

**FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005**

**VETERANS MEMORIAL HOSPITAL**

## VETERANS MEMORIAL HOSPITAL

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

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<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	2008
Revelyn Lonning	Member	2008
Donald Angel	Member	2007
	<u>Hospital Officials</u>	
Michael Myers	Administrator	
Scott Knode	Chief Financial Officer	



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the accompanying balance sheets of **Veterans Memorial Hospital** as of June 30, 2006 and 2005, 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, 2006 and 2005, 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, 2006, 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 pages 19 and 20 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 required supplementary information. We did not audit the information and express no opinion it.

*Eide Bailly LLP*

Dubuque, Iowa

July 27, 2006

# **Veterans Memorial Hospital**

## **Management's Discussion and Analysis**

### **June 30, 2006**

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, 2006. We encourage readers to read this analysis in conjunction with the financial statements in this report.

#### **Financial Highlights – Balance Sheet**

- Total cash and investments increased by \$680,561 while patient receivables decreased by \$579,812.
- A payable of \$125,000 reflects an estimate of amounts owed at year end to Medicare.
- Investments in supplies grew by \$51,180 or 28%.
- Long-term debt was reduced by \$75,958 during the year.

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

- Total operating revenues increased by \$811,980.
- 63% of total patient service revenue was from outpatient services compared to 70% in the prior year. The change is due to the increase in the number of inpatients experienced by the Hospital during the year.
- Total inpatient days increased by 24% compared to the prior year.
- Total operating expenses increased by 13.6% while total operating revenues increased by 8.8%.
- Total deductions from gross revenues increased from 24% to 26% due mainly to Medicare shortfalls and increases in bad debts.

#### **Financial Highlights – Statement of Cash Flows**

- Net cash provided by operating activities increased \$673,832 compared to the prior year due mainly to a large reduction in accounts receivable. This had been identified as management's number one priority in the prior year.

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 has recruited a physician to Waukon starting in September 2006.
- Franciscan Skemp looks to expand outreach services in Waukon.
- The Hospital's continued use of Baldrige criteria has resulted in a strategic plan that includes input from all levels of staff and medical staff.
- Hospital management has undergone a site planning process to explore future growth and services.

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 1<sup>st</sup> Street S.E.  
Waukon, IA 52172

**VETERANS MEMORIAL HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 273,626	\$ 167,862
Assets limited as to use - Note 4	52,320	50,318
Receivables		
Patient, net of estimated uncollectibles of \$693,000 in 2006 and \$1,025,000 in 2005	2,134,670	2,714,482
Estimated third-party payor settlements	-	23,000
Bequest	-	25,000
Other	30,259	20,681
Supplies	232,028	180,848
Prepaid expense	70,456	33,347
	<u>2,793,359</u>	<u>3,215,538</u>
<b>ASSETS LIMITED AS TO USE - Note 4</b>		
Investments		
By board for capital improvements and debt retirement	1,019,564	446,769
Under indenture agreement	52,320	50,318
	<u>1,071,884</u>	497,087
Less amount required to meet current obligations	<u>(52,320)</u>	<u>(50,318)</u>
	<u>1,019,564</u>	446,769
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>6,294,631</u>	6,376,542
<b>OTHER ASSETS</b>		
Gift fund investments - Note 4	1,666	1,653
Deferred financing costs, net of accumulated amortization of \$97,769 in 2006 and \$88,072 in 2005	66,715	76,412
	<u>68,381</u>	78,065
<b>Total assets</b>	<u>\$ 10,175,935</u>	<u>\$ 10,116,914</u>

See notes to financial statements.



**VETERANS MEMORIAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$403,003 in 2006 and \$340,380 in 2005) - Notes 2 and 3	<b>\$ 9,620,654</b>	\$ 8,817,021
Other operating revenues	<u>461,799</u>	<u>453,452</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>10,082,453</b></u>	<u>9,270,473</u>
OPERATING EXPENSES		
Salaries and wages	<b>4,451,237</b>	3,922,951
Medical specialist fees	<b>217,007</b>	198,581
Supplies and other expenses	<b>4,870,781</b>	4,197,497
Depreciation and amortization	<u>432,690</u>	<u>455,952</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>9,971,715</b></u>	<u>8,774,981</u>
<b>OPERATING INCOME</b>	<u><b>110,738</b></u>	<u>495,492</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	<b>5,139</b>	620
Investment income	<b>12,139</b>	6,657
Payment of interest on debt	<u>(136,694)</u>	<u>(143,359)</u>
<b>NET NONOPERATING EXPENSES</b>	<u><b>(119,416)</b></u>	<u>(136,082)</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<b>(8,678)</b>	359,410
Capital grants and contributions	<u>39,000</u>	<u>9,000</u>
<b>INCREASE IN NET ASSETS</b>	<b>30,322</b>	368,410
<b>NET ASSETS BEGINNING OF YEAR</b>	<u><b>6,732,462</b></u>	<u>6,364,052</u>
<b>NET ASSETS END OF YEAR</b>	<u><b>\$ 6,762,784</b></u>	<u>\$ 6,732,462</u>

