

Washington County Hospital

Accountants' Report and Financial Statements

June 30, 2004 and 2003



Washington County Hospital

June 30, 2004 and 2003

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Washington County Hospital
Washington, Iowa

We have audited the accompanying balance sheet of Washington County Hospital as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Washington County Hospital as of and for the year ended June 30, 2003, were audited by other accountants whose report dated August 29, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of Washington County Hospital as of June 30, 2004, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2004 on our consideration of Washington County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Washington County Hospital
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Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
September 1, 2004

Washington County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2004 and 2003

Introduction

The management's discussion and analysis of the financial performance of Washington County Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2004 and 2003. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash, short-term investments, assets held under indenture agreement – current, certificates of deposit and noncurrent cash and investments increased in 2004 and 2003 by \$1,537,460 and \$903,843, or 32% and 23%, respectively.
- The Hospital's net assets increased in each of the past two years with a \$1,603,488 or 17% increase in 2004 and a \$627,500 or 7% increase in 2003.
- The Hospital reported operating income of \$788,614 and \$96,074 in 2004 and 2003, respectively.
- Net nonoperating revenues increased by \$319,935 and \$50,677 or 64% and 11% in 2004 and 2003, respectively.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and change in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and The Statement of Revenues, Expenses and Changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting.

Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an

indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what cash was used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,603,488 (17%) in 2004 over 2003 and \$627,500 (7%) in 2003 over 2002, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets			
Patient accounts receivable	\$ 2,359,084	\$ 2,359,943	\$ 2,081,144
Other current assets	5,024,264	3,547,221	2,987,917
Investment in land	159,597	149,060	101,586
Noncurrent cash and investments	2,315,602	2,319,642	1,905,120
Capital assets, net	6,706,860	6,747,947	7,558,248
Other	<u>131,636</u>	<u>135,681</u>	<u>144,540</u>
Total assets	<u>\$ 16,697,043</u>	<u>\$ 15,259,494</u>	<u>\$ 14,778,555</u>
Liabilities			
Current liabilities	\$ 2,573,144	\$ 2,330,847	\$ 1,992,178
Long-term debt	<u>3,240,000</u>	<u>3,648,236</u>	<u>4,133,466</u>
Total liabilities	<u>5,813,144</u>	<u>5,979,083</u>	<u>6,125,644</u>
Net Assets			
Invested in capital, net assets	2,833,791	2,652,837	2,983,031
Restricted expendable	627,216	612,065	581,460
Unrestricted	<u>7,422,892</u>	<u>6,015,509</u>	<u>5,088,420</u>
Total net assets	<u>10,883,899</u>	<u>9,280,411</u>	<u>8,652,911</u>
Total liabilities and net assets	<u>\$ 16,697,043</u>	<u>\$ 15,259,494</u>	<u>\$ 14,778,555</u>

Operating Results

The Hospital's Excess of Revenues over Expenses was \$1,603,488 in 2004 and \$591,013 in 2003, as shown in Table 2. This excess increased \$1,012,475 in 2004 over 2003 and \$687,761 in 2003 over 2002.

Table 2: Operating Results

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues			
Net patient service revenue	\$ 15,099,239	\$ 12,764,543	\$ 11,508,659
Other operating revenues	<u>360,521</u>	<u>359,227</u>	<u>365,280</u>
Total operating revenues	<u>15,459,760</u>	<u>13,123,770</u>	<u>11,873,939</u>
Operating Expenses			
Salaries, wages and benefits	7,957,800	7,029,730	6,070,630
Other operating supplies and expenses	5,821,740	5,011,414	5,342,721
Depreciation and amortization	<u>891,606</u>	<u>986,552</u>	<u>1,001,598</u>
Total operating expenses	<u>14,671,146</u>	<u>13,027,696</u>	<u>12,414,949</u>
Operating Income (Loss)	<u>788,614</u>	<u>96,074</u>	<u>(541,010)</u>
Nonoperating Revenues (Expenses)			
Property tax revenue	734,006	610,912	592,337
Investment income	175,246	68,974	48,799
Interest expense	(200,836)	(227,752)	(251,286)
Noncapital contributions	77,245	33,931	36,375
Foundation gift shop, net	<u>29,213</u>	<u>8,874</u>	<u>18,037</u>
Total nonoperating revenues	<u>814,874</u>	<u>494,939</u>	<u>444,262</u>
Excess of Revenues Over (Under) Expenses	1,603,488	591,013	(96,748)
Contributions to Purchase Long-Lived Assets	<u>—</u>	<u>36,487</u>	<u>—</u>
Increase (Decrease) in Net Assets	<u>\$ 1,603,488</u>	<u>\$ 627,500</u>	<u>\$ (96,748)</u>

The primary reasons for improved financial performance in 2004 were:

- Net patient service revenue increased \$2,334,696 or 18.3 percent.
- The Hospital received designation as a Critical Access Hospital, effective December 1, 2002 (twelve months in 2004 compared to seven months in 2003).
- Operating expense increases held to 12.6 percent increase over the prior year.

Net patient service revenues increased in 2004 primarily because patient charges were increased in July 2003, and from increased reimbursement due to the Hospital's licensure change.

Operating expenses increased 12.6 percent. Other operating supplies and expenses increased the fastest in 2004. Other operating supplies and expenses increased \$810,326 or 16.2 percent in large part due to recruitment and startup expenses associated with an OB/GYN practice started July 1, 2003. Salaries, wages and benefits increased \$928,070 or 13.2 percent from 2003. Salary adjustments were necessary to remain competitive with two large health systems in Iowa City.

