,963
Buildings and improvements	9,773,334	2,436,446	(56,669)	12,153,111
Equipment	5,874,812	1,159,753	-	7,034,565
Total capital assets being depreciated	15,757,109	3,596,199	(56,669)	19,296,639
Less Accumulated Depreciation for:				
Land improvements	89,457	2,934	-	92,391
Buildings and improvements	5,657,921	486,508	(46,818)	6,097,611
Equipment	4,873,137	424,855	-	5,297,992
Total accumulated depreciation	10,620,515	914,297	(46,818)	11,487,994
Total Capital Assets Being Depreciated, Net	5,136,594	2,681,902	(9,851)	7,808,645
Total Capital Assets, Net	$ 8,070,669	$ 3,126,126	$ (2,961,350)	$ 8,235,445

Construction in progress at June 30, 2013 consists of three main items. The Hospital expansion project (approximately $89,000 in construction in progress), which has an estimated completion cost of $4,071,000, will be funded through various USDA grants and loans and has no set completion date at this time. The Hospital carpeting project (approximately $88,000 in construction in progress) will be completed in November 2013 with a total cost of $94,000. The accounting system software upgrade (approximately $55,000 in construction in progress) will be finished upon completion of other software projects. The latter two projects will be funded through operations.

	June 30, 2011 Balance	Additions	Deductions	June 30, 2012 Balance
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	426,990	2,507,085	-	2,934,075
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	15,576,747	195,862	15,500	15,757,109
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	9,862,789	767,026	9,300	10,620,515
Total Capital Assets Being Depreciated, Net	5,713,958	(571,164)	6,200	5,136,594
Total Capital Assets, Net	$ 6,140,948	$ 1,935,921	$ 6,200	$ 8,070,669

Note 5 - Long-Term Debt

A summary of changes in the Hospital's long-term debt for 2013 follows:

	June 30, 2012 Balance	Additions	Payments	June 30, 2013 Balance	Amounts Due Within One Year
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of $66,492 through 2037	$ 986,282	$ -	$ (23,063)	$ 963,219	$ 22,414
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of $15,795 through 2032	196,618	-	(21,177)	175,441	5,572
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of $80,265 due July 2006 through 2043	1,389,674	-	(21,110)	1,368,564	22,101
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of $21,616 due July 2006 through 2033	305,005	-	(8,653)	296,352	9,021
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of $9,988 through 2013	17,887	-	(9,577)	8,310	8,310
Hospital revenue note, Series 2012a, 3.50% due in monthly payments of $1,160 through August 2032	-	200,000	(4,800)	195,200	7,238
Hospital revenue note, Series 2012b, 3.50% due in annual payments of $34,842 through August 2052	-	744,000	-	744,000	8,684
Hospital revenue note, Series 2008A, 4.25%, due in monthly payments of $3,706 through February 2013	28,923	-	(28,923)	-	-
Keosauqua Light and Power Interest free loan, due in monthly payments of $3,000 through April 2022	354,000	-	(36,000)	318,000	36,000
	$ 3,278,389	$ 944,000	$ (153,303)	4,069,086	$ 119,340
Less current maturities				(119,340)	
Long-term debt, less current maturities				$ 3,949,746	

Long-term debt maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2014	119,340	155,512	274,852
2015	114,171	152,780	266,951
2016	117,445	148,747	266,192
2017	120,830	145,361	266,191
2018	124,410	141,781	266,191
2019-2023	638,860	648,218	1,287,078
2024-2028	615,293	535,671	1,150,964
2029-2033	750,500	394,372	1,144,872
2034-2038	648,528	244,639	893,167
2039-2043	452,256	125,404	577,660
2044-2048	209,011	45,933	254,944
2049-2053	158,442	17,294	175,736
	$ 4,069,086	$ 2,755,712	$ 6,824,798

Under the terms of the Hospital Revenue Note, Series 1997B, and the Hospital Revenue Notes, Series 2012A and 2012B, the Hospital is required to make monthly transfers to a reserve account. At June 30, 2013, the Hospital had $965,947 in the reserve account. The amount required to be on deposit at June 30, 2013 is $867,419.

