

Washington County Hospital

Accountants' Report and Financial Statements

June 30, 2011 and 2010



Washington County Hospital
June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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 19, 2011 on our consideration of Washington County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Board of Trustees
Washington County Hospital
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 audits 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.

BKD, LLP

Kansas City, Missouri
October 19, 2011

Washington County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2011 and 2010

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, 2011 and 2010. 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 2011 by \$2,835,377 or 19% from 2010 and increased in 2010 over 2009 by \$413,214 or 3%.
- The Hospital's net assets increased in 2011 by \$1,284,449 or 8% from 2010 and increased in 2010 over 2009 by \$603,410 or 4%.
- The Hospital reported operating income of \$535,635 and \$187,262 in 2011 and 2010, respectively.
- Net nonoperating revenues and expenses increased in 2011 by \$182,270 or 44% and increased in 2010 by \$690,507 or 252%.

Using This Annual Report

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

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and The Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,284,449 (8%) in 2011 over 2010 and increased by \$603,410 (4%) in 2010 over 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable	\$ 2,139,807	\$ 2,347,685	\$ 2,501,888
Other current assets	11,441,782	10,917,652	11,061,663
Noncurrent cash and investments	7,546,583	5,734,430	4,429,057
Capital assets, net	18,902,539	20,318,806	21,629,988
Other	252,109	392,202	328,042
	<u>\$ 40,282,820</u>	<u>\$ 39,710,775</u>	<u>\$ 39,950,638</u>
Liabilities			
Current liabilities	\$ 3,756,163	\$ 3,987,828	\$ 4,375,368
Long-term debt	18,833,045	19,313,784	19,769,517
	<u>22,589,208</u>	<u>23,301,612</u>	<u>24,144,885</u>
Net Assets			
Invested in capital, net assets	1,352,945	2,333,371	3,225,850
Restricted expendable	1,546,831	1,504,470	1,477,022
Restricted nonexpendable	27,585	25,000	25,000
Unrestricted	14,766,251	12,546,322	11,077,881
	<u>17,693,612</u>	<u>16,409,163</u>	<u>15,805,753</u>
Total net assets	<u>\$ 40,282,820</u>	<u>\$ 39,710,775</u>	<u>\$ 39,950,638</u>
Total liabilities and net assets	<u>\$ 40,282,820</u>	<u>\$ 39,710,775</u>	<u>\$ 39,950,638</u>

Operating Results

The Hospital's Increase in Net Assets was \$1,284,449 in 2011 and \$603,410 in 2010, as shown in Table 2.

Table 2: Operating Results

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 22,901,892	\$ 22,967,884	\$ 23,432,588
Other operating revenues	342,015	339,717	325,616
Total operating revenues	<u>23,243,907</u>	<u>23,307,601</u>	<u>23,758,204</u>
Operating Expenses			
Salaries, wages and benefits	13,450,743	13,537,271	13,909,062
Other operating supplies and expenses	7,485,244	7,642,421	7,853,014
Depreciation and amortization	1,772,285	1,940,647	1,936,707
Total operating expenses	<u>22,708,272</u>	<u>23,120,339</u>	<u>23,698,783</u>
Operating Income	<u>535,635</u>	<u>187,262</u>	<u>59,421</u>
Nonoperating Revenues (Expenses)			
Property tax revenue	838,781	812,625	771,887
Investment income (loss)	679,210	447,668	(91,188)
Interest expense	(1,044,769)	(1,069,881)	(1,093,178)
Noncapital contributions	95,390	194,356	112,328
Foundation gift shop, net	29,806	31,380	25,792
Total nonoperating revenues	<u>598,418</u>	<u>416,148</u>	<u>(274,359)</u>
Excess of Revenues Over (Under) Expenses Before Capital Contributions	1,134,053	603,410	(214,938)
Capital Contributions	<u>150,396</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>\$ 1,284,449</u>	<u>\$ 603,410</u>	<u>\$ (214,938)</u>

The primary reasons for the change in financial performance in 2011 were:

- Investment income increased \$231,542 or 52%
- Operating expenses were reduced \$412,067 or 2%

Net patient service revenues were level year over year. Utilization of hospital inpatient services was level year over year while utilization of outpatient services decreased 4%.

Total operating expenses decreased 2% in 2011. Cost containment efforts achieved a reduction in Salaries and benefits and Other operating expenses of \$243,705. Depreciation expense decreased \$168,362. Operating income increased \$348,373 or 186%.

The primary reasons for the change in financial performance in 2010 were:

- Investment income increased \$538,856 or 600%

Net patient service revenue decreased 2% year over year. Utilization of hospital inpatient services declined 5% and utilization of hospital outpatient services declined 3%.

Total operating expenses decreased 2% in 2010. Salaries and benefits were reduced as hospital volumes declined. As a result of cost containment efforts, operating income increased \$127,841 or 215%.

Nonoperating Revenues and Expenses

Increases in nonoperating revenues and expenses between 2011 and 2010 were primarily due to 2011 Foundation investment gains of \$422,903, which represents a \$169,905 increase from the prior year's Foundation investment gains.

Increases in nonoperating revenues and expenses between 2010 and 2009 were primarily due to 2010 Foundation investment gains of \$252,998, which represents a \$601,829 turnaround from the prior year's Foundation investment losses.