See notes to financial statements.

**VETERANS MEMORIAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 10,348,466	\$ 8,290,141
Other receipts	452,221	441,771
Payments of salaries and wages	(4,539,676)	(3,840,402)
Payments of medical specialist fees	(217,007)	(198,581)
Payments of supplies and other expenses	<u>(4,889,821)</u>	<u>(4,212,578)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>1,154,183</b></u>	<u>480,351</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	<u>30,139</u>	<u>620</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(341,082)	(342,021)
Capital grants and contributions received	39,000	9,000
Proceeds from issuance of long-term debt	81,300	-
Payment of interest on debt	(137,847)	(144,463)
Payment of principal on debt	<u>(157,258)</u>	<u>(142,061)</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(515,887)</b></u>	<u>(619,545)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in gift fund investments	(13)	(12)
Increase in assets limited as to use	(574,797)	(173,551)
Investment income received	<u>12,139</u>	<u>6,657</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u><b>(562,671)</b></u>	<u>(166,906)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>105,764</b>	(305,480)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>167,862</b></u>	<u>473,342</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u><b>\$ 273,626</b></u></u>	<u><u>\$ 167,862</u></u>

(continued)

**VETERANS MEMORIAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 110,738	\$ 495,492
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	432,690	455,952
Provision for bad debts	403,003	340,380
Changes in assets and liabilities		
Receivables	167,231	(1,000,941)
Supplies	(51,180)	(38,388)
Prepaid expense	(37,109)	7,145
Accounts payable	69,249	16,162
Estimated third-party payor settlements	148,000	122,000
Accrued expenses	(88,439)	82,549
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,154,183</u>	<u>\$ 480,351</u>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**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. The Hospital is exempt from income taxes as a political subdivision.

*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. The Hospital has no component units which meet the Governmental Accounting Standard Board criteria.

*Basis of Presentation*

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

*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.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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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' *Audit of Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required 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.

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.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*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.

*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 land, buildings, 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 \$39,069 and \$25,154 for advertising costs for the years ended June 30, 2006 and 2005, 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, 2006.

*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, 2006 AND 2005**

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*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, 2006 and 2005, were \$234,979 and \$223,313, respectively.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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**NOTE 3 – NET PATIENT SERVICE REVENUE**

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

**Medicare:** The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2004. 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 13,034,624</u>	<u>\$ 11,527,513</u>
Contractual adjustments		
Medicare	(2,104,531)	(1,678,970)
Medicaid	(313,945)	(283,020)
Blue Cross	(359,127)	(220,359)
Other	<u>(233,364)</u>	<u>(187,763)</u>
Total contractual adjustments	<u>(3,010,967)</u>	<u>(2,370,112)</u>
Net patient service revenue	<u>10,023,657</u>	9,157,401
Provision for bad debts	<u>(403,003)</u>	<u>(340,380)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,620,654</u>	<u>\$ 8,817,021</u>

(continued on next page)

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE 4 – CASH AND DEPOSITS**

The Hospital's deposits in banks at June 30, 2006 and 2005, 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 and certificates of deposit classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2006 and 2005, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Money market accounts	\$ 323,550	\$ 498,740
Certificates of deposit	<u>750,000</u>	<u>-</u>
	<u>\$ 1,073,550</u>	<u>\$ 498,740</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, 2006 and 2005, was as follows:

	June 30, 2005			June 30, 2006	
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	
Cost					
Land	\$ 555,871	\$ 14,050	\$ -	\$ 569,921	
Land improvements	125,398	5,675	-	131,073	
Buildings and leasehold improvements	7,953,148	14,438	-	7,967,586	
Equipment	<u>2,727,982</u>	<u>306,919</u>	<u>-</u>	<u>3,034,901</u>	
	<u>11,362,399</u>	<u>341,082</u>	<u>-</u>	<u>11,703,481</u>	

