



Financial Statements  
June 30, 2011 and 2010

# Veterans Memorial Hospital

Board of Trustees and Hospital Officials.....	1
Independent Auditor’s Report.....	2
Management’s Discussion and Analysis.....	4
Basic Financial Statements	
Balance Sheets .....	10
Statements of Revenues, Expenses, and Changes in Net Assets .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements.....	14
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Accrual Basis).....	26
Notes to Required Supplementary Information – Budgetary Reporting.....	27
Independent Auditor’s Report on Supplementary Information .....	28
Other Supplementary Information	
Schedules of Net Patient Service Revenue .....	29
Schedules of Other Operating Revenues .....	31
Schedules of Operating Expenses.....	32
Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited) ...	36
Schedules of Supplies and Prepaid Expense.....	37
Schedule of Insurance in Force at June 30, 2011 (Unaudited).....	38
Schedules of Statistical Information (Unaudited).....	39
Schedules of Analysis of Sinking Fund .....	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	41
Schedule of Findings and Responses .....	43

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	



## 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, 2011 and 2010, 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, 2011 and 2010, 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 September 6, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Eide Bailly LLP*

Dubuque, Iowa  
September 6, 2011

This discussion and analysis of the financial performance of Veterans Memorial Hospital provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

### **Overview of the Financial Statements**

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

### **Financial Highlights**

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$11,692,570, total liabilities of \$3,046,360, and net assets of \$8,646,210.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total net patient service revenue of \$ 12,905,549, an increase of 0.7% over the previous fiscal year, total operating expenses of \$13,067,859, a decrease of 0.4% from the previous fiscal year. The result is a gain from operations of \$258,374, a 52.4% increase from the previous year. A net non-operating loss of \$76,797 brings the excess of revenues over expenses to \$181,577, a 3.6% increase from the previous fiscal year.
- The Hospital's current assets exceeded its current liabilities by \$1,187,424 at June 30, 2011, providing a 1.8 current ratio.
- The Hospital recorded an excess of revenues over expenses for fiscal year ending June 30, 2011, amounting to \$181,577.
- Gross outpatient charges increased 6.2% during fiscal year 2011.
- Total operating expenses decreased 0.4% from the previous fiscal year.
- Net days in accounts receivable continue to be very favorable at 59 at June 30, 2011.
- Total patient days and cardiac rehab visits amount to:
  - 1,742 - Acute Care (11% increase)
  - 939 - SNF Care (26% decrease)
  - 1,118 - Cardiac Rehab visits (28% increase)

### **Organization Highlights**

The organization continued to make many positive changes over this last fiscal year, including:

- Signed contract with IFMC – HIT Regional Extension Center to assist in attaining meaningful use
- Assets limited as to use or restricted increased from \$1,800,000 to \$3,100,000
- High Press Ganey results allowed us to win the Summit award for high customer satisfaction
- We purchased a new sterilizer system for surgery and initiated installing new radiology equipment
- Veterans Memorial Hospital has a direct connection to the Iowa Communications Network to enhance distance learning

**Condensed Financial Statements**

*Balance Sheets*

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 91,271	\$ 345,053	\$ 15,292
Assets limited as to use or restricted	77,712	61,102	49,966
Receivables			
Patient, net of estimated uncollectibles	2,069,492	2,396,475	2,888,067
Estimated third-party payor settlements	-	175,000	-
Other	35,661	50,930	37,990
Other assets	<u>425,146</u>	<u>427,213</u>	<u>487,450</u>
Total current assets	<u>2,699,282</u>	<u>3,455,773</u>	<u>3,478,765</u>
Assets Limited as to Use or Restricted	<u>3,020,026</u>	<u>1,734,520</u>	<u>1,374,860</u>
Capital Assets, net	<u>5,945,130</u>	<u>6,256,133</u>	<u>6,374,811</u>
Other Assets			
Deferred financing costs	26,294	35,027	45,528
Gift fund investments	<u>1,838</u>	<u>1,811</u>	<u>1,777</u>
Total other assets	<u>28,132</u>	<u>36,838</u>	<u>47,305</u>
Total assets	<u>\$ 11,692,570</u>	<u>\$ 11,483,264</u>	<u>\$ 11,275,741</u>