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
	$ 3,029,575	$ 360,000	$ (111,186)	3,278,389	$ 130,780
Less current maturities				(130,780)	
Long-term debt, less current maturities				$ 3,147,609	

Note 6 - Restricted Net Assets

Restricted net assets consist of the following at June 30, 2013 and 2012:

	2013	2012
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	782,373	782,372
Arnold Trust	513,250	513,250
Total restricted net assets	$ 1,566,355	$ 1,566,354

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, 2013 and 2012 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 and 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	
	2013	2012
Cash and Cash Equivalents	$ 122,745	$ 60,252
Certificates of Deposit	80,000	80,000
Marketable Equity Securities	1,000,806	1,002,809
Total assets	$ 1,203,551	$ 1,143,061
Net Assets		
Unrestricted	$ 690,301	$ 629,811
Restricted	513,250	513,250
Total net assets	$ 1,203,551	$ 1,143,061

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 5.78% of their annual covered salary, and the Hospital is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Plan members were required to contribute 5.38% and 4.50% of their annual covered salary, and the Hospital was required to contribute 8.07% and 6.95% of annual covered payroll for the years ended June 30, 2012 and 2011. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were $538,241, $504,538, and $430,014, 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, 2013 and 2012 was as follows:

	2013	2012
Medicare	33%	30%
Medicaid	8%	13%
Blue Cross	16%	13%
Commercial Insurance	14%	8%
Self Pay	29%	36%
	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 - Electronic Health Record Incentive Payments

During the year ended June 30, 2013, the Hospital recognized revenue of $184,600 related to electronic health record (EHR) incentive payments from Medicaid. These incentive payments are included as other operating revenues in the accompanying financial statements. No Medicare EHR incentive payments were received during the year ended June 30, 2013. The Hospital will begin their meaningful use attestation in July 1, 2013 for the Medicare portion.

Note 12 - Subsequent Events

The Hospital has evaluated subsequent events through March 25, 2014 the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2013 and 2012

Van Buren County Hospital

	Actual Accrual Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 796,084	$ 799,798	$ (3,714)
Estimated Other Revenues/ Receipts	12,421,194	12,110,006	311,188
	13,217,278	12,909,804	307,474
Expenses/Disbursements	12,834,178	12,909,804	75,626
Net	383,100	-	$ 383,100
Balance, Beginning of Year	12,036,824	11,221,657	
Balance, End of Year	$ 12,419,924	$ 11,221,657	

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, 2013.

For the year ended June 30, 2013 the Hospital's expenditures did not exceed the amount budgeted.

Other Supplementary Information
June 30, 2013 and 2012

Van Buren County Hospital

EideBailly
CPAs & BUSINESS ADVISORS

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, 2013 and 2012, and have issued our report thereon dated March 25, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. 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, 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. The schedules of net patient service revenue, other operating revenues, operating expenses, supplies and prepaid expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 schedules of net patient service revenue, other operating revenues, operating expenses, supplies and prepaid expenses are 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.

Eide Bailly LLP

Dubuque, Iowa
March 25, 2014

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	2013	2012
Patient Service Revenue		
Routine services	$ 1,825,285	$ 2,215,595
Nursery	10,660	30,070
Operating rooms	386,104	493,772
Delivery and labor rooms	60,915	38,410
Central services and supply	234,610	236,999
Emergency service	1,868,410	1,851,800
Laboratory	2,231,965	2,349,266
Electrocardiology	164,756	207,318
Radiology	2,533,104	2,708,022
Pharmacy	784,070	1,066,212
Anesthesiology	253,062	358,020
Respiratory therapy	434,445	468,034
Physical therapy	427,803	518,743
Occupational therapy	-	39,414
Speech therapy	7,157	10,407
Ambulance service	730,147	651,069
Cardiopulmonary rehab	106,538	109,502
Home health care	371	49,841
Medical staff	342,391	472,257
Rural health clinics:		
Douds	164,464	164,278
Birmingham	252,127	260,446
Cantril	157,547	146,513
Keosauqua	785,172	979,147
Bonaparte	204,247	185,971
Farmington	162,343	172,447
	14,127,693	15,783,553
Charity care	(33,907)	(204,958)
Total patient service revenue*	$ 14,093,786	$ 15,578,595

	2013	2012
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	$ 2,859,867	$ 3,612,007
Outpatient revenue	11,267,826	12,171,546
Charity care	(33,907)	(204,958)
Total patient service revenue	14,093,786	15,578,595
Deductions from Patient Service Revenue		
Contractual Adjustments	(3,743,230)	(4,867,830)
Net Patient Service Revenue	10,350,556	10,710,765
Provision for Bad Debts	(756,442)	(473,294)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 9,594,114	$ 10,237,471

