Wayne County Hospital

Accountants' Report and Financial Statements

June 30, 2011 and 2010

BKD LLP
CPAs & Advisors

Wayne County Hospital
June 30, 2011 and 2010

Contents

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CPAs & Advisors

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Wayne County Hospital
Corydon, Iowa

We have audited the accompanying balance sheet of Wayne County Hospital as of June 30, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Wayne County Hospital as of and for the year ended June 30, 2010, were audited by other accountants whose report dated January 20, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Hospital as of June 30, 2011, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2012 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 not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information as of and for the year ended June 30, 2011, has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplementary information as of and for the year ended June 30, 2010, was audited by other accountants whose report dated January 20, 2011, expressed an unqualified opinion on such information in relation to the basic financial statements as of and for the year ended June 30, 2010, taken as a whole.

BKD, LLP

Kansas City, Missouri
January 13, 2012

Wayne County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Wayne County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents increased between 2011 and 2010 by $204,116 or 54% and decreased between 2010 and 2009 by $767,191 or 67%.
- The Hospital's net assets decreased $826,894 or 9% in 2011 and decreased $478,457 or 5% in 2010.
- The Hospital reported an operating loss in 2011 of $1,582,470 and operating loss in 2010 of $1,305,091.
- Total operating revenues increased by $2,051,772 or 15% in 2011 compared to 2010 and increased by $1,941,779 or 16% in 2010 compared to 2009.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets. The Hospital's net assets decreased by $826,894 or 9% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	$ 2,665,349	$ 2,634,806	$ 2,115,851
Other current assets	3,204,106	2,963,936	4,189,320
Noncurrent cash and deposits	2,977,608	2,923,968	3,441,679
Capital assets, net	10,309,616	10,655,019	10,422,509
Other assets	306,454	448,126	551,043
Total assets	$ 19,463,133	$ 19,625,855	$ 20,720,402
Liabilities			
Current liabilities	$ 3,196,357	$ 2,742,337	$ 3,499,735
Other post-employment benefit obligation	48,782	25,000	-
Long-term debt	7,723,425	7,537,055	7,420,747
Total liabilities	10,968,564	10,304,392	10,920,482
Net Assets			
Invested in capital assets, net of related debt	2,231,092	2,850,543	4,036,951
Restricted for capital expeditures	300,000	410,431	561,704
Restricted under debt agreements	1,078,240	581,793	658,533
Restricted for payment reserve - capital lease	14,766	13,110	11,454
Unrestricted	4,870,471	5,465,586	4,531,278
Total net assets	8,494,569	9,321,463	9,799,920
Total liabilities and net assets	$ 19,463,133	$ 19,625,855	$ 20,720,402

In 2011, current assets increased by $270,713 from fiscal year 2010. Capital assets decreased by $345,403 from year 2010 to 2011.

In 2011, current liabilities increased by $454,020 or 17%, from fiscal year 2010, due to an increase in accrued employee expenses.

Asset categories changing significantly during 2010 and 2009 included noncurrent cash and deposits, capital assets and pledges receivable. Current assets decreased $706,429 or 11.2% in 2010 compared to 2009. Noncurrent cash and deposits decreased in 2010 by $517,711 due to the expenditure of bond issue funds for an expansion and renovation project. Capital assets increased by $232,510 or 2.2% in 2010 from the completion of the construction projects.

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 15,330,451	$ 13,326,636	$ 11,414,853
Assisted living and multi-unit housing revenue	364,887	304,919	285,279
Other operating revenues	319,620	331,631	321,275
Total operating revenues	16,014,958	13,963,186	12,021,407
Operating Expenses			
Salaries, wages and employee benefits	9,579,412	8,471,127	8,035,001
Medical professional fees	1,892,005	1,738,736	1,659,378
Depreciation and amortization	1,166,651	1,034,849	691,344
Other operating expenses	4,959,360	4,023,565	3,255,783
Total operating expenses	17,597,428	15,268,277	13,641,506
Operating Loss	(1,582,470)	(1,305,091)	(1,620,099)
Nonoperating Revenues (Expenses)			
Property taxes	1,013,568	973,847	866,400
Interest income	31,125	54,216	70,332
Interest expense	(414,459)	(288,138)	(12,580)
Noncapital gifts	34,392	40,118	41,059
Total nonoperating revenues	664,626	780,043	965,211
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(917,844)	(525,048)	(654,888)
Capital Grants and Contributions	90,950	46,591	661,156
Increase (Decrease) in Net Assets	$ (826,894)	$ (478,457)	$ 6,268

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2011, 2010 and 2009, the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Wayne County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2011, the following changes were noted: In April, the Hospital acquired South Central Iowa Medical Clinic and employed the providers and staff. The Hospital also constructed the Humeston Family Medical Clinic. Each venture required one-time equipment, staffing and supply expenses recorded in FY 2011. Absorption of subsequent operating expense for a 90 day period prior to receiving offsetting revenue from collections had a negative impact on cash flows for the fiscal year ended June 30, 2011.

In 2010, net patient service revenue made up 95.4% of the Hospital's total operating revenue. To arrive at net patient service revenue, contractual adjustments and provisions for bad debt have been made to gross patient service revenue due to agreements with third-party payers.

