FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

VETERANS MEMORIAL HOSPITAL

VETERANS MEMORIAL HOSPITAL

Table of Contents

	Page
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Balance Sheets	5
Statements of Revenues, Expenses, and Changes in Net Assets	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-19
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Accrual Basis)	20
Notes to Required Supplementary Information – Budgetary Reporting	21
OTHER SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Supplementary Information	22
Schedules	
Net Patient Service Revenue	23-24
Other Operating Revenues	25
Operating Expenses	26-29
Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics	30
Supplies/Prepaid Expense	31
Insurance	32
Statistical Information (Unaudited)	33
Analysis of Sinking Fund	34
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*	35-36
SCHEDULE OF FINDINGS AND RESPONSES	37-38

VETERANS MEMORIAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS

Name	Title	Term Expires
	Board of Trustees	
Dennis Lyons	President	2011
David Stangeland	Vice-President	2011
Patty Fosaaen	Secretary	2009
Revelyn Lonning	Member	2009
Donald Angel	Member	2011
	Hospital Officials	
Michael Myers	Administrator	
Scott Knode	Chief Financial Officer	

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Veterans Memorial Hospital
Waukon, Iowa

We have audited the accompanying balance sheets of Veterans Memorial Hospital as of June 30, 2008 and 2007, 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, 2008 and 2007, 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 October 1, 2008, 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 audits.

Management's Discussion and Analysis on page 4 and the Budgetary Comparison Information on pages 20 and 21 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
October 1, 2008

Veterans Memorial Hospital
Management's Discussion and Analysis
June 30, 2008

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, 2008. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights – Balance Sheet

- Accounts receivable increased at year end due to a delay in Medicare reimbursements. The problem will be corrected in fiscal year 2009.
- Investments designated by board decreased by approximately $1,023,000. The funds were spent on equipment and capital improvements.
- A receivable of $80,000 reflects an estimate of amounts owed to the Hospital at year end by Medicare.
- Long-term debt was reduced by approximately $107,000 during the year.

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

- Total operating revenues increased by 5.8% or approximately $636,000.
- 65% of total patient service revenues are generated through outpatient services provided by the Hospital.
- Total operating expenses increased by 7.1% or approximately $755,000.
- Net assets at the end of year increased by approximately $214,000.

There are 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 the Gundersen Clinic and Franciscan Skemp healthcare clinics have added new practitioners recently that should impact the quantity of services offered by the hospital.
- 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, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 143,423**	$ 92,501
Assets limited as to use or restricted - Note 4	**55,119**	50,372
Receivables		
Patient, net of estimated uncollectibles of $995,000 in 2008 and $743,000 in 2007	**3,082,511**	2,184,620
Estimated third-party payor settlements	**80,000**	300,000
Other	**19,685**	14,250
Supplies	**257,881**	243,027
Prepaid expense	**104,577**	73,245
Total current assets	**3,743,196**	2,958,015
ASSETS LIMITED AS TO USE OR RESTRICTED- Note 4		
Investments		
Designated by board for capital improvements	**860,651**	1,883,763
Restricted under indenture agreement	**55,119**	50,372
	915,770	1,934,135
Less amount required to meet current obligations	**(55,119)**	(50,372)
Total assets limited as to use or restricted, excluding current portion	**860,651**	1,883,763
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	**6,634,027**	6,228,667
OTHER ASSETS		
Gift fund investments - Note 4	**1,727**	1,678
Deferred financing costs, net of accumulated amortization of $116,209 in 2008 and $107,569 in 2007	**48,475**	57,115
Total other assets	**50,202**	58,793
Total assets	**$ 11,288,076**	$ 11,129,238

See notes to financial statements.