	2013	2012
Other Operating Revenues		
Wellmark grant - CORP	$ 374,731	$ 169,071
Village Terrace	255,928	245,350
Day care center	192,221	177,336
Electronic health records	184,600	-
Job opportunities	180,096	131,449
Continuous family support system grant	175,162	179,947
Harkin grant	82,946	96,190
Occupational health	56,365	78,084
University of Iowa grant	48,000	-
Rent	21,371	26,219
Cafeteria	14,137	15,865
Tobacco-free grant	10,569	7,449
Medical records transcript fees	5,367	3,382
HRSA grant	-	13,592
Health wellness	-	360
Other	19,941	7,013
Total Other Operating Revenues	$ 1,621,434	$ 1,151,307

	2013	2012
Nursing Administration		
Salaries and wages	$ 193,018	$ 162,450
Supplies and other expenses	21,260	8,667
	214,278	171,117
Routine Services		
Salaries and wages	848,507	836,207
Supplies and other expenses	105,201	123,369
	953,708	959,576
Nursery		
Salaries and wages	666	2,247
Supplies and other expenses	-	29
	666	2,276
Operating Rooms		
Salaries and wages	111,829	93,476
Supplies and other expenses	75,180	82,701
	187,009	176,177
Delivery and Labor Rooms		
Salaries and wages	29,172	23,077
Supplies and other expenses	2,206	802
	31,378	23,879
Central Services and Supply		
Salaries and wages	22,713	26,556
Supplies and other expenses	86,573	81,312
	109,286	107,868
Emergency Service		
Salaries and wages	652,481	557,193
Supplies and other expenses	275,184	194,503
	927,665	751,696
Laboratory		
Salaries and wages	176,682	196,109
Supplies and other expenses	301,831	298,145
	478,513	494,254
Electrocardiology		
Salaries and wages	-	1,040
Radiology		
Salaries and wages	289,976	275,914
Supplies and other expenses	335,381	397,345
	625,357	673,259

	2013	2012
Pharmacy		
Salaries and wages	$ 17,254	$ 17,135
Supplies and other expenses	207,184	203,080
	224,438	220,215
Anesthesiology		
Supplies and other expenses	131,219	194,103
Respiratory Therapy		
Salaries and wages	89,233	86,324
Supplies and other expenses	46,842	49,620
	136,075	135,944
Physical Therapy		
Salaries and wages	282,386	254,019
Supplies and other expenses	10,843	11,384
	293,229	265,403
Occupational Therapy		
Supplies and other expenses	275	26,482
Speech Therapy		
Supplies and other expenses	5,260	5,308
Ambulance Service		
Salaries and wages	165,463	195,233
Supplies and other expenses	41,750	52,892
	207,213	248,125
Cardiopulmonary Rehab		
Salaries and wages	58,082	60,417
Supplies and other expenses	8,102	1,283
	66,184	61,700
Emergency Preparedness		
Supplies and other expenses	9,338	20,254
Home Health Care		
Salaries and wages	2	2,655
Supplies and other expenses	45	22,563
	47	25,218

	2013	2012
Medical Staff		
Salaries and wages	$ 338,575	$ 251,310
Supplies and other expenses	2,720	1,049
	341,295	252,359
Rural Health Clinic - Douds		
Salaries and wages	94,841	80,114
Supplies and other expenses	20,480	20,939
	115,321	101,053
Rural Health Clinic - Birmingham		
Salaries and wages	190,203	178,233
Supplies and other expenses	30,890	26,718
	221,093	204,951
Rural Health Clinic - Cantril		
Salaries and wages	92,055	100,322
Supplies and other expenses	19,019	17,344
	111,074	117,666
Rural Health Clinic - Keosauqua		
Salaries and wages	707,170	865,770
Supplies and other expenses	197,993	290,760
	905,163	1,156,530
Rural Health Clinic - Bonaparte		
Salaries and wages	139,861	139,031
Supplies and other expenses	20,363	17,930
	160,224	156,961
Rural Health Clinic - Farmington		
Salaries and wages	114,190	134,117
Supplies and other expenses	22,501	16,809
	136,691	150,926
Continuous Family Support System		
Salaries and wages	107,554	121,974
Supplies and other expenses	30,699	23,436
	138,253	145,410
Harkin Grant		
Salaries and wages	49,190	26,370
Supplies and other expenses	38,835	18,689
	88,025	45,059
Wellmark Grant - Tobacco Risk Awareness		
Salaries and wages	737	17,822

