

# **Washington County Hospital**

Accountants' Report and Financial Statements

June 30, 2008 and 2007



**Washington County Hospital**  
**June 30, 2008 and 2007**

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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, 2008 and 2007, 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, 2008 and 2007, 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 20, 2008, 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. The combining information is presented for purposes of additional analysis of the governmental financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. 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 20, 2008

# **Washington County Hospital**

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

### **Years Ended June 30, 2008 and 2007**

#### ***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, 2008 and 2007. 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 decreased in 2008 by \$4,374,384 or 27% from 2007 and increased in 2007 over 2006 by \$8,346,070, or 106%.
- The Hospital's net assets increased in each of the past two years with a \$645,870 or 4% increase in 2008 and \$1,734,050 or 13% increase in 2007.
- The Hospital reported operating income (loss) of \$(743,685) and \$291,292 in 2008 and 2007, respectively.
- Net nonoperating revenues and expenses decreased by \$53,203 or 4% in 2008 and increased by \$227,117 or 19% in 2007.

#### ***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 \$645,870 (4%) in 2008 over 2007 and \$1,734,050 (13%) in 2007 over 2006, as shown in Table 1.

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>			
Patient accounts receivable	\$ 3,212,710	\$ 2,239,991	\$ 2,245,661
Other current assets	9,590,366	8,021,261	5,164,420
Noncurrent cash and investments	3,612,534	9,659,758	3,946,567
Capital assets, net	23,396,580	19,624,437	7,881,570
Other	360,001	447,402	250,165
	<u>\$ 40,172,191</u>	<u>\$ 39,992,849</u>	<u>\$ 19,488,383</u>
<b>Liabilities</b>			
Current liabilities	\$ 3,951,256	\$ 4,007,063	\$ 3,297,612
Long-term debt	20,200,244	20,610,965	2,550,000
	<u>24,151,500</u>	<u>24,618,028</u>	<u>5,847,612</u>
<b>Net Assets</b>			
Invested in capital, net assets	4,677,582	6,570,604	4,725,380
Restricted expendable	1,879,492	1,905,831	745,582
Restricted nonexpendable	26,452	25,000	-
Unrestricted	9,437,165	6,873,386	8,169,809
	<u>16,020,691</u>	<u>15,374,821</u>	<u>13,640,771</u>
Total net assets	<u>16,020,691</u>	<u>15,374,821</u>	<u>13,640,771</u>
Total liabilities and net assets	<u>\$ 40,172,191</u>	<u>\$ 39,992,849</u>	<u>\$ 19,488,383</u>

## Operating Results

The Hospital's Increase in Net Assets was \$645,870 in 2008 and \$1,734,050 in 2007, as shown in Table 2.

**Table 2: Operating Results**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 23,525,538	\$ 18,685,852	\$ 17,823,345
Other operating revenues	327,229	402,045	342,930
Total operating revenues	<u>23,852,767</u>	<u>19,087,897</u>	<u>18,166,275</u>
<b>Operating Expenses</b>			
Salaries, wages and benefits	14,098,125	10,777,020	10,008,276
Other operating supplies and expenses	8,571,914	7,029,822	7,463,244
Depreciation and amortization	1,926,413	989,763	943,740
Total operating expenses	<u>24,596,452</u>	<u>18,796,605</u>	<u>18,415,260</u>
<b>Operating Income (Loss)</b>	<u>(743,685)</u>	<u>291,292</u>	<u>(248,985)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property tax revenue	757,933	745,502	714,751
Investment income	288,110	616,091	338,987
Interest expense	(1,053,449)	(139,137)	(157,420)
Noncapital contributions	1,368,960	201,498	288,792
Foundation gift shop, net	28,001	18,804	30,531
Total nonoperating revenues	<u>1,389,555</u>	<u>1,442,758</u>	<u>1,215,641</u>
<b>Increase in Net Assets</b>	<u>\$ 645,870</u>	<u>\$ 1,734,050</u>	<u>\$ 966,656</u>

The primary reasons for the change in financial performance in 2008 were:

- Net patient service revenues increased \$4,839,686 or 26%
- Operating expenses increased \$5,799,847 or 31%
- Nonoperating revenues (expenses) decreased \$53,203 or 3.7%

Net patient service revenues increased 26% in 2008 primarily due to the impact of the new hospital opening and the integration of the medical clinic physicians in July 2007. Utilization of hospital inpatient and outpatient services increased dramatically. Acute care days increased 20% (503), swing-bed days increased 15% (295) and observation days increased 11% (113). The new provider-based clinic generated \$3,298,551 in revenue and physician clinic service revenue increased 228%.

Operating expenses increased dramatically with the introduction of the new provider-based clinic and the opening of the new hospital in July 2007. The new physician clinic incurred general salaries of \$505,926, physician salaries of \$1,285,252 and other direct operating expenses of \$227,794.

Total salaries and employee benefits increased \$3,321,105 over the prior year. Salaries increased \$2,599,851 due to increased volume of services provided, the new clinic and extra expense with transitioning to the new facility during the year. Employee benefits increased \$721,254 in total with employee health insurance expense increasing \$304,779, FICA contributions increasing \$175,379 and employee retirement contributions (IPERS) increasing \$166,071.

