

# **Washington County Hospital**

Auditor's Report and Financial Statements

June 30, 2014 and 2013



# Washington County Hospital

## June 30, 2014 and 2013

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## Independent Auditor's Report

Board of Trustees  
Washington County Hospital  
Washington, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Washington County Hospital (Hospital), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, in 2014, the Hospital implemented the provisions of GASB Statement No. 65, which changed its method of accounting for bond issuance costs and reporting of deferred outflows and inflows through retroactive application to prior year's financial statements. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Other Supplementary Information***

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 on our consideration of the 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 our testing of internal control over financial reporting and compliance and the results of that testing, and do not 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* in considering the Hospital's internal control over financial reporting and compliance.

**BKD, LLP**

# Washington County Hospital

## Management's Discussion and Analysis

### Years Ended June 30, 2014 and 2013

#### ***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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

- Cash, short-term investments, assets held under indenture agreement – current and noncurrent cash and investments decreased in 2014 by \$4,533,207 or 21% from 2013 and increased in 2013 over 2012 by \$3,060,155 or 17%.
- The Hospital's net position increased in 2014 by \$1,107,441 or 6% from 2013 and increased in 2013 over 2012 by \$1,820,024 or 10%.
- The Hospital reported operating income of \$82,964 and \$1,059,541 in 2014 and 2013, respectively.
- Net nonoperating revenues and expenses increased in 2014 by \$263,994 or 35% and increased in 2013 by \$547,715 or 257%.

#### ***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 position; 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 Position***

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 Position 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 position and changes in it. The Hospital's total net position—the difference between assets and liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position 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 Position**

The Hospital's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The Hospital's net position increased by \$1,107,441 (6%) in 2014 over 2013 and increased by \$1,820,024 (10%) in 2013 over 2012, as shown in Table 1.

**Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
		<i>(As Restated)</i>	<i>(As Restated)</i>
<b>Assets</b>			
Patient accounts receivable	\$ 3,417,621	\$ 2,417,661	\$ 1,952,042
Other current assets	10,298,983	12,176,907	11,862,559
Noncurrent cash and investments	8,398,420	10,856,268	8,867,157
Capital assets, net	20,115,976	16,833,784	17,595,361
Other	933,069	24,923	24,742
Total assets	<u>\$ 43,164,069</u>	<u>\$ 42,309,543</u>	<u>\$ 40,301,861</u>
<b>Liabilities</b>			
Current liabilities	\$ 3,711,500	\$ 3,448,061	\$ 2,735,355
Long-term debt	17,205,431	17,766,431	18,327,301
Total liabilities	<u>20,916,931</u>	<u>21,214,492</u>	<u>21,062,656</u>
<b>Deferred Inflows of Resources</b>	<u>1,010,469</u>	<u>965,823</u>	<u>930,001</u>
<b>Net Position</b>			
Net investment in capital assets	3,896,246	260,139	534,898
Restricted expendable	1,122,942	1,102,321	1,583,019
Restricted nonexpendable	37,073	31,582	28,054
Unrestricted	16,180,408	18,735,186	16,163,233
Total net position	<u>21,236,669</u>	<u>20,129,228</u>	<u>18,309,204</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 43,164,069</u>	<u>\$ 42,309,543</u>	<u>\$ 40,301,861</u>

## **Operating Results**

The Hospital's Increase in Net Position was \$1,107,441 in 2014 and \$1,820,024 in 2013, as shown in Table 2.

**Table 2: Operating Results**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
		<i>(As Restated)</i>	<i>(As Restated)</i>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 25,081,308	\$ 23,749,119	\$ 23,503,867
Other operating revenues	1,088,112	981,307	283,998
Total operating revenues	<u>26,169,420</u>	<u>24,730,426</u>	<u>23,787,865</u>
<b>Operating Expenses</b>			
Salaries, wages and benefits	15,624,302	14,153,462	13,859,267
Other operating supplies and expenses	8,730,547	7,925,442	7,621,048
Depreciation and amortization	1,731,607	1,591,981	1,680,798
Total operating expenses	<u>26,086,456</u>	<u>23,670,885</u>	<u>23,161,113</u>
<b>Operating Income</b>	<u>82,964</u>	<u>1,059,541</u>	<u>626,752</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property tax revenue	968,696	930,754	886,715
Investment income	731,447	604,471	278,088
Interest expense	(962,188)	(991,923)	(1,017,809)
Noncapital contributions	255,962	188,038	30,488
Foundation gift shop, net	30,560	29,143	35,286
Total nonoperating revenues	<u>1,024,477</u>	<u>760,483</u>	<u>212,768</u>
<b>Increase in Net Position</b>	<u>\$ 1,107,441</u>	<u>\$ 1,820,024</u>	<u>\$ 839,520</u>

The primary reasons for the change in financial performance in 2014 were:

- Onboarding of the Family Medicine Clinic which was purchased in March 2014
- Renovation of the LTC Facility

Hospital inpatient days decreased by 1% and outpatient visits increased 1% year over year. Operations generated an additional \$1,332,189 or 6% in net patient service revenue, the majority of which came from the new Family Medicine Clinic. Other revenue increased \$106,805 or 11%, the majority of which was from the 340B program. Expenses increased \$2,415,571 or 10%. Regular ongoing expenses were held to approximately a 4% increase. Additional expense came from normal operating and onboarding expense of the new Family Medicine Clinic.

The primary reasons for the change in financial performance in 2013 were:

- 340B program revenue of \$580,296
- Investment income increased \$326,383 or 117%
- Noncapital contributions increased \$157,550 or 517%

Both Hospital inpatient days and outpatient visits increased 3% year over year. Operations generated an additional \$245,252 or 1% in net patient service revenue. Other revenue increased \$697,309 or 246%, the majority of which was from the 340B program. Expenses were held within inflation levels with an increase of \$509,772 or 2%.

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

Increases in non-operating revenues and expenses between 2014 and 2013 were primarily due to an increase in 2014 Foundation investment gains of \$157,703 and an increase in non-capital contributions of \$67,924.

Increases in nonoperating revenues and expenses between 2013 and 2012 were primarily due to 2013 Foundation investment gains of \$439,768.

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

The Hospital's Cash from Operating Activities was \$690,689 in 2014 compared to \$3,696,428 in 2013. Changes in the Hospital's cash from operating activities are consistent with changes in operating income and nonoperating revenues and expenses.

## **Capital Assets**

At the end of 2014, the Hospital had \$20,115,976 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Hospital purchased new capital assets costing \$5,083,060, including an acquisition of a new Family Medicine Clinic costing \$4,157,058.

At the end of 2013, the Hospital had \$16,833,784 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013, the Hospital purchased new capital assets costing \$857,292.

## **Debt**

At June 30, 2014, the Hospital had \$17,810,000 in revenue bonds. The Hospital issued no new debt in 2014.

At June 30, 2013, the Hospital had \$18,350,000 in revenue bonds. The Hospital issued no new debt in 2013.

