

# **Washington County Hospital**

Accountants' Report and Financial Statements

June 30, 2005 and 2004



# Washington County Hospital

June 30, 2005 and 2004

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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 sheets of Washington County Hospital as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington County Hospital as of June 30, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 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 audits were 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  
August 31, 2005

# **Washington County Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2005 and 2004**

#### ***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, 2005 and 2004. 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 and noncurrent cash and investments increased in 2005 and 2004 by \$2,547,694 and \$1,547,997, or 39% and 31%, respectively.
- The Hospital's net assets increased in each of the past two years with a \$1,790,216 or 16% increase in 2005 and \$1,603,488 or 17% increase in 2004.
- The Hospital reported operating income of \$901,424 and \$788,614 in 2005 and 2004, respectively.
- Net nonoperating revenues increased by \$73,918 and \$319,935 or 9% and 64% in 2005 and 2004, respectively.

#### ***Using This Annual Report***

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes 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 \$1,790,216 (16%) in 2005 over 2004 and \$1,603,488 (17%) in 2004 over 2003, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Assets</b>			
Patient accounts receivable	\$ 2,522,275	\$ 2,359,084	\$ 2,359,943
Other current assets	6,091,767	5,024,264	3,547,221
Noncurrent cash and investments	4,008,471	2,549,668	2,543,171
Capital assets, net	6,176,340	6,706,860	6,747,947
Other	<u>49,273</u>	<u>57,167</u>	<u>61,212</u>
Total assets	<u>\$ 18,848,126</u>	<u>\$ 16,697,043</u>	<u>\$ 15,259,494</u>
<b>Liabilities</b>			
Current liabilities	\$ 3,269,011	\$ 2,573,144	\$ 2,330,847
Long-term debt	<u>2,905,000</u>	<u>3,240,000</u>	<u>3,648,236</u>
Total liabilities	<u>6,174,011</u>	<u>5,813,144</u>	<u>5,979,083</u>
<b>Net Assets</b>			
Invested in capital, net assets	2,841,230	2,833,791	2,652,837
Restricted expendable	719,793	627,216	612,065
Unrestricted	<u>9,113,092</u>	<u>7,422,892</u>	<u>6,015,509</u>
Total net assets	<u>12,674,115</u>	<u>10,883,899</u>	<u>9,280,411</u>
Total liabilities and net assets	<u>\$ 18,848,126</u>	<u>\$ 16,697,043</u>	<u>\$ 15,259,494</u>

## Operating Results

The Hospital's Excess of Revenues over Expenses was \$1,790,216 in 2005 and \$1,603,488 in 2004, as shown in Table 2. This excess increased \$186,728 in 2005 over 2004 and \$1,012,475 in 2004 over 2003.

**Table 2: Operating Results**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 16,768,374	\$ 15,099,239	\$ 12,764,543
Other operating revenues	<u>376,219</u>	<u>360,521</u>	<u>359,227</u>
Total operating revenues	<u>17,144,593</u>	<u>15,459,760</u>	<u>13,123,770</u>
<b>Operating Expenses</b>			
Salaries, wages and benefits	9,105,585	7,957,800	7,029,730
Other operating supplies and expenses	6,240,936	5,821,740	5,011,414
Depreciation and amortization	<u>896,648</u>	<u>891,606</u>	<u>986,552</u>
Total operating expenses	<u>16,243,169</u>	<u>14,671,146</u>	<u>13,027,696</u>
<b>Operating Income</b>	<u>901,424</u>	<u>788,614</u>	<u>96,074</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property tax revenue	704,410	734,006	610,912
Investment income	276,910	175,246	68,974
Interest expense	(174,505)	(200,836)	(227,752)
Noncapital contributions	49,915	77,245	33,931
Foundation gift shop, net	<u>32,062</u>	<u>29,213</u>	<u>8,874</u>
Total nonoperating revenues	<u>888,792</u>	<u>814,874</u>	<u>494,939</u>
<b>Excess of Revenues Over Expenses</b>	1,790,216	1,603,488	591,013
<b>Contributions to Purchase Long-Lived Assets</b>			
	<u>—</u>	<u>—</u>	<u>36,487</u>
<b>Increase in Net Assets</b>	<u>\$ 1,790,216</u>	<u>\$ 1,603,488</u>	<u>\$ 627,500</u>

The primary reasons for improved financial performance in 2005 were:

- Net patient service revenues increased \$1,669,135 or 11.1%
- Operating expenses increases held to \$1,572,023 or 10.7%.

Net patient service revenues increased 11.1% in 2005 primarily due to increased utilization of inpatient and swing-bed (SNF) services. Outpatient utilization continues to improve with the installation of a new bone densitometer in November 2004 and a new 16 slice CT scanner in December 2004.

