Wayne County Hospital

Auditor's Report and Financial Statements

June 30, 2014 and 2013

BKD LLP
CPAs & Advisors

Wayne County Hospital
June 30, 2014 and 2013

Contents

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CPAs & Advisors

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Independent Auditor's Report

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, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Hospital as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

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 December 18, 2014 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and 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
December 18, 2014

Wayne County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Introduction

This management's discussion and analysis of the financial performance of Wayne County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents increased between 2014 and 2013 by $58,633 or 20% and decreased between 2013 and 2012 by $143,115 or 33%.
- The Hospital's net position decreased $1,868,442 or 31% in 2014 and decreased $739,074 or 11% in 2013.
- The Hospital reported an operating loss in 2014 of $2,539,441 and operating loss in 2013 of $1,475,926.
- Total operating revenues decreased by $1,023,209 or 5% in 2014 compared to 2013 and increased by $3,014,290 or 16% in 2013 compared to 2012.

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, all liabilities and all deferred inflows of resources 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, liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what 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, liabilities and deferred inflows of resources reported in the Balance Sheets. The Hospital's net position decreased by $1,868,442 or 31% in 2014 over 2013 as shown in Table 1.

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

	2014	2013 (As Restated)	2012 (As Restated)
Assets			
Patient accounts receivable, net	$ 2,721,573	$ 2,919,699	$ 2,514,815
Other current assets	2,527,701	2,506,452	2,489,219
Noncurrent cash and deposits	1,881,830	2,994,035	2,670,694
Capital assets, net	7,835,924	9,087,167	9,922,392
Other assets	-	-	6,562
Total assets	$ 14,967,028	$ 17,507,353	$ 17,603,682
Liabilities			
Current liabilities	$ 2,810,441	$ 3,232,596	$ 2,609,527
Other post-employment benefit obligation	129,401	109,401	79,401
Long-term debt	6,832,169	7,100,397	7,053,973
Total liabilities	9,772,011	10,442,394	9,742,901
Deferred Inflows of Resources - Property Taxes	982,492	983,992	1,040,740
Net Position			
Net investment in capital assets	736,085	1,659,555	2,263,784
Restricted for capital expeditures	-	20,000	150,000
Restricted under debt agreements	1,075,224	1,089,602	1,312,696
Restricted for payment reserve - capital lease	15,318	15,318	15,318
Unrestricted	2,385,898	3,296,492	3,078,243
Total net position	4,212,525	6,080,967	6,820,041
Total liabilities, deferred inflows of resources and net position	$ 14,967,028	$ 17,507,353	$ 17,603,682

In 2014, current assets decreased by $176,877 from fiscal year 2013. Capital assets decreased by $1,251,243 from year 2013 to 2014.

In 2014, current liabilities decreased by $422,155 or 13% from fiscal year 2013 due to a decrease in accounts payable and health insurance payables.

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 $623,069 or 24% from fiscal 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.

Operating Results and Changes in the Hospital's Net Position

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
		(As Restated)	*(As Restated)*
Operating Revenues			
Net patient service revenue	$ 20,521,867	$ 21,394,105	$ 18,468,089
Assisted living and multi-unit housing revenue	187,019	396,484	347,935
Other operating revenues	353,005	294,511	254,786
Total operating revenues	21,061,891	22,085,100	19,070,810
Operating Expenses			
Salaries, wages and employee benefits	15,198,744	14,508,855	12,929,648
Medical professional fees	1,540,865	1,564,216	1,863,709
Depreciation and amortization	1,237,283	1,299,738	1,256,299
Other operating expenses	5,624,440	6,188,217	5,331,286
Total operating expenses	23,601,332	23,561,026	21,380,942
Operating Loss	(2,539,441)	(1,475,926)	(2,310,132)
Nonoperating Revenues (Expenses)			
Property taxes	975,092	1,035,121	1,115,546
Interest income	41,672	28,038	24,935
Interest expense	(378,415)	(390,148)	(417,272)
Noncapital gifts	32,650	29,653	22,150
Total nonoperating revenues	670,999	702,664	745,359
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(1,868,442)	(773,262)	(1,564,773)
Capital Grants and Contributions	-	34,188	36,386
Decrease in Net Position	$ (1,868,442)	$ (739,074)	$ (1,528,387)

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 2014, 2013 and 2012, 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 2014, the Hospital's gross revenues decreased by 2% from 2013. The decrease in gross revenues was due to a decrease in patient volumes. The operating loss was a direct correlation to fixed expenses and decreasing patient volumes.