	2013	2012
Tobacco-Free Program		
Salaries and wages	$ 6,974	$ 7,147
Supplies and other expenses	1,641	739
	8,615	7,886
Dietary		
Salaries and wages	104,650	107,500
Supplies and other expenses	92,115	111,935
	196,765	219,435
Plant Operation and Maintenance		
Salaries and wages	140,759	169,421
Supplies and other expenses	433,192	387,045
	573,951	556,466
Housekeeping		
Salaries and wages	136,947	128,516
Supplies and other expenses	15,068	22,683
	152,015	151,199
Laundry and Linen		
Salaries and wages	27,853	29,851
Supplies and other expenses	7,395	5,254
	35,248	35,105
Administrative Services		
Salaries and wages	816,777	770,517
Supplies and other expenses	1,001,317	833,262
	1,818,094	1,603,779
Day Care Center		
Salaries and wages	149,379	137,028
Supplies and other expenses	48,175	29,294
	197,554	166,322
Job Opportunities		
Salaries and wages	118,536	101,686
Supplies and other expenses	15,446	8,424
	133,982	110,110
Occupational Health		
Salaries and wages	18,896	27,479
Supplies and other expenses	13,431	16,978
	32,327	44,457

	2013	2012
Village Terrace		
Salaries and wages	$ 65,905	$ 73,079
Supplies and other expenses	38,495	35,699
	104,400	108,778
Unassigned Expenses		
Depreciation and amortization	914,297	767,027
Insurance	126,336	208,972
Employee benefits	1,569,973	1,503,436
	2,610,606	2,479,435
Total Operating Expenses	$ 12,682,300	$ 12,395,603

Analysis of Aging

	June 30, 2013		June 30, 2012	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
90 days or less	$ 2,600,481	51.57%	$ 2,164,744	58.81%
91 to 150 days	605,487	12.01%	343,400	9.33%
151 to 365 days	1,188,705	23.57%	584,177	15.87%
Over one year	647,567	12.84%	588,651	15.99%
	5,042,240	100.00%	3,680,972	100.00%
Less:				
Allowance for doubtful accounts	1,128,000		560,259	
Allowance for contractual adjustments	1,380,000		1,154,920	
Net	$ 2,534,240		$ 1,965,793	

Allowance for Doubtful Accounts

	Years Ended June 30, 2013	2012
Balance, Beginning of Year	$ 560,259	$ 374,720
Add:		
Provision for bad debts, net of recoveries	756,442	473,294
Less:		
Accounts written off	(188,701)	(287,755)
Balance, End of Year	$ 1,128,000	$ 560,259

	2013	2012
Collection Statistics		
Net Accounts Receivable - Patients	$ 2,534,240	$ 1,965,793
Number of Days Charges Outstanding (1)	111	70
Uncollectible Accounts (2)	$ 804,613	$ 508,703
Percentage of Uncollectible Accounts to Total Charges	5.7%	3.2%

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

	2013	2012
Supplies		
General supplies	$ 116,739	$ 131,069
Pharmacy	86,753	101,817
Dietary	6,764	8,442
Office	7,358	13,896
	$ 217,614	$ 255,224
Prepaid Expenses		
Insurance	$ 32,122	$ 28,839
Maintenance agreements, dues, and other	44,327	53,538
	$ 76,449	$ 82,377

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

Provisions for bad debt	$ 756,442
Ambulance service	99,407
Parents as Teachers in kind	63,933
Charity Care	33,906
Daycare loss	26,863
Speakers Bureau	12,515
In-kind portion of Healthy Villages	12,480
Delivery of Medications	11,046
Education/Other Health Professions	10,800
Screening Blood pressure & School/free vaccinations	5,328
Outside advocacy board & councils	3,871
Enrollment Assistance/ Public Medical Programs	3,309
Hospital facilities for meetings	2,940
Ambulance in community (HS games, fair, kids fair)	2,400
CPR & AED training	1,860
Health Fairs	1,688
Community Support/Disaster Readiness(over requirement)	700
Prenatal/ Family Planning	425
Women's Health Education	100
	$ 1,050,013

Van Buren County Hospital also had $3,743,230 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.

