Washington County Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006

Washington County Hospital
June 30, 2007 and 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information **1**

Management's Discussion and Analysis **2**

Financial Statements

Balance Sheets 7

Statements of Revenues, Expenses and Changes in Net Assets 8

Statements of Cash Flows 9

Notes to Financial Statements 11

Supplementary Information

Combining Balance Sheet – June 30, 2007 25

Combining Schedule of Revenues, Expenses and Changes in Net Assets – Year Ended June 30, 2007 27

Schedules of Patient Service Revenues 28

Schedules of Other Revenues 29

Schedules of Operating Expenses 30

Schedules of Patient Receivables and Allowance for Uncollectible Accounts 31

Schedule of Officials 32

Schedule of Supplies and Prepaid Expenses 33

Schedule of Insurance Coverage 34

Statistical Information 35

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* **36**

Schedule of Findings and Responses **39**

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, 2007 and 2006, 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, 2007 and 2006, 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 October 17, 2007, 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.

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
October 17, 2007

Washington County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

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, 2007 and 2006. 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 2007 by $8,346,070 or 106% from 2006 and decreased in 2006 over 2005 by $1,122,992, or 12%.
- The Hospital's net assets increased in each of the past two years with a $1,734,050 or 13% increase in 2007 and $966,656 or 8% increase in 2006.
- The Hospital reported operating income (loss) of $291,292 and $(249,038) in 2007 and 2006, respectively.
- Net nonoperating revenues increased by $227,064 and $326,902 or 19% and 37% in 2007 and 2006, 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 $1,734,050 (13%) in 2007 over 2006 and $966,656 (8%) in 2006 over 2005, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable	$ 2,239,991	$ 2,245,661	$ 2,522,275
Other current assets	8,021,261	5,164,420	6,091,767
Noncurrent cash and investments	9,659,758	3,946,567	4,008,471
Capital assets, net	19,624,437	7,881,570	6,176,340
Other	447,402	250,165	49,273
Total assets	$ 39,992,849	$ 19,488,383	$ 18,848,126
Liabilities			
Current liabilities	$ 4,007,063	$ 3,297,612	$ 3,269,011
Long-term debt	20,610,965	2,550,000	2,905,000
Total liabilities	24,618,028	5,847,612	6,174,011
Net Assets			
Invested in capital, net assets	6,570,604	4,725,380	2,841,230
Restricted expendable	1,905,831	745,582	719,793
Restricted nonexpendable	25,000	—	—
Unrestricted	6,873,386	8,169,809	9,113,092
Total net assets	15,374,821	13,640,771	12,674,115
Total liabilities and net assets	$ 39,992,849	$ 19,488,383	$ 18,848,126

Operating Results

The Hospital's Increase in Net Assets was $1,734,050 in 2007 and $966,656 in 2006, as shown in Table 2.

Table 2: Operating Results

	2007	2006	2005
Operating Revenues			
Net patient service revenue	$ 18,685,852	$ 17,823,345	$ 16,768,374
Other operating revenues	402,045	342,930	376,219
Total operating revenues	19,087,897	18,166,275	17,144,593
Operating Expenses			
Salaries, wages and benefits	10,777,020	10,008,276	9,105,585
Other operating supplies and expenses	7,029,822	7,463,297	6,240,936
Depreciation and amortization	989,763	943,740	896,648
Total operating expenses	18,796,605	18,415,313	16,243,169
Operating Income (Loss)	291,292	(249,038)	901,424
Nonoperating Revenues (Expenses)			
Property tax revenue	745,502	714,751	704,410
Investment income	616,091	338,987	276,910
Interest expense	(139,137)	(157,420)	(174,505)
Noncapital contributions	201,498	288,792	49,915
Foundation gift shop, net	18,804	30,584	32,062
Total nonoperating revenues	1,442,758	1,215,694	888,792
Increase in Net Assets	$ 1,734,050	$ 966,656	$ 1,790,216

The primary reasons for the change in financial performance in 2007 were:

- Net patient service revenues increased $862,507 or 4.8%
- Operating expenses increased $381,507 or 2.1%
- Nonoperating revenues (expenses) increased $227,064 or 18.7%

Net patient service revenues increased 4.8% in 2007 primarily due to increased utilization of swing-bed skilled nursing facility (SNF) services and increases at the Women's Healthcare Clinic. Swing-bed days increased by 300 or 18.6%, while Acute Days decreased by 116 or 4.4%. The Women's Healthcare Clinic had increases in gross revenue of approximately $500,000.

The provision for uncollectible accounts decreased $179,912 from 2006 due to the process change implemented in 2006 and consistently applied in 2007.

Salaries and wages, including benefits, increased $768,744 or 7.7%, due to the three specialty physicians hired during 2006 being employed for all of 2007. Decreases in other operating expenses of $387,452 or (4.6%) reduced the overall increase for 2007 to 2.1%.

