



Financial Statements  
June 30, 2012 and 2011

# Veterans Memorial Hospital

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Veterans Memorial Hospital  
Board of Trustees and Hospital Officials

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Dennis Lyons	Chairman of the Board	2015
David Stangeland	Vice Chairman	2015
Patty Fosaaen	Secretary	2013
Revelyn Lonning	Board Member	2013
Kevin Hanson	Board Member	2015
	<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 (Hospital) as of June 30, 2012 and 2011, 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 that 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 the Hospital as of June 30, 2012 and 2011, 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 14, 2012, on our consideration of Veterans Memorial Hospital's internal control over financial reporting and on 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 27 and 28 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 14, 2012

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, 2012, 2011, and 2010. 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, 2012, indicates total assets of \$12,249,356, total liabilities of \$2,837,942, and net assets of \$9,411,414.
- The Statements of Revenues, Expenses and Changes in Net Assets indicates total net patient service revenue of \$14,766,145 increased 14.4% over the previous fiscal year, total operating expenses of \$14,361,159 increased 9.9% over the previous year resulting in a gain from operations of \$783,911. A net non-operating loss of \$65,905 brings the excess of revenues over expenses to \$718,006.

- The Hospital's current assets exceeded its current liabilities by \$2,096,367 at June 30, 2012, providing a 2.6 current ratio.
- The Hospital recorded an excess of revenues over expenses for fiscal year ending June 30, 2012, amounting to \$718,006.
- Gross outpatient charges increased 13.8% during fiscal year 2012.
- Total operating expenses increased 9.9% from the previous fiscal year.
- Net days in accounts receivable continue to be very favorable at 53 on June 30, 2012.
- Total patient days amount to
  - 1,652-Acute Care (5.2% decline)
  - 1,115- SNF Care (18.7% 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
- High Press Ganey results allowed us to win the Summit award for high customer satisfaction
- Veterans Memorial Hospital has a direct connection to the Iowa Communications Network to enhance distance learning
- Assets limited as to use or restricted remained high at \$2,600,000
- We acquired over \$840,000 of capital assets
- Both Gunderson Health Care and Franciscan Skemp-Mayo Healthcare are adding new physicians to their Waukon clinics in the summer of 2012

**Condensed Financial Statements**

*Balance Sheets*

	<u>June 30,</u> 2012	<u>June 30,</u> 2011	<u>June 30,</u> 2010
Assets			
Current Assets			
Cash and cash equivalents	\$ 280,667	\$ 91,271	\$ 345,053
Assets limited as to use or restricted	53,101	77,712	61,102
Receivables			
Patient, net of estimated uncollectibles	2,348,423	2,069,492	2,396,475
Estimated third-party payor settlements	230,000	-	175,000
Other	35,901	35,661	50,930
Other assets	492,675	425,146	427,213
Total current assets	<u>3,440,767</u>	<u>2,699,282</u>	<u>3,455,773</u>
Assets Limited as to Use or Restricted	<u>2,607,400</u>	<u>3,020,026</u>	<u>1,734,520</u>
Capital Assets, Net	<u>6,179,244</u>	<u>5,945,130</u>	<u>6,256,133</u>
Other Assets			
Deferred financing costs	20,087	26,294	35,027
Gift fund investments	1,858	1,838	1,811
Total other assets	<u>21,945</u>	<u>28,132</u>	<u>36,838</u>
Total assets	<u>\$ 12,249,356</u>	<u>\$ 11,692,570</u>	<u>\$ 11,483,264</u>

**Condensed Financial Statements**

*Balance Sheets (continued)*

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 334,251	\$ 266,148	\$ 275,067
Accounts payable			
Trade	350,293	326,992	398,978
Estimated third-party payor settlements	-	301,000	-
Accrued expenses	<u>659,856</u>	<u>617,718</u>	<u>619,209</u>
Total current liabilities	1,344,400	1,511,858	1,293,254
Long-Term Debt, Less Current Maturities	<u>1,493,542</u>	<u>1,534,502</u>	<u>1,800,648</u>
Total liabilities	<u>2,837,942</u>	<u>3,046,360</u>	<u>3,093,902</u>
Net Assets			
Invested in capital assets, net of related debt	4,351,451	4,144,480	4,180,418
Restricted for debt service	53,101	77,712	61,102
Unrestricted	<u>5,006,862</u>	<u>4,424,018</u>	<u>4,147,842</u>
Total net assets	<u>9,411,414</u>	<u>8,646,210</u>	<u>8,389,362</u>
Total liabilities and net assets	<u>\$ 12,249,356</u>	<u>\$ 11,692,570</u>	<u>\$ 11,483,264</u>

