

**FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**



VETERANS MEMORIAL HOSPITAL

VETERANS MEMORIAL HOSPITAL

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Dennis Lyons	Chairman of the Board	2011
David Stangeland	Vice Chairman	2011
Patty Fosaaen	Secretary	2009
Revelyn Lonning	Board Member	2009
Don Angel	Board Member	2011
<u>Hospital Officials</u>		
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, 2009 and 2008, 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, 2009 and 2008, 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 13, 2009, 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 21 and 22 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 13, 2009

**Veterans Memorial Hospital
Management's Discussion and Analysis
June 30, 2009**

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, 2009. We encourage readers to consider this information in conjunction with the financial statements in this report.

Financial Highlights – Balance Sheet

- Accounts receivable decreased during the year allowing the Hospital to increase cash reserves by \$509,000.
- Within the balance sheet is a payable to third parties of \$117,920. The payable reflects any amounts owed to Medicare or Medicaid.
- Long-term debt was reduced by approximately \$121,000 during the year.

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

- Total operating revenues increased by 8.7% or approximately \$1,016,000, due primarily to a 38% increase in swing bed skilled patient days.
- Total operating expenses increased by 10.5% or approximately \$1,198,000.
- Revenues exceeded expenses for the year by \$15,079.

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 health care 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.
- Hospital management will closely monitor the impact of any new health care reform legislation passed in the future.

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,292	\$ 143,423
Assets limited as to use or restricted - Note 4	49,966	55,119
Receivables		
Patient, net of estimated uncollectibles of \$1,142,000 in 2009 and \$995,000 in 2008	2,888,067	3,082,511
Estimated third-party payor settlements	-	80,000
Other	37,990	19,685
Supplies	286,908	257,881
Prepaid expense	200,542	104,577
	<u>3,478,765</u>	<u>3,743,196</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
Designated by board for capital improvements	1,374,860	860,651
Restricted under indenture agreement	49,966	55,119
	<u>1,424,826</u>	<u>915,770</u>
Less amount required to meet current obligations	<u>(49,966)</u>	<u>(55,119)</u>
	<u>1,374,860</u>	<u>860,651</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5		
	<u>6,374,811</u>	<u>6,634,027</u>
OTHER ASSETS		
Gift fund investments - Note 4	1,777	1,727
Deferred financing costs, net of accumulated amortization of \$124,849 in 2009 and \$116,209 in 2008	45,528	48,475
	<u>47,305</u>	<u>50,202</u>
Total assets	<u>\$ 11,275,741</u>	<u>\$ 11,288,076</u>

See notes to financial statements.

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$645,983 in 2009 and \$618,343 in 2008) - Notes 2 and 3	\$ 12,129,570	\$ 11,135,317
Other operating revenues	<u>519,117</u>	<u>497,048</u>
TOTAL OPERATING REVENUES	<u>12,648,687</u>	<u>11,632,365</u>
OPERATING EXPENSES		
Salaries and wages	5,666,833	5,121,774
Medical specialist fees	249,425	242,538
Supplies and other expenses	6,082,466	5,534,919
Depreciation and amortization	<u>560,106</u>	<u>461,148</u>
TOTAL OPERATING EXPENSES	<u>12,558,830</u>	<u>11,360,379</u>
OPERATING INCOME	<u>89,857</u>	<u>271,986</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	2,133	5,005
Investment income	38,679	59,105
Payment of interest on debt	<u>(115,590)</u>	<u>(122,113)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>(74,778)</u>	<u>(58,003)</u>
REVENUES IN EXCESS OF EXPENSES	15,079	213,983
NET ASSETS, BEGINNING OF YEAR	<u>8,177,348</u>	<u>7,963,365</u>
NET ASSETS, END OF YEAR	<u>\$ 8,192,427</u>	<u>\$ 8,177,348</u>