The primary reasons for the change in financial performance in 2006 were:

- Recruitment of additional specialty physicians
- Self-pay account receivable management process improvement project
- Facility replacement and renovation project

Net patient service revenue, before provision for uncollectible accounts increased 9.7% in 2006 or approximately $1,692,000 primarily due to increased utilization of Hospital outpatient services. The Hospital was successful in recruiting a new general surgeon and two OB/GYNs, which generated additional patient encounters that had previously left the community.

The provision for uncollectible accounts increased $637,414 from 2005 due to a process change in the business office private pay collection process. The procedure to identify potential bad debts and their subsequent write-off was accelerated from 210 days to 120 days.

During 2006, the Hospital committed to a $17,500,000 hospital replacement project. Specific costs related to demolishing and removing two hospital buildings totaling $329,923 are recorded as operating expense. Additional labor and purchased service expenses have been incurred this fiscal year due to inefficiencies created as Hospital staff vacates and relocates to temporary space and operational changes required by the construction schedule.

Salaries and wages including benefits increased $902,691 or 9.9%, due to increases related to the specialty physician clinics and to annual salary adjustments to align wage rates with local market conditions.

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 $745,502 in 2007, up from $714,751 for 2006. Investment income increased $277,104 in 2007 and $62,077 in 2006 due to higher rates received on invested funds. Noncapital contributions increased $210,450 in 2006 due to the sale of certain land held as investment property.

Nonoperating expenses consist of interest expense on long-term debt related to the Hospital Revenue Bonds issued in 1997 for 2007 and 2006.

The Hospital's Cash Flows

The Hospitals Cash from Operating Activities was $1,156,694 in 2007 compared to $516,235 in 2006. Changes in the Hospital's cash from operating activities are consistent with changes in operating income (loss) and nonoperating revenues and expenses.

Capital Assets

At the end of 2007, the Hospital had $19,624,437 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2007, the Hospital purchased new capital assets costing $12,705,484, including amounts in construction in progress of $14,211,554 related to the new building project.

At the end of 2006, the Hospital had $7,881,570 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2006, the Hospital purchased new capital assets costing $2,656,678, including amounts in construction in progress of $1,914,741 related to the new building project.

Debt

At June 30, 2007, the Hospital had $21,050,000 in revenue bonds. The Hospital issued new debt of $18,500,000 in 2007 related to facility replacement and renovation.

At June 30, 2006, the Hospital had $2,905,000 in revenue bonds. The Hospital issued no new debt in 2006.

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 replacing 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 $18,750,000 and total project cost of approximately $20,750,000. Phase I (new patient care space) was completed in July 2007 and Phase II (renovating existing patient care areas for non-patient care services) is expected to be complete in December 2007.

- Hospital / Physician Integration Project. The Hospital Trustees and a four physician practice have agreed to integrate into a hospital-based provider clinic effective July 1, 2007. The Hospital will 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, 2007 and 2006

Assets

	2007	2006
Current Assets		
Cash and cash equivalents	$ 1,436,255	$ 2,188,706
Short-term investments	3,743,158	1,262,114
Assets held under indenture agreement – current	1,407,565	503,279
Patient accounts receivable, net of allowance; of $559,122 for both 2007 and 2006	2,239,991	2,245,661
Other receivables	16,834	14,691
Succeeding year property tax settlements	759,600	742,799
Supplies	446,531	402,187
Prepaid expenses	211,318	50,644
Total current assets	10,261,252	7,410,081
Noncurrent Cash and Investments		
Internally designated		
Capital and other expenditures	166,992	3,522,971
Externally restricted		
Indenture agreement	9,104,326	268,614
Donors	79,476	52,400
Certificates of deposit	206,382	—
Investment in land	102,582	102,582
	9,659,758	3,946,567
Capital Assets, net of accumulated depreciation	19,624,437	7,881,570
Other Assets		
Foundation assets	23,944	29,364
Deferred financing costs	304,462	19,058
Physician receivables	118,996	201,743
Total Other Assets	447,402	250,165
Total Assets	$ 39,992,849	$ 19,488,383