In 2005, the Hospital recorded a significant amount of billable supply revenue in the departments disbursing the supplies. Thus, the central service and supply revenues were decreased as noted in the Schedules of Patient Services Revenues.

The provision for uncollectible accounts increased \$165,195 or 36.0% due to patient non-compliance in paying for services in a timely manner. Operating expenses increased 10.7% in 2005 primarily due to employee salaries and benefits expense. Salaries and wages including benefits increased \$1,147,785 or 14.4%, due to annual salary adjustments to align wage rates with local market conditions and higher employee health insurance expense.

The primary reasons for improved financial performance in 2004 were:

- Net patient service revenue increased \$2,334,696 or 18.3%
- The Hospital received designation as a Critical Access Hospital (CAH), effective December 1, 2002 (twelve months in 2004 compared to seven months in 2003)
- Operating expense increases held to 12.6% 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%. Other operating supplies and expenses increased the fastest in 2004. Other operating supplies and expenses increased \$810,326 or 16.2% 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% 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%.
- The Hospital received designation as a Critical Access Hospital, effective December 1, 2002.
- Operating expense increases held to 5.0%.

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% 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 \$704,410 in 2005, down from \$734,006 for 2004. Investment income increased \$101,664 over 2004 due to higher rates received on invested funds and additional funds invested at year end of \$1,447,672.

Nonoperating expenses consist of interest expense on long-term debt. Long-term debt consists of Hospital Revenue Bonds in 2005 and 2004 and capitalized leases in 2004 used to acquire long-term assets.

## ***The Hospital's Cash Flows***

The Hospital's Cash from Operating Activities increased \$760,340 in 2005 over the prior year primarily due to overpayments of interim rates by Medicare.

The Hospital's Cash from Operating Activities increased \$733,692 in 2004 over 2003. 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 the following exceptions. In 2005, the Hospital had a significant increase in investing activity, investing \$893,104 in deposits and investments when the prior year was only \$497,342. In 2004, 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%, resulting in net patient accounts receivable increasing by \$278,799 or 13.4% from 2002.

## ***Capital Asset and Debt Administration***

### **Capital Assets**

At the end of 2005, the Hospital had \$6,176,340 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2005, the Hospital purchased new capital assets costing \$359,682, none of which was acquired through incursion of capital lease obligations.

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, 2005, the Hospital had \$3,240,000 in revenue bonds. The Hospital issued no new debt in 2005.

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.

### ***Factors Bearing on Washington County Hospital's Future***

At the time these financial statements were prepared and audited, the Hospital was aware of two existing circumstances that could significantly affect its financial health in the future:

- **Facility Replacement and Renovation Project.** The Hospital Trustees are pursuing replacement of the current Hospital patient care areas with new space and renovating existing patient care areas for non-patient care services. Total construction cost is estimated at \$17,500,000 and total project cost of approximately \$22,500,000. Construction is expected to start January 2006 and be completed in 2008.
- **Hospital / Physician Integration Project.** The Hospital Trustees and two independent physician practices are exploring integrating into a single hospital-based provider clinic. The Hospital would contract for physician services based on worked relative value units provided to Hospital patients at a fair market value conversion factor amount.

### ***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, 2005 and 2004**

**Assets**

	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,461,420	\$ 2,450,945
Short-term investments	1,052,804	972,846
Assets held under indenture agreement – current	500,963	502,505
Patient accounts receivable, net of allowance; \$521,000 for 2005 and 2004	2,522,275	2,359,084
Other receivables	21,181	32,952
Estimated third-payer settlements	—	49,000
Succeeding year property tax settlements	716,497	705,821
Supplies	304,483	280,973
Prepaid expenses	<u>34,419</u>	<u>29,222</u>
Total current assets	<u>8,614,042</u>	<u>7,383,348</u>
<b>Noncurrent Cash and Investments</b>		
Internally designated		
Capital and other expenditures	3,457,191	2,095,639
Externally restricted		
Indenture agreement	261,740	180,759
Donors	44,343	39,204
Certificates of deposit	76,348	74,469
Investment in land	<u>168,849</u>	<u>159,597</u>
	<u>4,008,471</u>	<u>2,549,668</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>6,176,340</u>	<u>6,706,860</u>
<b>Other Assets</b>		
Foundation assets	24,399	25,847
Deferred financing costs	<u>24,874</u>	<u>31,320</u>
<b>Total Other Assets</b>	<u>49,273</u>	<u>57,167</u>
<b>Total Assets</b>	<u>\$ 18,848,126</u>	<u>\$ 16,697,043</u>

