Wayne County Hospital

Auditor's Report and Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

Wayne County Hospital
June 30, 2013 and 2012

Contents

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Wayne County Hospital
Corydon, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Wayne County Hospital (Hospital), which comprise the balance sheets as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Hospital as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Supplementary Information

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

Other Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013 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* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Kansas City, Missouri
November 14, 2013

Wayne County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents decreased between 2013 and 2012 by $143,115 or 33% and decreased between 2012 and 2011 by $142,105 or 24%.
- The Hospital's net position decreased $745,794 or 11% in 2013 and decreased $1,535,107 or 18% in 2012.
- The Hospital reported an operating loss in 2013 of $1,482,646 and operating loss in 2012 of $2,316,852.
- Total operating revenues increased by $3,014,290 or 16% in 2013 compared to 2012 and increased by $3,055,852 or 19% in 2012 compared to 2011.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet, a statement of revenues, expenses and changes in net position and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, 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 Position

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

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

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheets. The Hospital's net position decreased by $745,794 or 11% in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	$ 2,919,699	$ 2,514,815	$ 2,665,349
Other current assets	2,506,452	2,489,219	3,204,106
Noncurrent cash and deposits	2,994,035	2,670,694	2,977,608
Capital assets, net	9,087,167	9,922,392	10,309,616
Other assets	132,701	145,983	306,454
Total assets	$ 17,640,054	$ 17,743,103	$ 19,463,133
Liabilities			
Current liabilities	$ 4,216,588	$ 3,650,267	$ 3,196,357
Other post-employment benefit obligation	109,401	79,401	48,782
Long-term debt	7,100,397	7,053,973	7,723,425
Total liabilities	11,426,386	10,783,641	10,968,564
Net Position			
Net investment in capital assets	1,659,555	2,263,784	2,231,092
Restricted for capital expeditures	20,000	150,000	300,000
Restricted under debt agreements	1,089,602	1,312,696	1,078,240
Restricted for payment reserve - capital lease	15,318	15,318	14,766
Unrestricted	3,429,193	3,217,664	4,870,471
Total net position	6,213,668	6,959,462	8,494,569
Total liabilities and net position	$ 17,640,054	$ 17,743,103	$ 19,463,133

In 2013, current assets increased by $422,117 from fiscal year 2012. Capital assets decreased by $835,225 from year 2012 to 2013.

In 2013, current liabilities increased by $566,321 or 16%, from fiscal year 2012, due to an increase in salaries and benefit expense. Most increases were related to the addition of new providers and support staff and to a lesser degree annual adjustments system-wide for cost of living increases.

In 2012, current assets decreased by $865,421 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.

Operating Results and Changes in the Hospital's Net Position

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	$ 21,394,105	$ 18,468,089	$ 15,330,451
Assisted living and multi-unit housing revenue	396,484	347,935	364,887
Other operating revenues	294,511	254,786	319,620
Total operating revenues	22,085,100	19,070,810	16,014,958
Operating Expenses			
Salaries, wages and employee benefits	14,508,855	12,929,648	9,579,412
Medical professional fees	1,564,216	1,863,709	1,921,811
Depreciation and amortization	1,306,458	1,263,019	1,166,651
Other operating expenses	6,188,217	5,331,286	4,929,554
Total operating expenses	23,567,746	21,387,662	17,597,428
Operating Loss	(1,482,646)	(2,316,852)	(1,582,470)
Nonoperating Revenues (Expenses)			
Property taxes	1,035,121	1,115,546	1,013,568
Interest income	28,038	24,935	31,125
Interest expense	(390,148)	(417,272)	(414,459)
Noncapital gifts	29,653	22,150	34,392
Total nonoperating revenues	702,664	745,359	664,626
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(779,982)	(1,571,493)	(917,844)
Capital Grants and Contributions	34,188	36,386	90,950
Decrease in Net Position	$ (745,794)	$ (1,535,107)	$ (826,894)

Operating Loss

The first component of the overall change in the Hospital's net position 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 2013, 2012 and 2011, 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 2013, the Hospital increased gross revenues by 17% from 2012. The operating loss was largely due to ramp up at the beginning of the year of new providers that were added in 2012 prior to rural health clinic status and losses associated with disposal of assets in preparation for the divestiture of non-reimbursable cost centers.

