

**FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

# **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	



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## 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, 2007 and 2006, 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, 2007 and 2006, 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 August 27, 2007, 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.

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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  
August 27, 2007

**Veterans Memorial Hospital  
Management's Discussion and Analysis  
June 30, 2007**

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, 2007. We encourage readers to read this analysis in conjunction with the financial statements in this report.

**Financial Highlights – Balance Sheet**

- Total investments increased by \$862,144.
- Patient receivables only increased by \$50,000.
- A receivable of \$300,000 reflects an estimate of amounts owed to us at year end by Medicare.
- Long-term debt was reduced by \$181,387.

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

- Total operating revenues increased by \$913,825.
- 66% of total patient revenues comes from outpatients.
- Outpatient revenue increased by \$1,093,860 while inpatient revenue actually decreased by \$231,435.
- Total operating expenses increased by 6.4%, while total operating revenues increased by 9.1%.
- Non-operating revenues of \$859,565 were mainly due to philanthropy.

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**

- Both Gundersen Clinic and Franciscan Skemp healthcare clinics have added new practitioners recently that should impact the quantity of services we offer.
- Hospital management has undergone a site-planning process to explore future growth and new or expanded 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 First Street S.E.  
Waukon, IA 52172

**VETERANS MEMORIAL HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 92,501	\$ 273,626
Assets limited as to use - Note 4	50,372	52,320
Receivables		
Patient, net of estimated uncollectibles of \$743,000 in 2007 and \$693,000 in 2006	2,184,620	2,134,670
Estimated third-party payor settlements	300,000	-
Bequest	-	-
Other	14,250	28,204
Supplies	243,027	232,028
Prepaid expense	73,245	70,456
	<u>2,958,015</u>	<u>2,791,304</u>
<b>ASSETS LIMITED AS TO USE - Note 4</b>		
Investments		
By board for capital improvements and debt retirement	1,883,763	1,021,619
Under indenture agreement	50,372	52,320
	<u>1,934,135</u>	<u>1,073,939</u>
Less amount required to meet current obligations	<u>(50,372)</u>	<u>(52,320)</u>
	<u>1,883,763</u>	<u>1,021,619</u>
<b>LAND, BUILDINGS, AND EQUIPMENT, net - Note 5</b>	<u>6,228,667</u>	<u>6,294,631</u>
<b>OTHER ASSETS</b>		
Gift fund investments - Note 4	1,678	1,666
Deferred financing costs, net of accumulated amortization of \$107,569 in 2007 and \$97,769 in 2006	57,115	66,715
	<u>58,793</u>	<u>68,381</u>
<b>Total assets</b>	<u>\$ 11,129,238</u>	<u>\$ 10,175,935</u>

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 7	\$ 183,345	\$ 176,434
Accounts payable		
Trade	390,679	367,644
Estimated third-party payor settlements	-	125,000
Accrued expenses		
Salaries and wages	87,630	83,800
Vacation	286,120	280,246
Payroll taxes and other	81,309	60,599
Interest	<u>20,569</u>	<u>21,820</u>
Total current liabilities	1,049,652	1,115,543
LONG-TERM DEBT, less current maturities - Note 7	<u>2,116,221</u>	<u>2,297,608</u>
Total liabilities	<u>3,165,873</u>	<u>3,413,151</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,929,101	3,820,589
Unrestricted	<u>4,034,264</u>	<u>2,942,195</u>
Total net assets	<u>7,963,365</u>	<u>6,762,784</u>
Total liabilities and net assets	<u>\$ 11,129,238</u>	<u>\$ 10,175,935</u>

