



Financial Statements
June 30, 2014 and 2013

Veterans Memorial Hospital

Board of Trustees and Hospital Officials.....	1
Independent Auditor’s Report.....	2
Management’s Discussion and Analysis.....	4
Financial Statements	
Balance Sheets	10
Statements of Revenues, Expenses, and Changes in Net Position.....	11
Statements of Cash Flows	12
Notes to Financial Statements.....	14
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Accrual Basis).....	27
Notes to Required Supplementary Information – Budgetary Reporting.....	28
Independent Auditor’s Report on Supplementary Information	29
Supplementary Information	
Schedules of Net Patient Service Revenue	30
Schedules of Other Operating Revenues	32
Schedules of Operating Expenses	33
Schedules of Patient Receivables and Collection Statistics (Unaudited).....	37
Schedules of Supplies and Prepaid Expense.....	38
Schedule of Insurance in Force at June 30, 2014 (Unaudited).....	39
Schedules of Statistical Information (Unaudited).....	40
Schedules of Analysis of Sinking Fund	41
Independent Auditor’s 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>	42
Schedule of Findings and Responses	44

Veterans Memorial Hospital
Board of Trustees and Hospital Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Dennis Lyons	Chairman of the Board	2015
Kevin Hanson	Vice Chairman	2015
Patty Fosaaen	Secretary	2013
Revelyn Lonning	Board Member	2013
Matt Goltz	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

Report on the Financial Statements

We have audited the accompanying financial statements of Veterans Memorial Hospital (Hospital), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Dubuque, Iowa
September 10, 2014

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, 2014, 2013, and 2012. 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 comprised of the balance sheets, statements of revenues, expenses, and changes in net position, 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 position. 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 statements of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, 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 Position report the net position of the Hospital and the changes in it. The Hospital's net position - 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 position is 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, 2014, indicates total assets of \$13,067,269, total liabilities of \$3,075,876, and net position of \$9,991,393. The Balance Sheet at June 30, 2013, indicates total assets of \$12,492,915, total liabilities of \$2,978,431, and net position of \$9,514,484. The Balance Sheet at June 30, 2012, indicates total assets of \$12,249,356, total liabilities of \$2,837,942, and net position of \$9,411,414.
- The Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2014 indicates total net patient service revenue of \$15,163,765 increased 4.4% from the previous fiscal year, total operating expenses of \$15,069,047 increased 1.5% over the previous year resulting in operating income of \$484,188. Net nonoperating expenses of \$50,535 bring revenues in excess of expenses to \$433,653. The Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2013 indicates total net patient service revenue of \$14,511,130 decreased 1.7% from the previous fiscal year, total operating expenses of \$14,838,078 increased 3.3% over the previous year resulting in operating income of \$126,192. Net nonoperating expenses of \$63,281 bring revenues in excess of expenses to \$62,911. The Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012 indicates total net patient service revenue of \$14,766,145 increased 14.4% from the previous fiscal year, total operating expenses of \$14,361,159 increased 9.8% over the previous year resulting in operating income of \$783,911. Net nonoperating expenses of \$65,905 bring revenues in excess of expenses to \$718,006.
- The Hospital's current assets exceeded its current liabilities by \$2,308,339 at June 30, 2014, providing a 2.2 current ratio. The Hospital's current assets exceeded its current liabilities by \$1,515,174 at June 30, 2013, providing a 1.8 current ratio. The Hospital's current assets exceeded its current liabilities by \$2,096,367 at June 30, 2012, providing a 2.6 current ratio.
- Gross outpatient charges increased 5.2%, 1.8%, and 15.7% during fiscal year 2014, 2013, and 2012, respectively.
- Net days in accounts receivable increased to 76 as of June 30, 2014. As of June 30, 2013 and 2012, they were 56 and 55, respectively.
- Total patient days amount to
 - Acute Care – 1,766 during fiscal year 2014 (0.3% decrease); 1,772 during fiscal year 2013 (7.2% increase); 1,652 during fiscal year 2012 (5.1% decrease)
 - SNF Care – 1,047 during fiscal year 2014 (4.3% increase); 1,003 during fiscal year 2013 (10.0% decrease); 1,115 during fiscal year 2012 (18.7% increase)

Organization Highlights

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

- Signed contract with Razor Insights to assist in attaining meaningful use
- High Press Ganey results allowed us to win the Summit award for high customer satisfaction for the fourth time
- 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 \$2,668,000, \$3,279,000, and \$2,607,000 as of June 30, 2014, 2013, and 2012, respectively.
- We acquired over \$1,000,000 of capital assets during fiscal year 2014.
- Both Gunderson Health Care and Franciscan Skemp-Mayo Healthcare have added new physicians to their Waukon clinics

