

VETERANS MEMORIAL HOSPITAL
WAUKON, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

VETERANS MEMORIAL HOSPITAL

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**VETERANS MEMORIAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Dennis Lyons	President	2007
David Stangeland	Vice-President	2007
Patty Fosaaen	Secretary	2005
Revelyn Lonning	Member	2005
Donald Angel	Member	2007
	<u>Hospital Officials</u>	
Michael Myers	Administrator	
Scott Knode	Chief Financial Officer	



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Veterans Memorial Hospital
Waukon, Iowa

We have audited the accompanying balance sheets of **Veterans Memorial Hospital** as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Veterans Memorial Hospital** as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2005, on our consideration of **Veterans Memorial Hospital's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on page 4 and the Budgetary Comparison Information on page 19 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion it.

Eide Sully LLP

Dubuque, Iowa
July 27, 2005

Veterans Memorial Hospital Management's Discussion and Analysis June 30, 2005

This section of Veterans Memorial Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2005. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights – Balance Sheet

- Cash decreased by \$305,480 while patient receivables decreased by \$648,880.
- Extra staff has been added to reduce accounts receivable in 2005-2006.
- A receivable of \$23,000 reflects an estimate of amounts owed at year end by Medicare.
- Amounts set aside for future capital expenditures of equipment increased by \$173,773 during the year.
- Long-term debt was decreased by \$142,061 during the year.

Financial Highlights – Statement of Revenues, Expenses, and Changes in Net Assets

- Total operating revenues increased by \$1,015,007.
- 70% of total patient service revenue was from outpatient services.
- Total inpatient days decreased by only .6%. However, acute days were down 9.9%, while skilled days were up 19.6%.
- Total outpatient services were up 3.8%. Home Health visits were up 26.2%.
- Total operating expenses were up \$673,230 or 8.3%, while total operating revenues were up \$1,015,007 or 12.3%.
- Therefore, revenues in excess of expenses was \$359,410 or 3.9% profit margin.

Financial Highlights – Statement of Cash Flows

- Cash and cash equivalents decreased by \$305,480 during the year. This will be our main priority for 2005-2006.

There are 11 notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Factors Bearing on Financial Future

- The new Gundersen Clinic attached to the Hospital will open for business in August, 2005. They are actively recruiting new physicians for the clinic.
- Franciscan Skemp is looking to expand outreach service at VMH.
- The third year of using Baldrige criteria has resulted in all levels of the organization involved in strategic planning, developing the new mission, vision, and core values.

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Veterans Memorial Hospital
40 1st Street S.E.
Waukon, IA 52172

VETERANS MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 167,862	\$ 473,342
Assets limited as to use - Note 4	50,318	50,540
Receivables		
Patient, net of estimated uncollectibles of \$1,025,000 in 2005 and \$780,000 in 2004	2,714,482	2,065,602
Estimated third-party payor settlements	23,000	145,000
Bequest	25,000	25,000
Other	20,681	9,000
Supplies	180,848	142,460
Prepaid expenses	<u>33,347</u>	<u>40,492</u>
 Total current assets	 <u>3,215,538</u>	 <u>2,951,436</u>
 ASSETS LIMITED AS TO USE - Note 4		
Investments		
By board for capital improvements and debt retirement	446,769	272,996
Under indenture agreement	<u>50,318</u>	<u>50,540</u>
	497,087	323,536
 Less amount required to meet current obligations	 <u>(50,318)</u>	 <u>(50,540)</u>
 Total assets limited as to use, excluding current portion	 <u>446,769</u>	 <u>272,996</u>
 LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	 <u>6,376,542</u>	 <u>6,480,315</u>
 OTHER ASSETS		
Gift fund investments - Note 4	1,653	1,641
Deferred financing costs, net of accumulated amortization of \$88,072 in 2005 and \$77,914 in 2004	<u>76,412</u>	<u>86,570</u>
 Total other assets	 <u>78,065</u>	 <u>88,211</u>
 Total assets	 <u>\$ 10,116,914</u>	 <u>\$ 9,792,958</u>