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.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital gifts. Nonoperating revenues decreased by $42,695 or 6% in 2013 compared to 2012. Nonoperating revenues increased by $80,733 or 12% in 2012 compared to 2011. The cause of the 2013 decrease relates primarily to a decrease in property tax revenues. The cause of the 2012 increase relates to the increase in property tax revenues.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenues in 2013 and 2012, as discussed earlier.

Capital Asset and Debt Administration

<u>Capital Assets</u>

At the end of 2013, the Hospital had $9.1 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $766,249 in 2013.

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.

<u>Debt</u>

At the end of 2013 and 2012, the Hospital had approximately $7.4 and $7.5 million in long-term debt outstanding consisting of capital leases, revenue bonds and notes payable to banks, respectively. The Hospital's bank notes increased $334,210 and $191,126 for the buy-out of capital leases in 2013 and the purchase and construction of physician clinics in 2012, 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. Legislative uncertainty remains the largest unknown for management to navigate. The Hospital was negatively impacted in 2013 by a reduction in certain payments by 2% due to sequestration. Concern remains for the de novo look into the 35 mile CAH qualification rule and the impact of the Affordable Care Act is incalculable.

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, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	$ 296,361	$ 439,476
Current portion restricted under debt agreements	183,242	228,975
Current portion designated for health insurance	252,264	80,074
Patient accounts receivable, net of allowance; 2013 – $550,000, 2012 – $634,700	2,919,699	2,514,815
Other receivables	301,026	142,102
Current portion of pledges receivable	20,000	150,000
Property taxes receivable	1,002,784	1,056,859
Inventories	307,897	301,122
Prepaid expenses	142,878	90,611
Total current assets	5,426,151	5,004,034
Noncurrent Cash and Deposits		
Internally designated for capital improvements	1,771,134	1,346,020
Internally designated for health insurance	-	103,517
Restricted for payment reserve – capital lease	15,318	15,318
Restricted under debt agreements	1,207,583	1,205,839
Total noncurrent cash and deposits	2,994,035	2,670,694
Capital Assets, Net	9,087,167	9,922,392
Other Assets		
Debt issue costs	132,701	139,421
Other noncurrent assets	-	6,562
Total other assets	132,701	145,983
Total Assets	$ 17,640,054	$ 17,743,103

See Notes to Financial Statements

Liabilities and Net Position

	2013	2012
Current Liabilities		
Accounts payable	$ 913,853	$ 814,859
Accrued payroll and related liabilities	715,140	580,963
Accrued health insurance payable	295,149	80,074
Accrued interest payable	117,981	122,118
Estimated amounts due to third-party payers	425,000	93,000
Deferred revenue for property taxes	983,992	1,040,740
Accrued vacation	465,349	445,435
Current maturities of long-term debt	300,124	473,078
Total current liabilities	4,216,588	3,650,267
Other Post-employment Benefit Obligation	109,401	79,401
Long-term Debt, Net of Current Portion	7,100,397	7,053,973
Total liabilities	11,426,386	10,783,641
Net Position		
Net investment in capital assets	1,659,555	2,263,784
Restricted by donor for capital expenditures	20,000	150,000
Restricted under debt agreements	1,089,602	1,312,696
Restricted for payment reserve – capital lease	15,318	15,318
Unrestricted	3,429,193	3,217,664
Total net position	6,213,668	6,959,462
Total Liabilities and Net Position	$ 17,640,054	$ 17,743,103

Wayne County Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 22,333,233	$ 19,139,243
Provision for uncollectible accounts	939,128	671,154
Net patient service revenue	21,394,105	18,468,089
Assisted living and multi-unit housing revenue	396,484	347,935
Other	294,511	254,786
Total operating revenues	22,085,100	19,070,810
Operating Expenses		
Salaries and wages	11,605,725	10,222,795
Employee benefits	2,903,130	2,706,853
Medical professional fees	1,564,216	1,863,709
Supplies and other	3,614,555	3,193,907
General services	723,723	632,779
Administrative services	1,270,733	1,238,883
Insurance	277,470	265,717
Loss on disposal of capital assets	301,736	-
Depreciation and amortization	1,306,458	1,263,019
Total operating expenses	23,567,746	21,387,662
Operating Loss	(1,482,646)	(2,316,852)
Nonoperating Revenues (Expenses)		
Property taxes	1,035,121	1,115,546
Interest income	28,038	24,935
Interest expense	(390,148)	(417,272)
Noncapital gifts	29,653	22,150
Total nonoperating revenues	702,664	745,359
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(779,982)	(1,571,493)
Capital Grants and Contributions	34,188	36,386
Decrease in Net Position	(745,794)	(1,535,107)
Net Position, Beginning of Year	6,959,462	8,494,569
Net Position, End of Year	$ 6,213,668	$ 6,959,462