Condensed Financial Statements

Balance Sheets

	<u>June 30</u> <u>2014</u>	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 343,886	\$ 483,724	\$ 280,667
Assets limited as to use or restricted	49,726	89,026	53,101
Receivables			
Patient, net of estimated uncollectables	3,281,854	2,193,932	2,348,423
Estimated third-party payor settlements	-	-	230,000
Other	37,880	31,292	35,901
Other assets	<u>536,577</u>	<u>545,891</u>	<u>492,675</u>
Total current assets	<u>4,249,923</u>	<u>3,343,865</u>	<u>3,440,767</u>
Assets Limited as to Use or Restricted	<u>2,668,299</u>	<u>3,279,444</u>	<u>2,607,400</u>
Capital Assets, Net	<u>6,147,170</u>	<u>5,853,129</u>	<u>6,179,244</u>
Other Assets	<u>1,877</u>	<u>16,477</u>	<u>21,945</u>
Total Assets	<u><u>\$ 13,067,269</u></u>	<u><u>\$ 12,492,915</u></u>	<u><u>\$ 12,249,356</u></u>

Condensed Financial Statements

Balance Sheets (continued)

	<u>June 30</u> <u>2014</u>	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u>
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 450,533	\$ 343,802	\$ 334,251
Accounts payable			
Trade	425,086	443,928	350,293
Estimated third-party payor settlements	286,000	300,000	-
Accrued expenses	779,965	740,961	659,856
Total current liabilities	<u>1,941,584</u>	<u>1,828,691</u>	<u>1,344,400</u>
Long-Term Debt, Less Current Maturities	<u>1,134,292</u>	<u>1,149,740</u>	<u>1,493,542</u>
Total liabilities	3,075,876	2,978,431	2,837,942
Net Position	<u>9,991,393</u>	<u>9,514,484</u>	<u>9,411,414</u>
Total liabilities and net position	<u><u>\$ 13,067,269</u></u>	<u><u>\$ 12,492,915</u></u>	<u><u>\$ 12,249,356</u></u>

Veterans Memorial Hospital
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2014	2013	2012
Operating Revenues			
Net patient service revenue			
(net of provision for bad debts)	\$ 15,163,765	\$ 14,511,130	\$ 14,766,145
Other operating revenues	389,470	453,140	378,925
Total Operating Revenues	15,553,235	14,964,270	15,145,070
Operating Expenses			
Salaries and wages	6,552,085	6,447,132	6,029,805
Medical specialist fees	491,384	506,933	499,718
Supplies and other expenses	7,326,371	7,251,285	7,225,221
Depreciation and amortization	699,207	632,728	606,415
Total Operating Expenses	15,069,047	14,838,078	14,361,159
Operating Income	484,188	126,192	783,911
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	258	-	5,020
Investment income	21,491	31,635	30,566
Interest expense	(72,284)	(94,916)	(101,491)
Net Nonoperating Expenses	(50,535)	(63,281)	(65,905)
Revenues in Excess of Expenses	433,653	62,911	718,006
Capital Grants and Contributions	43,256	40,159	47,198
Change in Net Position	476,909	103,070	765,204
Net Position, Beginning of Year	9,514,484	9,411,414	8,646,210
Net Position, End of Year	\$ 9,991,393	\$ 9,514,484	\$ 9,411,414

Capital Assets

Veterans Memorial Hospital is completing extensive renovation in the patient care department. We also spent money on a new defibrillator, surgical equipment, and x-ray equipment.

Long-Term Debt

At June 30, 2014, Veterans Memorial Hospital had approximately \$1,585,000 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. Long-term debt related to a new capital lease was added in the current year for approximately \$472,000.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considers many factors when preparing the fiscal year 2015 budget. Of primary consideration in the 2015 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 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>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents - Note 3	\$ 343,886	\$ 483,724
Assets limited as to use or restricted - Note 3	49,726	89,026
Receivables		
Patient, net of estimated uncollectables of \$481,000 in 2014 and \$395,000 in 2013	3,281,854	2,193,932
Other	37,880	31,292
Supplies	283,816	268,239
Prepaid expense	252,761	277,652
Total current assets	<u>4,249,923</u>	<u>3,343,865</u>
Assets Limited as to Use or Restricted - Note 3		
Designated by board for capital improvements	<u>2,668,299</u>	<u>3,279,444</u>
Capital Assets - Note 4		
Capital assets not being depreciated	793,352	601,326
Depreciable capital assets, net of accumulated depreciation	<u>5,353,818</u>	<u>5,251,803</u>
Total capital assets, net	<u>6,147,170</u>	<u>5,853,129</u>
Other Assets		
Gift fund investments - Note 3	1,877	1,869
Debt issuance costs, net	<u>-</u>	<u>14,608</u>
Total other assets	<u>1,877</u>	<u>16,477</u>
Total assets	<u>\$ 13,067,269</u>	<u>\$ 12,492,915</u>