See notes to financial statements.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	\$ 140,000	\$ 142,061
Accounts payable		
Trade	298,395	282,233
Accrued expenses		
Salaries and wages	227,197	178,764
Vacation	253,498	220,703
Payroll taxes and other	32,389	31,068
Interest	<u>22,973</u>	<u>24,077</u>
Total current liabilities	974,452	878,906
LONG-TERM DEBT, less current maturities - Note 7	<u>2,410,000</u>	<u>2,550,000</u>
Total liabilities	<u>3,384,452</u>	<u>3,428,906</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,826,542	3,788,254
Unrestricted	<u>2,905,920</u>	<u>2,575,798</u>
Total net assets	<u>6,732,462</u>	<u>6,364,052</u>
Total liabilities and net assets	<u>\$ 10,116,914</u>	<u>\$ 9,792,958</u>

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$340,380 in 2005 and \$346,065 in 2004) - Notes 2 and 3	\$ 8,817,021	\$ 7,833,559
Other operating revenues	<u>453,452</u>	<u>421,907</u>
TOTAL OPERATING REVENUES	<u>9,270,473</u>	<u>8,255,466</u>
OPERATING EXPENSES		
Salaries and wages	3,922,951	3,488,364
Medical specialist fees	198,581	182,911
Supplies and other expenses	4,197,497	3,948,795
Depreciation and amortization	<u>455,952</u>	<u>481,681</u>
TOTAL OPERATING EXPENSES	<u>8,774,981</u>	<u>8,101,751</u>
INCOME FROM OPERATIONS	<u>495,492</u>	<u>153,715</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	620	37,415
Investment income	6,657	3,761
Payment of interest on debt	<u>(143,359)</u>	<u>(157,308)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(136,082)</u>	<u>(116,132)</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	359,410	37,583
Capital grants and contributions	<u>9,000</u>	<u>35,831</u>
INCREASE IN NET ASSETS	368,410	73,414
NET ASSETS BEGINNING OF YEAR	<u>6,364,052</u>	<u>6,290,638</u>
NET ASSETS END OF YEAR	<u>\$ 6,732,462</u>	<u>\$ 6,364,052</u>

See notes to financial statements.

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 8,290,141	\$ 7,931,242
Other receipts	441,771	434,043
Payments of salaries and wages	(3,840,402)	(3,444,125)
Payments of medical specialist fees	(198,581)	(182,911)
Payments of supplies and other expenses	<u>(4,212,578)</u>	<u>(3,984,725)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>480,351</u>	<u>753,524</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	<u>620</u>	<u>12,415</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(342,021)	(85,959)
Capital grants and contributions received	9,000	35,831
Payment of interest on debt	(144,463)	(159,468)
Payment of principal on debt	<u>(142,061)</u>	<u>(294,347)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(619,545)</u>	<u>(503,943)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in gift fund investments	(12)	(13)
(Increase) decrease in assets limited as to use	(173,551)	49,310
Investment income received	<u>6,657</u>	<u>3,761</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(166,906)</u>	<u>53,058</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(305,480)	315,054
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>473,342</u>	<u>158,288</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 167,862</u>	<u>\$ 473,342</u>

(continued)

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF INCOME FROM OPERATIONS		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 495,492	\$ 153,715
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	455,952	481,681
Provision for bad debts	340,380	346,065
Changes in assets and liabilities		
Receivables	(1,000,941)	(66,246)
Supplies	(38,388)	(15,381)
Prepaid expenses	7,145	21,873
Accounts payable	16,162	(42,422)
Estimated third party payor settlements	122,000	(170,000)
Accrued expenses	<u>82,549</u>	<u>44,239</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 480,351</u>	<u>\$ 753,524</u>

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Veterans Memorial Hospital (Hospital) is a 25-bed public hospital located in Waukon, Iowa. It is organized under Chapter 392 of the Iowa Code and governed by a five member Board of Trustees elected for alternating terms of four years.

Reporting Entity

For financial reporting purposes, Veterans Memorial Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Basis of Presentation

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have 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.

Basis of Accounting

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audits of Providers of Health Care Services* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Supplies

Supplies are stated at lower of average cost or market.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and debt retirement, over which the Board retains control and may, at its discretion, subsequently use for other purposes; and assets held by trustees under an indenture agreement. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$1,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized.

The estimated useful lives of property and equipment are as follows:

Land improvements	5-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$25,154 and \$27,780 for advertising costs for the years ended June 30, 2005 and 2004, respectively.

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the effective interest method.

