

Washington County Hospital

Accountants' Report and Financial Statements

June 30, 2009 and 2008



Washington County Hospital
June 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 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, 2009

Washington County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

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, 2009 and 2008. 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 2009 by \$2,260,133 or 19% from 2008 and decreased in 2008 over 2007 by \$4,374,384 or 27%.
- The Hospital's net assets decreased in 2009 by \$214,938 or 1% from 2008 and increased in 2008 over 2007 by \$645,870 or 4%.
- The Hospital reported operating income (loss) of \$59,421 and \$(743,685) in 2009 and 2008, respectively.
- Net nonoperating revenues and expenses decreased in each of the past two years with a \$1,663,914 or 119% decrease in 2009 and \$53,203 or 4% decrease in 2008.

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 decreased by \$214,938 (1%) in 2009 over 2008 and increased by \$645,870 (4%) in 2008 over 2007, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable	\$ 2,501,888	\$ 3,212,710	\$ 2,239,991
Other current assets	11,061,663	9,590,366	8,021,261
Noncurrent cash and investments	4,429,057	3,612,534	9,659,758
Capital assets, net	21,629,988	23,396,580	19,624,437
Other	328,042	360,001	447,402
	<u>\$ 39,950,638</u>	<u>\$ 40,172,191</u>	<u>\$ 39,992,849</u>
Liabilities			
Current liabilities	\$ 4,375,368	\$ 3,951,256	\$ 4,007,063
Long-term debt	19,769,517	20,200,244	20,610,965
	<u>24,144,885</u>	<u>24,151,500</u>	<u>24,618,028</u>
Net Assets			
Invested in capital, net assets	3,225,850	4,677,582	6,570,604
Restricted expendable	1,477,022	1,879,492	1,905,831
Restricted nonexpendable	25,000	26,452	25,000
Unrestricted	11,077,881	9,437,165	6,873,386
	<u>15,805,753</u>	<u>16,020,691</u>	<u>15,374,821</u>
Total net assets	<u>15,805,753</u>	<u>16,020,691</u>	<u>15,374,821</u>
Total liabilities and net assets	<u>\$ 39,950,638</u>	<u>\$ 40,172,191</u>	<u>\$ 39,992,849</u>

Operating Results

The Hospital's Increase (Decrease) in Net Assets was (\$214,938) in 2009 and \$645,870 in 2008, as shown in Table 2.

Table 2: Operating Results

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Net patient service revenue	\$ 23,432,588	\$ 23,525,538	\$ 18,685,852
Other operating revenues	<u>325,616</u>	<u>327,229</u>	<u>402,045</u>
Total operating revenues	<u>23,758,204</u>	<u>23,852,767</u>	<u>19,087,897</u>
Operating Expenses			
Salaries, wages and benefits	13,909,062	14,098,125	10,777,020
Other operating supplies and expenses	7,853,014	8,571,914	7,029,822
Depreciation and amortization	<u>1,936,707</u>	<u>1,926,413</u>	<u>989,763</u>
Total operating expenses	<u>23,698,783</u>	<u>24,596,452</u>	<u>18,796,605</u>
Operating Income (Loss)	<u>59,421</u>	<u>(743,685)</u>	<u>291,292</u>
Nonoperating Revenues (Expenses)			
Property tax revenue	771,887	757,933	745,502
Investment income (loss)	(91,188)	288,110	616,091
Interest expense	(1,093,178)	(1,053,449)	(139,137)
Noncapital contributions	112,328	1,368,960	201,498
Foundation gift shop, net	<u>25,792</u>	<u>28,001</u>	<u>18,804</u>
Total nonoperating revenues	<u>(274,359)</u>	<u>1,389,555</u>	<u>1,442,758</u>
Increase (Decrease) in Net Assets	<u>\$ (214,938)</u>	<u>\$ 645,870</u>	<u>\$ 1,734,050</u>

The primary reasons for the change in financial performance in 2009 were:

- Investment income decreased \$379,298 or 132%
- Noncapital contributions decreased \$1,256,632 or 92%

Net patient service revenues were level year over year. Utilization of hospital inpatient services declined 5% while utilization of outpatient services increased 6%.

Operating expenses decreased 4% in 2009 primarily due to reduced minor equipment purchases with the completion of the building project in 2008. Salaries and benefits held steady year over year with a 17% decrease in health insurance expense.

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 decreased by 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.

Nonoperating Revenues and Expenses

Decreases in nonoperating revenues and expenses between 2009 and 2008 were primarily due to a one time contribution in 2008 of \$1,050,000 from the Merle W. Custer Trust and Foundation investment losses of \$348,831 in 2009.