## Liabilities and Net Assets

	<u>2005</u>	<u>2004</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 335,000	\$ 320,000
Accounts payable	422,691	690,552
Accrued expenses		
Salaries and wages	239,166	194,164
Paid time off	392,955	349,436
Payroll taxes and other payroll withholdings	112,633	72,434
Self funded health insurance payable	119,872	100,000
Interest	87,253	95,253
Deferred revenue for succeeding year property tax receivable	716,497	705,821
Property taxes	32,944	45,484
Estimated third-party settlements	<u>810,000</u>	<u>—</u>
Total current liabilities	3,269,011	2,573,144
<b>Long-term Debt, less current maturities</b>	<u>2,905,000</u>	<u>3,240,000</u>
Total liabilities	<u>6,174,011</u>	<u>5,813,144</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,841,230	2,833,791
Unrestricted	9,113,092	7,422,892
Restricted expendable		
Debt service	675,450	588,012
Donor restricted	<u>44,343</u>	<u>39,204</u>
Total net assets	<u>12,674,115</u>	<u>10,883,899</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,848,126</u>	<u>\$ 16,697,043</u>

**Washington County Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 17,391,843	\$ 15,557,513
Provision for uncollectible accounts	<u>(623,469)</u>	<u>(458,274)</u>
Net patient service revenue	16,768,374	15,099,239
Other	<u>376,219</u>	<u>360,521</u>
	<u>17,144,593</u>	<u>15,459,760</u>
<b>Operating Expenses</b>		
Salaries and wages	7,007,476	6,241,765
Employee benefits	2,098,109	1,716,035
Medical professional fees	2,027,821	2,025,975
Supplies and other	1,931,382	1,676,128
General services	1,083,915	982,815
Administrative services	932,578	910,541
Depreciation and amortization	896,648	891,606
Insurance	<u>265,240</u>	<u>226,281</u>
	<u>16,243,169</u>	<u>14,671,146</u>
<b>Operating Income</b>	<u>901,424</u>	<u>788,614</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	276,910	175,246
Interest expense	(174,505)	(200,836)
Property tax revenue	704,410	734,006
Noncapital contributions	49,915	77,245
Foundation gift shop, net	<u>32,062</u>	<u>29,213</u>
	<u>888,792</u>	<u>814,874</u>
<b>Increase in Net Assets</b>	1,790,216	1,603,488
<b>Net Assets, Beginning of the Year</b>	<u>10,883,899</u>	<u>9,280,411</u>
<b>Net Assets, End of the Year</b>	<u>\$ 12,674,115</u>	<u>\$ 10,883,899</u>

**Washington County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 17,464,183	\$ 15,137,098
Payments to suppliers	(6,313,098)	(5,744,437)
Payments to employees	(8,970,061)	(7,931,184)
Other receipts and payments, net	<u>387,990</u>	<u>347,197</u>
Net cash provided by operating activities	<u>2,569,014</u>	<u>1,808,674</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	704,410	734,006
Noncapital contributions	49,915	77,245
Foundation gift shop	<u>32,062</u>	<u>29,213</u>
Net cash provided by noncapital financing activities	<u>786,387</u>	<u>840,464</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(584,088)	(499,093)
Principal payments on long-term debt	(320,000)	(573,466)
Interest paid on long-term debt	<u>(181,977)</u>	<u>(200,836)</u>
Net cash used in capital and related financing activities	<u>(1,086,065)</u>	<u>(1,273,395)</u>
<b>Investing Activities</b>		
Change in deposits and investments	(893,104)	(497,342)
Income received on investments	<u>208,636</u>	<u>42,652</u>
Net cash used in investing activities	<u>(684,468)</u>	<u>(454,690)</u>
<b>Increase in Cash and Cash Equivalents</b>	1,584,868	921,053
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,611,493</u>	<u>1,690,441</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,196,361</u>	<u>\$ 2,611,494</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 3,461,420	\$ 2,450,945
Assets held under indenture agreement – current	408,891	44,844
Noncurrent cash and investments		
Capital and other expenditures	<u>326,050</u>	<u>115,705</u>
	<u>\$ 4,196,361</u>	<u>\$ 2,611,494</u>

**Washington County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 901,424	\$ 788,614
Items not requiring cash		
Depreciation and amortization	896,648	891,606
Changes in		
Patient and other receivables	(151,420)	(12,465)
Supplies	(23,510)	(23,563)
Prepaid expenses	(5,197)	29,711
Accounts payable and accrued expenses	92,069	97,771
Estimated amounts due to third-party payers	859,000	37,000
Net cash provided by operating activities	\$ 2,569,014	\$ 1,808,674
 <b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 119,983	\$ 344,389

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2005 and 2004

#### **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 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). 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.

##### ***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, 2005 and 2004

#### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 and 2004, cash equivalents consisted primarily of money market accounts.

