



Financial Statements
June 30, 2016 and 2015

Veterans Memorial Hospital

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Veterans Memorial Hospital
Board of Trustees and Hospital Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Dennis Lyons	Chairman	2019
Kevin Hanson	Vice Chairman	2019
Patty Nordheim	Secretary	2017
Revelyn Lonning	Board Member	2017
Matt Goltz	Board Member	2019
	<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 statements of net position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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 10 and the Budgetary Comparison Information on pages 32 and 33, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability, and the Schedule of the Hospital's Contributions on pages 34 through 36, 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 20, 2016, 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.

Eide Bailly LLP

Dubuque, Iowa
September 20, 2016

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, 2016, 2015, and 2014. 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 statements of net position, 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 statements of net position include all of the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The statements of net position 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 statement 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 Statement of Net Position 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 deferred outflows of resources and liabilities and deferred inflows of resources - 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 Statement of Net Position at June 30, 2016, indicates total assets of \$13,298,797, total deferred outflows of resources of \$1,700,534, total liabilities of \$7,268,127, total deferred inflows of resources of \$1,340,382 and net position of \$6,390,822. The Statement of Net Position at June 30, 2015, indicates total assets of \$13,718,662, total deferred outflows of resources of \$827,066, total liabilities of \$6,698,167, total deferred inflows of resources of \$1,821,114, and net position of \$6,026,447. The Statement of Net Position 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 Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2016 indicates total net patient service revenue of \$16,866,191 increased 3.4% from the previous fiscal year, total operating expenses of \$17,085,266 increased 7.6% over the previous year resulting in operating income of \$319,871. Net nonoperating expenses of \$34,611 bring revenues in excess of expenses to \$285,260. The Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015 indicates total net patient service revenue of \$16,317,996 increased 7.6% from the previous fiscal year, total operating expenses of \$15,871,896 increased 5.3% over the previous year resulting in operating income of \$946,067. Net nonoperating expenses of \$27,494 bring revenues in excess of expenses to \$918,573. 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 4.5% from the previous fiscal year, total operating expenses of \$15,069,047 increased 1.6% 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 Hospital's current assets exceeded its current liabilities by \$3,576,770 at June 30, 2016, providing a 2.8 current ratio. The Hospital's current assets exceeded its current liabilities by \$3,296,198 at June 30, 2015, providing a 2.6 current ratio. The Hospital's current assets exceeded its current liabilities by \$2,308,339 at June 30, 2014, providing a 2.2 current ratio.
- Gross outpatient charges increased 13.4%, 13.1%, and 5.2%, during fiscal year 2016, 2015, and 2014, respectively.
- Net days in accounts receivable increased to 93 as of June 30, 2016. As of June 30, 2015 and 2014, they were 95 and 76, respectively.
- Total patient days amount to
 - Acute Care – 1360 during fiscal year 2016 (13.0% decrease); 1564 during fiscal year 2015 (11.4% decrease); 1,766 during fiscal year 2014 (0.3% decrease)
 - SNF Care – 1164 during fiscal year 2016 (1.6% increase); 1146 during fiscal year 2015 (9.5% increase); 1,047 during fiscal year 2014 (4.3% increase)
- Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$4,913,237 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Organization Highlights

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

- The Hospital recognized meaningful use revenue from Medicare and Medicaid in FY 2016.
- High Press Ganey results allowed the Hospital to earn the Summit Award for high customer satisfaction for the fifth time.
- Assets limited as to use or restricted remained strong at \$1,791,371, \$2,179,777, and \$2,718,025 as of June 30, 2016, 2015, and 2014, respectively.
- The Hospital purchased approximately \$700,000 of capital assets during the fiscal year ended June 30, 2016.
- Both Gunderson Health Care and Franciscan Health Care have retained appropriate physician levels in Waukon, IA.

Condensed Financial Statements

The following tables on pages 7 through 9 presented for the year ended June 30, 2014 have not been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Condensed Financial Statements

Statements of Net Position

	<u>June 30 2016</u>	<u>June 30 2015</u>	<u>June 30 2014</u>
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 347,604	\$ 102,046	\$ 343,886
Assets limited as to use or restricted	52,466	52,256	49,726
Receivables			
Patient, net of estimated uncollectibles	4,555,268	4,593,277	3,281,854
Estimated third-party payor settlements	131,000	-	-
Other	34,122	24,732	37,880
Other assets	426,121	617,248	536,577
Total current assets	<u>5,546,581</u>	<u>5,389,559</u>	<u>4,249,923</u>
Assets Limited as to Use or Restricted	1,738,905	2,127,521	2,668,299
Capital Assets, Net	6,011,421	6,199,699	6,147,170
Other Assets	1,890	1,883	1,877
Deferred Outflows of Resources			
Pension related deferred outflows	<u>1,700,534</u>	<u>827,066</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 14,999,331</u>	<u>\$ 14,545,728</u>	<u>\$ 13,067,269</u>

Condensed Financial Statements

Statements of Net Position (continued)