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

Grants and Contributions

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

Investment Income

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

Reclassifications

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 – CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2005 and 2004, were \$223,313 and \$118,969, respectively.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 3 – NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the period ended June 30, 2002. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

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, 2002.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Total patient service revenue	\$ 11,527,513	\$ 10,445,378
Contractual adjustments		
Medicare	(1,678,970)	(1,578,468)
Medicaid	(283,020)	(186,962)
Blue Cross	(220,359)	(245,957)
Other	<u>(187,763)</u>	<u>(254,367)</u>
Total contractual adjustments	<u>(2,370,112)</u>	<u>(2,265,754)</u>
Net patient service revenue	9,157,401	8,179,624
Provision for bad debts	<u>(340,380)</u>	<u>(346,065)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 8,817,021</u>	<u>\$ 7,833,559</u>

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VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2005 and 2004, 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.

Investments reported are not subject to risk categorization. Money market accounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2005 and 2004, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2005</u>	<u>2004</u>
Money market accounts	\$ <u>498,740</u>	\$ <u>325,177</u>

Interest rate risk. The Hospital's investment policy states that the Hospital's investment portfolio will remain sufficiently liquid to enable the Hospital to meet operating requirements that cash management procedures anticipate. The investment policy also states that for the general savings account, designating funds, and investable funds shall have maturities that do not exceed one year.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2005 and 2004, was as follows:

	June 30, 2004			June 30, 2005		
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>		
Cost						
Land	\$ 317,567	\$ 238,304	\$ -	\$ 555,871		
Land improvements	125,398	-	-	125,398		
Buildings and leasehold improvements	7,951,611	1,537	-	7,953,148		
Equipment	<u>2,634,695</u>	<u>102,180</u>	<u>8,893</u>	<u>2,727,982</u>		
	<u>11,029,271</u>	<u>342,021</u>	<u>8,893</u>	<u>11,362,399</u>		

(continued on next page)

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	June 30, 2004			June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Accumulated depreciation				
Land improvements	\$ 76,641	\$ 8,401	\$ -	\$ 85,042
Buildings and leasehold improvements	2,394,392	300,464	-	2,694,856
Equipment	<u>2,077,923</u>	<u>136,929</u>	<u>8,893</u>	<u>2,205,959</u>
	<u>4,548,956</u>	<u>445,794</u>	<u>8,893</u>	<u>4,985,857</u>
Total land, buildings, and equipment, net	<u>\$ 6,480,315</u>	<u>\$ (103,773)</u>	<u>\$ -</u>	<u>\$ 6,376,542</u>
	June 30, 2003			June 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Cost				
Land	\$ 313,764	\$ 3,803	\$ -	\$ 317,567
Land improvements	125,398	-	-	125,398
Buildings and leasehold improvements	7,947,984	3,627	-	7,951,611
Equipment	<u>2,556,166</u>	<u>78,529</u>	<u>-</u>	<u>2,634,695</u>
	<u>10,943,312</u>	<u>85,959</u>	<u>-</u>	<u>11,029,271</u>
Accumulated depreciation				
Land improvements	68,202	8,439	-	76,641
Buildings and leasehold improvements	2,085,423	308,969	-	2,394,392
Equipment	<u>1,924,719</u>	<u>153,204</u>	<u>-</u>	<u>2,077,923</u>
	<u>4,078,344</u>	<u>470,612</u>	<u>-</u>	<u>4,548,956</u>
Total land, buildings, and equipment, net	<u>\$ 6,864,968</u>	<u>\$ (384,653)</u>	<u>\$ -</u>	<u>\$ 6,480,315</u>

NOTE 6 – LEASES

The Hospital leases certain equipment under noncancellable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total equipment and building rental expense for all operating leases for the years ended June 30, 2005 and 2004, was \$134,184 and \$86,076, respectively. The capitalized leased assets consist of:

	<u>2005</u>	<u>2004</u>
Equipment	\$ 112,235	\$ 112,235
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(112,235)</u>	<u>(101,012)</u>
	<u>\$ -</u>	<u>\$ 11,223</u>

(continued on next page)

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2005 and 2004 follows:

	June 30 2004			June 30 2005	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	
1998 revenue bonds, 4.25% to 5.60%, principal maturing in varying annual amounts to May, 2018, collateralized by a pledge of the Hospital's net revenues	\$ 2,685,000	\$ -	\$ 135,000	\$ 2,550,000	\$ 140,000
Capitalized lease obligations	<u>7,061</u>	<u>-</u>	<u>7,061</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,692,061</u>	<u>\$ -</u>	<u>\$ 142,061</u>	2,550,000	<u>\$ 140,000</u>
Less current maturities				<u>(140,000)</u>	
Long-term debt, less current maturities				<u>\$ 2,410,000</u>	

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 140,000	\$ 137,848	\$ 277,848
2007	150,000	130,917	280,917
2008	155,000	123,418	278,418
2009	165,000	115,590	280,590
2010	175,000	107,093	282,093
2011-2015	1,010,000	385,900	1,395,900
2016-2018	<u>755,000</u>	<u>85,960</u>	<u>840,960</u>
	<u>\$ 2,550,000</u>	<u>\$ 1,086,726</u>	<u>\$ 3,636,726</u>

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

	June 30 2003 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2004 <u>Balance</u>	Amounts Due Within <u>One Year</u>
1998 revenue bonds, 4.25% to 5.60%, principal maturing in varying annual amounts to May, 2018, collateralized by a pledge of the Hospital's net revenues	\$ 2,955,000	\$ -	\$ 270,000	\$ 2,685,000	\$ 135,000
Capitalized lease obligations	<u>31,408</u>	<u>-</u>	<u>24,347</u>	<u>7,061</u>	<u>7,061</u>
	<u>\$ 2,986,408</u>	<u>\$ -</u>	<u>\$ 294,347</u>	2,692,061	<u>\$ 142,061</u>
Less current maturities				<u>(142,061)</u>	
Long-term debt, less current maturities				<u>\$ 2,550,000</u>	

NOTE 8 – PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004, and 2003. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$223,346, \$199,493, and \$180,930, respectively, equal to the required contributions for each year.

NOTE 9 – 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 million per claim and an annual aggregate limit of \$3 million. 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.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 11 – CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Medicare	45%	47%
Medicaid	8	7
Commercial insurance	26	24
Other third-party payors and patients	<u>21</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>



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**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Board of Trustees
Veterans Memorial Hospital
Waukon, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
July 27, 2005

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VETERANS MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL (ACCRUAL BASIS)
YEAR ENDED JUNE 30, 2005

	<u>Accrual Basis</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 9,000	\$ 9,000	\$ -
Estimated other revenues	<u>9,277,750</u>	<u>9,816,000</u>	<u>(538,250)</u>
	9,286,750	9,825,000	(538,250)
Expenses	<u>8,918,340</u>	<u>9,473,000</u>	<u>554,660</u>
Net	368,410	352,000	\$ 16,410
Balance beginning of year	<u>6,364,052</u>	<u>6,398,439</u>	
Balance end of year	<u>\$ 6,732,462</u>	<u>\$ 6,750,439</u>	

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

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 city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
PATIENT SERVICE REVENUE		
Routine Services		
Adults and pediatrics	\$ 881,765	\$ 823,830
Nursery	69,080	64,800
Skilled care	167,010	140,980
Intermediate care	-	240
Respite	950	1,800
Hospice	20,240	14,760
Observation	369,430	266,482
Same day surgery	39,822	69,782
Operating and recovery rooms	778,979	765,533
Delivery and labor rooms	91,520	80,170
Central services and supply	749,350	723,768
Intravenous solutions	293,688	279,007
Emergency services	492,796	417,984
Laboratory	1,379,974	1,173,164
Radiology	1,967,105	1,577,639
Electrocardiology	123,885	106,917
Pharmacy	1,484,151	1,413,176
Anesthesiology	390,308	450,348
Respiratory therapy	103,990	86,732
Physical therapy	766,744	804,316
Occupational therapy	228,572	162,494
Speech therapy	20,057	17,364
Cardiac rehabilitation	151,740	164,250
Chemotherapy	20,115	25,682
Ambulance service	247,378	159,780
Community and home care	910,221	770,536
Nutrition instruction	1,956	2,813
	<u>11,750,826</u>	<u>10,564,347</u>
Charity care	<u>(223,313)</u>	<u>(118,969)</u>
	<u>11,527,513</u>	<u>10,445,378</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	3,700,306	3,584,255
Outpatient revenue	8,050,520	6,980,092
Charity care	<u>(223,313)</u>	<u>(118,969)</u>
	<u>\$ 11,527,513</u>	<u>\$ 10,445,378</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (1,678,970)	\$ (1,578,468)
Medicaid	(283,020)	(186,962)
Blue Cross	(220,359)	(245,957)
Other	<u>(187,763)</u>	<u>(254,367)</u>
Total contractual adjustments	<u>(2,370,112)</u>	<u>(2,265,754)</u>
NET PATIENT SERVICE REVENUE	9,157,401	8,179,624
PROVISION FOR BAD DEBTS	<u>(340,380)</u>	<u>(346,065)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 8,817,021</u>	<u>\$ 7,833,559</u>

