Wayne County Hospital

Accountants' Report and Financial Statements

June 30, 2012 and 2011

BKD LLP
CPAs & Advisors

Wayne County Hospital
June 30, 2012 and 2011

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 sheets of Wayne County Hospital as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Hospital as of June 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 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.

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 financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audits of the 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.

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 or other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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.

Our audits were conducted for the purpose of forming an opinion on the 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
December 13, 2012

Wayne County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011

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, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents decreased between 2012 and 2011 by $142,105 or 24% and increased between 2011 and 2010 by $204,116 or 54%.
- The Hospital's net assets decreased $1,535,107 or 18% in 2012 and decreased $826,894 or 9% in 2011.
- The Hospital reported an operating loss in 2012 of $2,316,852 and operating loss in 2011 of $1,582,470.
- Total operating revenues increased by $3,055,852 or 19% in 2012 compared to 2011 and increased by $2,051,772 or 15% in 2011 compared to 2010.

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 $1,535,107 or 18% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Patient accounts receivable, net	$ 2,514,815	$ 2,665,349	$ 2,634,806
Other current assets	2,409,145	3,204,106	2,963,936
Noncurrent cash and deposits	2,750,768	2,977,608	2,923,968
Capital assets, net	9,922,392	10,309,616	10,655,019
Other assets	145,983	306,454	448,126
Total assets	$ 17,743,103	$ 19,463,133	$ 19,625,855
Liabilities			
Current liabilities	$ 3,650,267	$ 3,196,357	$ 2,742,337
Other post-employment benefit obligation	79,401	48,782	25,000
Long-term debt	7,053,973	7,723,425	7,537,055
Total liabilities	10,783,641	10,968,564	10,304,392
Net Assets			
Invested in capital assets, net of related debt	2,263,784	2,231,092	2,850,543
Restricted for capital expeditures	150,000	300,000	410,431
Restricted under debt agreements	1,312,696	1,078,240	581,793
Restricted for payment reserve - capital lease	15,318	14,766	13,110
Unrestricted	3,217,664	4,870,471	5,465,586
Total net assets	6,959,462	8,494,569	9,321,463
Total liabilities and net assets	$ 17,743,103	$ 19,463,133	$ 19,625,855

In 2012, current assets decreased by $945,495 from fiscal year 2011. Capital assets decreased by $387,224 from year 2011 to 2012.

In 2012, current liabilities increased by $453,910 or 14%, from fiscal year 2011, due to an increase in accrued employee expenses and current maturities of long-term debt.

In 2011, current assets increased by $270,713 from fiscal year 2011. 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.

Operating Results and Changes in the Hospital's Net Assets

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 17,942,389	$ 15,330,451	$ 13,326,636
Assisted living and multi-unit housing revenue	347,935	364,887	304,919
Other operating revenues	780,486	319,620	331,631
Total operating revenues	19,070,810	16,014,958	13,963,186
Operating Expenses			
Salaries, wages and employee benefits	12,908,707	9,579,412	8,471,127
Medical professional fees	1,863,709	1,921,811	1,738,736
Depreciation and amortization	1,263,019	1,166,651	1,034,849
Other operating expenses	5,352,227	4,929,554	4,023,565
Total operating expenses	21,387,662	17,597,428	15,268,277
Operating Loss	(2,316,852)	(1,582,470)	(1,305,091)
Nonoperating Revenues (Expenses)			
Property taxes	1,115,546	1,013,568	973,847
Interest income	24,935	31,125	54,216
Interest expense	(417,272)	(414,459)	(288,138)
Noncapital gifts	22,150	34,392	40,118
Total nonoperating revenues	745,359	664,626	780,043
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(1,571,493)	(917,844)	(525,048)
Capital Grants and Contributions	36,386	90,950	46,591
Decrease in Net Assets	$ (1,535,107)	$ (826,894)	$ (478,457)

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 2012, 2011 and 2010, 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 2012, the Hospital experienced lower volumes than expected for most months of the year. Demand for provider services remained high throughout the year but sufficient provider capacity was lacking. Staff was added in preparation for two additional providers but unforeseen delays in the new provider's arrival led to additional expense without corresponding new revenues. By the fiscal year end, the number of providers remained the same with retirements offsetting recruitment efforts. Empirical data on productivity standards of providers for the region would suggest that the fiscal year operating loss approximates the revenue that would have been realized had the two providers arrived as scheduled.