	<u>June 30</u> <u>2016</u>	<u>June 30</u> <u>2015</u>	<u>June 30</u> <u>2014</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 356,403	\$ 391,062	\$ 450,533
Accounts payable			
Trade	543,654	507,247	425,086
Estimated third-party payor settlements	-	309,000	286,000
Accrued expenses	1,069,754	886,052	779,965
Total current liabilities	<u>1,969,811</u>	<u>2,093,361</u>	<u>1,941,584</u>
Noncurrent Liabilities			
Long-term debt, less current maturities	481,361	743,230	1,134,292
Net pension liability	4,816,955	3,861,576	-
Total noncurrent liabilities	<u>5,298,316</u>	<u>4,604,806</u>	<u>1,134,292</u>
Total liabilities	<u>7,268,127</u>	<u>6,698,167</u>	<u>3,075,876</u>
Deferred Inflows of Resources			
Electronic health record incentive	164,830	274,257	-
Pension related deferred inflows	1,175,552	1,546,857	-
Total deferred inflows of resources	<u>1,340,382</u>	<u>1,821,114</u>	<u>-</u>
Net Position	<u>6,390,822</u>	<u>6,026,447</u>	<u>9,991,393</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 14,999,331</u>	<u>\$ 14,545,728</u>	<u>\$ 13,067,269</u>

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2016	2015	2014
Operating Revenues			
Net patient service revenue			
(net of provision for bad debts)	\$ 16,866,191	\$ 16,317,996	\$ 15,163,765
Other operating revenues	538,946	499,967	389,470
Total Operating Revenues	<u>17,405,137</u>	<u>16,817,963</u>	<u>15,553,235</u>
Operating Expenses			
Salaries and wages	8,105,685	6,922,329	6,552,085
Medical specialist fees	1,127,007	815,067	491,384
Supplies and other expenses	6,963,976	7,336,810	7,326,371
Depreciation and amortization	888,598	797,690	699,207
Total Operating Expenses	<u>17,085,266</u>	<u>15,871,896</u>	<u>15,069,047</u>
Operating Income	<u>319,871</u>	<u>946,067</u>	<u>484,188</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	10,000	25,000	258
Investment income	7,620	10,592	21,491
Interest expense	(52,231)	(63,086)	(72,284)
Net Nonoperating Expenses	<u>(34,611)</u>	<u>(27,494)</u>	<u>(50,535)</u>
Revenues in Excess of Expenses	285,260	918,573	433,653
Capital Grants and Contributions	<u>79,115</u>	<u>29,718</u>	<u>43,256</u>
Change in Net Position	<u>364,375</u>	<u>948,291</u>	<u>476,909</u>
Net Position, Beginning of Year	6,026,447	9,991,393	9,514,484
Restatement	<u>-</u>	<u>(4,913,237)</u>	<u>-</u>
Net Position Beginning of Year, as Restated	<u>6,026,447</u>	<u>5,078,156</u>	<u>9,514,484</u>
Net Position, End of Year	<u>\$ 6,390,822</u>	<u>\$ 6,026,447</u>	<u>\$ 9,991,393</u>

Long-Term Debt

At June 30, 2016, Veterans Memorial Hospital had approximately \$838,000 in long-term debt. At June 30, 2015, Veterans Memorial Hospital had approximately \$1,134,000 in 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.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considers many factors when preparing the fiscal year 2017 budget. Of primary consideration in the 2017 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>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents - Note 3	\$ 347,604	\$ 102,046
Assets limited as to use or restricted - Note 3	52,466	52,256
Receivables		
Patient, net of estimated uncollectibles of \$726,000 in 2016 and \$553,000 in 2015	4,555,268	4,593,277
Estimated third-party payor settlements	131,000	-
Other	34,122	24,732
Supplies	305,743	286,945
Prepaid expense	120,378	330,303
Total current assets	<u>5,546,581</u>	<u>5,389,559</u>
Assets Limited as to Use or Restricted - Note 3		
Designated by board for capital improvements	<u>1,738,905</u>	<u>2,127,521</u>
Capital Assets - Note 4		
Capital assets not being depreciated	573,375	569,921
Depreciable capital assets, net of accumulated depreciation	<u>5,438,046</u>	<u>5,629,778</u>
Total capital assets, net	<u>6,011,421</u>	<u>6,199,699</u>
Other Assets		
Gift fund investments - Note 3	<u>1,890</u>	<u>1,883</u>
Total assets	<u>13,298,797</u>	<u>13,718,662</u>
Deferred Outflows of Resources		
Pension related deferred outflows - Note 5	<u>1,700,534</u>	<u>827,066</u>
Total assets and deferred outflows of resources	<u>\$ 14,999,331</u>	<u>\$ 14,545,728</u>

See Notes to Financial Statements

Veterans Memorial Hospital
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 356,403	\$ 391,062
Accounts payable		
Trade	543,654	507,247
Estimated third-party payor settlements	-	309,000
Accrued expenses		
Salaries and wages	435,487	327,893
Vacation	487,552	445,355
Payroll taxes and other	141,915	105,757
Interest	4,800	7,047
Total current liabilities	1,969,811	2,093,361
Noncurrent Liabilities		
Long-Term Debt, Less Current Maturities - Note 7	481,361	743,230
Net pension liability - Note 5	4,816,955	3,861,576
Total noncurrent liabilities	5,298,316	4,604,806
Total liabilities	7,268,127	6,698,167
Deferred Inflows of Resources		
Electronic health records incentive - Note 10	164,830	274,257
Pension related deferred inflows - Note 5	1,175,552	1,546,857
Total deferred inflows of resources	1,340,382	1,821,114
Net Position		
Net investment in capital assets	5,173,657	5,065,407
Restricted		
Expendable for debt service	52,466	52,256
Unrestricted	1,164,699	908,784
Total net position	6,390,822	6,026,447
Total liabilities, deferred inflows of resources, and net position	\$ 14,999,331	\$ 14,545,728