Veterans Memorial Hospital  
Management's Discussion and Analysis  
June 30, 2012 and 2011

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

	Years Ended June 30,		
	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 14,766,145	\$ 12,905,549	\$ 12,816,156
Other operating revenues	378,925	420,684	476,089
Total Operating Revenues	<u>15,145,070</u>	<u>13,326,233</u>	<u>13,292,245</u>
Operating Expenses			
Salaries and wages	6,029,805	5,788,395	5,708,645
Supplies and other expenses	7,225,221	6,388,540	6,553,604
Medical specialist fees	499,718	280,404	253,221
Depreciation and amortization	606,415	610,520	607,269
Total Operating Expenses	<u>14,361,159</u>	<u>13,067,859</u>	<u>13,122,739</u>
Operating Income	<u>783,911</u>	<u>258,374</u>	<u>169,506</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	5,020	2,655	96,023
Investment income	30,566	33,141	31,013
Payment of interest on debt	(101,491)	(112,593)	(121,206)
Net Nonoperating Revenues (Expenses)	<u>(65,905)</u>	<u>(76,797)</u>	<u>5,830</u>
Revenues in Excess of Expenses	718,006	181,577	175,336
Capital Grants and Contributions	<u>47,198</u>	<u>75,271</u>	<u>21,599</u>
Increase in Net Assets	765,204	256,848	196,935
Net Assets, Beginning of Year	<u>8,646,210</u>	<u>8,389,362</u>	<u>8,192,427</u>
Net Assets, End of Year	<u><u>\$ 9,411,414</u></u>	<u><u>\$ 8,646,210</u></u>	<u><u>\$ 8,389,362</u></u>

### **Capital Assets**

Veterans Memorial Hospital completed an extensive renovation on the obstetrics department, and on the ICN room. We also spent money on a new elevator defibrillator, chemistry analyzer, x-ray equipment and an ambulance radio system.

### **Long-Term Debt**

At year end, Veterans Memorial Hospital had \$1,493,000 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 considers 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
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Technology advances
- Medical Staff issues

### **Summary**

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 165 employees provides to every person they serve. We would also like to thank each member of the Hospital's 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  
40 First Street SE  
Waukon, IA 52172

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 280,667	\$ 91,271
Assets limited as to use or restricted - Note 3	53,101	77,712
Receivables		
Patient, net of estimated uncollectibles of \$973,000 in 2012 and \$761,000 in 2011	2,348,423	2,069,492
Estimated third-party payor settlements	230,000	-
Other	35,901	35,661
Supplies	275,065	243,173
Prepaid expense	217,610	181,973
Total current assets	<u>3,440,767</u>	<u>2,699,282</u>
Assets Limited as to Use or Restricted - Note 3		
Designated by board for capital improvements	<u>2,607,400</u>	<u>3,020,026</u>
Capital Assets - Note 4		
Capital assets not being depreciated	589,959	640,855
Depreciable capital assets, net of accumulated depreciation	<u>5,589,285</u>	<u>5,304,275</u>
Total capital assets, net	<u>6,179,244</u>	<u>5,945,130</u>
Other Assets		
Gift fund investments - Note 3	1,858	1,838
Deferred financing costs, net of accumulated amortization of \$147,319 in 2012 and \$141,112 in 2011	<u>20,087</u>	<u>26,294</u>
Total other assets	<u>21,945</u>	<u>28,132</u>
Total assets	<u>\$ 12,249,356</u>	<u>\$ 11,692,570</u>

See Notes to Financial Statements

Veterans Memorial Hospital  
Balance Sheets  
June 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 334,251	\$ 266,148
Accounts payable		
Trade	350,293	326,992
Estimated third-party payor settlements	-	301,000
Accrued expenses		
Salaries and wages	226,010	184,286
Vacation	378,688	382,662
Payroll taxes and other	42,171	36,057
Interest	12,987	14,713
Total current liabilities	1,344,400	1,511,858
Long-Term Debt, Less Current Maturities - Note 6	1,493,542	1,534,502
Total liabilities	2,837,942	3,046,360
Net Assets		
Invested in capital assets, net of related debt	4,351,451	4,144,480
Restricted		
Expendable for debt service	53,101	77,712
Unrestricted	5,006,862	4,424,018
Total net assets	9,411,414	8,646,210
Total liabilities and net assets	\$ 12,249,356	\$ 11,692,570

