



Financial Statements  
June 30, 2010 and 2009

# Veterans Memorial Hospital

## VETERANS MEMORIAL HOSPITAL

### Table of Contents

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	<u>Page</u>
<b>BOARD OF TRUSTEES AND HOSPITAL OFFICIALS</b>	1
<b>INDEPENDENT AUDITOR'S REPORT</b>	2-3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance Sheets	5
Statements of Revenues, Expenses, and Changes in Net Assets	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-20
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Accrual Basis)	21
Notes to Required Supplementary Information – Budgetary Reporting	22
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Independent Auditor's Report on Supplementary Information Schedules	23
Net Patient Service Revenue	24-25
Other Operating Revenues	26
Operating Expenses	27-30
Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics	31
Supplies/Prepaid Expense	32
Insurance	33
Statistical Information (Unaudited)	34
Analysis of Sinking Fund	35
<b>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</b>	36-37
<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	38-40

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

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Dennis Lyons	Chairman of the Board	2011
David Stangeland	Vice Chairman	2011
Patty Fosaaen	Secretary	2013
Revelyn Lonning	Board Member	2013
Don Angel	Board Member	2011
<u>Hospital Officials</u>		
Michael Myers	Administrator	
Scott Knode	Chief Financial Officer	



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the accompanying balance sheets of Veterans Memorial Hospital as of June 30, 2010 and 2009, 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, 2010 and 2009, 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 18, 2010, 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 on it.

*Eide Sully LLP*

Dubuque, Iowa  
August 18, 2010

**Veterans Memorial Hospital  
Management's Discussion and Analysis  
June 30, 2010**

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, 2010. We encourage readers to read this analysis in conjunction with the financial statements in this report.

**Financial Highlights-Balance Sheet**

- Accounts receivable decreased during the year which allowed Veterans Memorial Hospital to increase our cash reserves by \$360,000.
- The balance sheet total cash and cash equivalents also increased by \$330,000.
- The balance sheet shows \$175,000 owed Veterans Memorial Hospital by Medicare.

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

- Total operating revenues increased by 5.1% or \$644,000, due mainly to an increase in swing-bed skilled patient days.
- Total operating expenses increased by only 4.5% which helped create a profitable year.
- Revenues exceeded total expenses for the year by \$175,336.

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.

**Factor Bearing on Financial Future**

- Both Gunderson Clinic and Franciscan Skemp health care clinics have added new practitioners recently that should impact the quantity of services we offer.
- We will need to watch closely as to the impact of any new health reform legislation that was passed during the year.

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 SE  
Waukon, IA 52172

**VETERANS MEMORIAL HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 345,053	\$ 15,292
Assets limited as to use or restricted - Note 4	61,102	49,966
Receivables		
Patient, net of estimated uncollectibles of \$1,288,000 in 2010 and \$1,142,000 in 2009	2,396,475	2,888,067
Estimated third-party payor settlements	175,000	-
Other	50,930	37,990
Supplies	238,700	286,908
Prepaid expense	<u>188,513</u>	<u>200,542</u>
 Total current assets	 <u>3,455,773</u>	 <u>3,478,765</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
Designated by board for capital improvements	1,734,520	1,374,860
Restricted under indenture agreement	<u>61,102</u>	<u>49,966</u>
	1,795,622	1,424,826
Less amount required to meet current obligations	<u>(61,102)</u>	<u>(49,966)</u>
 Total assets limited as to use or restricted, excluding current portion	 <u>1,734,520</u>	 <u>1,374,860</u>
 CAPITAL ASSETS, net - Note 5	 <u>6,256,133</u>	 <u>6,374,811</u>
<b>OTHER ASSETS</b>		
Gift fund investments - Note 4	1,811	1,777
Deferred financing costs, net of accumulated amortization of \$132,379 in 2010 and \$124,849 in 2009	<u>35,027</u>	<u>45,528</u>
 Total other assets	 <u>36,838</u>	 <u>47,305</u>
 Total assets	 <u>\$ 11,483,264</u>	 <u>\$ 11,275,741</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 7	\$ 275,067	\$ 220,418
Accounts payable		
Trade	398,978	308,582
Estimated third-party payor settlements	-	117,920
Accrued expenses		
Salaries and wages	165,455	154,705
Vacation	379,368	364,412
Payroll taxes and other	58,068	46,728
Interest	<u>16,318</u>	<u>19,065</u>
Total current liabilities	1,293,254	1,231,830
LONG-TERM DEBT, less current maturities - Note 7	<u>1,800,648</u>	<u>1,851,484</u>
Total liabilities	<u>3,093,902</u>	<u>3,083,314</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,180,418	4,302,909
Restricted for debt service	61,102	49,966
Unrestricted	<u>4,147,842</u>	<u>3,839,552</u>
Total net assets	<u>8,389,362</u>	<u>8,192,427</u>
Total liabilities and net assets	<u>\$ 11,483,264</u>	<u>\$ 11,275,741</u>