The Hospital's Cash Flows

The Hospital's Cash from Operating Activities was \$2,896,118 in 2011 compared to \$1,048,647 in 2010. Changes in the Hospital's cash from operating activities are consistent with changes in operating income and nonoperating revenues and expenses. Also at June 30, 2011, the Hospital has \$157,000 recorded as due to third-party payers compared to \$684,000 due from third-party payers in 2010.

Capital Assets

At the end of 2011, the Hospital had \$18,902,539 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Hospital purchased new capital assets costing \$336,998.

At the end of 2010, the Hospital had \$20,318,806 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets costing \$610,056.

Debt

At June 30, 2011, the Hospital had \$19,370,000 in revenue bonds. The Hospital issued no debt in 2011.

At June 30, 2010, the Hospital had \$19,830,000 in revenue bonds. The Hospital issued no new debt in 2010.

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, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 2,980,969	\$ 2,535,616
Short-term investments	5,846,140	5,280,712
Assets held under indenture agreement – current	1,007,384	994,941
Patient accounts receivable, net of allowance; 2011 - \$587,761, 2010 - \$699,122	2,139,807	2,347,685
Other receivables	151,611	51,598
Estimated third-party settlements	-	684,000
Succeeding year property tax settlements	886,302	833,995
Supplies	429,717	453,688
Prepaid expenses	139,659	83,102
	<u>13,581,589</u>	<u>13,265,337</u>
Noncurrent Cash and Investments		
Internally designated		
Capital and other expenditures	4,701,151	2,714,504
Externally restricted		
Indenture agreement	2,555,813	2,545,948
Donors	82,382	71,092
Certificates of deposit	207,237	402,886
	<u>7,546,583</u>	<u>5,734,430</u>
Capital Assets, net of accumulated depreciation	<u>18,902,539</u>	<u>20,318,806</u>
Other Assets		
Foundation assets	32,437	25,912
Deferred financing costs	219,672	239,570
Physician receivables	-	126,720
	<u>252,109</u>	<u>392,202</u>
Total Other Assets	<u>252,109</u>	<u>392,202</u>
Total Assets	<u>\$ 40,282,820</u>	<u>\$ 39,710,775</u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 485,000	\$ 460,000
Accounts payable	204,756	410,557
Accrued expenses		
Salaries, wages and related accruals	485,825	768,476
Paid time off	690,283	654,360
Self-funded health insurance payable	274,613	250,499
Interest	522,384	534,941
Deferred revenue for succeeding year property tax receivable	886,302	833,995
Estimated third-party settlements	157,000	-
Other accrued expenses	50,000	75,000
	<u>3,756,163</u>	<u>3,987,828</u>
Long-term Debt, less current maturities	<u>18,833,045</u>	<u>19,313,784</u>
Total liabilities	<u>22,589,208</u>	<u>23,301,612</u>
Net Assets		
Invested in capital assets, net of related debt	1,352,945	2,333,371
Unrestricted	14,766,251	12,546,322
Restricted expendable		
Debt service	1,492,034	1,457,169
Donor restricted	54,797	47,301
Restricted nonexpendable	27,585	25,000
	<u>17,693,612</u>	<u>16,409,163</u>
Total Liabilities and Net Assets	<u>\$ 40,282,820</u>	<u>\$ 39,710,775</u>

Washington County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 23,934,185	\$ 24,198,062
Provision for uncollectible accounts	<u>(1,032,293)</u>	<u>(1,230,178)</u>
Net patient service revenue	22,901,892	22,967,884
Other	<u>342,015</u>	<u>339,717</u>
	<u>23,243,907</u>	<u>23,307,601</u>
Operating Expenses		
Salaries and wages	10,680,722	10,706,065
Employee benefits	2,770,021	2,831,206
Medical professional fees	2,177,777	2,226,734
Supplies and other	2,376,446	2,215,513
General services	1,386,210	1,588,661
Administrative services	1,207,764	1,267,865
Depreciation and amortization	1,772,285	1,940,647
Disposal of capital assets	5,140	544
Insurance	<u>331,907</u>	<u>343,104</u>
	<u>22,708,272</u>	<u>23,120,339</u>
Operating Income	<u>535,635</u>	<u>187,262</u>
Nonoperating Revenues (Expenses)		
Investment income	679,210	447,668
Interest expense	(1,044,769)	(1,069,881)
Property tax revenue	838,781	812,625
Noncapital contributions	95,390	194,356
Foundation gift shop, net	<u>29,806</u>	<u>31,380</u>
	<u>598,418</u>	<u>416,148</u>
Excess of Revenues Over Expenses Before Capital Contributions	1,134,053	603,410
Capital Contributions	<u>150,396</u>	<u>-</u>
Increase in Net Assets	1,284,449	603,410
Net Assets, Beginning of the Year	<u>16,409,163</u>	<u>15,805,753</u>
Net Assets, End of the Year	<u>\$ 17,693,612</u>	<u>\$ 16,409,163</u>