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 7	**$ 187,858**	$ 183,345
Accounts payable	**393,252**	390,679
Accrued expenses		
Salaries and wages	**128,104**	87,630
Vacation	**300,159**	286,120
Payroll taxes and other	**77,452**	81,309
Interest	**19,265**	20,569
Total current liabilities	**1,106,090**	1,049,652
LONG-TERM DEBT, less current maturities - Note 7	**2,004,638**	2,116,221
Total liabilities	**3,110,728**	3,165,873
NET ASSETS		
Invested in capital assets, net of related debt	**4,441,531**	3,929,101
Restricted for debt service	**55,119**	50,372
Unrestricted	**3,680,698**	3,983,892
Total net assets	**8,177,348**	7,963,365
Total liabilities and net assets	**$ 11,288,076**	$ 11,129,238

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of $618,343 in 2008 and $433,210 in 2007) - Notes 2 and 3	**$ 11,135,317**	$ 10,503,323
Other operating revenues	**497,048**	492,955
TOTAL OPERATING REVENUES	**11,632,365**	10,996,278
OPERATING EXPENSES		
Salaries and wages	**5,121,774**	4,661,564
Medical specialist fees	**242,538**	241,678
Supplies and other expenses	**5,534,919**	5,280,491
Depreciation and amortization	**461,148**	422,048
TOTAL OPERATING EXPENSES	**11,360,379**	10,605,781
OPERATING INCOME	**271,986**	390,497
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	**5,005**	859,565
Investment income	**59,105**	42,715
Payment of interest on debt	**(122,113)**	(129,667)
NET NONOPERATING REVENUES (EXPENSES)	**(58,003)**	772,613
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	**213,983**	1,163,110
Capital grants and contributions	**-**	37,471
INCREASE IN NET ASSETS	**213,983**	1,200,581
NET ASSETS, BEGINNING OF YEAR	**7,963,365**	6,762,784
NET ASSETS, END OF YEAR	**$ 8,177,348**	$ 7,963,365

See notes to financial statements.

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	**$ 10,457,426**	$ 10,028,373
Other receipts	**491,613**	506,909
Payments of salaries and wages	**(5,071,118)**	(4,631,150)
Payments of medical specialist fees	**(242,538)**	(241,678)
Payments of supplies and other expenses	**(5,578,532)**	(5,271,244)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**56,851**	391,210
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	**5,005**	859,565
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	**(772,301)**	(346,484)
Capital grants and contributions received	**-**	37,471
Payment of interest on debt	**(123,417)**	(130,918)
Payment of principal on debt	**(192,637)**	(174,476)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	**(1,088,355)**	(614,407)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in gift fund investments	**(49)**	(12)
Decrease (increase) in assets limited as to use or restricted	**1,018,365**	(860,196)
Investment income received	**59,105**	42,715
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**1,077,421**	(817,493)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**50,922**	(181,125)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**92,501**	273,626
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 143,423**	$ 92,501

(continued)

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	**$ 271,986**	$ 390,497
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	**461,148**	422,048
Provision for bad debts	**618,343**	433,210
Changes in assets and liabilities		
Receivables	**(1,521,669)**	(469,206)
Supplies	**(14,854)**	(10,999)
Prepaid expense	**(31,332)**	(2,789)
Accounts payable	**2,573**	23,035
Estimated third-party payor settlements	**220,000**	(425,000)
Accrued expenses	**50,656**	30,414
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 56,851**	$ 391,210

See notes to financial statements.

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.

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

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.

(continued in next page)

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 or restricted and gift fund investments.

Patient Receivables

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

Payments of patient receivables are allocated to the specific 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 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.

(continued on next page)

Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

Assets limited as to use or restricted 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 are 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 class of 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. Such 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 $30,952 and $33,264 for advertising costs for the years ended June 30, 2008 and 2007, 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, 2008.

(continued on next page)

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.

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.

Reclassification

Certain items from the 2007 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.

(continued on next page)

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, 2008 and 2007, were $115,863 and $160,757, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost to charge ratio calculation, for the years ended June 30, 2008 and 2007, were $111,000 and $83,000, respectively.