The primary reasons for improved financial performance in 2003 were:

- Net patient service revenue increased \$1,255,844 or 10.9 percent.
- The Hospital received designation as a Critical Access Hospital, effective December 1, 2002.
- Operating expense increases held to 5.0 percent.

Net patient service revenues increased in 2003 primarily because patient charges were increased in May 2002, and from increased reimbursement from the Hospital's licensure change.

Employee salary and benefit expenses increased the fastest in 2003. Salaries and wages increased \$405,146 or 8.1 percent from 2002. Salary adjustments were necessary to retain Hospital staff being recruited by the two large health care systems in Iowa City.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of county property taxes levied by the Hospital and interest income and investment earnings. The Hospital's county tax levy was \$734,006 in 2004, up from \$610,912 for 2003.

Nonoperating expenses consist of interest expense on long-term debt. Long-term debt consists of capitalized leases and Hospital Revenue Bonds used to acquire long-term assets.

The Hospital's Cash Flows

The Hospital's Cash from Operating Activities increased \$733,692 over the prior year. In 2003, the increase was \$34,839 over the prior year.

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier, with two exceptions. Cash flows used in capital and related financing activities increased \$425,770 over the prior year due to increased purchases of capital assets and retirement of outstanding debt.

In 2003, gross patient accounts receivable decreased \$49,201 from 2002. The allowances for contractual adjustments and doubtful accounts decreased by \$328,000 or 23.6 percent, resulting in net patient accounts receivable increasing by \$278,799 or 13.4 percent from 2002.

Capital Asset and Debt Administration

Capital Assets

At the end of 2004, the Hospital had \$6,706,860 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2004, the Hospital purchased new capital assets costing \$843,482, none of which was acquired through incursion of capital lease obligations.

At the end of 2003, the Hospital had \$6,747,947 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2003, the Hospital purchased new equipment costing \$168,662. Of this, none was acquired through capital leases. Nearly the same amount, \$198,235, was spent to acquire new equipment in 2002.

Debt

At June 30, 2004, the Hospital had \$3,560,000 in revenue bonds and paid off all capital lease obligations outstanding. The Hospital issued no new debt in 2004.

At June 30, 2003, the Hospital had \$4,133,466 in Hospital Revenue Bonds and capital lease obligations outstanding. The Hospital issued no new debt in 2003 and 2002.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Chief Financial Officer's office at Washington County Hospital, 400 East Polk Street, Washington, Iowa 52353.

Washington County Hospital
Balance Sheets
June 30, 2004 and 2003

Assets

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash and cash equivalents	\$ 2,450,945	\$ 1,056,128
Short-term investments	972,846	833,163
Assets held under indenture agreement – current	502,505	495,505
Patient accounts receivable, net of allowance; 2004 - \$521,000, 2003 - \$521,000	2,359,084	2,359,943
Other receivables	32,952	19,628
Estimated third-payor settlements	49,000	86,000
Succeeding year property tax settlements	705,821	740,454
Supplies	280,973	257,410
Prepaid expenses	<u>29,222</u>	<u>58,933</u>
Total current assets	<u>7,383,348</u>	<u>5,907,164</u>
Certificates of Deposit	<u>74,469</u>	<u>74,469</u>
Investment in Land	<u>159,597</u>	<u>149,060</u>
Noncurrent Cash and Investments		
Internally designated		
Capital and other expenditures	2,095,639	2,100,357
Externally restricted		
Indenture agreement	180,759	213,085
Donors	<u>39,204</u>	<u>6,200</u>
	<u>2,315,602</u>	<u>2,319,642</u>
Capital Assets, net of accumulated depreciation	<u>6,706,860</u>	<u>6,747,947</u>
Other Assets		
Foundation assets	25,847	22,855
Deferred financing costs	<u>31,320</u>	<u>38,357</u>
Total Other Assets	<u>57,167</u>	<u>61,212</u>
Total Assets	<u>\$ 16,697,043</u>	<u>\$ 15,259,494</u>

Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
Current Liabilities		
Current maturities of long-term debt	\$ 320,000	\$ 485,230
Accounts payable	690,552	275,008
Accrued expenses		
Salaries and wages	194,164	142,287
Paid time off	349,436	322,736
Payroll taxes and other payroll withholdings	72,434	123,132
Self funded health insurance payable	100,000	100,000
Interest	95,253	102,725
Deferred revenue for succeeding year property tax receivable	705,821	740,454
Property taxes	<u>45,484</u>	<u>39,275</u>
Total current liabilities	2,573,144	2,330,847
Long-term Debt, less current maturities	<u>3,240,000</u>	<u>3,648,236</u>
Total liabilities	<u>5,813,144</u>	<u>5,979,083</u>
Net Assets		
Invested in capital assets, net of related debt	2,833,791	2,652,837
Unrestricted	7,422,892	6,015,509
Restricted expendable		
Debt service	588,012	605,865
Donor restricted	<u>39,204</u>	<u>6,200</u>
Total net assets	<u>10,883,899</u>	<u>9,280,411</u>
Total Liabilities and Net Assets	<u>\$ 16,697,043</u>	<u>\$ 15,259,494</u>