Operating supplies and other expenses increased \$1,542,092 over the prior year with \$644,074 in minor equipment purchases and \$271,161 in operation of plant expenditures expensed as incurred during the year.

Depreciation and amortization expense increased \$936,650 due to new facility costs recognized as each phase was completed during the year.

The Hospital also recorded \$515,444 of expenses related to demolition of a part of the old building and losses related to the disposal of assets.

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 increased \$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%.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues (expenses) decreased due to large increases in interest expense and non-capital contributions. Interest expense increased \$914,312 due to recognizing interest expense on the 2006 hospital revenue bonds after completion of the new facility. Noncapital contributions increased \$1,167,462 primarily due to receiving \$1,050,000 from the Merle W. Custer Trust. Investment income decreased \$327,981 compared to the prior year due to hospital funded depreciation used to complete phase II of the new facility project.

Changes in nonoperating revenues and expenses between 2007 and 2006 were primarily due to increases in investment income of \$277,104 due to higher rates received on invested funds.

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

The Hospital's Cash from Operating Activities was \$558,414 in 2008 compared to \$1,156,694 in 2007. 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 2008, the Hospital had \$23,396,580 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008, the Hospital purchased new capital assets costing \$5,897,725, including amounts related to construction of the building project.

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.

### Debt

At June 30, 2008, the Hospital had \$20,680,000 in revenue bonds. The Hospital issued no new debt in 2008.

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.

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

At the time these financial statements were prepared and audited, the Hospital was not aware of any existing circumstances that could significantly affect its financial health in the future.

### ***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, 2008 and 2007**

**Assets**

	<u>2008</u>	<u>2007</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,497,530	\$ 1,436,255
Short-term investments	3,363,487	3,743,158
Assets held under indenture agreement – current	1,398,801	1,407,565
Patient accounts receivable, net of allowance; 2008 – \$629,122, 2007 – \$559,122	3,212,710	2,239,991
Other receivables	16,293	16,834
Succeeding year property tax settlements	769,058	759,600
Supplies	460,605	446,531
Prepaid expenses	84,592	211,318
	<u>12,803,076</u>	<u>10,261,252</u>
<b>Noncurrent Cash and Investments</b>		
Internally designated		
Capital and other expenditures	258,532	166,992
Externally restricted		
Indenture agreement	3,042,003	9,104,326
Donors	62,598	79,476
Certificates of deposit	217,495	206,382
Investment in land	31,906	102,582
	<u>3,612,534</u>	<u>9,659,758</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>23,396,580</u>	<u>19,624,437</u>
<b>Other Assets</b>		
Foundation assets	32,016	23,944
Deferred financing costs	282,025	304,462
Physician receivables	45,960	118,996
	<u>360,001</u>	<u>447,402</u>
<b>Total Other Assets</b>	<u>360,001</u>	<u>447,402</u>
<b>Total Assets</b>	<u>\$ 40,172,191</u>	<u>\$ 39,992,849</u>

## Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 415,000	\$ 370,000
Accounts payable	194,787	562,318
Accounts payable - capital assets	425,751	470,759
Accrued expenses		
Salaries and wages	591,570	336,364
Paid time off	542,072	474,803
Payroll taxes and other payroll withholdings	122,133	92,973
Self-funded health insurance payable	236,757	200,000
Interest	557,486	567,106
Deferred revenue for succeeding year property tax receivable	769,058	759,600
Property taxes	34,642	34,140
Estimated third-party settlements	62,000	139,000
	<u>3,951,256</u>	<u>4,007,063</u>
<b>Long-term Debt, less current maturities</b>	<u>20,200,244</u>	<u>20,610,965</u>
<b>Total liabilities</b>	<u>24,151,500</u>	<u>24,618,028</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	4,677,582	6,570,604
Unrestricted	9,437,165	6,873,386
Restricted expendable		
Debt service	1,843,346	1,851,355
Donor restricted	36,146	54,476
Restricted nonexpendable	26,452	25,000
	<u>16,020,691</u>	<u>15,374,821</u>
<b>Total net assets</b>	<u>16,020,691</u>	<u>15,374,821</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 40,172,191</u>	<u>\$ 39,992,849</u>

**Washington County Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 24,658,593	\$ 19,766,823
Provision for uncollectible accounts	<u>(1,133,055)</u>	<u>(1,080,971)</u>
Net patient service revenue	23,525,538	18,685,852
Other	<u>327,229</u>	<u>402,045</u>
	<u>23,852,767</u>	<u>19,087,897</u>
<b>Operating Expenses</b>		
Salaries and wages	11,209,244	8,609,393
Employee benefits	2,888,881	2,167,627
Medical professional fees	2,053,208	2,084,849
Supplies and other	2,566,659	2,307,225
General services	1,340,867	1,054,282
Administrative services	1,695,049	1,266,393
Depreciation and amortization	1,926,413	989,763
Building demolition and disposal of capital assets	515,444	-
Insurance	<u>400,687</u>	<u>317,073</u>
	<u>24,596,452</u>	<u>18,796,605</u>
<b>Operating Income (Loss)</b>	<u>(743,685)</u>	<u>291,292</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	288,110	616,091
Interest expense	(1,053,449)	(139,137)
Property tax revenue	757,933	745,502
Noncapital contributions	1,368,960	201,498
Foundation gift shop, net	<u>28,001</u>	<u>18,804</u>
	<u>1,389,555</u>	<u>1,442,758</u>
<b>Increase in Net Assets</b>	645,870	1,734,050
<b>Net Assets, Beginning of the Year</b>	<u>15,374,821</u>	<u>13,640,771</u>
<b>Net Assets, End of the Year</b>	<u>\$ 16,020,691</u>	<u>\$ 15,374,821</u>