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 12,521,934	\$ 10,457,426
Other receipts	500,812	491,613
Payments of salaries and wages	(5,606,703)	(5,071,118)
Payments of medical specialist fees	(249,425)	(242,538)
Payments of supplies and other expenses	<u>(6,292,128)</u>	<u>(5,578,532)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>874,490</u>	<u>56,851</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	<u>2,133</u>	<u>5,005</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(297,943)	(772,301)
Proceeds from issuance of long-term debt	88,384	-
Payment of interest on debt	(115,790)	(123,417)
Payment of principal on debt	<u>(208,978)</u>	<u>(192,637)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(534,327)</u>	<u>(1,088,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in gift fund investments	(50)	(49)
(Increase) decrease in assets limited as to use or restricted	(509,056)	1,018,365
Investment income received	<u>38,679</u>	<u>59,105</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(470,427)</u>	<u>1,077,421</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(128,131)	50,922
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>143,423</u>	<u>92,501</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 15,292</u></u>	<u><u>\$ 143,423</u></u>

(continued)

VETERANS MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 89,857	\$ 271,986
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	560,106	461,148
Provision for bad debts	645,983	618,343
Changes in assets and liabilities		
Receivables	(469,844)	(1,521,669)
Supplies	(29,027)	(14,854)
Prepaid expense	(95,965)	(31,332)
Accounts payable	(84,670)	2,573
Estimated third-party payor settlements	197,920	220,000
Accrued expenses	60,130	50,656
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 874,490</u>	<u>\$ 56,851</u>

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 \$45,225 and \$30,952 for advertising costs for the years ended June 30, 2009 and 2008, 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, 2009.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 and nonexchange 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 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 2008 financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Hospital has evaluated subsequent events through August 13, 2009, the date which the financial statements were available to be issued.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$125,239 and \$115,863 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008, were \$86,000 and \$80,000, 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, 2007.

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, 2006.

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 49% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009, and 51% and 10%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2008.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 17,363,850</u>	<u>\$ 15,597,214</u>
Contractual adjustments		
Medicare	(2,592,339)	(2,670,631)
Medicaid	(424,153)	(287,935)
Blue Cross	(783,892)	(415,542)
Other	<u>(787,913)</u>	<u>(469,446)</u>
Total contractual adjustments	<u>(4,588,297)</u>	<u>(3,843,554)</u>
Net patient service revenue	<u>12,775,553</u>	11,753,660
Provision for bad debts	<u>(645,983)</u>	<u>(618,343)</u>
Net patient service revenue (net of provision for bad debts)	<u><u>\$ 12,129,570</u></u>	<u><u>\$ 11,135,317</u></u>

NOTE 4 – CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2009 and 2008, 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, 2009 and 2008, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Money market accounts	\$ 669,214	\$ 156,337
Certificate of deposit	750,000	750,000
Accrued interest receivable	7,389	11,160
	<u>\$ 1,426,603</u>	<u>\$ 917,497</u>
Included in the following balance sheet captions:		
Assets limited as to use or restricted	\$ 1,424,826	\$ 915,770
Gift fund investments	1,777	1,727
	<u>\$ 1,426,603</u>	<u>\$ 917,497</u>

(continued on next page)

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2009 and 2008, was as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 569,921	\$ -	\$ -	\$ -	\$ 569,921
Land improvements	144,435	-	-	-	144,435
Buildings and leasehold improvements	8,499,048	-	-	87,380	8,586,428
Equipment	3,609,860	275,869	(81,300)	33,595	3,838,024
Construction in progress	83,927	63,084	-	(120,975)	26,036
	<u>12,907,191</u>	<u>\$ 338,953</u>	<u>\$ (81,300)</u>	<u>\$ -</u>	<u>13,164,844</u>
Accumulated depreciation					
Land improvements	110,355	\$ 6,834	\$ -	\$ -	117,189
Buildings and leasehold improvements	3,476,258	289,141	-	-	3,765,399
Equipment	2,686,551	246,639	(25,745)	-	2,907,445
	<u>6,273,164</u>	<u>\$ 542,614</u>	<u>\$ (25,745)</u>	<u>\$ -</u>	<u>6,790,033</u>
Total land, buildings, and equipment, net	<u>\$ 6,634,027</u>				<u>\$ 6,374,811</u>

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007				June 30, 2008	
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>	
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	<u>201,168</u>	<u>390,814</u>	<u>-</u>	<u>(508,055)</u>	<u>83,927</u>	
	<u>12,049,964</u>	<u>\$ 857,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>12,907,191</u>	
Accumulated depreciation						
Land improvements	101,778	\$ 8,577	\$ -	\$ -	110,355	
Buildings and leasehold improvements	3,216,877	259,381	-	-	3,476,258	
Equipment	<u>2,502,642</u>	<u>183,909</u>	<u>-</u>	<u>-</u>	<u>2,686,551</u>	
	<u>5,821,297</u>	<u>\$ 451,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>6,273,164</u>	
Total land, buildings, and equipment, net	<u>\$ 6,228,667</u>				<u>\$ 6,634,027</u>	