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, 2006. 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 51% and 10%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2008, and 64% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2007.

(continued on next page)

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2008 and 2007, is as follows:

	2008	2007
Total patient service revenue	**$ 15,597,214**	$ 13,971,271
Contractual adjustments		
Medicare	**(2,670,631)**	(1,907,995)
Medicaid	**(287,935)**	(362,732)
Blue Cross	**(415,542)**	(401,563)
Other	**(469,446)**	(362,448)
Total contractual adjustments	**(3,843,554)**	(3,034,738)
Net patient service revenue	**11,753,660**	10,936,533
Provision for bad debts	**(618,343)**	(433,210)
Net patient service revenue (net of provision for bad debts)	**$ 11,135,317**	$ 10,503,323

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2008 and 2007, 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, 2008 and 2007, the Hospital's carrying amounts of cash and deposits are as follows:

	2008	2007
Money market accounts	**$ 156,337**	$ 1,170,171
Certificate of deposit	**750,000**	750,000
Accrued interest receivable	**11,160**	15,642
	$ 917,497	$ 1,935,813
Included in the following balance sheet captions:		
Assets limited as to use or restricted	**$ 915,770**	$ 1,934,135
Gift fund investments	**1,727**	1,678
	$ 917,497	$ 1,935,813

(continued on next page)

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, 2008 and 2007, was as follows:

	June 30, 2007 Balance	Additions	Deductions	Transfers	**June 30, 2008 Balance**
Cost					
Land	$ 569,921	$ -	$ -	$ -	**$ 569,921**
Land improvements	131,073	13,362	-	-	**144,435**
Buildings and leasehold improvements	7,990,993	-	-	508,055	**8,499,048**
Equipment	3,156,809	453,051	-	-	**3,609,860**
Construction in progress	201,168	390,814	-	(508,055)	**83,927**
	12,049,964	$ 857,227	$ -	$ -	**12,907,191**
Accumulated depreciation					
Land improvements	101,778	$ 8,577	$ -	$ -	**110,355**
Buildings and leasehold improvements	3,216,877	259,381	-	-	**3,476,258**
Equipment	2,502,642	183,909	-	-	**2,686,551**
	5,821,297	$ 451,867	$ -	$ -	**6,273,164**
Total land, buildings, and equipment, net	$ 6,228,667				**$ 6,634,027**

Construction in progress at June 30, 2008, primarily represents costs incurred to remodel the same day surgery area. The project is expected to be completed in September 2008 at an estimated total cost of $120,000. The project will be financed through Hospital operations.

	June 30, 2006 Balance	Additions	Deductions	Transfers	June 30, 2007 Balance
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	855	200,313	-	-	201,168
	11,703,481	$ 346,483	$ -	$ -	12,049,964

(continued on next page)

	June 30, 2006 Balance	Additions	Deductions	Transfers	June 30, 2007 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
	5,408,850	$ 412,447	$ -	$ -	5,821,297
Total land, buildings, and equipment, net	$ 6,294,631				$ 6,228,667

NOTE 6 – LEASES

The Hospital leases certain equipment under noncancellable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total equipment and building rental expense for all operating leases for the years ended June 30, 2008 and 2007, was $331,628 and $335,004, respectively. The capitalized leased assets consist of:

	2008	2007
Major movable equipment and construction in progress	**$ 85,567**	$ -
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	**(2,599)**	-
	$ 82,968	$ -

Minimum future lease payments for noncancelable capital and operating leases are as follows:

Year Ended June 30	Capital Leases	Operating Leases
2009	$ 19,253	$ 212,167
2010	19,872	176,806
2011	19,872	-
2012	19,872	-
2013	11,576	-
2014-2018	619	-
Total minimum lease payments	91,064	$ 388,973
Less interest	(11,381)	
Present value of minimum lease payments – Note 7	$ 79,683	

(continued on next page)

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2008 and 2007 follows:

	June 30 2007 Balance	Additions	Payments	**June 30 2008 Balance**	**Amounts Due Within One Year**
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	$ 2,260,000	$ -	$ 155,000	**$ 2,105,000**	**$ 165,000**
Note payable, 7%, due in monthly payments of $2,510, to October 2009, secured by equipment	39,566	-	31,753	**7,813**	**7,813**
Capitalized lease obligation - Note 6	-	85,567	5,884	**79,683**	**15,045**
	$ 2,299,566	$ 85,567	$ 192,637	**2,192,496**	**$ 187,858**
Less current maturities				**(187,858)**	
Long-term debt, less current maturities				**$ 2,004,638**	

	June 30 2006 Balance	Additions	Payments	June 30 2007 Balance	Amounts Due Within One Year
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	$ 2,260,000	$ 155,000
Note payable, 7%, due in monthly payments of $2,510, to October 2009, secured by equipment	64,042	-	24,476	39,566	28,345
	$ 2,474,042	$ -	$ 174,476	2,299,566	$ 183,345
Less current maturities				(183,345)	
Long-term debt, less current maturities				$ 2,116,221	

(continued on next page)

Long-term debt requirements to maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	$ 187,858	$ 119,943	$ 307,801
2010	191,514	110,451	301,965
2011	197,540	100,236	297,776
2012	208,637	89,510	298,147
2013	211,330	78,167	289,497
2014-2018	1,195,617	207,762	1,403,379
	$ 2,192,496	$ 706,069	$ 2,898,565

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 3.90% of their annual covered salary, and the Hospital is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members were required to contribute 3.70% of their annual covered salary, and the Hospital was required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were $305,780, $267,360, and $254,187, 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.

(continued on next page)

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, 2008 and 2007, was as follows:

	2008	2007
Medicare	**37%**	45%
Medicaid	**9**	7
Commercial insurance	**40**	32
Other third-party payors and patients	**14**	16
	100%	100%

VETERANS MEMORIAL HOSPITAL

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL (ACCRUAL BASIS)
YEAR ENDED JUNE 30, 2008

	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Revenues	$ 11,696,475	$ 13,550,000	$ (1,853,525)
Expenses	11,482,492	13,110,000	1,627,508
Net	213,983	440,000	$ (226,017)
Balance, beginning of year	7,963,365	7,212,966	
Balance, end of year	$ 8,177,348	$ 7,652,966	

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, 2008.

For the year ended June 30, 2008, the Hospital's expenditures did not exceed the amount budgeted.

EideBailly

CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Veterans Memorial Hospital
Waukon, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 33 marked "unaudited," on which we express no opinion, 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
October 1, 2008

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
PATIENT SERVICE REVENUE		
Routine Services		
Adults and pediatrics	**$ 1,327,018**	$ 1,082,780
Nursery	**117,935**	91,630
Skilled care	**178,860**	194,530
Respite	**230**	1,320
Hospice	**21,725**	14,145
Observation	**262,579**	270,232
Same day surgery	**55,720**	42,755
Operating and recovery rooms	**993,215**	974,931
Delivery and labor rooms	**118,320**	111,365
Central services and supply	**1,126,463**	1,139,524
Intravenous solutions	**452,761**	352,643
Emergency services	**580,635**	498,441
Laboratory	**1,917,017**	1,526,401
Radiology	**2,425,321**	2,125,347
Electrocardiology	**238,532**	242,248
Pharmacy	**2,571,535**	2,296,735
Anesthesiology	**437,800**	410,100
Respiratory therapy	**123,852**	102,709
Physical therapy	**860,556**	770,866
Occupational therapy	**255,833**	256,857
Speech therapy	**41,177**	21,666
Cardiac rehabilitation	**163,930**	200,800
Chemotherapy	**-**	22,668
Ambulance service	**294,514**	206,074
Weekend clinic	**183,852**	153,041
Community and home care	**941,587**	1,016,819
Nutrition instruction	**22,110**	5,401
	15,713,077	14,132,028
Charity care	**(115,863)**	(160,757)
Total patient service revenue*	**15,597,214**	13,971,271
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	**5,508,779**	4,816,260
Outpatient revenue	**10,204,298**	9,315,768
Charity care	**(115,863)**	(160,757)
Total patient service revenue	**15,597,214**	13,971,271