## **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, 2014 and 2013**

**Assets**

	<u>2014</u>	<u>2013</u>
		<i>(As Restated)</i>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,560,821	\$ 4,473,051
Short-term investments	3,941,005	5,115,634
Assets held under indenture agreement – current	1,046,094	1,034,594
Patient accounts receivable, net of allowance; 2014 - \$506,121, 2013 - \$543,867	3,417,621	2,417,661
Other receivables	53,663	15,620
Succeeding year property tax settlements	1,010,469	965,823
Supplies	429,570	388,164
Prepaid expenses	257,361	184,021
	<u>13,716,604</u>	<u>14,594,568</u>
<b>Noncurrent Cash and Investments</b>		
Internally designated		
Capital and other expenditures	5,758,526	7,785,638
Externally restricted		
Indenture agreement	2,034,098	2,045,598
Donors	109,696	97,084
Certificates of deposit	496,100	927,948
	<u>8,398,420</u>	<u>10,856,268</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>20,115,976</u>	<u>16,833,784</u>
<b>Other Assets</b>		
Foundation assets	24,339	24,923
Noncompete agreements	230,769	-
Goodwill	536,619	-
Other	141,342	-
	<u>933,069</u>	<u>24,923</u>
<b>Total Other Assets</b>	<u>933,069</u>	<u>24,923</u>
<b>Total Assets</b>	<u>\$ 43,164,069</u>	<u>\$ 42,309,543</u>

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2014</u>	<u>2013</u>
		<i>(As Restated)</i>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 565,000	\$ 540,000
Accounts payable	537,930	454,862
Accrued expenses		
Salaries, wages and related accruals	738,060	499,527
Paid time off	796,971	762,479
Self-funded health insurance payable	250,105	249,599
Interest	481,094	494,594
Estimated third-party settlements	131,000	422,000
Other accrued expenses	211,340	25,000
	<hr/>	<hr/>
Total current liabilities	3,711,500	3,448,061
<b>Long-Term Debt, Less Current Maturities</b>	<hr/>	<hr/>
	17,205,431	17,766,431
	<hr/>	<hr/>
Total liabilities	20,916,931	21,214,492
	<hr/>	<hr/>
<b>Deferred Inflows of Resources - Property Taxes</b>	1,010,469	965,823
	<hr/>	<hr/>
<b>Net Position</b>		
Net investment in capital assets	3,896,246	260,139
Unrestricted	16,180,408	18,735,186
Restricted expendable		
Debt service	1,050,319	1,036,819
Donor restricted	72,623	65,502
Restricted nonexpendable	37,073	31,582
	<hr/>	<hr/>
Total net position	21,236,669	20,129,228
	<hr/>	<hr/>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 43,164,069</u>	<u>\$ 42,309,543</u>

**Washington County Hospital**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		<i>(As Restated)</i>
Net patient service revenue before provision for uncollectible accounts	\$ 25,921,370	\$ 24,649,368
Provision for uncollectible accounts	(840,062)	(900,249)
	<hr/>	<hr/>
Net patient service revenue	25,081,308	23,749,119
Other	1,088,112	981,307
	<hr/>	<hr/>
	26,169,420	24,730,426
<b>Operating Expenses</b>		
Salaries and wages	12,047,093	10,834,944
Employee benefits	3,577,209	3,318,518
Medical professional fees	2,549,775	2,319,336
Supplies and other	3,125,757	2,703,179
General services	1,211,622	1,290,632
Administrative services	1,562,155	1,279,401
Depreciation and amortization	1,731,607	1,591,981
Disposal of capital assets	6,634	21,172
Insurance	274,604	311,722
	<hr/>	<hr/>
	26,086,456	23,670,885
<b>Operating Income</b>	<hr/>	<hr/>
	82,964	1,059,541
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	731,447	604,471
Interest expense	(962,188)	(991,923)
Property tax revenue	968,696	930,754
Noncapital contributions	255,962	188,038
Foundation gift shop, net	30,560	29,143
	<hr/>	<hr/>
	1,024,477	760,483
<b>Increase in Net Position</b>	<hr/>	<hr/>
	1,107,441	1,820,024
<b>Net Position, Beginning of the Year, as Restated</b>	<hr/>	<hr/>
	20,129,228	18,309,204
<b>Net Position, End of the Year</b>	<hr/> <hr/>	<hr/> <hr/>
	\$ 21,236,669	\$ 20,129,228

**Washington County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
		<i>(As Restated)</i>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 23,790,348	\$ 24,240,500
Payments to suppliers	(8,612,998)	(7,723,184)
Payments to employees	(15,287,314)	(14,055,343)
Other receipts and payments, net	800,653	1,234,455
Net cash provided by operating activities	690,689	3,696,428
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	968,696	930,754
Noncapital contributions	255,962	188,038
Foundation gift shop	30,560	29,143
Net cash provided by noncapital financing activities	1,255,218	1,147,935
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(926,002)	(857,292)
Acquisition of Family Medicine Clinic	(4,792,444)	-
Principal payments on long-term debt	(540,000)	(535,000)
Interest paid on long-term debt	(975,688)	(1,006,233)
Proceeds from the sale of capital assets	23,573	9,846
Net cash used in capital and related financing activities	(7,210,561)	(2,388,679)
<b>Investing Activities</b>		
Change in deposits and investments	3,758,992	(2,179,567)
Income received on investments	731,447	604,471
Net cash provided by (used in) investing activities	4,490,439	(1,575,096)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(774,215)	880,588
<b>Cash and Cash Equivalents, Beginning of Year</b>	4,540,704	3,660,116
<b>Cash and Cash Equivalents, End of Year</b>	\$ 3,766,489	\$ 4,540,704
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 3,560,821	\$ 4,473,051
Noncurrent cash and investments		
Capital and other expenditures	205,668	67,653
	\$ 3,766,489	\$ 4,540,704

**Washington County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		<i>(As Restated)</i>
Operating income	\$ 82,964	\$ 1,059,541
Items not requiring cash		
Depreciation and amortization	1,731,607	1,591,981
Loss on disposal of capital assets	6,634	21,172
Changes in		
Patient and other receivables	(1,038,003)	(212,290)
Supplies	2,730	32,026
Prepaid expenses	(73,340)	(27,837)
Accounts payable and accrued expenses	518,513	275,016
Estimated amounts due to/from third-party payers	(291,000)	957,000
Other assets	(249,416)	(181)
Net cash provided by operating activities	\$ 690,689	\$ 3,696,428

**Supplemental Cash Flow Information**

During 2014, the Hospital acquired certain assets of Family Medicine Clinic located in Washington, Iowa for \$4,792,444.

In conjunction with this acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 4,915,327
Less cash paid	4,792,444
Liabilities assumed	\$ 122,883

In conjunction with this acquisition, assets acquired were as follows:

Inventory	\$ 44,136
Property, plant and equipment	4,157,058
Intangibles	159,010
Goodwill	555,123
Total assets acquired	\$ 4,915,327

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

#### **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.

##### **Blended Component Unit**

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts.