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

	June 30, 2005			June 30, 2006
	Balance	Additions	Deductions	Balance
Accumulated depreciation				
Land improvements	\$ 85,042	\$ 8,433	\$ -	\$ 93,475
Buildings and leasehold improvements	2,694,856	270,852	-	2,965,708
Equipment	2,205,959	143,708	-	2,349,667
	<u>4,985,857</u>	<u>422,993</u>	<u>-</u>	<u>5,408,850</u>
Total land, buildings, and equipment, net	<u>\$ 6,376,542</u>	<u>\$ (81,911)</u>	<u>\$ -</u>	<u>\$ 6,294,631</u>
	June 30, 2004			June 30, 2005
	Balance	Additions	Deductions	Balance
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	2,634,695	102,180	8,893	2,727,982
	<u>11,029,271</u>	<u>342,021</u>	<u>8,893</u>	<u>11,362,399</u>
Accumulated depreciation				
Land improvements	76,641	8,401	-	85,042
Buildings and leasehold improvements	2,394,392	300,464	-	2,694,856
Equipment	2,077,923	136,929	8,893	2,205,959
	<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>

**NOTE 6 – LEASES**

The Hospital leases certain equipment under noncancellable long-term lease agreements. Certain leases have been recorded as operating leases. Total equipment and building rental expense for all operating leases for the years ended June 30, 2006 and 2005, was \$288,830 and \$134,184, respectively. Future minimum lease payments on operating leases are as follows:

<u>Year Ended June 30,</u>	
2007	\$ 212,167
2008	212,167
2009	212,167
2010	<u>176,806</u>
	<u>\$ 813,307</u>

(continued on next page)

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

**NOTE 7 – LONG-TERM DEBT**

A schedule of changes in the Hospital’s long-term debt for 2006 and 2005 follows:

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<b>June 30 2006 Balance</b>	<b>Amounts Due Within One Year</b>
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	\$ 2,550,000	\$ -	\$ 140,000	<b>\$ 2,410,000</b>	<b>\$ 150,000</b>
Note payable, 7%, due in monthly payments of \$2,510, to October 2009, secured by equipment	<u>-</u>	<u>81,300</u>	<u>17,258</u>	<b><u>64,042</u></b>	<b><u>26,434</u></b>
	<u>\$ 2,550,000</u>	<u>\$ 81,300</u>	<u>\$ 157,258</u>	<b><u>2,474,042</u></b>	<b><u>\$ 176,434</u></b>
Less current maturities				<b><u>(176,434)</u></b>	
Long-term debt, less current maturities				<b><u>\$ 2,297,608</u></b>	

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 176,434	\$ 134,607	\$ 311,041
2008	183,345	125,197	308,542
2009	174,263	115,735	289,998
2010	175,000	107,093	282,093
2011	180,000	97,905	277,905
2012-2016	1,070,000	330,275	1,400,275
2017-2018	<u>515,000</u>	<u>43,680</u>	<u>558,680</u>
	<b><u>\$ 2,474,042</u></b>	<b><u>\$ 954,492</u></b>	<b><u>\$ 3,428,534</u></b>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

	June 30 2004 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2005 <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	\$ 2,685,000	\$ -	\$ 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>	

**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, 2006, 2005, and 2004. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$254,187, \$223,346, and \$199,493, respectively, equal to the required contributions for each year.

**NOTE 9 – CONTINGENCIES**

*Malpractice Insurance*

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 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.

*Litigation*

The Hospital is involved in litigation arising in the normal course of business. In consultation with legal counsel, it is not practical to assess the likelihood of an unfavorable outcome at this time; however, the Hospital intends to vigorously defend the litigation.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**

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*Healthcare Legislation and Regulation*

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

**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, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	41%	45%
Medicaid	4	8
Commercial insurance	35	26
Other third-party payors and patients	<u>20</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>

**VETERANS MEMORIAL HOSPITAL**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET AND ACTUAL (ACCRUAL BASIS)**  
**YEAR ENDED JUNE 30, 2006**

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	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 39,000	\$ 39,000	\$ -
Estimated other revenues	<u>10,099,731</u>	<u>11,301,000</u>	<u>(1,201,269)</u>
	10,138,731	11,340,000	(1,201,269)
Expenses	<u>10,108,409</u>	<u>10,940,000</u>	<u>831,591</u>
Net	30,322	400,000	\$ (369,678)
Balance beginning of year	<u>6,732,462</u>	<u>6,727,428</u>	
Balance end of year	<u>\$ 6,762,784</u>	<u>\$ 7,127,428</u>	

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2006**

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This budgetary comparison is presented as Required 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. The budget was not amended during the year ended June 30, 2006.