#### ***Property Taxes***

The Hospital received approximately 3.8% and 4.5% of its financial support from property tax revenues in the years ended June 30, 2005 and 2004, 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.

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.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

***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 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.

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2005 and 2004

#### ***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 include 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 \$25,376 and \$19,540 for 2005 and 2004, 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.

#### ***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.

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2005 and 2004

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 2004 financial statements to conform to the 2005 financial statement presentation. The reclassifications had no effect on the change in net assets.

#### **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 52% and 49% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2005 and 2004, respectively.

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, 2005 and 2004**

**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, 2005 and 2004 was:

	<b>2005</b>	<b>2004</b>
Medicare and Medicaid	\$ 590,449	\$ 579,639
Other third-party payers	805,287	706,908
Patients	1,512,288	1,524,476
Clinics	<u>135,251</u>	<u>69,061</u>
	3,043,275	2,880,084
Less allowances for uncollectible accounts	<u>521,000</u>	<u>521,000</u>
	<u>\$ 2,522,275</u>	<u>\$ 2,359,084</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 state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2005 and 2004. The Hospital's deposits in banks at June 30, 2005 and 2004 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.

***Investments***

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.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

At June 30, 2005 and 2004, the Hospital had the following investments and maturities:

Type	Fair Value	June 30, 2005			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 408,891	\$ 408,891	\$ —	\$ —	\$ —
Government obligations-Hospital	353,810	—	—	7,272	346,538
Money market funds-Foundation	<u>13,956</u>	<u>13,956</u>	<u>—</u>	<u>—</u>	<u>—</u>
	776,657	\$ <u>422,847</u>	\$ <u>0</u>	\$ <u>7,272</u>	\$ <u>346,538</u>
Equity mutual funds-Foundation	<u>953,191</u>				
	<u>\$ 1,729,848</u>				
Type	Fair Value	June 30, 2004			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 44,844	\$ 44,844	\$ —	\$ —	\$ —
Government obligations-Hospital	638,420	—	—	11,919	626,501
Money market funds-Foundation	<u>11,133</u>	<u>11,133</u>	<u>—</u>	<u>—</u>	<u>—</u>
	694,397	\$ <u>55,977</u>	\$ <u>0</u>	\$ <u>11,919</u>	\$ <u>626,501</u>
Equity mutual funds-Foundation	<u>871,645</u>				
	<u>\$ 1,566,042</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, 2005 and 2004, the Hospital’s money market mutual funds are AAA and AA, respectively, rated by Standard and Poor while the Foundation’s money market funds are AAA for both years rated by Standard and Pooers. The Hospital’s government obligations were rated AAA for both years by Standard and Pooers.

**Concentration of Credit Risk** – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2005 and 2004, the Hospital’s investment in the Federal Home Loan Mortgage Corporation bonds was 10% and 22%, respectively, while the Hospital’s investment in the Federal National Mortgage Association bonds was 10% and 19%, respectively.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

***Summary of Carrying Values***

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

	<b>2005</b>	<b>2004</b>
Carrying value		
Deposits	\$ 7,124,961	\$ 4,750,325
Investments	<u>1,898,697</u>	<u>1,725,639</u>
	<u>\$ 9,023,658</u>	<u>\$ 6,475,964</u>
 Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,461,420	\$ 2,450,945
Short-term investments	1,052,804	972,846
Assets held under indenture agreement – current	500,963	502,505
Noncurrent cash and investments	<u>4,008,471</u>	<u>2,549,668</u>
	<u>\$ 9,023,658</u>	<u>\$ 6,475,964</u>

***Investment Income***

Investment income for the years ended June 30, 2005 and 2004, consisted of:

	<b>2005</b>	<b>2004</b>
Interest and dividend income	\$ 217,888	\$ 53,189
Net increase in fair value of investments	<u>59,022</u>	<u>122,057</u>
	<u>\$ 276,910</u>	<u>\$ 175,246</u>

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 5: Capital Assets**

Capital asset additions, retirements and balances for the years ended June 30, 2005 and 2004, were as follows:

<b>2005</b>	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2005</b>
Land	\$ 10,902	\$ —	\$ —	\$ —	\$ 10,902
Land improvements	333,405	—	—	—	333,405
Buildings and leasehold improvements	9,906,643	—	—	—	9,906,643
Equipment	7,250,446	309,559	—	—	7,560,005
Construction in progress	<u>—</u>	<u>50,123</u>	<u>—</u>	<u>—</u>	<u>50,123</u>
	<u>17,501,396</u>	<u>359,682</u>	<u>—</u>	<u>—</u>	<u>17,861,078</u>
Less accumulated depreciation for					
Land improvements	(211,407)	(16,690)	—	—	(228,097)
Buildings and leasehold improvements	(5,032,353)	(424,496)	—	—	(5,456,849)
Equipment	<u>(5,550,776)</u>	<u>(449,016)</u>	<u>—</u>	<u>—</u>	<u>(5,999,792)</u>
	<u>(10,794,536)</u>	<u>(890,202)</u>	<u>—</u>	<u>—</u>	<u>(11,684,738)</u>
	<u>\$ 6,706,860</u>	<u>\$ (530,520)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,176,340</u>
<b>2004</b>	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2004</b>
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>

Construction in progress relates to a facility replacement and renovation project with a total cost expected to be \$22,500,000 and proposed completion in 2008. The Hospital will use internally designated cash and investments and borrowed amounts to complete the project.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**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.