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.

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 increased by $80,733 or 12% in 2012 compared to 2011. Nonoperating revenues decreased by $115,417 or 15% in 2011 compared to 2010. The cause of the 2012 increase relates to the increase in property tax revenues. There were no significant changes in 2011 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 2012 and 2011, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had $9.9 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $874,575 in 2012.

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.

Debt

At the end of 2012 and 2011, the Hospital had approximately $7.5 and $8.0 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 $191,126 and $469,593 for purchase and construction of physician clinics in 2012 and 2011, respectively.

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 keeping with the broader economic outlook of the previous year, we expect to lower the taxation rate per thousand dollars of valuation in FY2014. We continue to believe that upward pressure on agricultural land valuation will result in similar tax revenues to the facility even with the lower rate of taxation.

The demand for access to providers remains higher than provider capacity. Additional providers have been contracted for FY2013. The addition of providers in the clinic system will impact revenues in a positive fashion. We expect a dramatic increase in utilization of all services as recruitment efforts come to fruition. Recent additions to the medical staff and a continued focus on physician recruitment are imperative to ensure proper access to care for our populace.

Due to our geographic location and patient demographics, all medical clinics within the operational umbrella are eligible for Rural Health Clinic designation by the Center for Medicare and Medicaid Services (CMS). Although application was made for this designation on behalf of all four clinics, until FY2013 only one clinic's application had been approved and was subsequently being reimbursed under the particular schema. During FY2013, the remaining clinics received the designation which will have a dramatic impact on their fiscal viability. We anticipate the financial impact to surpass $400,000 in increased revenues during FY2013.

An aggressive margin improvement plan has been established for FY2013 which targets operating losses from FY2012 in addition to operational performance at the EBITDA line sufficient to ensure compliance with Series 2008 Bond Covenants with particular attention given to Debt Service Coverage Ratio.

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, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	$ 439,476	$ 581,581
Current portion restricted under debt agreements	228,975	-
Patient accounts receivable, net of allowance; 2012 – $634,700, 2011 – $778,000	2,514,815	2,665,349
Other receivables	142,102	124,429
Estimated amounts due from third-party payers	-	856,000
Current portion of pledges receivable	150,000	150,000
Property taxes receivable	1,056,859	1,108,317
Inventories	301,122	258,974
Prepaid expenses	90,611	124,805
Total current assets	4,923,960	5,869,455
Noncurrent Cash and Deposits		
Internally deignated for capital improvements	1,346,020	1,565,701
Internally desigated for health insurance	183,591	195,444
Restricted for payment reserve – capital lease	15,318	14,766
Restricted under debt agreements	1,205,839	1,201,697
Total noncurrent cash and investments	2,750,768	2,977,608
Capital Assets, Net	9,922,392	10,309,616
Other Assets		
Debt issue costs	139,421	146,141
Pledges receivable, net of current portion	-	150,000
Other noncurrent assets	6,562	10,313
Total other assets	145,983	306,454
Total Assets	$ 17,743,103	$ 19,463,133

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Accounts payable	$ 814,859	$ 837,134
Accrued payroll and related liabilities	661,037	505,571
Accured interest payable	122,118	123,457
Estimated amounts due to third-party payers	93,000	-
Deferred revenue for property taxes	1,040,740	1,115,277
Accrued vacation	445,435	331,753
Current maturities of long-term debt	473,078	283,165
Total current liabilities	3,650,267	3,196,357
Other Post-employment Benefit Obligation	79,401	48,782
Long-term Debt, Net of Current Portion	7,053,973	7,723,425
Total liabilities	10,783,641	10,968,564
Net Assets		
Invested in capital assets, net of related debt	2,263,784	2,231,092
Restricted by donor for capital expenditures	150,000	300,000
Restricted under debt agreements	1,312,696	1,078,240
Restricted for payment reserve – capital lease	15,318	14,766
Unrestricted	3,217,664	4,870,471
Total net assets	6,959,462	8,494,569
Total Liabilities and Net Assets	$ 17,743,103	$ 19,463,133