Patient volumes increased in 2010 for acute care and swing bed patients, compared to a decrease in 2009. Net patient service revenue continued to increase due to increases in reimbursement rates from third party payers, as well as the addition of service lines such as orthopedic services. Total operating expenses increased $1,626,711 or 11.9% in 2010, with the most of the increases related to direct patient care departments.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital gifts. Nonoperating revenues decreased by $115,417 or 15% in 2011 compared to 2010. Nonoperating revenues decreased by $189,010 or 24% in 2010 compared to 2009. There were no significant changes in 2011 or 2010 other than increases in interest expense.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenues in 2011 and 2010, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had $10.3 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $822,597 in 2011.

At the end of 2010, the Hospital had $10.6 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $1,260,660 in 2010.

Debt

At the end of 2011 and 2010, the Hospital had approximately $8.0 and $7.8 million in long-term debt outstanding consisting of capital leases, revenue bonds and notes payable to banks, respectively. The Hospital entered into bank notes in the amount of $469,593 for purchase and construction of physician clinics.

Factors Bearing on Wayne County Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future.

In an effort to respond to public sentiment with regard to taxation, in FY 2013 the Hospital Board and management are expected to lower the taxation rate per thousand dollars valuation a nominal amount. Noting that agriculture is the primary economic force in the region, it is management's belief that world economic factors such as inflationary pressure and further weakening of the U.S. dollar will continue to pressure commodity prices up. This, in turn, will support higher agricultural land prices resulting in higher tax valuations in years to come. Higher property valuations will mitigate the impact of lower taxation rate.

Having experienced a staggering rate of growth as compared to other organizations in the health care sector over the last two fiscal years (16% and 15%, respectively), the Hospital has experienced rapid increases in overall expenditures as well. Strategic planning is now focused on business expansion in high-revenue business lines that require minimal additional expenses. Management believes this will serve to increase overall net margins in years to come.

The purchase of South Central Iowa Medical Clinic and the creation of the Humeston Family Medical Clinic will allow additional access to health care and increased market share. Management has recognized an inability to match demand for health care services in the hospital-owned clinic system. Recent additions to the medical staff and a continued focus on physician recruitment are imperative to ensure proper access to care for our populace.

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 Hospital Administration by calling 641.872.2260.

Wayne County Hospital
Balance Sheets
June 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 581,581	$ 377,465
Patient accounts receivable, net of allowance; 2011 – $778,000, 2010 – $1,208,000	2,665,349	2,634,806
Other receivables	124,429	92,523
Estimated amounts due from third-party payers	856,000	969,595
Current portion of pledges receivable	150,000	151,250
Property taxes receivable	1,108,317	1,063,190
Inventories	258,974	213,749
Prepaid expenses	124,805	96,164
Total current assets	5,869,455	5,598,742
Noncurrent Cash and Deposits		
Internally deignated for capital improvements	1,565,701	2,139,359
Internally desigated for health insurance	195,444	189,706
Restricted for payment reserve - capital lease	14,766	13,110
Restricted under debt agreements	1,201,697	581,793
Total noncurrent cash and investments	2,977,608	2,923,968
Capital Assets, Net	10,309,616	10,655,019
Other Assets		
Debt issue costs	146,141	152,861
Note receivable	-	36,084
Pledges receivable, net of current portion	150,000	259,181
Other noncurrent assets	10,313	-
Total other assets	306,454	448,126
Total Assets	$ 19,463,133	$ 19,625,855

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Accounts payable	$ 837,134	$ 720,000
Accrued employee compensation	605,372	413,787
Accured interest payable	123,457	126,007
Deferred revenue for property taxes	1,115,277	1,045,292
Payroll taxes and withholdings	231,952	169,830
Current maturities of long-term debt	283,165	267,421
Total current liabilities	3,196,357	2,742,337
Other Post-employment Benefit Obligation	48,782	25,000
Long-term Debt, Net of Current Portion	7,723,425	7,537,055
Total liabilities	10,968,564	10,304,392
Net Assets		
Invested in capital assets, net of related debt	2,231,092	2,850,543
Restricted by donor for capital expenditures	300,000	410,431
Restricted under debt agreements	1,078,240	581,793
Restricted for payment reserve - capital lease	14,766	13,110
Unrestricted	4,870,471	5,465,586
Total net assets	8,494,569	9,321,463
Total Liabilities and Net Assets	$ 19,463,133	$ 19,625,855

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

	2011	2010
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 16,229,628	$ 14,024,767
Provision for uncollectible accounts	899,177	698,131
Net patient service revenue	15,330,451	13,326,636
Assisted living and multi-unit housing revenue	364,887	304,919
Other	319,620	331,631
Total operating revenues	16,014,958	13,963,186
Operating Expenses		
Salaries and wages	7,555,750	6,715,480
Employee benefits	2,023,662	1,755,647
Medical professional fees	1,892,005	1,738,736
Supplies and other	2,772,098	2,169,699
General services	715,063	677,724
Administrative services	1,182,230	923,359
Insurance	285,597	252,754
Loss on disposal of capital assets	4,372	29
Depreciation and amortization	1,166,651	1,034,849
Total operating expenses	17,597,428	15,268,277
Operating Loss	(1,582,470)	(1,305,091)
Nonoperating Revenues (Expenses)		
Property taxes	1,013,568	973,847
Interest income	31,125	54,216
Interest expense	(414,459)	(288,138)
Noncapital gifts	34,392	40,118
Total nonoperating revenues	664,626	780,043
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(917,844)	(525,048)
Capital Grants and Contributions	90,950	46,591
Decrease in Net Assets	(826,894)	(478,457)
Net Assets, Beginning of Year	9,321,463	9,799,920
Net Assets, End of Year	$ 8,494,569	$ 9,321,463