See Notes to Financial Statements

Veterans Memorial Hospital
Balance Sheets
June 30, 2014 and 2013

	2014	2013
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 450,533	\$ 343,802
Accounts payable		
Trade	425,086	443,928
Estimated third-party payor settlements	286,000	300,000
Accrued expenses		
Salaries and wages	303,452	279,429
Vacation	412,586	401,770
Payroll taxes and other	54,778	48,609
Interest	9,149	11,153
Total current liabilities	1,941,584	1,828,691
Long-Term Debt, Less Current Maturities - Note 6	1,134,292	1,149,740
Total liabilities	3,075,876	2,978,431
Net Position		
Net investment in capital assets	4,562,345	4,359,587
Restricted		
Expendable for debt service	49,726	89,026
Unrestricted	5,379,322	5,065,871
Total net position	9,991,393	9,514,484
Total liabilities and net position	\$ 13,067,269	\$ 12,492,915

Veterans Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$624,396 in 2014 and \$682,385 in 2013) - Note 2	\$ 15,163,765	\$ 14,511,130
Other operating revenues	389,470	453,140
Total Operating Revenues	15,553,235	14,964,270
Operating Expenses		
Salaries and wages	6,552,085	6,447,132
Medical specialist fees	491,384	506,933
Supplies and other expenses	7,326,371	7,251,285
Depreciation and amortization	699,207	632,728
Total Operating Expenses	15,069,047	14,838,078
Operating Income	484,188	126,192
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	258	-
Investment income	21,491	31,635
Interest expense	(72,284)	(94,916)
Net Nonoperating Expenses	(50,535)	(63,281)
Revenues in Excess of Expenses	433,653	62,911
Capital Grants and Contributions	43,256	40,159
Change in Net Position	476,909	103,070
Net Position, Beginning of Year	9,514,484	9,411,414
Net Position, End of Year	\$ 9,991,393	\$ 9,514,484

Veterans Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts of patient service revenue	\$ 14,061,843	\$ 15,195,621
Other receipts	382,882	457,749
Payments of salaries and wages	(6,511,077)	(6,364,193)
Payments of medical specialist fees	(491,384)	(506,933)
Payments of supplies and other expenses	(7,313,284)	(7,210,866)
Net Cash provided by Operating Activities	128,980	1,571,378
Noncapital Financing Activities		
Noncapital grants and contributions received	258	-
Capital and Related Financing Activities		
Purchase of capital assets	(529,226)	(301,134)
Capital grants and contributions received	43,256	40,159
Payment of interest on debt	(74,288)	(96,750)
Payment of principal on debt	(380,746)	(334,251)
Net Cash used for Capital and Related Financing Activities	(941,004)	(691,976)
Investing Activities		
Increase in gift fund investments	(8)	(11)
Purchase of investments	(8,271)	(764,086)
Investment income received	21,491	31,635
Net Cash provided by (used for) Investing Activities	13,212	(732,462)
Net Change in Cash and Cash Equivalents	(798,554)	146,940
Cash and Cash Equivalents at Beginning of Year	1,832,165	1,685,225
Cash and Cash Equivalents at End of Year	\$ 1,033,611	\$ 1,832,165

Veterans Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets		
Cash and cash equivalents	\$ 343,886	\$ 483,724
Assets limited as to use or restricted	49,726	89,026
Cash and cash equivalents in noncurrent assets limited as to use or restricted	639,999	1,259,415
 Total Cash and Cash Equivalents	 \$ 1,033,611	 \$ 1,832,165
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 484,188	\$ 126,192
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	699,207	632,728
Expense of non-capitalized construction in progress	22,615	-
Provision for bad debts	624,396	682,385
Changes in assets and liabilities		
Receivables	(1,718,906)	(523,285)
Supplies	(15,577)	6,826
Prepaid expense	24,891	(60,042)
Accounts payable	(18,842)	93,635
Estimated third-party payor settlements	(14,000)	530,000
Accrued expenses	41,008	82,939
 Net Cash provided by Operating Activities	 \$ 128,980	 \$ 1,571,378
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Equipment financed through capital lease arrangements	\$ 472,029	\$ -

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.

Tax Exempt Status

The Hospital is exempt from income taxes as a political subdivision.

Reporting Entity

For financial reporting purposes, the 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 position. Net position is reported in the following categories/components:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, capital lease obligations, and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position:*
 - Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
 - Expendable* – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, 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 accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

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.

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.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectable deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rate (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2013 to June 30, 2014. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third party-payors. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2013 or 2014.

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. Assets limited as to use or restricted that are available for obligations classified as current liabilities are reported in current assets.

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.

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 position 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 expense incurred on borrowed funds during the period of construction of capital assets is capitalized. The estimated useful lives of capital assets are as follows:

Land improvements	5-15 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Financing Costs

Financing costs are expensed as incurred.