**VETERANS MEMORIAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$792,441 in 2010 and \$645,983 in 2009) - Notes 2 and 3	\$ 12,816,156	\$ 12,129,570
Other operating revenues	<u>476,089</u>	<u>519,117</u>
TOTAL OPERATING REVENUES	<u>13,292,245</u>	<u>12,648,687</u>
OPERATING EXPENSES		
Salaries and wages	5,708,645	5,666,833
Medical specialist fees	253,221	249,425
Supplies and other expenses	6,553,604	6,082,466
Depreciation and amortization	<u>607,269</u>	<u>560,106</u>
TOTAL OPERATING EXPENSES	<u>13,122,739</u>	<u>12,558,830</u>
OPERATING INCOME	<u>169,506</u>	<u>89,857</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	96,023	2,133
Investment income	31,013	38,679
Payment of interest on debt	<u>(121,206)</u>	<u>(115,590)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>5,830</u>	<u>(74,778)</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	175,336	15,079
OTHER CHANGES IN NET ASSETS		
Capital grants and contributions	<u>21,599</u>	<u>-</u>
INCREASE IN NET ASSETS	196,935	15,079
NET ASSETS, BEGINNING OF YEAR	<u>8,192,427</u>	<u>8,177,348</u>
NET ASSETS, END OF YEAR	<u>\$ 8,389,362</u>	<u>\$ 8,192,427</u>

See notes to financial statements.

**VETERANS MEMORIAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 13,014,828	\$ 12,521,934
Other receipts	463,149	500,812
Payments of salaries and wages	(5,671,599)	(5,606,703)
Payments of medical specialist fees	(253,221)	(249,425)
Payments of supplies and other expenses	<u>(6,402,971)</u>	<u>(6,292,128)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>1,150,186</b></u>	<u>874,490</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	<u>96,023</u>	<u>2,133</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(478,090)	(297,943)
Capital grants and contributions received	21,599	-
Proceeds from issuance of long-term debt	257,900	88,384
Payment of interest on debt	(123,953)	(115,790)
Payment of principal on debt	<u>(254,087)</u>	<u>(208,978)</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(576,631)</b></u>	<u>(534,327)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in gift fund investments	(34)	(50)
Increase in assets limited as to use or restricted	(370,796)	(509,056)
Investment income received	<u>31,013</u>	<u>38,679</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u><b>(339,817)</b></u>	<u>(470,427)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>329,761</b>	(128,131)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>15,292</b></u>	<u>143,423</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 345,053</b></u>	<u>\$ 15,292</u>

(continued)

**VETERANS MEMORIAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 169,506	\$ 89,857
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	607,269	560,106
Provision for bad debts	792,441	645,983
Changes in assets and liabilities		
Receivables	(313,789)	(469,844)
Supplies	48,208	(29,027)
Prepaid expense	12,029	(95,965)
Accounts payable	90,396	(84,670)
Estimated third-party payor settlements	(292,920)	197,920
Accrued expenses	<u>37,046</u>	<u>60,130</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,150,186</u>	<u>\$ 874,490</u>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

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

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 the following 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted net assets 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, 2010 AND 2009**

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The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit of Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements 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, 2010 AND 2009**

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*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.

*Capital Assets*

Capital assets acquisitions in excess of \$1,000 are capitalized and are recorded at cost. Capital assets 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 property and equipment are as follows:

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

*Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$34,819 and \$45,225 for advertising costs for the years ended June 30, 2010 and 2009, 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 payments 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, 2010 and 2009.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*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.