Decreases in nonoperating revenues and expenses between 2008 and 2007 were primarily due to large increases in interest expense and noncapital 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.

The Hospital's Cash Flows

The Hospital's Cash from Operating Activities was \$3,538,989 in 2009 compared to \$558,414 in 2008. 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 2009, the Hospital had \$21,629,988 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2009, the Hospital purchased new capital assets costing \$144,193.

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.

Debt

At June 30, 2009, the Hospital had \$20,265,000 in revenue bonds. The Hospital issued no new debt in 2009.

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

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, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 5,161,383	\$ 3,497,530
Short-term investments	3,560,456	3,363,487
Assets held under indenture agreement – current	981,589	1,398,801
Patient accounts receivable, net of allowance; 2009 and 2008 – \$629,122	2,501,888	3,212,710
Other receivables	18,070	16,293
Succeeding year property tax settlements	813,732	769,058
Supplies	408,809	460,605
Prepaid expenses	117,624	84,592
	<u>13,563,551</u>	<u>12,803,076</u>
Noncurrent Cash and Investments		
Internally designated		
Capital and other expenditures	752,265	258,532
Externally restricted		
Indenture agreement	3,062,228	3,042,003
Donors	64,142	62,598
Certificates of deposit	550,422	217,495
Investment in land	-	31,906
	<u>4,429,057</u>	<u>3,612,534</u>
Capital Assets, net of accumulated depreciation	<u>21,629,988</u>	<u>23,396,580</u>
Other Assets		
Foundation assets	25,912	32,016
Deferred financing costs	260,377	282,025
Physician receivables	41,753	45,960
	<u>328,042</u>	<u>360,001</u>
Total Other Assets	<u>328,042</u>	<u>360,001</u>
Total Assets	<u>\$ 39,950,638</u>	<u>\$ 40,172,191</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Current maturities of long-term debt	\$ 435,000	\$ 415,000
Accounts payable	312,740	194,787
Accounts payable - capital assets	-	425,751
Accrued expenses		
Salaries and wages	545,085	591,570
Paid time off	600,042	542,072
Payroll taxes and other payroll withholdings	204,330	122,133
Self-funded health insurance payable	238,588	236,757
Interest	546,589	557,486
Deferred revenue for succeeding year property tax receivable	813,732	769,058
Property taxes	35,262	34,642
Estimated third-party settlements	644,000	62,000
	<hr/>	<hr/>
Total current liabilities	4,375,368	3,951,256
Long-term Debt, less current maturities	<hr/>	<hr/>
	19,769,517	20,200,244
	<hr/>	<hr/>
Total liabilities	24,144,885	24,151,500
Net Assets		
Invested in capital assets, net of related debt	3,225,850	4,677,582
Unrestricted	11,077,881	9,437,165
Restricted expendable		
Debt service	1,433,642	1,843,346
Donor restricted	43,380	36,146
Restricted nonexpendable	25,000	26,452
	<hr/>	<hr/>
Total net assets	15,805,753	16,020,691
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 39,950,638</u>	<u>\$ 40,172,191</u>

Washington County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 24,749,773	\$ 24,658,593
Provision for uncollectible accounts	<u>(1,317,185)</u>	<u>(1,133,055)</u>
Net patient service revenue	23,432,588	23,525,538
Other	<u>325,616</u>	<u>327,229</u>
	<u>23,758,204</u>	<u>23,852,767</u>
Operating Expenses		
Salaries and wages	11,257,301	11,209,244
Employee benefits	2,651,761	2,888,881
Medical professional fees	2,289,317	2,053,208
Supplies and other	2,542,541	2,566,659
General services	1,363,167	1,340,867
Administrative services	1,240,338	1,695,049
Depreciation and amortization	1,936,707	1,926,413
Building demolition and disposal of capital assets	8,656	515,444
Insurance	<u>408,995</u>	<u>400,687</u>
	<u>23,698,783</u>	<u>24,596,452</u>
Operating Income (Loss)	<u>59,421</u>	<u>(743,685)</u>
Nonoperating Revenues (Expenses)		
Investment income (loss)	(91,188)	288,110
Interest expense	(1,093,178)	(1,053,449)
Property tax revenue	771,887	757,933
Noncapital contributions	112,328	1,368,960
Foundation gift shop, net	<u>25,792</u>	<u>28,001</u>
	<u>(274,359)</u>	<u>1,389,555</u>
Increase (Decrease) in Net Assets	(214,938)	645,870
Net Assets, Beginning of the Year	<u>16,020,691</u>	<u>15,374,821</u>
Net Assets, End of the Year	<u>\$ 15,805,753</u>	<u>\$ 16,020,691</u>