**Condensed Financial Statements**

*Balance Sheets (continued)*

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 266,148	\$ 275,067	\$ 220,418
Accounts payable			
Trade	326,992	398,978	308,582
Estimated third-party payor settlements	301,000	-	117,920
Accrued expenses	<u>617,718</u>	<u>619,209</u>	<u>584,910</u>
Total current liabilities	1,511,858	1,293,254	1,231,830
Long-Term Debt, Less Current Maturities	<u>1,534,502</u>	<u>1,800,648</u>	<u>1,851,484</u>
Total liabilities	<u>3,046,360</u>	<u>3,093,902</u>	<u>3,083,314</u>
Net Assets			
Invested in capital assets, net of related debt	4,144,480	4,180,418	4,302,909
Restricted for debt service	77,712	61,102	49,966
Unrestricted	<u>4,424,018</u>	<u>4,147,842</u>	<u>3,839,552</u>
Total net assets	<u>8,646,210</u>	<u>8,389,362</u>	<u>8,192,427</u>
Total liabilities and net assets	<u>\$ 11,692,570</u>	<u>\$ 11,483,264</u>	<u>\$ 11,275,741</u>

Veterans Memorial Hospital  
Management's Discussion and Analysis  
June 30, 2011 and 2010

*Statements of Revenues, Expenses, and Changes in Net Assets*

	Year Ended June 30,		
	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 12,905,549	\$ 12,816,156	\$ 12,129,570
Other operating revenues	420,684	476,089	519,117
Total Operating Revenues	<u>13,326,233</u>	<u>13,292,245</u>	<u>12,648,687</u>
Operating Expenses			
Salaries and wages	5,788,014	5,708,645	5,666,833
Supplies and other expenses	6,388,921	6,553,604	6,082,466
Medical specialist fees	280,404	253,221	249,425
Depreciation and amortization	610,520	607,269	560,106
Total Operating Expenses	<u>13,067,859</u>	<u>13,122,739</u>	<u>12,558,830</u>
Operating Income	<u>258,374</u>	<u>169,506</u>	<u>89,857</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	2,655	96,023	2,133
Investment income	33,141	31,013	38,679
Payment of interest on debt	(112,593)	(121,206)	(115,590)
Net Nonoperating Revenues (Expenses)	<u>(76,797)</u>	<u>5,830</u>	<u>(74,778)</u>
Revenues in Excess of Expenses	181,577	175,336	15,079
Other Changes in Net Assets	<u>75,271</u>	<u>21,599</u>	<u>-</u>
Increase in Net Assets	256,848	196,935	15,079
Net Assets Beginning of Year	<u>8,389,362</u>	<u>8,192,427</u>	<u>8,177,348</u>
Net Assets End of Year	<u><u>\$ 8,646,210</u></u>	<u><u>\$ 8,389,362</u></u>	<u><u>\$ 8,192,427</u></u>

### **Capital Assets**

Veterans Memorial Hospital completed an extensive renovation on the obstetrics department, including a water birthing tub. We also initiated a master planning process with an architect. This includes future plans for a second operating room and in-house MRI equipment.

### **Long-Term Debt**

At year end, Veterans Memorial Hospital had \$1,800,650 in long-term debt. A majority of the debt was incurred in 1998 for an extensive renovation of inpatient areas and addition of outpatient areas.

### **Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considered many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments

### **Summary**

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 130 employees provides to every person they serve. We would also like to thank each member of the Medical Staff for their dedication and support provided.

### **Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Veterans Memorial Hospital  
Attn: Scott Knode  
Golf View Addition  
40 First Street SE  
Waukon, IA 52172

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 91,271	\$ 345,053
Assets limited as to use or restricted - Note 4	77,712	61,102
Receivables		
Patient, net of estimated uncollectibles of \$1,352,000 in 2011 and \$1,288,000 in 2010	2,069,492	2,396,475
Estimated third-party payor settlements	-	175,000
Other	35,661	50,930
Supplies	243,173	238,700
Prepaid expense	181,973	188,513
Total current assets	<u>2,699,282</u>	<u>3,455,773</u>
Assets Limited as to Use or Restricted - Note 4		
Investments		
Designated by board for capital improvements	3,020,026	1,734,520
Restricted under indenture agreement	77,712	61,102
	<u>3,097,738</u>	<u>1,795,622</u>
Less amount required to meet current obligations	<u>(77,712)</u>	<u>(61,102)</u>
Total assets limited as to use or restricted, excluding current portion	<u>3,020,026</u>	<u>1,734,520</u>
Capital Assets - Note 5		
Capital assets not being depreciated	640,855	598,404
Depreciable capital assets, net of accumulated depreciation	5,304,275	5,657,729
Total capital assets, net	<u>5,945,130</u>	<u>6,256,133</u>
Other Assets		
Gift fund investments - Note 4	1,838	1,811
Deferred financing costs, net of accumulated amortization of \$141,112 in 2011 and \$132,379 in 2010	26,294	35,027
Total other assets	<u>28,132</u>	<u>36,838</u>
Total assets	<u>\$ 11,692,570</u>	<u>\$ 11,483,264</u>