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
OTHER OPERATING REVENUES		
County reimbursement - Community and Home Care	\$ 100,000	\$ 100,000
Rental - net of direct expenses	80,167	76,825
Community and Home Care Clinics, etc.	67,480	67,907
Grants	66,730	46,211
Housekeeping	32,984	32,143
Frozen Meals	-	-
Contract physical therapy	18,387	23,177
Healthy Lifestyle Center	37,913	25,828
City tax	9,000	9,000
Cafeteria	9,095	8,977
Workshops, clinics, etc.	12,173	6,855
Gifts for operations	5,336	6,748
Medical records copies	1,811	1,574
Laundry	1,245	971
Vending machines	1,785	1,085
Other	<u>9,346</u>	<u>14,606</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 453,452</u>	 <u>\$ 421,907</u>

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 73,421	\$ 64,901
Supplies and other expenses	<u>15,103</u>	<u>48,309</u>
	<u>88,524</u>	<u>113,210</u>
ROUTINE SERVICES		
Salaries and wages	983,887	947,178
Supplies and other expenses	<u>69,902</u>	<u>61,293</u>
	<u>1,053,789</u>	<u>1,008,471</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	182,821	168,389
Supplies and other expenses	<u>51,354</u>	<u>125,236</u>
	<u>234,175</u>	<u>293,625</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	<u>14,633</u>	<u>12,274</u>
CENTRAL SERVICES AND SUPPLY		
Salaries and wages	30,183	26,487
Supplies and other expenses	<u>289,461</u>	<u>218,299</u>
	<u>319,644</u>	<u>244,786</u>
EMERGENCY SERVICES		
Salaries and wages	101,938	91,874
Medical specialist fees	155,520	158,711
Supplies and other expenses	<u>7,186</u>	<u>6,365</u>
	<u>264,644</u>	<u>256,950</u>
LABORATORY		
Salaries and wages	214,555	175,050
Medical specialist fees	24,200	24,200
Supplies and other expenses	<u>271,314</u>	<u>248,273</u>
	<u>510,069</u>	<u>447,523</u>
RADIOLOGY		
Salaries and wages	182,114	172,515
Professional fees	409,117	385,987
Supplies and other expenses	<u>152,088</u>	<u>106,290</u>
	<u>743,319</u>	<u>664,792</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ELECTROCARDIOLOGY		
Salaries and wages	\$ 2,330	\$ 2,044
Medical specialist fees	18,861	-
Supplies and other expenses	<u>1,242</u>	<u>859</u>
	<u>22,433</u>	<u>2,903</u>
PHARMACY		
Drugs	407,071	429,421
Supplies and other expenses	<u>92,613</u>	<u>84,479</u>
	<u>499,684</u>	<u>513,900</u>
ANESTHESIOLOGY		
Salaries and wages	149,196	109,090
Supplies and other expenses	<u>52,788</u>	<u>57,165</u>
	<u>201,984</u>	<u>166,255</u>
RESPIRATORY THERAPY		
Salaries and wages	83,687	80,085
Supplies and other expenses	<u>543</u>	<u>767</u>
	<u>84,230</u>	<u>80,852</u>
PHYSICAL THERAPY		
Salaries and wages	89,380	86,372
Supplies and other expenses	<u>253,765</u>	<u>267,969</u>
	<u>343,145</u>	<u>354,341</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>149,572</u>	<u>114,559</u>
SPEECH THERAPY		
Supplies and other expenses	<u>10,834</u>	<u>8,346</u>
CARDIAC REHABILITATION		
Salaries and wages	30,406	32,027
Supplies and other expenses	<u>5,443</u>	<u>5,793</u>
	<u>35,849</u>	<u>37,820</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CHEMOTHERAPY		
Salaries and wages	\$ 7,716	\$ 10,812
Supplies and other expenses	<u>1,015</u>	<u>765</u>
	<u>8,731</u>	<u>11,577</u>
AMBULANCE SERVICE		
Salaries and wages	65,716	65,844
Supplies and other expenses	<u>9,026</u>	<u>8,805</u>
	<u>74,742</u>	<u>74,649</u>
COMMUNITY AND HOME CARE		
Salaries and wages	570,737	415,776
Supplies and other expenses	<u>103,087</u>	<u>94,090</u>
	<u>673,824</u>	<u>509,866</u>
NUTRITION INSTRUCTION		
Salaries and wages	27,039	4,507
Supplies and other expenses	<u>3,632</u>	<u>92</u>
	<u>30,671</u>	<u>4,599</u>
MEDICAL RECORDS		
Salaries and wages	112,004	92,673
Supplies and other expenses	<u>9,914</u>	<u>11,263</u>
	<u>121,918</u>	<u>103,936</u>
DIETARY		
Salaries and wages	168,272	163,518
Food	20,836	29,981
Supplies and other expenses	<u>21,528</u>	<u>16,231</u>
	<u>210,636</u>	<u>209,730</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	109,110	105,522
Utilities	111,643	100,046
Supplies and other expenses	<u>66,860</u>	<u>67,240</u>
	<u>287,613</u>	<u>272,808</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
HOUSEKEEPING		
Salaries and wages	\$ 206,961	\$ 184,659
Supplies and other expenses	<u>19,114</u>	<u>17,343</u>
	<u>226,075</u>	<u>202,002</u>
 LAUNDRY AND LINEN		
Salaries and wages	32,489	29,759
Supplies and other expenses	<u>11,805</u>	<u>12,420</u>
	<u>44,294</u>	<u>42,179</u>
 ADMINISTRATIVE SERVICES		
Salaries and wages	484,356	447,008
Auditing and accounting fees	27,020	27,000
Collection fees	25,073	30,626
Telephone	23,126	28,237
Supplies and other expenses	<u>269,693</u>	<u>263,373</u>
	<u>829,268</u>	<u>796,244</u>
 UNASSIGNED EXPENSES		
Depreciation	445,794	470,612
Amortization	10,158	11,069
Insurance	54,950	51,224
Employee benefits		
FICA	276,919	247,399
IPERS	223,346	199,493
Group health insurance	560,426	496,171
Workers' compensation insurance	57,373	34,943
Other	<u>61,715</u>	<u>42,643</u>
	<u>1,690,681</u>	<u>1,553,554</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 8,774,981</u>	 <u>\$ 8,101,751</u>