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.

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 $31,224 or 4% in 2014 compared to 2013. Nonoperating revenues decreased by $42,695 or 6% in 2013 compared to 2012. The cause of the 2014 and 2013 decreases relates primarily to a decrease 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 2014 and 2013, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Hospital had $7.8 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $90,670 in 2014.

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.

Debt

At the end of 2014 and 2013, the Hospital had approximately $7.1 and $7.4 million in long-term debt outstanding consisting of capital leases, revenue bonds and notes payable to banks, respectively. The balance of the Hospital's bank notes did not change in 2014 and increased $334,210 for the buy-out of capital leases in 2013.

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 2014 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, 2014 and 2013

Assets

	2014	2013 (As Restated)
Current Assets		
Cash and cash equivalents	$ 354,994	$ 296,361
Current portion restricted under debt agreements	182,306	183,242
Current portion designated for health insurance	166,744	252,264
Patient accounts receivable, net of allowance; 2014 – $661,000, 2013 – $550,000	2,721,573	2,919,699
Other receivables	328,363	301,026
Current portion of pledges receivable	-	20,000
Property taxes receivable	1,001,674	1,002,784
Inventories	335,532	307,897
Prepaid expenses	158,088	142,878
Total current assets	5,249,274	5,426,151
Noncurrent Cash and Deposits		
Internally designated for capital improvements	676,232	1,771,134
Restricted for payment reserve – capital lease	15,318	15,318
Restricted under debt agreements	1,190,280	1,207,583
Total noncurrent cash and deposits	1,881,830	2,994,035
Capital Assets, Net	7,835,924	9,087,167
Total Assets	$ 14,967,028	$ 17,507,353

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2014	2013 (As Restated)
Current Liabilities		
Accounts payable	$ 648,454	$ 913,853
Accrued payroll and related liabilities	719,032	715,140
Accrued health insurance payable	198,762	295,149
Accrued interest payable	115,056	117,981
Estimated amounts due to third-party payers	336,000	425,000
Accrued vacation	525,467	465,349
Current maturities of long-term debt	267,670	300,124
Total current liabilities	2,810,441	3,232,596
Other Post-Employment Benefit Obligation	129,401	109,401
Long-term Debt, Net of Current Portion	6,832,169	7,100,397
Total liabilities	9,772,011	10,442,394
Deferred Inflows of Resources – Property Taxes	982,492	983,992
Net Position		
Net investment in capital assets	736,085	1,659,555
Restricted by donor for capital expenditures	-	20,000
Restricted under debt agreements	1,075,224	1,089,602
Restricted for payment reserve – capital lease	15,318	15,318
Unrestricted	2,385,898	3,296,492
Total net position	4,212,525	6,080,967
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 14,967,028	$ 17,507,353

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

	2014	2013 *(As Restated)*
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 21,358,485	$ 22,333,233
Provision for uncollectible accounts	836,618	939,128
Net patient service revenue	20,521,867	21,394,105
Assisted living and multi-unit housing revenue	187,019	396,484
Other	353,005	294,511
Total operating revenues	21,061,891	22,085,100
Operating Expenses		
Salaries and wages	11,968,207	11,605,725
Employee benefits	3,230,537	2,903,130
Medical professional fees	1,540,865	1,564,216
Supplies and other	3,323,374	3,614,555
General services	729,244	723,723
Administrative services	1,186,186	1,270,733
Insurance	281,353	277,470
Loss on disposal of capital assets	104,283	301,736
Depreciation and amortization	1,237,283	1,299,738
Total operating expenses	23,601,332	23,561,026
Operating Loss	(2,539,441)	(1,475,926)
Nonoperating Revenues (Expenses)		
Property taxes	975,092	1,035,121
Interest income	41,672	28,038
Interest expense	(378,415)	(390,148)
Noncapital gifts	32,650	29,653
Total nonoperating revenues	670,999	702,664
Deficiency of Revenues Over Expenses Before Capital Grants and Contributions	(1,868,442)	(773,262)
Capital Grants and Contributions	-	34,188
Decrease in Net Position	(1,868,442)	(739,074)
Net Position, Beginning of Year, As Restated	6,080,967	6,820,041
Net Position, End of Year	$ 4,212,525	$ 6,080,967