See Notes to Financial Statements

Veterans Memorial Hospital  
Balance Sheets  
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 266,148	\$ 275,067
Accounts payable		
Trade	326,992	398,978
Estimated third-party payor settlements	301,000	-
Accrued expenses		
Salaries and wages	184,286	165,455
Vacation	382,662	379,368
Payroll taxes and other	36,057	58,068
Interest	14,713	16,318
Total current liabilities	1,511,858	1,293,254
Long-Term Debt, Less Current Maturities - Note 7	1,534,502	1,800,648
Total liabilities	3,046,360	3,093,902
Net Assets		
Invested in capital assets, net of related debt	4,144,480	4,180,418
Restricted		
Expendable for debt service	77,712	61,102
Unrestricted	4,424,018	4,147,842
Total net assets	8,646,210	8,389,362
Total liabilities and net assets	\$ 11,692,570	\$ 11,483,264

Veterans Memorial Hospital  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$733,970 in 2011 and \$792,441 in 2010) - Notes 2 and 3	\$ 12,905,549	\$ 12,816,156
Other operating revenues	420,684	476,089
Total Operating Revenues	13,326,233	13,292,245
Operating Expenses		
Salaries and wages	5,788,014	5,708,645
Medical specialist fees	280,404	253,221
Supplies and other expenses	6,388,921	6,553,604
Depreciation and amortization	610,520	607,269
Total Operating Expenses	13,067,859	13,122,739
Operating Income	258,374	169,506
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	2,655	96,023
Investment income	33,141	31,013
Payment of interest on debt	(112,593)	(121,206)
Net Nonoperating Revenues (Expenses)	(76,797)	5,830
Revenues in Excess of Expenses	181,577	175,336
Other Changes in Net Assets		
Capital grants and contributions	75,271	21,599
Increase in Net Assets	256,848	196,935
Net Assets, Beginning of Year	8,389,362	8,192,427
Net Assets, End of Year	\$ 8,646,210	\$ 8,389,362

Veterans Memorial Hospital  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 13,708,532	\$ 13,014,828
Other receipts	435,953	463,149
Payments of salaries and wages	(5,787,900)	(5,671,599)
Payments of medical specialist fees	(280,404)	(253,221)
Payments of supplies and other expenses	(6,458,840)	(6,402,971)
	1,617,341	1,150,186
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	2,655	96,023
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(290,784)	(478,090)
Capital grants and contributions received	75,271	21,599
Proceeds from issuance of long-term debt	-	257,900
Payment of interest on debt	(114,198)	(123,953)
Payment of principal on debt	(275,065)	(254,087)
	(604,776)	(576,631)
Cash Flows from Investing Activities		
Increase in gift fund investments	(27)	(34)
Sale of investments	(52,116)	(370,796)
Purchase of investments	(1,250,000)	-
Investment income received	33,141	31,013
	(1,269,002)	(339,817)
Net Increase (Decrease) in Cash and Cash Equivalents	(253,782)	329,761
Cash and Cash Equivalents at Beginning of Year	345,053	15,292
Cash and Cash Equivalents at End of Year	\$ 91,271	\$ 345,053

Veterans Memorial Hospital  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 258,374	\$ 169,506
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	610,520	607,269
Provision for bad debts	733,970	792,441
Changes in assets and liabilities		
Receivables	(391,718)	(313,789)
Supplies	(4,473)	48,208
Prepaid expense	6,540	12,029
Accounts payable	(71,986)	90,396
Estimated third-party payor settlements	476,000	(292,920)
Accrued expenses	114	37,046
Net Cash Provided by Operating Activities	\$ 1,617,341	\$ 1,150,186

## 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*
  - Expendable* – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
  - Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- *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.

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 (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.

The Hospital uses enterprise fund accounting. Revenues are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply the provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

### **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.

### **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 asset 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 cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets 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 \$44,123 and \$34,819 for advertising costs for the years ended June 30, 2011 and 2010, 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 projected vacation payouts is recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2011 and 2010.

## **Operating Revenues and Expenses**

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

## **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

## **Charity Care**

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is 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 September 6, 2011, the date which the financial statements were available to be issued.