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 accrued and recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2014 and 2013.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position 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.

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 uncollectable 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.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital records a provision for bad debts related to uninsured patients in the period the services are provided.

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. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The amounts of charges foregone for services provided under the Hospital's charity care policy were \$178,175 and \$219,252, for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were approximately \$110,000 and \$139,000 for the years ended June 30, 2014 and 2013, based on an average ratio of cost to gross charges.

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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$52,610 and \$59,437 for advertising costs for the years ended June 30, 2014 and 2013.

Reclassifications

Reclassifications have been made to the June 30, 2013 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

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 plus 1%, less 2% sequestration, 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, 2012. 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 State Medicaid program. The Hospital's Medicaid cost reports have been processed by the State Medicaid program through June 30, 2011.

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, Blue Cross, and Medicaid programs accounted for approximately 47%, 20%, and 10%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2014, and 48%, 19%, and 8%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2013. 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 increased approximately \$97,000 for the year ended June 30, 2014, and decreased approximately \$153,000 for the year ended June 30, 2013, 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, 2014 and 2013 is as follows:

	2014	2013
Total Patient Service Revenue	\$ 23,761,432	\$ 22,657,798
Contractual Adjustments	(7,973,271)	(7,464,283)
Net Patient Service Revenue	15,788,161	15,193,515
Provision for Bad Debts	(624,396)	(682,385)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 15,163,765	\$ 14,511,130

Note 3 - Cash and Deposits

The Hospital's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013 the Hospital's carrying amounts of cash and deposits are as follows:

	2014	2013
Checking, Savings, and Money Market Accounts	\$ 1,033,611	\$ 1,832,165
Certificates of Deposits	2,025,096	2,015,081
Accrued Interest Receivable	5,081	6,817
	\$ 3,063,788	\$ 3,854,063
 Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	\$ 343,886	\$ 483,724
Assets limited as to use or restricted	2,718,025	3,368,470
Gift fund investments	1,877	1,869
	\$ 3,063,788	\$ 3,854,063

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, 2014 and 2013 was as follows:

	June 30, 2013 Balance	Additions and Transfers	Deductions	June 30, 2014 Balance
Capital Assets Not Being Depreciated				
Land	\$ 569,921	\$ -	\$ -	\$ 569,921
Construction in progress	31,405	214,641	(22,615)	223,431
Total capital assets not being depreciated	<u>601,326</u>	<u>214,641</u>	<u>(22,615)</u>	<u>793,352</u>
Capital Assets Being Depreciated				
Land improvements	160,046	-	-	160,046
Buildings and leasehold improvements	9,075,986	14,231	-	9,090,217
Equipment	5,234,788	772,383	-	6,007,171
Total capital assets being depreciated	<u>14,470,820</u>	<u>786,614</u>	<u>-</u>	<u>15,257,434</u>
Less Accumulated Depreciation for:				
Land improvements	136,150	2,674	-	138,824
Buildings and leasehold improvements	4,959,567	314,727	-	5,274,294
Equipment	4,123,300	367,198	-	4,490,498
Total accumulated depreciation	<u>9,219,017</u>	<u>684,599</u>	<u>-</u>	<u>9,903,616</u>
Total Capital Assets Being Depreciated, Net	<u>5,251,803</u>	<u>102,015</u>	<u>-</u>	<u>5,353,818</u>
Total Capital Assets, Net	<u>\$ 5,853,129</u>	<u>\$ 316,656</u>	<u>\$ (22,615)</u>	<u>\$ 6,147,170</u>

Construction in progress at June 30, 2014, represents cost incurred for remodeling of acute rooms, rooftop repairs, and a down payment for Electronic Health Records software. The estimated costs upon completion are \$125,000 for the remodeling of the acute rooms, \$250,000 for the rooftop repairs, and \$360,000 for Electronic Health Records. All projects will be financed with Hospital funds. Hospital management expects all construction in progress to be completed in fiscal year 2015.