Veterans Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$829,748 in 2016 and \$768,465 in 2015)	\$ 16,866,191	\$ 16,317,996
Other operating revenues	538,946	499,967
Total operating revenues	17,405,137	16,817,963
Operating Expenses		
Salaries and wages	8,105,685	6,922,329
Medical specialist fees	1,127,007	815,067
Supplies and other expenses	6,963,976	7,336,810
Depreciation	888,598	797,690
Total operating expenses	17,085,266	15,871,896
Operating Income	319,871	946,067
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	10,000	25,000
Investment income	7,620	10,592
Interest expense	(52,231)	(63,086)
Net nonoperating expenses	(34,611)	(27,494)
Revenues in Excess of Expenses	285,260	918,573
Capital Grants and Contributions	79,115	29,718
Change in Net Position	364,375	948,291
Net Position Beginning of Year	6,026,447	5,078,156
Net Position, End of Year	\$ 6,390,822	\$ 6,026,447

Veterans Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 16,464,200	\$ 15,029,573
Payments to and on behalf of employees	(10,544,666)	(9,016,832)
Payments to medical specialists	(1,127,007)	(815,067)
Payments to suppliers and contractors	(4,398,647)	(5,426,998)
Other receipts	420,129	787,372
Net Cash from Operating Activities	814,009	558,048
Noncapital Financing Activities		
Noncapital grants and contributions received	10,000	25,000
Capital and Capital Related Financing Activities		
Purchase of capital assets	(598,731)	(887,719)
Capital grants and contributions received	79,115	29,718
Payment of interest on debt	(54,478)	(65,188)
Payment of principal on debt	(400,376)	(450,533)
Net Cash used for Capital and Capital Related Financing Activities	(974,470)	(1,373,722)
Investing Activities		
Increase in gift fund investments	(7)	(6)
Purchase of investments	-	(6,420)
Sale of investments	766,477	750,000
Investment income received	7,620	10,592
Net Cash from Investing Activities	774,090	754,166
Net Change in Cash and Cash Equivalents	623,629	(36,508)
Cash and Cash Equivalents at Beginning of Year	997,103	1,033,611
Cash and Cash Equivalents at End of Year	\$ 1,620,732	\$ 997,103

Veterans Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets		
Cash and cash equivalents	\$ 347,604	\$ 102,046
Assets limited as to use or restricted	52,466	52,256
Cash and cash equivalents in noncurrent assets limited as to use or restricted	1,220,662	842,801
Total cash and cash equivalents	\$ 1,620,732	\$ 997,103
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 319,871	\$ 946,067
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	888,598	797,690
Expense of non-capitalized construction in progress	2,259	37,500
Provision for bad debts	829,748	768,465
Changes in assets and liabilities		
Receivables	(801,129)	(2,066,740)
Supplies	(18,798)	(3,129)
Prepaid expense	209,925	(77,542)
Accounts payable	36,407	82,161
Estimated third-party payor settlements	(440,000)	23,000
Accrued expenses	185,949	108,189
Net pension liability	955,379	(1,632,199)
Deferred outflows of resources	(873,468)	(246,528)
Deferred inflows of resources	(480,732)	1,821,114
Net Cash from Operating Activities	\$ 814,009	\$ 558,048
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	\$ 103,848	\$ -

Note 1 - Organization and Significant Accounting Policies

The financial statements of Veterans Memorial Hospital (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The 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.

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 (GASB) 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 GASB criteria.

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.

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflow of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

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.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

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 an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restricted resources and then toward unrestricted resources.

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. For purposes of the statements of cash flows, the Hospital considers all cash and investments with original maturity of three months or less as cash and cash equivalents.

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 claim identified on the remittance advice or, if unspecified, are applied to the earliest claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility 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 uncollectible 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, 2015 to June 30, 2016. 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 2015 or 2016.

Supplies

Supplies are stated at lower of average cost or market, and are expensed when used.

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.

Investment Income

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

Capital Assets

Capital asset acquisitions in excess of \$1,000 are capitalized and recorded at cost. 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	5-20 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and pension plan contributions from the employer after the measurement date but before the end of the employer's reporting period.

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 statement of net position based on pay rates that are in effect at June 30, 2016 and 2015.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consist of deferred revenue related to electronic health record incentive amounts that will be recognized as revenue ratably over the life of the qualifying assets, and unrecognized items not yet credited to pension expense.

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 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 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.

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 and Community Benefit

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. Because the Hospital does not pursue collection of the amounts determined to qualify as charity care, they are not reported as patient service revenue. The amounts of charges foregone for services provided under the Hospital's charity care policy were \$134,716 and \$65,537, for the years ended June 30, 2016 and 2015. Total direct and indirect costs related to these foregone charges were approximately \$80,000 and \$39,000 for the years ended June 30, 2016 and 2015, based on an average ratio of cost to gross charges.

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 unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. 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 revenues in excess of expenses.