Veterans Memorial Hospital  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$712,949 in 2012 and \$733,970 in 2011) - Note 2	\$ 14,766,145	\$ 12,905,549
Other operating revenues	<u>378,925</u>	<u>420,684</u>
Total Operating Revenues	<u>15,145,070</u>	<u>13,326,233</u>
Operating Expenses		
Salaries and wages	6,029,805	5,788,395
Medical specialist fees	499,718	280,404
Supplies and other expenses	7,225,221	6,388,540
Depreciation and amortization	<u>606,415</u>	<u>610,520</u>
Total Operating Expenses	<u>14,361,159</u>	<u>13,067,859</u>
Operating Income	<u>783,911</u>	<u>258,374</u>
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	5,020	2,655
Investment income	30,566	33,141
Payment of interest on debt	<u>(101,491)</u>	<u>(112,593)</u>
Net Nonoperating Revenues (Expenses)	<u>(65,905)</u>	<u>(76,797)</u>
Revenues in Excess of Expenses	718,006	181,577
Capital Grants and Contributions	<u>47,198</u>	<u>75,271</u>
Increase in Net Assets	765,204	256,848
Net Assets, Beginning of Year	<u>8,646,210</u>	<u>8,389,362</u>
Net Assets, End of Year	<u>\$ 9,411,414</u>	<u>\$ 8,646,210</u>

Veterans Memorial Hospital  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts of patient service revenue	\$ 13,956,214	\$ 13,708,532
Other receipts	378,685	435,953
Payments of salaries and wages	(5,985,941)	(5,788,281)
Payments of medical specialist fees	(499,718)	(280,404)
Payments of supplies and other expenses	(7,269,449)	(6,458,459)
Net Cash provided by Operating Activities	579,791	1,617,341
Noncapital Financing Activities		
Noncapital grants and contributions received	5,020	2,655
Capital and Related Financing Activities		
Purchase of property and equipment	(477,805)	(290,784)
Capital grants and contributions received	47,198	75,271
Payment of interest on debt	(103,217)	(114,198)
Payment of principal on debt	(329,374)	(275,065)
Net Cash used for Capital and Related Financing Activities	(863,198)	(604,776)
Investing Activities		
Increase in gift fund investments	(20)	(27)
Sale of investments	749,706	-
Purchase of investments	-	(1,190,687)
Investment income received	30,566	33,141
Net Cash provided by (used for) Investing Activities	780,252	(1,157,573)
Net Increase (Decrease) in Cash and Cash Equivalents	501,865	(142,353)
Cash and Cash Equivalents at Beginning of Year	1,183,360	1,325,713
Cash and Cash Equivalents at End of Year	\$ 1,685,225	\$ 1,183,360

Veterans Memorial Hospital  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

	2012	2011
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets		
Cash and cash equivalents	\$ 280,667	\$ 91,271
Assets limited as to use or restricted	53,101	77,712
Cash and cash equivalents in noncurrent assets limited as to use or restricted		
	1,351,457	1,014,377
Total cash and cash equivalents	\$ 1,685,225	\$ 1,183,360
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income		
	\$ 783,911	\$ 258,374
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	606,415	610,520
Provision for bad debts	712,949	733,970
Changes in assets and liabilities		
Receivables	(992,120)	(391,718)
Supplies	(31,892)	(4,473)
Prepaid expense	(35,637)	6,540
Accounts payable	23,301	(71,986)
Estimated third-party payor settlements	(531,000)	476,000
Accrued expenses	43,864	114
Net Cash provided by Operating Activities	\$ 579,791	\$ 1,617,341
<b>Supplemental Disclosure of Non-cash Investing and Financing Activity</b>		
Equipment financed through capital lease arrangements	\$ 356,517	\$ -

## Note 1 - Organization and 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 resources are available for use, generally it is the Hospital's policy to use restricted resources first.

### **Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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 and expenses 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.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, 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.

### **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 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 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. 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

### **Deferred Financing Costs**

Deferred financing costs are amortized over the period the related obligation is outstanding using the effective interest method.