**Note 7: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for 2005 and 2004 follows.

	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2005</b>	<b>Amounts Due Within One Year</b>
Series 1997 Hospital Revenue Bonds (A)	\$ <u>3,560,000</u>	\$ <u>—</u>	\$ <u>(320,000)</u>	\$ <u>3,240,000</u>	\$ <u>335,000</u>
	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2004</b>	<b>Amounts Due Within One Year</b>
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>

- (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.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 335,000	\$ 165,963	\$ 500,963
2007	355,000	148,279	503,279
2008	370,000	129,517	499,517
2009	390,000	109,562	499,562
2010	410,000	88,158	498,158
2011-2013	1,380,000	119,109	1,499,109
	\$ 3,240,000	\$ 760,588	\$ 4,000,588

**Note 8: Operating Leases**

A noncancelable operating lease for equipment will expire June 2010.

Future minimum lease payments at June 30, 2005, are:

2006	\$ 232,564
2007	232,564
2008	179,100
2009	179,100
2010	74,625
Future minimum lease payments	\$ 897,953

Rental expense for all operating income was \$217,577 and \$148,071 at June 30, 2005 and 2004, respectively.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**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 2005 and 2004 is summarized as follows:

	<b>2005</b>	<b>2004</b>
Balance, beginning of year	\$ 100,000	\$ 100,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,127,411	864,939
Claims and expenses paid	<u>1,107,539</u>	<u>864,939</u>
Balance, end of year	<u>\$ 119,872</u>	<u>\$ 100,000</u>

**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 2005 and 2004. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2005, 2004 and 2003 were \$399,244, \$346,445 and \$304,748, respectively, which equaled the required contributions for each year.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**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:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 704,410	\$ —	\$ 704,410	\$ 705,821
Other revenues/receipts	<u>17,503,480</u>	<u>707,580</u>	<u>18,211,060</u>	<u>20,388,242</u>
	18,207,890	707,580	18,915,470	21,094,063
Expenses/disbursements	<u>16,417,674</u>	<u>288,499</u>	<u>16,706,173</u>	<u>19,075,496</u>
	1,790,216	419,081	2,209,297	2,018,567
Balance, beginning of year	<u>10,883,899</u>	<u>1,805,145</u>	<u>12,689,044</u>	<u>12,689,044</u>
Balance, end of year	<u>\$ 12,674,115</u>	<u>\$ 2,224,226</u>	<u>\$ 14,898,341</u>	<u>\$ 14,707,611</u>

**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 of 71% of the Hospital's net patient service revenue at June 30, 2005.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 13: Restricted and Designated Net Assets**

At June 30, 2005 and 2004, restricted expendable net assets were available for the following purposes.

	<b>2005</b>	<b>2004</b>
Debt service	\$ 675,450	\$ 588,012
Specific operating activities and capital acquisition	44,343	39,204
	\$ 719,793	\$ 627,216

At June 30, 2005 and 2004, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes.

	<b>2005</b>	<b>2004</b>
Capital and other expenditures	\$ 3,457,191	\$ 2,095,639

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.