Washington County Hospital
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 23,950,770	\$ 21,794,087
Payments to suppliers	(7,743,489)	(7,479,417)
Payments to employees	(13,673,357)	(13,487,243)
Other receipts and payments, net	362,194	221,220
Net cash provided by operating activities	2,896,118	1,048,647
Noncapital Financing Activities		
Property taxes supporting operations	838,781	812,625
Noncapital contributions	95,390	194,356
Foundation gift shop	29,806	31,380
Net cash provided by noncapital financing activities	963,977	1,038,361
Capital and Related Financing Activities		
Purchase of capital assets	(336,998)	(610,056)
Principal payments on long-term debt	(460,000)	(435,000)
Interest paid on long-term debt	(1,057,326)	(1,081,529)
Contributions of capital assets	150,396	-
Proceeds from the sale of capital assets	-	5,123
Net cash used in capital and related financing activities	(1,703,928)	(2,121,462)
Investing Activities		
Change in deposits and investments	(2,209,369)	(3,050,426)
Income received on investments	679,210	447,668
Net cash used in investing activities	(1,530,159)	(2,602,758)
Increase (Decrease) in Cash and Cash Equivalents	626,008	(2,637,212)
Cash and Cash Equivalents, Beginning of Year	2,608,592	5,245,804
Cash and Cash Equivalents, End of Year	\$ 3,234,600	\$ 2,608,592
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 2,980,969	\$ 2,535,616
Noncurrent cash and investments		
Capital and other expenditures	253,631	72,976
	\$ 3,234,600	\$ 2,608,592

Washington County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 535,635	\$ 187,262
Items not requiring cash		
Depreciation and amortization	1,772,285	1,940,647
Loss on disposal of capital assets	5,140	544
Changes in		
Patient and other receivables	107,865	120,675
Supplies	23,971	(44,879)
Prepaid expenses	(56,557)	34,522
Accounts payable and accrued expenses	(453,413)	222,845
Estimated amounts due to third-party payers	841,000	(1,328,000)
Other assets	120,192	(84,969)
	\$ 2,896,118	\$ 1,048,647
Net cash provided by operating activities	\$ 2,896,118	\$ 1,048,647

Washington County Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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, 2011 and 2010

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 3% of its financial support from property tax revenues in the years ended June 30, 2011 and 2010, 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, 2011 and 2010

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

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.

Washington County Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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 \$96,422 and \$215,440 for 2011 and 2010, respectively.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, an accrual has been recorded of \$50,000 and \$75,000 for 2011 and 2010, respectively. It is reasonably possible that this estimate could change materially in the near term.

Washington County Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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 19, 2011, 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. The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

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.

Approximately 49% and 47% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

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, 2011 and 2010

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, 2011 and 2010 was:

	2011	2010
Medicare and Medicaid	\$ 389,190	\$ 502,726
Other third-party payers	1,020,194	814,061
Patients	1,054,503	1,400,563
Clinics	263,681	329,457
	2,727,568	3,046,807
Less allowances for uncollectible accounts	(587,761)	(699,122)
	\$ 2,139,807	\$ 2,347,685

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, 2011 and 2010. The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Hospital deposits in a credit union are entirely covered by federal depository insurance. 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, 2011 and 2010

At June 30, 2011 and 2010, the Hospital had the following investments and maturities:

Type	Fair Value	June 30, 2011			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 314,636	\$ 314,636	\$ -	\$ -	\$ -
Government obligations-Hospital	405,421	-	-	-	405,421
Money market funds-Foundation	568	568	-	-	-
	720,625	\$ 315,204	\$ -	\$ -	\$ 405,421
Equity mutual funds-Foundation	2,561,035				
	<u>\$ 3,281,660</u>				

Type	Fair Value	June 30, 2010			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market mutual funds-Hospital	\$ 277,933	\$ 277,933	\$ -	\$ -	\$ -
Government obligations-Hospital	345,959	3	-	-	345,956
Money market funds-Foundation	245,291	245,291	-	-	-
	869,183	\$ 523,227	\$ -	\$ -	\$ 345,956
Equity mutual funds-Foundation	1,626,700				
	<u>\$ 2,495,883</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, 2011 and 2010, the Hospital’s money market mutual funds and the Foundation’s money market funds are not rated. The Hospital’s government obligations were rated AA- to AAA by Standard & Poor’s.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2011 and 2010, the Hospital’s investment in the Federal National Mortgage Association bonds was 12% and 14%, respectively.

Washington County Hospital
Notes to Financial Statements
June 30, 2011 and 2010

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 14,099,416	\$ 12,049,816
Investments	<u>3,281,660</u>	<u>2,495,883</u>
	<u>\$ 17,381,076</u>	<u>\$ 14,545,699</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,980,969	\$ 2,535,616
Short-term investments	5,846,140	5,280,712
Assets held under indenture agreement – current	1,007,384	994,941
Noncurrent cash and investments	<u>7,546,583</u>	<u>5,734,430</u>
	<u>\$ 17,381,076</u>	<u>\$ 14,545,699</u>

Investment Income

Investment income for the years ended June 30, 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 320,414	\$ 250,789
Net increase in fair value of investments	<u>358,796</u>	<u>196,879</u>
	<u>\$ 679,210</u>	<u>\$ 447,668</u>

Subsequent to June 30, 2011, the Foundation's investments decreased in fair value approximately \$325,000 through September 30, 2011.