Wayne County Hospital

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	$ 21,717,705	$ 19,389,858
Payments to suppliers and contractors	(7,084,485)	(7,299,069)
Payments to employees	(14,461,677)	(12,608,939)
Other receipts, net	276,389	743,486
Net cash provided by operating activities	447,932	225,336
Noncapital Financing Activities		
Property taxes	1,035,121	1,115,546
Noncapital gifts	29,653	22,150
Net cash provided by noncapital financing activities	1,064,774	1,137,696
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(460,740)	(670,665)
Interest paid on capital debt and leases	(394,285)	(418,611)
Proceeds from long-term debt	334,210	191,126
Proceeds from sale of capital assets	-	5,500
Capital contributions	164,188	186,386
Purchase of capital assets	(877,434)	(821,673)
Net cash used in capital and related financing activities	(1,234,061)	(1,527,937)
Investing Activities		
Interest on deposits	28,038	24,935
Purchase of deposits	(1,744)	(438,051)
Proceeds from disposition of deposits	1,352	431,916
Net cash provided by investing activities	27,646	18,800
Increase (Decrease) in Cash and Cash Equivalents	306,291	(146,105)
Cash and Cash Equivalents, Beginning of Year	2,192,322	2,338,427
Cash and Cash Equivalents, End of Year	$ 2,498,613	$ 2,192,322

Wayne County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 296,361	$ 439,476
Current portion restricted under debt agreements	183,242	228,975
Current portion designated for health insurance	252,264	80,074
Noncurrent cash and deposits		
Internally designated for capital improvements	1,766,746	1,340,280
Internally designated for health insurance	-	103,517
	$ 2,498,613	$ 2,192,322
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	$ (1,482,646)	$ (2,316,852)
Depreciation and amortization	1,306,458	1,263,019
Loss on sale of capital assets	301,736	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(404,884)	150,534
Supplies, prepaid expenses and other current assets	(214,078)	(44,955)
Estimated amounts due from and to third-party payers	332,000	949,000
Accounts payable and accrued expenses	609,346	224,590
Net cash provided by operating activities	$ 447,932	$ 225,336
Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ 159,792	$ 270,977

Wayne County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of savings accounts.

Property Taxes

The Hospital received approximately 4% and 5% of its financial support from property tax revenues in the years ended June 30, 2013 and 2012, 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

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.

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.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, 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 position are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position 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 position.

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 $49,753 and $42,631 for 2013 and 2012, 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 (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payments received for Medicaid qualified EHR technology expenditures during 2013 and 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare and Medicaid beneficiaries. The Hospital recorded revenues of $72,250 and $525,700, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012, respectively.

Subsequent Events

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

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 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. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2021.

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.

In 2012, the Hospital was notified by the Medicare Administrative Contractor that Medicare cost reports were 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 including related amounts for 2011 and 2012; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 54% and 44% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2013 and 2012, 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, 2013 and 2012. The Hospital's deposits in banks at June 30, 2013 and 2012 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, 2013 and 2012.

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	$ 3,725,902	$ 3,419,219

	2013	2012
Included in the following balance sheet captions		
Cash and cash equivalents	$ 296,361	$ 439,476
Current portion restricted under debt agreements	183,242	228,975
Current portion designated for health insurance	252,264	80,074
Noncurrent cash and deposits		
Internally designated for capital improvements	1,771,134	1,346,020
Internally designated for health insurance	-	103,517
Restricted for payment reserve - capital lease	15,318	15,318
Restricted under debt agreements	1,207,583	1,205,839
	$ 3,725,902	$ 3,419,219

Interest Income

Interest income for the years ended June 30, 2013 and 2012 consisted of:

	2013	2012
Interest income	$ 28,038	$ 24,935

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, 2013 and 2012 consisted of:

	2013	2012
Medicare	$ 923,432	$ 793,187
Medicaid	329,233	296,562
Other third-party payers	1,307,378	1,069,888
Patients	909,656	989,878
	3,469,699	3,149,515
Less allowance for uncollectible accounts	550,000	634,700
	$ 2,919,699	$ 2,514,815

Note 5: Pledges Receivable

During the year ended June 30, 2008, the Hospital received a number of pledge contributions for a construction project of which the full amount was received in 2013. An additional amount was pledged in 2013 for certain equipment. An allowance for uncollectible pledges was not considered necessary as of June 30, 2013 or 2012. All pledges receivable were due in less than one year at June 30, 2013 and 2012.