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

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

The Hospital received approximately 4% of its financial support from property tax revenues in the years ended June 30, 2014 and 2013, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the county as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the county Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

#### ***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters except employee health and dental benefits for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

#### ***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

#### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

**Washington County Hospital**  
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***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

***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.

***Net Position***

Net position of the Hospital is classified in four components. Net investment in capital assets consists 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 position is made up of 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.

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets, or restricted net position. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

#### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

#### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$53,442 and \$45,395 for 2014 and 2013, 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 \$25,000 for 2014 and 2013. It is reasonably possible that this estimate could change materially in the near term.

#### ***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.

#### ***Goodwill and Intangible Assets***

Goodwill is amortized on the straight-line basis over the estimated life. Intangible assets are amortized on the straight-line basis. The assets are periodically evaluated as to the recoverability of their carrying values.

# Washington County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

#### ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share factor, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payments received for qualified EHR technology expenditures during 2014 and 2013, which were the periods during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of \$12,000 and \$63,500, for the years ended June 30, 2014 and 2013, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position.

#### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial position.

#### ***Implementation of New Accounting Principles***

In 2014, the Hospital also implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**Washington County Hospital**  
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Adoption of GASB 65 changed how the Hospital reports various debt issuance costs and deferred revenues related to property taxes, and resulted in the following reclassifications and restatements:

	<b>As Previously Reported 2013</b>	<b>Implementation of GASB 65</b>	<b>As Restated 2013</b>
<b>Balance Sheet Items Affected</b>			
Deferred financing costs	\$ 183,366	\$ (183,366)	\$ -
Deferred revenue for succeeding year property tax receivable	965,823	(965,823)	-
Total current liabilities	4,413,884	(965,823)	3,448,061
Total liabilities	22,180,315	(965,823)	21,214,492
Deferred inflows of resources - Property taxes	-	965,823	965,823
Net position			
Unrestricted	18,918,552	(183,366)	18,735,186
Total net position	20,312,594	(183,366)	20,129,228
<b>Statement of Revenues, Expenses and Changes in Net Position Items Affected</b>			
Depreciation and amortization	1,609,365	(17,384)	1,591,981
Net position, beginning of year	18,509,954	(200,750)	18,309,204
Increase in net position	1,802,640	17,384	1,820,024
Net position, end of year	20,312,594	(183,366)	20,129,228
<b>Statement of Cash Flows Items Affected</b>			
Operating income	1,042,157	17,384	1,059,541
Depreciation and amortization	1,609,365	(17,384)	1,591,981

***Business Combination***

On March 1, 2014, the Hospital via an Asset Purchase Agreement purchased the assets of a primary care clinic in Washington, Iowa. This is referred to as the Family Medicine Clinic. The assets purchased include property, plant and equipment of approximately \$4,200,000, and inventories, records and goodwill with an aggregate total of approximately \$4,900,000. The goodwill was assigned a useful life of 10 years. The Hospital used existing cash and investments to fund this transaction. The total payment was approximately \$4,800,000 as the Hospital assumed approximately \$123,000 of property tax liabilities.

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**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. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2023.

*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 52% and 49% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2014 and 2013, 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.

**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, 2014 and 2013 was:

	<b>2014</b>	<b>2013</b>
Medicare and Medicaid	\$ 1,160,314	\$ 971,980
Other third-party payers	682,540	668,823
Patients	990,793	1,056,100
Clinics	1,090,095	264,625
	3,923,742	2,961,528
Less allowances for uncollectible accounts	(506,121)	(543,867)
	\$ 3,417,621	\$ 2,417,661

**Washington County Hospital**  
**Notes to Financial Statements**  
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**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, 2014 and 2013. The Hospital's deposits in banks and credit unions at June 30, 2014 and 2013 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.

At June 30, 2014 and 2013, the Hospital had the following investments and maturities:

Type	Fair Value	June 30, 2014			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market funds-Hospital	\$ 47,952	\$ 47,952	\$ -	\$ -	\$ -
Money market mutual funds-Hospital	95,002	95,002	-	-	-
Government obligations-Hospital	384,703	-	-	-	384,703
Money market funds-Foundation	853	853	-	-	-
	528,510	\$ 95,855	\$ -	\$ -	\$ 384,703
Equity mutual funds-Foundation	3,728,858				
	<u>\$ 4,257,368</u>				
Type	Fair Value	June 30, 2013			
		Maturities in Years			
		Less Than 1	1 – 5	6 – 10	More Than 10
Money market funds-Hospital	\$ 77,170	\$ 77,170	\$ -	\$ -	\$ -
Money market mutual funds-Hospital	351,682	351,682	-	-	-
Government obligations-Hospital	419,674	-	-	-	419,674
Money market funds-Foundation	468	468	-	-	-
	848,994	\$ 352,150	\$ -	\$ -	\$ 419,674
Equity mutual funds-Foundation	3,133,606				
	<u>\$ 3,982,600</u>				

**Washington County Hospital**  
**Notes to Financial Statements**  
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**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, 2014 and 2013, the Hospital’s money market mutual funds, Hospital’s money market funds and the Foundation’s money market funds are not rated. The Hospital’s government obligations were rated AA+ in 2014 and AAA in 2013 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, 2014 and 2013, the Hospital’s investments not directly guaranteed by the U.S. government that constituted more than 5% of its total investments are as follows:

	<b>2014</b>	<b>2013</b>
Federal Home Loan Mortgage Corporation obligations	5%	6%

**Summary of Carrying Values**

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

	<b>2014</b>	<b>2013</b>
Carrying value		
Deposits	\$ 12,688,972	\$ 17,496,947
Investments	4,257,368	3,982,600
	<b>\$ 16,946,340</b>	<b>\$ 21,479,547</b>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,560,821	\$ 4,473,051
Short-term investments	3,941,005	5,115,634
Assets held under indenture agreement – current	1,046,094	1,034,594
Noncurrent cash and investments	8,398,420	10,856,268
	<b>\$ 16,946,340</b>	<b>\$ 21,479,547</b>

**Washington County Hospital**  
**Notes to Financial Statements**  
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**Investment Income**

Investment income for the years ended June 30, 2014 and 2013 consisted of:

	<b>2014</b>	<b>2013</b>
Interest and dividend income	\$ 297,386	\$ 254,041
Net increase in fair value of investments	434,061	350,430
	\$ 731,447	\$ 604,471

**Note 5: Capital Assets**

Capital asset additions, retirements and balances for the years ended June 30, 2014 and 2013, were as follows:

	<b>Balance 6/30/13</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers/ Adjustments</b>	<b>Balance 6/30/14</b>
Land	\$ 10,902	\$ 136,000	\$ -	\$ -	\$ 146,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	25,162,359	3,900,388	-	-	29,062,747
Equipment	7,538,739	631,998	(95,549)	189,456	8,264,644
Construction in progress	108,282	414,674	-	(287,913)	235,043
	33,773,677	5,083,060	(95,549)	(98,457)	38,662,731
Less accumulated depreciation for					
Land improvements	(514,076)	(50,808)	-	-	(564,884)
Buildings and leasehold improvements	(10,673,543)	(1,063,551)	-	-	(11,737,094)
Equipment	(5,752,274)	(557,845)	65,342	-	(6,244,777)
	(16,939,893)	(1,672,204)	65,342	-	(18,546,755)
	\$ 16,833,784	\$ 3,410,856	\$ (30,207)	\$ (98,457)	\$ 20,115,976

**Washington County Hospital**  
**Notes to Financial Statements**  
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	Balance 6/30/12	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/13
Land	\$ 10,902	\$ -	\$ -	\$ -	\$ 10,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	24,816,117	346,242	-	-	25,162,359
Equipment	7,241,504	469,061	(171,826)	-	7,538,739
Construction in progress	66,293	41,989	-	-	108,282
	<u>33,088,211</u>	<u>857,292</u>	<u>(171,826)</u>	<u>-</u>	<u>33,773,677</u>
Less accumulated depreciation for					
Land improvements	(463,268)	(50,808)	-	-	(514,076)
Buildings and leasehold improvements	(9,644,667)	(1,028,876)	-	-	(10,673,543)
Equipment	(5,384,915)	(508,167)	140,808	-	(5,752,274)
	<u>(15,492,850)</u>	<u>(1,587,851)</u>	<u>140,808</u>	<u>-</u>	<u>(16,939,893)</u>
	<u>\$ 17,595,361</u>	<u>\$ (730,559)</u>	<u>\$ (31,018)</u>	<u>\$ -</u>	<u>\$ 16,833,784</u>

**Note 6: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for 2014 and 2013 follows.

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14	Amounts Due Within One Year
Series 2006 Hospital Revenue Bonds (B)	\$ 18,350,000	\$ -	\$ (540,000)	\$ 17,810,000	\$ 565,000
	18,350,000	<u>\$ -</u>	<u>\$ (540,000)</u>	17,810,000	<u>\$ 565,000</u>
Less unamortized discount	<u>43,569</u>			<u>39,569</u>	
	<u>\$ 18,306,431</u>			<u>\$ 17,770,431</u>	
					<b>Amounts Due Within One Year</b>
Series 1997 Hospital Revenue Bonds (A)	\$ 485,000	\$ -	\$ (485,000)	\$ -	\$ -
Series 2006 Hospital Revenue Bonds (B)	18,400,000	-	(50,000)	18,350,000	540,000
	18,885,000	<u>\$ -</u>	<u>\$ (535,000)</u>	18,350,000	<u>\$ 540,000</u>
Less unamortized discount	<u>47,699</u>			<u>43,569</u>	
	<u>\$ 18,837,301</u>			<u>\$ 18,306,431</u>	

**Washington County Hospital**  
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- (A) Hospital Revenue Bonds, Series 1997; \$5,200,000 with a final maturity in fiscal year 2013; 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:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 565,000	\$ 948,063	\$ 1,513,063
2016	595,000	918,691	1,513,691
2017	625,000	887,428	1,512,428
2018	660,000	854,088	1,514,088
2019	690,000	818,219	1,508,219
2020 – 2024	4,065,000	3,474,984	7,539,984
2025 – 2029	5,275,000	2,224,366	7,499,366
2030 – 2033	5,335,000	609,400	5,944,400
	<u>\$ 17,810,000</u>	<u>\$ 10,735,239</u>	<u>\$ 28,545,239</u>

During 2013, the Hospital bought back \$25,000 of revenue bonds which was offset against the remaining balance of the 2006 revenue bonds.

**Note 7: Operating Leases**

Noncancelable operating leases for equipment will expire December 2016.

Future minimum lease payments at June 30, 2014 are:

2015	\$ 227,361
2016	132,622
2017	29,148
Future minimum lease payments	<u>\$ 389,131</u>

Rental expense for all operating leases was \$386,672 and \$368,068 for the years ended June 30, 2014 and 2013, respectively.

**Washington County Hospital**  
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**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 2014 and 2013 is summarized as follows:

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 249,599	\$ 250,200
Current year claims incurred and changes in estimates for claims incurred in prior years	1,540,651	1,488,783
Claims and expenses paid	(1,540,145)	(1,489,384)
Balance, end of year	\$ 250,105	\$ 249,599

**Note 9: Defined Benefit Pension Plan**

***Plan Description***

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing to IPERS, Post Office Box 9117, Des Moines, Iowa, 50306-9117.

***Funding Policy***

Plan members are required to contribute 5.95% and 5.78% of their annual covered salaries and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for 2014 and 2013, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for June 30, 2014, 2013 and 2012 were \$1,026,437, \$911,377 and \$834,154, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.93% of annual covered salary for 2014.

**Washington County Hospital**  
**Notes to Financial Statements**  
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**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, 2014:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 968,696	\$ -	\$ 968,696	\$ 965,823
Other revenues/receipts	<u>26,537,485</u>	<u>(1,290,376)</u>	<u>25,247,109</u>	<u>30,710,060</u>
	27,506,181	(1,290,376)	26,215,805	31,675,883
Expenses/disbursements	<u>27,048,644</u>	<u>(414,693)</u>	<u>26,633,951</u>	<u>31,851,838</u>
	457,537	(875,683)	(418,146)	(175,955)
Balance, beginning of year	<u>16,803,840</u>	<u>94,868</u>	<u>16,898,708</u>	<u>16,898,708</u>
Balance, end of year	<u><u>\$ 17,261,377</u></u>	<u><u>\$ (780,815)</u></u>	<u><u>\$ 16,480,562</u></u>	<u><u>\$ 16,722,753</u></u>

**Note 11: Restricted and Designated Net Position**

At June 30, 2014 and 2013, restricted expendable net position was available for the following purposes.

	<b>2014</b>	<b>2013</b>
Debt service	\$ 1,050,319	\$ 1,036,819
Specific operating activities and capital acquisition	<u>72,623</u>	<u>65,502</u>
	<u><u>\$ 1,122,942</u></u>	<u><u>\$ 1,102,321</u></u>

At June 30, 2014 and 2013, restricted nonexpendable net position was \$37,073 and \$31,582, respectively, required to be maintained in perpetuity by the donor.

At June 30, 2014 and 2013, unrestricted net position has been designated by the Hospital's Board of Trustees for the following purposes:

	<b>2014</b>	<b>2013</b>
Capital and other expenditures	<u>\$ 5,758,526</u>	<u>\$ 7,785,638</u>

Designated net position remains under the control of the Board of Trustees. The Board may, at its discretion, later use these amounts for other purposes.

**Washington County Hospital**  
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**Note 12: Condensed Combining Information**

The following tables include condensed information for the Hospital and its component unit as of June 30, 2014 and 2013.