Advertising Costs

The Hospital expenses advertising costs as incurred.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

Medicare

To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance the Hospital will comply with the conditions attached to the incentive payments. As the entire Medicare EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the Medicare EHR incentive payment is first recognized as a deferred inflow of resources with a ratable recognition of revenue over the life of the qualifying assets.

Medicaid

The Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year. The Hospital recognizes Medicaid EHR incentive payments in the year received.

EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

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 under a cost reimbursement methodology, with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2014. 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, 2013.

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.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's gross patient service revenue for the years ended June 30, 2016 and 2015:

	2016	2015
Medicare	47%	47%
Medicaid	11%	12%
Blue Cross	18%	18%
Other Commercial	20%	18%
Self-Pay	4%	5%
	100%	100%

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 \$340,000 and \$98,000 for the years ended June 30, 2016 and 2015, due to prior-year retroactive adjustments in excess of amounts previously estimated and years that are no longer subject to audits, reviews, and investigations.

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.

Note 3 - Deposits and Investments

The Hospital's deposits in banks at June 30, 2016 and 2015 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 deposits and investments in this note.

At June 30, 2016 and 2015 the Hospital's carrying amounts of deposits and investments are as follows:

	2016	2015
Checking, Savings, and Money Market Accounts	\$ 1,620,732	\$ 997,103
Certificates of Deposits	520,124	1,282,248
Accrued Interest Receivable	9	4,355
	\$ 2,140,865	\$ 2,283,706
Included in the Following Statements of Net Position Captions:		
Cash and cash equivalents	\$ 347,604	\$ 102,046
Assets limited as to use or restricted	1,791,371	2,179,777
Gift fund investments	1,890	1,883
	\$ 2,140,865	\$ 2,283,706

All of the above deposits and investments 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, 2016 and 2015 was as follows:

	June 30, 2015 Balance	Additions	Transfers and Retirements	June 30, 2016 Balance
Capital Assets Not Being Depreciated				
Land	\$ 569,921	\$ -	\$ -	\$ 569,921
Construction in progress	-	53,503	(50,049)	3,454
Total capital assets not being depreciated	<u>569,921</u>	<u>\$ 53,503</u>	<u>\$ (50,049)</u>	<u>573,375</u>
Capital Assets Being Depreciated				
Land improvements	190,254	\$ 37,059	\$ -	227,313
Buildings and leasehold improvements	9,439,342	23,291	-	9,462,633
Equipment	6,701,477	588,726	47,790	7,337,993
Total capital assets being depreciated	<u>16,331,073</u>	<u>\$ 649,076</u>	<u>\$ 47,790</u>	<u>17,027,939</u>
Less Accumulated Depreciation for:				
Land improvements	142,845	\$ 5,812	\$ -	148,657
Buildings and leasehold improvements	5,597,552	336,355	-	5,933,907
Equipment	4,960,898	546,431	-	5,507,329
Total accumulated depreciation	<u>10,701,295</u>	<u>888,598</u>	<u>-</u>	<u>11,589,893</u>
Total Capital Assets Being Depreciated, Net	<u>5,629,778</u>	<u>\$ (239,522)</u>	<u>\$ 47,790</u>	<u>5,438,046</u>
Total Capital Assets, Net	<u>\$ 6,199,699</u>			<u>\$ 6,011,421</u>

Veterans Memorial Hospital
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June 30, 2016 and 2015

	June 30, 2014 Balance	Additions	Transfers and Retirements	June 30, 2015 Balance
Capital Assets Not Being Depreciated				
Land	\$ 569,921	\$ -	\$ -	\$ 569,921
Construction in progress	223,431	-	(223,431)	-
Total capital assets not being depreciated	<u>793,352</u>	<u>\$ -</u>	<u>\$ (223,431)</u>	<u>569,921</u>
Capital Assets Being Depreciated				
Land improvements	160,046	\$ 17,543	\$ 12,665	190,254
Buildings and leasehold improvements	9,090,217	177,916	171,209	9,439,342
Equipment	6,007,171	692,249	2,057	6,701,477
Total capital assets being depreciated	<u>15,257,434</u>	<u>\$ 887,708</u>	<u>\$ 185,931</u>	<u>16,331,073</u>
Less Accumulated Depreciation for:				
Land improvements	138,823	\$ 4,022	\$ -	142,845
Buildings and leasehold improvements	5,274,295	323,257	-	5,597,552
Equipment	4,490,498	470,400	-	4,960,898
Total accumulated depreciation	<u>9,903,616</u>	<u>797,679</u>	<u>-</u>	<u>10,701,295</u>
Total Capital Assets Being Depreciated, Net	<u>5,353,818</u>	<u>\$ 90,029</u>	<u>\$ 185,931</u>	<u>5,629,778</u>
Total Capital Assets, Net	<u>\$ 6,147,170</u>			<u>\$ 6,199,699</u>

Note 5 - Pension Plan

Plan Description – Iowa Public Employees’ Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except for members with service before June 30, 2012, which use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2016 and 2015, pursuant to the required rate, regular members contributed 5.95 percent of covered payroll and the Hospital contributed 8.93 percent of covered payroll for a total rate of 14.88 percent. In fiscal years 2016 and 2015, pursuant to the required rate, protection occupation members contributed 6.56 percent and 6.76 percent of covered payroll and the Hospital contributed 9.84 percent and 10.14 percent of covered payroll for a total rate of 16.40 and 16.90 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2016 and 2015 were \$708,630 and \$613,372, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016 and 2015, the Hospital reported a liability of \$4,816,955 and \$3,861,576, respectively for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's collective fund proportion was 0.097500 percent, which was an increase of 0.000131 percent from its proportion measured as of June 30, 2014 of 0.097369 percent.