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2013					
Land	$ 108,431	$ -	$ -	$ -	$ 108,431
Land improvements	420,261	-	8,971	-	411,290
Buildings	11,811,236	45,500	463,661	-	11,393,075
Fixed equipment	2,621,122	-	74,382	-	2,546,740
Major movable equipment	4,115,417	720,749	287,318	-	4,548,848
Construction in progress	282,026	-	-	-	282,026
	19,358,493	766,249	834,332	-	19,290,410
Less accumulated depreciation					
Land improvements	317,597	18,468	5,412	-	330,653
Buildings	4,787,572	633,166	298,020	-	5,122,718
Fixed equipment	1,714,874	122,330	35,109	-	1,802,095
Major movable equipment	2,616,058	525,774	194,055	-	2,947,777
	9,436,101	1,299,738	532,596	-	10,203,243
Capital assets, net	$ 9,922,392	$ (533,489)	$ 301,736	$ -	$ 9,087,167

	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

The construction in progress in 2013 is primarily related to an electronic health records project. The project is expected to be completed in 2014 and is being funded by internal funds.

The Board of Trustees approved the transfer of assets 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 the surrounding community and charitable purposes. The total cost of the assets as of December 31, 2012 were $493,353 with accumulated depreciation of $314,455. The Hospital plans to transfer additional capital assets with a net book value of approximately $57,000 in 2014.

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 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	$ 80,074	$ 58,539
Current year claims incurred and changes in estimates for claims incurred in prior year	1,331,161	1,012,323
Payments for claims	(1,116,086)	(990,788)
Balance, end of year	$ 295,149	$ 80,074

Total amounts expensed for health insurance benefits were $1,108,418 and $1,114,578 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable					
Series 2008 (A)	$ 6,720,000	$ -	$ (185,000)	$ 6,535,000	$ 195,000
Note payable to Bank (B)	160,209	113,010	(35,926)	237,293	-
Note payable to Bank (C)	113,010	221,200	(130,418)	203,792	-
Clark Electric note (D)	33,557	-	(22,222)	11,335	11,335
Capital lease obligations (E)	494,073	-	(87,174)	406,899	93,789
Unamortized bond premium	6,202	-	-	6,202	-
	$ 7,527,051	$ 334,210	$ (460,740)	$ 7,400,521	$ 300,124

	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

(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 $597,583 at June 30, 2013.

(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 extended to August 2013 with an interest rate of 2.25%. Subsequent to year end, it was extended to August 2014 at which time the principal and interest is due; along with the interest rate reduced to 1.85%; 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 extended to August 2013 with an interest rate of 2.25%. Subsequent to year end, it was extended to August 2014 at which time the principal and interest is due; along with the interest rate reduced to 1.85%; 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 monthly payments of principal and interest of $8,152 through February 2015.

The debt service requirements on the Series 2008 bonds, as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	550,470	235,000	315,470
2019-2023	2,752,828	1,365,000	1,387,828
2024-2028	2,750,295	1,770,000	980,295
2029-2033	2,753,026	2,335,000	418,026
	$ 10,998,624	$ 6,535,000	$ 4,463,624

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

June 30,	Paid	Principal	Interest
2014	$ -	$ -	$ -
2015	450,264	441,085	9,179

Assets acquired under capital leases are as follows:

	2013	2012
Child day care center	$ 288,000	$ 288,000
Movable equipment	265,486	403,485
Less accumulated amortization	(228,019)	(268,843)
	$ 325,467	$ 422,642

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	$ 114,244	$ 93,789	$ 20,455
2015	81,819	68,230	13,589
2016	16,416	4,855	11,561
2017	16,416	5,091	11,325
2018	16,416	5,339	11,077
2019-2023	82,080	30,857	51,223
2024-2028	82,080	39,139	42,941
2029-2033	82,080	49,643	32,437
2034-2038	82,080	62,966	19,114
2039-2043	50,613	46,990	3,623
	$ 624,244	$ 406,899	$ 217,345

Note 10: 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 5.78% and 5.38% of their annual covered salaries and the Hospital is required to contribute 8.67% and 8.07% of annual covered payroll for 2013 and 2012, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2013, 2012 and 2011 were $955,098, $796,907 and $520,924, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.67% of annual covered salary for 2013.