Washington County Hospital
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	\$ 24,725,410	\$ 22,475,819
Payments to suppliers	(7,707,641)	(8,600,909)
Payments to employees	(13,812,929)	(13,709,231)
Other receipts and payments, net	334,149	392,735
Net cash provided by operating activities	3,538,989	558,414
Noncapital Financing Activities		
Property taxes supporting operations	771,887	757,933
Noncapital contributions	112,328	1,368,960
Foundation gift shop	25,792	28,001
Net cash provided by noncapital financing activities	910,007	2,154,894
Capital and Related Financing Activities		
Purchase of capital assets	(578,600)	(5,896,700)
Principal payments on long-term debt	(415,000)	(370,000)
Interest paid on long-term debt	(1,104,075)	(1,124,592)
Net cash used in capital and related financing activities	(2,097,675)	(7,391,292)
Investing Activities		
Change in deposits and investments	(1,099,257)	6,198,673
Income received on investments	358,377	626,226
Net cash provided by (used in) investing activities	(740,880)	6,824,899
Increase in Cash and Cash Equivalents	1,610,441	2,146,915
Cash and Cash Equivalents, Beginning of Year	3,635,363	1,488,448
Cash and Cash Equivalents, End of Year	\$ 5,245,804	\$ 3,635,363
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 5,161,383	\$ 3,497,530
Noncurrent cash and investments		
Capital and other expenditures	84,421	137,833
	\$ 5,245,804	\$ 3,635,363

Washington County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 59,421	\$ (743,685)
Items not requiring cash		
Depreciation and amortization	1,936,707	1,926,413
Loss on disposal of capital assets	8,656	225,884
Changes in		
Patient and other receivables	709,045	(972,178)
Supplies	51,796	(14,074)
Prepaid expenses	(33,032)	126,726
Accounts payable and accrued expenses	214,086	21,363
Estimated amounts due to third-party payers	582,000	(77,000)
Other assets	10,310	64,965
Net cash provided by operating activities	\$ 3,538,989	\$ 558,414
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ -	\$ 425,751

Washington County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Property Taxes

The Hospital received approximately 3.3% and 3.2% of its financial support from property tax revenues in the years ended June 30, 2009 and 2008, 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, 2009 and 2008

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, (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 and (4) long-term certificates of deposit.

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:

	<u>2009</u>	<u>2008</u>
Total interest expense incurred on borrowings for project	\$ -	\$ 61,523
Interest income from investment of proceeds of borrowings for project	<u>-</u>	<u>(15,490)</u>
Net interest cost capitalized	<u>\$ -</u>	<u>\$ 46,033</u>
Interest capitalized	\$ -	\$ 61,523
Interest charged to expense	<u>1,093,178</u>	<u>1,053,449</u>
Total interest incurred	<u>\$ 1,093,178</u>	<u>\$ 1,114,972</u>

Washington County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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 and Benefits

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.

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As the Hospital does not provide such benefits, the new standard has no impact on the accompanying financial statements.

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.

Washington County Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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 \$82,194 and \$43,279 for 2009 and 2008, 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.

Subsequent Events

Subsequent events have been evaluated through October 20, 2009, which is the date the financial statements were available to be issued.

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 are 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.

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Approximately 45% and 42% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2009 and 2008, 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, 2009 and 2008 was:

	2009	2008
Medicare and Medicaid	\$ 395,085	\$ 438,894
Other third-party payers	913,352	1,214,588
Patients	1,398,870	1,548,330
Clinics	423,703	640,020
	3,131,010	3,841,832
Less allowances for uncollectible accounts	629,122	629,122
	\$ 2,501,888	\$ 3,212,710

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, 2009 and 2008. The Hospital's deposits in banks at June 30, 2009 and 2008 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.

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 and 2008, the Hospital had the following investments and maturities:

Type	June 30, 2009				
	Fair Value	Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 248,494	\$ 248,494	\$ -	\$ -	\$ -
Government obligations-Hospital	281,830	-	32	-	281,798
Money market funds-Foundation	34,534	34,534	-	-	-
	564,858	\$ 283,028	\$ 32	\$ -	\$ 281,798
Equity mutual funds-Foundation	1,394,077				
	<u>\$ 1,958,935</u>				
Type	June 30, 2008				
	Fair Value	Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 442,047	\$ 442,047	\$ -	\$ -	\$ -
Government obligations-Hospital	425,688	-	556	-	425,132
Money market funds-Foundation	144,185	144,185	-	-	-
	1,011,920	\$ 586,232	\$ 556	\$ -	\$ 425,132
Equity mutual funds-Foundation	1,573,330				
	<u>\$ 2,585,250</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

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, the Hospital’s investment in the Federal National Mortgage Association bonds was 14% and 16%, respectively.