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

	2014	2013 *(As Restated)*
Operating Activities		
Receipts from and on behalf of patients	$ 20,818,012	$ 21,717,705
Payments to suppliers and contractors	(7,305,861)	(7,084,485)
Payments to employees	(15,251,647)	(14,461,677)
Other receipts, net	462,581	276,389
Net cash provided by (used in) operating activities	(1,276,915)	447,932
Noncapital Financing Activities		
Property taxes	974,702	1,035,121
Noncapital gifts	32,650	29,653
Net cash provided by noncapital financing activities	1,007,352	1,064,774
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(300,682)	(460,740)
Interest paid on capital debt and leases	(381,340)	(394,285)
Proceeds from long-term debt	-	334,210
Capital contributions	20,000	164,188
Purchase of capital assets	(250,115)	(877,434)
Net cash used in capital and related financing activities	(912,137)	(1,234,061)
Investing Activities		
Interest on deposits	41,672	28,038
Purchase of deposits	-	(1,744)
Proceeds from disposition of deposits	19,755	1,352
Net cash provided by investing activities	61,427	27,646
Increase (Decrease) in Cash and Cash Equivalents	(1,120,273)	306,291
Cash and Cash Equivalents, Beginning of Year	2,498,613	2,192,322
Cash and Cash Equivalents, End of Year	$ 1,378,340	$ 2,498,613

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

	2014	2013 *(As Restated)*
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 354,994	$ 296,361
Current portion restricted under debt agreements	182,306	183,242
Current portion designated for health insurance	166,744	252,264
Noncurrent cash and deposits		
Internally designated for capital improvements	674,296	1,766,746
	$ 1,378,340	$ 2,498,613
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	$ (2,539,441)	$ (1,475,926)
Depreciation and amortization	1,237,283	1,299,738
Loss on sale of capital assets	104,283	301,736
Changes in operating assets and liabilities		
Patient accounts receivable, net	198,126	(404,884)
Supplies, prepaid expenses and other current assets	(70,182)	(214,078)
Estimated amounts due from and to third-party payers	(89,000)	332,000
Accounts payable and accrued expenses	(117,984)	609,346
Net cash provided by (used in) operating activities	$ (1,276,915)	$ 447,932
Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ -	$ 159,792

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, liabilities and deferred inflows of resources 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, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

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

Property Taxes

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

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses 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.

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 $102,419 and $49,753 for 2014 and 2013, 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 2014 and 2013, 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 $68,000 and $72,250, 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, 2014 and 2013, respectively.

Implementation of New Accounting Principle

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

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

	Reported 2013	Implementation of GASB 65	Restated 2013
Balance Sheet Items Affected			
Debt issuance costs	$ 132,701	$ (132,701)	$ -
Deferred revenue for property taxes	983,992	(983,992)	-
Total current liabilities	4,216,588	(983,992)	3,232,596
Total liabilities	11,426,386	(983,992)	10,442,394
Deferred inflows of resources - property taxes	-	983,992	983,992
Net position			
Unrestricted	3,429,193	(132,701)	3,296,492
Total net position	6,213,668	(132,701)	6,080,967
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Depreciation and amortization	1,306,458	(6,720)	1,299,738
Net position, beginning of year	6,959,462	(139,421)	6,820,041
Decrease in net position	(745,794)	6,720	(739,074)
Net position, end of year	6,213,668	(132,701)	6,080,967
Statement of Cash Flows Items Affected			
Operating loss	(1,482,646)	6,720	(1,475,926)
Depreciation and amortization	1,306,458	(6,720)	1,299,738

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH) and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2023.