Veterans Memorial Hospital
Notes to Financial Statements
June 30, 2014 and 2013

	June 30, 2012 <u>Balance</u>	Additions and <u>Transfers</u>	<u>Deductions</u>	June 30, 2013 <u>Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 569,921	\$ -	\$ -	\$ 569,921
Construction in progress	20,038	11,367	-	31,405
Total capital assets not being depreciated	<u>589,959</u>	<u>11,367</u>	<u>-</u>	<u>601,326</u>
Capital Assets Being Depreciated				
Land improvements	155,023	5,023	-	160,046
Buildings and leasehold improvements	9,020,382	55,604	-	9,075,986
Equipment	5,005,647	229,141	-	5,234,788
Total capital assets being depreciated	<u>14,181,052</u>	<u>289,768</u>	<u>-</u>	<u>14,470,820</u>
Less Accumulated Depreciation for:				
Land improvements	132,673	3,477	-	136,150
Buildings and leasehold improvements	4,644,658	314,909	-	4,959,567
Equipment	3,814,436	308,864	-	4,123,300
Total accumulated depreciation	<u>8,591,767</u>	<u>627,250</u>	<u>-</u>	<u>9,219,017</u>
Total Capital Assets Being Depreciated, Net	<u>5,589,285</u>	<u>(337,482)</u>	<u>-</u>	<u>5,251,803</u>
Total Capital Assets, Net	<u>\$ 6,179,244</u>	<u>\$ (326,115)</u>	<u>\$ -</u>	<u>\$ 5,853,129</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, 2014 and 2013 was \$196,538 and \$216,443. The capitalized leased assets consist of:

	<u>2014</u>	<u>2013</u>
Major Movable Equipment	\$ 1,086,447	\$ 648,012
Less accumulated amortization	<u>(440,142)</u>	<u>(298,624)</u>
	<u>\$ 646,305</u>	<u>\$ 349,388</u>

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

Years Ending June 30,	Capital Leases
2015	\$ 235,061
2016	156,603
2017	88,369
2018	82,801
2019	62,101
Total Minimum Lease Payments	624,935
Less interest	(20,110)
Present Value of Minimum Lease Payments - Note 6	\$ 604,825

Note 6 - Long-Term Debt

A summary of changes in the Hospital's long-term debt for 2014 and 2013 is as follows:

	June 30, 2013 Balance	Additions	Payments	June 30, 2014 Balance	Amounts Due Within One Year
1998 Revenue Bonds, 5.60%, Principal Maturing in Varying Annual Amounts to May 2018, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 1,195,000	\$ -	\$ 215,000	\$ 980,000	\$ 225,000
Capitalized Lease Obligations - Note 5	298,542	472,029	165,746	604,825	225,533
	\$ 1,493,542	\$ 472,029	\$ 380,746	1,584,825	\$ 450,533
Less current maturities				(450,533)	
Long-term debt, less current maturities				\$ 1,134,292	

Veterans Memorial Hospital
Notes to Financial Statements
June 30, 2014 and 2013

	June 30, 2012 Balance	Additions	Payments	June 30, 2013 Balance	Amounts Due Within One Year
1998 Revenue Bonds, 5.50% to 5.60%, Principal Maturing in Varying Annual Amounts to May 2018, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 1,395,000	\$ -	\$ 200,000	\$ 1,195,000	\$ 215,000
Capitalized Lease Obligations	432,793	-	134,251	298,542	128,802
	<u>\$ 1,827,793</u>	<u>\$ -</u>	<u>\$ 334,251</u>	1,493,542	<u>\$ 343,802</u>
Less current maturities				(343,802)	
Long-term debt, less current maturities				<u>\$ 1,149,740</u>	

Aggregate future payments of principal and interest on long-term debt obligations are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	\$ 450,533	\$ 64,408	\$ 514,941
2016	391,062	47,821	438,883
2017	335,406	31,803	367,209
2018	346,130	16,511	362,641
2019	61,694	407	62,101
	<u>\$ 1,584,825</u>	<u>\$ 160,950</u>	<u>\$ 1,745,775</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 5.95% of their annual covered salary and the Hospital is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. For the year ended June 30, 2013 plan members were required to contribute 5.78% of their annual covered salary, and the Hospital was required to contribute 8.67% of annual covered payroll. For the year ended June 30, 2012, plan members were required to contribute 5.38% of their annual covered salary, and the Hospital was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$587,086, \$556,364, and \$488,296, equal to the required contributions for each year.

Note 8 - 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 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 imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 9 - 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 10 - 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, 2014 and 2013 was as follows:

	2014	2013
Medicare	41%	37%
Medicaid	10%	8%
Commercial Insurance	36%	38%
Other Third-Party Payors and Patients	13%	17%
	100%	100%

Note 11 - Subsequent Events

The Hospital has evaluated subsequent events through September 10, 2014, the date which the financial statements were available to be issued.



Required Supplementary Information
June 30, 2014

Veterans Memorial Hospital

Veterans Memorial Hospital

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual
(Accrual Basis)

Required Supplementary Information
Year Ended June 30, 2014

	<u>Actual Accrual Basis</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues	\$ 15,618,240	\$ 18,690,364	\$ (3,072,124)
Expenses	<u>15,141,331</u>	<u>18,382,104</u>	<u>3,240,773</u>
Net	476,909	308,260	<u>\$ 168,649</u>
Balance, Beginning of Year	<u>9,514,484</u>	<u>9,723,414</u>	
Balance, End of Year	<u>\$ 9,991,393</u>	<u>\$ 10,031,674</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 prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2014.

For the year ended June 30, 2014 the Hospital's expenditures did not exceed the amount budgeted.