## **Reclassifications**

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

## **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 \$263,114 and \$238,115 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, were \$168,000 and \$160,000, 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, 2009.

**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, 2008.

**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.

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 53% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011, and 54% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010. The net patient service revenue for the years ended June 30, 2011 and 2010, increased approximately \$218,000 and \$71,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	\$ 19,486,988	\$ 18,537,351
Contractual Adjustments		
Medicare	(3,296,599)	(2,827,229)
Medicaid	(669,975)	(521,148)
Blue Cross	(816,329)	(675,946)
Other	(1,064,566)	(904,431)
Total contractual adjustments	(5,847,469)	(4,928,754)
Net Patient Service Revenue	13,639,519	13,608,597
Provision for Bad Debts	(733,970)	(792,441)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 12,905,549	\$ 12,816,156

#### **Note 4 - Cash and Deposits**

The Hospital's deposits in banks at June 30, 2011 and 2010, 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, 2011 and 2010, the Hospital's carrying amounts of cash and deposits are as follows:

	2011	2010
Money Market Accounts	\$ 1,092,090	\$ 1,041,762
Certificates of Deposits	2,000,000	750,000
Accrued Interest Receivable	7,486	5,671
	\$ 3,099,576	\$ 1,797,433
Included in the Following Balance Sheet Captions:		
Assets limited as to use or restricted	\$ 3,097,738	\$ 1,795,622
Gift fund investments	1,838	1,811
	\$ 3,099,576	\$ 1,797,433

All of the above cash and deposits have a maturity date of less than a year.

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, 2011 and 2010, was as follows:

Veterans Memorial Hospital  
Notes to Financial Statements  
June 30, 2011 and 2010

	June 30, 2010			June 30, 2011
	<u>Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 569,921	\$ -	\$ -	\$ 569,921
Construction in progress	28,483	129,962	(87,511)	70,934
Total capital assets not being depreciated	<u>598,404</u>	<u>129,962</u>	<u>(87,511)</u>	<u>640,855</u>
Capital Assets Being Depreciated				
Land Improvements	152,773	-	2,250	155,023
Buildings and leasehold improvements	8,627,614	-	85,261	8,712,875
Equipment	4,267,114	160,822	-	4,427,936
Total capital assets being depreciated	<u>13,047,501</u>	<u>160,822</u>	<u>87,511</u>	<u>13,295,834</u>
Less Accumulated Depreciation for:				
Land improvements	122,295	5,470	-	127,765
Buildings and leasehold improvements	4,056,092	291,327	-	4,347,419
Equipment	3,211,385	304,990	-	3,516,375
Total accumulated depreciation	<u>7,389,772</u>	<u>601,787</u>	<u>-</u>	<u>7,991,559</u>
Total Capital Assets Being Depreciated, Net	<u>5,657,729</u>	<u>(440,965)</u>	<u>87,511</u>	<u>5,304,275</u>
Total Capital Assets, Net	<u>\$ 6,256,133</u>	<u>\$ (311,003)</u>	<u>\$ -</u>	<u>\$ 5,945,130</u>
	June 30, 2009			June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 569,921	\$ -	\$ -	\$ 569,921
Construction in progress	26,036	23,575	(21,128)	28,483
Total capital assets not being depreciated	<u>595,957</u>	<u>23,575</u>	<u>(21,128)</u>	<u>598,404</u>
Capital Assets Being Depreciated				
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
Total capital assets being depreciated	<u>12,568,887</u>	<u>457,486</u>	<u>21,128</u>	<u>13,047,501</u>
Less Accumulated Depreciation for:				
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
Total accumulated depreciation	<u>6,790,033</u>	<u>599,739</u>	<u>-</u>	<u>7,389,772</u>
Total Capital Assets Being Depreciated, Net	<u>5,778,854</u>	<u>(142,253)</u>	<u>21,128</u>	<u>5,657,729</u>
Total Capital Assets, Net	<u>\$ 6,374,811</u>	<u>\$ (118,678)</u>	<u>\$ -</u>	<u>\$ 6,256,133</u>

Construction in progress at June 30, 2011, consists of costs related to various projects, including an ICN project, a radiology project, and an elevator project. The ICN project, which is mostly completed as of June 30, 2011, consists of approximately \$27,000 and is expected to be completed in the fall of 2011. The radiology project consists of approximately \$10,000. Total expected cost of the radiology project, including new x-ray equipment, is approximately \$250,000. The project has an estimated completion date of July 2012. The elevator project consists of approximately \$25,000. The elevator project is expected to be completed in September 2011, with a total expected cost of \$230,000. The Hospital will finance these projects through operations.