**VETERANS MEMORIAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$433,210 in 2007 and \$403,003 in 2006) - Notes 2 and 3	<b>\$ 10,503,323</b>	\$ 9,620,654
Other operating revenues	<u>492,955</u>	<u>461,799</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>10,996,278</b></u>	<u>10,082,453</u>
OPERATING EXPENSES		
Salaries and wages	<b>4,661,564</b>	4,451,237
Medical specialist fees	<b>269,734</b>	217,007
Supplies and other expenses	<b>5,252,435</b>	4,870,781
Depreciation and amortization	<u>422,048</u>	<u>432,690</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>10,605,781</b></u>	<u>9,971,715</u>
<b>OPERATING INCOME</b>	<u><b>390,497</b></u>	<u>110,738</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	<b>859,565</b>	5,139
Investment income	<b>42,715</b>	12,139
Payment of interest on debt	<u>(129,667)</u>	<u>(136,694)</u>
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<u><b>772,613</b></u>	<u>(119,416)</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<b>1,163,110</b>	(8,678)
Capital grants and contributions	<u>37,471</u>	<u>39,000</u>
<b>INCREASE IN NET ASSETS</b>	<b>1,200,581</b>	30,322
<b>NET ASSETS BEGINNING OF YEAR</b>	<u><b>6,762,784</b></u>	<u>6,732,462</u>
<b>NET ASSETS END OF YEAR</b>	<u><b>\$ 7,963,365</b></u>	<u>\$ 6,762,784</u>

See notes to financial statements.

**VETERANS MEMORIAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 10,028,373	\$ 10,348,466
Other receipts	506,909	454,276
Payments of salaries and wages	(4,631,150)	(4,539,676)
Payments of medical specialist fees	(269,734)	(217,007)
Payments of supplies and other expenses	<u>(5,243,188)</u>	<u>(4,889,821)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>391,210</b></u>	<u>1,156,238</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	<u>859,565</u>	<u>30,139</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(346,484)	(341,082)
Capital grants and contributions received	37,471	39,000
Proceeds from issuance of long-term debt	-	81,300
Payment of interest on debt	(130,918)	(137,847)
Payment of principal on debt	<u>(174,476)</u>	<u>(157,258)</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(614,407)</b></u>	<u>(515,887)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in gift fund investments	(12)	(13)
Increase in assets limited as to use	(860,196)	(576,852)
Investment income received	<u>42,715</u>	<u>12,139</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u><b>(817,493)</b></u>	<u>(564,726)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(181,125)</b>	105,764
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>273,626</b></u>	<u>167,862</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u><b>\$ 92,501</b></u></u>	<u><u>\$ 273,626</u></u>

(continued)

**VETERANS MEMORIAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 390,497	\$ 110,738
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	422,048	432,690
Provision for bad debts	433,210	403,003
Changes in assets and liabilities		
Receivables	(469,206)	169,286
Supplies	(10,999)	(51,180)
Prepaid expense	(2,789)	(37,109)
Accounts payable	23,035	69,249
Estimated third-party payor settlements	(425,000)	148,000
Accrued expenses	<u>30,414</u>	<u>(88,439)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 391,210</u>	<u>\$ 1,156,238</u>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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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, 2007 AND 2006**

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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 original maturities 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, 2007 AND 2006**

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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. Amortization is included in depreciation and amortization in the financial statements.

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 \$33,264 and \$39,069 for advertising costs for the years ended June 30, 2007 and 2006, 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, 2007.

*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, 2007 AND 2006**

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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 items from the 2006 financial statements have been reclassified to conform to the current year presentation.

*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, 2007 and 2006, were \$160,757 and \$234,979, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years ended June 30, 2007 and 2006, were \$125,000 and \$183,000, respectively.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**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.