	2013	2012
Patient Days		
Acute	882	1,055
Swing-bed	586	800
Newborn	66	64
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	16%	20%
Discharges		
Acute	294	364
Swing-bed	84	108
Average Length of Stay		
Acute	3.00	2.90
Swing-bed	6.98	7.41
Most Recent Year End Routine Service Rates		
Private Rooms	$ 975	$ 925
Nursery	510	485

Independent Auditor's 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, 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, the financial statements of Van Buren County Hospital (Hospital) which comprise the balance sheet, as of June 30, 2013, and the statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-A and 2013-B to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2013-C to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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.*

Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
March 25, 2014

Independent Auditor's Report on Compliance for its Major Federal Program and Report on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Its Major Federal Program

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 the Hospital's major federal program for the year ended June 30, 2013. The Hospital's major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for its major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Major Federal Program

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 its major federal program for the year ended June 30, 2013.

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Report on Internal Control over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 that we consider to be a significant deficiency.

The Hospital's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
March 25, 2014

Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Program:			
Rural HIT Network Program	93.912		$ 380,033
Pass-through program from:			
Iowa Department of Public Health:			
Small Rural Hospital Improvement Grant Program	93.301	5882SH75	10,569
Community Transformation Grant Community Projects	93.531	5882HP21	82,946
University of Iowa:			
Health Care Innovation Challenge	93.610	5882BHP93	48,000
Total U.S. Department of Health and Human Services			$ 521,548

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Van Buren County Hospital (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 the Hospital for the year ended June 30, 2013, which the United States government has financed. For the purpose of the SEFA, federal awards include all federal assistance entered into directly between the 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 the Hospital, it is not intended to, and does not, present the financial position, results of operations, changes in net position, and cash flows of the Hospital.

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

Financial Statements	
Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes (Part II)
Significant deficiency	Yes (Part II)
Noncompliance material to financial statements noted	No
Federal Awards	
Internal control over major programs:	
Material weakness identified	No
Significant deficiency	Yes (Part III)
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.912	Rural HIT Network Program

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:

Material Weaknesses:

2013-A 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. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements. Also, material adjusting journal entries were proposed and made to the financial statements during the audit.

Cause – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

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. Interim financial statements may be misstated if material adjusting journal entries are made at year end. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Recommendation – 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. 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 and prevent material adjusting journal entries at year end.

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

2013-B Monthly Account Reconciliation and Material Adjusting Journal Entries

Criteria - Reconciliation of general ledger accounts on a monthly basis is essential to prepare reliable financial statements. Furthermore, reconciliations serve as an internal control over financial reporting and the safeguarding of assets.

Accurate reconciliation and review of all balance sheet accounts, specifically accounts payable, cash, and estimated third-party payor settlements are essential to prepare reliable financial statements.

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

Condition - Certain accounts such as accounts payable and cash were not fully reconciled during the year. Material entries were necessary to properly record these accounts at year end.

Cause - Both accounts payable and cash need to be reconciled on a monthly basis. In addition, transactions affecting both cash and accounts payable need to be properly communicated between the individuals completing these reconciliations. We noted instances where the recording of manual checks caused issues due to timing at month-end.

It is also important that all reconciliations be completed regularly so revenues and expenses are properly reported on a monthly basis. This will assist in the calculation of estimated third-party payor settlements, which required a material adjusting entry at year end.

Effect - Failure to reconcile these accounts can result in errors on the interim financial statements and represents a weakness in internal control in the accounting system. Material entries were proposed during the audit to adjust year-end account balances.

Recommendation - All general ledger accounts must be reconciled and reviewed monthly. Furthermore, the Chief Financial Officer should review reconciliations prepared by the accounting staff to ensure that the reconciliations are completed on a timely basis and are accurate. This will help to ensure that significant entries are made as necessary on a timely basis. In addition, staff reconciling accounts payable and the cash accounts need to work collectively on a monthly basis to ensure that any unusual items are addressed and corrected as soon as possible.

Response - Management agrees with the finding. The Hospital’s staff accountant, Chief Financial Officer, and accounts payable staff will work collectively in the preparation of monthly account reconciliation and review of reconciliations to improve the financial reporting process going forward.