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

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 15,778,380	$ 12,928,141
Payments to suppliers and contractors	(6,998,009)	(6,320,011)
Payments to employees	(9,325,705)	(8,556,839)
Other receipts, net	340,144	331,631
Net cash used in operating activities	(205,190)	(1,617,078)
Noncapital Financing Activities		
Property taxes	1,013,568	973,847
Decrease in pledges receivable	110,431	151,273
Noncapital gifts	34,392	86,709
Net cash provided by noncapital financing activities	1,158,391	1,211,829
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(267,479)	(210,343)
Interest paid on capital debt and leases	(417,009)	(403,035)
Proceeds from long-term debt	469,593	-
Capital contributions	90,950	-
Purchase of capital assets	(602,625)	(973,022)
Net cash used in capital and related financing activities	(726,570)	(1,586,400)
Investing Activities		
Interest on deposits	31,125	54,216
Purchase of deposits	(1,499,295)	(1,834,655)
Proceeds from disposition of deposits	992,274	4,023,895
Net cash provided by (used in) investing activities	(475,896)	2,243,456
Increase (Decrease) in Cash and Cash Equivalents	(249,265)	251,807
Cash and Cash Equivalents, Beginning of Year	2,587,692	2,335,885
Cash and Cash Equivalents, End of Year	$ 2,338,427	$ 2,587,692

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

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 581,581	$ 377,465
Noncurrent cash and deposits		
Internally designated for capital improvements	1,561,402	2,020,521
Internally designated for health insurance	195,444	189,706
	$ 2,338,427	$ 2,587,692
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	$ (1,582,470)	$ (1,305,091)
Depreciation and amortization	1,166,651	1,044,765
Loss on sale of capital assets	6,172	29
Changes in operating assets and liabilities		
Patient accounts receivable, net	(30,543)	(518,955)
Supplies, prepaid expenses and other current assets	(55,143)	44,597
Estimated amounts due from and to third-party payers	113,595	(234,931)
Accounts payable and accrued expenses	176,548	(647,492)
Net cash used in operating activities	$ (205,190)	$ (1,617,078)
Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ 218,075	$ -
Debt incurred for capital leases	-	403,485

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

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Wayne County Hospital ("Hospital") is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Wayne County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Wayne County area.

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 (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash Equivalents

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

Property Taxes

The Hospital received approximately 6% and 7% of its financial support from property tax revenues in the years ended June 30, 2011 and 2010, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health claims, 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 yet reported.

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.

Supplies

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 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. 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.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

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. 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.

Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted are reported as nonoperating revenues. Amounts that are restricted to a specific operating purpose are reported as other operating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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 $122,379 and $60,907 for 2011 and 2010, respectively.

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 law.

Subsequent Events

Subsequent events have been evaluated through January 13, 2012, which is the date the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

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

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2011 and 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 discounts from established charges and prospectively determined rates.

Note 3: Deposits, Investments and Interest 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 risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2011 and 2010. The Hospital’s deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. Certificates of deposit are considered deposits.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities 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. The Hospital had no investments at June 30, 2011 and 2010.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2011	2010
Carrying value		
Deposits	$ 3,559,189	$ 3,301,433

	2011	2010
Included in the following balance sheet captions		
Cash and cash equivalents	$ 581,581	$ 377,465
Noncurrent cash and deposits		
Internally designated for capital improvements	1,565,701	2,139,359
Internally designated for health insurance	195,444	189,706
Restricted for payment reserve - capital lease	14,766	13,110
Restricted under debt agreement	1,201,697	581,793
	$ 3,559,189	$ 3,301,433

Interest Income

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

	2011	2010
Interest income	$ 31,125	$ 54,216

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2011 and 2010 consisted of:

	2011	2010
Medicare	$ 946,436	$ 740,438
Medicaid	411,547	442,459
Other third-party payers	972,658	1,017,993
Patients	1,112,708	1,641,916
	3,443,349	3,842,806
Less allowance for uncollectible accounts	778,000	1,208,000
	$ 2,665,349	$ 2,634,806

Note 5: Pledges Receivable

During the year ended June 30, 2008, the Hospital received a number of pledge contributions for a construction project. An allowance for uncollectible pledges was not considered necessary as of June 30, 2011.

	2011	2010
Due in less than one year	$ 150,000	$ 151,250
Due in one to five years	150,000	301,250
Total pledges receivable	300,000	452,500
Less discount	-	(42,069)
Net pledges receivable	$ 300,000	$ 410,431

The imputed interest rate on the pledge discount is 5%.

