Financial Statements
June 30, 2014 and 2013

Van Buren County Hospital

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, 2014 and 2013, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Van Buren County Hospital as of June 30, 2014 and 2013 and the results of its operations, changes in net position, and cash flows for the years then ended in accordance 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 4 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 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
December 12, 2014

This discussion and analysis of the financial performance of Van Buren County Hospital (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2014, 2013, and 2012. 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, deferred inflows of resources, 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 and deferred inflows of resources - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position is 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, 2014, indicates total assets of $18,656,838, total liabilities of $5,288,997, deferred inflows of resources of $1,366,475, and net position of $12,001,366. The Balance Sheet at June 30, 2013, indicates total assets of $18,736,584, total liabilities of $5,450,490, deferred inflows of resources of $866,170, and net position of $12,419,924. The Balance Sheet at June 30, 2012, indicates total assets of $17,784,974, total liabilities of $4,965,787, deferred inflows of resources of $782,363, and net position of $12,036,824.

- The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2014, indicates total net patient service revenue of $10,194,283 increased 6.2% from the previous fiscal year, total operating expenses of $13,513,169 increased 6.5%, resulting in a loss from operations of $1,518,188. Net non-operating revenues of $801,781 brings revenue less than expenses to $716,407. The capital grants and contributions and the change in beneficial interest in net assets of the Arnold Trust totaled $297,849 bringing the decrease in net position to $418,558 for the year ended June 30, 2014.
- The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013, indicates total net patient service revenue of $9,594,114 decreased 6.2% 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 revenue 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.
- The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2012, indicates total net patient service revenue of $10,237,471 decreased 3.3% from the previous fiscal year, total operating expenses of $12,395,603 increased 1.0%, resulting in a loss from operations of $1,006,825. Net non-operating revenues of $752,919 brings revenue less than expenses to $253,906. The capital grants and contributions and the change in beneficial interest in net assets of the Arnold Trust totaled $1,069,073 bringing the increase in net position to $815,167 for the year ended June 30, 2012.
- The Hospital's current assets exceeded its current liabilities by $4,138,859 at June 30, 2014, providing a 3.85 current ratio. The Hospital's current assets exceeded its current liabilities by $3,195,038 at June 30, 2013, providing a 3.13 current ratio. The Hospital's current assets exceeded its current liabilities by $2,348,055 at June 30, 2012, providing a 2.29 current ratio.

Organization Highlights

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

- A management agreement to employ the CEO as well as provide support and consulting in many different areas with The University of Iowa.
- Hiring of new CEO.
- Addition of a physician ER medical director.
- Hiring of two family practice physicians, one surgeon, and two nurse practitioners.
- Refining the electronic medical record. The Hospital worked with the University of Iowa to install GE and EPIC at the end of 2012. Van Buren County Hospital completed a revenue cycle system change to EPIC on August 2, 2014.

Capital Assets

Significant capital purchases included:

• Data Center	$226,510
• Mammography Equipment	$198,000
• Office renovation	$ 94,900
• Sterilizer	$ 93,300
• Mammography Room Renovation	$ 86,100
• Laparoscope	$ 80,975
• PACS System	$ 58,600
• IT Equipment	$ 58,300

Long-Term Debt

At year end, Van Buren County Hospital had $3,949,746 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 2015 budget. Of primary consideration in the 2015 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
- Changes to healthcare legislation and the Affordable Care Act and impacts to our facility
- Changes to the Iowa Medicaid program, Iowa Cares, and health insurance exchanges
- Decreased inpatient volumes
- 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

Condensed Financial Statements

Balance Sheets

	June 30, 2014	June 30, 2013	June 30, 2012
Assets			
Current Assets	$ 5,592,281	$ 4,695,782	$ 4,166,233
Assets Limited as to Use or Restricted	3,801,235	5,100,714	4,902,086
Capital Assets, Net	8,323,850	8,235,445	8,070,669
Other Assets	939,472	704,643	645,986
Total assets	$ 18,656,838	$ 18,736,584	$ 17,784,974
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities	$ 1,453,422	$ 1,500,744	$ 1,818,178
Long-Term Liabilities	3,835,575	3,949,746	3,147,609
Total liabilities	5,288,997	5,450,490	4,965,787
Deferred Inflows of Resources	1,366,475	866,170	782,363
Net Position			
Net investment in capital assets	4,374,104	4,166,359	4,792,280
Restricted	1,361,115	1,566,355	1,566,354
Unrestricted	6,266,147	6,687,210	5,678,190
Total net position	12,001,366	12,419,924	12,036,824
Total liabilities, deferred inflows of resources, and net position	$ 18,656,838	$ 18,736,584	$ 17,784,974