NOTE 6 – LEASES

The Hospital leases certain equipment under noncancelable 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, 2009 and 2008, was \$330,660 and \$331,628, respectively. The capitalized leased assets consist of:

	<u>2009</u>	<u>2008</u>
Major movable equipment and construction in progress	\$ 85,567	\$ 85,567
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(10,195)</u>	<u>(2,599)</u>
	<u>\$ 75,372</u>	<u>\$ 82,968</u>

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

<u>Year Ended June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2010	\$ 19,872	\$ 192,086
2011	19,872	15,280
2012	19,872	15,280
2013	10,849	15,280
2014	619	3,367
Total minimum lease payments	71,084	\$ 241,293
Less interest	(7,174)	
Present value of minimum lease payments - Note 7	\$ 63,910	

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2009 and 2008 follows:

	<u>June 30 2008 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2009 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	\$ 2,105,000	\$ -	\$ 165,000	\$ 1,940,000	\$ 175,000
Note payable, 7%, due in monthly payments of \$2,729, to September 2011, secured by equipment	-	88,384	20,392	67,992	28,905
Note payable, 7%, due in monthly payments of \$2,510, matured during fiscal year 2009, secured by equipment	7,813	-	7,813	-	-
Capitalized lease obligations - Note 6	79,683	-	15,773	63,910	16,513
	<u>\$ 2,192,496</u>	<u>\$ 88,384</u>	<u>\$ 208,978</u>	2,071,902	\$ 220,418
Less current maturities Long-term debt, less current maturities				(220,418)	
				<u>\$ 1,851,484</u>	

(continued on next page)

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30 2007			June 30 2008	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	
1998 revenue bonds, 4.25% to 5.60%, principal maturing in varying annual amounts to May, 2018, collateralized by a pledge of the Hospital's net revenues	\$ 2,260,000	\$ -	\$ 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 obligations - Note 6	-	85,567	5,884	79,683	15,045
	<u>\$ 2,299,566</u>	<u>\$ 85,567</u>	<u>\$ 192,637</u>	2,192,496	<u>\$ 187,858</u>
Less current maturities Long-term debt, less current maturities				<u>(187,858)</u>	
				<u>\$ 2,004,638</u>	

Long-term debt requirements to maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 220,418	\$ 114,286	\$ 334,704
2011	228,534	101,990	330,524
2012	216,729	89,605	306,334
2013	211,330	78,167	289,497
2014	214,891	66,922	281,813
2015-2018	<u>980,000</u>	<u>140,840</u>	<u>1,120,840</u>
	<u>\$ 2,071,902</u>	<u>\$ 591,810</u>	<u>\$ 2,663,712</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.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Plan members are required to contribute 4.10% of their annual covered salary, and the Hospital is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Hospital was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$356,847, \$305,780, and \$267,360, 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.

Health Care Legislation and Regulation

The health care 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 health care 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 health care providers. Violation of these laws and regulations could result in expulsion from government health care 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.

VETERANS MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	36%	37%
Medicaid	4%	9%
Commercial insurance	40%	40%
Other third-party payors and patients	20%	14%
	<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, 2009

	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Revenues	\$ 12,689,499	\$ 14,184,000	\$ (1,494,501)
Expenses	<u>12,674,420</u>	<u>13,700,000</u>	<u>1,025,580</u>
Net	15,079	484,000	<u>\$ (468,921)</u>
Balance, beginning of year	<u>8,177,348</u>	<u>8,476,513</u>	
Balance, end of year	<u>\$ 8,192,427</u>	<u>\$ 8,960,513</u>	

VETERANS MEMORIAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective 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, 2009.

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted.