### **Investment Income**

Interest on cash and deposits is included in nonoperating revenues and expenses.

### **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 payouts is accrued and recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2012 and 2011.

### **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. Net 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**

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.

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 \$221,488 and \$263,114 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, were \$138,000 and \$168,000, 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.

### **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.

### **Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$46,194 and \$44,123 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

### 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Reclassifications have been made to the June 30, 2011 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or increase in net assets.

### Note 2 - 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 is as 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 audited by the Medicare fiscal intermediary through the year ended June 30, 2010. Clinical services are paid on a cost basis or fixed fee schedule.

**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, 2009.

**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.

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2012, and 53% and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011. 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 net patient service revenue for the years ended June 30, 2012 and 2011, increased approximately \$217,000 and \$218,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

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.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Total Patient Service Revenue	\$ 22,248,596	\$ 19,486,988
Contractual Adjustments		
Medicare	(3,755,904)	(3,296,599)
Medicaid	(722,380)	(669,975)
Blue Cross	(1,146,457)	(816,329)
Other	(1,144,761)	(1,064,566)
Total contractual adjustments	(6,769,502)	(5,847,469)
Net Patient Service Revenue	15,479,094	13,639,519
Provision for Bad Debts	(712,949)	(733,970)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 14,766,145	\$ 12,905,549

**Note 3 - Cash and Deposits**

The Hospital's deposits in banks at June 30, 2012 and 2011, 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, 2012 and 2011, the Hospital's carrying amounts of cash and deposits are as follows:

	2012	2011
Checking, Savings, and Money Market Accounts	\$ 1,685,225	\$ 1,183,360
Certificates of Deposits	1,256,287	2,000,000
Accrued Interest Receivable	1,514	7,487
	\$ 2,943,026	\$ 3,190,847
 Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	\$ 280,667	\$ 91,271
Assets limited as to use or restricted	2,660,501	3,097,738
Gift fund investments	1,858	1,838
	\$ 2,943,026	\$ 3,190,847

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 4 - Capital Assets**

Capital assets activity for the years ended June 30, 2012 and 2011, was as follows:

	June 30, 2011			June 30, 2012
	<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	70,934	266,704	(317,600)	20,038
Total capital assets not being depreciated	<u>640,855</u>	<u>266,704</u>	<u>(317,600)</u>	<u>589,959</u>
Capital Assets Being Depreciated				
Land Improvements	155,023	-	-	155,023
Buildings and leasehold improvements	8,712,875	2,897	304,610	9,020,382
Equipment	4,427,936	564,721	12,990	5,005,647
Total capital assets being depreciated	<u>13,295,834</u>	<u>567,618</u>	<u>317,600</u>	<u>14,181,052</u>
Less Accumulated Depreciation for:				
Land improvements	127,765	4,908	-	132,673
Buildings and leasehold improvements	4,347,419	297,239	-	4,644,658
Equipment	3,516,375	298,061	-	3,814,436
Total accumulated depreciation	<u>7,991,559</u>	<u>600,208</u>	<u>-</u>	<u>8,591,767</u>
Total Capital Assets Being Depreciated, Net	<u>5,304,275</u>	<u>(32,590)</u>	<u>317,600</u>	<u>5,589,285</u>
Total Capital Assets, Net	<u>\$ 5,945,130</u>	<u>\$ 234,114</u>	<u>\$ -</u>	<u>\$ 6,179,244</u>

Veterans Memorial Hospital  
Notes to Financial Statements  
June 30, 2012 and 2011

	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>

**Note 5 - 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, 2012 and 2011, was \$247,012 and \$283,252, respectively. The capitalized leased assets consist of:

	<u>2012</u>	<u>2011</u>
Major Movable Equipment and Construction in Progress	\$ 699,985	\$ 343,467
Less accumulated amortization	<u>(201,301)</u>	<u>(107,558)</u>
	<u>\$ 498,684</u>	<u>\$ 235,909</u>

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

Year Ending June 30,	Capital Leases	Operating Leases
2013	\$ 148,332	\$ 15,280
2014	137,372	3,367
2015	95,483	-
2016	73,823	-
2017	5,566	-
Total Minimum Lease Payments	460,576	<u>\$ 18,647</u>
Less interest	<u>(27,783)</u>	
Present Value of Minimum Lease Payments - Note 6	<u>\$ 432,793</u>	

### Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2012 and 2011 is as follows:

	June 30, 2011 Balance	Additions	Payments	June 30, 2012 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	\$ 1,585,000	\$ -	\$ 190,000	\$ 1,395,000	\$ 200,000
Note Payable, 7.00%, Due in Monthly Payments of \$2,729, to September 2011, Secured by Equipment	8,093	-	8,093	-	-
Capitalized Lease Obligations - Note 5	207,557	356,517	131,281	432,793	134,251
	<u>\$ 1,800,650</u>	<u>\$ 356,517</u>	<u>\$ 329,374</u>	1,827,793	<u>\$ 334,251</u>
Less current maturities				(334,251)	
Long-term debt, less current maturities				<u>\$ 1,493,542</u>	

Veterans Memorial Hospital  
Notes to Financial Statements  
June 30, 2012 and 2011

	June 30, 2010 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2011 <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	\$ 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	<u>271,628</u>	<u>-</u>	<u>64,071</u>	<u>207,557</u>	<u>68,055</u>
	<u>\$ 2,075,715</u>	<u>\$ -</u>	<u>\$ 275,065</u>	1,800,650	<u>\$ 266,148</u>
Less current maturities				<u>(266,148)</u>	
Long-term debt, less current maturities				<u>\$ 1,534,502</u>	

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 334,251	\$ 92,003	\$ 426,254
2014	343,802	75,490	419,292
2015	316,741	58,620	375,361
2016	312,453	43,650	356,103
2017	255,546	28,860	284,406
2018	<u>265,000</u>	<u>14,840</u>	<u>279,840</u>
	<u>\$ 1,827,793</u>	<u>\$ 313,463</u>	<u>\$ 2,141,256</u>

**Note 7 - 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 5.38% of their annual covered salary and the Hospital is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. For the year ended June 30, 2011, plan members were required to contribute 4.50% of their annual covered salary, and the Hospital was required to contribute 6.95% of annual covered payroll. For the year ended June 30, 2010, plan members were required to contribute 4.30% of their annual covered salary, and the Hospital was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute.

The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$488,296, \$402,628, and \$383,374, respectively, equal to the required contributions for each year.

**Note 8 - Risk Management**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destructions 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 9 - 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, 2012 and 2011, was as follows:

	2012	2011
Medicare	41%	38%
Medicaid	6%	7%
Commercial Insurance	36%	31%
Other Third-Party Payors and Patients	17%	24%
	100%	100%

**Note 10 - 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, would be uninsured.

**Litigations, Claims, and Disputes**

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of the management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the impositions of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

**Note 11 - Subsequent Events**

The Hospital has evaluated subsequent events through September 14, 2012, the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2012

# 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, 2012

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	<u>Actual Accrual Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues	\$ 15,227,854	\$ 17,321,600	\$ (2,093,746)
Expenses	<u>14,462,650</u>	<u>17,037,774</u>	<u>2,575,124</u>
Net	765,204	283,826	<u>\$ 481,378</u>
Balance, Beginning of Year	<u>8,646,210</u>	<u>8,659,662</u>	
Balance, End of Year	<u>\$ 9,411,414</u>	<u>\$ 8,943,488</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, 2012.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amount budgeted.



Supplementary Information  
June 30, 2012 and 2011

# Veterans Memorial Hospital



## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the financial statements of Veterans Memorial Hospital (Hospital) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 14, 2012, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the 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 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of net patient service revenue, other operating revenues, operating expenses, supplies and prepaid expense, and analysis of sinking fund are fairly stated in all material respects in relation to the 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 financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 14, 2012

Veterans Memorial Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2012 and 2011