Wayne County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 18,613,543	$ 16,229,628
Provision for uncollectible accounts	671,154	899,177
Net patient service revenue	17,942,389	15,330,451
Assisted living and multi-unit housing revenue	347,935	364,887
Other	780,486	319,620
Total operating revenues	19,070,810	16,014,958
Operating Expenses		
Salaries and wages	10,201,854	7,555,750
Employee benefits	2,706,853	2,023,662
Medical professional fees	1,863,709	1,921,811
Supplies and other	3,214,537	2,742,292
General services	632,779	715,063
Administrative services	1,239,194	1,182,230
Insurance	265,717	285,597
Loss on disposal of capital assets	-	4,372
Depreciation and amortization	1,263,019	1,166,651
Total operating expenses	21,387,662	17,597,428
Operating Loss	(2,316,852)	(1,582,470)
Nonoperating Revenues (Expenses)		
Property taxes	1,115,546	1,013,568
Interest income	24,935	31,125
Interest expense	(417,272)	(414,459)
Noncapital gifts	22,150	34,392
Total nonoperating revenues	745,359	664,626
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(1,571,493)	(917,844)
Capital Grants and Contributions	36,386	90,950
Decrease in Net Assets	(1,535,107)	(826,894)
Net Assets, Beginning of Year	8,494,569	9,321,463
Net Assets, End of Year	$ 6,959,462	$ 8,494,569

Wayne County Hospital
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 19,389,858	$ 15,778,380
Payments to suppliers and contractors	(7,299,069)	(6,998,009)
Payments to employees	(12,608,939)	(9,325,705)
Other receipts, net	743,486	340,144
Net cash provided by (used in) operating activities	225,336	(205,190)
Noncapital Financing Activities		
Property taxes	1,115,546	1,013,568
Decrease in pledges receivable	150,000	110,431
Noncapital gifts	22,150	34,392
Net cash provided by noncapital financing activities	1,287,696	1,158,391
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(670,665)	(267,479)
Interest paid on capital debt and leases	(418,611)	(417,009)
Proceeds from long-term debt	191,126	469,593
Proceeds from sale of capital assets	5,500	-
Capital contributions	36,386	90,950
Purchase of capital assets	(821,673)	(602,625)
Net cash used in capital and related financing activities	(1,677,937)	(726,570)
Investing Activities		
Interest on deposits	24,935	31,125
Purchase of deposits	(438,051)	(1,499,295)
Proceeds from disposition of deposits	431,916	992,274
Net cash provided by (used in) investing activities	18,800	(475,896)
Decrease in Cash and Cash Equivalents	(146,105)	(249,265)
Cash and Cash Equivalents, Beginning of Year	2,338,427	2,587,692
Cash and Cash Equivalents, End of Year	$ 2,192,322	$ 2,338,427

Wayne County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 439,476	$ 581,581
Current portion restricted under debt agreements	228,975	-
Noncurrent cash and deposits		
Internally designated for capital improvements	1,340,280	1,561,402
Internally designated for health insurance	183,591	195,444
	$ 2,192,322	$ 2,338,427
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	$ (2,316,852)	$ (1,582,470)
Depreciation and amortization	1,263,019	1,166,651
Loss on sale of capital assets	-	6,172
Changes in operating assets and liabilities		
Patient accounts receivable, net	150,534	(30,543)
Supplies, prepaid expenses and other current assets	(44,955)	(55,143)
Estimated amounts due from and to third-party payers	949,000	113,595
Accounts payable and accrued expenses	224,590	176,548
Net cash provided by (used in) operating activities	$ 225,336	$ (205,190)
Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ 270,977	$ 218,075

Wayne County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011, cash equivalents consisted primarily of savings accounts.

Property Taxes

The Hospital received approximately 5% and 6% of its financial support from property tax revenues in the years ended June 30, 2012 and 2011, 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 $42,631 and $122,379 for 2012 and 2011, 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.

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 are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. 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 recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under the Medicaid program and has recorded revenue of $525,700, which is included in other revenue within other operating revenues in the statements of revenues, expenses and changes in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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.

The Hospital has been notified by the Medicare Administrative Contractor that Medicare cost reports have been reopened for 2008, 2009 and 2010 to re-evaluate certain costs included in those cost reports. Management has evaluated the impact on the financial statements; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 45% and 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2012 and 2011, respectively. 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, 2012 and 2011. The Hospital's deposits in banks at June 30, 2012 and 2011 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, 2012 and 2011.