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 34 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
August 13, 2009

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VETERANS MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT SERVICE REVENUE		
Routine Services		
Adults and pediatrics	\$ 1,403,751	\$ 1,327,018
Nursery	105,050	117,935
Skilled care	244,885	178,860
Respite	130	230
Hospice	30,690	21,725
Observation	188,807	262,579
Same day surgery	50,500	55,720
Operating and recovery rooms	1,050,020	993,215
Delivery and labor rooms	116,700	118,320
Central services and supply	1,323,174	1,126,463
Intravenous solutions	456,983	452,761
Emergency services	574,193	580,635
Laboratory	2,085,154	1,917,017
Radiology	2,723,977	2,425,321
Electrocardiology	281,228	238,532
Pharmacy	2,977,887	2,571,535
Anesthesiology	488,310	437,800
Respiratory therapy	132,972	123,852
Physical therapy	1,035,603	860,556
Occupational therapy	378,633	255,833
Speech therapy	31,456	41,177
Cardiac rehabilitation	166,824	163,930
Ambulance service	300,310	294,514
Weekend clinic	197,944	183,852
Community and home care	1,101,444	941,587
Nutrition instruction	42,464	22,110
	<u>17,489,089</u>	<u>15,713,077</u>
Charity care	<u>(125,239)</u>	<u>(115,863)</u>
	<u>17,363,850</u>	<u>15,597,214</u>
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	6,167,403	5,508,779
Outpatient revenue	11,321,686	10,204,298
Charity care	<u>(125,239)</u>	<u>(115,863)</u>
	<u>17,363,850</u>	<u>15,597,214</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (2,592,339)	\$ (2,670,631)
Medicaid	(424,153)	(287,935)
Blue Cross	(783,892)	(415,542)
Other	<u>(787,913)</u>	<u>(469,446)</u>
Total contractual adjustments	<u>(4,588,297)</u>	<u>(3,843,554)</u>
NET PATIENT SERVICE REVENUE	12,775,553	11,753,660
PROVISION FOR BAD DEBTS	<u>(645,983)</u>	<u>(618,343)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 12,129,570</u>	<u>\$ 11,135,317</u>

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Community and Home Care Clinics, etc.	\$ 147,091	\$ 103,981
County reimbursement - Community and Home Care	100,000	100,000
Grants	78,118	87,590
Housekeeping	50,321	43,958
Gifts for operations	49,107	39,212
Rental - net of direct expenses	44,921	44,646
Cafeteria	14,202	14,044
Contract physical therapy	5,590	21,731
Medical records copies	1,955	1,610
Laundry	1,884	1,942
Vending machines	1,766	2,382
Workshops, clinics, etc.	1,260	3,778
Healthy Lifestyle Center	990	4,463
Other	<u>21,912</u>	<u>27,711</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 519,117</u>	<u>\$ 497,048</u>