## **Supplementary Information**

**Washington County Hospital**  
**Schedules of Patient Service Revenues**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>			<u>2004</u>		
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>
<b>Nursing Services</b>						
Medical/surgical	\$ 2,464,046	\$ 1,787,114	\$ 676,932	\$ 1,749,281	\$ 1,376,558	\$ 372,723
Obstetrics	232,481	209,790	22,691	242,728	208,583	34,145
Labor and delivery	21,248	3,320	17,928	4,808	2,488	2,320
Special care unit	136,700	136,700		86,975	86,975	
Nursery	90,500	90,500		90,750	90,750	
Swing-bed	1,316,648	1,316,648		437,545	437,545	
Long-term care	1,795,572	1,795,572		1,686,539	1,686,539	
Operating and recovery	2,187,232	263,967	1,923,265	1,819,625	192,564	1,627,061
Emergency	<u>2,003,383</u>	<u>82,054</u>	<u>1,921,329</u>	<u>1,831,749</u>	<u>164,069</u>	<u>1,667,680</u>
	<u>10,247,810</u>	<u>5,685,665</u>	<u>4,562,145</u>	<u>7,950,000</u>	<u>4,246,071</u>	<u>3,703,929</u>
<b>Other Professional Services</b>						
Central service and supply	385,026	200,288	184,738	789,859	436,393	353,466
Laboratory	2,259,420	475,957	1,783,463	2,102,354	514,959	1,587,395
Radiology	4,625,617	371,307	4,254,310	3,835,617	366,935	3,468,682
Pharmacy	4,131,357	2,075,735	2,055,622	3,851,114	1,862,115	1,988,999
Anesthesiology	665,831	188,612	477,219	657,001	183,790	473,211
Physical therapy	551,805	63,949	487,856	486,597	48,016	438,581
Speech therapy	9,347	3,804	5,543	10,636	3,302	7,334
Occupational therapy	41,429	16,919	24,510	82,887	17,730	65,157
Respiratory therapy	950,671	811,093	139,578	575,701	495,545	80,156
Electrocardiology	228,779	43,653	185,126	200,685	64,170	136,515
Cardiac rehabilitation	191,677	1,466	190,211	171,272	554	170,718
Ambulatory care	297,323		297,323	227,622		227,622
Tung clinic	642,966		642,966			
Keota clinic	117,935		117,935	137,959		137,959
Wayland clinic	150		150	81,898		81,898
Sisam clinic	<u>204,172</u>		<u>204,172</u>	<u>214,601</u>		<u>214,601</u>
	<u>15,303,505</u>	<u>4,252,783</u>	<u>11,050,722</u>	<u>13,425,803</u>	<u>3,993,509</u>	<u>9,432,294</u>
<b>Patient Service Revenue</b>	25,551,315	<u>\$ 9,938,448</u>	<u>\$ 15,612,867</u>	21,375,803	<u>\$ 8,239,580</u>	<u>\$ 13,136,223</u>
<b>Contractual Allowances</b>	<u>8,159,472</u>			<u>5,818,290</u>		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	17,391,843			15,557,513		
<b>Provision for Uncollectible Accounts</b>	<u>(623,469)</u>			<u>(458,274)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 16,768,374</u>			<u>\$ 15,099,239</u>		

**Washington County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Rental income	\$ 201,570	\$ 200,194
Cafeteria	75,277	67,504
Meals on Wheels	6,303	8,019
Lifeline services	48,300	43,479
Other	24,845	22,794
Contracted social work	18,824	17,342
Education program	<u>1,100</u>	<u>1,189</u>
	<u>\$ 376,219</u>	<u>\$ 360,521</u>