Revenue from the Medicare and Medicaid programs accounted for approximately 64% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2007, and 63% and 6%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2006.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Total patient service revenue	\$ <b>13,971,271</b>	\$ 13,034,624
Contractual adjustments		
Medicare	(1,907,995)	(2,104,531)
Medicaid	(362,732)	(313,945)
Blue Cross	(401,563)	(359,127)
Other	(362,448)	(233,364)
Total contractual adjustments	<u>(3,034,738)</u>	<u>(3,010,967)</u>
Net patient service revenue	<b>10,936,533</b>	10,023,657
Provision for bad debts	<u>(433,210)</u>	<u>(403,003)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ <b>10,503,323</b></u>	<u>\$ 9,620,654</u>

(continued on next page)

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 4 – CASH AND DEPOSITS**

The Hospital's deposits in banks at June 30, 2007 and 2006, 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, 2007 and 2006, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Money market accounts	\$ 1,170,171	\$ 323,550
Certificate of deposit	750,000	750,000
Accrued interest receivable	<u>15,642</u>	<u>2,055</u>
	<u>\$ 1,935,813</u>	<u>\$ 1,075,605</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, 2007 and 2006, was as follows:

	June 30, 2006			June 30, 2007	
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	
Cost					
Land	\$ 569,921	\$ -	\$ -	\$ 569,921	
Land improvements	131,073	-	-	131,073	
Buildings and leasehold improvements	7,966,731	24,262	-	7,990,993	
Equipment	3,034,901	121,908	-	3,156,809	
Construction in progress	<u>855</u>	<u>200,313</u>	-	<u>201,168</u>	
	<u>11,703,481</u>	<u>\$ 346,483</u>	<u>\$ -</u>	<u>12,049,964</u>	

(continued on next page)

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	June 30, 2006			June 30, 2007
	Balance	Additions	Deductions	Balance
Accumulated depreciation				
Land improvements	\$ 93,475	\$ 8,303	\$ -	\$ 101,778
Buildings and leasehold improvements	2,965,708	251,169	-	3,216,877
Equipment	2,349,667	152,975	-	2,502,642
	<u>5,408,850</u>	<u>\$ 412,447</u>	<u>\$ -</u>	<u>5,821,297</u>
Total land, buildings, and equipment, net	<u>\$ 6,294,631</u>			<u>\$ 6,228,667</u>
	June 30, 2005			June 30, 2006
	Balance	Additions	Deductions	Balance
Cost				
Land	\$ 555,871	\$ 14,050	\$ -	\$ 569,921
Land improvements	125,398	5,675	-	131,073
Buildings and leasehold improvements	7,953,148	13,583	-	7,966,731
Equipment	2,727,982	306,919	-	3,034,901
Construction in progress	-	855	-	855
	<u>11,362,399</u>	<u>\$ 341,082</u>	<u>\$ -</u>	<u>11,703,481</u>
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>\$ 6,294,631</u>

Construction in progress at June 30, 2007, represents an HVAC project. The estimated cost of the project is \$450,000. The project will be financed with Hospital funds. The project will be completed during the next fiscal year.

**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, 2007 and 2006, was \$335,004 and \$312,103, respectively. Future minimum lease payments on operating leases are as follows:

<u>Year Ended June 30</u>	
2008	\$ 212,167
2009	212,167
2010	176,806
	<u>\$ 601,140</u>

(continued on next page)

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 7 – LONG-TERM DEBT**

A schedule of changes in the Hospital's long-term debt for 2007 and 2006 follows:

	June 30 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2007 <u>Balance</u>	<u>Amounts Due Within 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	\$ 2,410,000	\$ -	\$ 150,000	<b>\$ 2,260,000</b>	<b>\$ 155,000</b>
Note payable, 7%, due in monthly payments of \$2,510, to October 2009, secured by equipment	<u>64,042</u>	<u>-</u>	<u>24,476</u>	<b><u>39,566</u></b>	<b><u>28,345</u></b>
	<u>\$ 2,474,042</u>	<u>\$ -</u>	<u>\$ 174,476</u>	<b><u>2,299,566</u></b>	<b><u>\$ 183,345</u></b>
Less current maturities				<b><u>(183,345)</u></b>	
Long-term debt, less current maturities				<b><u>\$ 2,116,221</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>
2008	\$ 183,345	\$ 125,197	\$ 308,542
2009	176,221	115,735	291,956
2010	175,000	107,093	282,093
2011	180,000	97,905	277,905
2012	190,000	88,275	278,275
2013-2017	1,130,000	270,840	1,400,840
2018	<u>265,000</u>	<u>14,840</u>	<u>279,840</u>
	<b><u>\$ 2,299,566</u></b>	<b><u>\$ 819,885</u></b>	<b><u>\$ 3,119,451</u></b>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2006 <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	\$ 2,550,000	\$ -	\$ 140,000	\$ 2,410,000	\$ 150,000
Note payable, 7%, due in monthly payments of \$2,510, to October 2009, secured by equipment	-	81,300	17,258	64,042	26,434
	<u>\$ 2,550,000</u>	<u>\$ 81,300</u>	<u>\$ 157,258</u>	2,474,042	<u>\$ 176,434</u>
Less current maturities				<u>(176,434)</u>	
Long-term debt, less current maturities				<u>\$ 2,297,608</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, 2007, 2006, and 2005. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$267,360, \$254,187, and \$223,346, 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.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

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*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.

*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 the 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 regulatory 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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	45%	41%
Medicaid	7	4
Commercial insurance	32	35
Other third-party payors and patients	<u>16</u>	<u>20</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, 2007**

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	<u>Actual Accrual Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues	\$ 11,936,029	\$ 12,720,000	\$ (783,971)
Expenses	<u>10,735,448</u>	<u>12,320,000</u>	<u>1,584,552</u>
Net	1,200,581	400,000	<u>\$ 800,581</u>
Balance beginning of year	<u>6,762,784</u>	<u>7,174,906</u>	
Balance end of year	<u>\$ 7,963,365</u>	<u>\$ 7,574,906</u>	

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2007**

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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 392 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, 2007.

For the year ended June 30, 2007, the Hospital's expenditures did not exceed the amount budgeted.



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  
August 27, 2007

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine Services		
Adults and pediatrics	\$ 1,036,380	\$ 1,068,995
Nursery	91,630	63,020
Skilled care	194,530	217,170
Intermediate care	-	2,600
Respite	1,320	1,360
Hospice	14,145	57,500
Observation	270,232	249,571
Same day surgery	42,755	34,265
Operating and recovery rooms	1,021,331	915,866
Delivery and labor rooms	111,365	77,990
Central services and supply	1,139,524	998,029
Intravenous solutions	352,643	335,505
Emergency services	651,482	535,853
Laboratory	1,526,401	1,484,472
Radiology	2,125,347	1,930,643
Electrocardiology	242,248	114,275
Pharmacy	2,296,735	2,104,683
Anesthesiology	410,100	486,414
Respiratory therapy	102,709	108,293
Physical therapy	770,866	763,326
Occupational therapy	256,857	254,785
Speech therapy	21,666	49,255
Cardiac rehabilitation	200,800	134,150
Chemotherapy	22,668	15,419
Ambulance service	206,074	213,641
Community and home care	1,016,819	1,047,397
Nutrition instruction	5,401	5,126
	<u>14,132,028</u>	<u>13,269,603</u>
Charity care	<u>(160,757)</u>	<u>(234,979)</u>
	<u>13,971,271</u>	<u>13,034,624</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	4,773,930	5,005,365
Outpatient revenue	9,358,098	8,264,238
Charity care	<u>(160,757)</u>	<u>(234,979)</u>
	<u>13,971,271</u>	<u>13,034,624</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (1,907,995)	\$ (2,104,531)
Medicaid	(362,732)	(313,945)
Blue Cross	(401,563)	(359,127)
Other	<u>(362,448)</u>	<u>(233,364)</u>
Total contractual adjustments	<u>(3,034,738)</u>	<u>(3,010,967)</u>
NET PATIENT SERVICE REVENUE	<b>10,936,533</b>	10,023,657
PROVISION FOR BAD DEBTS	<u>(433,210)</u>	<u>(403,003)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 10,503,323</u>	<u>\$ 9,620,654</u>