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2014	2013	2012
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 10,194,283	$ 9,594,114	$ 10,237,471
Other operating revenues	1,800,698	1,621,434	1,151,307
Total Operating Revenues	11,994,981	11,215,548	11,388,778
Operating Expenses			
Salaries and wages	7,076,660	6,358,516	6,257,339
Supplies and other expenses	5,368,895	5,409,487	5,371,237
Depreciation and amortization	1,067,614	914,297	767,027
Total Operating Expenses	13,513,169	12,682,300	12,395,603
Operating Loss	(1,518,188)	(1,466,752)	(1,006,825)
Nonoperating Revenues (Expenses)			
County tax revenue	883,018	796,084	774,651
Noncapital grants and contributions	13,390	985,346	-
Investment income	57,581	60,291	102,617
Interest expense	(152,208)	(151,878)	(130,602)
Gain on disposal of equipment	-	67,519	6,253
Net Nonoperating Revenues	801,781	1,757,362	752,919
Revenue in Excess of (Less than) Expenses	(716,407)	290,610	(253,906)
Capital Grants and Contributions	80,045	32,000	1,005,086
Change in Beneficial Interest in Net Assets of Arnold Trust	217,804	60,490	63,987
Increase (Decrease) in Net Position	(418,558)	383,100	815,167
Net Position, Beginning of Year	12,419,924	12,036,824	11,221,657
Net Position, End of Year	$ 12,001,366	$ 12,419,924	$ 12,036,824

Summary

The Hospital’s Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 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

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 339,712	$ -
Receivables		
Patient, net of estimated uncollectibles of $1,516,000 in 2014 and $1,128,000 in 2013	2,406,455	2,534,240
Estimated third-party payor settlements	486,000	838,000
Succeeding year property tax	841,431	866,170
Other	1,003,766	163,309
Supplies	234,697	217,614
Prepaid expenses	280,220	76,449
Total current assets	5,592,281	4,695,782
Assets Limited as to Use or Restricted - Note 3		
Designated by board for capital improvements	2,034,969	3,340,957
Restricted under loan agreement	971,916	965,947
Restricted by donors for specific purposes	740,442	739,902
Restricted by donors for permanent endowment fund	53,908	53,908
Total assets limited as to use or restricted	3,801,235	5,100,714
Capital Assets - Note 4		
Capital assets not being depreciated	305,914	426,800
Depreciable capital assets, net of accumulated depreciation	8,017,936	7,808,645
Total capital assets, net	8,323,850	8,235,445
Other Assets		
Beneficial interest in net assets of Arnold Trust - Note 6	908,105	690,301
Notes receivable	31,367	14,342
Total other assets	939,472	704,643
Total assets	$ 18,656,838	$ 18,736,584

	2014	2013
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Checks issued but not presented for payment	$ -	$ 43,214
Current maturities of long-term debt - Note 5	114,171	119,340
Accounts payable		
Trade	355,361	569,778
Accrued expenses		
Salaries and wages	387,247	262,755
Vacation	312,887	278,086
Payroll taxes and other	126,795	59,724
Interest	140,551	148,287
Village Terrace security deposits	16,410	19,560
Total current liabilities	1,453,422	1,500,744
Long-Term Debt, Less Current Maturities - Note 5	3,835,575	3,949,746
Total liabilities	5,288,997	5,450,490
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax receivable	841,431	866,170
Electronic health record incentive - Note 11	525,044	-
Total deferred inflows of resources	1,366,475	866,170
Net Position		
Net investment in capital assets	4,374,104	4,166,359
Restricted - Note 6		
Expendable contributions	1,308,028	1,513,268
Nonexpendable contributions	53,087	53,087
Unrestricted	6,266,147	6,687,210
Total net position	12,001,366	12,419,924
Total liabilities, deferred inflows of resources, and net position	$ 18,656,838	$ 18,736,584

	2014	2013
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $598,261 in 2014 and $756,442 in 2013) - Note 2	$ 10,194,283	$ 9,594,114
Other operating revenues	1,800,698	1,621,434
Total Operating Revenues	11,994,981	11,215,548
Operating Expenses		
Salaries and wages	7,076,660	6,358,516
Supplies and other expenses	5,368,895	5,409,487
Depreciation and amortization	1,067,614	914,297
Total Operating Expenses	13,513,169	12,682,300
Operating Loss	(1,518,188)	(1,466,752)
Nonoperating Revenues (Expenses)		
County tax revenue	883,018	796,084
Noncapital grants and contributions	13,390	985,346
Investment income	57,581	60,291
Interest expense	(152,208)	(151,878)
Gain on disposal of equipment	-	67,519
Net Nonoperating Revenues	801,781	1,757,362
Revenues In Excess of (Less than) Expenses	(716,407)	290,610
Capital Grants and Contributions	80,045	32,000
Change in Beneficial Interest in Net Assets of Arnold Trust	217,804	60,490
Increase (Decrease) in Net Position	(418,558)	383,100
Net Position, Beginning of Year	12,419,924	12,036,824
Net Position, End of Year	$ 12,001,366	$ 12,419,924