For the years ended June 30, 2016 and 2015, the Hospital recognized pension expense of \$424,287 and \$281,502, respectively. At June 30, 2016 and 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 72,952	\$ 2,206	\$ 42,191	\$ 1,852
Changes of Assumptions	132,939	34	171,328	44
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	732,445	1,139,428	-	1,500,746
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	53,568	33,884	175	44,215
Hospital Contributions Subsequent to the Measurement Date	<u>708,630</u>	<u>-</u>	<u>613,372</u>	<u>-</u>
Total	<u>\$ 1,700,534</u>	<u>\$ 1,175,552</u>	<u>\$ 827,066</u>	<u>\$ 1,546,857</u>

The \$708,630 in 2016 and \$613,372 in 2015 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	2016	2015
2016	\$ -	\$ (336,032)
2017	(135,122)	(336,032)
2018	(135,122)	(336,032)
2019	(135,122)	(336,032)
2020	216,050	10,965
2021	5,668	-
	<u>\$ (183,648)</u>	<u>\$ (1,333,163)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Salary Increases (effective June 30, 2010)	4.00 to 17.00 percent average, including inflation Rates vary by membership group.
Long-term Investment Rate of Return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan, investment expense, including inflation
Wage Growth (effective June 30, 1996)	4.00 percent per annum, based on 3.00 percent inflation and 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-Plus Fixed Income	28%	2.04%
Domestic Equity	24%	6.29%
International Equity	16%	6.75%
Private Equity/Debt	11%	11.32%
Real Estate	8%	3.48%
Credit Opportunities	5%	3.63%
U.S. TIPS	5%	1.91%
Other Real Assets	2%	6.24%
Cash	1%	(0.71%)
	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Hospital's Proportionate Share of the Net Pension Liability at June 30, 2015	\$ 8,486,958	\$ 4,816,955	\$ 1,719,277
Hospital's Proportionate Share of the Net Pension Liability at June 30, 2014	\$ 7,356,869	\$ 3,861,576	\$ 911,249

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016 and 2015, the Hospital reported payables to the defined benefit pension plan of \$57,630 and \$37,955, respectively for legally required employer contributions not yet remitted to IPERS.

Note 6 - Lease Obligations

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 lease expense for all operating leases for the years ended June 30, 2016 and 2015 was \$135,551 and \$145,192. The capitalized leased assets consist of:

	2016	2015
Major Movable Equipment	\$ 814,716	\$ 814,298
Less accumulated amortization	(453,371)	(354,302)
	\$ 361,345	\$ 459,996

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

Years Ending June 30,	Capital Leases
2017	\$ 112,340
2018	106,772
2019	86,072
2020	23,971
2021	5,993
Total Minimum Lease Payments	335,148
Less interest	(12,384)
Present Value of Minimum Lease Payments - Note 7	\$ 322,764

Note 7 - Long-Term Debt

A summary of changes in the Hospital's long-term debt for 2016 and 2015 is as follows:

	June 30, 2015 Balance	Additions	Payments	June 30, 2016 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	\$ 755,000	\$ -	\$ 240,000	\$ 515,000	\$ 250,000
Capitalized Lease Obligations - Note 6	379,292	103,848	160,376	322,764	106,403
	\$ 1,134,292	\$ 103,848	\$ 400,376	837,764	\$ 356,403
Less current maturities				(356,403)	
Long-term debt, less current maturities				\$ 481,361	

Veterans Memorial Hospital
Notes to Financial Statements
June 30, 2016 and 2015

	June 30, 2014 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2015 <u>Balance</u>	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	\$ 980,000	\$ -	\$ 225,000	\$ 755,000	\$ 240,000
Capitalized Lease Obligations	<u>604,825</u>	-	<u>225,533</u>	<u>379,292</u>	<u>151,062</u>
	<u>\$ 1,584,825</u>	<u>\$ -</u>	<u>\$ 450,533</u>	1,134,292	<u>\$ 391,062</u>
Less current maturities Long-term debt, less current maturities				<u>(391,062)</u>	
				<u>\$ 743,230</u>	

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 356,403	\$ 34,777	\$ 391,180
2018	367,874	18,738	386,612
2019	84,211	1,861	86,072
2020	23,318	653	23,971
2021	5,958	35	5,993
	<u>\$ 837,764</u>	<u>\$ 56,064</u>	<u>\$ 893,828</u>

Note 8 - Contingencies

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.

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 - 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, 2016 and 2015 was as follows:

	2016	2015
Medicare	42%	44%
Medicaid	9%	10%
Commercial Insurance	36%	34%
Other Third-Party Payors and Patients	13%	12%
	100%	100%

Note 10 - Electronic Health Record Incentive Payments

The Hospital attested as a meaningful user of Electronic Health Records (EHR). Accordingly, the Hospital received a lump sum incentive payment related to Medicare EHR. The Hospital is recognizing the revenue ratably over the life of the related qualifying assets. As a result, the Hospital recognized revenue of \$109,427 and \$60,325 for the years ended June 30, 2016 and 2015 as other operating revenue. The remaining deferred inflows of resources of \$164,830 related to EHR incentive payments at June 30, 2016, will be recognized as income over the remaining life of the related assets.