Washington County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 15,557,513	\$ 13,139,439
Provision for uncollectible accounts	<u>(458,274)</u>	<u>(374,896)</u>
Net patient service revenue	15,099,239	12,764,543
Other	<u>360,521</u>	<u>359,227</u>
	<u>15,459,760</u>	<u>13,123,770</u>
Operating Expenses		
Salaries and wages	6,241,765	5,383,516
Employee benefits	1,716,035	1,646,214
Medical professional fees	2,025,975	1,816,665
Supplies and other	1,676,128	1,284,149
General services	982,815	852,181
Administrative services	910,541	889,123
Depreciation and amortization	891,606	986,552
Insurance	<u>226,281</u>	<u>169,296</u>
	<u>14,671,146</u>	<u>13,027,696</u>
Operating Income	<u>788,614</u>	<u>96,074</u>
Nonoperating Revenues (Expenses)		
Investment income	175,246	68,974
Interest expense	(200,836)	(227,752)
Property tax revenue	734,006	610,912
Noncapital contributions	77,245	33,931
Foundation gift shop, net	<u>29,213</u>	<u>8,874</u>
	<u>814,874</u>	<u>494,939</u>
Excess of Revenues Over Expenses	1,603,488	591,013
Contributions to Purchase Long-Lived Assets	<u>—</u>	<u>36,487</u>
Increase in Net Assets	1,603,488	627,500
Net Assets, Beginning of the Year	<u>9,280,411</u>	<u>8,652,911</u>
Net Assets, End of the Year	<u>\$ 10,883,899</u>	<u>\$ 9,280,411</u>

Washington County Hospital
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 15,137,098	\$ 12,579,744
Payments to suppliers	(5,744,437)	(4,929,432)
Payments to employees	(7,931,184)	(6,926,870)
Other receipts and payments, net	<u>347,197</u>	<u>351,540</u>
Net cash provided by operating activities	<u>1,808,674</u>	<u>1,074,982</u>
Noncapital Financing Activities		
Property taxes supporting operations	734,006	610,912
Noncapital contributions	77,245	33,931
Foundation gift shop	<u>29,213</u>	<u>10,143</u>
Net cash provided by noncapital financing activities	<u>840,464</u>	<u>654,986</u>
Capital and Related Financing Activities		
Purchase of capital assets	(499,093)	(168,662)
Contributions for capital assets	—	36,487
Principal payments on long-term debt	(573,466)	(487,698)
Interest paid on long-term debt	<u>(200,836)</u>	<u>(227,752)</u>
Net cash used in capital and related financing activities	<u>(1,273,395)</u>	<u>(847,625)</u>
Investing Activities		
Change in deposits and investments	(157,260)	(305,812)
Income received on investments	<u>42,652</u>	<u>21,500</u>
Net cash used in investing activities	<u>(114,608)</u>	<u>(284,312)</u>
Increase in Cash	1,261,135	598,031
Cash, Beginning of Year	<u>1,305,515</u>	<u>707,484</u>
Cash, End of Year	<u>\$ 2,566,650</u>	<u>\$ 1,305,515</u>
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	\$ 2,450,945	\$ 1,056,128
Noncurrent cash and investments	<u>115,705</u>	<u>249,387</u>
Capital and other expenditures	<u>\$ 2,566,650</u>	<u>\$ 1,305,515</u>

Washington County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 788,614	\$ 96,074
Items not requiring cash		
Depreciation and amortization	891,606	986,553
Changes in		
Patient and other receivables	(12,465)	(278,799)
Supplies	(23,563)	14,633
Prepaid expenses	29,711	(38,162)
Accounts payable and accrued expenses	97,771	200,683
Estimated amounts due to third-party payers	37,000	94,000
Net cash provided by operating activities	\$ 1,808,674	\$ 1,074,982
 Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 344,389	—

Washington County Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Washington County Hospital (Hospital) is a 25-bed public hospital and 43-bed long-term care facility organized under Chapter 347 of the Code of Iowa and is governed by a seven member Board of Trustees elected for alternating terms of six years. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Washington County area.

The Hospital is the beneficiary of the Washington County Hospital Foundation, a legally separate not-for-profit corporation. The Foundation was formed to “encourage, accept and steward all public and private gifts, grants and contributions in support of the mission of Washington County Hospital. The Foundation is a component unit of the Hospital and; thus, is reflected in the accompanying financial statements using the blended method.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). In 2004, the Hospital has elected the following method of applying pronouncements of the Financial Accounting Standards Board (FASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the FASB that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements. This change in election had no effect on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Washington County Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 4.5% of its financial support from property tax revenues in the years ended June 30, 2004 and 2003, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters except employee health and dental benefits for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Investments and Investment Income

Investments in U. S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Noncurrent Cash and Investments

Noncurrent cash and investments include (1) assets restricted by donors, (2) assets restricted under indenture agreements, and (3) internally designated unrestricted 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.

Supplies

All supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

Deferred Financing Costs

Costs incurred in connection with issuance of the revenue bonds have been deferred and are being amortized to expense over the life of the bonds using the interest method.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as paid time off benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and

Washington County Hospital

Notes to Financial Statements

June 30, 2004 and 2003

termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$19,540 and \$3,896 for 2004 and 2003, respectively.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

Washington County Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state tax law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 49% and 57% of net patient service revenues are from participation in the Medicare and state sponsored Medicaid programs for each of the years ended June 30, 2004 and 2003.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2004 and 2003 was:

	2004	2003
Medicare and Medicaid	\$ 579,639	\$ 524,053
Other third-party payers	706,908	1,054,661
Patients	1,524,476	1,213,082
Clinics	69,061	89,147
	2,880,084	2,880,943
Less allowances for uncollectible accounts	521,000	521,000
	<u>\$ 2,359,084</u>	<u>\$ 2,359,943</u>

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of the Code of Iowa. The Code of Iowa provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2004 and 2003.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; 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.