	2012	2011
Patient Service Revenue		
Routine services		
Adults and pediatrics	\$ 1,496,572	\$ 1,503,386
Nursery	163,680	143,840
Skilled care	295,475	234,750
Respite	300	3,420
Hospice	40,840	65,010
Observation	321,261	332,787
Same day surgery	22,950	47,550
Operating and recovery rooms	1,310,319	1,151,412
Delivery and labor rooms	187,900	137,830
Central services and supply	2,111,125	1,627,072
Intravenous solutions	590,364	538,932
Emergency services	886,396	708,468
Laboratory	2,514,352	2,254,989
Radiology	3,672,062	3,166,434
Electrocardiology	428,213	290,439
Pharmacy	3,355,279	3,139,305
Anesthesiology	561,912	485,977
Respiratory therapy	183,962	167,007
Physical therapy	1,564,929	1,211,613
Occupational therapy	574,479	523,609
Speech therapy	60,893	70,989
Cardiac rehabilitation	253,522	246,370
Ambulance service	476,714	421,435
Weekend clinic	319,863	239,264
Community and home care	1,030,508	1,009,066
Nutrition instruction	46,214	29,148
	22,470,084	19,750,102
Charity care	(221,488)	(263,114)
	22,248,596	19,486,988
Total patient service revenue*	22,248,596	19,486,988
 *Total Patient Service Revenue - Reclassified		
Inpatient revenue	7,389,489	6,720,176
Outpatient revenue	15,080,595	13,029,926
Charity care	(221,488)	(263,114)
	22,248,596	19,486,988
Total patient service revenue	22,248,596	19,486,988

Veterans Memorial Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2012 and 2011

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	<u>2012</u>	<u>2011</u>
Contractual Adjustments		
Medicare	\$ (3,755,904)	\$ (3,296,599)
Medicaid	(722,380)	(669,975)
Blue Cross	(1,146,457)	(816,329)
Other	<u>(1,144,761)</u>	<u>(1,064,566)</u>
Total contractual adjustments	<u>(6,769,502)</u>	<u>(5,847,469)</u>
Net Patient Service Revenue	15,479,094	13,639,519
Provision for Bad Debts	<u>(712,949)</u>	<u>(733,970)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u><u>\$ 14,766,145</u></u>	<u><u>\$ 12,905,549</u></u>

Veterans Memorial Hospital  
Schedules of Other Operating Revenues  
Years Ended June 30, 2012 and 2011

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	2012	2011
Other Operating Revenues		
Community and home care clinics, etc.	\$ 126,358	\$ 132,446
County reimbursement - community and home care	100,000	100,000
Housekeeping	55,620	62,552
Grants	36,221	32,834
Cafeteria	14,136	12,920
Rental - net of direct expenses	13,917	47,627
Workshops, clinics, etc.	3,396	6,626
Laundry	2,632	2,567
Vending machines	2,602	1,261
Medical records copies	1,832	1,550
Gifts for operations	607	4,246
Healthy Lifestyle Center	142	920
Contract physical therapy	-	61
Other	21,462	15,074
	\$ 378,925	\$ 420,684
Total Other Operating Revenues		

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

	2012	2011
Nursing Administration		
Salaries and wages	\$ 119,905	\$ 114,816
Supplies and other expenses	21,035	29,723
	<u>140,940</u>	<u>144,539</u>
Routine Services		
Salaries and wages	1,517,109	1,450,164
Supplies and other expenses	153,549	136,547
	<u>1,670,658</u>	<u>1,586,711</u>
Operating and Recovery Rooms		
Salaries and wages	307,473	301,547
Supplies and other expenses	119,010	115,103
	<u>426,483</u>	<u>416,650</u>
Delivery and Labor Rooms		
Salaries and wages	40,219	30,287
	<u>40,219</u>	<u>30,287</u>
Central Services and Supply		
Supplies and other expenses	661,686	536,288
	<u>661,686</u>	<u>536,288</u>
Emergency Services		
Salaries and wages	222,348	198,182
Medical specialist fees	393,273	204,806
Supplies and other expenses	9,522	19,260
	<u>625,143</u>	<u>422,248</u>
Laboratory		
Salaries and wages	397,934	352,411
Supplies and other expenses	363,137	361,206
	<u>761,071</u>	<u>713,617</u>
Radiology		
Salaries and wages	270,035	228,552
Professional fees	451,859	387,991
Supplies and other expenses	221,208	243,269
	<u>943,102</u>	<u>859,812</u>
Electrocardiology		
Salaries and wages	3,722	2,871
Medical specialist fees	106,445	75,598
Supplies and other expenses	287	220
	<u>110,454</u>	<u>78,689</u>