*Subsequent Events*

The Hospital has evaluated subsequent events through August 18, 2010, the date which the financial statements were available to be issued.

*Reclassifications*

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*Other Significant Accounting Policies*

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

**NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS**

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 \$238,115 and \$125,239 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, were \$160,000 and \$86,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**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, 2008.

**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, 2007.

**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.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of liability of overpayments, if any. As the outcome of such potential reviews are unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Revenue from the Medicare and Medicaid programs accounted for approximately 54% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010, and 49% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 18,537,351</u>	<u>\$ 17,363,850</u>
Contractual adjustments		
Medicare	(2,827,229)	(2,592,339)
Medicaid	(521,148)	(424,153)
Blue Cross	(675,946)	(783,892)
Other	(904,431)	(787,913)
Total contractual adjustments	<u>(4,928,754)</u>	<u>(4,588,297)</u>
Net patient service revenue	13,608,597	12,775,553
Provision for bad debts	<u>(792,441)</u>	<u>(645,983)</u>
Net patient service revenue (net of provision for bad debts)	<u><u>\$ 12,816,156</u></u>	<u><u>\$ 12,129,570</u></u>

**NOTE 4 – CASH AND DEPOSITS**

The Hospital's deposits in banks at June 30, 2010 and 2009, 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.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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, 2010 and 2009, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Money market accounts	\$ 1,041,762	\$ 669,214
Certificate of deposit	750,000	750,000
Accrued interest receivable	<u>5,671</u>	<u>7,389</u>
	<u>\$ 1,797,433</u>	<u>\$ 1,426,603</u>

Included in the following balance sheet captions:

Assets limited as to use or restricted	\$ 1,795,622	\$ 1,424,826
Gift fund investments	<u>1,811</u>	<u>1,777</u>
	<u>\$ 1,797,433</u>	<u>\$ 1,426,603</u>

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 – CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital assets					
Land	\$ 569,921	\$ -	\$ -	\$ -	\$ 569,921
Land improvements	144,435	-	-	8,338	152,773
Buildings and leasehold improvements	8,586,428	28,396	-	12,790	8,627,614
Equipment	3,838,024	429,090	-	-	4,267,114
Construction in progress	<u>26,036</u>	<u>23,575</u>	<u>-</u>	<u>(21,128)</u>	<u>28,483</u>
	<u>13,164,844</u>	<u>\$ 481,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,645,905</u>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Accumulated depreciation					
Land improvements	\$ 117,189	\$ 5,106	\$ -	\$ -	\$ 122,295
Buildings and leasehold improvements	3,765,399	290,693	-	-	4,056,092
Equipment	2,907,445	303,940	-	-	3,211,385
	<u>6,790,033</u>	<u>\$ 599,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>7,389,772</u>
Total capital assets, net	<u>\$ 6,374,811</u>				<u>\$ 6,256,133</u>
	June 30, 2008				June 30, 2009
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital assets					
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 capital assets, net	<u>\$ 6,634,027</u>				<u>\$ 6,374,811</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, 2010 and 2009, was \$339,207 and \$330,660, respectively. The capitalized leased assets consist of:

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Major movable equipment and construction in progress	\$ 343,467	\$ 85,567
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(45,982)</u>	<u>(10,195)</u>
	<u>\$ 297,485</u>	<u>\$ 75,372</u>

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

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2011	\$ 78,612	\$ 15,280
2012	78,612	15,280
2013	70,316	15,280
2014	59,359	3,367
2015	<u>19,580</u>	<u>-</u>
Total minimum lease payments	<u>306,479</u>	<u>\$ 49,207</u>
Less interest	<u>(34,851)</u>	
Present value of minimum lease payments - Note 7	<u>\$ 271,628</u>	

**NOTE 7 – LONG-TERM DEBT**

A schedule of changes in the Hospital's long-term debt for 2010 and 2009 follows:

	<u>June 30 2009 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2010 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	\$ 1,940,000	\$ -	\$ 175,000	\$ 1,765,000	\$ 180,000
Note payable, 7%, due in monthly payments of \$2,729, to September 2011, secured by equipment	67,992	-	28,905	39,087	30,994
Capitalized lease obligations - Note 6	<u>63,910</u>	<u>257,900</u>	<u>50,182</u>	<u>271,628</u>	<u>64,073</u>
	<u>\$ 2,071,902</u>	<u>\$ 257,900</u>	<u>\$ 254,087</u>	<u>2,075,715</u>	<u>\$ 275,067</u>
Less current maturities				<u>(275,067)</u>	
Long-term debt, less current maturities				<u>\$ 1,800,648</u>	