**Condensed Balance Sheets**

	<b>June 30, 2014</b>			
	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Assets</b>				
Current assets	\$ 9,875,347	\$ 3,841,257	\$ -	\$ 13,716,604
Capital assets	20,115,976	-	-	20,115,976
Other assets	9,197,454	134,035	-	9,331,489
Total assets	<u>\$ 39,188,777</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 43,164,069</u>
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 3,711,500	\$ -	\$ -	\$ 3,711,500
Noncurrent liabilities	17,205,431	-	-	17,205,431
Total liabilities	<u>20,916,931</u>	<u>-</u>	<u>-</u>	<u>20,916,931</u>
<b>Deferred Inflows of Resources -</b>				
<b>Property Taxes</b>	<u>1,010,469</u>	<u>-</u>	<u>-</u>	<u>1,010,469</u>
<b>Net Position</b>				
Net investment in capital assets	3,896,246	-	-	3,896,246
Unrestricted	12,314,812	3,865,596	-	16,180,408
Restricted-expendable for				
Debt service	1,050,319	-	-	1,050,319
Donor restricted	-	72,623	-	72,623
Restricted nonexpendable	-	37,073	-	37,073
Total net position	<u>17,261,377</u>	<u>3,975,292</u>	<u>-</u>	<u>21,236,669</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 39,188,777</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 43,164,069</u>

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

	<b>June 30, 2013</b>			
	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
	<i>(As Restated)</i>			
<b>Assets</b>				
Current assets	\$ 11,391,187	\$ 3,203,381	\$ -	\$ 14,594,568
Capital assets	16,833,784	-	-	16,833,784
Other assets	10,759,184	122,007	-	10,881,191
	<b>\$ 38,984,155</b>	<b>\$ 3,325,388</b>	<b>\$ -</b>	<b>\$ 42,309,543</b>
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 3,448,061	\$ -	\$ -	\$ 3,448,061
Noncurrent liabilities	17,766,431	-	-	17,766,431
	<b>21,214,492</b>	<b>-</b>	<b>-</b>	<b>21,214,492</b>
<b>Deferred Inflows of Resources - Property Taxes</b>				
	<b>965,823</b>	<b>-</b>	<b>-</b>	<b>965,823</b>
<b>Net Position</b>				
Net investment in capital assets	260,139	-	-	260,139
Unrestricted	15,506,882	3,228,304	-	18,735,186
Restricted-expendable for				
Debt service	1,036,819	-	-	1,036,819
Donor restricted	-	65,502	-	65,502
Restricted nonexpendable	-	31,582	-	31,582
	<b>16,803,840</b>	<b>3,325,388</b>	<b>-</b>	<b>20,129,228</b>
Total liabilities, deferred inflows of resources and net position	<b>\$ 38,984,155</b>	<b>\$ 3,325,388</b>	<b>\$ -</b>	<b>\$ 42,309,543</b>

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Year Ended June 30, 2014			
	Washington County Hospital	Foundation	Eliminations	Combined
<b>Operating Revenues</b>				
Net patient service revenue	\$ 25,081,308	\$ -	\$ -	\$ 25,081,308
Other	1,088,112	-	-	1,088,112
Total operating revenues	<u>26,169,420</u>	<u>-</u>	<u>-</u>	<u>26,169,420</u>
<b>Operating Expenses</b>				
Other operating expenses	24,354,849	-	-	24,354,849
Depreciation and amortization	1,731,607	-	-	1,731,607
Total operating expenses	<u>26,086,456</u>	<u>-</u>	<u>-</u>	<u>26,086,456</u>
<b>Operating Income</b>	<u>82,964</u>	<u>-</u>	<u>-</u>	<u>82,964</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment earnings	133,972	597,475	-	731,447
Interest expense	(962,188)	-	-	(962,188)
Property tax revenue	968,696	-	-	968,696
Noncapital contributions	234,093	21,869	-	255,962
Foundation gift shop, net	-	30,560	-	30,560
Total nonoperating revenues	<u>374,573</u>	<u>649,904</u>	<u>-</u>	<u>1,024,477</u>
<b>Change in Net Position</b>	457,537	649,904	-	1,107,441
<b>Net Position, Beginning of Year</b>	<u>16,803,840</u>	<u>3,325,388</u>	<u>-</u>	<u>20,129,228</u>
<b>Net Position, End of Year</b>	<u>\$ 17,261,377</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 21,236,669</u>

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

	<b>Year Ended June 30, 2013</b>			
	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Operating Revenues</b>	<i>(As Restated)</i>			
Net patient service revenue	\$ 23,749,119	\$ -	\$ -	\$ 23,749,119
Other	981,307	-	-	981,307
Total operating revenues	<u>24,730,426</u>	<u>-</u>	<u>-</u>	<u>24,730,426</u>
<b>Operating Expenses</b>				
Other operating expenses	22,078,904	-	-	22,078,904
Depreciation and amortization	1,591,981	-	-	1,591,981
Total operating expenses	<u>23,670,885</u>	<u>-</u>	<u>-</u>	<u>23,670,885</u>
<b>Operating Income</b>	<u>1,059,541</u>	<u>-</u>	<u>-</u>	<u>1,059,541</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment earnings	164,703	439,768	-	604,471
Interest expense	(991,923)	-	-	(991,923)
Property tax revenue	930,754	-	-	930,754
Noncapital contributions	236,045	(48,007)	-	188,038
Foundation gift shop, net	-	29,143	-	29,143
Total nonoperating revenues (expenses)	<u>339,579</u>	<u>420,904</u>	<u>-</u>	<u>760,483</u>
<b>Change in Net Position</b>	1,399,120	420,904	-	1,820,024
<b>Net Position, Beginning of Year, as Restated</b>	<u>15,404,720</u>	<u>2,904,484</u>	<u>-</u>	<u>18,309,204</u>
<b>Net Position, End of Year</b>	<u>\$ 16,803,840</u>	<u>\$ 3,325,388</u>	<u>\$ -</u>	<u>\$ 20,129,228</u>

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Condensed Statements of Cash Flows**

	<b>Year Ended June 30, 2014</b>			
	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Net Cash Provided by Operating Activities</b>	\$ 690,105	\$ 584	\$ -	\$ 690,689
<b>Net Cash Provided by Noncapital Financing Activities</b>	1,202,789	52,429	-	1,255,218
<b>Net Cash Used in Capital and Related Financing Activities</b>	(7,210,561)	-	-	(7,210,561)
<b>Net Cash Provided by Investing Activities</b>	4,489,472	967	-	4,490,439
<b>Change in Cash and Cash Equivalents</b>	(828,195)	53,980	-	(774,215)
<b>Cash and Cash Equivalents, Beginning of Year</b>	4,500,016	40,688	-	4,540,704
<b>Cash and Cash Equivalents, End of Year</b>	\$ 3,671,821	\$ 94,668	\$ -	\$ 3,766,489