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	$ 3,419,219	$ 3,559,189

	2012	2011
Included in the following balance sheet captions		
Cash and cash equivalents	$ 439,476	$ 581,581
Current portion restricted under debt agreements	228,975	-
Noncurrent cash and deposits		
Internally designated for capital improvements	1,346,020	1,565,701
Internally designated for health insurance	183,591	195,444
Restricted for payment reserve - capital lease	15,318	14,766
Restricted under debt agreements	1,205,839	1,201,697
	$ 3,419,219	$ 3,559,189

Interest Income

Interest income for the years ended June 30, 2012 and 2011 consisted of:

	2012	2011
Interest income	$ 24,935	$ 31,125

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, 2012 and 2011 consisted of:

	2012	2011
Medicare	$ 793,187	$ 946,436
Medicaid	296,562	411,547
Other third-party payers	1,069,888	972,658
Patients	989,878	1,112,708
	3,149,515	3,443,349
Less allowance for uncollectible accounts	634,700	778,000
	$ 2,514,815	$ 2,665,349

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, 2012.

	2012	2011
Due in less than one year	$ 150,000	$ 150,000
Due in one to five years	-	150,000
Total pledges receivable	150,000	300,000
Less discount	-	-
Net pledges receivable	$ 150,000	$ 300,000

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2012					
Land	$ 108,431	$ -	$ -	$ -	$ 108,431
Land improvements	362,237	58,024	-	-	420,261
Buildings	11,600,524	13,891	26,435	223,256	11,811,236
Fixed equipment	2,636,801	-	15,679	-	2,621,122
Major movable equipment	3,879,518	477,093	395,312	154,118	4,115,417
Construction in progress	333,833	325,567	-	(377,374)	282,026
	18,921,344	874,575	437,426	-	19,358,493
Less accumulated depreciation					
Land improvements	298,535	19,062		-	317,597
Buildings	4,158,997	650,158	21,583	-	4,787,572
Fixed equipment	1,604,524	126,029	15,679	-	1,714,874
Major movable equipment	2,549,672	461,050	394,664	-	2,616,058
	8,611,728	1,256,299	431,926	-	9,436,101
Capital assets, net	$10,309,616	$ (381,724)	$ 5,500	$ -	$ 9,922,392

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

The construction in progress in 2012 is primarily related to an electronic health records project. The project is expected to be completed in 2013 and funded by 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 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	$ 58,539	$ 24,000
Current year claims incurred and changes in estimates for claims incurred in prior year	1,012,323	875,927
Payments for claims	(990,788)	(841,388)
Balance, end of year	$ 80,074	$ 58,539

Total amounts expensed for health insurance benefits were $1,114,578 and $899,709 at June 30, 2012 and 2011, respectively. The expense account also includes reductions for reinsurance and amounts paid for HSA accounts.

Note 9: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended June 30, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable Series 2008 (A)	$ 6,900,000	$ -	$ (180,000)	$ 6,720,000	$ 185,000
Note payable to Bank (B)	372,709	-	(212,500)	160,209	108,203
Note payable to Bank (C)	96,884	191,126	(175,000)	113,010	75,037
Clark Electric note (D)	55,779	-	(22,222)	33,557	22,222
Capital lease obligations (E)	575,016	-	(80,943)	494,073	82,616
Unamortized bond premium	6,202	-	-	6,202	-
	$ 8,006,590	$ 191,126	$ (670,665)	$ 7,527,051	$ 473,078

	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

(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 interest 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 $595,839 at June 30, 2012.

As of June 30, 2012, the Hospital was not in compliance with the following debt covenant:

> Maintaining a Coverage Ratio of 1.20. The Hospital will be required to hire a Management Consultant, within 30 days following the delivery of June 30, 2012 audit report, to make a written report evaluating the performance of the Hospital and to recommend corrective measures.

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 August 2012. Subsequent to year end, it was extended to August 2013 at which time the principal and interest is due; along with the interest rate reduced to 2.25% and available borrowing reduced to $350,000; secured by certificates of deposit.

(C) Note payable, 2.40% 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 2012. Subsequent to year end, it was extended to August 2013 at which time the principal and interest is due; along with the interest rate reduced to 2.25% and available borrowing reduced to $250,000; secured by certificates of deposit.