See Notes to Financial Statements

Liabilities and Net Assets

	2007	2006
Current Liabilities		
Current maturities of long-term debt	$ 370,000	$ 355,000
Accounts payable	1,033,077	452,377
Accrued expenses		
Salaries and wages	336,364	276,346
Paid time off	474,803	411,831
Payroll taxes and other payroll withholdings	92,973	80,004
Self funded health insurance payable	200,000	92,817
Interest	567,106	78,710
Deferred revenue for succeeding year property tax receivable	759,600	742,799
Property taxes	34,140	33,728
Estimated third-party settlements	139,000	774,000
Total current liabilities	4,007,063	3,297,612
Long-term Debt, less current maturities	20,610,965	2,550,000
Total liabilities	24,618,028	5,847,612
Net Assets		
Invested in capital assets, net of related debt	6,570,604	4,725,380
Unrestricted	6,873,386	8,169,809
Restricted expendable		
Debt service	1,851,355	693,182
Donor restricted	54,476	52,400
Restricted nonexpendable	25,000	—
Total net assets	15,374,821	13,640,771
Total Liabilities and Net Assets	$ 39,992,849	$ 19,488,383

Washington County Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2007 and 2006

	2007	2006
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 19,766,823	$ 19,084,228
Provision for uncollectible accounts	(1,080,971)	(1,260,883)
Net patient service revenue	18,685,852	17,823,345
Other	402,045	342,930
	19,087,897	18,166,275
Operating Expenses		
Salaries and wages	8,609,393	7,830,754
Employee benefits	2,167,627	2,177,522
Medical professional fees	2,084,849	2,178,385
Supplies and other	2,307,225	2,204,841
General services	1,054,282	1,080,335
Administrative services	1,266,393	1,343,458
Depreciation and amortization	989,763	943,740
Building demolition and removal costs	—	329,923
Insurance	317,073	326,355
	18,796,605	18,415,313
Operating Income (Loss)	291,292	(249,038)
Nonoperating Revenues (Expenses)		
Investment income	616,091	338,987
Interest expense	(139,137)	(157,420)
Property tax revenue	745,502	714,751
Noncapital contributions	201,498	288,792
Foundation gift shop, net	18,804	30,584
	1,442,758	1,215,694
Increase in Net Assets	1,734,050	966,656
Net Assets, Beginning of the Year	13,640,771	12,674,115
Net Assets, End of the Year	$ 15,374,821	$ 13,640,771

Washington County Hospital

Statements of Cash Flows

Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Receipts from and on behalf of patients	$ 18,056,522	$ 18,063,959
Payments to suppliers	(6,854,351)	(7,697,805)
Payments to employees	(10,533,466)	(10,011,120)
Other receipts and payments, net	487,989	161,201
Net cash provided by operating activities	1,156,694	516,235
Noncapital Financing Activities		
Property taxes supporting operations	745,502	714,751
Noncapital contributions	201,498	288,792
Foundation gift shop	18,804	30,584
Net cash provided by noncapital financing activities	965,804	1,034,127
Capital and Related Financing Activities		
Purchase of capital assets	(12,071,964)	(2,506,413)
Principal payments on long-term debt	(355,000)	(335,000)
Interest paid on long-term debt	(593,298)	(165,963)
Proceeds from capital debt	18,500,000	—
Discount on issuance of capital debt	(73,260)	—
Deferred financing costs	(308,245)	—
Net cash provided by (used in) capital and related financing activities	5,098,233	(3,007,376)
Investing Activities		
Change in deposits and investments	(9,215,985)	(550,400)
Income received on investments	976,314	318,441
Net cash used in investing activities	(8,239,671)	(231,959)
Decrease in Cash and Cash Equivalents	(1,018,940)	(1,688,973)
Cash and Cash Equivalents, Beginning of Year	2,507,388	4,196,361
Cash and Cash Equivalents, End of Year	$ 1,488,448	$ 2,507,388
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 1,436,255	$ 2,188,706
Assets held under indenture agreement – current	—	94,466
Noncurrent cash and investments		
Capital and other expenditures	52,193	224,216
	$ 1,488,448	$ 2,507,388

Washington County Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 291,292	$ (249,038)
Items not requiring cash		
Depreciation and amortization	989,763	943,740
Loss on sale of capital assets	—	13,524
Changes in		
Patient and other receivables	3,527	283,104
Supplies	(44,344)	(97,704)
Prepaid expenses	(160,674)	(16,225)
Accounts payable and accrued expenses	624,043	(123,423)
Estimated amounts due to third-party payers	(635,000)	(36,000)
Other assets	88,087	(201,743)
Net cash provided by operating activities	$ 1,156,694	$ 516,235
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 470,459	$ 270,248

Washington County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Property Taxes

The Hospital received approximately 3.8% and 3.7% of its financial support from property tax revenues in the years ended June 30, 2007 and 2006, 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 preceding 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.

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

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2007
Total interest expense incurred on borrowings for project	$ 942,557
Interest income from investment of proceeds of borrowings for project	(509,248)
Net interest cost capitalized	$ 433,309
Interest capitalized	$ 942,557
Interest charged to expense	139,137
Total interest incurred	$ 1,081,694

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.

Net Assets

Net assets of the Hospital are classified in four 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 required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted non-expendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital. 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 $53,508 and $81,110 for 2007 and 2006, 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.