Supplementary Information
June 30, 2014 and 2013

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, 2014, and have issued our report thereon dated September 10, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 2-3. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables and 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 and 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 10, 2014

Veterans Memorial Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	2014	2013
Patient Service Revenue		
Routine services		
Adults and pediatrics	\$ 1,818,926	\$ 1,710,699
Nursery	214,620	191,820
Skilled care	314,400	279,720
Respite	1,880	3,160
Hospice	36,490	15,870
Observation	404,855	325,335
Same day surgery	10,830	18,725
Operating and recovery rooms	1,430,695	1,447,629
Delivery and labor rooms	236,550	194,260
Central services and supply	1,950,359	2,094,034
Intravenous solutions	738,309	661,046
Emergency services	1,082,964	1,007,551
Laboratory	2,955,468	2,643,742
Radiology	4,018,993	3,724,795
Electrocardiology	404,000	373,874
Pharmacy	2,815,674	2,951,116
Anesthesiology	571,370	600,650
Respiratory therapy	242,152	229,849
Physical therapy	1,959,876	1,634,601
Occupational therapy	591,684	551,283
Speech therapy	65,017	43,621
Cardiac rehabilitation	200,620	200,520
Ambulance service	513,634	532,629
Weekend clinic	308,952	281,273
Community and home care	1,028,613	1,135,818
Nutrition instruction	22,676	23,430
	23,939,607	22,877,050
Charity care (charges foregone)	(178,175)	(219,252)
	23,761,432	22,657,798
Total patient service revenue*	23,761,432	22,657,798
 *Total Patient Service Revenue - Reclassified		
Inpatient revenue	7,773,036	7,519,262
Outpatient revenue	16,166,571	15,357,788
Charity care (charges foregone)	(178,175)	(219,252)
	23,761,432	22,657,798
Total patient service revenue	23,761,432	22,657,798

Veterans Memorial Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Contractual Adjustments	<u>\$ (7,973,271)</u>	<u>\$ (7,464,283)</u>
Net Patient Service Revenue	15,788,161	15,193,515
Provision for Bad Debts	<u>(624,396)</u>	<u>(682,385)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u><u>\$ 15,163,765</u></u>	<u><u>\$ 14,511,130</u></u>

Veterans Memorial Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2014 and 2013

	2014	2013
Other Operating Revenues		
Community and home care clinics, etc.	\$ 148,159	\$ 136,884
County reimbursement - community and home care	100,000	100,000
Gifts for operations	-	58,404
Housekeeping	36,475	50,211
Grants	34,436	36,740
Cafeteria	14,451	15,862
Rental - net of direct expenses	11,132	10,912
Workshops, clinics, etc.	7,225	3,294
Laundry	1,883	2,076
Medical records copies	1,770	1,922
Vending machines	1,283	333
Healthy Lifestyle Center	1,220	2,155
Other	31,436	34,347
	\$ 389,470	\$ 453,140
Total Other Operating Revenues		

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Nursing Administration		
Salaries and wages	\$ 131,864	\$ 129,867
Supplies and other expenses	17,088	16,217
	<u>148,952</u>	<u>146,084</u>
Routine Services		
Salaries and wages	1,745,664	1,624,220
Supplies and other expenses	158,513	158,538
	<u>1,904,177</u>	<u>1,782,758</u>
Operating and Recovery Rooms		
Salaries and wages	331,499	337,917
Supplies and other expenses	147,959	120,063
	<u>479,458</u>	<u>457,980</u>
Delivery and Labor Rooms		
Salaries and wages	31,116	35,703
Supplies and other expenses	-	53
	<u>31,116</u>	<u>35,756</u>
Central Services and Supply		
Supplies and other expenses	547,220	682,258
	<u>547,220</u>	<u>682,258</u>
Emergency Services		
Salaries and wages	297,490	278,732
Medical specialist fees	404,738	432,599
Supplies and other expenses	8,074	10,643
	<u>710,302</u>	<u>721,974</u>
Laboratory		
Salaries and wages	400,175	398,502
Supplies and other expenses	374,276	389,586
	<u>774,451</u>	<u>788,088</u>
Radiology		
Salaries and wages	305,871	293,637
Professional fees	476,951	491,442
Supplies and other expenses	127,304	221,881
	<u>910,126</u>	<u>1,006,960</u>
Electrocardiology		
Salaries and wages	2,932	3,890
Medical specialist fees	86,646	74,334
Supplies and other expenses	192	-
	<u>89,770</u>	<u>78,224</u>