(continued)

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CONTRACTUAL ADJUSTMENTS		
Medicare	**$ (2,670,631)**	$ (1,907,995)
Medicaid	**(287,935)**	(362,732)
Blue Cross	**(415,542)**	(401,563)
Other	**(469,446)**	(362,448)
Total contractual adjustments	**(3,843,554)**	(3,034,738)
NET PATIENT SERVICE REVENUE	**11,753,660**	10,936,533
PROVISION FOR BAD DEBTS	**(618,343)**	(433,210)
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	**$ 11,135,317**	$ 10,503,323

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OTHER OPERATING REVENUES		
Community and Home Care Clinics, etc.	**$ 103,981**	$ 105,013
County reimbursement - Community and Home Care	**100,000**	100,000
Grants	**87,590**	80,876
Rental - net of direct expenses	**44,646**	50,732
Housekeeping	**43,958**	43,200
Gifts for operations	**39,212**	1,049
Contract physical therapy	**21,731**	27,227
Cafeteria	**14,044**	9,871
Healthy Lifestyle Center	**4,463**	30,588
Workshops, clinics, etc.	**3,778**	16,038
Vending machines	**2,382**	2,369
Laundry	**1,942**	1,596
Medical records copies	**1,610**	1,305
Frozen meals	**-**	300
Other	**27,711**	22,791
TOTAL OTHER OPERATING REVENUES	**$ 497,048**	$ 492,955

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
NURSING ADMINISTRATION		
Salaries and wages	**$ 108,582**	$ 77,364
Supplies and other expenses	**14,552**	18,489
	123,134	95,853
ROUTINE SERVICES		
Salaries and wages	**1,253,777**	1,118,165
Supplies and other expenses	**113,141**	108,239
	1,366,918	1,226,404
OPERATING AND RECOVERY ROOMS		
Salaries and wages	**245,641**	257,585
Supplies and other expenses	**92,124**	85,265
	337,765	342,850
DELIVERY AND LABOR ROOMS		
Salaries and wages	**26,624**	24,628
CENTRAL SERVICES AND SUPPLY		
Supplies and other expenses	**385,683**	427,547
EMERGENCY SERVICES		
Salaries and wages	**156,711**	136,674
Medical specialist fees	**177,307**	190,878
Supplies and other expenses	**14,338**	6,917
	348,356	334,469
LABORATORY		
Salaries and wages	**296,409**	259,983
Medical specialist fees	**-**	26,400
Supplies and other expenses	**368,405**	300,552
	664,814	586,935
RADIOLOGY		
Salaries and wages	**217,429**	195,765
Professional fees	**251,026**	237,328
Supplies and other expenses	**292,782**	282,308
	761,237	715,401

(continued)

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
ELECTROCARDIOLOGY		
Salaries and wages	**$ 1,163**	$ 1,164
Medical specialist fees	**65,231**	24,400
Supplies and other expenses	**277**	40,317
	66,671	65,881
PHARMACY		
Drugs	**633,004**	597,109
Supplies and other expenses	**92,536**	108,849
	725,540	705,958
ANESTHESIOLOGY		
Salaries and wages	**125,171**	51,244
Supplies and other expenses	**223,985**	282,378
	349,156	333,622
RESPIRATORY THERAPY		
Salaries and wages	**113,424**	101,654
Supplies and other expenses	**1,347**	3,503
	114,771	105,157
PHYSICAL THERAPY		
Salaries and wages	**62,391**	79,245
Supplies and other expenses	**302,996**	252,629
	365,387	331,874
OCCUPATIONAL THERAPY		
Supplies and other expenses	**141,327**	170,447
SPEECH THERAPY		
Supplies and other expenses	**39,603**	11,082
CARDIAC REHABILITATION		
Salaries and wages	**26,503**	37,669
Supplies and other expenses	**1,416**	2,188
	27,919	39,857
CHEMOTHERAPY		
Salaries and wages	**11,995**	11,093
Supplies and other expenses	**1,205**	1,558
	13,200	12,651