(D) Clark Electric Note Payable. In 2011, 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 November 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, 2012, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	551,720	225,000	326,720
2018-2022	2,748,695	1,295,000	1,453,695
2023-2027	2,753,318	1,680,000	1,073,318
2028-2032	2,754,706	2,210,000	544,706
2033	549,900	520,000	29,900
	$ 11,545,894	$ 6,720,000	$ 4,825,894

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	$ 186,354	$ 183,240	$ 3,114
2014	90,438	89,979	459

Assets acquired under capital leases are as follows:

	2012	2011
Child day care center	$ 288,000	$ 288,000
Movable equipment	403,485	403,485
Less accumulated amortization	(268,843)	(142,516)
	$ 422,642	$ 548,969

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2013	$ 109,732	$ 82,616	$ 27,116
2014	114,245	93,790	20,455
2015	86,392	72,803	13,589
2016	16,416	4,855	11,561
2017	16,416	5,091	11,325
2018-2022	82,080	29,425	52,655
2023-2027	82,080	37,321	44,759
2028-2032	81,554	47,338	34,216
2033-2037	82,080	60,042	22,038
2038-2042	64,421	60,792	3,629
	$ 735,416	$ 494,073	$ 241,343

Note 10: Operating Leases

Noncancelable operating leases for equipment expire in various years through 2013. Future minimum lease payments at June 30, 2012 were:

2013	$ 40,218
Future minimum lease payments	$ 40,218

Rent expense for operating leases were $349,742 and $339,073 for the years ended June 30, 2012 and 2011, respectively.

Subsequent to year-end, the Hospital purchased all equipment under operating leases for $221,200.

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 5.38% and 4.50% of their annual covered salaries and the Hospital is required to contribute 8.07% and 6.95% of annual covered payroll for 2012 and 2011, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2012, 2011 and 2010 were $796,907, $520,924 and $465,708, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.07% of annual covered salary for 2012.

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 $382,583 and $253,744 were incurred for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, the Hospital had accounts payable to the organization of $30,293 and $27,097, 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:

	2012	2011
Annual required contribution (ARC)	$ 37,018	$ 27,532
Interest on net OPEB obligation	1,851	1,250
Adjustment to ARC	(1,250)	(1,000)
Annual OPEB cost	37,619	27,782
Contributions during the year	(7,000)	(4,000)
Increase in net OPEB obligation	30,619	23,782
Net OPEB - beginning of year	48,782	25,000
Net OPEB - end of year	$ 79,401	$ 48,782

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2011 and 2010 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
06/30/12	$ 37,619	$ 7,000	18.61%	$ 79,401
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, 2012 was 28 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, 2012:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Amended Budget
Amount to be raised by taxation	$ 1,115,546	$ -	$ 1,115,546	$ 1,087,735
Other revenues/receipts	19,154,281	1,099,534	20,253,815	18,087,891
	20,269,827	1,099,534	21,369,361	19,175,626
Expenses/disbursements	21,804,934	179,635	21,984,569	18,784,401
	(1,535,107)	919,899	(615,208)	391,225
Balance, beginning of year	8,494,569	1,326,860	9,821,429	9,821,429
Balance, end of year	$ 6,959,462	$ 2,246,759	$ 9,206,221	$ 10,212,654

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.

Note 16: Subsequent Events

The Board of Trustees has approved the transfer of assets and the related services for certain noncore business activity of the Hospital, primarily the Assisted Living Facility, Multi-Unit Housing, Day Care and Dental Clinic to a new Iowa nonprofit corporation that was set up for the benefit of the Hospital and to take any and all actions to support the mission and purposes of the Hospital. The total cost of the assets as of June 30, 2012 were $885,622 with accumulated depreciation of $359,111. Gross revenues recorded in the financial statements as of June 30, 2012 were $1,015,700.