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>OTHER OPERATING REVENUES</b>		
County reimbursement - Community and Home Care	<b>\$ 100,000</b>	\$ 100,000
Community and Home Care Clinics, etc.	<b>105,013</b>	68,681
Grants	<b>80,876</b>	80,931
Rental - net of direct expenses	<b>50,732</b>	59,646
Housekeeping	<b>43,200</b>	37,692
Healthy Lifestyle Center	<b>30,588</b>	31,357
Contract physical therapy	<b>27,227</b>	20,658
Workshops, clinics, etc.	<b>16,038</b>	15,642
Cafeteria	<b>9,871</b>	9,676
City tax	-	9,000
Vending machines	<b>2,369</b>	2,209
Laundry	<b>1,596</b>	1,467
Medical records copies	<b>1,305</b>	1,634
Gifts for operations	<b>1,049</b>	7,100
Frozen meals	<b>300</b>	550
Other	<b>22,791</b>	15,556
	<u><b>492,955</b></u>	<u>461,799</u>
<b>TOTAL OTHER OPERATING REVENUES</b>	<b>\$ 492,955</b>	\$ 461,799

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 85,777	\$ 80,881
Supplies and other expenses	<u>18,489</u>	<u>17,155</u>
	<u>104,266</u>	<u>98,036</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	1,118,165	1,089,863
Supplies and other expenses	<u>108,239</u>	<u>98,872</u>
	<u>1,226,404</u>	<u>1,188,735</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	209,734	197,248
Supplies and other expenses	<u>85,265</u>	<u>61,208</u>
	<u>294,999</u>	<u>258,456</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	<u>24,628</u>	<u>13,791</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	47,851	44,950
Supplies and other expenses	<u>427,547</u>	<u>414,892</u>
	<u>475,398</u>	<u>459,842</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	144,148	109,813
Medical specialist fees	218,934	174,178
Supplies and other expenses	<u>6,917</u>	<u>8,479</u>
	<u>369,999</u>	<u>292,470</u>
<b>LABORATORY</b>		
Salaries and wages	259,983	249,968
Medical specialist fees	26,400	26,400
Supplies and other expenses	<u>300,552</u>	<u>334,299</u>
	<u>586,935</u>	<u>610,667</u>
<b>RADIOLOGY</b>		
Salaries and wages	195,765	182,105
Professional fees	237,328	248,603
Supplies and other expenses	<u>282,308</u>	<u>289,359</u>
	<u>715,401</u>	<u>720,067</u>

(continued)