	2014	2013
Operating Activities		
Receipts of patient service revenue	$ 10,657,043	$ 8,649,500
Payments of salaries and wages	(6,917,367)	(6,313,732)
Payments of supplies and other expenses	(5,258,415)	(5,179,896)
Other receipts and payments, net	960,241	1,961,613
Net Cash used for Operating Activities	(558,498)	(882,515)
Noncapital Financing Activities		
County tax revenue received	883,018	796,084
Noncapital grants and contributions received	13,390	985,346
Net Cash provided by Noncapital Financing Activities	896,408	1,781,430
Capital and Related Financing Activities		
Purchase of capital assets	(1,156,019)	(1,651,230)
Proceeds from sale of equipment	-	84,869
Capital grants and contributions received	80,045	32,000
Payment of principal on debt	(119,340)	(153,303)
Proceeds from issuance of long-term debt	-	944,000
Payment of interest on debt	(159,944)	(133,902)
Net Cash used for Capital and Related Financing Activities	(1,355,258)	(877,566)
Investing Activities		
Purchase of investments	(1,969,192)	(4,897,130)
Proceeds from sale of investments	3,268,671	4,698,502
Investment income received	57,581	60,291
Net Cash provided by (used for) Investing Activities	1,357,060	(138,337)
Net Increase (Decrease) in Cash and Cash Equivalents	339,712	(116,988)
Cash and Cash Equivalents at Beginning of Year	-	116,988
Cash and Cash Equivalents at End of Year	$ 339,712	$ -

	2014	2013
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (1,518,188)	$ (1,466,752)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	1,067,614	914,297
Provision for bad debts	598,261	756,442
Changes in operating assets and liabilities		
Receivables	(1,327,958)	(982,877)
Supplies	(17,083)	37,610
Prepaid expenses	(203,771)	5,928
Checks issued but not presented for payment	(43,214)	43,214
Accounts payable	310,627	195,669
Estimated third-party payor settlements	352,000	(378,000)
Village Terrace security deposits	(3,150)	850
Accrued expenses	226,364	(8,896)
Net Cash used for Operating Activities	$ (558,498)	$ (882,515)

Note 1 - Organization and Significant Accounting Policies

Organization

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

Tax Exempt Status

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

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

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The Hospital has no component units which meet the GASB criteria.

Basis of Presentation

The balance sheet displays the Hospital's assets, liabilities, and deferred inflows of resources, 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. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest claim.

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's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2013 to June 30, 2014. 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. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2013 or 2014.

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.

Property tax revenue recognized by the Hospital becomes due and collectible in September and March of the fiscal year, is based on January 1, 2012, assessed property valuations, is for the tax accrual period July 1, 2013 through June 30, 2014, and reflects the tax asking contained in the budget certified by the County Auditor in March 2013.

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

Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Hospital currently has no items that qualify for reporting in this category.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Hospital's two items that qualify for reporting in this category are deferred revenue related to succeeding year property tax receivable and deferred electronic health record incentive. The property tax revenue is recognized in the succeeding year when it becomes available and the electronic medical record incentive amounts are recognized as revenue ratably over the life of the qualifying assets.

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, 2014 and 2013.

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 and electronic health record incentive reported under deferred inflows of resources on the balance sheet.

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 $86,198 and $33,907 for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were $72,000 and $27,000 at June 30, 2014 and 2013 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

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 $85,954 and $77,601 for advertising costs for the years ended June 30, 2014 and 2013.

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, 2013, 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:** The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services at cost plus 1%, less 2% sequestration, 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 49%, 16%, and 26% of the Hospital's gross patient service revenue for the year ended June 30, 2014, and 50%, 11%, and 24% of the Hospital's gross patient service revenue for the year ended June 30, 2013. 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, 2014 and 2013 increased approximately $59,000 and $73,000, 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, 2014 and 2013 follows:

	2014	2013
Total Patient Service Revenue	$ 15,358,219	$ 14,093,786
Contractual and Administrative Adjustments	(4,565,675)	(3,743,230)
Medicare	1,436,637	(1,111,119)
Medicaid	(6,389)	(429,910)
Other	(5,995,923)	(2,202,201)
Total contractual adjustments	(4,565,675)	(3,743,230)
Net Patient Service Revenue	10,792,544	10,350,556
Provision for Bad Debts	(598,261)	(756,442)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 10,194,283	$ 9,594,114

Note 3 - Cash and Investments

The Hospital's deposits in banks at June 30, 2014 and 2013 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.