The Hospital recognized revenues of \$131,000 during the years ended June 30, 2016 and 2015 related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. Since the remaining payments are contingent upon the Hospital meeting future EHR objectives, there are no amounts accrued as receivables from the State of Iowa Medicaid program.



Required Supplementary Information
June 30, 2016

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, 2016

	<u>Actual Accrual Basis</u>	<u>Adopted Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues	\$ 17,501,872	\$ 21,420,000	\$ (3,918,128)
Expenses	<u>17,137,497</u>	<u>21,060,000</u>	<u>3,922,503</u>
Net	364,375	360,000	<u>\$ 4,375</u>
Net Position, Beginning of Year	<u>6,026,447</u>	<u>10,322,363</u>	
Net Position, End of Year	<u>\$ 6,390,822</u>	<u>\$ 10,682,363</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, 2016.

For the year ended June 30, 2016 the Hospital's expenditures did not exceed the amount budgeted.

Veterans Memorial Hospital
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Hospital's Cumulative Proportion of the Net Pension Liability	0.097500%	0.097369%
Hospital's Cumulative Proportionate Share of the Net Pension Liability	\$ 4,816,955	\$ 3,861,576
Hospital's Covered-Employee Payroll	\$ 6,868,667	\$ 6,574,311
Hospital's Cumulative Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	70.13%	58.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.19%	87.61%

The amounts reported are measured as of June 30, 2015 and 2014 (measurement dates).

Note: GASB Statement No. 68 requires ten years of information to be presented in this schedule. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 708,630	\$ 613,372	\$ 587,086	\$ 556,364
Contributions in Relation to the Statutorily Required Contribution	<u>(708,630)</u>	<u>(613,372)</u>	<u>(587,086)</u>	<u>(556,364)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's Covered-Employee Payroll	\$ 7,935,386	\$ 6,868,667	\$ 6,574,311	\$ 6,417,116
Contributions as a Percentage of Covered-Employee Payroll	8.93%	8.93%	8.93%	8.67%

Veterans Memorial Hospital
Schedule of the Hospital's Contributions – Last 10 Fiscal Years
Required Supplementary Information
Year Ended June 30, 2016

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 488,296	\$ 402,628	\$ 383,374	\$ 356,847	\$ 305,780	\$ 267,360
<u>(488,296)</u>	<u>(402,628)</u>	<u>(383,374)</u>	<u>(356,847)</u>	<u>(305,780)</u>	<u>(267,360)</u>
<u>\$ -</u>					
\$ 6,050,756	\$ 5,793,209	\$ 5,765,023	\$ 5,619,638	\$ 5,054,215	\$ 4,649,739
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

Changes of benefit terms: Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions: The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the Unfunded Actuarial Liability (UAL) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered the disability rates for sheriffs and deputies and protection occupation members.



Supplementary Information
June 30, 2016 and 2015

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 years ended June 30, 2016 and 2015, and our report thereon dated September 20, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 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 20, 2016

Veterans Memorial Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

	2016	2015
Patient Service Revenue		
Routine services		
Adults and pediatrics	\$ 1,585,223	\$ 1,717,979
Nursery	196,800	191,250
Skilled care	384,120	362,250
Respite	4,092	1,214
Hospice	39,975	5,580
Observation	454,047	389,431
Same day surgery	6,875	3,570
Operating and recovery rooms	1,286,593	1,407,884
Delivery and labor rooms	208,140	215,100
Central services and supply	1,958,274	2,099,707
Intravenous solutions	848,247	757,190
Emergency services	1,996,478	1,479,422
Laboratory	3,730,573	3,219,634
Radiology	5,877,265	4,630,885
Electrocardiology	629,692	500,021
Pharmacy	3,213,572	3,092,901
Anesthesiology	519,984	570,681
Respiratory therapy	193,162	214,811
Physical therapy	1,801,042	1,805,424
Occupational therapy	550,071	618,846
Speech therapy	133,192	88,835
Cardiac rehabilitation	323,716	302,055
Ambulance service	705,167	623,513
Weekend clinic	444,176	349,421
Community and home care	943,715	993,849
Nutrition instruction	22,646	21,070
	28,056,837	25,662,523
Charity care (charges foregone)	(134,716)	(65,537)
	27,922,121	25,596,986
Total patient service revenue*		
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	7,312,906	7,376,666
Outpatient revenue	20,743,931	18,285,857
Charity care (charges foregone)	(134,716)	(65,537)
	27,922,121	25,596,986

Veterans Memorial Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Contractual Adjustments	<u>\$ (10,226,182)</u>	<u>\$ (8,510,525)</u>
Net Patient Service Revenue	17,695,939	17,086,461
Provision for Bad Debts	<u>(829,748)</u>	<u>(768,465)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u><u>\$ 16,866,191</u></u>	<u><u>\$ 16,317,996</u></u>

Veterans Memorial Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2016 and 2015