# Washington County Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2005 and 2004

	2005			2004		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 106,329	\$ 100,823	\$ 5,506	\$ 99,532	\$ 92,996	\$ 6,536
Medical/surgical	1,434,710	1,237,125	197,585	1,239,013	1,083,856	155,157
Obstetrics and nursery	179,024	169,334	9,690	190,709	172,815	17,894
Special care unit	4,986	4,911	75	2,683	2,047	636
Long-term care	1,101,000	1,046,447	54,553	1,040,585	993,472	47,113
Operating and recovery	315,688	269,350	46,338	340,026	259,728	80,298
Emergency	<u>1,036,735</u>	<u>436,331</u>	<u>600,404</u>	<u>864,092</u>	<u>427,843</u>	<u>436,249</u>
	<u>4,178,472</u>	<u>3,264,321</u>	<u>914,151</u>	<u>3,776,640</u>	<u>3,032,757</u>	<u>743,883</u>
<b>Other Professional Services</b>						
Laboratory	844,611	426,533	418,078	774,392	383,775	390,617
Radiology	1,228,908	360,150	868,758	1,045,847	311,871	733,976
Cardiac rehabilitation	46,786	30,980	15,806	46,296	34,482	11,814
Pharmacy	1,036,781	199,284	837,497	944,930	207,174	737,756
Anesthesiology	276,147	92,891	183,256	285,931	95,940	189,991
Physical therapy	207,074	166,463	40,611	187,772	31,592	156,180
Speech therapy	5,108		5,108	6,400		6,400
Occupational therapy	17,686		17,686	39,468		39,468
Electrocardiology	20,709		20,709	23,388		23,388
Medical supplies	363,008	100,475	262,533	336,880	86,277	250,603
Respiratory therapist	96,638	68,337	28,301	98,366	67,643	30,723
Ambulatory care	55,322	50,177	5,145	51,479	47,852	3,627
Specialty clinic	9,368	9,368		13,457	13,457	
Wayland clinic	38		38	50,107	32,030	18,077
Keota clinic	122,181	86,152	36,029	107,817	75,420	32,397
Sisam clinic	305,771	39,005	266,766	374,563	55,112	319,451
Lifeline	30,921	8,804	22,117	16,185	8,508	7,677
Tung clinic	<u>247,453</u>	<u>230,839</u>	<u>16,614</u>	<u>6,075</u>		<u>6,075</u>
	<u>4,914,510</u>	<u>1,869,458</u>	<u>3,045,052</u>	<u>4,409,353</u>	<u>1,451,133</u>	<u>2,958,220</u>
<b>General Services</b>						
Dietary	730,087	257,204	472,883	680,851	243,179	437,672
Operation of plant	680,929	130,498	550,431	613,307	121,952	491,355
Housekeeping	237,677	198,727	38,950	221,097	188,124	32,973
Laundry	<u>90,122</u>	<u>68,471</u>	<u>21,651</u>	<u>83,284</u>	<u>62,469</u>	<u>20,815</u>
	<u>1,738,815</u>	<u>654,900</u>	<u>1,083,915</u>	<u>1,598,539</u>	<u>615,724</u>	<u>982,815</u>
<b>Administrative Services</b>						
Medical records	367,591	301,371	66,220	346,664	276,492	70,172
Administration	1,664,184	851,997	812,187	1,594,004	806,419	787,585
Foundation	41,031	40,019	1,012	39,647	38,952	695
Marketing	<u>78,569</u>	<u>25,410</u>	<u>53,159</u>	<u>72,377</u>	<u>20,288</u>	<u>52,089</u>
	<u>2,151,375</u>	<u>1,218,797</u>	<u>932,578</u>	<u>2,052,692</u>	<u>1,142,151</u>	<u>910,541</u>
<b>Insurance</b>	<u>265,240</u>		<u>265,240</u>	<u>226,281</u>		<u>226,281</u>
<b>Employee Benefits</b>	<u>2,098,109</u>		<u>2,098,109</u>	<u>1,716,035</u>		<u>1,716,035</u>
<b>Depreciation and Amortization</b>	<u>896,648</u>		<u>896,648</u>	<u>891,606</u>		<u>891,606</u>
	<u>\$ 16,243,169</u>	<u>\$ 7,007,476</u>	<u>\$ 9,235,693</u>	<u>\$ 14,671,146</u>	<u>\$ 6,241,765</u>	<u>\$ 8,429,381</u>

**Washington County Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2005 and 2004**

**Schedules of Patient Receivables**

	<u>2005</u>		<u>2004</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 1,833,534	52.8	\$ 1,542,242	46.1
31-60 days	376,690	10.9	477,150	14.2
61-90 days	271,999	7.8	192,690	5.8
91-120 days	167,178	4.8	152,157	4.5
Over 4 months	<u>821,623</u>	<u>23.7</u>	<u>984,784</u>	<u>29.4</u>
Total	3,471,024	<u>100.0</u>	3,349,023	<u>100.0</u>
Clinic and other receivables	135,251		69,061	
Less contractual allowances	563,000		538,000	
Less allowance for uncollectible accounts	<u>521,000</u>		<u>521,000</u>	
Net patient receivables	\$ <u>2,522,275</u>		\$ <u>2,359,084</u>	

**Allowance for Uncollectible Accounts**

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 521,000	\$ 521,000
Provision for year	623,469	458,274
Recoveries of accounts previously written off	<u>141,457</u>	<u>172,490</u>
	1,285,926	1,151,764
Accounts written off	<u>764,926</u>	<u>630,764</u>
Balance, end of year	\$ <u>521,000</u>	\$ <u>521,000</u>

**Washington County Hospital**  
**Schedule of Officials**  
**June 30, 2005**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Jim Harris	Chairman	November, 2006
Cheryl Kurtz	Vice Chairperson	November, 2010
Keith Lazar	Secretary	November, 2008
Leonard Kull	Treasurer	November, 2008
Karolyn Leary	Member	November, 2010
Ed Weeks	Member	November, 2006
James Mostek	Member	November, 2008
<b>Hospital Officials</b>		
Don Patterson	Chief Executive Officer	
Greg Seubert	Chief Financial Officer	

**Washington County Hospital**  
**Schedule of Supplies and Prepaid Expenses**  
**June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Supplies</b>		
Pharmacy	\$ 115,731	\$ 104,430
Operating and recovery rooms	64,762	48,451
Store room	39,276	38,607
Laboratory	33,961	36,580
Radiology	12,583	12,003
Emergency	7,749	10,478
Dietary	8,494	9,207
All other	21,927	21,217
	\$ 304,483	\$ 280,973
 <b>Prepaid Expenses</b>		
Insurance	\$ 34,419	\$ 29,222