(continued on next page)

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	June 30 2008 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2009 <u>Balance</u>	Amounts Due Within <u>One Year</u>
1998 revenue bonds, 4.25% to 5.60%, principal maturing in varying annual amounts to May, 2018, collateralized by a pledge of the Hospital's net revenues	\$ 2,105,000	\$ -	\$ 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, to October 2009, secured by equipment	7,813	-	7,813	-	-
Capitalized lease obligations	<u>79,683</u>	<u>-</u>	<u>15,773</u>	<u>63,910</u>	<u>16,513</u>
	<u>\$ 2,192,496</u>	<u>\$ 88,384</u>	<u>\$ 208,978</u>	2,071,902	<u>\$ 220,418</u>
Less current maturities Long-term debt, less current maturities				<u>(220,418)</u>	
				<u>\$ 1,851,484</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>
2011	\$ 275,067	\$ 114,199	\$ 389,266
2012	266,146	98,928	365,074
2013	263,812	84,424	348,236
2014	271,353	69,926	341,279
2015	244,337	55,123	299,460
2016-2018	<u>755,000</u>	<u>85,960</u>	<u>840,960</u>
	<u>\$ 2,075,715</u>	<u>\$ 508,560</u>	<u>\$ 2,584,275</u>

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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 4.30% of their annual covered salary, and the Hospital is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Hospital was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$383,374, \$356,847, and \$305,780, 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.

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	39%	36%
Medicaid	6%	4%
Commercial insurance	32%	40%
Other third-party payors and patients	23%	20%
	<u>100%</u>	<u>100%</u>



Required Supplementary Information  
June 30, 2010 and 2009

## Veterans Memorial Hospital

**VETERANS MEMORIAL HOSPITAL**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET AND ACTUAL (ACCRUAL BASIS)**  
**YEAR ENDED JUNE 30, 2010**

	Actual Accrual Basis	Budget	Variance Favorable (Unfavorable)
Revenues	\$ 13,440,880	\$ 16,940,000	\$ (3,499,120)
Expenses	<u>13,243,945</u>	<u>16,490,000</u>	<u>3,246,055</u>
Net	196,935	450,000	<u>\$ (253,065)</u>
Balance, beginning of year	<u>8,192,427</u>	<u>8,751,410</u>	
Balance, end of year	<u>\$ 8,389,362</u>	<u>\$ 9,201,410</u>	

**VETERANS MEMORIAL HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**JUNE 30, 2010**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary 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, 2010.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.



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

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The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 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.

*Eide Bailly LLP*

Dubuque, Iowa  
August 18, 2010

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine Services		
Adults and pediatrics	\$ 1,306,964	\$ 1,403,751
Nursery	123,435	105,050
Skilled care	303,120	244,885
Respite	-	130
Hospice	14,975	30,690
Observation	323,360	188,807
Same day surgery	47,320	50,500
Operating and recovery rooms	1,151,086	1,050,020
Delivery and labor rooms	137,940	116,700
Central services and supply	1,699,353	1,323,174
Intravenous solutions	503,119	456,983
Emergency services	642,920	574,193
Laboratory	2,102,390	2,085,154
Radiology	3,015,788	2,723,977
Electrocardiology	322,234	281,228
Pharmacy	2,826,029	2,977,887
Anesthesiology	499,040	488,310
Respiratory therapy	154,978	132,972
Physical therapy	1,283,516	1,035,603
Occupational therapy	494,353	378,633
Speech therapy	45,988	31,456
Cardiac rehabilitation	182,189	166,824
Ambulance service	352,222	300,310
Weekend clinic	217,772	197,944
Community and home care	993,655	1,101,444
Nutrition instruction	31,720	42,464
	<u>18,775,466</u>	<u>17,489,089</u>
Charity care	<u>(238,115)</u>	<u>(125,239)</u>
	<u>18,537,351</u>	<u>17,363,850</u>
<b>*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	6,503,751	6,167,403
Outpatient revenue	12,271,715	11,321,686
Charity care	<u>(238,115)</u>	<u>(125,239)</u>
	<u>18,537,351</u>	<u>17,363,850</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	\$ (2,827,229)	\$ (2,592,339)
Medicaid	(521,148)	(424,153)
Blue Cross	(675,946)	(783,892)
Other	<u>(904,431)</u>	<u>(787,913)</u>
Total contractual adjustments	<u>(4,928,754)</u>	<u>(4,588,297)</u>
NET PATIENT SERVICE REVENUE	13,608,597	12,775,553
PROVISION FOR BAD DEBTS	<u>(792,441)</u>	<u>(645,983)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 12,816,156</u>	<u>\$ 12,129,570</u>