	2016	2015
Other Operating Revenues		
Medicare and Medicaid EHR incentive revenue	\$ 240,427	\$ 191,325
County reimbursement - community and home care	100,000	100,000
Community and home care clinics, etc.	42,623	64,390
Housekeeping	33,374	28,146
Gifts for operations	30,751	225
Grants	29,916	40,516
Cafeteria	16,349	15,326
Rental - net of direct expenses	8,702	11,795
Workshops, clinics, etc.	3,426	12,092
Laundry	2,601	1,559
Medical records copies	2,004	1,444
Vending machines	1,534	1,289
Healthy Lifestyle Center	967	1,030
Other	26,272	30,830
	\$ 538,946	\$ 499,967
Total Other Operating Revenues		

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	2016	2015
Nursing Administration		
Salaries and wages	\$ 151,914	\$ 141,651
Supplies and other expenses	15,600	13,120
	<u>167,514</u>	<u>154,771</u>
Routine Services		
Salaries and wages	1,893,090	1,780,984
Supplies and other expenses	180,249	263,191
	<u>2,073,339</u>	<u>2,044,175</u>
Operating and Recovery Rooms		
Salaries and wages	377,464	370,867
Supplies and other expenses	175,905	156,918
	<u>553,369</u>	<u>527,785</u>
Delivery and Labor Rooms		
Salaries and wages	33,721	32,710
Supplies and other expenses	-	1,042
	<u>33,721</u>	<u>33,752</u>
Central Services and Supply		
Supplies and other expenses	529,301	611,243
Emergency Services		
Salaries and wages	439,637	374,238
Medical specialist fees	1,036,177	732,416
Supplies and other expenses	13,110	9,942
	<u>1,488,924</u>	<u>1,116,596</u>
Laboratory		
Salaries and wages	429,327	410,398
Supplies and other expenses	395,251	393,461
	<u>824,578</u>	<u>803,859</u>
Radiology		
Salaries and wages	462,246	350,105
Professional fees	570,257	518,597
Supplies and other expenses	82,516	60,093
	<u>1,115,019</u>	<u>928,795</u>
Electrocardiology		
Salaries and wages	3,851	3,887
Medical specialist fees	90,830	82,651
Supplies and other expenses	994	900
	<u>95,675</u>	<u>87,438</u>

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	2016	2015
Pharmacy		
Drugs	\$ 734,683	\$ 764,419
Supplies and other expenses	189,047	170,527
	<u>923,730</u>	<u>934,946</u>
Anesthesiology		
Salaries and wages	388,599	376,408
Supplies and other expenses	11,117	5,844
	<u>399,716</u>	<u>382,252</u>
Respiratory Therapy		
Salaries and wages	134,332	131,654
Supplies and other expenses	1,531	1,860
	<u>135,863</u>	<u>133,514</u>
Physical Therapy		
Salaries and wages	551,171	91,483
Supplies and other expenses	164,729	637,511
	<u>715,900</u>	<u>728,994</u>
Occupational Therapy		
Salaries and wages	155,537	-
Supplies and other expenses	69,962	288,752
	<u>225,499</u>	<u>288,752</u>
Speech Therapy		
Salaries and wages	65,098	-
Supplies and other expenses	11,980	54,060
	<u>77,078</u>	<u>54,060</u>
Cardiac Rehabilitation		
Salaries and wages	44,868	42,004
Supplies and other expenses	2,425	1,679
	<u>47,293</u>	<u>43,683</u>
Chemotherapy		
Supplies and other expenses	900	1,417
	<u>900</u>	<u>1,417</u>
Ambulance Service		
Salaries and wages	148,461	138,812
Supplies and other expenses	6,592	3,494
	<u>155,053</u>	<u>142,306</u>
Weekend Clinic		
Salaries and wages	5,309	5,418
Supplies and other expenses	-	1,040
	<u>5,309</u>	<u>6,458</u>

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	2016	2015
Outpatient Clinic		
Salaries and wages	\$ 41,794	\$ 37,237
Supplies and other expenses	-	142
	<u>41,794</u>	<u>37,379</u>
Community and Home Care		
Salaries and wages	717,793	722,952
Supplies and other expenses	109,556	98,652
	<u>827,349</u>	<u>821,604</u>
Nutrition Instruction		
Salaries and wages	50,371	44,550
Supplies and other expenses	3,294	35,129
	<u>53,665</u>	<u>79,679</u>
Medical Records		
Salaries and wages	270,724	230,730
Supplies and other expenses	61,154	25,524
	<u>331,878</u>	<u>256,254</u>
Dietary		
Salaries and wages	257,192	220,842
Food	55,832	54,183
Supplies and other expenses	9,606	9,634
	<u>322,630</u>	<u>284,659</u>
Plant Operation and Maintenance		
Salaries and wages	183,452	178,482
Utilities	141,581	146,290
Supplies and other expenses	99,683	100,093
	<u>424,716</u>	<u>424,865</u>
Housekeeping		
Salaries and wages	337,672	358,912
Supplies and other expenses	42,368	35,012
	<u>380,040</u>	<u>393,924</u>
Laundry and Linen		
Salaries and wages	59,134	60,460
Supplies and other expenses	26,861	22,927
	<u>85,995</u>	<u>83,387</u>
Administrative Services		
Salaries and wages	902,928	817,548
Auditing and accounting fees	50,875	45,725
Collection fees	90,102	88,856
Telephone	56,703	45,791
Supplies and other expenses	378,990	411,504
	<u>1,479,598</u>	<u>1,409,424</u>