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

	2012	2011
Pharmacy		
Drugs	\$ 822,865	\$ 624,391
Supplies and other expenses	135,056	117,887
	<u>957,921</u>	<u>742,278</u>
Anesthesiology		
Salaries and wages	334,436	316,272
Supplies and other expenses	16,690	10,275
	<u>351,126</u>	<u>326,547</u>
Respiratory Therapy		
Salaries and wages	115,118	119,936
Supplies and other expenses	1,239	794
	<u>116,357</u>	<u>120,730</u>
Physical Therapy		
Salaries and wages	77,165	71,595
Supplies and other expenses	534,596	414,532
	<u>611,761</u>	<u>486,127</u>
Occupational Therapy		
Supplies and other expenses	289,174	244,423
	<u>289,174</u>	<u>244,423</u>
Speech Therapy		
Supplies and other expenses	58,677	48,383
	<u>58,677</u>	<u>48,383</u>
Cardiac Rehabilitation		
Salaries and wages	35,687	34,590
Supplies and other expenses	3,240	6,873
	<u>38,927</u>	<u>41,463</u>
Chemotherapy		
Salaries and wages	8,719	4,946
Supplies and other expenses	760	840
	<u>9,479</u>	<u>5,786</u>
Ambulance Service		
Salaries and wages	114,021	102,478
Supplies and other expenses	10,299	12,265
	<u>124,320</u>	<u>114,743</u>
Weekend Clinic		
Salaries and wages	7,427	9,063
Supplies and other expenses	19,320	33,469
	<u>26,747</u>	<u>42,532</u>

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

	2012	2011
Outpatient Clinic		
Salaries and wages	\$ 38,899	\$ 35,299
Supplies and other expenses	-	958
	<u>38,899</u>	<u>36,257</u>
Community and Home Care		
Salaries and wages	758,913	754,537
Supplies and other expenses	95,857	111,015
	<u>854,770</u>	<u>865,552</u>
Nutrition Instruction		
Salaries and wages	57,584	50,327
Supplies and other expenses	8,403	9,713
	<u>65,987</u>	<u>60,040</u>
Medical Records		
Salaries and wages	153,620	145,502
Supplies and other expenses	128,291	34,735
	<u>281,911</u>	<u>180,237</u>
Dietary		
Salaries and wages	231,519	234,867
Food	51,483	47,999
Supplies and other expenses	12,145	8,724
	<u>295,147</u>	<u>291,590</u>
Plant Operation and Maintenance		
Salaries and wages	163,314	160,125
Utilities	137,670	132,216
Supplies and other expenses	94,207	98,726
	<u>395,191</u>	<u>391,067</u>
Housekeeping		
Salaries and wages	354,511	348,213
Supplies and other expenses	35,754	37,917
	<u>390,265</u>	<u>386,130</u>
Laundry and Linen		
Salaries and wages	56,831	51,200
Supplies and other expenses	22,613	22,444
	<u>79,444</u>	<u>73,644</u>
Administrative Services		
Salaries and wages	643,296	670,615
Auditing and accounting fees	36,425	32,155
Collection fees	98,331	76,529
Telephone	41,818	39,426
Supplies and other expenses	381,898	301,928
	<u>1,201,768</u>	<u>1,120,653</u>

Veterans Memorial Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

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	2012	2011
Unassigned Expenses		
Depreciation	\$ 600,208	\$ 601,787
Amortization	6,207	8,733
Insurance	55,433	59,557
Employee benefits		
FICA	417,294	397,627
IPERS	488,296	402,628
Group health insurance	1,079,267	1,089,648
Workers' compensation insurance	81,259	89,957
Other	65,568	50,899
	2,793,532	2,700,836
 Total Operating Expenses	 \$ 14,361,159	 \$ 13,067,859

**Veterans Memorial Hospital**  
Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)  
June 30, 2012 and 2011

**Analysis of Aging**

	June 30, 2012		June 30, 2011	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
0 to 30 days	\$ 1,915,941	48%	\$ 1,704,327	50%
1 to 2 months	875,381	22%	788,292	23%
2 to 3 months	249,904	6%	265,440	8%
3 to 6 months	438,846	11%	375,490	11%
6 months and over	504,788	13%	287,934	8%
	<u>3,984,860</u>	<u>100%</u>	<u>3,421,483</u>	<u>100%</u>
Less: Allowance for Doubtful Accounts	(973,176)		(760,730)	
Allowance for Contractual Adjustments	<u>(663,261)</u>		<u>(591,261)</u>	
	<u>\$ 2,348,423</u>		<u>\$ 2,069,492</u>	