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

In 2012, the Hospital was notified by the Medicare Administrative Contractor that Medicare cost reports were reopened for 2008, 2009, 2010, 2011 and 2012 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 51% and 54% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. 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, 2014 and 2013. The Hospital's deposits in banks at June 30, 2014 and 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. 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, 2014 and 2013.

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	$ 2,585,874	$ 3,725,902

	2014	2013
Included in the following balance sheet captions		
Cash and cash equivalents	$ 354,994	$ 296,361
Current portion restricted under debt agreements	182,306	183,242
Current portion designated for health insurance	166,744	252,264
Noncurrent cash and deposits		
Internally designated for capital improvements	676,232	1,771,134
Restricted for payment reserve - capital lease	15,318	15,318
Restricted under debt agreements	1,190,280	1,207,583
	$ 2,585,874	$ 3,725,902

Interest Income

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

	2014	2013
Interest income	$ 41,672	$ 28,038

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, 2014 and 2013 consisted of:

	2014	2013
Medicare	$ 646,335	$ 923,432
Medicaid	247,051	329,233
Other third-party payers	1,200,902	1,307,378
Patients	1,288,285	909,656
	3,382,573	3,469,699
Less allowance for uncollectible accounts	661,000	550,000
	$ 2,721,573	$ 2,919,699

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 of which the full amount was received in 2014. An allowance for uncollectible pledges was not considered necessary as of June 30, 2014 or 2013.

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 follows:

2014	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 108,431	$ -	$ -	$ -	$ 108,431
Land improvements	411,290	-	14,601	-	396,689
Buildings	11,393,075	-	63,380	-	11,329,695
Fixed equipment	2,546,740	-	15,186	-	2,531,554
Major movable equipment	4,548,848	40,593	221,679	331,756	4,699,518
Construction in progress	282,026	49,730	-	(331,756)	-
	19,290,410	90,323	314,846	-	19,065,887
Less accumulated depreciation					
Land improvements	330,653	14,279	8,661	-	336,271
Buildings	5,122,718	602,725	16,305	-	5,709,138
Fixed equipment	1,802,095	110,375	12,959	-	1,899,511
Major movable equipment	2,947,777	509,904	172,638	-	3,285,043
	10,203,243	1,237,283	210,563	-	11,229,963
Capital assets, net	$ 9,087,167	$ (1,146,960)	$ 104,283	$ -	$ 7,835,924

2013	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
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

The construction in progress in 2013 is primarily related to an electronic health records project. The project was completed in 2014 and was 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 transferred during

June 30, 2014 and 2013 were $192,878 and $493,353 with accumulated depreciation of $90,480 and $314,455, respectively. The related revenue and expenses was recorded on the Hospital financial statements until January 1, 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 2014 and 2013 is summarized as follows:

	2014	2013
Balance, beginning of year	$ 295,149	$ 80,074
Current year claims incurred and changes in estimates for claims incurred in prior year	1,538,724	1,331,161
Payments for claims	(1,635,111)	(1,116,086)
Balance, end of year	$ 198,762	$ 295,149

Total amounts expensed for health insurance benefits were $1,346,836 and $1,108,418 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013:

2014	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable					
Series 2008 (A)	$ 6,535,000	$ -	$ (195,000)	$ 6,340,000	$ 200,000
Note payable to Bank (B)	237,293	-	-	237,293	-
Note payable to Bank (C)	203,792	-	-	203,792	-
Clark Electric note (D)	11,335	-	(11,335)	-	-
Capital lease obligations (E)	406,899	-	(94,347)	312,552	67,670
Unamortized bond premium	6,202	-	-	6,202	-
	$ 7,400,521	$ -	$ (300,682)	$ 7,099,839	$ 267,670

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

(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 $560,349 at June 30, 2014.