Note 11: 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 $348,506 and $382,583 were incurred for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the Hospital had accounts payable to the organization of $49,754 and $30,293, respectively.

Note 12: Postemployment Health Care Plan

Plan Description

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, 2012, 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:

	2013	2012
Annual required contribution (ARC)	$ 23,000	$ 37,018
Interest on net OPEB obligation	4,000	1,851
Adjustment to ARC	4,000	(1,250)
Annual OPEB cost	31,000	37,619
Contributions during the year	(1,000)	(7,000)
Increase in net OPEB obligation	30,000	30,619
Net OPEB - beginning of year	79,401	48,782
Net OPEB - end of year	$ 109,401	$ 79,401

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013, 2012 and 2011 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
06/30/13	$ 31,000	$ 1,000	3.23%	$ 109,401
06/30/12	37,619	7,000	18.61%	79,401
06/30/11	27,782	4,000	14.40%	48,782

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Hospital does not have a funded plan, resulting in an unfunded actuarial accrued liability (UAAL) of $87,000. The covered payroll (annual payroll of active employees covered by the plan) was $8,297,917, and the ratio of the UAAL to the covered payroll was 1.0%.

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, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% 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 9% percent initially, reduced by decrements of .5% to an ultimate rate of 5% after 8 years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2013 was 29 years.

Note 13: 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, 2013:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 1,035,121	$ -	$ 1,035,121	$ 1,036,240
Other revenues/receipts	22,176,979	(72,884)	22,104,095	23,217,701
	23,212,100	(72,884)	23,139,216	24,253,941
Expenses/disbursements	23,957,894	(395,269)	23,562,625	24,433,527
	(745,794)	322,385	(423,409)	(179,586)
Balance, beginning of year	6,959,462	832,800	7,792,262	7,792,262
Balance, end of year	$ 6,213,668	$ 1,155,185	$ 7,368,853	$ 7,612,676

Supplementary Information

Wayne County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	$ 1,925,108	$ 1,925,108		$ 1,833,638	$ 1,833,638	
Skilled nursing care	674,854	674,854		722,958	722,958	
Obstetrics	355,810	355,810		290,410	290,410	
Nursery	206,236	206,236		170,310	170,310	
Special care	141,710	141,710		74,200	74,200	
	3,303,718	3,303,718		3,091,516	3,091,516	
Other Nursing Services						
Operating and recovery rooms	3,238,628	530,396	$ 2,708,232	2,660,115	411,076	$ 2,249,039
Delivery and labor room	286,007	213,161	72,846	234,368	184,958	49,410
Medical and surgical supplies	1,876,820	1,260,245	616,575	1,331,773	738,417	593,356
Emergency service	2,384,884	48,065	2,336,819	1,803,463	38,075	1,765,388
Ambulance	1,103,475		1,103,475	1,072,252		1,072,252
Kidney dialysis	871,850	-	871,850	983,592	456	983,136
	9,761,664	2,051,867	7,709,797	8,085,563	1,372,982	6,712,581
Other Professional Services						
Laboratory	4,150,348	826,786	3,323,562	3,060,386	598,336	2,462,050
Electrocardiology	434,193	27,004	407,189	292,532	24,940	267,592
Radiology	5,006,773	419,927	4,586,846	4,256,687	353,129	3,903,558
Pharmacy	2,605,963	928,626	1,677,337	2,845,459	989,817	1,855,642
Anesthesiology	1,186,638	75,801	1,110,837	864,460	99,442	765,018
Respiratory therapy	302,919	197,736	105,183	267,016	200,351	66,665
Physical therapy	894,006	205,006	689,000	704,597	169,099	535,498
Speech therapy	39,988	20,758	19,230	30,477	19,894	10,583
Occupational therapy	217,266	93,327	123,939	194,284	93,389	100,895
Lineville clinic	209,834		209,834	203,042		203,042
SCIMC clinic	3,762,129		3,762,129	3,622,935		3,622,935
Seymour medical clinic	450,151		450,151	380,400		380,400
Dental clinic	827,794		827,794	667,765		667,765
Surgeon and outpatient clinics	1,269,244		1,269,244	941,332		941,332
Cardiac Rehab	91,743		91,743	2,850		2,850
Wound care clinic	106,930		106,930	69,142		69,142
HFMC	258,972		258,972	231,801		231,801
	21,814,891	2,794,971	19,019,920	18,635,165	2,548,397	16,086,768
Gross Patient Service Revenue	34,880,273	$ 8,150,556	$ 26,729,717	29,812,244	$ 7,012,895	$ 22,799,349
Contractual Adjustments	(12,619,290)			(11,198,701)		
Electronic Health Records Incentive Program Revenue	72,250			525,700		
Net Patient Service Revenue before Provision for Uncollectible Accounts	22,333,233			19,139,243		
Provision for Uncollectible Accounts	(939,128)			(671,154)		
Net Patient Service Revenue	$ 21,394,105			$ 18,468,089		