CPAs & BUSINESS ADVISORS

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

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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, except for the Schedule of Statistical Information on page 32 marked "unaudited," 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, 2006

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**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine Services		
Adults and pediatrics	\$ 1,068,995	\$ 881,765
Nursery	63,020	69,080
Skilled care	217,170	167,010
Intermediate care	2,600	-
Respite	1,360	950
Hospice	57,500	20,240
Observation	249,571	369,430
Same day surgery	34,265	39,822
Operating and recovery rooms	915,866	778,979
Delivery and labor rooms	77,990	91,520
Central services and supply	998,029	749,350
Intravenous solutions	335,505	293,688
Emergency services	535,853	492,796
Laboratory	1,484,472	1,379,974
Radiology	1,930,643	1,967,105
Electrocardiology	114,275	123,885
Pharmacy	2,104,683	1,484,151
Anesthesiology	486,414	390,308
Respiratory therapy	108,293	103,990
Physical therapy	763,326	766,744
Occupational therapy	254,785	228,572
Speech therapy	49,255	20,057
Cardiac rehabilitation	134,150	151,740
Chemotherapy	15,419	20,115
Ambulance service	213,641	247,378
Community and home care	1,047,397	910,221
Nutrition instruction	5,126	1,956
	<u>13,269,603</u>	11,750,826
Charity care	<u>(234,979)</u>	<u>(223,313)</u>
	<u>13,034,624</u>	<u>11,527,513</u>
<b>*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	5,005,365	3,700,306
Outpatient revenue	8,264,238	8,050,520
Charity care	<u>(234,979)</u>	<u>(223,313)</u>
	<u>\$ 13,034,624</u>	<u>\$ 11,527,513</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (2,104,531)	\$ (1,678,970)
Medicaid	(313,945)	(283,020)
Blue Cross	(359,127)	(220,359)
Other	<u>(233,364)</u>	<u>(187,763)</u>
Total contractual adjustments	<u>(3,010,967)</u>	<u>(2,370,112)</u>
NET PATIENT SERVICE REVENUE	<b>10,023,657</b>	9,157,401
PROVISION FOR BAD DEBTS	<u>(403,003)</u>	<u>(340,380)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 9,620,654</u>	<u>\$ 8,817,021</u>

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
County reimbursement - Community and Home Care	\$ 100,000	\$ 100,000
Rental - net of direct expenses	59,646	80,167
Community and Home Care Clinics, etc.	68,681	67,480
Grants	80,931	66,730
Housekeeping	37,692	32,984
Frozen meals	550	-
Contract physical therapy	20,658	18,387
Healthy Lifestyle Center	31,357	37,913
City tax	9,000	9,000
Cafeteria	9,676	9,095
Workshops, clinics, etc.	15,642	12,173
Gifts for operations	7,100	5,336
Medical records copies	1,634	1,811
Laundry	1,467	1,245
Vending machines	2,209	1,785
Other	<u>15,556</u>	<u>9,346</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 461,799</u>	 <u>\$ 453,452</u>