	2014	2013
Designated by Board for Capital Improvements		
Money market accounts	$ 1,113,978	$ 2,196,686
Certificates of deposit	918,098	1,142,881
Accrued interest receivable	2,893	1,390
	$ 2,034,969	$ 3,340,957
Restricted Under Loan Agreement		
Money market accounts	$ 200,509	$ 200,010
Certificates of deposit	771,407	765,937
	$ 971,916	$ 965,947
Restricted by Donors for Specific Purposes		
Certificates of deposit	$ 227,192	$ 226,652
Beneficial interest in net assets of Arnold Trust	513,250	513,250
	$ 740,442	$ 739,902
Restricted by Donors for Permanent Endowment Fund		
Certificates of deposit	$ 53,908	$ 53,908
Beneficial Interest in Net Assets of Arnold Trust	$ 908,105	$ 690,301

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, 2014 and 2013 was as follow:

	June 30, 2013 Balance	Additions	Deductions	Transfers	June 30, 2014 Balance
Capital Assets Not Being Depreciated:					
Land	$ 194,604	$ -	$ -	$ -	$ 194,604
Construction in progress	232,196	48,932	-	(169,818)	111,310
Total capital assets not being depreciated	426,800	48,932	-	(169,818)	305,914
Capital Assets Being Depreciated:					
Land improvements	108,963	39,227	-	-	148,190
Buildings and improvements	12,153,111	20,262	-	169,818	12,343,191
Equipment	7,034,565	1,047,598	-	-	8,082,163
Total capital assets being depreciated	19,296,639	1,107,087	-	169,818	20,573,544
Less Accumulated Depreciation for:					
Land improvements	92,391	2,839	-	-	95,230
Buildings and improvements	6,097,611	500,182	-	-	6,597,793
Equipment	5,297,992	564,593	-	-	5,862,585
Total accumulated depreciation	11,487,994	1,067,614	-	-	12,555,608
Total Capital Assets Being Depreciated, Net	7,808,645	39,473	-	169,818	8,017,936
Total Capital Assets, Net	$ 8,235,445	$ 88,405	$ -	$ -	$ 8,323,850

Construction in progress at June 30, 2014 consists of preliminary costs for a Hospital expansion project, which has an estimated completion cost of $4,071,000. The project will be funded through various loans and has no set completion date at this time.

	June 30, 2012 Balance	Additions	Deductions	Transfers	June 30, 2013 Balance
Capital Assets Not Being Depreciated:					
Land	$ 202,104	$ -	$ (7,500)	$ -	$ 194,604
Construction in progress	2,731,971	444,224	(37,617)	(2,906,382)	232,196
Total capital assets not being depreciated	2,934,075	444,224	(45,117)	(2,906,382)	426,800
Capital Assets Being Depreciated:					
Land improvements	108,963	-	-	-	108,963
Buildings and improvements	9,773,334	-	(56,669)	2,436,446	12,153,111
Equipment	5,874,812	689,817	-	469,936	7,034,565
Total capital assets being depreciated	15,757,109	689,817	(56,669)	2,906,382	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	(224,480)	(9,851)	2,906,382	7,808,645
Total Capital Assets, Net	$ 8,070,669	$ 219,744	$ (54,968)	$ -	$ 8,235,445

Note 5 - Long-Term Debt

A summary of changes in the Hospital's long-term debt for 2014 follows:

	June 30, 2013 Balance	Additions	Payments	June 30, 2014 Balance	Amounts Due Within One Year
Hospital revenue note, Series 1997B, 4.25%, due in annual payments of $66,492 through 2037	$ 963,219	$ -	$ (22,414)	$ 940,805	$ 23,368
Hospital revenue note, Series 2002A, 5.35%, due in annual payments of $15,795 through 2032	175,441	-	(5,572)	169,869	5,870
Hospital revenue note, Series 2003A, 4.25%, interest only due through July 2005, annual payments of $80,265 due July 2006 through 2043	1,368,564	-	(22,100)	1,346,464	23,040
Hospital revenue note, Series 2003B, 4.25%, interest only due through July 2005, annual payments of $21,616 due July 2006 through 2033	296,352	-	(9,021)	287,331	9,404
Hospital revenue note, Series 2003C, 4.25%, due in annual payments of $9,988 through 2013	8,310	-	(8,310)	-	-
Hospital revenue note, Series 2012a, 3.50% due in monthly payments of $1,160 through August 2032	195,200	-	(7,239)	187,961	7,496
Hospital revenue note, Series 2012b, 3.50% due in annual payments of $34,842 through August 2052	744,000	-	(8,684)	735,316	8,993
Keosauqua Light and Power Interest free loan, due in monthly payments of $3,000 through April 2022	318,000	-	(36,000)	282,000	36,000
	$ 4,069,086	$ -	$ (119,340)	3,949,746	$ 114,171
Less current maturities				(114,171)	
Long-term debt, less current maturities				$ 3,835,575	

Long-term debt maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
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	128,117	137,826	265,943
2020-2024	623,883	627,444	1,251,327
2025-2029	641,164	509,260	1,150,424
2030-2034	731,298	363,662	1,094,960
2035-2039	612,088	216,751	828,839
2040-2044	469,646	106,958	576,604
2045-2049	137,763	37,972	175,735
2050-2053	128,931	11,658	140,589
	$ 3,949,746	$ 2,600,200	$ 6,549,946

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, 2014, the Hospital had $971,916 in the reserve account. The amount required to be on deposit at June 30, 2014 is $886,350.