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.

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 47% and 49% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2007 and 2006, 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.

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, 2007 and 2006 was:

	2007	2006
Medicare and Medicaid	$ 350,518	$ 462,465
Other third-party payers	983,474	776,125
Patients	1,201,215	1,386,119
Clinics	263,906	180,074
	2,799,113	2,804,783
Less allowances for uncollectible accounts	559,122	559,122
	$ 2,239,991	$ 2,245,661

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, 2007 and 2006. The Hospital's deposits in banks at June 30, 2007 and 2006 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.

At June 30, 2007 and 2006, the Hospital had the following investments and maturities:

		June 30, 2007			
		Maturities in Years			
Type	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	$ 3,636,533	$ 3,636,533	$ —	$ —	$ —
Government obligations-Hospital	560,066	—	1,992	—	558,074
Money market funds-Foundation	134,684	134,684	—	—	—
	4,331,283	$ 3,771,217	$ 1,992	$ 0	$ 558,074
Equity mutual funds-Foundation	1,146,865				
	$ 5,478,148				

		June 30, 2006			
		Maturities in Years			
Type	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	$ 94,466	$ 94,466	$ —	$ —	$ —
Government obligations-Hospital	677,426	—	4,109	—	673,317
Money market funds-Foundation	14,638	14,638	—	—	—
	786,530	$ 109,104	$ 4,109	$ 0	$ 673,317
Equity mutual funds-Foundation	1,086,112				
	$ 1,872,642				

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 as 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, 2007 and 2006, the Hospital's money market mutual funds and the Foundation's money market funds are not rated. The Hospital's government obligations were rated AAA for both years by Standard and Poors.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2007 and 2006, the Hospital's investment in the Federal Home Loan Mortgage Corporation bonds was 0.03% and 0.2%, respectively, while the Hospital's investment in the Federal National Mortgage Association bonds was 10% and 36%, respectively.

Summary of Carrying Values

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

	2007	2006
Carrying value		
Deposits	$ 10,666,006	$ 5,925,442
Investments	5,580,730	1,975,224
	$ 16,246,736	$ 7,900,666
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,436,255	$ 2,188,706
Short-term investments	3,743,158	1,262,114
Assets held under indenture agreement – current	1,407,565	503,279
Noncurrent cash and investments	9,659,758	3,946,567
	$ 16,246,736	$ 7,900,666

Investment Income

Investment income for the years ended June 30, 2007 and 2006 consisted of:

	2007	2006
Interest and dividend income	$ 467,066	$ 252,174
Net increase in fair value of investments	149,025	86,813
	$ 616,091	$ 338,987

Washington County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2007 and 2006, were as follows:

2007	Balance June 30, 2006	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2007
Land	$ 10,902	$ —	$ —	$ —	$ 10,902
Land improvements	319,802	—	—	—	319,802
Buildings and leasehold improvements	9,024,381	—	—	—	9,024,381
Equipment	6,373,394	408,672	—	—	6,782,066
Construction in progress	1,914,741	12,296,812	—	—	14,211,554
	17,643,220	12,705,484	0	0	30,348,705
Less accumulated depreciation for					
Land improvements	(231,184)	(16,658)	—	—	(247,842)
Buildings and leasehold improvements	(4,999,044)	(418,204)	—	—	(5,417,248)
Equipment	(4,531,422)	(527,755)	—	—	(5,059,178)
	(9,761,650)	(962,617)	0	0	(10,724,268)
	$ 7,881,570	$ 11,742,867	$ 0	$ 0	$ 19,624,437

2006	Balance June 30, 2005	Additions	Retirements	Transfers/ Adjustments	Balance June 30, 2006
Land	$ 10,902	$ —	$ —	$ —	$ 10,902
Land improvements	333,405	—	(13,603)	—	319,802
Buildings and leasehold improvements	9,906,643	—	(882,262)	—	9,024,381
Equipment	7,560,005	792,060	(1,978,671)	—	6,373,394
Construction in progress	50,123	1,864,618	—	—	1,914,741
	17,861,078	2,656,678	(2,874,536)	0	17,643,220
Less accumulated depreciation for					
Land improvements	(228,097)	(16,689)	13,602	—	(231,184)
Buildings and leasehold improvements	(5,456,849)	(424,457)	882,262	—	(4,999,044)
Equipment	(5,999,792)	(496,778)	1,965,426	(278)	(4,531,422)
	(11,684,738)	(937,924)	2,861,290	(278)	(9,761,650)
	$ 6,176,340	$ 1,718,754	$ (13,246)	$ (278)	$ 7,881,570

Construction in progress relates to a facility replacement and renovation project with a total cost expected to be $20,750,000 and proposed completion in 2008. The Hospital will use internally designated cash and investments and borrowed amounts to complete the project. See Note 7 regarding 2006 bond issue.