Supplementary Information

Wayne County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2012 and 2011

	2012			2011		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	$ 1,833,638	$ 1,833,638		$ 1,649,456	$ 1,649,456	
Skilled nursing care	722,958	722,958		552,849	552,849	
Obstetrics	290,410	290,410		257,778	257,778	
Nursery	170,310	170,310		150,614	150,614	
Special care	74,200	74,200		110,720	110,720	
	3,091,516	3,091,516		2,721,417	2,721,417	
Other Nursing Services						
Operating and recovery rooms	2,660,115	411,076	$ 2,249,039	2,183,871	494,268	$ 1,689,603
Delivery and labor room	234,368	184,958	49,410	144,217	117,678	26,539
Medical and surgical supplies	1,331,773	738,417	593,356	1,788,090	1,401,374	386,716
Emergency service	1,803,463	38,075	1,765,388	2,442,200	86,680	2,355,520
Ambulance	1,072,252		1,072,252	911,861		911,861
Kidney dialysis	983,592	456	983,136	932,366		932,366
	8,085,563	1,372,982	6,712,581	8,402,605	2,100,000	6,302,605
Other Professional Services						
Laboratory	3,060,386	598,336	2,462,050	2,935,391	692,137	2,243,254
Electrocardiology	292,532	24,940	267,592	333,621	40,034	293,587
Radiology	4,256,687	353,129	3,903,558	3,823,882	377,212	3,446,670
Pharmacy	2,845,459	989,817	1,855,642	2,916,584	1,010,772	1,905,812
Anesthesiology	864,460	99,442	765,018	667,663	124,357	543,306
Respiratory therapy	267,016	200,351	66,665	428,291	286,598	141,693
Physical therapy	704,597	169,099	535,498	737,167	180,887	556,280
Speech therapy	30,477	19,894	10,583	44,691	11,903	32,788
Occupational therapy	194,284	93,389	100,895	206,766	107,448	99,318
Lineville clinic	203,042		203,042	137,068		137,068
SCIMC clinic	3,622,935		3,622,935	764,140		764,140
Seymour medical clinic	380,400		380,400	216,018		216,018
Dental clinic	667,765		667,765	470,257		470,257
Surgeon and outpatient clinics	941,332		941,332	966,710		966,710
Cardiac Rehab	2,850		2,850			
Wound care clinic	69,142		69,142	3,595		3,595
Day care				25		25
HFMC	231,801		231,801			
	18,635,165	2,548,397	16,086,768	14,651,869	2,831,348	11,820,521
Gross Patient Service Revenue	29,812,244	$ 7,012,895	$ 22,799,349	25,775,891	$ 7,652,765	$ 18,123,126
Contractual Adjustments	(11,198,701)			(9,546,263)		
Net Patient Service Revenue before Provision for Uncollectible Accounts	18,613,543			16,229,628		
Provision for Uncollectible Accounts	(671,154)			(899,177)		
Net Patient Service Revenue	$ 17,942,389			$ 15,330,451		

See Independent Accountants' Report

Wayne County Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2012 and 2011

	2012	2011
Other Revenues		
Office rent	$ 26,333	$ 87,542
Miscellaneous	23,034	17,064
Laundry revenue	-	23,703
Cafeteria	194,867	174,558
Meals on Wheels	9,672	9,517
Emergency telephone service	-	6,406
Electronic Health Records	525,700	-
Community programs	880	830
	$ 780,486	$ 319,620