Washington County Hospital
Notes to Financial Statements
June 30, 2011 and 2010

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2011 and 2010, were as follows:

2011	Balance 6/30/10	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/11
Land	\$ 10,902	\$ -	\$ -	\$ -	\$ 10,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	24,852,876	-	(36,759)	-	24,816,117
Equipment	7,277,479	244,327	(531,610)	50,329	7,040,525
Construction in progress	50,329	92,671	-	(50,329)	92,671
	<u>33,144,981</u>	<u>336,998</u>	<u>(568,369)</u>	<u>-</u>	<u>32,913,610</u>
Less accumulated depreciation for					
Land improvements	(335,547)	(65,229)	-	-	(400,776)
Buildings and leasehold improvements	(7,492,922)	(1,131,695)	33,926	-	(8,590,691)
Equipment	(4,997,706)	(551,213)	529,315	-	(5,019,604)
	<u>(12,826,175)</u>	<u>(1,748,137)</u>	<u>563,241</u>	<u>-</u>	<u>(14,011,071)</u>
	<u>\$ 20,318,806</u>	<u>\$ (1,411,139)</u>	<u>\$ (5,128)</u>	<u>\$ -</u>	<u>\$ 18,902,539</u>
2010	Balance 6/30/09	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/10
Land	\$ 10,902	\$ -	\$ -	\$ -	\$ 10,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	24,852,876	-	-	-	24,852,876
Equipment	6,727,752	559,727	(10,000)	-	7,277,479
Construction in progress	-	50,329	-	-	50,329
	<u>32,544,925</u>	<u>610,056</u>	<u>(10,000)</u>	<u>-</u>	<u>33,144,981</u>
Less accumulated depreciation for					
Land improvements	(267,369)	(68,178)	-	-	(335,547)
Buildings and leasehold improvements	(6,304,751)	(1,188,171)	-	-	(7,492,922)
Equipment	(4,342,817)	(659,222)	4,333	-	(4,997,706)
	<u>(10,914,937)</u>	<u>(1,915,571)</u>	<u>4,333</u>	<u>-</u>	<u>(12,826,175)</u>
	<u>\$ 21,629,988</u>	<u>\$ (1,305,515)</u>	<u>\$ (5,667)</u>	<u>\$ -</u>	<u>\$ 20,318,806</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2011 and 2010

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2011 and 2010 follows.

	Balance 6/30/10	Additions	Reductions	Balance 6/30/11	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 1,380,000	\$ -	\$ (435,000)	\$ 945,000	\$ 460,000
Series 2006 Hospital Revenue Bonds (B)	<u>18,450,000</u>	<u>-</u>	<u>(25,000)</u>	<u>18,425,000</u>	<u>25,000</u>
	19,830,000	<u>\$ -</u>	<u>\$ (460,000)</u>	19,370,000	<u>\$ 485,000</u>
Less unamortized discount	<u>56,216</u>			<u>51,955</u>	
	<u>\$ 19,773,784</u>			<u>\$ 19,318,045</u>	

	Balance 6/30/09	Additions	Reductions	Balance 6/30/10	Amounts Due Within One Year
Series 1997 Hospital Revenue Bonds (A)	\$ 1,790,000	\$ -	\$ (410,000)	\$ 1,380,000	\$ 435,000
Series 2006 Hospital Revenue Bonds (B)	<u>18,475,000</u>	<u>-</u>	<u>(25,000)</u>	<u>18,450,000</u>	<u>25,000</u>
	20,265,000	<u>\$ -</u>	<u>\$ (435,000)</u>	19,830,000	<u>\$ 460,000</u>
Less unamortized discount	<u>60,483</u>			<u>56,216</u>	
	<u>\$ 20,204,517</u>			<u>\$ 19,773,784</u>	

(A) Hospital Revenue Bonds, Series 1997; \$5,200,000 maturing serially at varying amounts through 2012; semiannual interest payments at rates ranging from 5.40% 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.

Washington County Hospital
Notes to Financial Statements
June 30, 2011 and 2010

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

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

	Principal	Interest	Total
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	565,000	948,063	1,513,063
2016	595,000	918,691	1,513,691
2017 – 2021	3,475,000	4,079,534	7,554,534
2022 – 2026	4,510,000	3,014,481	7,524,481
2027 – 2031	5,865,000	1,617,031	7,482,031
2032 – 2033	2,825,000	157,438	2,982,438
	<u>\$ 19,370,000</u>	<u>\$ 13,745,713</u>	<u>\$ 33,115,713</u>

Note 7: Operating Leases

Noncancelable operating leases for equipment will expire December 2016.

Future minimum lease payments at June 30, 2011 are:

2012	\$ 204,051
2013	204,051
2014	204,051
2015	95,222
2016	<u>16,030</u>
Future minimum lease payments	<u>\$ 723,405</u>

Rental expense for all operating leases was \$304,210 and \$281,136 for the years ended June 30, 2011 and 2010, respectively.