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.

Note 7: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2007 and 2006 follows.

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	$ 2,905,000	$ —	$ 355,000	$ 2,550,000	$ 370,000
Series 2006 Hospital Revenue Bonds (B)	—	18,500,000	—	18,500,000	—
	2,905,000	$ 18,500,000	$ 355,000	21,050,000	$ 370,000
Less unamortized discount	—			69,035	
	$ 2,905,000			$ 20,980,965	

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	$ 3,240,000	$ —	$ (335,000)	$ 2,905,000	$ 355,000

(A) Hospital Revenue Bonds, Series 1997; $5,200,000 maturing serially at varying amounts through 2012; semiannual interest payments at rates ranging from 5.15% to 5.65%; collateralized by the Hospital's net revenues.

(B) Series 2006 Hospital Revenue Bonds; $3,110,000 maturing serially at varying amounts through 2017, semiannual interest payments at rates ranging from 4.5% to 5.25%; $7,750,000 term bonds with mandatory sinking fund redemption, due July 2026 with an interest rate of 5.375% and $7,640,000 term bonds with mandatory sinking fund redemption, due July 2032 with an interest rate of 5.50%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures place 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:

	Principal	Interest	Total
2008	$ 370,000	$ 1,124,592	$ 1,494,592
2009	415,000	1,104,075	1,519,075
2010	435,000	1,081,530	1,516,530
2011	460,000	1,057,325	1,517,325
2012	485,000	1,031,289	1,516,289
2013 – 2017	2,835,000	4,733,367	7,568,367
2018 – 2022	3,660,000	3,889,387	7,549,387
2023 – 2027	4,750,000	2,765,619	7,515,619
2028 – 2032	6,190,000	1,286,175	7,476,175
2033	1,450,000	39,875	1,489,875
	$ 21,050,000	$18,113,234	$ 39,163,234

Note 8: Operating Leases

Noncancelable operating leases for equipment will expire May 2011.

Future minimum lease payments at June 30, 2007, are:

2008	$ 208,756
2009	208,756
2010	104,281
2011	27,182
Future minimum lease payments	$ 548,975

Rental expense for all operating leases was $300,342 and $288,626 for the years ended June 30, 2007 and 2006, 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 2007 and 2006 is summarized as follows:

	2007	2006
Balance, beginning of year	$ 92,817	$ 119,872
Current year claims incurred and changes in estimates for claims incurred in prior years	1,060,625	974,511
Claims and expenses paid	953,442	1,001,566
Balance, end of year	$ 200,000	$ 92,817

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 salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were $476,505, $454,477 and $399,244, 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 of the Hospital for the year ended June 30, 2007:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 745,502	$ —	$ 745,502	$ 742,799
Other revenues/receipts	19,587,078	(541,243)	19,045,835	24,257,551
	20,332,580	(541,243)	19,791,337	25,000,350
Expenses/disbursements	18,935,742	(1,107,632)	17,828,110	22,176,838
	1,396,838	566,389	1,963,227	2,823,512
Balance, beginning of year	12,187,267	513,370	12,700,637	12,700,637
Balance, end of year	$ 13,584,105	$ 1,079,759	$ 14,663,864	$ 15,524,149

Note 12: Restricted and Designated Net Assets

At June 30, 2007 and 2006, restricted expendable net assets were available for the following purposes.

	2007	2006
Debt service	$ 1,851,355	$ 693,182
Specific operating activities and capital acquisition	54,476	52,400
	$ 1,905,831	$ 745,582

At June 30, 2007, restricted nonexpendable net assets were $25,000 required to be maintained in perpetuity by the donor.

At June 30, 2007 and 2006, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes:

	2007	2006
Capital and other expenditures	$ 166,992	$ 3,522,971

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

Combining Balance Sheet

June 30, 2007

Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	$ 1,080,746	$ 355,509		$ 1,436,255
Short-term investments	2,617,753	1,125,405		3,743,158
Assets held under indenture agreement – current	1,407,565			1,407,565
Patient accounts receivable	2,239,991			2,239,991
Other receivables	16,834			16,834
Succeeding year property tax settlements	759,600			759,600
Supplies	446,531			446,531
Prepaid expenses	211,318			211,318
Total current assets	8,780,338	1,480,914		10,261,252
Noncurrent Cash and Investments				
Internally designated				
Capital and other expenditures	166,992			166,992
Externally restricted				
Indenture agreement	9,104,326			9,104,326
Donors		79,476		79,476
Investment in land	102,582			102,582
Certificates of deposit		206,382		206,382
	9,373,900	285,858		9,659,758
Capital Assets, net of accumulated depreciation	19,624,437			19,624,437
Other Assets				
Foundation assets		23,944		23,944
Deferred financing costs	304,462			304,462
Physician receivables	118,996			118,996
Total Other Assets	423,458	23,944		447,402
Total Assets	$ 38,202,133	$ 1,790,716		$ 39,992,849