**Washington County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

	Year Ended June 30, 2013			
	Washington County Hospital	Foundation	Eliminations	Combined
	<i>(As Restated)</i>			
<b>Net Cash Provided by (Used In)</b>				
<b>Operating Activities</b>	\$ 3,696,609	\$ (181)	\$ -	\$ 3,696,428
<b>Net Cash Provided by (Used In)</b>				
<b>Noncapital Financing Activities</b>	1,166,799	(18,864)	-	1,147,935
<b>Net Cash Used in Capital and Related Financing Activities</b>	(2,388,679)	-	-	(2,388,679)
<b>Net Cash Used in Investing Activities</b>	(1,450,927)	(124,169)	-	(1,575,096)
<b>Change in Cash and Cash Equivalents</b>	1,023,802	(143,214)	-	880,588
<b>Cash and Cash Equivalents, Beginning of Year</b>	3,476,214	183,902	-	3,660,116
<b>Cash and Cash Equivalents, End of Year</b>	\$ 4,500,016	\$ 40,688	\$ -	\$ 4,540,704

**Note 13: Future Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for the Hospital which provide its employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the balance sheet is expected to include a liability for the government’s proportionate share of the employee pension plan.

## **Supplementary Information**

**Washington County Hospital**  
**Combining Balance Sheet**  
**June 30, 2014**

**Assets**

	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,466,153	\$ 94,668		\$ 3,560,821
Short-term investments	194,416	3,746,589		3,941,005
Assets held under indenture agreement – current	1,046,094			1,046,094
Patient accounts receivable	3,417,621			3,417,621
Other receivables	53,663			53,663
Succeeding year property tax settlements	1,010,469			1,010,469
Supplies	429,570			429,570
Prepaid expenses	257,361			257,361
	<u>9,875,347</u>	<u>3,841,257</u>		<u>13,716,604</u>
<b>Noncurrent Cash and Investments</b>				
Internally designated				
Capital and other expenditures	5,758,526			5,758,526
Externally restricted				
Indenture agreement	2,034,098			2,034,098
Donors		109,696		109,696
Certificates of deposit	496,100			496,100
	<u>8,288,724</u>	<u>109,696</u>		<u>8,398,420</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>20,115,976</u>			<u>20,115,976</u>
<b>Other Assets</b>				
Foundation assets		24,339		24,339
Noncompete agreements	230,769			230,769
Goodwill	536,619			536,619
Other	141,342			141,342
	<u>908,730</u>	<u>24,339</u>		<u>933,069</u>
<b>Total Other Assets</b>	<u>908,730</u>	<u>24,339</u>		<u>933,069</u>
<b>Total Assets</b>	<u>\$ 39,188,777</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 43,164,069</u>

**Washington County Hospital**  
**Combining Balance Sheet**  
**June 30, 2014**

**Liabilities, Deferred Inflows of Resources and Net Position**

	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 565,000			\$ 565,000
Accounts payable	537,930			537,930
Accrued expenses				
Salaries, wages and related accruals	738,060			738,060
Paid time off	796,971			796,971
Self-funded health insurance payable	250,105			250,105
Interest	481,094			481,094
Estimated third-party settlements	131,000			131,000
Other accrued expenses	211,340			211,340
	<u>3,711,500</u>			<u>3,711,500</u>
<b>Total current liabilities</b>	<b>3,711,500</b>			<b>3,711,500</b>
<b>Long-Term Debt, less current maturities</b>	<u>17,205,431</u>			<u>17,205,431</u>
<b>Total liabilities</b>	<u>20,916,931</u>			<u>20,916,931</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>1,010,469</u>			<u>1,010,469</u>
<b>Net Position</b>				
Net investment in capital assets	3,896,246			3,896,246
Unrestricted	12,314,812	\$ 3,865,596		16,180,408
Restricted expendable				
Debt service	1,050,319			1,050,319
Donor restricted		72,623		72,623
Restricted nonexpendable		37,073		37,073
	<u>17,261,377</u>	<u>3,975,292</u>		<u>21,236,669</u>
<b>Total net position</b>	<b>17,261,377</b>	<b>3,975,292</b>		<b>21,236,669</b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 39,188,777</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 43,164,069</u>

**Washington County Hospital**  
**Combining Schedule of Revenues, Expenses**  
**and Changes in Net Position**  
**Year Ended June 30, 2014**

	<b>Washington County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 25,921,370			\$ 25,921,370
Provision for uncollectible accounts	(840,062)			(840,062)
Net patient service revenue	25,081,308			25,081,308
Other	1,088,112			1,088,112
	<u>26,169,420</u>			<u>26,169,420</u>
<b>Operating Expenses</b>				
Salaries and wages	12,047,093			12,047,093
Employee benefits	3,577,209			3,577,209
Medical professional fees	2,549,775			2,549,775
Supplies and other	3,125,757			3,125,757
General services	1,211,622			1,211,622
Administrative services	1,562,155			1,562,155
Depreciation and amortization	1,731,607			1,731,607
Disposal of capital assets	6,634			6,634
Insurance	274,604			274,604
Total expenses	<u>26,086,456</u>			<u>26,086,456</u>
<b>Operating Income</b>	<u>82,964</u>			<u>82,964</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	133,972	\$ 597,475		731,447
Interest expense	(962,188)			(962,188)
Property tax revenue	968,696			968,696
Noncapital contributions	234,093	21,869		255,962
Foundation gift shop, net		30,560		30,560
	<u>374,573</u>	<u>649,904</u>		<u>1,024,477</u>
<b>Excess of Revenues Over Expenses</b>	<u>\$ 457,537</u>	<u>\$ 649,904</u>	<u>\$ -</u>	<u>\$ 1,107,441</u>