(continued)

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
AMBULANCE SERVICE		
Salaries and wages	**$ 87,330**	$ 78,750
Supplies and other expenses	**6,193**	7,174
	93,523	85,924
WEEKEND CLINIC		
Salaries and wages	**8,582**	7,474
Supplies and other expenses	**28,024**	28,056
	36,606	35,530
OUTPATIENT CLINIC		
Salaries and wages	**26,856**	8,413
COMMUNITY AND HOME CARE		
Salaries and wages	**802,312**	808,624
Supplies and other expenses	**121,560**	116,360
	923,872	924,984
NUTRITION INSTRUCTION		
Salaries and wages	**44,191**	33,315
Supplies and other expenses	**9,772**	5,081
	53,963	38,396
MEDICAL RECORDS		
Salaries and wages	**157,222**	131,582
Supplies and other expenses	**14,384**	9,823
	171,606	141,405
DIETARY		
Salaries and wages	**215,965**	207,836
Food	**41,476**	22,120
Supplies and other expenses	**10,498**	24,194
	267,939	254,150
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	**145,196**	140,485
Utilities	**123,030**	126,695
Supplies and other expenses	**105,173**	79,978
	373,399	347,158
HOUSEKEEPING		
Salaries and wages	**297,719**	265,690
Supplies and other expenses	**32,974**	22,997
	330,693	288,687

(continued)

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
LAUNDRY AND LINEN		
Salaries and wages	**$ 49,718**	$ 40,341
Supplies and other expenses	**19,723**	19,606
	69,441	59,947
ADMINISTRATIVE SERVICES		
Salaries and wages	**640,863**	586,821
Auditing and accounting fees	**27,025**	30,540
Collection fees	**31,307**	20,420
Telephone	**32,358**	31,054
Supplies and other expenses	**272,918**	281,305
	1,004,471	950,140
UNASSIGNED EXPENSES		
Depreciation	**451,867**	412,448
Amortization	**9,281**	9,600
Insurance	**62,000**	56,457
Employee benefits		
FICA	**365,299**	330,981
IPERS	**305,780**	267,360
Group health insurance	**846,286**	754,789
Workers' compensation insurance	**58,053**	58,596
Other	**51,339**	50,200
	2,149,905	1,940,431
TOTAL OPERATING EXPENSES	**$ 11,360,379**	$ 10,605,781

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS
JUNE 30, 2008 AND 2007

ANALYSIS OF AGING

	June 30, 2008		June 30, 2007	
	Amount	**Percent to Total**	Amount	Percent to Total
DAYS SINCE DISCHARGE				
0 to 30 days	**$ 1,520,289**	**37.29%**	$ 1,050,136	35.87%
1 to 2 months	**969,565**	**23.78**	877,747	29.98
2 to 3 months	**416,089**	**10.21**	312,402	10.67
3 to 6 months	**551,427**	**13.52**	339,628	11.60
6 months and over	**619,692**	**15.20**	347,707	11.88
	4,077,062	**100.00%**	2,927,620	100.00%
Less: Allowance for doubtful accounts	**473,349**		407,000	
Allowance for contractual adjustments	**521,202**		336,000	
Net	**$ 3,082,511**		$ 2,184,620	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
BALANCE, BEGINNING OF YEAR	**$ 407,000**	$ 364,000
Add: Provision for bad debts	**618,343**	433,210
Recoveries of accounts written off	**92,887**	117,771
Less: Accounts written off	**(644,881)**	(507,981)
BALANCE, END OF YEAR	**$ 473,349**	$ 407,000