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

At June 30, 2004 and 2003, the Hospital had the following investments and maturities:

Type	Fair Value	June 30, 2004			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market funds-Hospital	\$ 44,844	\$ 44,844	\$ —	\$ —	\$ —
Government obligations-Hospital	638,420	—	—	11,919	626,501
Money market funds-Foundation	11,133	11,133	—	—	—
Money market mutual funds-Foundation	<u>871,645</u>	<u>871,645</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 1,566,042</u>	<u>\$ 927,622</u>	<u>\$ 0</u>	<u>\$ 11,919</u>	<u>\$ 626,501</u>

Type	Fair Value	June 30, 2003			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market funds-Hospital	\$ 396,329	\$ 396,329	\$ —	\$ —	\$ —
Government obligations-Hospital	312,261	—	—	20,155	292,106
Money market funds-Foundation	7,135	7,135	—	—	—
Money market mutual funds-Foundation	<u>674,591</u>	<u>674,591</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 1,390,316</u>	<u>\$ 1,078,055</u>	<u>\$ 0</u>	<u>\$ 20,155</u>	<u>\$ 292,106</u>

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital’s investment policy for investments considered over operating funds is with maturities less than 397 days. Other investments are to have maturities consistent with the needs and use of the Hospital. The money market funds and money market mutual funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately. The government obligations are presented in their respective category based on final maturity date.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2004 and 2003, the Hospital’s money market funds are AA rated by Standard and Poor while the Foundation’s money market funds are AAA rated by Standard and Poors. The Hospital’s government obligations were rated AAA by Standard and Poors while the Foundation’s money market funds were not rated since they mainly consist of stock funds.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2004 and 2003, the Hospital’s investment in the Federal Home Loan Mortgage Corporation bonds was 22% and 12%, respectively, while the Hospital’s investment in the Federal National Mortgage Association bonds was 19% and 38%, respectively.

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2004	2003
Carrying value		
Deposits	\$ 4,750,325	\$ 3,388,591
Investments	<u>1,566,042</u>	<u>1,390,316</u>
	<u>\$ 6,316,367</u>	<u>\$ 4,778,907</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,450,945	\$ 1,056,128
Short-term investments	972,846	833,163
Assets held under indenture agreement – current	502,505	495,505
Certificates of deposit	74,469	74,469
Noncurrent cash and deposits	<u>2,315,602</u>	<u>2,319,642</u>
	<u>\$ 6,316,367</u>	<u>\$ 4,778,907</u>

Investment Income

Investment income for the years ended June 30, 2004 and 2003, consisted of:

	2004	2003
Interest and dividend income	\$ 53,189	\$ 54,413
Net increase in fair value of investments	<u>122,057</u>	<u>14,561</u>
	<u>\$ 175,246</u>	<u>\$ 68,974</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2004 and 2003, were as follows:

2004	Balance June 30, 2003	Additions	Retirements	Transfers	Balance June 30, 2004
Land	\$ 10,902	\$ —	\$ —	\$ —	\$ 10,902
Land improvements	333,405	—	—	—	333,405
Buildings and leasehold improvements	9,906,643	—	—	—	9,906,643
Equipment	<u>6,406,964</u>	<u>843,482</u>	<u>—</u>	<u>—</u>	<u>7,250,446</u>
	<u>16,657,914</u>	<u>843,482</u>	<u>—</u>	<u>—</u>	<u>17,501,396</u>
Less accumulated depreciation for					
Land improvements	(194,718)	(16,689)	—	—	(211,407)
Buildings and leasehold improvements	(4,607,285)	(425,068)	—	—	(5,032,353)
Equipment	<u>(5,107,964)</u>	<u>(442,812)</u>	<u>—</u>	<u>—</u>	<u>(5,550,776)</u>
	<u>(9,909,967)</u>	<u>(884,569)</u>	<u>—</u>	<u>—</u>	<u>(10,794,536)</u>
	<u>\$ 6,747,947</u>	<u>\$ (41,087)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,706,860</u>
2003	Balance June 30, 2002	Additions	Retirements	Transfers	Balance June 30, 2003
Land	\$ 10,902	\$ —	\$ —	\$ —	\$ 10,902
Land improvements	333,405	—	—	—	333,405
Buildings and leasehold improvements	9,897,959	8,684	—	—	9,906,643
Equipment	<u>6,246,985</u>	<u>159,979</u>	<u>—</u>	<u>—</u>	<u>6,406,964</u>
	<u>16,489,251</u>	<u>168,663</u>	<u>—</u>	<u>—</u>	<u>16,657,914</u>
Less accumulated depreciation for					
Land improvements	(177,863)	(16,855)	—	—	(194,718)
Buildings and leasehold improvements	(4,181,664)	(425,621)	—	—	(4,607,285)
Equipment	<u>(4,571,476)</u>	<u>(536,488)</u>	<u>—</u>	<u>—</u>	<u>(5,107,964)</u>
	<u>(8,931,003)</u>	<u>(978,964)</u>	<u>—</u>	<u>0</u>	<u>(9,909,967)</u>
	<u>\$ 7,558,248</u>	<u>\$ (810,301)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,747,947</u>

Note 6: Investment in Land

The Hospital was a beneficiary of a trust that donated an undivided interest in land in Brazoria County, Texas. The land is recorded at its estimated value based on a basis from the Brinton Charitable Trust. The Board has approved a contract to sell the land.

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 7: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2004 and 2003 follows.