# Washington County Hospital

## Schedules of Patient Service Revenues

### Years Ended June 30, 2014 and 2013

	2014			2013		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Nursing Services</b>						
Medical/surgical	\$ 2,443,845	\$ 1,779,557	\$ 664,288	\$ 2,856,373	\$ 1,829,825	\$ 1,026,548
Obstetrics	575,119	436,414	138,705	538,896	373,311	165,585
Labor and delivery	403,500	267,308	136,192	379,849	225,607	154,242
Special care unit	10,735	10,735	-	18,225	18,225	-
Nursery	278,622	278,622	-	238,286	238,286	-
Swing-bed	2,497,735	2,497,735	-	2,116,795	2,116,795	-
Long-term care	2,561,897	2,561,897	-	2,656,159	2,656,159	-
Operating and recovery	2,869,567	198,782	2,670,785	2,959,886	194,254	2,765,632
Emergency	3,657,695	10,852	3,646,843	3,692,348	8,004	3,684,344
	<u>15,298,715</u>	<u>8,041,902</u>	<u>7,256,813</u>	<u>15,456,817</u>	<u>7,660,466</u>	<u>7,796,351</u>
<b>Other Professional Services</b>						
Central service and supply	792,231	177,793	614,438	857,662	188,190	669,472
Laboratory	6,532,024	985,237	5,546,787	5,913,537	892,975	5,020,562
Radiology	6,685,384	337,010	6,348,374	6,148,534	323,370	5,825,164
Pharmacy	2,995,765	1,130,278	1,865,487	2,983,740	1,344,895	1,638,845
Anesthesiology	1,062,089	272,927	789,162	1,026,771	243,197	783,574
Physical therapy	1,256,663	278,371	978,292	1,222,257	238,850	983,407
Speech therapy	36,801	19,713	17,088	31,000	15,681	15,319
Occupational therapy	323,023	240,669	82,354	191,394	139,434	51,960
Respiratory therapy	711,607	558,666	152,941	948,237	795,220	153,017
Electrocardiology	369,257	42,735	326,522	317,190	33,780	283,410
Cardiac rehabilitation	932,544	118,236	814,308	959,738	129,924	829,814
Pulmonary rehabilitation	24,351	-	24,351	13,631	-	13,631
Ambulatory care	98,968	-	98,968	104,777	-	104,777
Women's Healthcare Clinic	938,447	-	938,447	888,411	-	888,411
Medical Clinic	2,832,732	-	2,832,732	2,578,729	-	2,578,729
Family Medicine Clinic	1,659,183	-	1,659,183	-	-	-
	<u>27,251,069</u>	<u>4,161,635</u>	<u>23,089,434</u>	<u>24,185,608</u>	<u>4,345,516</u>	<u>19,840,092</u>
<b>Patient Service Revenue</b>	42,549,784	<u>\$ 12,203,537</u>	<u>\$ 30,346,247</u>	39,642,425	<u>\$ 12,005,982</u>	<u>\$ 27,636,443</u>
<b>Contractual Allowances</b>	(16,640,414)			(15,056,557)		
<b>Electronic Health Records Program Incentive Revenue</b>	<u>12,000</u>			<u>63,500</u>		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	25,921,370			24,649,368		
<b>Provision for Uncollectible Accounts</b>	<u>(840,062)</u>			<u>(900,249)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 25,081,308</u>			<u>\$ 23,749,119</u>		

**Washington County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Rental income	\$ 79,439	\$ 78,214
Cafeteria	74,749	61,685
Meals on Wheels	5,616	5,547
Lifeline services	56,170	55,010
340B pharmacy revenue	691,033	580,296
Other	29,795	27,773
Contracted social work	24,333	23,218
Fresh start	<u>126,977</u>	<u>149,564</u>
	<u>\$ 1,088,112</u>	<u>\$ 981,307</u>

# Washington County Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2014 and 2013

	2014			2013		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 275,860	\$ 250,452	\$ 25,408	\$ 314,407	\$ 296,326	\$ 18,081
Medical/surgical	1,515,731	1,318,928	196,803	1,421,416	1,300,850	120,566
Obstetrics and nursery	419,723	361,010	58,713	374,798	344,823	29,975
Long-term care	1,306,132	1,232,975	73,157	1,247,900	1,171,273	76,627
Operating and recovery	343,089	291,614	51,475	376,460	306,258	70,202
Emergency	1,608,335	522,205	1,086,130	1,564,769	507,690	1,057,079
	<u>5,468,870</u>	<u>3,977,184</u>	<u>1,491,686</u>	<u>5,299,750</u>	<u>3,927,220</u>	<u>1,372,530</u>
<b>Other Professional Services</b>						
Laboratory	1,083,577	473,020	610,557	981,746	460,534	521,212
Radiology	1,183,373	476,677	706,696	1,112,665	474,581	638,084
Cardiac rehabilitation	123,225	31,704	91,521	182,038	33,452	148,586
Pharmacy	1,667,975	292,365	1,375,610	1,373,937	271,041	1,102,896
Anesthesiology	432,928	-	432,928	435,496	67,261	368,235
Physical therapy	423,786	390,999	32,787	420,692	377,622	43,070
Speech therapy	19,487	-	19,487	25,877	-	25,877
Occupational therapy	73,326	73,012	314	61,224	37,145	24,079
Pulmonary rehabilitation	6,093	5,165	928	2,958	2,718	240
Medical supplies	485,084	129,314	355,770	559,414	125,819	433,595
Respiratory therapist	113,531	80,338	33,193	142,752	110,363	32,389
Ambulatory care	54,425	51,647	2,778	35,968	33,528	2,440
Specialty Clinic	9,734	70	9,664	9,992	2,173	7,819
Keota Clinic	826	-	826	1,582	-	1,582
Medical Clinic	2,076,229	1,861,453	214,776	1,817,756	1,625,546	192,210
Women's Healthcare Clinic	782,727	706,597	76,130	772,482	703,560	68,922
Lifeline	39,007	9,912	29,095	44,221	8,232	35,989
Surgery Clinic	-	-	-	2,760	-	2,760
Family Medicine Clinic	956,948	766,162	190,786	-	-	-
	<u>9,532,281</u>	<u>5,348,435</u>	<u>4,183,846</u>	<u>7,983,560</u>	<u>4,333,575</u>	<u>3,649,985</u>
<b>General Services</b>						
Dietary	743,613	398,627	344,986	858,975	346,855	512,120
Operation of plant	972,307	195,667	776,640	879,601	173,451	706,150
Housekeeping	322,712	275,975	46,737	327,318	285,324	41,994
Laundry	110,249	66,990	43,259	95,516	65,148	30,368
	<u>2,148,881</u>	<u>937,259</u>	<u>1,211,622</u>	<u>2,161,410</u>	<u>870,778</u>	<u>1,290,632</u>
<b>Administrative Services</b>						
Medical records	378,097	288,623	89,474	395,916	332,579	63,337
Administration	2,820,415	1,442,222	1,378,193	2,467,510	1,323,072	1,144,438
Foundation	20,755	19,797	958	17,293	15,671	1,622
Marketing	127,103	33,573	93,530	102,053	32,049	70,004
	<u>3,346,370</u>	<u>1,784,215</u>	<u>1,562,155</u>	<u>2,982,772</u>	<u>1,703,371</u>	<u>1,279,401</u>
<b>Insurance</b>	<u>274,604</u>		<u>274,604</u>	<u>311,722</u>		<u>311,722</u>
<b>Employee Benefits</b>	<u>3,577,209</u>		<u>3,577,209</u>	<u>3,318,518</u>		<u>3,318,518</u>
<b>Depreciation and Amortization</b>	<u>1,731,607</u>		<u>1,731,607</u>	<u>1,591,981</u>		<u>1,591,981</u>
<b>Disposal of Capital Assets</b>	<u>6,634</u>		<u>6,634</u>	<u>21,172</u>		<u>21,172</u>
	<u>\$ 26,086,456</u>	<u>\$ 12,047,093</u>	<u>\$ 14,039,363</u>	<u>\$ 23,670,885</u>	<u>\$ 10,834,944</u>	<u>\$ 12,835,941</u>