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	

Note 6 - Restricted Net Position

Restricted net position consists of the following at June 30, 2014 and 2013:

	2014	2013
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	577,133	782,373
Arnold Trust	513,250	513,250
Total restricted net position	$ 1,361,115	$ 1,566,355

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, 2014 and 2013 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 2014	June 30 2013
Cash and Cash Equivalents	$ 121,788	$ 122,745
Certificates of Deposit	80,000	80,000
Marketable Equity Securities	1,219,567	1,000,806
Total assets	$ 1,421,355	$ 1,203,551
Net Assets		
Unrestricted	$ 908,105	$ 690,301
Restricted	513,250	513,250
Total net position	$ 1,421,355	$ 1,203,551

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 5.95% of their annual covered salary, and the Hospital is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. For the year ended June 30, 2013, plan members were required to contribute 5.78% of their annual covered salary, and the Hospital was required to contribute 8.67% of annual covered payroll. For the year ended June 30, 2012, plan members were required to contribute 5.38% of their annual covered salary, and the Hospital was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were $613,385, $538,241, and $504,538, 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, 2014 and 2013 was as follows:

	2014	2013
Medicare	20%	33%
Medicaid	10%	8%
Blue Cross	15%	16%
Commercial Insurance	12%	14%
Self Pay	43%	29%
	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

The Hospital attested as a meaningful user of Electronic Health Records (EHR) during the year ended June 30, 2014. Accordingly, the Hospital received $717,805 as lump sum incentive payments related to Medicare EHR. The Hospital is recognizing the deferred inflow, less an amount anticipated to be owed back to Medicare, ratably over a four year period. As a result, the Hospital recognized revenue of $175,015 for the year ended June 30, 2014, by recognizing the incentive payment and amortizing the deferred inflow into other operating revenue. The remaining deferred inflow of $525,044 related to EHR incentive payments will be recognized as income during the next three years.

The Hospital recognized revenue of $184,600 for the years ended June 30, 2014 and 2013 related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. The Hospital has received a total of $369,200 of Medicaid EHR incentive to date. This represents 80% of the potential benefit to be received from the State of Iowa Medicaid program.

Note 12 - Subsequent Events

The Hospital has evaluated subsequent events through December 12, 2014 the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2014 and 2013

Van Buren County Hospital

	Actual Accrual Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 883,018	$ 883,770	$ (752)
Estimated Other Revenues/ Receipts	12,363,801	12,157,111	206,690
	13,246,819	13,040,881	205,938
Expenses/Disbursements	13,665,377	13,283,814	(381,563)
Net	(418,558)	(242,933)	$ (175,625)
Balance, Beginning of Year	12,419,924	10,981,568	
Balance, End of Year	$ 12,001,366	$ 10,738,635	

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, 2014.

For the year ended June 30, 2014 the Hospital's expenditures exceeded the amount budgeted.

Other Supplementary Information
June 30, 2014 and 2013

Van Buren County Hospital

Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Van Buren County Hospital (Hospital) as of and for the year ended June 30, 2014 and 2013, and our report thereon dated December 12, 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, and supplies and prepaid expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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, and 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
December 12, 2014

	2014	2013
Patient Service Revenue		
Routine services	$ 1,013,274	$ 1,511,625
Nursery	-	10,660
Operating rooms	903,199	699,764
Delivery and labor rooms	84,677	60,915
Central services and supply	248,385	234,610
Emergency service	1,909,062	1,868,410
Laboratory	2,299,683	2,231,965
Electrocardiology	193,946	164,756
Radiology	2,916,545	2,533,104
Pharmacy	810,962	784,070
Anesthesiology	178,068	253,062
Respiratory therapy	393,129	434,445
Physical therapy	449,314	427,803
Speech therapy	5,825	7,157
Ambulance service	736,741	730,147
Cardiopulmonary rehab	80,446	106,538
Home health care	-	371
Medical staff	1,211,973	342,391
Rural health clinics:		
Douds	161,218	164,464
Birmingham	309,611	252,127
Cantril	204,364	157,547
Keosauqua	894,651	785,172
Bonaparte	253,186	204,247
Farmington	186,158	162,343
	15,444,417	14,127,693
Charity care	(86,198)	(33,907)
Total patient service revenue*	$ 15,358,219	$ 14,093,786