**Washington County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2005**

<b>Farm Bureau</b>		
Workers' compensation; expires 12/01/05	\$	500,000
<b>MMIC</b>		
Professional liability; expires 11/01/05	\$	1,000,000 / 3,000,000
General liability; expires 11/01/05	\$	1,000,000 / 3,000,000
Umbrella liability; expires 11/01/05	\$	1,000,000 / 3,000,000
<b>Chubb Insurance</b>		
Building and contents; expires 05/30/06	\$	18,614,100
Nuclear hazard; expires 05/30/06	\$	5,000,000
Loss of business income; expires 05/30/06	\$	804,159
Auto; expires 05/30/06	\$	500,000
<b>Chubb Insurance</b>		
Directors and officers; expires 03/21/06	\$	2,000,000
<b>Sellers Insurance</b>		
Fidelity bond; expires 11/01/05	\$	500,000
<b>Horak Insurance</b>		
Surety bond; expires 08/29/05	\$	2,500

**Washington County Hospital**  
**Statistical Information**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
<b>Patient Days</b>		
Acute	2,780	2,499
Swing-bed	2,030	1,402
Newborn	186	189
Long-term care	<u>15,101</u>	<u>15,290</u>
Total	<u><u>20,097</u></u>	<u><u>19,380</u></u>
<b>Discharges</b>		
Acute	842	801
Swing-bed	321	258
Long-term care	<u>32</u>	<u>22</u>
Total	<u><u>1,195</u></u>	<u><u>1,081</u></u>
<b>Average Length of Stay</b>		
Acute	3.30	3.11
Swing-bed	6.32	5.43
Long-term care	471.91	695.00
<b>Beds</b>		
Acute	25	25
Long-term care	43	43
<b>Occupancy Percent</b>		
Acute and swing-bed	52.71%	42.75%
Long-term care	96.22%	97.15%



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**Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an 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, 2005, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. A reportable condition is described in the accompanying schedule of findings and responses as item 05-01.

A material weakness is a reportable 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 caused by error or fraud 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 the reportable condition described above is not a material weakness.

## **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*.

### **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, 2005 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, 2005. 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, 2005.

#### Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2005 did not exceed amounts budgeted.

#### Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement—Management is responsible for establishing policies regarding questionable expenditures.

Condition—The Board of Trustees' has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context—Written policies are not in effect.

Effect— Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause—Written policies are not in place.

Recommendation—Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

### 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.

### Unclaimed Property

Prior to November 1, 2004, the Hospital was required to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement—Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition—A report noting no unclaimed property was not filed in 2005 for the year ended June 30, 2004.

Context—The Hospital had no unclaimed property, but no report was filed.

Effect—Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause—Necessary reporting was not made in the current fiscal year.

Recommendation—Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

#### Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

#### Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

#### Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

#### Self-funded Health Insurance Certificate of Compliance

We noted the following regarding filing the Certificate of Compliance regarding the self-funded health insurance plan:

Criteria or Specific Requirement—Management is responsible for ensuring controls are in place to file all documents timely.

Condition—The Hospital was late in filing its Certificate of Compliance regarding the self-funded health insurance plan.

Context—The Hospital has a due date that the Certificate of Compliance is due by in order to be in compliance.

Effect—Requirements were not met under Chapter 509A.15 of the Code of Iowa.

Cause—Timely filing of the report was not completed.

Recommendation—Management should file the required documentation by the due date.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will ensure reports are filed timely.

Board of Trustees  
Washington County Hospital  
Page 5

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated August 31, 2005.

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  
August 31, 2005

# Washington County Hospital

## Schedule of Findings and Responses

### Year Ended June 30, 2005

Reference Number	Finding
05-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Certain individuals have incompatible duties in the revenue, cash disbursements and payroll transactions cycles.</p> <p>Context—Individuals responsible for processing cash receipts, cash disbursements and recording and monitoring payroll information, have duties which include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the revenue, cash disbursements and payroll transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>





Board of Trustees  
Washington County Hospital  
Washington, Iowa

As part of our audit of the financial statements of Washington County Hospital for the year ended June 30, 2005, 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. In addition to the matters discussed in the accountants' report on compliance and internal control included in the financial statements, we observed the following matters and offer these comments and suggestions. Previously, we made observations as a result of our 2004 audit engagement in a letter dated September 1, 2004.

### ***Segregation of Duties***

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.

### ***Capital Asset Schedules***

The Hospital reported no disposition of capital assets in 2005. We recommend the capital asset schedule be reviewed to identify any capital assets not in use, destroyed or missing to ensure the schedule is up-to-date. We recommend this be completed so the Hospital has an accurate schedule going forward with the impending construction/renovation project.

**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.

**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.

**Corporate Compliance Program**

The Hospital has a corporate compliance plan in place. We would encourage the Hospital to have an independent review to determine the effectiveness of the plan.

\* \* \* \* \*

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  
August 31, 2005