Veterans Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2016 and 2015

	2016	2015
Unassigned Expenses		
Depreciation	\$ 888,598	\$ 797,690
Insurance	56,292	55,543
Employee benefits		
FICA	446,061	422,023
IPERS	424,287	281,502
Group health insurance	1,582,939	1,342,888
Workers' compensation insurance	61,644	65,368
Other	109,999	90,911
	3,569,820	3,055,925
 Total Operating Expenses	 \$ 17,085,266	 \$ 15,871,896

Veterans Memorial Hospital
Schedules of Patient Receivables and Collection Statistics (Unaudited)
June 30, 2016 and 2015

Analysis of Aging

	June 30, 2016		June 30, 2015	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
0 to 30 days	\$ 2,504,964	32%	\$ 2,764,840	38%
1 to 2 months	1,879,003	24%	2,108,014	29%
2 to 3 months	2,180,451	28%	1,504,202	21%
3 to 6 months	830,659	11%	597,487	8%
6 months and over	361,233	5%	322,010	4%
	<u>7,756,310</u>	<u>100%</u>	<u>7,296,553</u>	<u>100%</u>
Less: Allowance for Doubtful Accounts	(726,042)		(553,276)	
Allowance for Contractual Adjustments	<u>(2,475,000)</u>		<u>(2,150,000)</u>	
	<u>\$ 4,555,268</u>		<u>\$ 4,593,277</u>	

	2016	2015
Collection Statistics		
Net accounts receivable - patients	\$ 4,555,268	\$ 4,593,277
Number of days charges outstanding (1)	93	95
Uncollectible accounts (2)	\$ 1,054,566	\$ 922,858
Percentage of uncollectible accounts to total charges	3.76%	3.60%

(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, 2016 and 2015

	2016	2015
Supplies		
Pharmacy	\$ 155,279	\$ 129,992
Central stores	112,769	115,270
Laboratory	37,695	41,683
Total supplies	\$ 305,743	\$ 286,945
 Prepaid Expense		
Maintenance contracts	\$ 79,967	\$ 77,354
Insurance	24,497	31,629
Dues	8,622	8,612
Non-compete agreement	-	195,000
Other	7,292	17,708
Total prepaid expense	\$ 120,378	\$ 330,303

Veterans Memorial Hospital
Schedule of Insurance in Force at June 30, 2016 (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	\$ 17,416	12/2/2016
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	\$ 30,439	12/2/2016
West Bend Mutual Insurance Co. AIJ 1424569-03	Workers' compensation	\$ 500,000	\$ 67,257	4/1/2017
Executive Risk Indemnity, Inc. #6802-3179	Directors' and officers' liability	\$ 1,000,000	\$ 8,533	3/4/2017

Veterans Memorial Hospital
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2016 and 2015

	2016	2015
Patient Days		
Acute		
Adults and pediatrics	1,360	1,564
Newborn	247	250
Swing-bed		
Skilled	1,164	1,146
Respite	22	7
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	28%	30%
Discharges		
Acute	608	677
Swing-bed	122	135
Average Length of Stay		
Acute (excluding newborn)	2.24	2.31
Swing-bed (excluding respite)	9.54	8.49
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 1,000	\$ 955
2-bed rooms	975	930
Nursery	800	765
Skilled care	330	315

Veterans Memorial Hospital
Schedules of Analysis of Sinking Fund
Years Ended June 30, 2016 and 2015

	2016	2015
Balance, Beginning of Year	\$ 52,256	\$ 49,726
Add: Deposits	282,490	282,410
Less: Withdrawals	(282,280)	(279,880)
Balance, End of Year	\$ 52,466	\$ 52,256

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, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2016.

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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify deficiencies in internal control, one which we consider to be a material weakness and one which we consider to be a significant deficiency.

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. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2016-A to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2016-B to be a significant deficiency.

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.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016, 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.

View of Responsible Officials

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 20, 2016

Part I: Findings Related to the Financial Statements:

Material Weakness:

2016-A Preparation of Financial Statements and Audit Adjustments

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. Also, individually material and significant adjustments were proposed and made to the financial statements during the audit.

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. Accordingly, interim financial statements may be misstated due to the adjusting journal entries at year end.

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.

View of Responsible Officials – 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.

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

Significant Deficiency:

2016-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.

View of Responsible Officials – 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:

- 2016-IA-A Certified Budget** – Expenditures during the year ended June 30, 2016, did not exceed the amount budgeted.
- 2016-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.
- 2016-IA-C Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 2016-IA-D Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- 2016-IA-E Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2016-IA-F Deposits and Investments** – The Hospital exceeded limits within its depository resolution at certain times during the year ended June 30, 2016. Also, we noted one bank that is not currently included in the Hospital’s depository resolution.

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 verifying that all banks in which Hospital deposits are held are included on the depository resolution and evaluating the adequacy of the current maximum deposit amounts based on the existing cash and deposit balances.

View of Responsible Officials – We will monitor our depository resolution and cash balances and assess the adequacy of maximum depository amounts.