	2014	2013
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	$ 2,161,402	$ 2,859,867
Outpatient revenue	13,283,015	11,267,826
Charity care	(86,198)	(33,907)
Total patient service revenue	15,358,219	14,093,786
Deductions from Patient Service Revenue		
Contractual and Administrative Adjustments	(4,565,675)	(3,743,230)
Net Patient Service Revenue	10,792,544	10,350,556
Provision for Bad Debts	(598,261)	(756,442)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 10,194,283	$ 9,594,114

	2014	2013
Other Operating Revenues		
Electronic health records	$ 359,615	$ 184,600
Village Terrace	245,446	255,928
Job opportunities	236,048	180,096
Wellmark grant - CORP	223,161	374,731
Continuous family support system grant	179,393	175,162
Day care center	182,495	192,221
PACS Grant	107,493	-
Harkin grant	73,885	82,946
Occupational health	71,227	56,365
University of Iowa grant	51,750	48,000
Cafeteria	17,982	14,137
Rent	15,431	21,371
Tobacco-free grant	11,000	10,569
Medical records transcript fees	6,427	5,367
HRSA grant	6,396	-
Other	12,949	19,941
Total Other Operating Revenues	$ 1,800,698	$ 1,621,434

	2014	2013
Nursing Administration		
Salaries and wages	$ 187,471	$ 193,018
Supplies and other expenses	9,069	21,260
	196,540	214,278
Routine Services		
Salaries and wages	738,024	827,183
Supplies and other expenses	61,026	99,532
	799,050	926,715
Nursery		
Salaries and wages	76	666
Operating Rooms		
Salaries and wages	222,200	133,153
Supplies and other expenses	120,021	80,849
	342,221	214,002
Delivery and Labor Rooms		
Salaries and wages	33,996	29,172
Supplies and other expenses	1,780	2,206
	35,776	31,378
Central Services and Supply		
Salaries and wages	23,345	22,713
Supplies and other expenses	83,939	86,573
	107,284	109,286
Emergency Service		
Salaries and wages	634,152	652,481
Supplies and other expenses	173,438	275,184
	807,590	927,665
Laboratory		
Salaries and wages	172,575	176,682
Supplies and other expenses	271,290	301,831
	443,865	478,513
Radiology		
Salaries and wages	294,981	289,976
Supplies and other expenses	344,472	335,381
	639,453	625,357

	2014	2013
Pharmacy		
Salaries and wages	$ 36,443	$ 17,254
Supplies and other expenses	227,058	207,184
	263,501	224,438
Anesthesiology		
Supplies and other expenses	85,302	131,219
Respiratory Therapy		
Salaries and wages	102,144	89,233
Supplies and other expenses	39,954	46,842
	142,098	136,075
Physical Therapy		
Salaries and wages	289,997	282,386
Supplies and other expenses	6,848	10,843
	296,845	293,229
Occupational Therapy		
Supplies and other expenses	-	275
Speech Therapy		
Supplies and other expenses	4,495	5,260
Ambulance Service		
Salaries and wages	182,828	165,463
Supplies and other expenses	34,456	41,750
	217,284	207,213
Cardiopulmonary Rehab		
Salaries and wages	63,527	58,082
Supplies and other expenses	2,803	8,102
	66,330	66,184
Emergency Preparedness		
Supplies and other expenses	3,743	9,096
Home Health Care		
Salaries and wages	-	2
Supplies and other expenses	144	45
	144	47

	2014	2013
Medical Staff		
Salaries and wages	$ 666,882	$ 338,575
Supplies and other expenses	-	2,720
	666,882	341,295
Rural Health Clinic - Douds		
Salaries and wages	126,346	94,841
Supplies and other expenses	17,212	20,480
	143,558	115,321
Rural Health Clinic - Birmingham		
Salaries and wages	208,020	190,203
Supplies and other expenses	18,789	30,890
	226,809	221,093
Rural Health Clinic - Cantril		
Salaries and wages	133,121	92,055
Supplies and other expenses	16,879	19,019
	150,000	111,074
Rural Health Clinic - Keosauqua		
Salaries and wages	802,608	707,170
Supplies and other expenses	179,291	197,993
	981,899	905,163
Rural Health Clinic - Bonaparte		
Salaries and wages	175,379	139,861
Supplies and other expenses	17,910	20,363
	193,289	160,224
Rural Health Clinic - Farmington		
Salaries and wages	134,185	114,190
Supplies and other expenses	19,545	22,501
	153,730	136,691
Continuous Family Support System		
Salaries and wages	114,307	107,554
Supplies and other expenses	31,442	30,699
	145,749	138,253
Harkin Grant		
Salaries and wages	40,993	49,190
Supplies and other expenses	10,875	38,835
	51,868	88,025
Wellmark Grant - Tobacco Risk Awareness		
Salaries and wages	704	737
Supplies and other expenses	98	-
	802	737