Summary of Carrying Values

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

	2009	2008
Carrying value		
Deposits	\$ 12,173,550	\$ 9,255,196
Investments	1,958,935	2,617,156
	\$ 14,132,485	\$ 11,872,352
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,161,383	\$ 3,497,530
Short-term investments	3,560,456	3,363,487
Assets held under indenture agreement – current	981,589	1,398,801
Noncurrent cash and investments	4,429,057	3,612,534
	\$ 14,132,485	\$ 11,872,352

Investment Income

Investment income for the years ended June 30, 2009 and 2008 consisted of:

	2009	2008
Interest and dividend income	\$ 326,471	\$ 540,060
Net decrease in fair value of investments	(417,659)	(251,950)
	\$ (91,188)	\$ 288,110

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2009 and 2008, were as follows:

2009	Balance 6/30/08	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/09
Land	\$ 10,902	\$ -	\$ -	\$ -	\$ 10,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	24,834,602	18,274	-	-	24,852,876
Equipment	6,601,833	125,919	-	-	6,727,752
	<u>32,400,732</u>	<u>144,193</u>	<u>-</u>	<u>-</u>	<u>32,544,925</u>
Less accumulated depreciation for					
Land improvements	(196,066)	(71,303)	-	-	(267,369)
Buildings and leasehold improvements	(5,116,877)	(1,187,874)	-	-	(6,304,751)
Equipment	(3,691,209)	(651,608)	-	-	(4,342,817)
	<u>(9,004,152)</u>	<u>(1,910,785)</u>	<u>-</u>	<u>-</u>	<u>(10,914,937)</u>
	<u>\$ 23,396,580</u>	<u>\$ (1,766,592)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,629,988</u>
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	14,211,554	-	-	(14,211,554)	-
	<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	(5,059,178)	(688,396)	2,067,513	(11,148)	(3,691,209)
	<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>

Washington County Hospital

Notes to Financial Statements

June 30, 2009 and 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. In 2009, the Hospital remaining interest in land was sold.

Note 7: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2009 and 2008 follows.

	Balance 6/30/08	Additions	Reductions	Balance 6/30/09	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 2,180,000	\$ -	\$ (390,000)	\$ 1,790,000	\$ 410,000
Series 2006 Hospital Revenue Bonds (B)	<u>18,500,000</u>	<u>-</u>	<u>(25,000)</u>	<u>18,475,000</u>	<u>25,000</u>
	20,680,000	<u>\$ -</u>	<u>\$ (415,000)</u>	20,265,000	<u>\$ 435,000</u>
Less unamortized discount	<u>64,756</u>			<u>60,483</u>	
	<u>\$ 20,615,244</u>			<u>\$ 20,204,517</u>	

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08	Amounts Due Within One Year
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, 2009 and 2008

- (A) Hospital Revenue Bonds, Series 1997; \$5,200,000 maturing serially at varying amounts through 2012; semiannual interest payments at rates ranging from 5.40% to 5.65%; collateralized by the Hospital's net revenues.
- (B) Series 2006 Hospital Revenue Bonds; \$3,085,000 maturing serially at varying amounts through 2017, semiannual interest payments at rates ranging from 4.625% 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	540,000	975,688	1,515,688
2015 – 2019	3,135,000	4,426,488	7,561,488
2020 – 2024	4,065,000	3,474,984	7,539,984
2025 – 2029	5,275,000	2,224,366	7,499,366
2030 – 2033	5,360,000	609,400	5,969,400
	<u>\$ 20,265,000</u>	<u>\$ 15,884,568</u>	<u>\$ 36,149,568</u>

Note 8: Operating Leases

Noncancelable operating leases for equipment will expire May 2011.

Future minimum lease payments at June 30, 2009, are:

2010	\$ 104,281
2011	<u>27,182</u>
Future minimum lease payments	<u>\$ 131,463</u>

Rental expense for all operating leases was \$217,348 and \$215,624 for the years ended June 30, 2009 and 2008, respectively.

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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 2009 and 2008 is summarized as follows:

	2009	2008
Balance, beginning of year	\$ 236,757	\$ 200,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,043,038	1,294,978
Claims and expenses paid	1,041,207	1,258,221
Balance, end of year	\$ 238,588	\$ 236,757

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 4.1% and 3.9% of their annual covered salaries and the Hospital is required to contribute 6.35% and 6.05% of annual covered payroll for 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$674,670, \$642,576 and \$476,505, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.35% of annual covered salary for 2009.