Washington County Hospital

Combining Balance Sheet

June 30, 2007

Liabilities and Net Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	$ 370,000			$ 370,000
Accounts payable	1,033,077			1,033,077
Accrued expenses				
Salaries and wages	336,364			336,364
Paid time off	474,803			474,803
Payroll taxes and other payroll withholdings	92,973			92,973
Self funded health insurance payable	200,000			200,000
Interest	567,106			567,106
Deferred revenue for succeeding year property tax receivable	759,600			759,600
Property taxes	34,140			34,140
Estimated third-party settlements	139,000			139,000
Total current liabilities	4,007,063			4,007,063
Long-Term Debt, less current maturities	20,610,965			20,610,965
Total liabilities	24,618,028			24,618,028
Net Assets				
Invested in capital assets, net of related debt	6,570,604			6,570,604
Unrestricted	5,162,146	$ 1,711,240		6,873,386
Restricted nonexpendable		25,000		25,000
Restricted expendable				
Debt service	1,851,355			1,851,356
Donor restricted		54,476		54,475
Total net assets	13,584,105	1,790,716		15,374,821
Total Liabilities and Net Assets	$ 38,202,133	$ 1,790,716		$ 39,992,849

Washington County Hospital

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

	Washington County Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	$ 19,766,823			$ 19,766,823
Provision for uncollectible accounts	1,080,971			1,080,971
Net patient service revenue	18,685,852			18,685,852
Other	402,045			402,045
	19,087,897			19,087,897
Operating Expenses				
Salaries and wages	8,609,393			8,609,393
Employee benefits	2,167,627			2,167,627
Medical professional fees	2,084,849			2,084,849
Supplies and other	2,307,225			2,307,225
General services	1,054,282			1,054,282
Administrative services	1,266,393			1,266,393
Depreciation and amortization	989,763			989,763
Insurance	317,073			317,073
Total expenses	18,796,605			18,796,605
Operating Income	291,292			291,292
Nonoperating Revenues (Expenses)				
Investment income	385,375	$ 230,716		616,091
Interest expense	(139,137)			(139,137)
Property tax revenue	745,502			745,502
Noncapital contributions	113,806	87,692		201,498
Foundation gift shop, net		18,804		18,804
	1,105,546	337,212		1,442,758
Excess of Revenues Over Expenses	$ 1,396,838	$ 337,212		$ 1,734,050

Washington County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical/surgical	$ 2,646,432	$ 1,815,443	$ 830,989	$ 2,589,400	$ 1,771,122	$ 818,278
Obstetrics	229,808	193,974	35,834	310,276	275,795	34,481
Labor and delivery	96,262	74,018	22,244	28,718	3,486	25,232
Special care unit	100,700	100,700		104,550	104,550	
Nursery	102,090	102,090		100,775	100,775	
Swing-bed	1,513,015	1,513,015		1,153,224	1,153,224	
Long-term care	2,067,005	2,067,005		1,956,445	1,956,445	
Operating and recovery	2,327,591	295,328	2,032,263	2,343,912	256,690	2,087,222
Emergency	2,444,885	48,993	2,395,892	2,473,176	49,100	2,424,076
	11,527,788	6,210,566	5,317,222	11,060,476	5,671,187	5,389,289
Other Professional Services						
Central service and supply	642,649	256,807	385,842	580,950	219,491	361,459
Laboratory	3,187,014	599,608	2,587,406	2,962,434	548,736	2,413,698
Radiology	5,122,478	473,414	4,649,064	5,352,158	458,748	4,893,410
Pharmacy	3,970,499	2,134,661	1,835,838	3,713,938	1,958,366	1,755,572
Anesthesiology	929,461	280,646	648,815	850,418	235,252	615,166
Physical therapy	683,299	94,491	588,808	612,885	62,572	550,313
Speech therapy	48,916	4,227	44,689	34,944	4,531	30,413
Occupational therapy	90,740	48,421	42,319	63,652	23,313	40,339
Respiratory therapy	916,884	781,752	135,132	920,351	761,189	159,162
Electrocardiology	253,395	39,900	213,495	239,394	39,383	200,011
Cardiac rehabilitation	173,751	330	173,421	162,772	623	162,149
Ambulatory care	146,296		146,296	215,903		215,903
Surgery clinic	369,232		369,232	444,935		444,935
Keota clinic	137,755		137,755	168,413		168,413
Women's healthcare clinic	1,015,551		1,015,551	511,358		511,358
Sisam clinic				5,781		5,781
	17,687,920	4,714,257	12,973,663	16,840,286	4,312,204	12,528,082
Patient Service Revenue	29,215,708	$ 10,924,823	$ 18,290,885	27,900,762	$ 9,983,391	$ 17,917,371
Contractual Allowances	9,448,885			8,816,534		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	19,766,823			19,084,228		
Provision for Uncollectible Accounts	(1,080,971)			(1,260,883)		
Net Patient Service Revenue	$ 18,685,852			$ 17,823,345		