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 80,881	\$ 73,421
Supplies and other expenses	<u>17,155</u>	<u>15,103</u>
	<u>98,036</u>	<u>88,524</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	1,089,863	983,887
Supplies and other expenses	<u>98,872</u>	<u>69,902</u>
	<u>1,188,735</u>	<u>1,053,789</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	197,248	182,821
Supplies and other expenses	<u>61,208</u>	<u>51,354</u>
	<u>258,456</u>	<u>234,175</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	<u>13,791</u>	<u>14,633</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	44,950	30,183
Supplies and other expenses	<u>414,892</u>	<u>289,461</u>
	<u>459,842</u>	<u>319,644</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	109,813	101,938
Medical specialist fees	174,178	155,520
Supplies and other expenses	<u>8,479</u>	<u>7,186</u>
	<u>292,470</u>	<u>264,644</u>
<b>LABORATORY</b>		
Salaries and wages	249,968	214,555
Medical specialist fees	26,400	24,200
Supplies and other expenses	<u>334,299</u>	<u>271,314</u>
	<u>610,667</u>	<u>510,069</u>
<b>RADIOLOGY</b>		
Salaries and wages	182,105	182,114
Professional fees	248,603	409,117
Supplies and other expenses	<u>289,359</u>	<u>152,088</u>
	<u>720,067</u>	<u>743,319</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	\$ 1,739	\$ 2,330
Medical specialist fees	16,429	18,861
Supplies and other expenses	<u>847</u>	<u>1,242</u>
	<u>19,015</u>	<u>22,433</u>
<b>PHARMACY</b>		
Drugs	578,373	407,071
Supplies and other expenses	<u>93,646</u>	<u>92,613</u>
	<u>672,019</u>	<u>499,684</u>
<b>ANESTHESIOLOGY</b>		
Salaries and wages	152,275	149,196
Supplies and other expenses	<u>67,960</u>	<u>52,788</u>
	<u>220,235</u>	<u>201,984</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	94,225	83,687
Supplies and other expenses	<u>2,554</u>	<u>543</u>
	<u>96,779</u>	<u>84,230</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	89,079	89,380
Supplies and other expenses	<u>253,078</u>	<u>253,765</u>
	<u>342,157</u>	<u>343,145</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>151,353</u>	<u>149,572</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>31,546</u>	<u>10,834</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	31,788	30,406
Supplies and other expenses	<u>997</u>	<u>5,443</u>
	<u>32,785</u>	<u>35,849</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>CHEMOTHERAPY</b>		
Salaries and wages	\$ 8,832	\$ 7,716
Supplies and other expenses	<u>2,292</u>	<u>1,015</u>
	<u>11,124</u>	<u>8,731</u>
<b>AMBULANCE SERVICE</b>		
Salaries and wages	72,830	65,716
Supplies and other expenses	<u>3,978</u>	<u>9,026</u>
	<u>76,808</u>	<u>74,742</u>
<b>COMMUNITY AND HOME CARE</b>		
Salaries and wages	754,736	570,737
Supplies and other expenses	<u>129,990</u>	<u>103,087</u>
	<u>884,726</u>	<u>673,824</u>
<b>NUTRITION INSTRUCTION</b>		
Salaries and wages	29,939	27,039
Supplies and other expenses	<u>5,827</u>	<u>3,632</u>
	<u>35,766</u>	<u>30,671</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	122,516	112,004
Supplies and other expenses	<u>12,726</u>	<u>9,914</u>
	<u>135,242</u>	<u>121,918</u>
<b>DIETARY</b>		
Salaries and wages	189,113	168,272
Food	22,712	20,836
Supplies and other expenses	<u>22,645</u>	<u>21,528</u>
	<u>234,470</u>	<u>210,636</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	117,089	109,110
Utilities	134,924	111,643
Supplies and other expenses	<u>71,320</u>	<u>66,860</u>
	<u>323,333</u>	<u>287,613</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	\$ 243,009	\$ 206,961
Supplies and other expenses	<u>22,774</u>	<u>19,114</u>
	<u>265,783</u>	<u>226,075</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	37,092	32,489
Supplies and other expenses	<u>18,070</u>	<u>11,805</u>
	<u>55,162</u>	<u>44,294</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	538,356	484,356
Auditing and accounting fees	25,888	27,020
Collection fees	19,555	25,073
Telephone	35,917	23,126
Supplies and other expenses	<u>265,654</u>	<u>269,693</u>
	<u>885,370</u>	<u>829,268</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation	422,993	445,794
Amortization	9,697	10,158
Insurance	54,238	54,950
Employee benefits		
FICA	314,952	276,919
IPERS	254,187	223,346
Group health insurance	677,039	560,426
Workers' compensation insurance	70,851	57,373
Other	<u>52,021</u>	<u>61,715</u>
	<u>1,855,978</u>	<u>1,690,681</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 9,971,715</u>	<u>\$ 8,774,981</u>

**VETERANS MEMORIAL HOSPITAL**  
**PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND**  
**COLLECTION STATISTICS**  
**JUNE 30, 2006 AND 2005**