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 771,887	\$ -	\$ 771,887	\$ 769,058
Other revenues/receipts	<u>24,203,362</u>	<u>1,303,132</u>	<u>25,506,494</u>	<u>30,945,034</u>
	24,975,249	1,303,132	26,278,381	31,714,092
Expenses/disbursements	<u>24,791,961</u>	<u>203,798</u>	<u>24,995,759</u>	<u>31,795,947</u>
	183,288	1,099,334	1,282,622	(81,855)
Balance, beginning of year	<u>13,325,694</u>	<u>(868,156)</u>	<u>12,457,538</u>	<u>12,457,538</u>
Balance, end of year	<u><u>\$ 13,508,982</u></u>	<u><u>\$ 231,178</u></u>	<u><u>\$ 13,740,160</u></u>	<u><u>\$ 12,375,683</u></u>

Note 12: Restricted and Designated Net Assets

At June 30, 2009 and 2008, restricted expendable net assets were available for the following purposes.

	2009	2008
Debt service	\$ 1,433,642	\$ 1,843,346
Specific operating activities and capital acquisition	<u>43,380</u>	<u>36,146</u>
	<u><u>\$ 1,477,022</u></u>	<u><u>\$ 1,879,492</u></u>

At June 30, 2009 and 2008, restricted nonexpendable net assets were \$25,000 and \$26,452, respectively, required to be maintained in perpetuity by the donor.

Washington County Hospital
Notes to Financial Statements
June 30, 2009 and 2008

At June 30, 2009 and 2008, unrestricted net assets had been designated by the Hospital’s Board of Trustees for the following purposes:

	2009	2008
Capital and other expenditures	<u>\$ 752,265</u>	<u>\$ 258,532</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.

Note 13: Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital’s future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Hospital’s ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

Washington County Hospital
Combining Balance Sheet
June 30, 2009

Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 5,045,879	\$ 115,504		\$ 5,161,383
Short-term investments	2,019,665	1,540,791		3,560,456
Assets held under indenture agreement – current	981,589			981,589
Patient accounts receivable	2,501,888			2,501,888
Other receivables	18,070			18,070
Succeeding year property tax settlements	813,732			813,732
Supplies	408,809			408,809
Prepaid expenses	117,624			117,624
	<u>11,907,256</u>	<u>1,656,295</u>		<u>13,563,551</u>
Noncurrent Cash and Investments				
Internally designated				
Capital and other expenditures	752,265			752,265
Externally restricted				
Indenture agreement	3,062,228			3,062,228
Donors		64,142		64,142
Certificates of deposit		550,422		550,422
	<u>3,814,493</u>	<u>614,564</u>		<u>4,429,057</u>
Capital Assets, net of accumulated depreciation	<u>21,629,988</u>			<u>21,629,988</u>
Other Assets				
Foundation assets		25,912		25,912
Deferred financing costs	260,377			260,377
Physician receivables	41,753			41,753
Total Other Assets	<u>302,130</u>	<u>25,912</u>		<u>328,042</u>
Total Assets	<u>\$ 37,653,867</u>	<u>\$ 2,296,771</u>	<u>\$ -</u>	<u>\$ 39,950,638</u>

Washington County Hospital
Combining Balance Sheet
June 30, 2009

Liabilities and Net Assets

	Washington County			
	Hospital	Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 435,000			\$ 435,000
Accounts payable	312,740			312,740
Accrued expenses				
Salaries and wages	545,085			545,085
Paid time off	600,042			600,042
Payroll taxes and other payroll withholdings	204,330			204,330
Self-funded health insurance payable	238,588			238,588
Interest	546,589			546,589
Deferred revenue for succeeding year property tax receivable	813,732			813,732
Property taxes	35,262			35,262
Estimated third-party settlements	644,000			644,000
	<u>4,375,368</u>			<u>4,375,368</u>
Total current liabilities	4,375,368			4,375,368
Long-Term Debt, less current maturities	<u>19,769,517</u>			<u>19,769,517</u>
Total liabilities	<u>24,144,885</u>			<u>24,144,885</u>
Net Assets				
Invested in capital assets, net of related debt	3,225,850			3,225,850
Unrestricted	8,849,490	\$ 2,228,391		11,077,881
Restricted expendable				
Debt service	1,433,642			1,433,642
Donor restricted		43,380		43,380
Restricted nonexpendable		25,000		25,000
	<u>13,508,982</u>	<u>2,296,771</u>		<u>15,805,753</u>
Total net assets	<u>13,508,982</u>	<u>2,296,771</u>		<u>15,805,753</u>
Total Liabilities and Net Assets	<u>\$ 37,653,867</u>	<u>\$ 2,296,771</u>	<u>\$ -</u>	<u>\$ 39,950,638</u>

Washington County Hospital
Combining Schedule of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2009