	2008	2007
COLLECTION STATISTICS		
Net accounts receivable – patients	**$ 3,082,511**	$ 2,184,620
Number of days charges outstanding (1)	**96**	75
Uncollectible accounts (2)	**$ 765,513**	$ 614,387
Percentage of uncollectible accounts to total charges	**4.87%**	4.35%

(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, 2008 AND 2007

	2008	2007
SUPPLIES		
Pharmacy	**$ 104,060**	$ 94,671
Central stores	**92,987**	97,734
Laboratory	**51,799**	44,144
Radiology	**9,035**	6,478
Total supplies	**$ 257,881**	$ 243,027
PREPAID EXPENSE		
Physician relocation contracts	**$ 50,159**	$ 16,667
Maintenance contracts	**31,251**	31,702
Insurance	**18,996**	20,988
Dues	**4,171**	3,888
Total prepaid expense	**$ 104,577**	$ 73,245

VETERANS MEMORIAL HOSPITAL
SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2008

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
Cincinnati Insurance Co. CAP 549 06 55	Building and contents	$ 11,053,757	$ 12,181	12/2/08
	Blanket earnings and expense	$ 1,209,719		
	Auto liability	$ 1,000,000		
MHA Insurance Co. #01-IA1006	Professional and premises liability	$ 1,000,000/ 3,000,000	$ 35,616	12/2/08
	General liability	$ 1,000,000		
	Hospital excess liability	$ 2,000,000		
	Professional excess liability	$ 2,000,000		
Farm Bureau Mutual Insurance Co. #7256313	Workers' compensation	$ 500,000	$ 61,924	4/1/09
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	$ 1,000,000	$ 6,900	3/4/09

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
PATIENT DAYS		
Acute		
Adults and pediatrics	**1,780**	1,587
Newborn	**226**	188
Swing-bed		
Skilled	**829**	949
Respite	**11**	11
NUMBER OF BEDS	**25**	25
PERCENT OF OCCUPANCY (excluding newborn)	**29%**	28%
DISCHARGES		
Acute	**761**	687
Swing-bed	**111**	106
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	**2.34**	2.31
Swing-bed	**7.57**	9.06
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Private rooms	**$ 645.00**	$ 640.00
2-bed rooms	**645.00**	615.00
Nursery	**515.00**	490.00
Skilled care	**215.00**	205.00

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF ANALYSIS OF SINKING FUND
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Balance, beginning of year	**$ 50,372**	$ 52,320
Add: Deposits	**282,747**	279,052
Less: Withdrawals	**(278,000)**	(281,000)
Balance, end of year	**$ 55,119**	$ 50,372

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.

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

The Board of Trustees
Veterans Memorial Hospital
Waukon, Iowa

We have audited the accompanying balance sheets of Veterans Memorial Hospital as of June 30, 2008 and 2007, 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 October 1, 2008. 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 opinion 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 certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008, 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 and Responses. 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 October 1, 2008.

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.

Eide Bailly LLP

Dubuque, Iowa
October 1, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 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. This is not an unusual condition in organizations of your size.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. 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 agrees with the finding and has reviewed the operating procedures of Veterans Memorial Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-08 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Veterans Memorial Hospital, does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the Hospital's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget – Expenditures during the year ended June 30, 2008, did not exceed the amount budgeted.

II-B-08 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-08 Business Transactions – Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Northern Aire Rental, company owned by Hospital's purchasing manager	Expense recovery	$ 40,942

II-E-08 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-08 Deposits and Investments – The Hospital exceeded limits within its depository resolution at certain times during the year ended June 30, 2008.

Recommendation – It is recommended that the Hospital increase its depository resolution limits to not exceed allowable amounts in the future.

Response – Management will increase and update its depository resolution to not exceed allowable amounts.