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 112,810	\$ 108,582
Supplies and other expenses	<u>25,942</u>	<u>14,552</u>
	<u>138,752</u>	<u>123,134</u>
ROUTINE SERVICES		
Salaries and wages	1,375,297	1,253,777
Supplies and other expenses	<u>112,787</u>	<u>113,141</u>
	<u>1,488,084</u>	<u>1,366,918</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	310,174	245,641
Supplies and other expenses	<u>87,788</u>	<u>92,124</u>
	<u>397,962</u>	<u>337,765</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	<u>25,445</u>	<u>26,624</u>
CENTRAL SERVICES AND SUPPLY		
Supplies and other expenses	<u>483,287</u>	<u>385,683</u>
EMERGENCY SERVICES		
Salaries and wages	184,260	156,711
Medical specialist fees	180,127	177,307
Supplies and other expenses	<u>14,162</u>	<u>14,338</u>
	<u>378,549</u>	<u>348,356</u>
LABORATORY		
Salaries and wages	328,833	296,409
Supplies and other expenses	<u>412,603</u>	<u>368,405</u>
	<u>741,436</u>	<u>664,814</u>
RADIOLOGY		
Salaries and wages	235,061	217,429
Professional fees	353,360	251,026
Supplies and other expenses	<u>288,937</u>	<u>292,782</u>
	<u>877,358</u>	<u>761,237</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ELECTROCARDIOLOGY		
Salaries and wages	\$ 3,340	\$ 1,163
Medical specialist fees	69,298	65,231
Supplies and other expenses	245	277
	<u>72,883</u>	<u>66,671</u>
PHARMACY		
Drugs	675,440	633,004
Supplies and other expenses	97,469	92,536
	<u>772,909</u>	<u>725,540</u>
ANESTHESIOLOGY		
Salaries and wages	245,317	125,171
Supplies and other expenses	99,114	223,985
	<u>344,431</u>	<u>349,156</u>
RESPIRATORY THERAPY		
Salaries and wages	117,539	113,424
Supplies and other expenses	907	1,347
	<u>118,446</u>	<u>114,771</u>
PHYSICAL THERAPY		
Salaries and wages	63,829	62,391
Supplies and other expenses	350,568	302,996
	<u>414,397</u>	<u>365,387</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	185,793	141,327
SPEECH THERAPY		
Supplies and other expenses	27,339	39,603
CARDIAC REHABILITATION		
Salaries and wages	33,173	26,503
Supplies and other expenses	2,557	1,416
	<u>35,730</u>	<u>27,919</u>
CHEMOTHERAPY		
Salaries and wages	10,308	11,995
Supplies and other expenses	842	1,205
	<u>11,150</u>	<u>13,200</u>
		(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
AMBULANCE SERVICE		
Salaries and wages	\$ 100,960	\$ 87,330
Supplies and other expenses	<u>8,243</u>	<u>6,193</u>
	<u>109,203</u>	<u>93,523</u>
WEEKEND CLINIC		
Salaries and wages	8,342	8,582
Supplies and other expenses	<u>36,115</u>	<u>28,024</u>
	<u>44,457</u>	<u>36,606</u>
OUTPATIENT CLINIC		
Salaries and wages	<u>38,477</u>	<u>26,856</u>
COMMUNITY AND HOME CARE		
Salaries and wages	798,348	802,312
Supplies and other expenses	<u>95,899</u>	<u>121,560</u>
	<u>894,247</u>	<u>923,872</u>
NUTRITION INSTRUCTION		
Salaries and wages	47,836	44,191
Supplies and other expenses	<u>9,056</u>	<u>9,772</u>
	<u>56,892</u>	<u>53,963</u>
MEDICAL RECORDS		
Salaries and wages	166,345	157,222
Supplies and other expenses	<u>30,651</u>	<u>14,384</u>
	<u>196,996</u>	<u>171,606</u>
DIETARY		
Salaries and wages	222,217	215,965
Food	45,508	41,476
Supplies and other expenses	<u>10,629</u>	<u>10,498</u>
	<u>278,354</u>	<u>267,939</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	155,224	145,196
Utilities	125,168	123,030
Supplies and other expenses	<u>90,194</u>	<u>105,173</u>
	<u>370,586</u>	<u>373,399</u>
HOUSEKEEPING		
Salaries and wages	346,772	297,719
Supplies and other expenses	<u>37,898</u>	<u>32,974</u>
	<u>384,670</u>	<u>330,693</u>

(continued)

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
LAUNDRY AND LINEN		
Salaries and wages	\$ 48,538	\$ 49,718
Supplies and other expenses	<u>22,057</u>	<u>19,723</u>
	<u>70,595</u>	<u>69,441</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	688,388	640,863
Auditing and accounting fees	32,470	27,025
Collection fees	62,591	31,307
Telephone	32,042	32,358
Supplies and other expenses	<u>255,777</u>	<u>272,918</u>
	<u>1,071,268</u>	<u>1,004,471</u>
UNASSIGNED EXPENSES		
Depreciation	542,614	451,867
Amortization	17,492	9,281
Insurance	54,506	62,000
Employee benefits		
FICA	400,015	365,299
IPERS	356,847	305,780
Group health insurance	995,176	846,286
Workers' compensation insurance	77,526	58,053
Other	<u>84,958</u>	<u>51,339</u>
	<u>2,529,134</u>	<u>2,149,905</u>
TOTAL OPERATING EXPENSES	<u>\$ 12,558,830</u>	<u>\$ 11,360,379</u>

VETERANS MEMORIAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,
AND COLLECTION STATISTICS
JUNE 30, 2009 AND 2008

ANALYSIS OF AGING

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
DAYS SINCE DISCHARGE				
0 to 30 days	\$ 1,678,507	42%	\$ 1,520,289	37%
1 to 2 months	902,699	22%	969,565	24%
2 to 3 months	442,527	11%	416,089	10%
3 to 6 months	505,622	13%	551,427	14%
6 months and over	500,993	12%	619,692	15%
	<u>4,030,348</u>	<u>100%</u>	<u>4,077,062</u>	<u>100%</u>
Less: Allowance for doubtful accounts	(607,079)		(473,349)	
Allowance for contractual adjustments	(535,202)		(521,202)	
	<u>\$ 2,888,067</u>		<u>\$ 3,082,511</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
BALANCE, BEGINNING OF YEAR	\$ 473,349	\$ 407,000
Add: Provision for bad debts	645,983	618,343
Recoveries of accounts written off	116,310	92,887
Less: Accounts written off	(628,563)	(644,881)
BALANCE, END OF YEAR	<u>\$ 607,079</u>	<u>\$ 473,349</u>