Washington County Hospital

Schedules of Other Revenues

Years Ended June 30, 2007 and 2006

	2007	2006
Rental income	$ 210,221	$ 204,951
Cafeteria	84,221	76,312
Meals on Wheels	7,645	6,443
Lifeline services	54,097	49,528
Other	28,008	4,584
Contracted social work	17,753	357
Education program	100	755
	$ 402,045	$ 342,930

Washington County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	$ 128,096	$ 116,112	$ 11,984	$ 114,075	$ 107,069	$ 7,006
Medical/surgical	1,605,421	1,432,262	173,159	1,507,050	1,289,068	217,982
Obstetrics and nursery	200,250	186,685	13,565	202,941	192,617	10,324
Long-term care	1,152,760	1,080,711	72,049	1,122,889	1,065,298	57,591
Operating and recovery	444,820	323,705	121,115	469,051	328,145	140,906
Emergency	1,263,298	459,269	804,029	1,234,436	441,817	792,619
	4,794,645	3,598,744	1,195,901	4,650,442	3,424,014	1,226,428
Other Professional Services						
Laboratory	933,616	432,532	501,084	923,322	422,549	500,773
Radiology	1,256,980	371,816	885,164	1,381,884	381,814	1,000,070
Cardiac rehabilitation	48,657	34,496	14,161	48,709	35,000	13,709
Pharmacy	1,064,814	231,723	833,091	1,058,241	226,534	831,707
Anesthesiology	287,316	92,156	195,160	285,322	97,473	187,849
Physical therapy	244,735	217,888	26,847	220,984	198,480	22,504
Speech therapy	44,327		44,327	16,526		16,526
Occupational therapy	46,579		46,579	29,723		29,723
Electrocardiology	28,534		28,534	29,533		29,533
Medical supplies	444,067	121,565	322,502	418,466	116,593	301,873
Respiratory therapist	105,831	71,997	33,834	97,626	67,834	29,792
Ambulatory care	60,710	58,450	2,260	41,781	36,560	5,221
Specialty clinic	10,345	10,335	10	8,708	8,627	81
Keota clinic	151,476	111,283	40,193	157,109	116,162	40,947
Sisam clinic				207		207
Women's healthcare clinic	851,895	699,503	152,392	424,614	331,074	93,540
Lifeline	55,898	12,686	43,212	38,263	5,089	33,174
Surgery clinic	425,618	398,795	26,823	348,391	328,822	19,569
	6,061,398	2,865,225	3,196,173	5,529,409	2,372,611	3,156,798
General Services						
Dietary	775,079	284,734	490,345	739,798	274,574	465,224
Operation of plant	647,352	143,087	504,265	705,359	145,346	560,013
Housekeeping	259,972	230,467	29,505	255,310	227,604	27,706
Laundry	101,567	71,400	30,167	95,059	67,667	27,392
	1,783,970	729,688	1,054,282	1,795,526	715,191	1,080,335
Administrative Services						
Medical records	486,459	395,445	91,014	460,089	383,434	76,655
Administration	2,016,935	947,040	1,069,895	2,047,518	866,163	1,181,355
Foundation	42,925	42,462	463	42,243	41,224	1,019
Marketing	135,810	30,789	105,021	112,546	28,117	84,429
	2,682,129	1,415,736	1,266,393	2,662,396	1,318,938	1,343,458
Insurance	317,073		317,073	326,355		326,355
Employee Benefits	2,167,627		2,167,627	2,177,522		2,177,522
Depreciation and Amortization	989,763		989,763	943,740		943,740
Building Demolition and Removal				329,923		329,923
	$ 18,796,605	$ 8,609,393	$ 10,187,212	$ 18,415,313	$ 7,830,754	$ 10,584,559

Washington County Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts

Years Ended June 30, 2007 and 2006

Schedules of Patient Receivables

	2007		2006	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	$ 1,737,995	54.4	$ 1,779,626	55.0
31-60 days	499,949	15.6	430,674	13.3
61-90 days	259,122	8.1	218,182	6.7
91-120 days	169,212	5.3	199,107	6.2
Over 4 months	531,929	16.6	610,120	18.8
Total	3,198,207	100.0	3,237,709	100.0
Clinic and other receivables	263,906		180,074	
Less contractual allowances	663,000		613,000	
Less allowance for uncollectible accounts	559,122		559,122	
Net patient receivables	$ 2,239,991		$ 2,245,661	