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	\$ 1,164	\$ 1,739
Medical specialist fees	24,400	16,429
Supplies and other expenses	40,317	847
	<u>65,881</u>	<u>19,015</u>
<b>PHARMACY</b>		
Drugs	597,109	578,373
Supplies and other expenses	108,849	93,646
	<u>705,958</u>	<u>672,019</u>
<b>ANESTHESIOLOGY</b>		
Salaries and wages	51,244	152,275
Supplies and other expenses	282,378	67,960
	<u>333,622</u>	<u>220,235</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	101,654	94,225
Supplies and other expenses	3,503	2,554
	<u>105,157</u>	<u>96,779</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	79,245	89,079
Supplies and other expenses	252,629	253,078
	<u>331,874</u>	<u>342,157</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	170,447	151,353
<b>SPEECH THERAPY</b>		
Supplies and other expenses	11,082	31,546
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	37,669	31,788
Supplies and other expenses	2,188	997
	<u>39,857</u>	<u>32,785</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CHEMOTHERAPY</b>		
Salaries and wages	\$ 11,093	\$ 8,832
Supplies and other expenses	<u>1,558</u>	<u>2,292</u>
	<u>12,651</u>	<u>11,124</u>
<b>AMBULANCE SERVICE</b>		
Salaries and wages	78,750	72,830
Supplies and other expenses	<u>7,174</u>	<u>3,978</u>
	<u>85,924</u>	<u>76,808</u>
<b>COMMUNITY AND HOME CARE</b>		
Salaries and wages	808,624	754,736
Supplies and other expenses	<u>116,360</u>	<u>129,990</u>
	<u>924,984</u>	<u>884,726</u>
<b>NUTRITION INSTRUCTION</b>		
Salaries and wages	33,315	29,939
Supplies and other expenses	<u>5,081</u>	<u>5,827</u>
	<u>38,396</u>	<u>35,766</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	131,582	122,516
Supplies and other expenses	<u>9,823</u>	<u>12,726</u>
	<u>141,405</u>	<u>135,242</u>
<b>DIETARY</b>		
Salaries and wages	207,836	189,113
Food	22,120	22,712
Supplies and other expenses	<u>24,194</u>	<u>22,645</u>
	<u>254,150</u>	<u>234,470</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	140,485	117,089
Utilities	126,695	134,924
Supplies and other expenses	<u>79,978</u>	<u>71,320</u>
	<u>347,158</u>	<u>323,333</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	\$ 265,690	\$ 243,009
Supplies and other expenses	<u>22,997</u>	<u>22,774</u>
	<u>288,687</u>	<u>265,783</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	40,341	37,092
Supplies and other expenses	<u>19,606</u>	<u>18,070</u>
	<u>59,947</u>	<u>55,162</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	586,821	538,356
Auditing and accounting fees	30,540	25,888
Collection fees	20,420	19,555
Telephone	31,054	35,917
Supplies and other expenses	<u>281,305</u>	<u>265,654</u>
	<u>950,140</u>	<u>885,370</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation	412,448	422,993
Amortization	9,600	9,697
Insurance	56,457	54,238
Employee benefits		
FICA	330,981	314,952
IPERS	267,360	254,187
Group health insurance	754,789	677,039
Workers' compensation insurance	58,596	70,851
Other	<u>50,200</u>	<u>52,021</u>
	<u>1,940,431</u>	<u>1,855,978</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 10,605,781</u>	<u>\$ 9,971,715</u>

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,**  
**AND COLLECTION STATISTICS**  
**JUNE 30, 2007 AND 2006**

**ANALYSIS OF AGING**

	<u>June 30, 2007</u>		<u>June 30, 2006</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	\$ 1,050,136	35.87%	\$ 1,140,111	40.32%
1 to 2 months	877,747	29.98	713,995	25.25
2 to 3 months	312,402	10.67	333,171	11.78
3 to 6 months	339,628	11.60	350,519	12.40
6 to 12 months	256,687	8.77	152,184	5.38
Over 1 year	91,020	3.11	137,690	4.87
	<u>2,927,620</u>	<u>100.00%</u>	2,827,670	<u>100.00%</u>
Less: Allowance for doubtful accounts	407,000		364,000	
Allowance for contractual adjustments	<u>336,000</u>		<u>329,000</u>	
Net	<u>\$ 2,184,620</u>		<u>\$ 2,134,670</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
BALANCE, BEGINNING OF YEAR	\$ 364,000	\$ 410,000
Add: Provision for bad debts	433,210	403,003
Recoveries of accounts written off	117,771	100,089
Less: Accounts written off	<u>(507,981)</u>	<u>(549,092)</u>
BALANCE, END OF YEAR	<u>\$ 407,000</u>	<u>\$ 364,000</u>

	<u>2007</u>	<u>2006</u>
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients	\$ 2,184,620	\$ 2,134,670
Number of days charges outstanding (1)	75	75
Uncollectible accounts (2)	\$ 614,387	\$ 657,537
Percentage of uncollectible accounts to total charges	4.35%	5.0%