**Allowance for Doubtful Accounts  
Years Ended June 30, 2012 and 2011**

	2012	2011
Balance, Beginning of Year	\$ 760,730	\$ 765,655
Add: Provision for Bad Debts	712,949	733,970
Recoveries of Accounts Written Off	172,005	176,396
Less: Accounts Written Off	<u>(672,508)</u>	<u>(915,291)</u>
Balance, End of Year	<u>\$ 973,176</u>	<u>\$ 760,730</u>

	2012	2011
<b>Collection Statistics</b>		
Net accounts receivable - patients	\$ 2,348,423	\$ 2,069,492
Number of days charges outstanding (1)	53	55
Uncollectible accounts (2)	\$ 1,032,768	\$ 1,073,613
Percentage of uncollectible accounts to total charges	4.60%	5.44%

(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, 2012 and 2011

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	<u>2012</u>	<u>2011</u>
Supplies		
Pharmacy	\$ 126,600	\$ 115,175
Central stores	107,551	96,613
Laboratory	30,303	25,279
Radiology	<u>10,611</u>	<u>6,106</u>
Total supplies	<u>\$ 275,065</u>	<u>\$ 243,173</u>
Prepaid Expense		
Insurance	\$ 111,304	\$ 114,723
Maintenance contracts	98,187	55,599
Physician relocation contracts	-	6,954
Dues	<u>8,119</u>	<u>4,697</u>
Total prepaid expense	<u>\$ 217,610</u>	<u>\$ 181,973</u>

Veterans Memorial Hospital  
Schedule of Insurance in Force at June 30, 2012 (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	\$ 11,454,000 \$ 1,604,000 \$ 1,000,000	\$ 11,758	12/2/2012
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 \$ 3,000,000 \$ 3,000,000	\$ 28,407	12/2/2012
West Bend Mutual Insurance Co. AIJ 1424569-01	Workers' compensation	\$ 500,000	\$ 80,071	4/1/2013
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 6,900	3/4/2013

Veterans Memorial Hospital  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2012 and 2011

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	2012	2011
Patient Days		
Acute		
Adults and pediatrics	1,652	1,742
Newborn	246	232
Swing-bed		
Skilled	1,115	939
Respite	2	24
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	30%	30%
Discharges		
Acute	715	707
Swing-bed	135	142
Average Length of Stay		
Acute (excluding newborn)	2.31	2.46
Swing-bed (excluding respite)	8.26	6.61
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 825	\$ 785
2-bed rooms	800	760
Nursery	660	620
Skilled care	290	250

Veterans Memorial Hospital  
Schedules of Analysis of Sinking Fund  
Years Ended June 30, 2012 and 2011

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	2012	2011
Balance, Beginning of Year	\$ 77,712	\$ 61,102
Add: Deposits	253,389	294,610
Less: Withdrawals	(278,000)	(278,000)
Balance, End of Year	\$ 53,101	\$ 77,712

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 sheet of Veterans Memorial Hospital (Hospital) as of June 30, 2012, 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 14, 2012. 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**

Hospital management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 entity'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. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items I-A-12 and I-B-12 to be significant deficiencies. *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 the 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, 2012, 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.

The 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 the 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 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 cursive script that reads "Eide Sully LLP".

Dubuque, Iowa  
September 14, 2012

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

**Significant Deficiencies:**

**I-A-12 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-12 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-12 Certified Budget** – Expenditures during the year ended June 30, 2012, did not exceed the amount budgeted.
- II-B-12 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-12 Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-12 Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-12 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-12 Deposits and Investments** – The Hospital exceeded limits within its depository resolution at certain times during the year ended June 30, 2012.

**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.



September 14, 2012

The Board of Trustees  
Veterans Memorial Hospital  
Waukon, Iowa

We have audited the financial statements of Veterans Memorial Hospital for the year ended June 30, 2012, and have issued our report thereon dated September 14, 2012. 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 8, 2012. 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, 2012. 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.

The financial statement disclosures are neutral, consistent, and clear.

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

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments were made during the audit, with significant adjustments listed separately:

To adjust accrued vacation	\$	24,000
To adjust depreciation expense and accumulated depreciation		54,000
Other adjustments		1,000

The net effect of the adjustments was to increase net assets by \$79,000.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is 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 14, 2012.

### **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 Veterans Memorial Hospital's 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.

Sincerely,

EIDE BAILLY LLP

A handwritten signature in cursive script that reads "Eide Bailly LLP".

xc: Mr. Michael Myers