See Independent Auditor's Report

Wayne County Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2013 and 2012

	2013	2012
Other Revenues		
Office rent	$ 27,242	$ 26,333
Miscellaneous	19,641	23,034
Cafeteria	235,242	194,867
Meals on Wheels	11,381	9,672
Community programs	1,005	880
	$ 294,511	$ 254,786

Wayne County Hospital

Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	$ 102,451	$ 98,935	$ 3,516	$ 131,486	$ 124,458	$ 7,028
Operating room	1,435,419	356,330	1,079,089	1,216,008	309,267	906,741
Medical surgical	1,796,513	1,454,491	342,022	1,514,967	1,316,605	198,362
Nursery	10,944	10,944		14,632	14,632	
Obstetrics	126,426	94,486	31,940	214,365	179,459	34,906
Emergency service	1,838,461	1,575,478	262,983	1,658,724	1,222,566	436,158
	5,310,214	3,590,664	1,719,550	4,750,182	3,166,987	1,583,195
Other Professional Services						
Anesthesiology	489,647		489,647	426,040		426,040
Laboratory	772,529	305,493	467,036	666,481	292,416	374,065
Electrocardiology	66,151	2,483	63,668	42,483	2,648	39,835
Ambulance	134,100	90,076	44,024	141,674	85,830	55,844
Respiratory therapy	116,124	76,179	39,945	93,758	67,276	26,482
Kidney dialysis	255,031	160,462	94,569	324,425	204,310	120,115
Radiology	810,022	269,740	540,282	983,410	254,744	728,666
Orthopedics	196,134	172,751	23,383	193,218	171,704	21,514
Speech therapy	18,134	-	18,134	19,642	-	19,642
Physical therapy	286,712	250,324	36,388	256,460	247,801	8,659
Occupational therapy	87,292	61,190	26,102	72,516	69,678	2,838
Pharmacy	676,277	198,520	477,757	745,854	183,777	562,077
Corydon medical clinic	-	-	-	2,337	800	1,537
Lineville clinic	277,403	209,383	68,020	219,650	176,990	42,660
Seymour medical clinic	361,516	251,800	109,716	260,163	211,868	48,295
SCIMC clinic	3,139,947	2,646,017	493,930	2,711,346	2,170,350	540,996
Dental clinic	607,279	402,362	204,917	491,295	326,864	164,431
Wound care clinic	50,787	25,778	25,009	33,784	20,866	12,918
Surgeon and outpatient clinics	335,646	264,150	71,496	326,630	256,038	70,592
Assisted living	251,141	195,334	55,807	265,967	221,241	44,726
Day care	22,089		22,089	20,534	-	20,534
Medical records	276,479	246,873	29,606	262,772	227,650	35,122
Cardiac Rehab	37,554	31,730	5,824	7,927	689	7,238
HFMC	259,923	208,051	51,872	260,799	161,204	99,595
	9,527,917	6,068,696	3,459,221	8,829,165	5,354,744	3,474,421
General Services						
Operation of plant	592,483	244,086	348,397	515,661	227,547	288,114
Dietary	612,295	332,173	280,122	544,645	287,928	256,717
Purchasing	83,420	52,215	31,205	69,732	46,306	23,426
Housekeeping	283,173	238,813	44,360	268,910	220,501	48,409
Laundry	61,207	41,568	19,639	59,013	42,900	16,113
	1,632,578	908,855	723,723	1,457,961	825,182	632,779
Administrative Services	2,308,243	1,037,510	1,270,733	2,114,765	875,882	1,238,883
Employee Benefits	2,903,130		2,903,130	2,706,853		2,706,853
Insurance	277,470		277,470	265,717		265,717
Loss on Disposal of Capital Assets	301,736		301,736	-		-
Depreciation	1,306,458		1,306,458	1,263,019		1,263,019
	$ 23,567,746	$ 11,605,725	$ 11,962,021	$ 21,387,662	$ 10,222,795	$ 11,164,867