**Washington County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 22,475,819	\$ 18,056,522
Payments to suppliers	(8,600,909)	(6,854,351)
Payments to employees	(13,709,231)	(10,533,466)
Other receipts and payments, net	392,735	487,989
Net cash provided by operating activities	558,414	1,156,694
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	757,933	745,502
Noncapital contributions	1,368,960	201,498
Foundation gift shop	28,001	18,804
Net cash provided by noncapital financing activities	2,154,894	965,804
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(5,896,700)	(12,071,964)
Principal payments on long-term debt	(370,000)	(355,000)
Interest paid on long-term debt	(1,124,592)	(593,298)
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	(7,391,292)	5,098,233
<b>Investing Activities</b>		
Change in deposits and investments	6,198,673	(9,215,985)
Income received on investments	626,226	976,314
Net cash provided by (used in) investing activities	6,824,899	(8,239,671)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	2,146,915	(1,018,940)
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,488,448	2,507,388
<b>Cash and Cash Equivalents, End of Year</b>	\$ 3,635,363	\$ 1,488,448
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 3,497,530	\$ 1,436,255
Noncurrent cash and investments	137,833	52,193
Capital and other expenditures	137,833	52,193
	\$ 3,635,363	\$ 1,488,448

**Washington County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income (loss)	\$ (743,685)	\$ 291,292
Items not requiring cash		
Depreciation and amortization	1,926,413	989,763
Loss on disposal of capital assets	225,884	-
Changes in		
Patient and other receivables	(972,178)	3,527
Supplies	(14,074)	(44,344)
Prepaid expenses	126,726	(160,674)
Accounts payable and accrued expenses	21,363	624,043
Estimated amounts due to third-party payers	(77,000)	(635,000)
Other assets	64,965	88,087
Net cash provided by operating activities	\$ 558,414	\$ 1,156,694
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 425,751	\$ 470,459

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

### 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, 2008 and 2007

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

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008 and 2007, cash equivalents consisted primarily of money market accounts and certificates of deposit.

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

The Hospital received approximately 3.2% and 3.8% of its financial support from property tax revenues in the years ended June 30, 2008 and 2007, 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.

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

### ***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:

	<b>2008</b>	<b>2007</b>
Total interest expense incurred on borrowings for project	\$ 61,523	\$ 942,557
Interest income from investment of proceeds of borrowings for project	<u>(15,490)</u>	<u>(509,248)</u>
Net interest cost capitalized	<u>\$ 46,033</u>	<u>\$ 433,309</u>
Interest capitalized	\$ 61,523	\$ 942,557
Interest charged to expense	<u>1,053,449</u>	<u>139,137</u>
Total interest incurred	<u>\$ 1,114,972</u>	<u>\$ 1,081,694</u>

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

### ***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 \$43,279 and \$53,508 for 2008 and 2007, respectively.

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

### ***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 Administrative Contractor. 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 42% and 47% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2008 and 2007, 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, 2008 and 2007

### 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, 2008 and 2007 was:

	<u>2008</u>	<u>2007</u>
Medicare and Medicaid	\$ 438,894	\$ 350,518
Other third-party payers	1,214,588	983,474
Patients	1,548,330	1,201,215
Clinics	640,020	263,906
	<u>3,841,832</u>	<u>2,799,113</u>
Less allowances for uncollectible accounts	629,122	559,122
	<u>\$ 3,212,710</u>	<u>\$ 2,239,991</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, 2008 and 2007. The Hospital's deposits in banks at June 30, 2008 and 2007 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, 2008 and 2007**

At June 30, 2008 and 2007, the Hospital had the following investments and maturities:

Type	<b>June 30, 2008</b>				
	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than 1</b>	<b>1 – 5</b>	<b>6 – 10</b>	<b>More Than 10</b>
Money market mutual funds-Hospital	\$ 442,047	\$ 442,047	\$ -	\$ -	\$ -
Government obligations-Hospital	425,688	-	556	-	425,132
Money market funds-Foundation	<u>144,185</u>	<u>144,185</u>	<u>-</u>	<u>-</u>	<u>-</u>
	1,011,920	<u>\$ 586,232</u>	<u>\$ 556</u>	<u>\$ -</u>	<u>\$ 425,132</u>
Equity mutual funds-Foundation	<u>1,573,330</u>				
	<u>\$ 2,585,250</u>				