	Washington County Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 24,749,773			\$ 24,749,773
Provision for uncollectible accounts	<u>1,317,185</u>			<u>1,317,185</u>
Net patient service revenue	23,432,588			23,432,588
Other	<u>325,616</u>			<u>325,616</u>
	<u>23,758,204</u>			<u>23,758,204</u>
Operating Expenses				
Salaries and wages	11,257,301			11,257,301
Employee benefits	2,651,761			2,651,761
Medical professional fees	2,289,317			2,289,317
Supplies and other	2,542,541			2,542,541
General services	1,363,167			1,363,167
Administrative services	1,240,338			1,240,338
Depreciation and amortization	1,936,707			1,936,707
Building demolition and disposal of capital assets	8,656			8,656
Insurance	<u>408,995</u>			<u>408,995</u>
Total expenses	<u>23,698,783</u>			<u>23,698,783</u>
Operating Income	<u>59,421</u>			<u>59,421</u>
Nonoperating Revenues (Expenses)				
Investment income (loss)	257,643	\$ (348,831)		(91,188)
Interest expense	(1,093,178)			(1,093,178)
Property tax revenue	771,887			771,887
Noncapital contributions	187,515	(75,187)		112,328
Foundation gift shop, net	<u>25,792</u>	<u>25,792</u>		<u>25,792</u>
	<u>123,867</u>	<u>(398,226)</u>		<u>(274,359)</u>
Excess of Revenues Over (Under) Expenses	<u>\$ 183,288</u>	<u>\$ (398,226)</u>	<u>\$ -</u>	<u>\$ (214,938)</u>

Washington County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical/surgical	\$ 3,605,248	\$ 2,347,064	\$ 1,258,184	\$ 3,622,682	\$ 2,333,910	\$ 1,288,772
Obstetrics	369,133	294,252	74,881	301,817	248,610	53,207
Labor and delivery	223,032	181,084	41,948	199,178	165,646	33,532
Special care unit	48,000	48,000		96,500	96,500	
Nursery	191,750	191,750		157,200	157,200	
Swing-bed	1,919,964	1,919,964		1,753,025	1,753,025	
Long-term care	2,260,071	2,260,071		2,239,075	2,239,075	
Operating and recovery	2,875,456	310,161	2,565,295	2,479,286	313,427	2,165,859
Emergency	3,081,613	25,356	3,056,257	2,975,271	36,738	2,938,533
	<u>14,574,267</u>	<u>7,577,702</u>	<u>6,996,565</u>	<u>13,824,034</u>	<u>7,344,131</u>	<u>6,479,903</u>
Other Professional Services						
Central service and supply	735,024	288,294	446,730	690,907	279,917	410,990
Laboratory	4,256,003	756,064	3,499,939	3,693,837	648,145	3,045,692
Radiology	5,829,990	514,449	5,315,541	5,473,032	487,712	4,985,320
Pharmacy	3,827,572	1,927,294	1,900,278	4,098,525	2,139,579	1,958,946
Anesthesiology	1,127,886	345,865	782,021	1,020,396	304,690	715,706
Physical therapy	1,021,147	129,044	892,103	764,042	136,026	628,016
Speech therapy	26,226	7,609	18,617	28,378	4,576	23,802
Occupational therapy	62,730	31,102	31,628	124,782	60,014	64,768
Respiratory therapy	1,112,877	982,032	130,845	916,534	791,305	125,229
Electrocardiology	263,541	44,510	219,031	261,518	48,745	212,773
Cardiac rehabilitation	453,581	75,167	378,414	189,967	700	189,267
Ambulatory care	134,715		134,715	152,093		152,093
Surgery clinic	295,972		295,972	357,241		357,241
Keota clinic	259,113		259,113	236,008		236,008
Women's Healthcare Clinic	1,100,410		1,100,410	1,107,980		1,107,980
Medical clinic	3,184,939		3,184,939	3,298,551		3,298,551
	<u>23,691,726</u>	<u>5,101,430</u>	<u>18,590,296</u>	<u>22,413,791</u>	<u>4,901,409</u>	<u>17,512,382</u>
Patient Service Revenue	38,265,993	<u>\$ 12,679,132</u>	<u>\$ 25,586,861</u>	36,237,825	<u>\$ 12,245,540</u>	<u>\$ 23,992,285</u>
Contractual Allowances	<u>13,516,220</u>			<u>11,579,232</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	24,749,773			24,658,593		
Provision for Uncollectible Accounts	<u>(1,317,185)</u>			<u>(1,133,055)</u>		
Net Patient Service Revenue	<u>\$ 23,432,588</u>			<u>\$ 23,525,538</u>		