See Independent Auditor's Report

Wayne County Hospital
Schedules of Patient Receivables and Allowance for Uncollectible Accounts
Years Ended June 30, 2013 and 2012

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2013	2012	2013	2012
Days Since Discharge				
0 – 30	$ 2,652,744	$ 2,262,590	56%	53%
31 – 60	633,966	393,695	13%	9%
61 – 90	531,072	303,962	11%	7%
91 and over	961,347	1,347,569	20%	31%
	4,779,129	4,307,816	100%	100%
Less				
Contractual allowances	1,309,430	1,158,301		
Allowance for uncollectible accounts	550,000	634,700		
	$ 2,919,699	$ 2,514,815		
Net Patient Service Revenue per Calendar day (excluding provision for bad debt)	$ 61,187	$ 52,436		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	48	48		

Allowance for Uncollectible Accounts

	2013	2012
Balance, beginning of year	$ 634,700	$ 778,000
Provision for year	939,128	671,154
Recoveries of accounts previously written off	307,436	343,873
	1,881,264	1,793,027
Less accounts written off	1,331,264	1,158,327
Balance, end of year	$ 550,000	$ 634,700

Wayne County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2013 and 2012

Supplies

	2013	2012
Central supply	$ 46,820	$ 42,928
Clinics	31,451	31,740
Pharmacy	94,044	89,485
Nursing	10,590	10,678
Physical therapy	598	510
Operating room	48,228	36,718
Laboratory	42,209	51,533
Dietary	11,487	12,656
Radiology	984	853
Housekeeping	1,903	2,310
Kidney dialysis	4,737	4,343
Laundry and linen	5,863	5,276
Emergency department	5,247	4,035
Dental clinic	2,634	6,652
HFMC	1,102	1,405
	$ 307,897	$ 301,122

Prepaid Expenses

	2013	2012
Insurance	$ 15,476	$ 14,056
Other	127,402	76,555
	$ 142,878	$ 90,611

Other Supplementary Information

Wayne County Hospital
Schedule of Officials
Year Ended June 30, 2013

Name	Title	Term Expires
	Board of Trustees	
Gary Runyon	Chairman	2014
Norman Riekens	Vice Chairman	2018
Jill Tueth	Secretary	2016
Darrell Cook	Treasurer	2016
Donald Besco	Member	2014
Donna Donald	Member	2018
Marvin Ryan	Member	2018
	Hospital Officials	
Daren Relph	CEO/Administrator	
Denise Hook	Chief Financial Officer	

Wayne County Hospital

Schedules of Financial and Statistical Data

Years Ended June 30, 2013 and 2012

	2013	2012
Patient Days		
Acute and ICU	1,539	1,408
Swing-bed	840	926
	2,379	2,334
Admissions (Acute and ICU)	446	412
Discharges (Acute and ICU)	447	416
Average Length of Stay in Days (Acute and ICU)	3.4	3.4
Beds	25	25
Occupancy Percentage (Acute, ICU and Swing-bed)	26.07%	25.58%

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

Board of Trustees
Wayne County Hospital
Corydon, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wayne County Hospital, which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

Compliance

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2013, 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, 2013. 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, 2013.

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, 2013 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

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 non-compliance with this requirement.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of $600 or more or failed to properly classify workers as independent contractors versus employees.

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.

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated November 14, 2013.

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

BKD, LLP

Kansas City, Missouri
November 14, 2013

Wayne County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

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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, 2013, 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

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

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

Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department 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.

Inventory Cycle

- The Materials Management Director can both receive and record inventory.