VETERANS MEMORIAL HOSPITAL
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
JUNE 30, 2005 AND 2004

ANALYSIS OF AGING

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
DAYS SINCE DISCHARGE				
0 to 30 days	\$ 1,271,366	34.00%	\$ 945,880	33.24%
1 to 2 months	688,484	18.41	583,547	20.51
2 to 3 months	361,157	9.66	334,990	11.78
3 to 6 months	507,765	13.58	462,817	16.26
6 to 12 months	623,505	16.67	333,039	11.70
Over 1 year	<u>287,205</u>	<u>7.68</u>	<u>185,329</u>	<u>6.51</u>
	3,739,482	<u>100.00%</u>	2,845,602	<u>100.00%</u>
Less: Allowance for doubtful accounts	410,000		320,000	
Allowance for contractual adjustments	<u>615,000</u>		<u>460,000</u>	
Net	<u>\$ 2,714,482</u>		<u>\$ 2,065,602</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
BALANCE, BEGINNING OF YEAR	\$ 320,000	\$ 252,000
Add: Provision for bad debts	340,380	346,065
Recoveries of accounts written off	88,094	105,373
Less: Accounts written off	<u>(338,474)</u>	<u>(383,438)</u>
BALANCE, END OF YEAR	<u>\$ 410,000</u>	<u>\$ 320,000</u>