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Community and Home Care Clinics, etc.	\$ 144,260	\$ 147,091
County reimbursement - Community and Home Care	100,000	100,000
Housekeeping	63,677	50,321
Gifts for operations	60,550	49,107
Grants	59,366	78,118
Cafeteria	14,186	14,202
Rental - net of direct expenses	2,910	44,921
Laundry	2,412	1,884
Healthy Lifestyle Center	2,090	990
Workshops, clinics, etc.	1,857	1,260
Medical records copies	1,700	1,955
Contract physical therapy	1,404	5,590
Vending machines	1,207	1,766
Other	<u>20,470</u>	<u>21,912</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 476,089</u>	 <u>\$ 519,117</u>

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 118,507	\$ 112,810
Supplies and other expenses	<u>23,950</u>	<u>25,942</u>
	<u>142,457</u>	<u>138,752</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	1,380,396	1,375,297
Supplies and other expenses	<u>119,577</u>	<u>112,787</u>
	<u>1,499,973</u>	<u>1,488,084</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	296,381	310,174
Supplies and other expenses	<u>90,169</u>	<u>87,788</u>
	<u>386,550</u>	<u>397,962</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	<u>29,883</u>	<u>25,445</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Supplies and other expenses	<u>610,554</u>	<u>483,287</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	175,515	184,260
Medical specialist fees	175,381	180,127
Supplies and other expenses	<u>9,912</u>	<u>14,162</u>
	<u>360,808</u>	<u>378,549</u>
<b>LABORATORY</b>		
Salaries and wages	348,146	328,833
Supplies and other expenses	<u>431,381</u>	<u>412,603</u>
	<u>779,527</u>	<u>741,436</u>
<b>RADIOLOGY</b>		
Salaries and wages	232,350	235,061
Professional fees	391,032	353,360
Supplies and other expenses	<u>272,694</u>	<u>288,937</u>
	<u>896,076</u>	<u>877,358</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	2,792	3,340
Medical specialist fees	77,840	69,298
Supplies and other expenses	<u>118</u>	<u>245</u>
	<u>80,750</u>	<u>72,883</u>

(continued)