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 contractual allowances, accrued interest and deferred tax revenue. These items were not previously identified by management's internal controls.

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.

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 Reimbursement

The provisions of the Federal Government's Budget Control Act of 2011 went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The *American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2021. The estimated annual impact of sequestration for the Hospital is approximately $160,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

Critical Access Hospital Status

The Office of Inspector General (OIG) recently released a study regarding original regulatory requirements for obtaining critical access hospital (CAH) status primarily related to distance and location requirements. The study found that nearly two-thirds of CAHs would not meet the distance requirement if they were required to re-enroll. The study also noted that if CMS decertified CAHs that were 15 miles or fewer from the nearest hospitals in 2011, the Medicare program would have saved $449 million.

The OIG also has on its workplan to review swing bed reimbursement in CAHs compared to amounts reimbursed to traditional skilled nursing facilities. CAHs are paid on a cost reimbursement methodology while skilled nursing facilities are paid on prospective payment methodology that generally is less reimbursement than what would be received by a CAH for similar services.

If the Centers for Medicare and Medicaid Services were to act on the OIG study to re-enroll CAHs or make adjustments to CAH swingbed reimbursement, there could be significant financial implications for the CAH program and the Hospital.

340B Drug Pricing Program Integrity Initiative

In 2012, the Health Resources and Services Administration (HRSA) began a program integrity initiative related to the 340B drug pricing program to target risks of fraud, waste and abuse within the program. The program integrity initiative, which is intended to cover traditional hospital outpatient programs and contract retail pharmacy agreements, includes the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers began in February 2012 and may include closer scrutiny of nonprofit hospital contracts to provide indigent care and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

We recommend the Hospital ensure when it begins to participate in the 340B program, that compliance with the program requirements are monitored.

Affordable Care Act

The effects of the *Affordable Care Act* (the Act) are far-reaching and complex and will have an impact on substantially all employers. The bulk of the provisions will phase in by January 2015, with the remaining major provisions phased in by 2018. Beginning in 2015, a large employer that does not offer qualifying health insurance coverage as required under the Act, will be required to pay a penalty if any full-time employee certifies to the employer as having purchased health insurance through a state exchange and a tax credit or cost-sharing reduction is allowed or paid to the employee. To make sure you are in compliance with the Act, we suggest you work with your insurance advisor, attorney, and BKD to:

- Determine what your health insurance compliance requirements are under the Act
  - Review the regulations of the Act and compare the requirements to provide minimum essential coverage to your current health insurance plan
  - Consider new benchmarks for health insurance in your industry
  - Determine what the acceptable level of health insurance coverage is for your employees
  - Determine what the required employer contributions will be

- Determine what options are available under the Act and which is best for your business model
  - Analyze financial implications of the Act to your financial statements
  - Perform cost projections to evaluate costs and benefits of current insurance coverage, state sponsored plans or other alternatives
  - Develop a multiyear strategy for plan design and employer and employee contributions
  - Develop an implementation plan and monitoring procedures

While many of these provisions do not take effect until 2015, the evaluation should start now to determine the best options for the Hospital and what the reporting requirements to comply with the Act will be.

Electronic Health Records Meaningful Use Audits

The *American Recovery and Reinvestment Act of 2009* included significant potential funding for hospitals starting in 2011 once they demonstrated they are meaningful users of certified electronic health record (EHR) technology. Beginning in 2012, the Centers for Medicare and Medicaid Services (CMS) contracted with an accounting firm to begin conducting meaningful use audits of certified Electronic Health Record (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. As the Hospital continues implementing EHR, we recommend the Hospital evaluate and retain appropriate documentation in the event the Hospital is selected by CMS for an audit of the meaningful use of certified EHR technology for the attestation period.

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.

- Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* – Effective for the Hospital's fiscal year end June 30, 2014

- Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* – Effective for the Hospital's fiscal year end June 30, 2015

Divestiture of Assets/Services

In September 2012, it was approved that the Hospital divest itself of certain non-core assets. As of June 30, 2013, the Hospital was still heavily involved in the operations that surround these assets. If the Hospital continues to maintain significant management responsibilities surrounding the operations and assets of these non-core services, additional consideration will need to be given to combining the assets and all operations with the Hospital's financial statements in the future.

* * * * * * * *

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
November 14, 2013