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Pharmacy		
Drugs	\$ 640,941	\$ 678,971
Supplies and other expenses	163,697	137,797
	<u>804,638</u>	<u>816,768</u>
Anesthesiology		
Salaries and wages	362,545	351,971
Supplies and other expenses	8,492	15,317
	<u>371,037</u>	<u>367,288</u>
Respiratory Therapy		
Salaries and wages	134,128	130,197
Supplies and other expenses	1,848	2,026
	<u>135,976</u>	<u>132,223</u>
Physical Therapy		
Salaries and wages	86,677	81,768
Supplies and other expenses	667,576	558,339
	<u>754,253</u>	<u>640,107</u>
Occupational Therapy		
Supplies and other expenses	282,700	256,762
Speech Therapy		
Supplies and other expenses	46,116	33,023
Cardiac Rehabilitation		
Salaries and wages	35,694	36,587
Supplies and other expenses	2,827	3,229
	<u>38,521</u>	<u>39,816</u>
Chemotherapy		
Salaries and wages	155	718
Supplies and other expenses	1,400	350
	<u>1,555</u>	<u>1,068</u>
Ambulance Service		
Salaries and wages	124,666	113,618
Supplies and other expenses	7,631	5,651
	<u>132,297</u>	<u>119,269</u>
Weekend Clinic		
Salaries and wages	6,239	5,495
Supplies and other expenses	34,840	28,400
	<u>41,079</u>	<u>33,895</u>

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Outpatient Clinic		
Salaries and wages	\$ 37,179	\$ 37,378
Community and Home Care		
Salaries and wages	719,673	830,919
Supplies and other expenses	105,834	103,514
	<u>825,507</u>	<u>934,433</u>
Nutrition Instruction		
Salaries and wages	44,358	51,055
Supplies and other expenses	49,998	33,140
	<u>94,356</u>	<u>84,195</u>
Medical Records		
Salaries and wages	194,902	175,940
Supplies and other expenses	34,416	87,334
	<u>229,318</u>	<u>263,274</u>
Dietary		
Salaries and wages	196,154	212,794
Food	53,972	54,943
Supplies and other expenses	10,750	12,730
	<u>260,876</u>	<u>280,467</u>
Plant Operation and Maintenance		
Salaries and wages	171,498	166,834
Utilities	154,550	119,588
Supplies and other expenses	110,409	79,894
	<u>436,457</u>	<u>366,316</u>
Housekeeping		
Salaries and wages	358,324	354,023
Supplies and other expenses	34,958	39,727
	<u>393,282</u>	<u>393,750</u>
Laundry and Linen		
Salaries and wages	53,312	57,711
Supplies and other expenses	18,612	23,742
	<u>71,924</u>	<u>81,453</u>
Administrative Services		
Salaries and wages	779,970	737,656
Auditing and accounting fees	43,880	36,747
Collection fees	83,488	89,166
Telephone	37,354	44,354
Supplies and other expenses	392,768	375,385
	<u>1,337,460</u>	<u>1,283,308</u>

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Unassigned Expenses		
Depreciation	\$ 684,599	\$ 627,249
Amortization	14,608	5,479
Insurance	55,048	50,284
Employee benefits		
FICA	457,170	449,607
IPERS	587,086	556,364
Group health insurance	1,196,538	1,143,504
Workers' compensation insurance	64,135	70,877
Other	119,760	69,839
	3,178,944	2,973,203
 Total Operating Expenses	 \$ 15,069,047	 \$ 14,838,078

Veterans Memorial Hospital
Schedules of Patient Receivables and Collection Statistics (Unaudited)
June 30, 2014 and 2013

Analysis of Aging

	June 30, 2014		June 30, 2013	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
0 to 30 days	\$ 2,225,913	41%	\$ 1,817,782	49%
1 to 2 months	1,541,785	28%	687,217	19%
2 to 3 months	645,067	12%	437,742	11%
3 to 6 months	730,994	13%	426,631	12%
6 months and over	310,669	6%	323,555	9%
	5,454,428	100%	3,692,927	100%
Less: Allowance for Doubtful Accounts	(480,574)		(395,497)	
Allowance for Contractual Adjustments	(1,692,000)		(1,103,498)	
	<u>\$ 3,281,854</u>		<u>\$ 2,193,932</u>	

	2014	2013
Collection Statistics		
Net accounts receivable - patients	\$ 3,281,854	\$ 2,193,932
Number of days charges outstanding (1)	76	56
Uncollectible accounts (2)	\$ 886,059	\$ 990,803
Percentage of uncollectible accounts to total charges	3.70%	4.33%

(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, 2014 and 2013

	2014	2013
Supplies		
Pharmacy	\$ 140,871	\$ 122,970
Central stores	106,513	108,933
Laboratory	36,432	29,411
Radiology	-	6,925
	<u>\$ 283,816</u>	<u>\$ 268,239</u>
Prepaid Expense		
Insurance	\$ 135,250	\$ 131,731
Maintenance contracts	66,732	95,445
Dues	8,488	7,976
Other	42,291	42,500
	<u>\$ 252,761</u>	<u>\$ 277,652</u>