Type	<b>June 30, 2007</b>				
	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than 1</b>	<b>1 – 5</b>	<b>6 – 10</b>	<b>More Than 10</b>
Money market mutual funds-Hospital	\$ 3,636,533	\$ 3,636,533	\$ -	\$ -	\$ -
Government obligations-Hospital	560,066	-	1,992	-	558,074
Money market funds-Foundation	<u>134,684</u>	<u>134,684</u>	<u>-</u>	<u>-</u>	<u>-</u>
	4,331,283	<u>\$ 3,771,217</u>	<u>\$ 1,992</u>	<u>\$ -</u>	<u>\$ 558,074</u>
Equity mutual funds-Foundation	<u>1,146,865</u>				
	<u>\$ 5,478,148</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 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, 2008 and 2007, 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.

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

**Concentration of Credit Risk** – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2008 and 2007, the Hospital’s investment in the Federal National Mortgage Association bonds was 16% and 10%, respectively.

### Summary of Carrying Values

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

	<u>2008</u>	<u>2007</u>
Carrying value		
Deposits	\$ 9,255,196	\$ 10,666,006
Investments	<u>2,617,156</u>	<u>5,580,730</u>
	<u>\$ 11,872,352</u>	<u>\$ 16,246,736</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,497,530	\$ 1,436,255
Short-term investments	3,363,487	3,743,158
Assets held under indenture agreement – current	1,398,801	1,407,565
Noncurrent cash and investments	<u>3,612,534</u>	<u>9,659,758</u>
	<u>\$ 11,872,352</u>	<u>\$ 16,246,736</u>

### Investment Income

Investment income for the years ended June 30, 2008 and 2007 consisted of:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 540,060	\$ 467,066
Net increase (decrease) in fair value of investments	<u>(251,950)</u>	<u>149,025</u>
	<u>\$ 288,110</u>	<u>\$ 616,091</u>

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

### Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2008 and 2007, were as follows:

2008	Balance 6/30/07	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/08
Land	\$ 10,902	\$ -	\$ -	\$ -	\$ 10,902
Land improvements	319,802	798,917	(165,324)	-	953,395
Buildings and leasehold improvements	9,024,381	3,090,560	(1,497,090)	14,216,751	24,834,602
Equipment	6,782,066	2,008,248	(2,183,284)	(5,197)	6,601,833
Construction in progress	<u>14,211,554</u>	<u>-</u>	<u>-</u>	<u>(14,211,554)</u>	<u>-</u>
	<u>30,348,705</u>	<u>5,897,725</u>	<u>(3,845,698)</u>	<u>-</u>	<u>32,400,732</u>
Less accumulated depreciation for					
Land improvements	(247,842)	(69,404)	121,180	-	(196,066)
Buildings and leasehold improvements	(5,417,248)	(1,141,898)	1,431,121	11,148	(5,116,877)
Equipment	<u>(5,059,178)</u>	<u>(688,396)</u>	<u>2,067,513</u>	<u>(11,148)</u>	<u>(3,691,209)</u>
	<u>(10,724,268)</u>	<u>(1,899,698)</u>	<u>3,619,814</u>	<u>-</u>	<u>(9,004,152)</u>
	<u>\$ 19,624,437</u>	<u>\$ 3,998,027</u>	<u>\$ (225,884)</u>	<u>\$ -</u>	<u>\$ 23,396,580</u>
2007	Balance 6/30/06	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/07
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	<u>1,914,742</u>	<u>12,296,812</u>	<u>-</u>	<u>-</u>	<u>14,211,554</u>
	<u>17,643,221</u>	<u>12,705,484</u>	<u>-</u>	<u>-</u>	<u>30,348,705</u>
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	<u>(4,531,423)</u>	<u>(527,755)</u>	<u>-</u>	<u>-</u>	<u>(5,059,178)</u>
	<u>(9,761,651)</u>	<u>(962,617)</u>	<u>-</u>	<u>-</u>	<u>(10,724,268)</u>
	<u>\$ 7,881,570</u>	<u>\$ 11,742,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,624,437</u>

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

Construction in progress in 2007 related to a facility replacement and renovation project that was completed in 2008.

**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 2008 and 2007 follows.

	<b>Balance 6/30/07</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/08</b>	<b>Amounts Due Within One Year</b>
Series 1997 Hospital Revenue Bonds (A)	\$ 2,550,000	\$ -	\$ (370,000)	\$ 2,180,000	\$ 390,000
Series 2006 Hospital Revenue Bonds (B)	<u>18,500,000</u>	<u>-</u>	<u>-</u>	<u>18,500,000</u>	<u>25,000</u>
	21,050,000	<u>\$ -</u>	<u>\$ (370,000)</u>	20,680,000	<u>\$ 415,000</u>
Less unamortized discount	<u>69,035</u>			<u>64,756</u>	
	<u>\$ 20,980,965</u>			<u>\$ 20,615,244</u>	

# Washington County Hospital

## Notes to Financial Statements

June 30, 2008 and 2007

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07	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	

(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.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	510,000	1,003,498	1,513,498
2014 – 2018	2,985,000	4,583,956	7,568,956
2019 – 2023	3,855,000	3,687,834	7,542,834
2024 – 2028	5,005,000	2,502,759	7,507,759
2029 – 2033	<u>6,530,000</u>	<u>936,375</u>	<u>7,466,375</u>
	<u>\$ 20,680,000</u>	<u>\$ 16,988,641</u>	<u>\$ 37,668,641</u>

**Note 8: Operating Leases**

Noncancelable operating leases for equipment will expire May 2011.