Wayne County Hospital

Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012			2011		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	$ 131,486	$ 124,458	$ 7,028	$ 254,171	$ 149,131	$ 105,040
Operating room	1,216,008	309,267	906,741	1,223,110	297,012	926,098
Medical surgical	1,514,967	1,316,605	198,362	1,562,611	1,333,515	229,096
Nursery	14,632	14,632		21,655	21,655	
Obstetrics	214,365	179,459	34,906	143,251	124,871	18,380
Emergency service	1,658,724	1,222,566	436,158	1,566,896	972,007	594,889
	4,750,182	3,166,987	1,583,195	4,771,694	2,898,191	1,873,503
Other Professional Services						
Anesthesiology	426,040		426,040	351,321		351,321
Laboratory	666,481	292,416	374,065	629,686	269,699	359,987
Electrocardiology	42,483	2,648	39,835	52,394	1,995	50,399
Ambulance	141,674	85,830	55,844	200,986	147,015	53,971
Respiratory therapy	93,758	67,276	26,482	88,044	59,397	28,647
Kidney dialysis	324,425	204,310	120,115	330,264	187,856	142,408
Radiology	983,410	254,744	728,666	1,011,637	244,005	767,632
Orthopedics	193,218	171,704	21,514	187,247	161,815	25,432
Speech therapy	19,642		19,642	30,408		30,408
Physical therapy	256,460	247,801	8,659	258,341	234,233	24,108
Occupational therapy	72,516	69,678	2,838	83,943	62,154	21,789
Pharmacy	745,854	183,777	562,077	654,947	185,581	469,366
Corydon medical clinic	2,337	800	1,537	125,896	111,562	14,334
Lineville clinic	219,650	176,990	42,660	175,038	141,564	33,474
Seymour medical clinic	260,163	211,868	48,295	185,726	150,540	35,186
SCIMC clinic	2,711,346	2,170,350	540,996	463,340	365,811	97,529
Dental clinic	491,295	326,864	164,431	358,425	251,890	106,535
Wound care clinic	33,784	236	33,548	9,509		9,509
Surgeon and outpatient clinics	326,630	256,038	70,592	313,587	257,917	55,670
Assisted living	265,967	221,241	44,726	248,289	207,051	41,238
Day care	20,534		20,534	9,371	(18,283)	27,654
Medical records	262,772	227,650	35,122	224,864	180,861	44,003
Cardiac Rehab	7,927	689	7,238			
HFMC	260,799	161,204	99,595			
	8,829,165	5,334,114	3,495,051	5,993,263	3,202,663	2,790,600
General Services						
Operation of plant	515,661	227,547	288,114	579,170	217,592	361,578
Dietary	544,645	287,928	256,717	499,230	231,990	267,240
Purchasing	69,732	46,306	23,426	54,163	36,579	17,584
Housekeeping	268,910	220,501	48,409	236,505	190,277	46,228
Laundry	59,013	42,900	16,113	74,658	52,225	22,433
	1,457,961	825,182	632,779	1,443,726	728,663	715,063
Administrative Services	2,114,765	875,571	1,239,194	1,908,463	726,233	1,182,230
Employee Benefits	2,706,853		2,706,853	2,023,662		2,023,662
Insurance	265,717		265,717	285,597		285,597
Loss on Disposal of Capital Assets				4,372		4,372
Depreciation	1,263,019		1,263,019	1,166,651		1,166,651
	$ 21,387,662	$ 10,201,854	$ 11,185,808	$ 17,597,428	$ 7,555,750	$ 10,041,678

See Independent Accountants' Report

Wayne County Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts
Years Ended June 30, 2012 and 2011

Schedules of Patient Receivables

	Amounts 2012	Amounts 2011	Percent to Total 2012	Percent to Total 2011
Days Since Discharge				
0 – 30	$ 2,262,590	$ 2,360,744	53%	49%
31 – 60	393,695	567,093	9%	12%
61 – 90	303,962	554,479	7%	11%
91 and over	1,347,569	1,379,654	31%	28%
	4,307,816	4,861,970	100%	100%
Less				
Contractual allowances	1,158,301	1,418,621		
Allowance for uncollectible accounts	634,700	778,000		
	$ 2,514,815	$ 2,665,349		
Net Patient Service Revenue per Calendar day (excluding provision for bad debt)	$ 50,996	$ 44,465		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	49	60		

Allowance for Uncollectible Accounts

	2012	2011
Balance, beginning of year	$ 778,000	$ 1,208,000
Provision for year	671,154	899,177
Recoveries of accounts previously written off	343,873	373,297
	1,793,027	2,480,474
Less accounts written off	1,158,327	1,702,474
Balance, end of year	$ 634,700	$ 778,000

Wayne County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2012 and 2011

Supplies

	2012	2011
Central supply	$ 42,928	$ 33,029
Clinics	31,740	33,800
Pharmacy	89,485	82,609
Nursing	10,678	9,270
Physical therapy	510	414
Operating room	36,718	35,138
Laboratory	51,533	36,096
Dietary	12,656	11,933
Radiology	853	633
Housekeeping	2,310	1,735
Kidney dialysis	4,343	2,371
Laundry and linen	5,276	4,722
Emergency department	4,035	3,116
Dental clinic	6,652	4,108
HFMC	1,405	-
	$ 301,122	$ 258,974