**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, 2011 and 2010, was \$283,252 and \$339,207, respectively. The capitalized leased assets consist of:

	2011	2010
Major Movable Equipment and Construction in Progress	\$ 343,467	\$ 343,467
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	(107,558)	(45,982)
	\$ 235,909	\$ 297,485

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

Year Ending June 30,	Capital Leases	Operating Leases
2012	\$ 78,613	\$ 15,280
2013	70,318	15,280
2014	59,359	3,367
2015	19,580	-
Total Minimum Lease Payments	227,870	\$ 33,927
Less interest	(20,313)	
Present Value of Minimum Lease Payments - Note 7	\$ 207,557	

**Note 7 - Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for 2011 and 2010 follows:

	June 30 2010 Balance	Additions	Payments	June 30 2011 Balance	Amounts Due Within One Year
1998 Revenue Bonds, 4.25% to 5.60%, Principal Maturing in Varying Annual Amounts to May 2018, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 1,765,000	\$ -	\$ 180,000	\$ 1,585,000	\$ 190,000
Note Payable, 7.00%, Due in Monthly Payments of \$2,729, to September 2011, Secured by Equipment	39,087	-	30,994	8,093	8,093
Capitalized Lease Obligations - Note 6	271,628	-	64,071	207,557	68,055
	<u>\$ 2,075,715</u>	<u>\$ -</u>	<u>\$ 275,065</u>	1,800,650	<u>\$ 266,148</u>
Less current maturities				(266,148)	
Long-term debt, less current maturities				<u>\$ 1,534,502</u>	
	June 30 2009 Balance	Additions	Payments	June 30 2010 Balance	Amounts Due Within One Year
1998 Revenue Bonds, 4.25% to 5.60%, Principal Maturing in Varying Annual Amounts to May 2018, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 1,940,000	\$ -	\$ 175,000	\$ 1,765,000	\$ 180,000
Note Payable, 7.00%, 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	63,910	257,900	50,182	271,628	64,073
	<u>\$ 2,071,902</u>	<u>\$ 257,900</u>	<u>\$ 254,087</u>	2,075,715	<u>\$ 275,067</u>
Less current maturities				(275,067)	
Long-term debt, less current maturities				<u>\$ 1,800,648</u>	

Long-term debt maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 266,148	\$ 98,928	\$ 365,076
2013	263,813	84,425	348,238
2014	271,353	69,926	341,279
2015	244,336	55,124	299,460
2016	240,000	42,280	282,280
2017-2018	515,000	43,680	558,680
	<u>\$ 1,800,650</u>	<u>\$ 394,363</u>	<u>\$ 2,195,013</u>

#### **Note 8 - Pension and Retirement Benefits**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Hospital is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Hospital was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute.

The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$402,628, \$383,374, and \$356,847, 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.

**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, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	38%	39%
Medicaid	7%	6%
Commercial Insurance	31%	32%
Other Third-Party Payors and Patients	<u>24%</u>	<u>23%</u>
	<u>100%</u>	<u>100%</u>



Required Supplementary Information  
June 30, 2011

# Veterans Memorial Hospital

Veterans Memorial Hospital  
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual  
 (Accrual Basis)  
 Required Supplementary Information  
 Year Ended June 30, 2011

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	<u>Actual Accrual Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues	\$ 13,437,300	\$ 17,036,446	\$ (3,599,146)
Expenses	<u>13,180,452</u>	<u>16,766,146</u>	<u>3,585,694</u>
Net	256,848	270,300	<u>\$ (13,452)</u>
Balance, Beginning of Year	<u>8,389,362</u>	<u>8,455,153</u>	
Balance, End of Year	<u>\$ 8,646,210</u>	<u>\$ 8,725,453</u>	

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, 2011.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amount budgeted.