Future minimum lease payments at June 30, 2008, are:

2009	\$ 208,756
2010	104,281
2011	<u>27,182</u>
Future minimum lease payments	<u>\$ 340,219</u>

Rental expense for all operating leases was \$215,624 and \$300,342 for the years ended June 30, 2008 and 2007, 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.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

Activity in the Hospital's accrued employee health claims liability during 2008 and 2007 is summarized as follows:

	<b>2008</b>	<b>2007</b>
Balance, beginning of year	\$ 200,000	\$ 92,817
Current year claims incurred and changes in estimates for claims incurred in prior years	1,294,978	1,060,625
Claims and expenses paid	1,258,221	953,442
Balance, end of year	\$ 236,757	\$ 200,000

**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 3.9% and 3.7% of their annual covered salaries and the Hospital is required to contribute 6.05% and 5.75% of annual covered payroll for 2008 and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were \$642,576, \$476,505 and \$454,477, respectively, which equaled the required contributions for each year.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**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, 2008:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 757,933	\$ -	\$ 757,933	\$ 759,600
Other revenues/receipts	<u>24,633,557</u>	<u>(984,754)</u>	<u>23,648,803</u>	<u>26,318,110</u>
	25,391,490	(984,754)	24,406,736	27,077,710
Expenses/disbursements	<u>25,649,901</u>	<u>(79,387)</u>	<u>25,570,514</u>	<u>29,433,274</u>
	(258,411)	(905,367)	(1,163,778)	(2,355,564)
Balance, beginning of year	<u>13,584,105</u>	<u>37,211</u>	<u>13,621,316</u>	<u>13,621,316</u>
Balance, end of year	<u><u>\$ 13,325,694</u></u>	<u><u>\$ (868,156)</u></u>	<u><u>\$ 12,457,538</u></u>	<u><u>\$ 11,265,752</u></u>

**Note 12: Restricted and Designated Net Assets**

At June 30, 2008 and 2007, restricted expendable net assets were available for the following purposes.

	<b>2008</b>	<b>2007</b>
Debt service	\$ 1,843,346	\$ 1,851,355
Specific operating activities and capital acquisition	<u>36,146</u>	<u>54,476</u>
	<u><u>\$ 1,879,492</u></u>	<u><u>\$ 1,905,831</u></u>

At June 30, 2008 and 2007, restricted nonexpendable net assets were \$26,452 and \$25,000, respectively, required to be maintained in perpetuity by the donor.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

At June 30, 2008 and 2007, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes:

	<u>2008</u>	<u>2007</u>
Capital and other expenditures	<u>\$ 258,532</u>	<u>\$ 166,992</u>

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, 2008**

**Assets**

	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,230,090	\$ 267,440		\$ 3,497,530
Short-term investments	1,248,039	2,115,448		3,363,487
Assets held under indenture agreement – current	1,398,801			1,398,801
Patient accounts receivable	3,212,710			3,212,710
Other receivables	16,293			16,293
Succeeding year property tax settlements	769,058			769,058
Supplies	460,605			460,605
Prepaid expenses	84,592			84,592
	<u>10,420,188</u>	<u>2,382,888</u>		<u>12,803,076</u>
<b>Noncurrent Cash and Investments</b>				
Internally designated Capital and other expenditures	258,532			258,532
Externally restricted Indenture agreement	3,042,003			3,042,003
Donors		62,598		62,598
Investment in land	31,906			31,906
Certificates of deposit		217,495		217,495
	<u>3,332,441</u>	<u>280,093</u>		<u>3,612,534</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>23,396,580</u>			<u>23,396,580</u>
<b>Other Assets</b>				
Foundation assets		32,016		32,016
Deferred financing costs	282,025			282,025
Physician receivables	45,960			45,960
<b>Total Other Assets</b>	<u>327,985</u>	<u>32,016</u>		<u>360,001</u>
<b>Total Assets</b>	<u>\$ 37,477,194</u>	<u>\$ 2,694,997</u>	<u>\$ -</u>	<u>\$ 40,172,191</u>