Prepaid Expenses

	2012	2011
Insurance	$ 14,056	$ 13,145
Other	76,555	111,660
	$ 90,611	$ 124,805

Other Supplementary Information

Wayne County Hospital
Schedule of Officials
Year Ended June 30, 2012

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, 2012 and 2011

	2012	2011
Patient Days		
Acute and ICU	1,408	1,799
Swing-bed	926	883
	2,334	2,682
Admissions (Acute and ICU)	412	620
Discharges (Acute and ICU)	416	620
Average Length of Stay in Days (Acute and ICU)	3.4	2.9
Beds	25	25
Occupancy Percentage (Acute, ICU and Swing-bed)	25.58%	29.39%

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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, 2012, and have issued our report thereon dated December 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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses as item 12-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

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 that we reported to the Hospital's management in a separate letter dated December 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, 2012, 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, 2012. 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, 2012.

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, 2012 did 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 2012, but expenditures exceeded budgeted amounts.
>
> Context – Expenditures exceeded budgeted amounts.
>
> Effect – The Hospital was over budgeted expenditures.
>
> Cause – Additional expenditures arose during 2012 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.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials 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 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 noncompliance 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.

Publication of Bills Allowed

Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed..." We noted no instances where Hospital management failed to publish the quarterly bills allowed paid as required by the Code of Iowa.

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 governing body, 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
December 13, 2012

Wayne County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2012

Reference Number	Finding
12-1	Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements. Condition—Significant audit adjustments were proposed to management related to accounts receivable allowances and accrued liability accounts. 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, 2012 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, 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 significant deficiencies.

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 and significant deficiencies.

Significant Deficiencies

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:

Purchases and Cash Outflows

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

Clinics Revenue Cycle

- The receptionist at the Dental clinic has access to assets and recording responsibility.

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 interest income and property tax receivables. 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, 2012; 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.

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.

Cash Reconciliations

The Hospital was not timely reconciling cash accounts for two clinic bank accounts. We recommend that a member of the accounting department timely reconcile these cash accounts to ensure accurate and timely representation of cash on hand.

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.

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. Currently, the Hospital should expect a 2% reduction in Medicare reimbursement starting January 2, 2013. The reduction would be approximately $122,000. 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.

New GASB Standards

The Governmental Accounting Standards Board has issued several new standards within the past few years. While most of the new standards will have minimal impact on the Hospital, we have noted below the standards we believe will have the most impact on the Hospital.

Governmental Accounting Standards Board Statement No. 65, *Reporting Items Previously Recognized as Assets and Liabilities*

GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in the financial statements (i.e., assets, deferred outflows of resources, liabilities, deferred inflows of resources, etc.). Concepts Statement No. 4 also indicated that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in subsequent authoritative pronouncements. Only two such pronouncements have been issued, GASB 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard amends the classification of certain items currently reported as assets and liabilities. One potential impact for the Hospital is that all future debt issuance costs will be expensed as incurred instead of amortized over the life of any new debt.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012, or the Hospital's 2014 fiscal year.

Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*

GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes guidance for accounting for participating employers in single-employer and multiple-employer defined-benefit pension plans, cost-sharing plans, defined-contribution plans and plans with insured benefits. More specifically, it would require the Hospital to recognize pension expense based on an actuarial valuation, as opposed to current guidance of recognizing pension expense based on contributions actually made, or contractually required to be made. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed.

We recommend the Hospital begin reviewing these changes in order to evaluate the potential impact on the financial statements.

The effective date for this standard is generally for periods beginning after June 15, 2014.

Conversion to ICD-10

Beginning on October 1, 2014, the Centers for Medicare and Medicaid Services (CMS) is converting coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after this date cannot be paid. The conversion will improve the information reported regarding a patient's medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

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

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

Electronic Health Records Meaningful Use Audits

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 records (EHR) technology. Beginning in 2012, CMS has contracted an accounting firm to begin conducting meaningful use audits of certified EHR technology as required in the Health Information Technology for Economic and Clinical Health Act (HITECH Act). The HITECH Act provides for the right to audit and inspect any books and records of any organization receiving an incentive payment. The Hospital should evaluate documentation in the event that the Hospital is selected by CMS for an audit of the meaningful use of certified EHR technology for the attestation period.

Current Economic Conditions

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 recorded in the financial statements could change, resulting in material future adjustments to the allowance for accounts receivable, etc., that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

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

- Review and monitor allowances for uncollectible accounts
- Evaluate financing needs and liquidity plans

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
December 13, 2012