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

Significant Deficiency:

2013-C Segregation of Duties

Criteria – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of the Hospital's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

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 – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. Limited segregation of duties could result in misstatements that may not be prevented or detected and corrected 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. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or the addition of other compensating controls and monitoring procedures exceed the related costs. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

Response – Management agrees with the finding and has reviewed the operating procedures of the 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 maximum internal control possible under the circumstances.

Part III: Findings and Questioned Costs – Major Federal Award Program

2013-001 Significant Deficiency in Internal Control over Compliance

Federal Award – CFDA #93.912 Rural HIT Network Program

Criteria – In accordance with the federal award compliance requirements, an annual report documenting total expenditures submitted for reimbursement is to be filed by January 30 of the year following the grant award period, which ends August 31.

Questioned costs – None noted.

Condition – The annual report for the grant award period ended August 31, 2012 was not submitted until April 1, 2013.

Cause – Management did not have a system in place to ensure timely filing of the annual report related to the Rural HIT Network Program grant.

Effect – The annual report was not submitted by the required due date for the grant award period ended August 31, 2012.

Recommendation – We recommend that management develop and implement a system to ensure timely filing of the annual reports related to the Rural HIT network Program.

Response – Management will submit future annual reports timely.

Part IV: Other Findings Related to Required Statutory Reporting:

2013-IA-A **Certified Budget** – Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted.

2013-IA-B **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.

2013-IA-C **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

2013-IA-D **Business Transactions** – Business transactions between the Hospital and Hospital officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Carolyn DeHart, Ward Clerk, spouse of Larry DeHart, self-employed	Landscaping	$ 9,347
Linda Goldstein, Manager of Business Office, spouse of employee of Gold Rush Advertising	Advertising	$ 5,513
Wes Wiley, Maintenance, brother of Randy's Plumbing employee	Landscaping	$ 4,644
Connie Johnson, Respiratory Therapy, daughter of Fae Black	Rent	$ 3,450
Monica Chapuis, Daycare Employee, daughter of owner of Keosaqua Lumber	Supplies	$ 2,605
Barbie Winslow, Clinic CMA, spouse of owner of Mike's Collision and Tire	Auto Repair	$ 947
Theresa Dunkin, Business Office, spouse of owner of Mike's Paint and Body	Auto Repair	$ 411

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

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

2013-IA-E **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

2013-IA-F **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.

2013-IA-G **Publication of Bills Allowed and Salaries** – Chapter 347.13(11) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category…" The Hospital published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.

EideBailly
CPAs & BUSINESS ADVISORS

March 25, 2014

The Board of Trustees
Van Buren County Hospital
Keosauqua, Iowa

We have audited the financial statements of Van Buren County Hospital (Hospital) for the year ended June 30, 2013, and have issued our report thereon dated March 25, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 14, 2013. 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 the Hospital are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2013. 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 were:

> <u>*Collectability of Patient Receivables*</u> – Management's estimate of the allowance for contractual adjustments and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the estimated collections of individual accounts.
>
> <u>*Estimated Third-party Payor Settlements*</u> – 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 these estimates 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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following significant misstatements to the Hospital's financial statements, some of which are considered material, were detected as a result of our audit procedures and have been corrected by management.

	Increase (Decrease) to Net Position
To adjust estimated third-party payor settlements	$ 749,000
To adjust beginning-of-year net position for 2012 entry not posted	50,000
To expense consulting related to obsolete Hospital expansion project	(38,000)
To adjust EHR incentive payment receivable	(100,000)
To adjust allowance for doubtful accounts	(274,000)
Other	12,000

The net effect of the adjustments was to increase net position by $399,000.

In addition, the following balance sheet reclassification was detected as a result of our audit procedures and has been corrected by management.

To adjust accounts payable and operating cash	$ 877,000

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 March 25, 2014.

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

Supplementary Information

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

New Accounting Pronouncements

Newly Implemented Standards

During the year ended June 30, 2013, the Hospital implemented the following new accounting standards:

Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity:* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements:* Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position:* Statement No. 63 amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Upcoming Accounting Pronouncements

We recommend that the Hospital review the following upcoming statements and evaluate the potential impact of these statements on the financial statements when implemented.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*: Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged.

GASB Statement No. 67, *Financial Reporting for Pension Plans:* Statement No. 67 revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

This information is intended solely for the use of the Board of Trustees, and management of Van Buren County Hospital and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

EIDE BAILLY LLP

Eide Bailly LLP

Dubuque, Iowa