Washington County Hospital
Schedules of Other Revenues
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Rental income	\$ 144,489	\$ 138,755
Cafeteria	71,063	79,596
Meals on Wheels	7,057	8,309
Lifeline services	60,280	65,267
Other	21,526	15,321
Contracted social work	21,001	19,876
Education program	200	105
	<u>\$ 325,616</u>	<u>\$ 327,229</u>

Washington County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 374,157	\$ 345,439	\$ 28,718	\$ 268,478	\$ 246,975	\$ 21,503
Medical/surgical	1,547,505	1,316,818	230,687	1,771,648	1,513,258	258,390
Obstetrics and nursery	323,881	301,616	22,265	278,769	256,649	22,120
Long-term care	1,179,538	1,110,562	68,976	1,170,407	1,092,358	78,049
Operating and recovery	434,831	333,595	101,236	405,517	315,881	89,636
Emergency	1,354,569	438,582	915,987	1,295,681	472,604	823,077
	<u>5,214,481</u>	<u>3,846,612</u>	<u>1,367,869</u>	<u>5,190,500</u>	<u>3,897,725</u>	<u>1,292,775</u>
Other Professional Services						
Laboratory	1,006,947	443,919	563,028	910,927	441,835	469,092
Radiology	1,293,506	410,349	883,157	1,308,036	402,100	905,936
Cardiac rehabilitation	140,132	24,548	115,584	41,688	28,184	13,504
Pharmacy	1,171,772	255,590	916,182	1,164,143	260,559	903,584
Anesthesiology	343,838	223,862	119,976	325,109	182,625	142,484
Physical therapy	339,297	291,759	47,538	295,806	261,822	33,984
Speech therapy	18,148		18,148	20,767		20,767
Occupational therapy	25,437		25,437	44,466		44,466
Electrocardiology	2,464		2,464	8,457		8,457
Medical supplies	585,884	128,154	457,730	457,227	125,659	331,568
Respiratory therapist	130,664	99,654	31,010	116,357	87,596	28,761
Ambulatory care	53,395	49,674	3,721	71,777	71,880	(103)
Specialty clinic	33,068	8,049	25,019	47,679	13,570	34,109
Keota clinic	154,815	129,544	25,271	156,976	127,942	29,034
Medical clinic	1,926,637	1,835,007	91,630	2,018,972	1,791,178	227,794
Women's Healthcare Clinic	812,637	753,656	58,981	732,123	676,529	55,594
Lifeline	57,976	13,437	44,539	82,193	17,349	64,844
Surgery clinic	450,147	415,573	34,574	453,949	440,732	13,217
	<u>8,546,764</u>	<u>5,082,775</u>	<u>3,463,989</u>	<u>8,256,652</u>	<u>4,929,560</u>	<u>3,327,092</u>
General Services						
Dietary	835,215	317,944	517,271	812,829	314,253	498,576
Operation of plant	919,199	140,579	778,620	927,284	151,858	775,426
Housekeeping	313,856	274,364	39,492	311,290	274,793	36,497
Laundry	103,742	75,958	27,784	110,946	80,578	30,368
	<u>2,172,012</u>	<u>808,845</u>	<u>1,363,167</u>	<u>2,162,349</u>	<u>821,482</u>	<u>1,340,867</u>
Administrative Services						
Medical records	495,585	430,466	65,119	468,279	415,749	52,530
Administration	2,110,826	1,011,385	1,099,441	2,576,862	1,067,147	1,509,715
Foundation	45,325	45,008	317	45,512	43,853	1,659
Marketing	107,671	32,210	75,461	164,873	33,728	131,145
	<u>2,759,407</u>	<u>1,519,069</u>	<u>1,240,338</u>	<u>3,255,526</u>	<u>1,560,477</u>	<u>1,695,049</u>
Insurance	<u>408,995</u>		<u>408,995</u>	<u>400,687</u>		<u>400,687</u>
Employee Benefits	<u>2,651,761</u>		<u>2,651,761</u>	<u>2,888,881</u>		<u>2,888,881</u>
Depreciation and Amortization	<u>1,936,707</u>		<u>1,936,707</u>	<u>1,926,413</u>		<u>1,926,413</u>
Building Demolition and Disposal of Capital Assets	<u>8,656</u>		<u>8,656</u>	<u>515,444</u>		<u>515,444</u>
	<u>\$ 23,698,783</u>	<u>\$ 11,257,301</u>	<u>\$ 12,441,482</u>	<u>\$ 24,596,452</u>	<u>\$ 11,209,244</u>	<u>\$ 13,387,208</u>

Washington County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2009 and 2008