Conclusion – Response accepted.

EideBailly
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, 2008, and have issued our report thereon dated October 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter dated June 6, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and discussion with management about planning matters.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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, 2008. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

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.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments, some of which are considered material, were made during the audit:

We discussed all adjustments to the financial statements with the Hospital's staff during the audit. The following adjustments were made during the fiscal year 2008 audit:

Revenues in excess of expenses prior to audit adjustments	$ 299,766
To adjust estimated third-party payor settlements	(70,000)
To adjust accrued salaries	(13,250)
Other adjustments	(2,533)
Revenues in excess of expenses as reported	$ 213,983

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 1, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Comments

We have included additional comments 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.

Eide Bailly LLP

Dubuque, Iowa
October 1, 2008

xc: Mr. Michael Myers

VETERANS MEMORIAL HOSPITAL
YEAR ENDED JUNE 30, 2008
OTHER COMMENTS

Investment Policy

It is our understanding that the Hospital has not updated its written investment policy in several years. We recommend that the Board of Directors update the policy to serve as a guideline for management and the Board of Directors when making investment decisions.

Review of Pay Rates

During our review of internal controls, we noted an instance that an employee was paid at a higher rate than approved within the employee's payroll file. It is recommended that management periodically review approved employee pay rates to actual paid rates to minimize inaccuracies in the future.

Credit Card Receipts and Public Purpose

The Hospital maintains credit cards for use by certain employees to assist in completing their assigned job functions. During our review of credit card expenditures, we noted charges on credit card statements that were not supported by underlying receipts and charges that did not include documentation of business purpose. To improve internal control over credit card expenditures and to reduce the risk of improper use of Hospital credit cards, we recommend that underlying receipts and documentation of business purpose be provided for all credit card expenditures.

Computer Controls

It is our understanding that the Hospital does not currently maintain a backup of Hospital computer data at an offsite location. To minimize the risk of loss of Hospital data, it is recommended that the Hospital perform periodic backups and store information at an offsite location. In addition, the Hospital has not designed a disaster recovery plan in the event of an emergency. Per discussions with management, the Hospital has recently formed a technology committee to address these issues. It is recommended that the committee meet on a periodic basis going forward to address these and any other technological issues identified by the Hospital.

Revised Guidelines on Good Governance for Tax Exempt Entities

The issue of corporate governance of tax exempt organizations has emerged as a major focal point for the Internal Revenue Service (IRS) and is a key factor addressed in the newly revised Form 990, Return of Organization Exempt from Income Tax effective for 2008. These guidelines can be found in the IRS document "Governance and Related Topics – 501(c)(3) Organizations," at the following link: http://www.irs.gov/pub/irs-tege/governance_practices.pdf. While tax law does not mandate the guidelines, they are a clear indication of the IRS' strong commitment to monitoring governance practices of the tax-exempt community. The IRS has indicated its belief that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets, and serve charitable interests than one without some of the recommended guidelines. The IRS document is in line with the redesigned Form 990 governance questions and focuses on six specific topics:

- Mission
- Organizational Documents
- Governing Body
- Governance & Management Policies
- Financial Statements & Form 990 Reporting
- Transparency and Accountability

VETERANS MEMORIAL HOSPITAL
YEAR ENDED JUNE 30, 2008
OTHER COMMENTS

The IRS intends to monitor the organizations' practices by utilizing primarily yes/no questions and detailed descriptions of policies and procedures on the new Form 990.

Although these guidelines are directed towards 501(c)(3) organizations, all tax-exempt entities should consider the same governance practices. We recommend all tax-exempt organizations review the guidelines in detail, as well as the specific questions in Part VI of the 2008 Form 990 and consider whether current practices should be modified or new practices adopted. By reviewing the Hospital's governance practices now, the Hospital will be prepared to respond to the governance-related questions on the 2008 Form 990, if applicable, and portray a positive image to the IRS and the public.