**Washington County Hospital**  
**Combining Balance Sheet**  
**June 30, 2008**

**Liabilities and Net Assets**

	<b>Washington County</b>			<b>Total</b>
	<b>Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 415,000			\$ 415,000
Accounts payable	194,787			194,787
Accounts payable - capital assets	425,751			425,751
Accrued expenses				
Salaries and wages	591,570			591,570
Paid time off	542,072			542,072
Payroll taxes and other payroll withholdings	122,133			122,133
Self-funded health insurance payable	236,757			236,757
Interest	557,486			557,486
Deferred revenue for succeeding year property tax receivable	769,058			769,058
Property taxes	34,642			34,642
Estimated third-party settlements	62,000			62,000
	<u>3,951,256</u>			<u>3,951,256</u>
Total current liabilities				3,951,256
<b>Long-Term Debt, less current maturities</b>	<u>20,200,244</u>			<u>20,200,244</u>
Total liabilities	<u>24,151,500</u>			<u>24,151,500</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	4,677,582			4,677,582
Unrestricted	6,804,766	\$ 2,632,399		9,437,165
Restricted expendable				
Debt service	1,843,346			1,843,346
Donor restricted		36,146		36,146
Restricted nonexpendable		26,452		26,452
	<u>13,325,694</u>	<u>2,694,997</u>		<u>16,020,691</u>
Total net assets				16,020,691
<b>Total Liabilities and Net Assets</b>	<u>\$ 37,477,194</u>	<u>\$ 2,694,997</u>	<u>\$ -</u>	<u>\$ 40,172,191</u>

**Washington County Hospital**  
**Combining Schedule of Revenues, Expenses**  
**and Changes in Net Assets**  
**Year Ended June 30, 2008**

	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 24,658,593			\$ 24,658,593
Provision for uncollectible accounts	<u>1,133,055</u>			<u>1,133,055</u>
Net patient service revenue	23,525,538			23,525,538
Other	<u>327,229</u>			<u>327,229</u>
	<u>23,852,767</u>			<u>23,852,767</u>
<b>Operating Expenses</b>				
Salaries and wages	11,209,244			11,209,244
Employee benefits	2,888,881			2,888,881
Medical professional fees	2,053,208			2,053,208
Supplies and other	2,566,659			2,566,659
General services	1,340,867			1,340,867
Administrative services	1,695,049			1,695,049
Depreciation and amortization	1,926,413			1,926,413
Building demolition and disposal of capital assets	515,444			515,444
Insurance	<u>400,687</u>			<u>400,687</u>
Total expenses	<u>24,596,452</u>			<u>24,596,452</u>
<b>Operating Loss</b>	<u>(743,685)</u>			<u>(743,685)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income (loss)	409,002	\$ (120,892)		288,110
Interest expense	(1,053,449)			(1,053,449)
Property tax revenue	757,933			757,933
Noncapital contributions	371,788	997,172		1,368,960
Foundation gift shop, net	<u>28,001</u>	<u>28,001</u>		<u>28,001</u>
	<u>485,274</u>	<u>904,281</u>		<u>1,389,555</u>
<b>Excess of Revenues Over Expenses</b>	<u>\$ (258,411)</u>	<u>\$ 904,281</u>	<u>\$ -</u>	<u>\$ 645,870</u>

# Washington County Hospital

## Schedules of Patient Service Revenues

### Years Ended June 30, 2008 and 2007

	<u>2008</u>			<u>2007</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	\$ 3,622,682	\$ 2,333,910	\$ 1,288,772	\$ 2,646,432	\$ 1,815,443	\$ 830,989
Obstetrics	301,817	248,610	53,207	229,808	193,974	35,834
Labor and delivery	199,178	165,646	33,532	96,262	74,018	22,244
Special care unit	96,500	96,500		100,700	100,700	
Nursery	157,200	157,200		102,090	102,090	
Swing-bed	1,753,025	1,753,025		1,513,015	1,513,015	
Long-term care	2,239,075	2,239,075		2,067,005	2,067,005	
Operating and recovery	2,479,286	313,427	2,165,859	2,327,591	295,328	2,032,263
Emergency	2,975,271	36,738	2,938,533	2,444,885	48,993	2,395,892
	<u>13,824,034</u>	<u>7,344,131</u>	<u>6,479,903</u>	<u>11,527,788</u>	<u>6,210,566</u>	<u>5,317,222</u>
<b>Other Professional Services</b>						
Central service and supply	690,907	279,917	410,990	642,649	256,807	385,842
Laboratory	3,693,837	648,145	3,045,692	3,187,014	599,608	2,587,406
Radiology	5,473,032	487,712	4,985,320	5,122,478	473,414	4,649,064
Pharmacy	4,098,525	2,139,579	1,958,946	3,970,499	2,134,661	1,835,838
Anesthesiology	1,020,396	304,690	715,706	929,461	280,646	648,815
Physical therapy	764,042	136,026	628,016	683,299	94,491	588,808
Speech therapy	28,378	4,576	23,802	48,916	4,227	44,689
Occupational therapy	124,782	60,014	64,768	90,740	48,421	42,319
Respiratory therapy	916,534	791,305	125,229	916,884	781,752	135,132
Electrocardiology	261,518	48,745	212,773	253,395	39,900	213,495
Cardiac rehabilitation	189,967	700	189,267	173,751	330	173,421
Ambulatory care	152,093		152,093	146,296		146,296
Surgery clinic	357,241		357,241	369,232		369,232
Keota clinic	236,008		236,008	137,755		137,755
Women's Healthcare Clinic	1,107,980		1,107,980	1,015,551		1,015,551
Medical clinic	3,298,551		3,298,551			
	<u>22,413,791</u>	<u>4,901,409</u>	<u>17,512,382</u>	<u>17,687,920</u>	<u>4,714,257</u>	<u>12,973,663</u>
<b>Patient Service Revenue</b>	36,237,825	<u>\$ 12,245,540</u>	<u>\$ 23,992,285</u>	29,215,708	<u>\$ 10,924,823</u>	<u>\$ 18,290,885</u>
<b>Contractual Allowances</b>	<u>11,579,232</u>			<u>9,448,885</u>		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	24,658,593			19,766,823		
<b>Provision for Uncollectible Accounts</b>	<u>(1,133,055)</u>			<u>(1,080,971)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 23,525,538</u>			<u>\$ 18,685,852</u>		