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 3,865,000	\$ —	\$ (305,000)	\$ 3,560,000	\$ 320,000
Capital lease obligations	<u>268,466</u>	<u>—</u>	<u>(268,466)</u>	<u>—</u>	<u>—</u>
	<u>\$ 4,133,466</u>	<u>\$ 0</u>	<u>\$ (573,466)</u>	<u>\$ 3,560,000</u>	<u>\$ 320,000</u>

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 4,160,000	\$ —	\$ (295,000)	\$ 3,865,000	\$ 305,000
Capital lease obligations	<u>461,164</u>	<u>—</u>	<u>(192,698)</u>	<u>268,466</u>	<u>180,230</u>
	<u>\$ 4,621,164</u>	<u>\$ 0</u>	<u>\$ (487,698)</u>	<u>\$ 4,133,466</u>	<u>\$ 485,230</u>

(A) Hospital Revenue Bonds, Series 1997; \$5,200,000 maturing serially at varying amounts through 2012; semiannual interest payments at rates ranging from 5.10% to 5.65%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding

Scheduled principal and interest repayments on long-term debt are as follows:

	Long-term Debt	
	Principal	Interest
2005	\$ 320,000	\$ 182,505
2006	335,000	165,963
2007	355,000	148,279
2008	370,000	129,517
2009	390,000	109,562
2010-2012	<u>1,790,000</u>	<u>207,266</u>
	<u>\$ 3,560,000</u>	<u>\$ 943,092</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 8: Operating Leases

The Hospital leased certain equipment under noncancelable long-term lease agreements. Certain leases had been recorded as capitalized leases and others as operating leases. The capitalized leased assets consisted of:

	2004	2003
Major movable equipment	\$ —	\$ 930,050
Less accumulated amortization	—	717,404
	\$ —	\$ 212,646

A noncancelable operating lease for equipment will expire June 2007.

Future minimum lease payments at June 30, 2004, are:

2005	\$ 53,088
2006	53,464
2007	53,464
Future minimum lease payments	\$ 160,016

Rental expense for all operating income were \$148,071 and \$62,226 at June 30, 2004 and 2003, respectively.

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to \$30,000 per eligible participant. Commercial stop-loss insurance coverage is purchased for claims in excess of \$30,000. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors.

Activity in the Hospital's accrued employee health claims liability during 2004 and 2003 is summarized as follows:

	2004	2003
Balance, beginning of year	\$ 100,000	\$ 75,000
Current year claims incurred and changes in estimates		
For claims incurred in prior years	864,939	897,967
Claims and expenses paid	864,939	872,967
Balance, end of year	\$ 100,000	\$ 100,000

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 10: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2004 and 2003. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2004, 2003 and 2002 were \$346,445, \$304,748 and \$271,707, respectively, which equaled the required contributions for each year.

Note 11: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 734,006	\$ —	\$ 734,006	\$ 740,454
Other revenues/receipts	<u>15,741,464</u>	<u>24,535</u>	<u>15,765,999</u>	<u>16,652,351</u>
	16,475,470	24,535	16,500,005	17,392,805
Expenses/disbursements	<u>14,871,982</u>	<u>(103,859)</u>	<u>14,768,123</u>	<u>16,743,323</u>
	1,603,488	128,394	1,731,882	649,482
Balance, beginning of year	<u>9,280,411</u>	<u>1,676,751</u>	<u>10,957,162</u>	<u>10,957,162</u>
Balance, end of year	<u>\$ 10,883,899</u>	<u>\$ 1,805,145</u>	<u>\$ 12,689,044</u>	<u>\$ 11,606,644</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 12: Significant Estimates and Concentrations

Significant estimates and current vulnerability due to certain concentrations include the following:

- Estimates of allowances for adjustments included in net patient service revenue are described in Note 2. Estimates related to the accrual for self-insured health benefits are described in Note 9.
- The Hospital is served by two groups of physicians whose patients comprise 79% of the Hospital's net patient service revenue at June 30, 2004.

Note 13: Restricted and Designated Net Assets

At June 30, 2004 and 2003, restricted expendable net assets were available for the following purposes.

	2004	2003
Debt service	\$ 588,012	\$ 605,865
Specific operating activities and capital acquisition	39,204	6,200
	\$ 627,216	\$ 612,065

At June 30, 2004 and 2003, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes.

	2004	2003
Capital and other expenditures	\$ 2,095,639	\$ 2,100,357

Designated net assets remain under the control of the Board of Trustees. The Board may, at its discretion, later use these net assets for other purposes.

Note 14: Changes in Accounting Principles

In 2004, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, by retroactively restating prior year's financial statements. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk and interest rate risk. Adoption of GASBS 40 had no effect on the change in financial position in the prior or current year.

Supplementary Information

Washington County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2004 and 2003