Washington County Hospital

Notes to Financial Statements

June 30, 2011 and 2010

Note 8: 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 \$35,000 per eligible participant. Commercial stop-loss insurance coverage is purchased for claims in excess of \$35,000. 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 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 250,499	\$ 238,588
Current year claims incurred and changes in estimates for claims incurred in prior years	1,197,395	1,264,480
Claims and expenses paid	<u>1,173,281</u>	<u>1,252,569</u>
Balance, end of year	<u>\$ 274,613</u>	<u>\$ 250,499</u>

Note 9: 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 4.5% and 4.3% of their annual covered salaries and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2011, 2010 and 2009 were \$709,447, \$682,182 and \$674,670, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.95% of annual covered salary for 2011.

Washington County Hospital
Notes to Financial Statements
June 30, 2011 and 2010

Note 10: 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, 2011:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 838,781	\$ -	\$ 838,781	\$ 833,995
Other revenues/receipts	<u>23,802,937</u>	<u>1,169,072</u>	<u>24,972,009</u>	<u>30,225,220</u>
	24,641,718	1,169,072	25,810,790	31,059,215
Expenses/disbursements	<u>23,753,041</u>	<u>498,556</u>	<u>24,251,597</u>	<u>31,443,159</u>
	888,677	670,516	1,559,193	(383,944)
Balance, beginning of year	<u>13,892,545</u>	<u>(826,748)</u>	<u>13,065,797</u>	<u>13,065,797</u>
Balance, end of year	<u><u>\$ 14,781,222</u></u>	<u><u>\$ (156,232)</u></u>	<u><u>\$ 14,624,990</u></u>	<u><u>\$ 12,681,853</u></u>

Note 11: Restricted and Designated Net Assets

At June 30, 2011 and 2010, restricted expendable net assets were available for the following purposes.

	2011	2010
Debt service	\$ 1,492,034	\$ 1,457,169
Specific operating activities and capital acquisition	<u>54,797</u>	<u>47,301</u>
	<u><u>\$ 1,546,831</u></u>	<u><u>\$ 1,504,470</u></u>

At June 30, 2011 and 2010, restricted nonexpendable net assets were \$27,585 and \$25,000, respectively, required to be maintained in perpetuity by the donor.

Washington County Hospital
Notes to Financial Statements
June 30, 2011 and 2010

At June 30, 2011 and 2010, unrestricted net assets had been designated by the Hospital’s Board of Trustees for the following purposes:

	2011	2010
Capital and other expenditures	<u>\$ 4,701,151</u>	<u>\$ 2,714,504</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 12: Current Economic Conditions

The current protracted 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 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 protracted 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, 2011

Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 2,863,863	\$ 117,106		\$ 2,980,969
Short-term investments	3,165,675	2,680,465		5,846,140
Assets held under indenture agreement – current	1,007,384			1,007,384
Patient accounts receivable	2,139,807			2,139,807
Other receivables	151,611			151,611
Succeeding year property tax settlements	886,302			886,302
Supplies	429,717			429,717
Prepaid expenses	139,659			139,659
	<u>10,784,018</u>	<u>2,797,571</u>		<u>13,581,589</u>
Noncurrent Cash and Investments				
Internally designated Capital and other expenditures	4,701,151			4,701,151
Externally restricted Indenture agreement	2,555,813			2,555,813
Donors		82,382		82,382
Certificates of deposit	207,237			207,237
	<u>7,464,201</u>	<u>82,382</u>		<u>7,546,583</u>
Capital Assets, net of accumulated depreciation	<u>18,902,539</u>			<u>18,902,539</u>
Other Assets				
Foundation assets		32,437		32,437
Deferred financing costs	219,672			219,672
Total Other Assets	<u>219,672</u>	<u>32,437</u>		<u>252,109</u>
Total Assets	<u>\$ 37,370,430</u>	<u>\$ 2,912,390</u>	<u>\$ -</u>	<u>\$ 40,282,820</u>

Washington County Hospital
Combining Balance Sheet
June 30, 2011

Liabilities and Net Assets

	Washington County Hospital	Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 485,000			\$ 485,000
Accounts payable	204,756			204,756
Accrued expenses				
Salaries, wages and related accruals	485,825			485,825
Paid time off	690,283			690,283
Self-funded health insurance payable	274,613			274,613
Interest	522,384			522,384
Deferred revenue for succeeding year property tax receivable	886,302			886,302
Estimated third-party settlements	157,000			157,000
Other accrued expenses	50,000			50,000
	<u>3,756,163</u>			<u>3,756,163</u>
Total current liabilities				
	3,756,163			3,756,163
Long-Term Debt, less current maturities	<u>18,833,045</u>			<u>18,833,045</u>
Total liabilities	<u>22,589,208</u>			<u>22,589,208</u>
Net Assets				
Invested in capital assets, net of related debt	1,352,945			1,352,945
Unrestricted	11,936,243	\$ 2,830,008		14,766,251
Restricted expendable				
Debt service	1,492,034			1,492,034
Donor restricted		54,797		54,797
Restricted nonexpendable		27,585		27,585
	<u>14,781,222</u>	<u>2,912,390</u>		<u>17,693,612</u>
Total net assets				
	14,781,222	2,912,390		17,693,612
Total Liabilities and Net Assets	<u>\$ 37,370,430</u>	<u>\$ 2,912,390</u>	<u>\$ -</u>	<u>\$ 40,282,820</u>

Washington County Hospital
Combining Schedule of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2011