	<u>2009</u>	<u>2008</u>
COLLECTION STATISTICS		
Net accounts receivable - patients	\$ 2,888,067	\$ 3,082,511
Number of days charges outstanding (1)	84	96
Uncollectible accounts (2)	\$ 833,813	\$ 765,513
Percentage of uncollectible accounts to total charges	4.77%	4.87%

(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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Pharmacy	\$ 108,500	\$ 104,060
Central stores	108,301	92,987
Laboratory	60,157	51,799
Radiology	<u>9,950</u>	<u>9,035</u>
Total supplies	<u>\$ 286,908</u>	<u>\$ 257,881</u>
PREPAID EXPENSE		
Physician relocation contracts	\$ 36,227	\$ 50,159
Maintenance contracts	40,419	31,251
Insurance	119,608	18,996
Dues	<u>4,288</u>	<u>4,171</u>
Total prepaid expense	<u>\$ 200,542</u>	<u>\$ 104,577</u>

VETERANS MEMORIAL HOSPITAL
SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2009

<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. CPP 105 12 42	Building and contents Blanket earnings and expense Auto liability	\$ 11,053,757 \$ 1,209,719 \$ 1,000,000	\$ 12,467	12/2/09
MHA Insurance Co. #01-IA10006	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	\$ 35,860	12/2/09
Farm Bureau Mutual Insurance Co. #7256313	Workers' compensation	\$ 500,000	\$ 87,258	4/1/10
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 6,900	3/4/10

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute		
Adults and pediatrics	1,807	1,780
Newborn	190	226
Swing-bed		
Skilled	1,142	829
Respite	1	11
NUMBER OF BEDS	25	25
PERCENT OF OCCUPANCY (excluding newborn)	32%	29%
DISCHARGES		
Acute	795	761
Swing-bed	124	111
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	2.27	2.34
Swing-bed	9.22	7.57
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Acute		
Private rooms	\$ 685.00	\$ 645.00
2-bed rooms	685.00	645.00
Nursery	550.00	515.00
Skilled care	215.00	215.00

**VETERANS MEMORIAL HOSPITAL
SCHEDULES OF ANALYSIS OF SINKING FUND
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 55,119	\$ 50,372
Add: Deposits	275,847	282,747
Less: Withdrawals	<u>(281,000)</u>	<u>(278,000)</u>
Balance, end of year	<u>\$ 49,966</u>	<u>\$ 55,119</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.



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**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, 2009 and 2008, 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 13, 2009. 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 and Responses 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, we do not believe the significant deficiencies described above are considered 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, 2009, 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.

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 Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 13, 2009

**VETERANS MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

Criteria – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

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-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal 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
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

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

Condition – 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 GAAP. 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.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. 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-09 Certified Budget – Expenditures during the year ended June 30, 2009, did not exceed the amount budgeted.
- II-B-09 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-09 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**VETERANS MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting:

II-D-09 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

II-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-09 Deposits and Investments – The Hospital exceeded limits within its depository resolution at certain times during the year ended June 30, 2009.

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

Response – Subsequent to year end, the Hospital increased its depository resolution to not exceed allowable amounts.

Conclusion – Response accepted.



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, 2009, and have issued our report thereon dated August 13, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by 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, 2009. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

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

Depreciation Expense – Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

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We evaluated the key factors and assumptions used to develop these estimates related to the collectability of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

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. The following balance sheet reclassification was detected as a result of our audit procedures and has been corrected by management.

To increase prepaid expense and to increase accounts payable	\$ 99,293
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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 August 13, 2009.

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.

The Board of Trustees
Veterans Memorial Hospital
Page 3

This information is intended solely for the use of the Finance Committee, Board of Trustees, and management 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.

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 13, 2009

xc: Mr. Michael Myers