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PHARMACY</b>		
Salaries and wages	\$ 35	\$ -
Drugs	666,770	675,440
Supplies and other expenses	<u>111,961</u>	<u>97,469</u>
	<u>778,766</u>	<u>772,909</u>
<b>ANESTHESIOLOGY</b>		
Salaries and wages	331,077	245,317
Supplies and other expenses	<u>12,943</u>	<u>99,114</u>
	<u>344,020</u>	<u>344,431</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	114,342	117,539
Supplies and other expenses	<u>1,535</u>	<u>907</u>
	<u>115,877</u>	<u>118,446</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	63,329	63,829
Supplies and other expenses	<u>445,005</u>	<u>350,568</u>
	<u>508,334</u>	<u>414,397</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>238,208</u>	<u>185,793</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>29,512</u>	<u>27,339</u>
<b>CARDIAC REHABILITATION</b>		
Salaries and wages	31,115	33,173
Supplies and other expenses	<u>2,428</u>	<u>2,557</u>
	<u>33,543</u>	<u>35,730</u>
<b>CHEMOTHERAPY</b>		
Salaries and wages	8,535	10,308
Supplies and other expenses	<u>842</u>	<u>842</u>
	<u>9,377</u>	<u>11,150</u>
<b>AMBULANCE SERVICE</b>		
Salaries and wages	104,169	100,960
Supplies and other expenses	<u>4,719</u>	<u>8,243</u>
	<u>108,888</u>	<u>109,203</u>
<b>WEEKEND CLINIC</b>		
Salaries and wages	7,651	8,342
Supplies and other expenses	<u>35,516</u>	<u>36,115</u>
	<u>43,167</u>	<u>44,457</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OUTPATIENT CLINIC</b>		
Salaries and wages	<u>37,081</u>	<u>38,477</u>
<b>COMMUNITY AND HOME CARE</b>		
Salaries and wages	782,397	798,348
Supplies and other expenses	<u>117,743</u>	<u>95,899</u>
	<u>900,140</u>	<u>894,247</u>
<b>NUTRITION INSTRUCTION</b>		
Salaries and wages	49,912	47,836
Supplies and other expenses	<u>5,873</u>	<u>9,056</u>
	<u>55,785</u>	<u>56,892</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	153,273	166,345
Supplies and other expenses	<u>92,916</u>	<u>30,651</u>
	<u>246,189</u>	<u>196,996</u>
<b>DIETARY</b>		
Salaries and wages	223,780	222,217
Food	46,496	45,508
Supplies and other expenses	<u>12,164</u>	<u>10,629</u>
	<u>282,440</u>	<u>278,354</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	153,655	155,224
Utilities	124,237	125,168
Supplies and other expenses	<u>96,362</u>	<u>90,194</u>
	<u>374,254</u>	<u>370,586</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	336,422	346,772
Supplies and other expenses	<u>31,285</u>	<u>37,898</u>
	<u>367,707</u>	<u>384,670</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	49,228	48,538
Supplies and other expenses	<u>15,068</u>	<u>22,057</u>
	<u>64,296</u>	<u>70,595</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	678,674	688,388
Auditing and accounting fees	37,270	32,470
Collection fees	80,891	62,591
Telephone	35,636	32,042
Supplies and other expenses	<u>269,462</u>	<u>255,777</u>
	<u>1,101,933</u>	<u>1,071,268</u>

(continued)

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
UNASSIGNED EXPENSES		
Depreciation	\$ 599,739	\$ 542,614
Amortization	7,530	17,492
Insurance	57,015	54,506
Employee benefits		
FICA	398,788	400,015
IPERS	383,374	356,847
Group health insurance	1,072,674	995,176
Workers' compensation insurance	97,454	77,526
Other	80,070	84,958
	<u>2,696,644</u>	<u>2,529,134</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 13,122,739</u>	 <u>\$ 12,558,830</u>

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,**  
**AND COLLECTION STATISTICS**  
**JUNE 30, 2010 AND 2009**

**ANALYSIS OF AGING**

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
<b>DAYS SINCE DISCHARGE</b>				
0 to 30 days	\$ 1,734,422	47%	\$ 1,678,507	42%
1 to 2 months	817,511	22%	902,699	22%
2 to 3 months	305,631	8%	442,527	11%
3 to 6 months	361,663	10%	505,622	13%
6 months and over	465,105	13%	500,993	12%
	<u>3,684,332</u>	<u>100%</u>	<u>4,030,348</u>	<u>100%</u>
Less: Allowance for doubtful accounts	(765,655)		(607,079)	
Allowance for contractual adjustments	<u>(522,202)</u>		<u>(535,202)</u>	
	<u>\$ 2,396,475</u>		<u>\$ 2,888,067</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
BALANCE, BEGINNING OF YEAR	\$ 607,079	\$ 473,349
Add: Provision for bad debts	792,441	645,983
Recoveries of accounts written off	95,359	116,310
Less: Accounts written off	<u>(729,224)</u>	<u>(628,563)</u>
BALANCE, END OF YEAR	<u>\$ 765,655</u>	<u>\$ 607,079</u>

	<u>2010</u>	<u>2009</u>
<b>COLLECTION STATISTICS</b>		
Net accounts receivable - patients	\$ 2,396,475	\$ 2,888,067
Number of days charges outstanding (1)	69	84
Uncollectible accounts (2)	\$ 1,111,447	\$ 833,813
Percentage of uncollectible accounts to total charges	5.92%	4.77%