**Washington County Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2014 and 2013**

**Schedules of Patient Receivables**

	<u>2014</u>		<u>2013</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 2,831,434	63%	\$ 2,142,815	57%
31-60 days	678,766	15%	617,494	16%
61-90 days	349,204	8%	286,557	8%
91-120 days	212,474	5%	206,610	5%
Over 4 months	395,022	9%	519,058	14%
	<u>4,466,900</u>	<u>100%</u>	<u>3,772,534</u>	<u>100%</u>
Clinic and other receivables	1,090,095		264,625	
Less contractual allowances	1,633,253		1,075,631	
Less allowance for uncollectible accounts	<u>506,121</u>		<u>543,867</u>	
Net patient receivables	<u>\$ 3,417,621</u>		<u>\$ 2,417,661</u>	

**Allowance for Uncollectible Accounts**

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 543,867	\$ 550,415
Provision for year	840,062	900,249
Recoveries of accounts previously written off	<u>327,755</u>	<u>339,532</u>
	1,711,684	1,790,196
Accounts written off	<u>1,205,563</u>	<u>1,246,329</u>
Balance, end of year	<u>\$ 506,121</u>	<u>\$ 543,867</u>

**Washington County Hospital**  
**Schedules of Supplies and Prepaid Expenses**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Supplies</b>		
Pharmacy	\$ 163,761	\$ 163,179
Operating and recovery rooms	97,514	102,038
Store room	45,566	44,900
Laboratory	27,699	24,566
Radiology	5,683	5,554
Emergency	11,425	14,874
Dietary	11,608	9,163
Family medicine clinic	42,050	-
All other	24,264	23,890
	\$ 429,570	\$ 388,164
 <b>Prepaid Expenses</b>		
Insurance	\$ 95,724	\$ 82,829
Dues/other	161,637	101,192
	\$ 257,361	\$ 184,021

## **Other Supplementary Information**

**Washington County Hospital**  
**Schedule of Officials**  
**June 30, 2014**

Name	Title	Term Expires
<b>Board of Trustees</b>		
Keith Lazar	Chairperson	November 2016
Laura Fisher	Vice Chairman	November 2014
James Mostek	Secretary	November 2014
Marty Beenblossom	Treasurer	November 2014
Ron Barnes	Member	November 2016
Jim Harris	Member	November 2018
Phyllis Litwiller	Member	November 2018
<b>Hospital Officials</b>		
Dennis Hunger	Chief Executive Officer	
Barbara Griswold	Chief Nursing Officer	
Steve Sanders	Chief Financial Officer	

**Washington County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2014**

<b>Farm Bureau</b>	
Workers' compensation; expires 12/01/14	\$ 500,000
<b>MMIC</b>	
Professional liability; expires 5/30/15	1,000,000/3,000,000
General liability; expires 5/30/15	1,000,000/3,000,000
Umbrella liability; expires 5/30/15	3,000,000/3,000,000
<b>Chubb Insurance</b>	
Blanket coverage, building and personal property; expires 5/30/15	\$ 42,921,929
<b>Chubb Insurance</b>	
Directors and officers; expires 5/30/15	\$ 2,000,000
<b>Horak Insurance</b>	
Fidelity bond; expires 11/01/14	\$ 500,000
<b>Horak Insurance</b>	
Surety bond; expires 8/29/14	\$ 2,500

**Washington County Hospital**  
**Statistical Information**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Patient Days</b>		
Acute	1,715	1,849
Swing-bed	2,202	1,872
Newborn	319	290
Long-term care	<u>12,301</u>	<u>13,545</u>
Total	<u><u>16,537</u></u>	<u><u>17,556</u></u>
<b>Discharges</b>		
Acute	517	553
Swing-bed	212	260
Long-term care	<u>20</u>	<u>26</u>
Total	<u><u>749</u></u>	<u><u>839</u></u>
<b>Average Length of Stay</b>		
Acute	3.32	3.34
Swing-bed	10.39	7.20
Long-term care	615.05	520.96
<b>Beds</b>		
Acute	25	25
Long-term care	43	43
<b>Occupancy Percent</b>		
Acute and swing-bed	42.93%	40.78%
Long-term care	78.38%	86.30%

## **Independent Auditor's 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, 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, the financial statements of Washington County Hospital, which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

### **Internal Control Over Financial Reporting**

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (Internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances 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.

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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### **Compliance**

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, 2014 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, 2014. 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, 2014.

### 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, 2014 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.

**Other Matters**

We noted certain matters that we reported to the Hospital's management in a separate letter dated October 28, 2014.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

Kansas City, Missouri  
October 28, 2014

**Washington County Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2014**

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
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No matters are reportable.

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, 2014, 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 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 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 Finance Director 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 within the Hospital and the Clinics. We recommend separating duties of persons receiving cash and the ability to record transactions.

#### ***Payroll Cycle***

- The Payroll Clerk and the Finance Director 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 misstatements resulting in an audit journal entry to adjust the financial statement amounts. We proposed the adjustment to management based on our testing related to accounts receivable contractual allowances.

We observed matters that we considered deficiencies that we verbally communicated to management.

#### **Other Matters**

Although not considered material weaknesses, significant deficiencies or 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 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.

#### ***Electronic Health Records Meaningful Use Audits***

The Centers for Medicare and Medicaid Services (CMS) has significantly increased the activity related to audits on Medicare and dually eligible (Medicare and Medicaid) providers who are participating in the Electronic Health Record (EHR) Incentive Programs. This audit activity falls into three categories: payment audits, compliance audits and Medicaid audits. Each of these audits focuses on a different portion of the Incentive Program and requires different documentation information. Below is a recap of the three audit categories and the specific key elements associated with each.

- Payment audits - The requested documentation related to the payment audits will require different and more detailed documentation than the normal Medicare Administrative Contractors (MAC) cost report audit requests. Due to the nature of the EHR audit documentation requests, we recommend all EHR payment audits be handled separately from other cost report reviews.

- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.
- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

### **340B Drug Pricing Program Integrity Initiative**

In 2012, the Health Resources and Services Administration (HRSA) began a program integrity initiative related to the 340B drug pricing program to target risks of fraud, waste and abuse within the program. The program integrity initiative, which is intended to cover traditional hospital outpatient programs and contract retail pharmacy agreements, has resulted in over 200 audits since 2012 and the agency expects to double the number of audits performed each year. The results of the audits are made public on the HRSA website and include instances of non-compliance that may result in paybacks requiring a public letter to drug manufacturers for recoupment. The integrity initiatives also include the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers including attestation that the covered entity has complied with all program requirements and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

With the increased scrutiny and complexity of the program, we recommend the Hospital regularly review its compliance with the program, its continued eligibility to participate in the program and make certain that comprehensive and accurate policies and procedures are being followed and kept current.

### **Future Accounting Pronouncements**

- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27* – Effective for the Hospital's fiscal year ending June 30, 2015
- Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* – Effective for the Hospital's fiscal year ending June 30, 2015

\* \* \* \* \*

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 28, 2014