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 follows:

2011	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 86,883	$ 21,548	$ -	$ -	$ 108,431
Land improvements	364,636	-	2,399	-	362,237
Buildings	11,602,870	47,731	50,077	-	11,600,524
Fixed equipment	2,658,826	7,767	29,792	-	2,636,801
Major movable equipment	3,710,675	382,529	242,875	29,189	3,879,518
Construction in progress	-	363,022	-	(29,189)	333,833
	18,423,890	822,597	325,143	-	18,921,344
Less accumulated depreciation					
Land improvements	282,330	17,338	1,133	-	298,535
Buildings	3,569,650	639,527	50,180	-	4,158,997
Fixed equipment	1,503,804	128,171	27,451	-	1,604,524
Major movable equipment	2,413,087	374,895	238,310	-	2,549,672
	7,768,871	1,159,931	317,074	-	8,611,728
Capital assets, net	$10,655,019	$ (337,334)	$ 8,069	$ -	$10,309,616

2010	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 86,883	$ -	$ -	$ -	$ 86,883
Land improvements	352,762	12,974	1,100	-	364,636
Buildings	6,926,517	239	15,476	4,691,590	11,602,870
Fixed equipment	2,722,107	5,500	99,254	30,473	2,658,826
Major movable equipment	2,916,608	504,857	119,134	408,344	3,710,675
Construction in progress	4,393,317	737,090	-	(5,130,407)	-
	17,398,194	1,260,660	234,964	-	18,423,890
Less accumulated depreciation					
Land improvements	264,619	18,811	1,100	-	282,330
Buildings	3,020,113	565,013	15,476	-	3,569,650
Fixed equipment	1,475,842	127,186	99,224	-	1,503,804
Major movable equipment	2,215,111	317,111	119,135	-	2,413,087
	6,975,685	1,028,121	234,935	-	7,768,871
Capital assets, net	$10,422,509	$ 232,539	$ 29	$ -	$10,655,019

The construction in progress in 2011 is primarily related to clinic building construction and electronic medical records projects. The projects are expected to be completed in 2012 and funded by bank notes and internal funds.

Note 7: Medical Malpractice Insurance

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, no such accrual has been made.

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 an annual aggregate amount of $50,000 per covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. 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. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued health insurance claims liability during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	$ 24,000	$ 88,750
Current year claims incurred and changes in estimates for claims incurred in prior year	875,927	765,965
Payments for claims	(841,388)	(830,715)
Balance, end of year	$ 58,539	$ 24,000

Note 9: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended June 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable Series 2008 (A)	$ 7,070,000	$ -	$ (170,000)	$ 6,900,000	$ 180,000
Note payable to Bank (B)	-	372,709	-	372,709	-
Note payable to Bank (C)	-	96,884	-	96,884	-
Clark Electric note (D)	78,001	-	(22,222)	55,779	22,222
Capital lease obligations (E)	649,988	-	(74,972)	575,016	80,943
Unamortized bond premium	6,487	-	(285)	6,202	-
	$ 7,804,476	$ 469,593	$ (267,479)	$ 8,006,590	$ 283,165

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable					
Series 2008 (A)	$ 7,235,000	$ -	$ (165,000)	$ 7,070,000	$ 170,000
Clark Electric note (D)	100,223	-	(22,222)	78,001	22,222
Capital lease obligations (E)	269,624	403,485	(23,121)	649,988	75,199
Unamortized bond premium	6,772	-	(285)	6,487	-
	$ 7,611,619	$ 403,485	$ (210,628)	$ 7,804,476	$ 267,421

(A) Revenue Bonds Payable – Series 2008. The Hospital issued the $7,325,000 Series 2008 Hospital Revenue Bonds during the year ended June 30, 2008, to refund the Revenue Bonds having a balance of approximately $381,000, as well as for a hospital modernization project. Bond principal payments are due semi-annually on March 1 and September 1 through 2033 at fixed rates of 4.5% and 5.75%. Principal payments are due annually on March 1 through 2033.

The Hospital is subject to certain covenants, including maintaining a coverage ratio of 1.20 and a debt service reserve requirement of $554,603. The Hospital had a balance of $591,697 at June 30, 2011.

As of June 30, 2011, the Hospital was not in compliance with the following debt covenants:

1.) Obtaining an insurance consultant's report on a biannual basis
2.) Providing a copy of the annual budget to the paying agent
3.) Establishing and maintaining a separate sinking fund for the annual and semiannual principal and interest payments

Subsequent to year-end, the Hospital has complied with the above debt covenant requirements.

Also, the audit report was not completed and provided within 150 days as required, but will be submitted after finalizing to the appropriate parties.

(B) Note payable, 2.40% interest rate, dated March 2011, for the purchase of the South Central Iowa Medical Clinic with available borrowing up to $425,000. The note payable was originally due October 2011. It was extended subsequent to year end to August 2012 at which time the principal and interest is due; secured by certificates of deposit.

(C) Note payable, 2.4% interest rate, dated March 2011, for the construction of the Humeston Clinic with available borrowing up to $350,000. The note payable was originally due August 2011. It was extended subsequent to year end to August 2012 at which time the principal and interest is due; secured by certificates of deposit.

(D) Clark Electric Note Payable. The Hospital entered into a zero interest note payable with a rural electric cooperative in the amount of $200,000 for a project to renovate the Hospital's dietary and laundry facilities. Monthly payments are required in the amount of $1,852 through January 2013. The note is collateralized by the gross revenues of the Hospital.

(E) Capital Lease Obligations. During the year ended June 30, 2002, the Hospital entered into an agreement with the City of Corydon, Iowa (the City) for the operation of a child day care center. The operations of the day care center will be conducted in a building constructed by the City and leased to the Hospital under an agreement dated June 1, 2002. Under the agreement, the Hospital is to make lease payments to the City through July 1, 2041. During the term of the agreement, the City retains title to the day care facility, but upon completion of the agreement, title to the facilities transfers to the Hospital.