	Washington County Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 23,934,185			\$ 23,934,185
Provision for uncollectible accounts	<u>1,032,293</u>			<u>1,032,293</u>
Net patient service revenue	22,901,892			22,901,892
Other	<u>342,015</u>			<u>342,015</u>
	<u>23,243,907</u>			<u>23,243,907</u>
Operating Expenses				
Salaries and wages	10,680,722			10,680,722
Employee benefits	2,770,021			2,770,021
Medical professional fees	2,177,777			2,177,777
Supplies and other	2,376,446			2,376,446
General services	1,386,210			1,386,210
Administrative services	1,207,764			1,207,764
Depreciation and amortization	1,772,285			1,772,285
Disposal of capital assets	5,140			5,140
Insurance	<u>331,907</u>			<u>331,907</u>
Total expenses	<u>22,708,272</u>			<u>22,708,272</u>
Operating Income	<u>535,635</u>			<u>535,635</u>
Nonoperating Revenues (Expenses)				
Investment income	256,307	\$ 422,903		679,210
Interest expense	(1,044,769)			(1,044,769)
Property tax revenue	838,781			838,781
Noncapital contributions	152,327	(56,937)		95,390
Foundation gift shop, net	<u>29,806</u>	<u>29,806</u>		<u>29,806</u>
	<u>202,646</u>	<u>395,772</u>		<u>598,418</u>
Excess of Revenues Over Expenses Before Capital Contributions	738,281	395,772		1,134,053
Capital Contributions	<u>150,396</u>	<u>-</u>		<u>150,396</u>
Increase in Net Assets	<u>\$ 888,677</u>	<u>\$ 395,772</u>	<u>\$ -</u>	<u>\$ 1,284,449</u>

Washington County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical/surgical	\$ 3,349,541	\$ 2,242,334	\$ 1,107,207	\$ 3,259,449	\$ 2,052,086	\$ 1,207,363
Obstetrics	428,815	323,341	105,474	396,756	288,521	108,235
Labor and delivery	275,201	201,307	73,894	252,956	166,761	86,195
Special care unit	45,000	45,000		27,200	27,200	
Nursery	205,860	205,860		178,670	178,670	
Swing-bed	1,741,846	1,741,846		1,644,029	1,644,029	
Long-term care	2,509,197	2,509,197		2,369,243	2,369,243	
Operating and recovery	2,558,363	176,350	2,382,013	2,458,076	194,836	2,263,240
Emergency	3,608,603	13,012	3,595,591	3,403,829	14,648	3,389,181
	<u>14,722,426</u>	<u>7,458,247</u>	<u>7,264,179</u>	<u>13,990,208</u>	<u>6,935,994</u>	<u>7,054,214</u>
Other Professional Services						
Central service and supply	670,814	195,388	475,426	652,462	222,079	430,383
Laboratory	5,010,652	837,108	4,173,544	4,667,219	760,100	3,907,119
Radiology	5,588,257	399,109	5,189,148	5,609,108	368,512	5,240,596
Pharmacy	3,040,587	1,397,499	1,643,088	3,201,429	1,584,615	1,616,814
Anesthesiology	1,004,410	245,896	758,514	962,597	247,466	715,131
Physical therapy	941,763	137,595	804,168	964,401	108,385	856,016
Speech therapy	19,655	9,498	10,157	30,666	7,948	22,718
Occupational therapy	129,637	50,693	78,944	106,372	23,417	82,955
Respiratory therapy	800,930	690,202	110,728	841,193	722,168	119,025
Electrocardiology	282,796	45,440	237,356	258,782	36,018	222,764
Cardiac rehabilitation	727,142	116,434	610,708	761,555	119,609	641,946
Pulmonary rehabilitation	73,432		73,432	43,668		43,668
Ambulatory care	106,536		106,536	97,376		97,376
Surgery Clinic	-			542		542
Keota Clinic	-			3,143		3,143
Women's Healthcare Clinic	964,239		964,239	963,727		963,727
Medical Clinic	2,551,873		2,551,873	3,076,136		3,076,136
	<u>21,912,723</u>	<u>4,124,862</u>	<u>17,787,861</u>	<u>22,240,376</u>	<u>4,200,317</u>	<u>18,040,059</u>
Patient Service Revenue	36,635,149	<u>\$ 11,583,109</u>	<u>\$ 25,052,040</u>	36,230,584	<u>\$ 11,136,311</u>	<u>\$ 25,094,273</u>
Contractual Allowances	<u>(12,700,964)</u>			<u>(12,032,522)</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	23,934,185			24,198,062		
Provision for Uncollectible Accounts	<u>(1,032,293)</u>			<u>(1,230,178)</u>		
Net Patient Service Revenue	<u>\$ 22,901,892</u>			<u>\$ 22,967,884</u>		

Washington County Hospital
Schedules of Other Revenues
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Rental income	\$ 158,032	\$ 154,781
Cafeteria	69,111	64,328
Meals on Wheels	3,916	4,609
Lifeline services	65,104	68,261
Other	23,779	25,409
Contracted social work	22,013	22,234
Education program	60	95
	<u>\$ 342,015</u>	<u>\$ 339,717</u>