Other Supplementary Information  
June 30, 2011 and 2010

## Veterans Memorial Hospital



## 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 as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables, allowance for doubtful accounts, collection statistics, supplies and prepaid expense, insurance, statistical information, and analysis of sinking fund are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenues, operating expenses, supplies and prepaid expense, and analysis of sinking fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, collection statistics, insurance, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Eide Bailly LLP*

Dubuque, Iowa  
September 6, 2011

Veterans Memorial Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2011 and 2010

	2011	2010
Patient Service Revenue		
Routine services		
Adults and pediatrics	\$ 1,503,386	\$ 1,306,964
Nursery	143,840	123,435
Skilled care	234,750	303,120
Respite	3,420	-
Hospice	65,010	14,975
Observation	332,787	323,360
Same day surgery	47,550	47,320
Operating and recovery rooms	1,151,412	1,151,086
Delivery and labor rooms	137,830	137,940
Central services and supply	1,627,072	1,699,353
Intravenous solutions	538,932	503,119
Emergency services	708,468	642,920
Laboratory	2,254,989	2,102,390
Radiology	3,166,434	3,015,788
Electrocardiology	290,439	322,234
Pharmacy	3,139,305	2,826,029
Anesthesiology	485,977	499,040
Respiratory therapy	167,007	154,978
Physical therapy	1,211,613	1,283,516
Occupational therapy	523,609	494,353
Speech therapy	70,989	45,988
Cardiac rehabilitation	246,370	182,189
Ambulance service	421,435	352,222
Weekend clinic	239,264	217,772
Community and home care	1,009,066	993,655
Nutrition instruction	29,148	31,720
	19,750,102	18,775,466
Charity care	(263,114)	(238,115)
Total patient service revenue*	19,486,988	18,537,351
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	6,720,176	6,503,751
Outpatient revenue	13,029,926	12,271,715
Charity care	(263,114)	(238,115)
Total patient service revenue	19,486,988	18,537,351

Veterans Memorial Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Contractual Adjustments		
Medicare	\$ (3,296,599)	\$ (2,827,229)
Medicaid	(669,975)	(521,148)
Blue Cross	(816,329)	(675,946)
Other	<u>(1,064,566)</u>	<u>(904,431)</u>
Total contractual adjustments	<u>(5,847,469)</u>	<u>(4,928,754)</u>
Net Patient Service Revenue	13,639,519	13,608,597
Provision for Bad Debts	<u>(733,970)</u>	<u>(792,441)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u><u>\$ 12,905,549</u></u>	<u><u>\$ 12,816,156</u></u>

Veterans Memorial Hospital  
Schedules of Other Operating Revenues  
Years Ended June 30, 2011 and 2010

	2011	2010
Other Operating Revenues		
Community and home care clinics, etc.	\$ 132,446	\$ 144,260
County reimbursement - community and home care	100,000	100,000
Housekeeping	62,552	63,677
Rental - net of direct expenses	47,627	2,910
Grants	32,834	59,366
Cafeteria	12,920	14,186
Workshops, clinics, etc.	6,626	1,857
Gifts for operations	4,246	60,550
Laundry	2,567	2,412
Medical records copies	1,550	1,700
Vending machines	1,261	1,207
Healthy Lifestyle Center	920	2,090
Contract physical therapy	61	1,404
Other	15,074	20,470
	\$ 420,684	\$ 476,089
Total Other Operating Revenues		

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Nursing Administration		
Salaries and wages	\$ 115,473	\$ 118,507
Supplies and other expenses	29,066	23,950
	<u>144,539</u>	<u>142,457</u>
Routine Services		
Salaries and wages	1,450,164	1,380,396
Supplies and other expenses	136,547	119,577
	<u>1,586,711</u>	<u>1,499,973</u>
Operating and Recovery Rooms		
Salaries and wages	301,547	296,381
Supplies and other expenses	115,103	90,169
	<u>416,650</u>	<u>386,550</u>
Delivery and Labor Rooms		
Salaries and wages	30,287	29,883
	<u>30,287</u>	<u>29,883</u>
Central Services and Supply		
Supplies and other expenses	536,288	610,554
	<u>536,288</u>	<u>610,554</u>
Emergency Services		
Salaries and wages	198,182	175,515
Medical specialist fees	204,806	175,381
Supplies and other expenses	19,260	9,912
	<u>422,248</u>	<u>360,808</u>
Laboratory		
Salaries and wages	352,411	348,146
Supplies and other expenses	361,206	431,381
	<u>713,617</u>	<u>779,527</u>
Radiology		
Salaries and wages	228,552	232,350
Professional fees	387,991	391,032
Supplies and other expenses	243,269	272,694
	<u>859,812</u>	<u>896,076</u>
Electrocardiology		
Salaries and wages	2,871	2,792
Medical specialist fees	75,598	77,840
Supplies and other expenses	220	118
	<u>78,689</u>	<u>80,750</u>