- (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  
SCHEDULES OF SUPPLIES/PREPAID EXPENSE  
JUNE 30, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
<b>SUPPLIES</b>		
Central stores	\$ 97,734	\$ 77,692
Pharmacy	94,671	115,659
Laboratory	44,144	31,884
Radiology	<u>6,478</u>	<u>6,793</u>
Total supplies	<u>\$ 243,027</u>	<u>\$ 232,028</u>
<b>PREPAID EXPENSE</b>		
Maintenance contracts	\$ 31,702	\$ 23,098
Insurance	20,988	18,520
Physician relocation contracts	16,667	25,000
Dues	<u>3,888</u>	<u>3,838</u>
Total prepaid expense	<u>\$ 73,245</u>	<u>\$ 70,456</u>

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2007**

<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	\$ 11,053,757 \$ 1,209,719 \$ 1,000,000	\$ 12,181	12/2/07
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	\$ 36,007	12/2/07
Farm Bureau Mutual Insurance Co. #7256313	Workers' compensation	\$ 500,000	\$ 52,888	4/1/08
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 6,900	3/4/08

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PATIENT DAYS</b>		
Acute		
Adults and pediatrics	<b>1,587</b>	1,743
Newborn	<b>137</b>	137
Swing-bed		
Skilled	<b>949</b>	1,139
Intermediate	<b>-</b>	21
Respite	<b>11</b>	9
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENT OF OCCUPANCY (excluding newborn)</b>	<b>28%</b>	32%
<b>DISCHARGES</b>		
Acute	<b>687</b>	659
Swing-bed	<b>106</b>	113
<b>AVERAGE LENGTH OF STAY</b>		
Acute (excluding newborn)	<b>2.31</b>	2.64
Swing-bed	<b>9.06</b>	10.35
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Acute		
Private rooms	<b>\$ 640.00</b>	\$ 600.00
2-bed rooms	<b>615.00</b>	575.00
Nursery	<b>490.00</b>	460.00
Skilled care	<b>205.00</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  
SCHEDULES OF ANALYSIS OF SINKING FUND  
YEARS ENDED JUNE 30, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 52,320	\$ 50,318
Add: Deposits	279,052	257,002
Less: Withdrawals	<u>(281,000)</u>	<u>(255,000)</u>
Balance, end of year	<u>\$ 50,372</u>	<u>\$ 52,320</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, 2007 and 2006, 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 August 27, 2007. 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 audit, we considered Veterans Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Veterans Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Veterans Memorial Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Veterans Memorial Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of Veterans Memorial Hospital's financial statements that is more than inconsequential will not be prevented or detected by Veterans Memorial Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Veterans Memorial Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

### **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, 2007, 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.

Veterans Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit Veterans Memorial Hospital's responses, and accordingly, we express no opinion on them.

We also noted a certain additional matter that we reported to management in a separate letter dated August 27, 2007.

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  
August 27, 2007

**VETERANS MEMORIAL HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-07      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 – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07      Preparation of Financial Statements – The Hospital does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendations – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Hospital's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

**VETERANS MEMORIAL HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007**

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**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-07     Certified Budget – Expenditures during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07     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-07     Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-07     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	\$ 44,702

- II-E-07     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07     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.



CPAs & BUSINESS ADVISORS

The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the financial statements of Veterans Memorial Hospital for the year ended June 30, 2007, and have issued our report thereon dated August 27, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated May 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Veterans Memorial Hospital. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Veterans Memorial Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Veterans Memorial Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the Hospital during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which this is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables and the amounts either owed to or receivable from third-party payors.

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Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Hospital's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Hospital, either individually or in the aggregate, indicate matters that could have a significant effect on the Hospital's financial reporting process.

There were no significant passed audit adjustments.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hospital's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

**Other Comment**

We have included an additional comment regarding the Hospital's operations.

This information is intended solely for the use of the officials, employees, and constituents of Veterans Memorial Hospital and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Veterans Memorial Hospital.

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

Dubuque, Iowa  
August 27, 2007

xc: Mr. Michael Myers

**VETERANS MEMORIAL HOSPITAL**  
**YEAR ENDED JUNE 30, 2007**  
**OTHER COMMENT**

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**Risk Assessment Audit Standards**

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have a significant impact on the Hospital's audit.