Washington County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 303,967	\$ 280,693	\$ 23,274	\$ 309,829	\$ 283,551	\$ 26,278
Medical/surgical	1,584,414	1,368,672	215,742	1,525,956	1,292,867	233,089
Obstetrics and nursery	317,546	284,752	32,794	322,862	287,753	35,109
Long-term care	1,184,436	1,117,301	67,135	1,179,980	1,116,207	63,773
Operating and recovery	362,930	301,022	61,908	338,612	308,591	30,021
Emergency	1,432,191	441,653	990,538	1,412,182	452,323	959,859
	<u>5,185,484</u>	<u>3,794,093</u>	<u>1,391,391</u>	<u>5,089,421</u>	<u>3,741,292</u>	<u>1,348,129</u>
Other Professional Services						
Laboratory	976,094	431,037	545,057	950,451	455,581	494,870
Radiology	1,105,327	455,003	650,324	1,126,825	441,100	685,725
Cardiac rehabilitation	197,355	29,247	168,108	206,903	30,756	176,147
Pharmacy	1,149,566	269,530	880,036	1,111,232	263,421	847,811
Anesthesiology	340,625	225,802	114,823	352,400	231,017	121,383
Physical therapy	307,390	276,589	30,801	328,408	291,656	36,752
Speech therapy	13,405		13,405	18,847		18,847
Occupational therapy	44,649		44,649	32,586		32,586
Pulmonary rehabilitation	13,967	11,129	2,838	14,201	5,874	8,327
Medical supplies	563,720	122,134	441,586	518,061	133,279	384,782
Respiratory therapist	141,654	109,617	32,037	134,422	105,290	29,132
Ambulatory care	33,139	30,472	2,667	52,989	52,019	970
Specialty Clinic	27,488	7,859	19,629	31,560	7,875	23,685
Keota Clinic	1,528		1,528	19,734	12,738	6,996
Medical Clinic	1,941,957	1,837,678	104,279	1,808,334	1,722,432	85,902
Women's Healthcare Clinic	857,556	792,296	65,260	900,613	824,943	75,670
Lifeline	55,682	10,711	44,971	64,801	12,528	52,273
Surgery Clinic	1,049	215	834	20,579	8,319	12,260
	<u>7,772,151</u>	<u>4,609,319</u>	<u>3,162,832</u>	<u>7,692,946</u>	<u>4,598,828</u>	<u>3,094,118</u>
General Services						
Dietary	859,075	356,524	502,551	828,782	323,303	505,479
Operation of plant	964,933	154,468	810,465	1,161,482	154,404	1,007,078
Housekeeping	307,197	269,786	37,411	326,080	283,393	42,687
Laundry	101,457	65,674	35,783	106,076	72,659	33,417
	<u>2,232,662</u>	<u>846,452</u>	<u>1,386,210</u>	<u>2,422,420</u>	<u>833,759</u>	<u>1,588,661</u>
Administrative Services						
Medical records	427,812	358,961	68,851	497,268	427,162	70,106
Administration	2,067,333	992,273	1,075,060	2,155,083	1,025,878	1,129,205
Foundation	46,849	46,403	446	46,754	46,362	392
Marketing	96,628	33,221	63,407	100,946	32,784	68,162
	<u>2,638,622</u>	<u>1,430,858</u>	<u>1,207,764</u>	<u>2,800,051</u>	<u>1,532,186</u>	<u>1,267,865</u>
Insurance	<u>331,907</u>		<u>331,907</u>	<u>343,104</u>		<u>343,104</u>
Employee Benefits	<u>2,770,021</u>		<u>2,770,021</u>	<u>2,831,206</u>		<u>2,831,206</u>
Depreciation and Amortization	<u>1,772,285</u>		<u>1,772,285</u>	<u>1,940,647</u>		<u>1,940,647</u>
Disposal of Capital Assets	<u>5,140</u>		<u>5,140</u>	<u>544</u>		<u>544</u>
	<u>\$ 22,708,272</u>	<u>\$ 10,680,722</u>	<u>\$ 12,027,550</u>	<u>\$ 23,120,339</u>	<u>\$ 10,706,065</u>	<u>\$ 12,414,274</u>

Washington County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2011 and 2010

Schedules of Patient Receivables

	<u>2011</u>		<u>2010</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 2,097,351	63%	\$ 2,081,272	58%
31-60 days	460,626	14%	446,155	13%
61-90 days	190,737	6%	291,048	8%
91-120 days	160,773	5%	186,787	5%
Over 4 months	387,200	12%	582,688	16%
	<u>3,296,687</u>	<u>100%</u>	<u>3,587,950</u>	<u>100%</u>
 Clinic and other receivables	 263,681		 329,457	
 Less contractual allowances	 832,800		 870,600	
Less allowance for uncollectible accounts	<u>587,761</u>		<u>699,122</u>	
 Net patient receivables	 <u>\$ 2,139,807</u>		 <u>\$ 2,347,685</u>	

Allowance for Uncollectible Accounts

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 699,122	\$ 629,122
Provision for year	1,032,293	1,230,178
Recoveries of accounts previously written off	345,122	361,113
	<u>2,076,537</u>	<u>2,220,413</u>
Accounts written off	1,488,776	1,521,291
	<u>\$ 587,761</u>	<u>\$ 699,122</u>