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Pharmacy		
Salaries and wages	\$ -	\$ 35
Drugs	624,391	666,770
Supplies and other expenses	117,887	111,961
	<u>742,278</u>	<u>778,766</u>
Anesthesiology		
Salaries and wages	316,272	331,077
Supplies and other expenses	10,275	12,943
	<u>326,547</u>	<u>344,020</u>
Respiratory Therapy		
Salaries and wages	119,936	114,342
Supplies and other expenses	794	1,535
	<u>120,730</u>	<u>115,877</u>
Physical Therapy		
Salaries and wages	71,595	63,329
Supplies and other expenses	414,532	445,005
	<u>486,127</u>	<u>508,334</u>
Occupational Therapy		
Supplies and other expenses	244,423	238,208
	<u>244,423</u>	<u>238,208</u>
Speech Therapy		
Supplies and other expenses	48,383	29,512
	<u>48,383</u>	<u>29,512</u>
Cardiac Rehabilitation		
Salaries and wages	34,590	31,115
Supplies and other expenses	6,873	2,428
	<u>41,463</u>	<u>33,543</u>
Chemotherapy		
Salaries and wages	4,946	8,535
Supplies and other expenses	840	842
	<u>5,786</u>	<u>9,377</u>
Ambulance Service		
Salaries and wages	102,478	104,169
Supplies and other expenses	12,265	4,719
	<u>114,743</u>	<u>108,888</u>
Weekend Clinic		
Salaries and wages	9,063	7,651
Supplies and other expenses	33,469	35,516
	<u>42,532</u>	<u>43,167</u>

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Outpatient Clinic		
Salaries and wages	\$ 35,299	\$ 37,081
Supplies and other expenses	958	-
	<u>36,257</u>	<u>37,081</u>
Community and Home Care		
Salaries and wages	754,537	782,397
Supplies and other expenses	111,015	117,743
	<u>865,552</u>	<u>900,140</u>
Nutrition Instruction		
Salaries and wages	50,327	49,912
Supplies and other expenses	9,713	5,873
	<u>60,040</u>	<u>55,785</u>
Medical Records		
Salaries and wages	144,464	153,273
Supplies and other expenses	35,773	92,916
	<u>180,237</u>	<u>246,189</u>
Dietary		
Salaries and wages	234,867	223,780
Food	47,999	46,496
Supplies and other expenses	8,724	12,164
	<u>291,590</u>	<u>282,440</u>
Plant Operation and Maintenance		
Salaries and wages	160,125	153,655
Utilities	132,216	124,237
Supplies and other expenses	98,726	96,362
	<u>391,067</u>	<u>374,254</u>
Housekeeping		
Salaries and wages	348,213	336,422
Supplies and other expenses	37,917	31,285
	<u>386,130</u>	<u>367,707</u>
Laundry and Linen		
Salaries and wages	51,200	49,228
Supplies and other expenses	22,444	15,068
	<u>73,644</u>	<u>64,296</u>
Administrative Services		
Salaries and wages	670,615	678,674
Auditing and accounting fees	32,155	37,270
Collection fees	76,529	80,891
Telephone	39,426	35,636
Supplies and other expenses	301,928	269,462
	<u>1,120,653</u>	<u>1,101,933</u>

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

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	2011	2010
Unassigned Expenses		
Depreciation	\$ 601,787	\$ 599,739
Amortization	8,733	7,530
Insurance	59,557	57,015
Employee benefits		
FICA	397,627	398,788
IPERS	402,628	383,374
Group health insurance	1,089,648	1,072,674
Workers' compensation insurance	89,957	97,454
Other	50,899	80,070
	2,700,836	2,696,644
 Total Operating Expenses	 \$ 13,067,859	 \$ 13,122,739

**Veterans Memorial Hospital**  
Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)  
June 30, 2011 and 2010

**Analysis of Aging**

	June 30, 2011		June 30, 2010	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
0 to 30 days	\$ 1,704,327	50%	\$ 1,734,422	47%
1 to 2 months	788,292	23%	817,511	22%
2 to 3 months	265,440	8%	305,631	8%
3 to 6 months	375,490	11%	361,663	10%
6 months and over	287,934	8%	465,105	13%
	3,421,483	<u>100%</u>	3,684,332	<u>100%</u>
Less: Allowance for Doubtful Accounts	(760,730)		(765,655)	
Allowance for Contractual Adjustments	(591,261)		(522,202)	
	<u>\$ 2,069,492</u>		<u>\$ 2,396,475</u>	

**Allowance for Doubtful Accounts  
Years Ended June 30, 2011 and 2010**

	2011	2010
Balance, Beginning of Year	\$ 765,655	\$ 607,079
Add: Provision for Bad Debts	733,970	792,441
Recoveries of Accounts Written Off	176,396	95,359
Less: Accounts Written Off	(915,291)	(729,224)
Balance, End of Year	<u>\$ 760,730</u>	<u>\$ 765,655</u>