(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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>SUPPLIES</b>		
Central stores	\$ 103,048	\$ 108,301
Pharmacy	98,826	108,500
Laboratory	29,737	60,157
Radiology	7,089	9,950
	<u>          </u>	<u>          </u>
Total supplies	<u>\$ 238,700</u>	<u>\$ 286,908</u>
 <b>PREPAID EXPENSE</b>		
Physician relocation contracts	\$ 18,101	\$ 36,227
Maintenance contracts	37,155	40,419
Insurance	128,870	119,608
Dues	4,387	4,288
	<u>          </u>	<u>          </u>
Total prepaid expense	<u>\$ 188,513</u>	<u>\$ 200,542</u>

**VETERANS MEMORIAL HOSPITAL**  
**SCHEDULE OF INSURANCE IN FORCE AT JUNE 30, 2010**

<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	\$ 12,504	12/2/10
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	\$ 38,379	12/2/10
Farm Bureau Mutual Insurance Co. #7256313	Workers' compensation	\$ 500,000	\$ 79,001	4/1/11
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 6,900	3/4/11

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PATIENT DAYS</b>		
Acute		
Adults and pediatrics	<b>1,564</b>	1,807
Newborn	<b>211</b>	190
Swing-bed		
Skilled	<b>1,261</b>	1,142
Respite	<b>2</b>	1
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENT OF OCCUPANCY (excluding newborn)</b>	<b>31%</b>	32%
<b>DISCHARGES</b>		
Acute	<b>720</b>	795
Swing-bed	<b>148</b>	124
<b>AVERAGE LENGTH OF STAY</b>		
Acute (excluding newborn)	<b>2.17</b>	2.27
Swing-bed	<b>8.53</b>	9.22
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Acute		
Private rooms	<b>\$ 750.00</b>	\$ 685.00
2-bed rooms	<b>725.00</b>	685.00
Nursery	<b>585.00</b>	550.00
Skilled care	<b>240.00</b>	215.00

**VETERANS MEMORIAL HOSPITAL  
SCHEDULES OF ANALYSIS OF SINKING FUND  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 49,966	\$ 55,119
Add: Deposits	276,136	275,847
Less: Withdrawals	<u>(265,000)</u>	<u>(281,000)</u>
Balance, end of year	<u>\$ 61,102</u>	<u>\$ 49,966</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.



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

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The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the accompanying balance sheets of Veterans Memorial Hospital as of June 30, 2010 and 2009, 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 18, 2010. 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 an 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. 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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
August 18, 2010

**VETERANS MEMORIAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2010**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-10      Segregation of Duties

Criteria – One important aspect of internal control 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-10      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 control 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, 2010**

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**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 year-end 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-10 Certified Budget – Expenditures during the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 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-10 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, 2010**

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

- II-D-10     Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
  
- II-E-10     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
  
- II-F-10     Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.



The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

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We have audited the financial statements of Veterans Memorial Hospital for the year ended June 30, 2010. 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 June 18, 2010. 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, 2010. 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 loss levels and an analysis of the collectability of individual accounts.

Estimated Third-Party Payor Settlements – Management's 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.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility 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. Management has corrected all such misstatements.

We discussed all adjustments to the financial statements with management during the audit. The following adjustments were made during the 2010 audit, with adjustments equal to or greater than \$10,000 listed separately:

To adjust estimated third-party payor settlements	\$	78,958
To adjust capital lease interest		12,005
To reclassify contributions restricted for equipment		(21,600)
To adjust employee benefit expense		(24,657)
To adjust home health receivable amounts		(41,215)
Other adjustments		(29,530)

The net effect of the adjustments was to decrease net assets by \$26,039.

*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 18, 2010.

*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.

This information is intended solely for the use of the Finance Committee, Board of Trustees, and management of Veterans Memorial Hospital and is not intended to be and should not be used by anyone other than these specified parties.

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

A handwritten signature in cursive script that reads "Eric Sully LLP".

Dubuque, Iowa  
August 18, 2010

xc: Mr. Michael Myers



The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

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In planning and performing our audit of the financial statements of Veterans Memorial Hospital as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Hospital's internal control to be significant deficiencies:

#### Preparation of Financial Statements

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 control 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 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. 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. The effect of this condition is that the year-end 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.

#### Segregation of Duties

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

This communication 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, 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.



Dubuque, Iowa  
August 18, 2010

xc: Mr. Michael Myers