Washington County Hospital
Schedule of Officials
June 30, 2011

Name	Title	Term Expires
Board of Trustees		
Ed Weeks	Chairperson	November 2012
Jim Harris	Vice Chairman	November 2012
James Mostek	Secretary	November 2014
Laura Fisher	Member	November 2014
Marty Beenblossom	Member	November 2014
Ron Barnes	Member	November 2016
Keith Lazar	Member	November 2016
Hospital Officials		
Don Patterson	Chief Executive Officer	Retired June 30, 2011
Dennis Hunger	Chief Executive Officer	Effective August 1, 2011
Steve Sanders	Chief Financial Officer	

Washington County Hospital
Schedule of Supplies and Prepaid Expenses
June 30, 2011 and 2010

	2011	2010
Supplies		
Pharmacy	\$ 197,537	\$ 218,044
Operating and recovery rooms	108,351	118,415
Store room	47,066	36,773
Laboratory	27,807	30,646
Radiology	6,529	6,101
Emergency	9,745	9,141
Dietary	8,690	13,283
All other	23,992	21,285
	\$ 429,717	\$ 453,688
 Prepaid Expenses		
Insurance	\$ 83,133	\$ 72,444
Dues/other	56,526	10,658
	\$ 139,659	\$ 83,102

Washington County Hospital
Schedule of Insurance Coverage
June 30, 2011

Farm Bureau		
Workers' compensation; expires 12/01/11	\$	500,000
MMIC		
Professional liability; expires 5/30/12		1,000,000/3,000,000
General liability; expires 5/30/12		1,000,000/3,000,000
Umbrella liability; expires 5/30/12		3,000,000/3,000,000
Chubb Insurance		
Blanket coverage, building and personal property; expires 5/30/12	\$	42,286,103
Chubb Insurance		
Directors and officers; expires 05/30/12	\$	2,000,000
Horak Insurance		
Fidelity bond; expires 11/01/11	\$	500,000
Horak Insurance		
Surety bond; expires 08/29/11	\$	2,500

Washington County Hospital
Statistical Information
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Patient Days		
Acute	2,401	2,393
Swing-bed	1,799	1,771
Newborn	283	259
Long-term care	<u>14,464</u>	<u>14,447</u>
Total	<u><u>18,947</u></u>	<u><u>18,870</u></u>
Discharges		
Acute	700	717
Swing-bed	264	273
Long-term care	<u>37</u>	<u>31</u>
Total	<u><u>1,001</u></u>	<u><u>1,021</u></u>
Average Length of Stay		
Acute	3.43	3.34
Swing-bed	6.81	6.49
Long-term care	390.92	466.03
Beds		
Acute	25	25
Long-term care	43	43
Occupancy Percent		
Acute and swing-bed	46.03%	45.63%
Long-term care	92.16%	92.05%

**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, 2011, and have issued our report thereon dated October 19, 2011. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

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 deficiencies, 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*.

We noted certain other matters that we reported to the Hospital's management in a separate letter dated October 19, 2011.

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, 2011 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, 2011. 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, 2011.

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, 2011 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 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 is required to evaluate the need 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.

* * * * *

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.

BKD, LLP

Kansas City, Missouri
October 19, 2011

Washington County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2011

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 as of and for the year ended June 30, 2011, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A 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 and correct misstatements of the Hospital's financial statements on a timely basis. A 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 would not be met. A 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 competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

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 Patient Account 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 Adjustment

During the course of performing the audit, we identified a misstatement resulting in an audit journal entry and passed adjustment to the Foundation investment amounts. This difference affected investments and investment income.

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.

Charity Care Disclosures

Health care organizations currently report services to qualified charity patients in the notes to the financial statements. The disclosures generally report the amount of charity based on charges or the cost of providing the services. Effective for fiscal years beginning after December 15, 2010, ASU 2010-23 will require that all disclosures for charity care be based on the cost of providing those services. While this standard is not specifically for governmental entities, we recommend the Hospital consider adopting it to be consistent with the health care industry for 2012.

Medicare and Medicaid Reimbursement

The Federal government is currently evaluating ways to cut expenses due to the current economic conditions. Medicare and Medicaid programs are all being evaluated in this progress. The Hospital should continue to monitor the status of the proposed reimbursement cuts and take steps to ensure the Hospital can meet debt covenants in the event of reduced reimbursements.

Conversion to ICD-10

Beginning on October 1, 2013, the Centers for Medicare and Medicaid Services (CMS) is converting coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after this date cannot be paid. The conversion will improve the information reported regarding a patient’s medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to the providers will be related to the loss of productivity through error rates and reworking of claims filed, in addition to the loss of cash flows through the initial increase in the length of time necessary to process claims. CMS estimates that it may take up to six months for error rates and accounts receivable to decrease back to pre-conversion levels.

Providers should begin developing an implementation strategy that includes an assessment of the impact on your hospital. Check with your billing services, clearinghouse or practice management software vendor about their compliance plans. Training of personnel and physicians will be necessary to prevent significant delays in processing of claims or loss of reimbursement.

Current Economic Environment

The current protracted 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.

BKD, LLP

Kansas City, Missouri
October 19, 2011