VETERANS MEMORIAL HOSPITAL
SUPPLIES/PREPAID EXPENSES
JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
SUPPLIES		
Central stores	\$ 57,097	\$ 51,764
Pharmacy	81,302	61,912
Physical therapy	3,268	3,813
Radiology	7,982	4,188
Laboratory	24,783	18,594
Anesthesiology	<u>6,416</u>	<u>2,189</u>
 Total supplies	 <u>\$ 180,848</u>	 <u>\$ 142,460</u>
 PREPAID EXPENSES		
Pension	\$ -	\$ 10,835
Insurance	17,855	11,008
Maintenance contracts	11,695	15,261
Dues	<u>3,797</u>	<u>3,388</u>
 Total prepaid expenses	 <u>\$ 33,347</u>	 <u>\$ 40,492</u>

**VETERANS MEMORIAL HOSPITAL
SCHEDULE OF INSURANCE IN FORCE AT
JUNE 30, 2005**

<u>Company and Policy Number</u>	<u>Description</u>	<u>Amount of Coverage</u>	<u>Annual Premium</u>	<u>Expiration Date</u>
Cincinnati Insurance Co. CAP 549 06 55	Building and contents Blanket earnings and expense Auto liability	\$ 10,806,803 \$ 1,174,484 \$ 1,000,000	\$ 12,260	12/2/05
PIC Wisconsin #130301	Professional and premises liability	\$ 1,000,000/ 3,000,000	\$ 39,411	12/2/05
PIC Wisconsin #130302	General liability	\$ 1,000,000		
PIC Wisconsin #130303	Hospital excess liability	\$ 2,000,000		
PIC Wisconsin #130304	Professional excess liability	\$ 2,000,000		
Farm Bureau Mutual Insurance Co. #17805	Workers' compensation	\$ 500,000	\$ 45,948	4/1/06
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 6,900	3/4/06

**VETERANS MEMORIAL HOSPITAL
STATISTICAL INFORMATION
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Acute		
Adults and pediatrics	1,455	1,594
Newborn	157	161
Swing-bed		
Skilled	878	742
Intermediate	-	3
Respite	7	8
NUMBER OF BEDS	25	25
PERCENT OF OCCUPANCY (excluding newborn)	26%	26%
DISCHARGES		
Acute	637	669
Swing-bed	98	91
AVERAGE LENGTH OF STAY		
Acute	2.28	2.38
Swing-bed	9.03	8.27
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Private rooms	\$ 575.00	\$ 495.00
2-bed rooms	550.00	470.00
Nursery	440.00	400.00
Skilled care	190.00	190.00
COLLECTION STATISTICS		
Net accounts receivable – patients	\$ 2,714,482	\$ 2,065,602
Number of days charges outstanding (1)	113	96
Uncollectible accounts (2)	\$ 588,766	\$ 495,660
Percentage of uncollectible accounts to total charges	5.0%	4.7%

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

(2) Includes provision for bad debts, charity care, and collection fees.

**VETERANS MEMORIAL HOSPITAL
ANALYSIS OF SINKING FUND
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 50,540	\$ 71,743
Add: Deposits	272,209	352,800
Less: Withdrawals	<u>(272,431)</u>	<u>(374,003)</u>
Balance, end of year	<u>\$ 50,318</u>	<u>\$ 50,540</u>

The Hospital is required to maintain a Sinking Fund under the requirements of its Series 1998 Hospital Revenue Bonds Agreement. The Sinking Fund is required to have sufficient deposits to cover the next principal and interest amounts coming due. The Hospital has sufficiently funded this requirement.



CPAs & BUSINESS ADVISORS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Veterans Memorial Hospital
Waukon, Iowa

We have audited the accompanying balance sheets of **Veterans Memorial Hospital** as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated July 27, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered **Veterans Memorial Hospital's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **Veterans Memorial Hospital's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I as item I-A-05 in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We also noted a matter involving the Hospital's operations that we have reported to management in a separate letter dated July 27, 2005. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Veterans Memorial Hospital** and other parties to whom **Veterans Memorial Hospital** may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Veterans Memorial Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

Dubuque, Iowa
July 27, 2005

**VETERANS MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-05 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Hospital should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-05 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget – Hospital expenditures during the year ended June 30, 2005, did not exceed amounts budgeted.

II-C-05 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-D-05 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-E-05 Business Transactions – Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Northern Aire Rental, company owned by Hospital’s purchasing manager	Expense recovery	\$ 38,711

II-F-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.