	<u>2004</u>			<u>2003</u>		
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>
Nursing Services						
Medical/surgical	\$ 1,749,281	\$ 1,376,558	\$ 372,723	\$ 1,669,053	\$ 1,453,383	\$ 215,670
Obstetrics	242,728	208,583	34,145	162,093	155,137	6,956
Labor and delivery	4,808	2,488	2,320	6,487	659	5,828
Special care unit	1,714,036	86,975	1,627,061	1,745,330	121,975	1,623,355
Nursery	90,750	90,750		57,590	57,590	
Swing bed	437,545	437,545		351,163	351,163	
Long-term care	1,686,539	1,686,539		1,642,937	1,642,937	
Operating and recovery	192,564	192,564		206,028	206,028	
Emergency	<u>1,831,749</u>	<u>164,069</u>	<u>1,667,680</u>	<u>1,649,953</u>	<u>138,224</u>	<u>1,511,729</u>
	<u>7,950,000</u>	<u>4,246,071</u>	<u>3,703,929</u>	<u>7,490,634</u>	<u>4,127,096</u>	<u>3,363,538</u>
Other Professional Services						
Central service and supply	789,859	436,393	353,466	340,620	180,379	160,241
Laboratory	2,102,354	514,959	1,587,395	1,826,160	399,847	1,426,313
Radiology	3,835,617	366,935	3,468,682	3,427,664	272,528	3,155,136
Pharmacy	3,851,114	1,862,115	1,988,999	2,912,421	1,728,775	1,183,646
Anesthesiology	657,001	183,790	473,211	614,922	150,325	464,597
Physical therapy	486,597	48,016	438,581	470,470	47,497	422,973
Speech therapy	10,636	3,302	7,334	5,277	2,604	2,673
Occupational therapy	82,887	17,730	65,157	66,577	22,069	44,508
Respiratory therapy	575,701	495,545	80,156	555,133	484,617	70,516
Electrocardiology	200,685	64,170	136,515	164,879	53,760	111,119
Cardiac rehabilitation	171,272	554	170,718	152,672	1,044	151,628
Ambulatory care	227,622		227,622	137,517		137,517
Keota clinic	137,959		137,959	152,385		152,385
Wayland clinic	81,898		81,898	107,279		107,279
Sisam clinic	<u>214,601</u>		<u>214,601</u>			
	<u>13,425,803</u>	<u>3,993,509</u>	<u>9,432,294</u>	<u>10,933,976</u>	<u>3,343,445</u>	<u>7,590,531</u>
Patient Service Revenue	21,375,803	<u>\$ 8,239,580</u>	<u>\$ 13,136,223</u>	<u>18,424,610</u>	<u>\$ 7,470,541</u>	<u>\$ 10,954,069</u>
Contractual Allowances	<u>5,818,290</u>			<u>5,285,171</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	15,557,513			13,139,439		
Provision for Uncollectible Accounts	<u>(458,274)</u>			<u>(374,896)</u>		
Net Patient Service Revenue	<u>\$ 15,099,239</u>			<u>\$ 12,764,543</u>		

Washington County Hospital
Schedules of Other Revenues
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Rental income	\$ 200,194	\$ 201,480
Cafeteria	67,504	65,282
Meals on Wheels	8,019	8,354
Lifeline services	43,479	41,775
Other	22,794	23,784
Contracted social work	17,342	15,970
Education program	<u>1,189</u>	<u>2,582</u>
	<u>\$ 360,521</u>	<u>\$ 359,227</u>

Washington County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2004 and 2003

	2004			2003		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 99,532	\$ 92,996	\$ 6,536	\$ 97,097	\$ 87,974	\$ 9,123
Medical/surgical	1,239,013	1,083,856	155,157	1,169,255	943,199	226,056
Obstetrics and nursery	190,709	172,815	17,894	156,050	132,527	23,523
Special care unit	2,683	2,047	636	3,446	3,323	123
Long-term care	1,040,585	993,472	47,113	925,906	840,564	85,342
Operating and recovery	340,026	259,728	80,298	356,715	254,673	102,042
Emergency	<u>864,092</u>	<u>427,843</u>	<u>436,249</u>	<u>794,894</u>	<u>355,775</u>	<u>439,119</u>
	<u>3,776,640</u>	<u>3,032,757</u>	<u>743,883</u>	<u>3,503,363</u>	<u>2,618,035</u>	<u>885,328</u>
Other Professional Services						
Laboratory	774,392	383,775	390,617	683,249	349,543	333,706
Radiology	1,045,847	311,871	733,976	947,805	300,295	647,510
Cardiac rehabilitation	46,296	34,482	11,814	43,419	32,100	11,319
Pharmacy	944,930	207,174	737,756	637,437	167,384	470,053
Anesthesiology	285,931	95,940	189,991	288,390	71,759	216,631
Physical therapy	187,772	31,592	156,180	190,577		190,577
Speech therapy	6,400		6,400	3,208		3,208
Occupational therapy	39,468		39,468	33,425		33,425
Electrocardiology	23,388		23,388	15,339		15,339
Medical Supplies	336,880	86,277	250,603	203,628	81,271	122,357
Respiratory therapist	98,366	67,643	30,723	89,826	60,702	29,124
Ambulatory care	51,479	47,852	3,627	42,193	34,072	8,121
Specialty clinic	13,457	13,457		13,655	13,655	—
Wayland clinic	50,107	32,030	18,077	85,183	57,664	27,519
Keota clinic	107,817	75,420	32,397	124,247	73,854	50,393
Sisam clinic	374,563	55,112	319,451	44,222	224	43,998
Lifeline	16,185	8,508	7,677	19,931	7,725	12,206
Tung clinic	<u>6,075</u>		<u>6,075</u>			
	<u>4,409,353</u>	<u>1,451,133</u>	<u>2,958,220</u>	<u>3,465,734</u>	<u>1,250,248</u>	<u>2,215,486</u>
General Services						
Dietary	680,851	243,179	437,672	640,154	246,543	393,611
Operation of plant	613,307	121,952	491,355	511,543	106,455	405,088
Housekeeping	221,097	188,124	32,973	198,784	167,601	31,183
Laundry	<u>83,284</u>	<u>62,469</u>	<u>20,815</u>	<u>77,216</u>	<u>54,917</u>	<u>22,299</u>
	<u>1,598,539</u>	<u>615,724</u>	<u>982,815</u>	<u>1,427,697</u>	<u>575,516</u>	<u>852,181</u>
Administrative Services						
Medical records	346,664	276,492	70,172	297,807	247,125	50,682
Administration	1,594,004	806,419	787,585	1,420,829	635,829	785,000
Foundation	39,647	38,952	695	36,381	34,302	2,079
Marketing	<u>72,377</u>	<u>20,288</u>	<u>52,089</u>	<u>73,823</u>	<u>22,461</u>	<u>51,362</u>
	<u>2,052,692</u>	<u>1,142,151</u>	<u>910,541</u>	<u>1,828,840</u>	<u>939,717</u>	<u>889,123</u>
Insurance	<u>226,281</u>		<u>226,281</u>	<u>169,296</u>		<u>169,296</u>
Employee Benefits	<u>1,716,035</u>		<u>1,716,035</u>	<u>1,646,214</u>		<u>1,646,214</u>
Depreciation and Amortization	<u>891,606</u>		<u>891,606</u>	<u>986,552</u>		<u>986,552</u>
	<u>\$ 14,671,146</u>	<u>\$ 6,241,765</u>	<u>\$ 8,429,381</u>	<u>\$ 13,027,696</u>	<u>\$ 5,383,516</u>	<u>\$ 7,644,180</u>