Schedules of Patient Receivables

	2009		2008	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 2,071,543	58%	\$ 2,417,552	56%
31-60 days	472,648	13%	649,466	15%
61-90 days	243,305	7%	406,014	10%
91-120 days	201,855	6%	235,521	5%
Over 4 months	565,557	16%	590,859	14%
Total	3,554,908	100%	4,299,412	100%
Clinic and other receivables	423,703		640,020	
Less contractual allowances	847,601		1,097,600	
Less allowance for uncollectible accounts	629,122		629,122	
Net patient receivables	\$ 2,501,888		\$ 3,212,710	

Allowance for Uncollectible Accounts

	2009	2008
Balance, beginning of year	\$ 629,122	\$ 559,122
Provision for year	1,317,185	1,133,055
Recoveries of accounts previously written off	241,573	243,891
	2,187,880	1,936,068
Accounts written off	1,558,758	1,306,946
Balance, end of year	\$ 629,122	\$ 629,122

Washington County Hospital
Schedule of Officials
June 30, 2009

Name	Title	Term Expires
Board of Trustees		
Cheryl Kurtz	Chairperson	November, 2010
Ed Weeks	Vice Chairman	November, 2012
James Mostek	Secretary	November, 2014
Leonard Kull	Treasurer	November, 2010
Laura Fisher	Member	November, 2014
Marty Beenblossom	Member	November, 2014
Jim Harris	Member	November, 2012
Hospital Officials		
Don Patterson	Chief Executive Officer	
Steve Sanders *	Chief Financial Officer	

* Replaced Greg Seubert who resigned in May 2009 as interim and then full time Chief Financial Officer.

Washington County Hospital
Schedule of Supplies and Prepaid Expenses
June 30, 2009 and 2008

	2009	2008
Supplies		
Pharmacy	\$ 195,897	\$ 215,925
Operating and recovery rooms	90,332	106,496
Store room	39,319	41,498
Laboratory	29,802	51,421
Radiology	7,600	8,873
Emergency	11,701	6,578
Dietary	9,821	7,531
All other	24,337	22,283
	\$ 408,809	\$ 460,605
 Prepaid Expenses		
Insurance	\$ 108,611	\$ 75,599
Dues/other	9,013	8,993
	\$ 117,624	\$ 84,592

Washington County Hospital
Schedule of Insurance Coverage
June 30, 2009

Farm Bureau	
Workers' compensation; expires 12/01/09	\$ 500,000
MMIC	
Professional liability; expires 11/01/09	\$ 1,000,000/3,000,000
General liability; expires 11/01/09	\$ 1,000,000/3,000,000
Umbrella liability; expires 11/01/09	\$ 3,000,000/3,000,000
Chubb Insurance	
Blanket coverage, building and personal property; expires 05/30/10	\$ 42,286,103
Chubb Insurance	
Directors and officers; expires 05/30/10	\$ 2,000,000
Sellers Insurance	
Fidelity bond; expires 11/01/09	\$ 500,000
Horak Insurance	
Surety bond; expires 08/29/09	\$ 2,500

Washington County Hospital
Statistical Information
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Patient Days		
Acute	2,874	2,994
Swing-bed	2,209	2,210
Newborn	292	263
Long-term care	<u>14,490</u>	<u>15,192</u>
Total	<u><u>19,865</u></u>	<u><u>20,659</u></u>
Discharges		
Acute	855	923
Swing-bed	327	322
Long-term care	<u>41</u>	<u>18</u>
Total	<u><u>1,223</u></u>	<u><u>1,263</u></u>
Average Length of Stay		
Acute	3.36	3.24
Swing-bed	6.76	6.86
Long-term care	353.41	844.00
Beds		
Acute	25	25
Long-term care	43	43
Occupancy Percent		
Acute and swing-bed	55.70%	57.03%
Long-term care	92.32%	96.80%

**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, 2009, and have issued our report thereon dated October 20, 2009. 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, 2009 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, 2009. 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, 2009.

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, 2009 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, 2009

* * * * *

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, 2009

Washington County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2009

**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, 2009, 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 2008 audit engagement in a letter dated October 20, 2008.

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 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.

Audit Adjustments

During the course of performing the audit, we identified errors and misstatements resulting in audit journal entries to adjust the financial statement amounts. These differences were not identified by management's internal controls and affected net assets and accrued liabilities. One difference determined to not be material to post as an adjustment included prior year adjustment to inventory.

Other Matters

Although not considered to material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Capital Asset Records

We recommend the Hospital periodically review the capital asset records to compare the schedule to capital assets in use at the Hospital. This is primarily to ensure capital assets not in use are removed from the detail records.

Current Economic Environment

The current economic environment has created unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets recorded in the financial statements could change, resulting in future adjustments to the allowance for accounts receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

* * * * *

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, 2009