Veterans Memorial Hospital
Schedule of Insurance in Force at June 30, 2014 (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	\$ 15,028	12/2/2014
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	\$ 32,385	12/2/2014
West Bend Mutual Insurance Co. AIJ 1424569-03	Workers' compensation	\$ 500,000	\$ 75,502	4/1/2015
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 8,127	3/4/2015

Veterans Memorial Hospital
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2014 and 2013

	2014	2013
Patient Days		
Acute		
Adults and pediatrics	1,766	1,772
Newborn	292	275
Swing-bed		
Skilled	1,047	1,003
Respite	11	19
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	31%	31%
Discharges		
Acute	723	735
Swing-bed	129	126
Average Length of Stay		
Acute (excluding newborn)	2.44	2.41
Swing-bed (excluding respite)	8.12	7.96
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 915	\$ 865
2-bed rooms	890	840
Nursery	730	690
Skilled care	300	280

Veterans Memorial Hospital
Schedules of Analysis of Sinking Fund
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance, Beginning of Year	\$ 89,026	\$ 53,101
Add: Deposits	242,620	313,845
Less: Withdrawals	<u>(281,920)</u>	<u>(277,920)</u>
Balance, End of Year	<u>\$ 49,726</u>	<u>\$ 89,026</u>

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



**Independent Auditor's 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, 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, the financial statements of Veterans Memorial Hospital (Hospital), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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. 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, 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 2014-A and 2014-B to be significant deficiencies.

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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance which is described in Part II of the accompanying Schedule of Findings and Responses.

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa
September 10, 2014

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

2014-A 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).

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.

Cause – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP, can be considered costly and ineffective.

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.

Recommendation - 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. 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.

2014-B Segregation of Duties

Criteria – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization’s assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

Condition – Certain employees perform duties that are incompatible.

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

Effect – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. 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. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

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.

Part II: Other Findings Related to Required Statutory Reporting:

2014-IA-A Certified Budget – Expenditures during the year ended June 30, 2014, did not exceed the amount budgeted.

2014-IA-B 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.

2014-IA-C Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

2014-IA-D Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

2014-IA-E Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

2014-IA-F Deposits and Investments – The Hospital exceeded limits within its depository resolution at certain times during the year ended June 30, 2014.

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.



September 10, 2014

The Board of Trustees and Management
Veterans Memorial Hospital
Waukon, Iowa

We have audited the financial statements of Veterans Memorial Hospital for the year ended June 30, 2014, and have issued our report thereon dated September 10, 2014. 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 June 3, 2014. 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 significant accounting policies were adopted and the application of existing policies was not changed during 2014.

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 were:

Collectability of Patient Receivables - Management's estimate of the allowance for contractual adjustments and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the estimated collections of individual accounts.

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

We evaluated the key factors and assumptions used to develop these estimates related to the collectability of patient receivables and amounts either owed to or receivable from third-party payors 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. The following misstatements were detected as a result of our audit procedures and have been corrected by management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

	<u>Increase (Decrease) to Net Position</u>
To adjust contractual allowances on patient accounts receivable	\$ 120,000
To adjust long-term debt	10,000
To adjust capital assets	9,000
To adjust estimated third-party payor settlements	(99,000)
Other adjustments	(10,000)

The net effect of these misstatements is an increase to net position by \$30,000 for the year ended June 30, 2014.

In addition, the following is an uncorrected misstatement of the financial statements for which management has determined that its effect is immaterial to the financial statements taken as a whole.

Overstatement of financing costs expense	\$ 10,000
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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 10, 2014 .

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 Matters

Supplementary Information

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.

Upcoming Accounting Pronouncements

We recommend the Hospital review the following upcoming statements and evaluate the potential impact of these statements on the financial statements when implemented.

In 2012, the Governmental Accounting Standards Board (GASB) released accounting standards *Financial Reporting for Pension Plans*, Statement No. 67 and Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statements No. 67 and 68) for public pension plans and participating employers.

GASB Statement No. 67 revised existing guidance for the financial reports of most public pension plans. The provisions in Statement No. 67 were effective for financial statements for periods beginning after June 15, 2013.

Statement No. 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

In general, GASB Statement No. 68 will require a net pension liability to be recognized on the balance sheet of government employers, such as the Hospital, whom are participating in a public pension plan to account for the employer's share of any pension liability that exceeds the pension plan's net assets available for paying benefits. An employer's pension liability, along with other information required for footnote disclosure and supplemental information accompanying the basic financial statements, will be calculated at the public pension plan level and forwarded to the individual employers. However, it is still the employer's responsibility to ensure that all necessary information is timely obtained and included in the employer's financial statements.

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

Very truly yours,

EIDE BAILLY LLP

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

Dubuque, Iowa

xc: Mr. Michael Myers