Washington County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2004 and 2003

Schedules of Patient Receivables

	2004		2003	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 1,542,242	46.1	\$ 1,523,687	45.8
31-60 days	477,150	14.2	374,868	11.3
61-90 days	192,690	5.8	189,573	5.7
91-120 days	152,157	4.5	191,950	5.8
Over 4 months	984,784	29.4	1,049,718	31.5
Total	3,349,023	<u>100.0</u>	3,329,796	<u>100.0</u>
Clinic and other receivables	69,061		89,147	
Less contractual allowances	538,000		538,000	
Less allowance for uncollectible accounts	521,000		521,000	
Net patient receivables	\$ <u>2,359,084</u>		\$ <u>2,359,943</u>	

Allowance for Uncollectible Accounts

	2004	2003
Balance, beginning of year	\$ 521,000	\$ 538,000
Provision for year	458,274	374,896
Recoveries of accounts previously written off	172,490	138,738
	1,151,764	1,051,634
Accounts written off	630,764	530,634
Balance, end of year	\$ <u>521,000</u>	\$ <u>521,000</u>

Washington County Hospital
Schedule of Officials
June 30, 2004

Name	Title	Term Expires
Board of Trustees		
Karolyn Leary	Chairperson	November, 2004
Jim Harris	Vice Chairman	November, 2006
Cheryl Kurtz	Secretary	November, 2004
Leonard Kull	Treasurer	November, 2008
Ed Weeks	Member	November, 2006
Keith Lazar	Member	November, 2008
James Mostek	Member	November, 2008
Hospital Officials		
Don Patterson	Chief Executive Officer	
Greg Seubert	Chief Financial Officer	

Washington County Hospital
Schedule of Supplies and Prepaid Expenses
June 30, 2004 and 2003

	2004	2003
Supplies		
Pharmacy	\$ 104,430	\$ 70,569
Operating and recovery rooms	48,451	51,712
Store room	38,607	36,809
Laboratory	36,580	35,616
Radiology	12,003	16,687
Emergency	10,478	10,910
Dietary	9,207	9,521
All other	21,217	25,586
	\$ 280,973	\$ 257,410
 Prepaid Expenses		
Insurance	\$ 29,222	\$ 58,933

Washington County Hospital
Schedule of Insurance Coverage
June 30, 2004

Farm Bureau		
Workers' compensation; expires 12/01/04	\$	500,000
MMIC		
Professional liability; expires 11/01/04	\$	1,000,000/\$3,000,000
General liability; expires 11/01/04	\$	1,000,000/\$3,000,000
Umbrella liability; expires 11/01/04	\$	1,000,000/\$3,000,000
Chubb Insurance		
Building and contents; expires 05/30/05	\$	18,614,100
Nuclear hazard; expires 05/30/05	\$	5,000,000
Loss of business income; expires 05/30/05	\$	804,159
Auto; expires 05/30/05	\$	1,000,000
Fireman's Fund Insurance Companies		
Directors and officers; expires 03/21/05	\$	2,000,000
Sellers Insurance		
Fidelity bond; expires 11/01/04	\$	500,000
Horak Insurance		
Surety bond; expires 08/29/04	\$	2,500

Washington County Hospital
Statistical Information
Year Ended June 30, 2004

	2004	2003
Patient Days		
Acute	2,499	2,572
Swing-bed	1,402	1,236
Newborn	189	131
Long-term care	<u>15,290</u>	<u>15,432</u>
Total	<u><u>19,380</u></u>	<u><u>19,371</u></u>
Discharges		
Acute	801	738
Swing-bed	258	203
Long-term care	<u>22</u>	<u>20</u>
Total	<u><u>1,081</u></u>	<u><u>961</u></u>
Average Length of Stay		
Acute	3.11	3.49
Swing-bed	5.43	6.09
Long-term care	695.00	771.60
Beds		
Acute	25	25*
Long-term care	43	43
Occupancy Percent		
Acute and swing-bed	27.31%	34.74%
Long-term care	97.15%	98.32%

* The Hospital delicensed 12 beds as of December 1, 2002.



Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Washington County Hospital
Washington, Iowa

We have audited the financial statements of Washington County Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated September 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-01 and 04-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the Hospital's management in a separate letter dated September 1, 2004.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2004. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

Certified Budget

Hospital expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

Entertainment Expense

We did not note any expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979. However, we noted the Hospital does not have a formal policy covering all these types of expenses.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

This report is intended solely for the information and use of the governing body, management and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 1, 2004

Washington County Hospital
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
04-1	The Hospital has certain individuals in the revenue, purchases and payroll functions who perform duties that are not fully segregated from an internal control perspective. Hospital management should periodically reconsider whether further segregation of duties is warranted.	None
04-2	The Hospital was late in filing its Certificate of Compliance regarding the self-funded health insurance plan. Hospital management should review all policies and procedures to ensure controls are in place to file all documents timely.	None

Washington County Hospital
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

Reference Number	Summary of Finding	Status
03-1	Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual from handling duties that are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal control. We realize that, with a limited number of office employees, segregation of duties is difficult. However, the Hospital should review its control procedures to obtain the maximum internal control possible under the circumstances.	Resolved



Board of Trustees
Washington County Hospital
Washington County, Iowa

As part of our audit of the financial statements of Washington County Hospital for the year ended June 30, 2004, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions.

Segregation of Duties

Certain matters regarding internal controls were included in the Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

We noted the accounts payable/payroll clerk has duties that include access to assets and recording responsibilities in the purchases and payroll cycles. We recommend another person be responsible for check signing and access to those checks after they are signed.

We also noted the Financial Credit Counselor has access and recording responsibilities in the revenue cycle. We understand the Patient Financial Services Director does periodically check receipt/logs compared to cash posted. We recommend management review the process to ensure proper controls are in place and there is adequate review of the cash receipts.

We understand the Patient Financial Services staff rotate duties and are cross-trained regarding handling cash and posting responsibilities. As each of the individuals has access to cash, we recommend a review of the duties to ensure individuals are not able to access assets and complete posting that may not be detected.

Allowance for Doubtful Accounts

The allowance for doubtful accounts calculation appears to have been handled consistently over the past few years. We believe the calculation is reasonable at June 30, 2004. However, due to economic conditions and changes in the payer environment, we recommend the percentages used to calculate the allowance be periodically reviewed to ensure they continue to be reasonable in the future. We suggest the percentages used in allowance for doubtful accounts calculations be examined over the next year to determine whether any modifications should be made for self pay and commercial accounts. The percentages used should be based on historical information and current economic conditions.

Managed Care and Insurance Discounts

The Hospital is currently not cross-checking the discounts given per managed care and insurance remittance advices against the contracts to ensure the Hospital is being reimbursed in accordance with the agreed rate. We recommend performing this procedure on a selection of higher dollar claims received during the year to ensure the Hospital is receiving the appropriate reimbursement.

Documentation of Pay Rates

During the testing of internal controls, documentation related to one pay rate was not found in the employee's personnel file. We recommend that documentation of all pay rates be maintained in the employees' files for rates currently being paid.

Standard Accounting Policies and Procedures

There is little written documentation of accounting or data processing procedures. Internal control is strengthened by identifying and documenting accounting procedures and responsibilities of accounting personnel. This is also important for the compliance program. We understand the Hospital is in the process of documenting policies and procedures. We recommend continuing the effort to develop written documentation of controls and procedures to strengthen the Hospital's ability to continue to operate efficiently, especially in the event of unexpected employee turnover.

We also recommend that a formal policy for any employee who handles cash or performs critical accounting functions be required to take one week of uninterrupted vacation in which some other person performs his/her duties.

Foundation Bank Accounts

The Foundation's bank accounts are reconciled by the bank on a monthly basis and provided to the Foundation. We recommend the Foundation review the reconciliations on a monthly basis to resolve any discrepancies and reconcile the cash accounts to the general ledger.

Documentation of Meetings

The Foundation's Board of Directors' meeting minutes were not signed. As these minutes are the official documents describing the transactions of the Foundation, we recommend the Secretary sign the minutes and have them approved at the next meeting. The signed minutes should then be maintained as part of the permanent records of the Foundation.

Restricted Gifts

The Foundation has donor-restricted gifts that are not currently being formally tracked. We recommend monitoring of restricted gifts on a regular basis and tracking the expenditures used to satisfy the donor’s intent for the restricted gift. The Hospital should update the general ledger for donor restricted amounts.

Corporate Compliance Program

The Hospital has a corporate compliance plan in place. We would encourage the Hospital to have an independent review of the plan to ensure the Hospital is doing what the plan says it will do.

Health Insurance Portability and Accountability Act

Industry associations continue to focus attention on compliance with the Health Insurance Portability and Accountability Act (HIPAA). HIPAA’s far reaching provisions impact hospital information systems, operating policies and procedures and strategic planning. As regulations for HIPAA’s components continue to be released and clarified, organizations often have a relatively short period to comply. While compliance with the privacy and transaction and code set regulations of HIPAA’s administrative provisions has previously been the main focus of many organizations, another HIPAA area that will be receiving increased attention in the upcoming year revolves around the security standards.

The primary focus of the security rule is the safeguarding of information and systems that store, process and transmit that information. The major provisions of the rule involve administrative, physical and technical safeguards. Compliance with these provisions is required by April 21, 2005. Maintaining compliance will be an ongoing effort as systems are upgraded and new systems are added.

The security rule requires you to perform risk assessments and this expense should be budgeted. The Hospital should begin the risk assessment and remediation process early, as this process could prove lengthy and time consuming. As with the other HIPAA provisions, documentation of decisions and good-faith efforts will help you defend possible complaints.

* * * * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital’s overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 1, 2004