The Hospital made monthly interest only payments under the lease on March 1, 2003, through August 1, 2003. Effective August 1, 2003, the Hospital began making monthly principal and interest payments totaling $1,368. The effective interest rate on the capital lease is 4.75%, and is secured by the gross revenues of the Hospital.

During the year ended June 30, 2010, the Hospital entered into capital lease obligations for various equipment items. The leases have cumulative payments of principal and interest of $8,152 through February 2015.

The debt service requirements on the Series 2008 bonds, as of June 30, 2011, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	$ 550,370	$ 180,000	$ 370,370
2013	547,270	185,000	362,270
2014	548,945	195,000	353,945
2015	545,170	200,000	345,170
2016	546,170	210,000	336,170
2017-2021	2,750,850	1,235,000	1,515,850
2022-2026	2,755,398	1,595,000	1,160,398
2027-2031	2,748,828	2,085,000	663,828
2032-2033	1,103,263	1,015,000	88,263
	$ 12,096,264	$ 6,900,000	$ 5,196,264

Scheduled principal and interest payments on the bank notes (B) and (C) above are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2013	$ 483,323	$ 469,593	$ 13,730

Assets acquired under capital leases are as follows:

	2011	2010
Child day care center	$ 288,000	$ 288,000
Movable equipment	403,485	403,485
Less accumulated amortization	(142,516)	(73,143)
	$ 548,969	$ 618,342

Scheduled principal and interest payments on capital lease obligations are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	$ 114,245	$ 80,943	$ 33,302
2013	114,245	87,129	27,116
2014	114,245	93,790	20,455
2015	81,864	68,275	13,589
2016	16,416	4,855	11,561
2017-2021	82,080	28,058	54,022
2022-2026	82,080	35,588	46,492
2027-2031	82,080	45,139	36,941
2032-2036	82,080	57,254	24,826
2037-2041	82,080	72,619	9,461
2042-2046	1,366	1,366	-
	$ 852,781	$ 575,016	$ 277,765

Note 10: Operating Leases

Noncancelable operating leases for equipment expire in various years through 2013. Future minimum lease payments at June 30, 2011 were:

2012	$ 250,350
2013	40,218
Future minimum lease payments	$ 290,568

Rent expense for operating leases were $339,073 and $325,116 for the years ended June 30, 2011 and 2010, respectively.

Note 11: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 4.5% and 4.3% of their annual covered salaries and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2011, 2010 and 2009 were $520,924, $465,708 and $398,877, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.95% of annual covered salary for 2011.

Note 12: Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of $253,774 and $212,045 were incurred for the years ended June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, the Hospital had accounts payable to the organization of $27,097 and $76,149, respectively.

Note 13: Postemployment Health Care Plan

Plan Description

Certain employees of Wayne County Hospital participate in a health insurance plan provided by the Hospital. In 2010, the Hospital implemented the requirements of a new accounting statement, GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Retirement Benefits Other Than Pensions*.

The Hospital provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The plan provides health insurance and other benefits to participating retirees who have reached the age of 55. Benefits are available for retirees as required by state statutes until they reach the age of 65. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost. As of July 1, 2009, there were no retirees receiving health benefits from the Hospital's health plan.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation to the plan:

	2011	2010
Annual required contribution (ARC)	$ 27,532	$ 26,000
Interest on net OPEB obligation	1,250	-
Adjustment to ARC	(1,000)	-
Annual OPEB cost	27,782	26,000
Contributions during the year	(4,000)	(1,000)
Increase in net OPEB obligation	23,782	25,000
Net OPEB - beginning of year	25,000	-
Net OPEB - end of year	$ 48,782	$ 25,000

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 and 2010 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
06/30/11	$ 27,782	$ 4,000	14.40%	$ 48,782
06/30/10	26,000	1,000	3.85%	25,000

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the Hospital does not have a funded plan, resulting in an unfunded actuarial accrued liability (UAAL) of $103,000. The covered payroll (annual payroll of active employees covered by the plan) was $7,135,293, and the ratio of the UAAL to the covered payroll was 1.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated, based on the funded level of the plan at the valuation date and an annual health care cost trend rate of 11% percent initially, reduced by decrements to an ultimate rate of 5% after 13 years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2011 was 29 years.

Note 14: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Hospital Board of Trustees annually adopts a budget on a 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, for the year ended June 30, 2011:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 1,013,568	$ -	$ 1,013,568	$ 1,042,851
Other revenues/receipts	16,171,425	83,052	16,254,477	13,948,960
	17,184,993	83,052	17,268,045	14,991,811
Expenses/disbursements	18,011,887	121,405	18,133,292	15,297,807
	(826,894)	(38,353)	(865,247)	(305,996)
Balance, beginning of year	9,321,463	1,582,618	10,904,081	10,904,081
Balance, end of year	$ 8,494,569	$ 1,544,265	$ 10,038,834	$ 10,598,085

Note 15: Significant Estimates and Concentrations

Current Economic Conditions

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

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

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital.