	2011	2010
<b>Collection Statistics</b>		
Net accounts receivable - patients	\$ 2,069,492	\$ 2,396,475
Number of days charges outstanding (1)	55	69
Uncollectible accounts (2)	\$ 1,073,613	\$ 1,111,447
Percentage of uncollectible accounts to total charges	5.44%	5.92%

(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 and Prepaid Expense  
June 30, 2011 and 2010

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	2011	2010
Supplies		
Pharmacy	\$ 115,175	\$ 103,048
Central stores	96,613	98,826
Laboratory	25,279	29,737
Radiology	6,106	7,089
Total supplies	\$ 243,173	\$ 238,700
 Prepaid Expense		
Insurance	\$ 114,723	\$ 128,870
Maintenance contracts	55,599	37,155
Physician relocation contracts	6,954	18,101
Dues	4,697	4,387
Total prepaid expense	\$ 181,973	\$ 188,513

Veterans Memorial Hospital  
Schedule of Insurance in Force at June 30, 2011(Unaudited)

Company and Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
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	\$ 12,516	12/2/11
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	\$ 41,108	12/2/11
West Bend Mutual Insurance Co. AIJ 1424569-00	Workers' compensation	\$ 500,000	\$ 84,398	4/1/12
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 7,200	3/4/12

Veterans Memorial Hospital  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2011 and 2010

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	2011	2010
Patient Days		
Acute		
Adults and pediatrics	1,742	1,564
Newborn	232	211
Swing-bed		
Skilled	939	1,261
Respite	24	2
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	30%	31%
Discharges		
Acute	707	720
Swing-bed	142	148
Average Length of Stay		
Acute (excluding newborn)	2.46	2.17
Swing-bed (excluding respite)	6.61	8.53
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 785.00	\$ 750.00
2-bed rooms	760.00	725.00
Nursery	620.00	585.00
Skilled care	250.00	240.00

Veterans Memorial Hospital  
Schedules of Analysis of Sinking Fund  
Years Ended June 30, 2011 and 2010

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	2011	2010
Balance, Beginning of Year	\$ 61,102	\$ 49,966
Add: Deposits	294,610	293,136
Less: Withdrawals	(278,000)	(282,000)
Balance, End of Year	\$ 77,712	\$ 61,102

The Hospital is required to maintain a Sinking Fund under the requirements of its Series 1998 Hospital Revenue Bonds Agreement. The Sinking Fund is required to have sufficient deposits to cover the next principal and interest amounts coming due. The Hospital has sufficiently funded this requirement.



**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the accompanying balance sheets of Veterans Memorial Hospital as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 6, 2011. We conducted our audit 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, 2011, 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 Reponses. 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.



Dubuque, Iowa  
September 6, 2011

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

**Significant Deficiencies:**

**I-A-11 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-11 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).

**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-11 Certified Budget** – Expenditures during the year ended June 30, 2011, did not exceed the amount budgeted.
- II-B-11 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-11 Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-11 Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-11 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

**Part II: Other Findings Related to Required Statutory Reporting: (continued)**

**II-F-11**    **Deposits and Investments** – The Hospital exceeded limits within its depository resolution at certain times during the year ended June 30, 2011.

**Recommendation** – It is recommended that the Hospital monitor deposits at each bank to ensure deposits do not exceed the amount allowed by the current depository resolution. We also recommend evaluating the adequacy of the current maximum deposit amounts based on the existing cash and deposit balances.

**Response** – We will monitor cash balances and assess the adequacy of maximum depository amounts.

**Conclusion** – Response accepted.



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, 2011. 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 28, 2011. 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, 2011. 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 – 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 2011 audit, with adjustments equal to or greater than \$10,000 listed separately:

To adjust estimated third-party payor settlements	\$	54,000
To adjust home health accounts receivable		14,288
To adjust restricted contributions		(10,000)
To adjust long-term debt		(21,578)
Other adjustments		8,416

The net effect of the adjustments was to decrease net assets by \$45,126.

*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 September 6, 2011.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

*Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

*Other Matters*

Following are additional comments for informational purposes only:

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all “Covered Entities,” which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance and Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving the understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by:

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

#### Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

The Board of Trustees  
Veterans Memorial Hospital  
Page 5

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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive style with a large, stylized initial "E".

Dubuque, Iowa  
September 6, 2011

xc: Mr. Michael Myers