**ANALYSIS OF AGING**

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
<b>DAYS SINCE DISCHARGE</b>				
0 to 30 days	\$ 1,140,111	40.32%	\$ 1,271,366	34.00%
1 to 2 months	713,995	25.25	688,484	18.41
2 to 3 months	333,171	11.78	361,157	9.66
3 to 6 months	350,519	12.40	507,765	13.58
6 to 12 months	152,184	5.38	623,505	16.67
Over 1 year	<u>137,690</u>	<u>4.87</u>	<u>287,205</u>	<u>7.68</u>
	<b>2,827,670</b>	<b><u>100.00%</u></b>	3,739,482	<b><u>100.00%</u></b>
Less: Allowance for doubtful accounts	<b>364,000</b>		410,000	
Allowance for contractual adjustments	<u>329,000</u>		<u>615,000</u>	
Net	<b><u>\$ 2,134,670</u></b>		<b><u>\$ 2,714,482</u></b>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
BALANCE, BEGINNING OF YEAR	\$ 410,000	\$ 320,000
Add: Provision for bad debts	403,003	340,380
Recoveries of accounts written off	100,089	88,094
Less: Accounts written off	<u>(549,092)</u>	<u>(338,474)</u>
BALANCE, END OF YEAR	<b><u>\$ 364,000</u></b>	<b><u>\$ 410,000</u></b>

	<u>2006</u>	<u>2005</u>
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients	\$ 2,134,670	\$ 2,714,482
Number of days charges outstanding (1)	75	113
Uncollectible accounts (2)	\$ 657,537	\$ 588,766
Percentage of uncollectible accounts to total charges	5.0%	5.0%

**VETERANS MEMORIAL HOSPITAL  
SUPPLIES/PREPAID EXPENSE  
JUNE 30, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
<b>SUPPLIES</b>		
Central stores	\$ 77,692	\$ 66,781
Pharmacy	115,659	81,302
Radiology	6,793	7,982
Laboratory	<u>31,884</u>	<u>24,783</u>
Total supplies	<u>\$ 232,028</u>	<u>\$ 180,848</u>
 <b>PREPAID EXPENSE</b>		
Physician relocation contracts	\$ 25,000	\$ -
Insurance	18,520	17,855
Maintenance contracts	23,098	11,695
Dues	<u>3,838</u>	<u>3,797</u>
Total prepaid expense	<u>\$ 70,456</u>	<u>\$ 33,347</u>

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2006**

<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	\$ 10,731,803 \$ 1,174,484 \$ 1,000,000	\$ 12,241	12/2/06
MHA Insurance Co. #01-IA1006	Professional and premises liability General liability Hospital excess liability Professional excess liability	\$ 1,000,000/ 3,000,000 \$ 1,000,000 \$ 2,000,000 \$ 2,000,000	\$ 33,812	12/2/06
Farm Bureau Mutual Insurance Co. #7256313	Workers' compensation	\$ 500,000	\$ 50,243	4/1/07
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 6,900	3/4/07

**VETERANS MEMORIAL HOSPITAL  
STATISTICAL INFORMATION (UNAUDITED)  
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>PATIENT DAYS</b>		
Acute		
Adults and pediatrics	<b>1,743</b>	1,455
Newborn	<b>137</b>	157
Swing-bed		
Skilled	<b>1,139</b>	878
Intermediate	<b>21</b>	-
Respite	<b>9</b>	7
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENT OF OCCUPANCY (excluding newborn)</b>	<b>32%</b>	26%
<b>DISCHARGES</b>		
Acute	<b>659</b>	637
Swing-bed	<b>113</b>	98
<b>AVERAGE LENGTH OF STAY</b>		
Acute	<b>2.64</b>	2.28
Swing-bed	<b>10.35</b>	9.03
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Acute		
Private rooms	<b>\$ 600.00</b>	\$ 575.00
2-bed rooms	<b>575.00</b>	550.00
Nursery	<b>460.00</b>	440.00
Skilled care	<b>190.00</b>	190.00

- (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, 2006 AND 2005**

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	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 50,318	\$ 50,540
Add: Deposits	257,002	272,209
Less: Withdrawals	<u>(255,000)</u>	<u>(272,431)</u>
Balance, end of year	<u>\$ 52,320</u>	<u>\$ 50,318</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**

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The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the accompanying balance sheets of **Veterans Memorial Hospital** as of June 30, 2006 and 2005, 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, 2006. 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-06 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 over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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## 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, 2006, 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, 2006

**VETERANS MEMORIAL HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006**

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**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITION:**

I-A-06 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-06 Certified Budget – Expenditures during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 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-C-06 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-06 Business Transactions – Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Northern Aire Rental, company owned by Hospital’s purchasing manager	Expense recovery	\$ 47,464

II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.