**Washington County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Rental income	\$ 138,755	\$ 210,221
Cafeteria	79,596	84,221
Meals on Wheels	8,309	7,645
Lifeline services	65,267	54,097
Other	15,321	28,008
Contracted social work	19,876	17,753
Education program	<u>105</u>	<u>100</u>
	<u>\$ 327,229</u>	<u>\$ 402,045</u>

# Washington County Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 268,478	\$ 246,975	\$ 21,503	\$ 128,096	\$ 116,112	\$ 11,984
Medical/surgical	1,771,648	1,513,258	258,390	1,605,421	1,432,262	173,159
Obstetrics and nursery	278,769	256,649	22,120	200,250	186,685	13,565
Long-term care	1,170,407	1,092,358	78,049	1,152,760	1,080,711	72,049
Operating and recovery	405,517	315,881	89,636	444,820	323,705	121,115
Emergency	1,295,681	472,604	823,077	1,263,298	459,269	804,029
	<u>5,190,500</u>	<u>3,897,725</u>	<u>1,292,775</u>	<u>4,794,645</u>	<u>3,598,744</u>	<u>1,195,901</u>
<b>Other Professional Services</b>						
Laboratory	910,927	441,835	469,092	933,616	432,532	501,084
Radiology	1,308,036	402,100	905,936	1,256,980	371,816	885,164
Cardiac rehabilitation	41,688	28,184	13,504	48,657	34,496	14,161
Pharmacy	1,164,143	260,559	903,584	1,064,814	231,723	833,091
Anesthesiology	325,109	182,625	142,484	287,316	92,156	195,160
Physical therapy	295,806	261,822	33,984	244,735	217,888	26,847
Speech therapy	20,767		20,767	44,327		44,327
Occupational therapy	44,466		44,466	46,579		46,579
Electrocardiology	8,457		8,457	28,534		28,534
Medical supplies	457,227	125,659	331,568	444,067	121,565	322,502
Respiratory therapist	116,357	87,596	28,761	105,831	71,997	33,834
Ambulatory care	71,777	71,880	(103)	60,710	58,450	2,260
Specialty clinic	47,679	13,570	34,109	10,345	10,335	10
Keota clinic	156,976	127,942	29,034	151,476	111,283	40,193
Medical clinic	2,018,972	1,791,178	227,794			
Women's Healthcare Clinic	732,123	676,529	55,594	851,895	699,503	152,392
Lifeline	82,193	17,349	64,844	55,898	12,686	43,212
Surgery clinic	453,949	440,732	13,217	425,618	398,795	26,823
	<u>8,256,652</u>	<u>4,929,560</u>	<u>3,327,092</u>	<u>6,061,398</u>	<u>2,865,225</u>	<u>3,196,173</u>
<b>General Services</b>						
Dietary	812,829	314,253	498,576	775,079	284,734	490,345
Operation of plant	927,284	151,858	775,426	647,352	143,087	504,265
Housekeeping	311,290	274,793	36,497	259,972	230,467	29,505
Laundry	110,946	80,578	30,368	101,567	71,400	30,167
	<u>2,162,349</u>	<u>821,482</u>	<u>1,340,867</u>	<u>1,783,970</u>	<u>729,688</u>	<u>1,054,282</u>
<b>Administrative Services</b>						
Medical records	468,279	415,749	52,530	486,459	395,445	91,014
Administration	2,576,862	1,067,147	1,509,715	2,016,935	947,040	1,069,895
Foundation	45,512	43,853	1,659	42,925	42,462	463
Marketing	164,873	33,728	131,145	135,810	30,789	105,021
	<u>3,255,526</u>	<u>1,560,477</u>	<u>1,695,049</u>	<u>2,682,129</u>	<u>1,415,736</u>	<u>1,266,393</u>
<b>Insurance</b>	<u>400,687</u>		<u>400,687</u>	<u>317,073</u>		<u>317,073</u>
<b>Employee Benefits</b>	<u>2,888,881</u>		<u>2,888,881</u>	<u>2,167,627</u>		<u>2,167,627</u>
<b>Depreciation and Amortization</b>	<u>1,926,413</u>		<u>1,926,413</u>	<u>989,763</u>		<u>989,763</u>
<b>Building Demolition and Disposal of Capital Assets</b>	<u>515,444</u>		<u>515,444</u>			
	<u>\$ 24,596,452</u>	<u>\$ 11,209,244</u>	<u>\$ 13,387,208</u>	<u>\$ 18,796,605</u>	<u>\$ 8,609,393</u>	<u>\$ 10,187,212</u>