Supplementary Information

Wayne County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	$ 1,649,456	$ 1,649,456	$ -	$ 1,465,182	$ 1,465,182	$ -
Skilled nursing care	552,849	552,849		580,248	580,248	
Obstetrics	257,778	257,778		159,800	159,800	
Nursery	150,614	150,614		96,744	96,744	
Special care	110,720	110,720		59,535	59,535	
	2,721,417	2,721,417	-	2,361,509	2,361,509	-
Other Nursing Services						
Operating and recovery rooms	2,183,871	494,268	1,689,603	1,822,794	320,678	1,502,116
Delivery and labor room	144,217	117,678	26,539	96,083	86,484	9,599
Medical and surgical supplies	1,788,090	1,401,374	386,716	1,343,778	949,202	394,576
Emergency service	2,442,200	86,680	2,355,520	1,891,918	96,169	1,795,749
Ambulance	911,861		911,861	771,631		771,631
Kidney dialysis	932,366		932,366	718,042		718,042
	8,402,605	2,100,000	6,302,605	6,644,246	1,452,533	5,191,713
Other Professional Services						
Laboratory	2,935,391	692,137	2,243,254	2,227,267	595,876	1,631,391
Electrocardiology	333,621	40,034	293,587	294,428	44,165	250,263
Radiology	3,823,882	377,212	3,446,670	3,174,523	412,055	2,762,468
Pharmacy	2,916,584	1,010,772	1,905,812	2,104,778	869,178	1,235,600
Anesthesiology	667,663	124,357	543,306	503,229	98,547	404,682
Respiratory therapy	428,291	286,598	141,693	360,299	249,433	110,866
Physical therapy	737,167	180,887	556,280	617,469	170,203	447,266
Speech therapy	44,691	11,903	32,788	53,279	28,210	25,069
Occupational therapy	206,766	107,448	99,318	120,107	78,980	41,127
Corydon medical clinic	905,398		905,398	897,126		897,126
Lineville clinic	137,068		137,068	102,447		102,447
SCIMC clinic	764,140		764,140			
Seymour medical clinic	216,018		216,018	211,927		211,927
Dental clinic	470,257		470,257	616,553		616,553
Outpatient clinic	61,312		61,312	50,993		50,993
Wound care clinic	3,595		3,595			
Day care	25		25	25,154		25,154
	14,651,869	2,831,348	11,820,521	11,359,579	2,546,647	8,812,932
Gross Patient Service Revenue	25,775,891	$ 7,652,765	$ 18,123,126	20,365,334	$ 6,360,689	$ 14,004,645
Contractual Adjustments	(9,546,263)			(6,340,567)		
Net Patient Service Revenue before Provision for Uncollectible Accounts	16,229,628			14,024,767		
Provision for Uncollectible Accounts	(899,177)			(698,131)		
Net Patient Service Revenue	$ 15,330,451			$ 13,326,636		

See Independent Accountants' Report

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

	2011	2010
Other Revenues		
Office rent	$ 87,542	$ 107,147
Miscellaneous	17,064	3,314
Laundry revenue	23,703	29,336
Cafeteria	174,558	164,074
Meals on Wheels	9,517	9,595
Emergency telephone service	6,406	17,220
Community programs	830	945
	$ 319,620	$ 331,631

Wayne County Hospital

Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	$ 254,171	$ 149,131	$ 105,040	$ 332,185	$ 208,126	$ 124,059
Operating room	1,223,110	297,012	926,098	579,342	277,912	301,430
Medical surgical	1,562,611	1,333,515	229,096	1,388,221	1,234,081	154,140
Nursery	21,655	21,655		25,285	25,285	
Obstetrics	143,251	124,871	18,380	93,047	92,673	374
Emergency service	1,566,896	972,007	594,889	1,048,954	646,896	402,058
	4,771,694	2,898,191	1,873,503	3,467,034	2,484,973	982,061
Other Professional Services						
Anesthesiology	351,321		351,321	332,466		332,466
Laboratory	629,686	269,699	359,987	572,937	228,842	344,095
Electrocardiology	52,394	1,995	50,399	58,757	1,203	57,554
Ambulance	200,986	147,015	53,971	312,804	271,032	41,772
Respiratory therapy	88,044	59,397	28,647	72,181	46,828	25,353
Kidney dialysis	330,264	187,856	142,408	284,138	181,883	102,255
Radiology	1,011,637	244,005	767,632	872,181	221,569	650,612
Orthopedics	187,247	161,815	25,432	186,882	159,571	27,311
Speech therapy	30,408		30,408	36,653		36,653
Physical therapy	258,341	234,233	24,108	254,930	244,561	10,369
Occupational therapy	83,943	62,154	21,789	60,175	356	59,819
Pharmacy	654,947	185,581	469,366	1,128,217	174,894	953,323
Corydon medical clinic	125,896	111,562	14,334	143,238	127,547	15,691
Lineville clinic	175,038	141,564	33,474	142,082	125,091	16,991
Seymour medical clinic	185,726	150,540	35,186	149,864	129,932	19,932
SCIMC clinic	463,340	365,811	97,529	-		
Dental clinic	358,425	251,890	106,535	386,840	304,950	81,890
Wound care clinic	9,509		9,509	-		
Outpatient clinic	313,587	257,917	55,670	304,256	259,474	44,782
Assisted living	248,289	207,051	41,238	239,798	204,691	35,107
Day care	9,371	(18,283)	27,654	77,611	48,991	28,620
Medical records	224,864	180,861	44,003	185,805	144,026	41,779
	5,993,263	3,202,663	2,790,600	5,801,815	2,875,441	2,926,374
General Services						
Operation of plant	579,170	217,592	361,578	541,510	199,121	342,389
Dietary	499,230	231,990	267,240	469,518	210,637	258,881
Purchasing	54,163	36,579	17,584	45,815	31,083	14,732
Housekeeping	236,505	190,277	46,228	226,806	182,185	44,621
Laundry	74,658	52,225	22,433	64,574	47,473	17,101
	1,443,726	728,663	715,063	1,348,223	670,499	677,724
Administrative Services	1,908,463	726,233	1,182,230	1,607,926	684,567	923,359
Employee Benefits	2,023,662		2,023,662	1,755,647		1,755,647
Insurance	285,597		285,597	252,754		252,754
Loss on Disposal of Capital Assets	4,372		4,372	29		29
Depreciation	1,166,651		1,166,651	1,034,849		1,034,849
	$ 17,597,428	$ 7,555,750	$ 10,041,678	$ 15,268,277	$ 6,715,480	$ 8,552,797