	2014	2013
Tobacco-Free Program		
Salaries and wages	$ 7,284	$ 6,974
Supplies and other expenses	2,479	1,641
	9,763	8,615
Dietary		
Salaries and wages	103,873	104,650
Supplies and other expenses	79,423	92,115
	183,296	196,765
Plant Operation and Maintenance		
Salaries and wages	125,542	140,759
Supplies and other expenses	456,826	433,192
	582,368	573,951
Housekeeping		
Salaries and wages	150,746	136,947
Supplies and other expenses	15,130	15,068
	165,876	152,015
Laundry and Linen		
Salaries and wages	32,685	27,853
Supplies and other expenses	6,006	7,395
	38,691	35,248
Administrative Services		
Salaries and wages	891,818	816,777
Supplies and other expenses	1,015,028	1,001,317
	1,906,846	1,818,094
Day Care Center		
Salaries and wages	151,332	149,379
Supplies and other expenses	44,039	48,175
	195,371	197,554
Job Opportunities		
Salaries and wages	144,329	118,536
Supplies and other expenses	22,617	15,446
	166,946	133,982
Occupational Health		
Salaries and wages	15,031	18,896
Supplies and other expenses	15,011	13,431
	30,042	32,327
Lifeline		
Supplies and other expenses	-	4

	2014	2013
Village Terrace		
Salaries and wages	$ 69,716	$ 65,905
Supplies and other expenses	37,619	38,495
	107,335	104,400
Unassigned Expenses		
Depreciation and amortization	1,067,614	914,297
Insurance	149,969	126,336
Employee benefits	1,742,869	1,569,940
	2,960,452	2,610,573
Total Operating Expenses	$ 13,513,169	$ 12,682,300

Analysis of Aging

	June 30, 2014		June 30, 2013	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
90 days or less	$ 2,266,704	47.91%	$ 2,600,481	51.57%
91 to 150 days	416,749	8.81%	605,487	12.01%
151 to 365 days	891,634	18.84%	1,188,705	23.57%
Over one year	1,156,368	24.44%	647,567	12.84%
	4,731,455	100.00%	5,042,240	100.00%
Less:				
Allowance for doubtful accounts	1,516,000		1,128,000	
Allowance for contractual adjustments	809,000		1,380,000	
Net	$ 2,406,455		$ 2,534,240	

Allowance for Doubtful Accounts

	Years Ended June 30, 2014	2013
Balance, Beginning of Year	$ 1,128,000	$ 560,259
Add:		
Provision for bad debts, net of recoveries	598,261	756,442
Less:		
Accounts written off	(210,261)	(188,701)
Balance, End of Year	$ 1,516,000	$ 1,128,000

	2014	2013
Collection Statistics		
Net Accounts Receivable - Patients	$ 2,406,455	$ 2,534,240
Number of Days Charges Outstanding (1)	81	111
Uncollectible Accounts (2)	$ 753,894	$ 804,613
Percentage of Uncollectible Accounts to Total Charges	4.9%	5.7%

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

	2014	2013
Supplies		
General supplies	$ 114,870	$ 116,739
Pharmacy	105,317	86,753
Dietary	8,017	6,764
Office	6,493	7,358
	$ 234,697	$ 217,614
Prepaid Expenses		
Insurance	$ 19,667	$ 32,122
Maintenance agreements, dues, and other	260,553	44,327
	$ 280,220	$ 76,449

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

Provisions for bad debt	$	598,261
Ambulance service		124,535
Parents as Teachers in kind		44,066
Charity Care		86,198
Daycare loss		36,555
Speakers Bureau		10,990
In-kind portion of Healthy Villages		14,382
Delivery of Medications		11,734
Education/Other Health Professions		2,500
Screening Blood pressure & School/free vaccinations		2,713
Outside advocacy board & councils		4,924
Enrollment Assistance/ Public Medical Programs		4,085
Hospital facilities for meetings		2,960
Ambulance in community (HS games, fair, kids fair)		2,500
CPR & AED training		757
Health Fairs		467
Economic Development - Chamber of Commerce		3,612
Prenatal/ Family Planning		750
Women's Health Education		100
	$	952,089

Van Buren County Hospital also had $4,565,675 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.

	2014	2013
Patient Days		
Acute	634	896
Swing-bed	349	586
Newborn	74	66
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	11%	16%
Discharges		
Acute	254	294
Swing-bed	45	84
Average Length of Stay		
Acute	2.50	3.05
Swing-bed	7.76	6.98
Most Recent Year End Routine Service Rates		
Private Rooms	$ 1,024	$ 975
Nursery	536	510

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, 2014, 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 December 12, 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.