**Washington County Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2008 and 2007**

**Schedules of Patient Receivables**

	2008		2007	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 2,417,552	56%	\$ 1,737,995	54%
31-60 days	649,466	15%	499,949	16%
61-90 days	406,014	10%	259,122	8%
91-120 days	235,521	5%	169,212	5%
Over 4 months	590,859	14%	531,929	17%
Total	4,299,412	100%	3,198,207	100%
Clinic and other receivables	640,020		263,906	
Less contractual allowances	1,097,600		663,000	
Less allowance for uncollectible accounts	629,122		559,122	
Net patient receivables	\$ 3,212,710		\$ 2,239,991	

**Allowance for Uncollectible Accounts**

	2008	2007
Balance, beginning of year	\$ 559,122	\$ 559,122
Provision for year	1,133,055	1,080,971
Recoveries of accounts previously written off	243,891	235,318
	1,936,068	1,875,411
Accounts written off	1,306,946	1,316,289
Balance, end of year	\$ 629,122	\$ 559,122

**Washington County Hospital**  
**Schedule of Officials**  
**June 30, 2008**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<hr/> <b>Board of Trustees</b> <hr/>		
Cheryl Kurtz	Chairperson	November, 2010
Ed Weeks	Vice Chairman	November, 2012
James Mostek	Secretary	November, 2008
Leonard Kull	Treasurer	November, 2008
Laura Fisher	Member	November, 2010
Keith Lazar	Member	November, 2008
Jim Harris	Member	November, 2012
<hr/> <b>Hospital Officials</b> <hr/>		
Don Patterson	Chief Executive Officer	
Greg Seubert	Chief Financial Officer	

**Washington County Hospital**  
**Schedule of Supplies and Prepaid Expenses**  
**June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Supplies</b>		
Pharmacy	\$ 215,925	\$ 180,912
Operating and recovery rooms	106,496	119,450
Store room	41,498	43,403
Laboratory	51,421	33,434
Radiology	8,873	12,299
Emergency	6,578	8,829
Dietary	7,531	8,086
All other	22,283	40,118
	\$ 460,605	\$ 446,531
 <b>Prepaid Expenses</b>		
Insurance	\$ 75,599	\$ 70,703
Medical clinic	-	132,149
Dues/other	8,993	8,466
	\$ 84,592	\$ 211,318

**Washington County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2008**

**Farm Bureau**

Workers' compensation; expires 12/01/08 \$ 500,000

**MMIC**

Professional liability; expires 11/01/08 \$ 1,000,000/3,000,000

General liability; expires 11/01/08 \$ 1,000,000/3,000,000

Umbrella liability; expires 11/01/08 \$ 3,000,000/3,000,000

**Chubb Insurance**

Building and contents; expires 05/30/09 \$ 18,614,100

Nuclear hazard; expires 05/30/09 \$ 5,000,000

Loss of business income; expires 05/30/09 \$ 804,159

Auto; expires 05/30/09 \$ 500,000

**Chubb Insurance**

Directors and officers; expires 05/30/09 \$ 2,000,000

**Sellers Insurance**

Fidelity bond; expires 11/01/08 \$ 500,000

**Horak Insurance**

Surety bond; expires 08/29/08 \$ 2,500

**Washington County Hospital**  
**Statistical Information**  
**Year Ended June 30, 2008**

	<u>2008</u>	<u>2007</u>
<b>Patient Days</b>		
Acute	2,994	2,491
Swing-bed	2,210	1,915
Newborn	263	201
Long-term care	<u>15,192</u>	<u>14,930</u>
Total	<u><u>20,659</u></u>	<u><u>19,537</u></u>
<b>Discharges</b>		
Acute	923	832
Swing-bed	322	326
Long-term care	<u>18</u>	<u>32</u>
Total	<u><u>1,263</u></u>	<u><u>1,190</u></u>
<b>Average Length of Stay</b>		
Acute	3.24	2.99
Swing-bed	6.86	5.87
Long-term care	844.00	466.56
<b>Beds</b>		
Acute	25	25
Long-term care	43	43
<b>Occupancy Percent</b>		
Acute and swing-bed	57.03%	48.28%
Long-term care	96.80%	95.13%



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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, 2008, and have issued our report thereon dated October 20, 2008. 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.

## **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, 2008 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, 2008. 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, 2008.

#### 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, 2008 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 20, 2008.

\* \* \* \* \*

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 20, 2008

**Washington County Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2008**

<b>Reference Number</b>	<b>Finding</b>
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, 2008, 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 2007 audit engagement in a letter dated October 17, 2007.

### ***Material Weaknesses***

No matters are reportable.

### ***Significant Deficiencies***

No matters 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 the following individuals having incompatible duties within the financial statement reporting transaction cycles:

### Purchases Cycle

- The Accounts Payable clerk and the Operations Specialist have 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 and the Operations Specialist have 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.

\* \* \* \* \*

This communication is intended solely for the information and use of Management, the Board of Trustees and others within the Hospital, 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 20, 2008