See Independent Accountants' Report

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

Schedules of Patient Receivables

	Amounts 2011	Amounts 2010	Percent to Total 2011	Percent to Total 2010
Days Since Discharge				
0 – 30	$ 2,360,744	$ 1,763,748	49%	38%
31 – 60	567,093	580,869	12%	12%
61 – 90	554,479	330,319	11%	7%
91 and over	1,379,654	1,853,848	28%	39%
Clinic receivables	- *	174,519	0%	4%
	4,861,970	4,703,303	100%	100%
Less				
Contractual allowances	1,418,621	860,497		
Allowance for uncollectible accounts	778,000	1,208,000		
	$ 2,665,349	$ 2,634,806		
Net Patient Service Revenue per Calendar day (excluding provision for bad debt)	$ 44,465	$ 38,424		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	60	69		

* June 30, 2011 clinic receivables are included in the aged categories above.

Allowance for Uncollectible Accounts

	2011	2010
Balance, beginning of year	$ 1,208,000	$ 891,000
Provision for year	899,177	698,131
Recoveries of accounts previously written off	373,297	67,727
	2,480,474	1,656,858
Less accounts written off	1,702,474	448,858
Balance, end of year	$ 778,000	$ 1,208,000

Wayne County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2011 and 2010

Supplies

	2011	2010
Central supply	$ 33,029	$ 30,710
Clinics	33,800	2,401
Pharmacy	82,609	71,930
Nursing	9,270	7,870
Physical therapy	414	636
Operating room	35,138	32,217
Laboratory	36,096	35,536
Dietary	11,933	11,499
Radiology	633	1,470
Housekeeping	1,735	1,848
Kidney dialysis	2,371	4,133
Laundry and linen	4,722	4,464
Emergency department	3,116	3,326
Dental clinic	4,108	5,709
	$ 258,974	$ 213,749

Prepaid Expenses

	2011	2010
Insurance	$ 13,145	$ 17,155
Other	111,660	79,009
	$ 124,805	$ 96,164

Wayne County Hospital

Schedule of Officials

Year Ended June 30, 2011

Name	Title	Term Expires
	Board of Trustees	
Gary Runyon	Chairman	2014
Norman Riekens	Vice Chairman	2012
Bill Wells	Secretary	2012
Darrell Cook	Treasurer	2016
Donald Besco	Member	2014
Hariett Gustafson	Member	2012
Jill Tueth	Member	2016
	Hospital Officials	
Daren Relph	CEO/Administrator	
Denise Hook	Chief Financial Officer	

Wayne County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2011 and 2010

	2011	2010
Patient Days		
Acute and ICU	1,799	1,666
Swing-bed	883	1,102
	2,682	2,768
Admissions (Acute and ICU)	620	560
Discharges (Acute and ICU)	620	561
Average Length of Stay in Days (Acute and ICU)	2.9	3.0
Beds	25	25
Occupancy Percentage (Acute, ICU and Swing-bed)	29.39%	30.33%

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Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Wayne County Hospital
Corydon, Iowa

We have audited the financial statements of Wayne County Hospital as of and for the year ended June 30, 2011, and have issued our report thereon dated January 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 11-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters we reported to the Hospital's management in a separate letter dated January 13, 2012.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2011. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenses/disbursements during the year ended June 30, 2011 exceed amounts budgeted.

Criteria or Specific Requirement – Management is responsible for establishing an annual budget.

Condition – The budget was approved and adopted prior to the beginning of 2011, but expenditures exceeded budgeted amounts.

Context – Expenditures exceeded budgeted amounts.

Effect – The Hospital was over budgeted expenditures.

Cause – Additional expenditures arose during 2011 that were not contemplated during the budget process.

Recommendation – Management should ensure that all consideration for expenditures are included in the annual budget and amend the budget, if necessary, during the year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action and amend the budget, if needed, in the future.

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. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between 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 noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

The Hospital was required to evaluate the need to file an annual report of unclaimed property 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.

Self-Funded Health Insurance Certificate of Compliance

We noted the following regarding filing the Certificate of Compliance regarding the self-funded health insurance plan:

Criteria or Specific Requirement – Management is responsible for ensuring controls are in place to file all documents timely.

Condition – The Hospital was late in filing its Certificate of Compliance regarding the self-funded health insurance plan.