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	$ 559,122	$ 521,000
Provision for year	1,080,971	1,260,883
Recoveries of accounts previously written off	235,318	187,216
	1,875,411	1,969,099
Accounts written off	1,316,289	1,409,977
Balance, end of year	$ 559,122	$ 559,122

Washington County Hospital

Schedule of Officials

June 30, 2007

Name	Title	Term Expires
Board of Trustees		
Jim Harris	Chairman	November, 2012
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, 2012
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, 2007 and 2006

	2007	2006
Supplies		
Pharmacy	$ 180,912	$ 163,715
Operating and recovery rooms	119,450	101,761
Store room	43,403	40,786
Laboratory	33,434	38,819
Radiology	12,299	12,748
Emergency	8,829	11,101
Dietary	8,086	10,961
Medical clinic	17,757	—
All other	22,361	22,296
	$ 446,531	$ 402,187
Prepaid Expenses		
Insurance	$ 70,703	$ 42,499
Medical clinic	132,149	—
Dues/other	8,466	8,145
	$ 211,318	$ 50,644

Washington County Hospital

Schedule of Insurance Coverage

June 30, 2007

Farm Bureau		
Workers' compensation; expires 12/01/07	$	500,000
MMIC		
Professional liability; expires 11/01/07	$	1,000,000 / 3,000,000
General liability; expires 11/01/07	$	1,000,000 / 3,000,000
Umbrella liability; expires 11/01/07	$	3,000,000 / 3,000,000
Chubb Insurance		
Building and contents; expires 05/30/08	$	18,614,100
Nuclear hazard; expires 05/30/08	$	5,000,000
Loss of business income; expires 05/30/08	$	804,159
Auto; expires 05/30/08	$	500,000
Chubb Insurance		
Directors and officers; expires 05/30/08	$	2,000,000
Sellers Insurance		
Fidelity bond; expires 11/01/07	$	500,000
Horak Insurance		
Surety bond; expires 08/29/07	$	2,500

Washington County Hospital

Statistical Information

Year Ended June 30, 2007

	2007	2006
Patient Days		
Acute	2,491	2,607
Swing-bed	1,915	1,615
Newborn	201	192
Long-term care	14,930	14,886
Total	19,537	19,300
Discharges		
Acute	832	825
Swing-bed	326	290
Long-term care	32	28
Total	1,190	1,143
Average Length of Stay		
Acute	2.99	3.16
Swing-bed	5.87	5.57
Long-term care	466.56	531.64
Beds		
Acute	25	25
Long-term care	43	43
Occupancy Percent		
Acute and swing-bed	48.28%	46.37%
Long-term care	95.13%	94.85%

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, 2007, and have issued our report thereon dated October 17, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

120 West 12th Street, Suite 1200 Kansas City, MO 64105-1936 816.221.6300 Fax 816.221.6380

bkd.com
Beyond Your Numbers
Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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, 2007 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, 2007. 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, 2007.

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, 2007 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 and Hospital policy.

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

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 no instances of non-compliance with this requirement.

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.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated October 17, 2007.

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
October 17, 2007

Washington County Hospital

Schedule of Findings and Responses

Year Ended June 30, 2007

Reference Number	Finding
	None

Board of Trustees and Management
Washington County Hospital
Washington, Iowa

In planning and performing our audit of the financial statements of Washington County Hospital for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2006 audit engagement in a letter dated August 31, 2006.

Material Weaknesses

No maters are reportable.

Significant Deficiencies

No maters are reportable.

Control Deficiencies

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 is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed that the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Purchases Cycle

- The Accounts Payable and the Operations Specialist has duties that include access, recording, and reconciling duties in the purchasing cycle. We recommend another person be responsible for check signing and access to those checks after they are signed.

Revenue and Cash Receipts Cycle

- The Business Office Manager and the Financial Credit Counselor have access to assets and recording abilities in the revenue cycle. We recommend separating duties of persons receiving cash and the ability to record transactions.

Payroll Cycle

- The Payroll Clerk has the duties that include check signing and the recording ability in the payroll cycle. We recommend another person have access to the signature plate and sign checks.

Other Matter

We offer the following comment related to new audit standards. The matter discussed herein is not considered to be a material weakness, significant deficiency or other control deficiency in internal control over financial reporting.

Risk Assessment Audit Standards

During the past year, the AICPA issued new Risk Assessment Suite of Standards (Statements of Auditing Standards numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These Standards are effective for audits of financial statements with fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit for the year ending June 30, 2008. We will provide additional information about these Standards as part of the audit planning process in 2008.

* * * * *

This communication is intended solely for the information and use of Management, the Board of Trustees and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
October 17, 2007