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. 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in Part I of the accompanying Schedule of Findings and Responses as items 2014-A, 2014-B, and 2014-C to be significant deficiencies.

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.* However, we noted a certain immaterial instance of noncompliance or other matter which is described in Part II of the accompanying Schedule of Findings and Responses.

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 Responses. 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
December 12, 2014

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

2014-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, significant 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 significant 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 significant 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.

2014-B Monthly Account Reconciliations

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 cash accounts, are essential to prepare reliable financial statements.

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

Condition - Certain accounts such as cash were not fully reconciled during the year. Audit entries, some which were significant, were necessary to properly record these accounts at year end.

Cause – While a majority of balance sheet accounts were reconciled, there were some accounts that were not fully reviewed prior to audit fieldwork.

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. Significant 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 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 and Chief Financial Officer will work collectively in the preparation of monthly account reconciliation and review of reconciliations to improve the financial reporting process going forward.

2014-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.

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

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 II: Other Findings Related to Required Statutory Reporting:

2014-IA-A **Certified Budget** – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted per the budget by $381,563.

Recommendation –The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa to include these disbursements before total disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, as necessary.

Conclusion – Response accepted

2014-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.

2014-IA-C **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

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

2014-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, Village Terrace, spouse of Larry DeHart, self-employed	Landscaping	$	11,802
Linda Goldstein, Provider Relations, spouse of employee of Gold Rush Advertising	Advertising	$	3,308
Rosa Archer, Dietary Manager, mother of owner of MJ's Country Scapes	Landscaping	$	15,008
Connie Johnson, Respiratory Therapy, daughter of Fae Black	Rent	$	4,200
Harry Williams, Maintenance Manager, owner of Lockmaster	Locksmith	$	5,876
Harry Williams, Maintenance Manager, uncle of owner of Archer Skid Loader Service	Construction	$	1,517
Barbie Winslow, Clinic CMA, spouse of owner of Mike's Collision and Tire	Auto Repair	$	2,764
Theresa Dunkin, Business Office, spouse of owner of Mike's Paint and Body	Auto Repair	$	1,140
Joshua Wiley, Maintenance Worker, owner of Wiley Snow & Ice Management	Contracted Services	$	1,488
Jeanette Goehring, wife of owner of Goehring Construction	Construction	$	1,140

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

2014-IA-E **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

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

2014-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.

2014-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.

CPAs & BUSINESS ADVISORS

December 12, 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, 2014, and have issued our report thereon dated December 12, 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 June 2, 2014. 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.

During the year ended June 30, 2014, the Hospital implemented the following new accounting standard:

> Government Accounting Standards Board 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.

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:

> Collectability of Patient Receivables – 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.

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

We evaluated the key factors and assumptions used to develop 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 misstatements to the Hospital's financial statements, some of which are considered significant, were detected as a result of our audit procedures and have been corrected by management.

	Increase (Decrease) to Net Position
To adjust for capital contributions initially netted against capital assets	$ 10,000
To adjust estimated third-party payor settlements	11,000
To adjust cash accounts	16,000
To adjust accrued interest payable	19,000
To recognize Medicare EHR incentive income	36,000
To adjust allowance for doubtful accounts	45,000
To capitalize equipment initially expensed	54,000
To adjust long-term debt	(7,000)
To adjust physician compensation payable	(12,000)
To adjust accumulated depreciation and depreciation expense	(62,000)
Other	(10,000)

The net effect of the adjustments was to increase net position by $100,000.

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 December 12, 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.

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.

> In 2012, the Governmental Accounting Standards Board (GASB) released accounting standards *Financial Reporting for Pension Plans,* Statement No. 67 and Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statements No. 67 and 68) for public pension plans and participating employers. GASB Statement No. 67 revised existing guidance for the financial reports of most public pension plans. The provisions in Statement No. 67 were effective for financial statements for periods beginning after June 15, 2013. Statement No. 68 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. 68 are effective for fiscal years beginning after June 15, 2014.

In general, GASB Statement No. 68 will require a net pension liability to be recognized on the balance sheet of government employers, such as the Hospital, whom are participating in a public pension plan to account for the employer's share of any pension liability that exceeds the pension plan's net assets available for paying benefits. An employer's pension liability, along with other information required for footnote disclosure and supplemental information accompanying the basic financial statements, will be calculated at the public pension plan level and forwarded to the individual employers. However, it is still the employer's responsibility to ensure that all necessary information is timely obtained and included in the employer's financial statements.

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.

Very Truly Yours,

EIDE BAILLY LLP

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xc: Mr. Ray Brownsworth