Context – The Hospital has a due date that the Certificate of Compliance is due by in order to be in compliance.

Effect – Requirements were not met under Chapter 509A.15 of the Code of Iowa.

Cause – Timely filing of the report was not completed.

Recommendation – Management should file the required documentation by the due date.

Views of the Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will ensure the reports are filed timely.

The Hospital's responses to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

* * * * * * *

This report is intended solely for the information and use of the Board of Trustees, management, the State of Iowa 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
January 13, 2012

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

Reference Number	Finding
11-1	Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.
	Condition—Significant audit adjustments were proposed to management related to accounts receivable bad debt and contractual allowances, and health insurance accruals.
	Context—Management's financial statement preparation procedures were not sufficient such that misstatements were not identified in the financial statements.
	Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner.
	Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements.
	Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles.
	Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.

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Board of Trustees and Management
Wayne County Hospital
Corydon, Iowa

In planning and performing our audit of the financial statements of Wayne County Hospital as of and for the year ended June 30, 2011 in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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 or material weaknesses.

Material Weaknesses

Refer to the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

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 may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. Segregation of duties issues were noted in the following areas:

Inventory

- The Inventory Clerk receives inventory and records the receipt of inventory in the system.

Purchases and Cash Outflows

- The Accountant can initiate a purchase order, record a payable, access signed checks, adjust vendor accounts and adjust vendor master files.

Clinics Revenue Cycle

- The receptionists and billers for the Lineville, SMC and Dental clinics have access to assets and recording responsibility.

Journal Entry Review and Approval

During our review of the internal controls, it was noted that there were some journal entries that were posted during the year for which the review and approval process was not documented. We recommend that all entries are reviewed and approved with proper documentation going forward.

Audit Journal Entries

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements affecting the Hospital's payroll and related accruals, construction in progress, fixed assets, accounts payable, pledges receivable, post-employment benefits and accrued interest income. These items were not previously identified by management's internal controls.

Operations Issues

Inventory

- We understand an inventory was taken of supplies on hand at June 30, 2011; however, there were no test counts completed as part of the process. We recommend that a member of the accounting department at the Hospital complete some test counts to ensure the overall accuracy of the supplies being inventoried.

Electronic Fund Transfers

- The Hospital uses electronic fund transfers to make payroll related payments, especially for taxes. We recommend that there be some oversight and approval of the transfer prior to the accountant completing the transaction.

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 accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Medicare and Medicaid Reimbursement

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

Corporate Compliance Program

Federal agencies are clearly increasing their efforts to detect and prosecute fraud, abuse and noncompliance with a vast number of laws and regulations. It is no longer enough to have good intentions. The government does not have to prove intent to break the law, only that billing or other errors occurred. Entities may be found guilty of crimes even if management was unaware of the activities and even if the conduct was contrary to internal policy. Individuals may implicate entities through confidential hotlines. The consequences of being found guilty may include civil monetary penalties and imprisonment.

The health care industry, in particular, is a prime target for investigation because of the maze of rules and regulations governing health care, the very high volumes of transactions and the large amounts of money involved. Most health care entities currently under investigation appear to have been unaware that possible violations had occurred.

A corporate compliance program can sharply reduce the Hospital's exposure to this type of lawsuit. It may also significantly reduce the penalties imposed should a violation be discovered. To realize these benefits, you must design, implement and enforce a corporate compliance program to detect and prevent law abuses, particularly of the Medicare and Medicaid programs. A program should include:

- Designation of a Corporate Compliance Officer
- Compliance standards and procedures for reducing the prospect of improper conduct
- High level officials assigned to overseeing compliance
- A mechanism for employees to report matters to the Corporate Compliance Officer

Documentation of Accounting Policies

The Hospital has no formal documentation of standard accounting procedures. We recommend documenting accounting procedures, such as general ledger maintenance, payroll processing, cash disbursement processing and so forth, should an unforeseen emergency occur with accounting personnel. This would enable the accounting function to continue with a minimum of interruption to daily activities.

Accounts Payable Checks

The Hospital is currently running accounts payable checks each week for payment. We recommend the Hospital evaluate the need to run checks each week and consider moving to a biweekly process to create efficiencies in the accounting department.

Payroll Payments

The Hospital has implemented a direct deposit payroll process used by many of the employees. We recommend for internal control and efficiency purposes that the Hospital evaluate ways to encourage all employees to use this process or consider providing a card loaded with the payroll payment.

The Hospital also processes checks for employee reimbursements. We recommend the Hospital evaluate including those payments with the payroll direct deposit to reduce the amount of checks being processed by the Hospital. It will be important to ensure there are proper controls and signoff over the process.

Electronic Health Records

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Variables that determine the total funding available to a hospital include total discharges, the percentage of patient days attributable to Medicare Part A and Part C patients and the percentage of charges attributable to charity care. Implementing regulations to be issued by the Centers for Medicare & Medicaid Services (CMS) will determine how these variables are measured and what constitutes meaningful users of certified EHR technology.

Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

Charity Care Disclosures

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

Conversion to ICD-10

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

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

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

Current Economic Environment

The current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. As a result, hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change, resulting in future adjustments to asset values, the allowance for accounts receivable, etc. that could impact the Hospital's ability to maintain sufficient liquidity.

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

* * * * * * * * * * * *

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

BKD, LLP

Kansas City, Missouri
January 13, 2012