As of June 30, 2014, 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, 2014 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 extended to August 2014 with an interest rate of 1.85%. Subsequent to year end, it was extended to August 2015 at which time the principal and interest is due; along with the interest rate reduced to 1.65%; 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 2014 with an interest rate of 1.85%. Subsequent to year end, it was extended to August 2015 at which time the principal and interest is due; along with the interest rate reduced to 1.65%; 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 were required in the amount of $1,852 through November 2013, at which date the note was paid off in full. The note was 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, 2014, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	548,720	245,000	303,720
2020-2024	2,757,393	1,440,000	1,317,393
2025-2029	2,746,273	1,865,000	881,273
2030-2034	2,203,763	1,920,000	283,763
	$ 10,449,679	$ 6,340,000	$ 4,109,679

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

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

Assets acquired under capital leases are as follows:

	2014	2013
Child day care center	$ 288,000	$ 288,000
Movable equipment	265,486	265,486
Less accumulated amortization	(250,017)	(228,019)
	$ 303,469	$ 325,467

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2015	$ 81,258	$ 67,670	$ 13,588
2016	16,416	4,855	11,561
2017	16,416	5,091	11,325
2018	16,416	5,339	11,077
2019	16,416	5,599	10,817
2020-2024	82,080	32,360	49,720
2025-2029	82,080	41,045	41,035
2030-2034	81,553	52,060	29,493
2035-2039	82,080	66,032	16,048
2040-2044	34,740	32,501	2,239
	$ 509,455	$ 312,552	$ 196,903

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 5.95% and 5.78% of their annual covered salaries and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for 2014 and 2013, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2014, 2013 and 2012 were $1,005,738, $955,098 and $796,907, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.93% of annual covered salary for 2014.

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 $391,987 and $348,506 were incurred for the years ended June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the Hospital had accounts payable to the organization of $27,372 and $49,754, 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:

	2014	2013
Annual required contribution (ARC)	$ 24,000	$ 23,000
Interest on net OPEB obligation	1,100	4,000
Adjustment to ARC	(1,100)	4,000
Annual OPEB cost	24,000	31,000
Contributions during the year	(4,000)	(1,000)
Increase in net OPEB obligation	20,000	30,000
Net OPEB - beginning of year	109,401	79,401
Net OPEB - end of year	$ 129,401	$ 109,401

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013 and 2012 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2014	$ 24,000	$ 4,000	16.67%	$ 129,401
June 30, 2013	31,000	1,000	3.23%	109,401
June 30, 2012	37,619	7,000	18.61%	79,401

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% 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, 2014 was 28 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, 2014:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 975,092	$ -	$ 975,092	$ 981,992
Other revenues/receipts	21,136,213	109,126	21,245,339	26,444,625
	22,111,305	109,126	22,220,431	27,426,617
Expenses/disbursements	23,979,747	188,166	24,167,913	27,584,434
	(1,868,442)	(79,040)	(1,947,482)	(157,817)
Balance, beginning of year	6,080,967	629,627	6,710,594	6,710,594
Balance, end of year	$ 4,212,525	$ 550,587	$ 4,763,112	$ 6,552,777

Note 14: Related Parties

At June 30, 2014, the Hospital was owed $280,887 from a dental clinic for employment related expenses for dentists employed by the Hospital that were incurred after January 1, 2014. This clinic was divested in January 2014.

Note 15: Future Accounting Change

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

Supplementary Information

Wayne County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2014 and 2013

	2014			2013		
	Total	**Inpatient**	**Outpatient**	**Total**	**Inpatient**	**Outpatient**
Daily Patient Services						
Medical and surgical	$ 1,508,166	$ 1,508,166		$ 1,925,108	$ 1,925,108	
Skilled nursing care	533,538	533,538		674,854	674,854	
Obstetrics	345,990	345,990		355,810	355,810	
Nursery	209,195	209,195		206,236	206,236	
Special care	68,425	68,425		141,710	141,710	
	2,665,314	2,665,314		3,303,718	3,303,718	
Other Nursing Services						
Operating and recovery rooms	3,127,551	411,518	$ 2,716,033	3,238,628	530,396	$ 2,708,232
Delivery and labor room	267,575	194,961	72,614	286,007	213,161	72,846
Medical and surgical supplies	1,809,991	1,072,571	737,420	1,876,820	1,260,245	616,575
Emergency service	2,864,150	42,622	2,821,528	2,384,884	48,065	2,336,819
Ambulance	919,044		919,044	1,103,475		1,103,475
Kidney dialysis	916,030	-	916,030	871,850	-	871,850
	9,904,341	1,721,672	8,182,669	9,761,664	2,051,867	7,709,797
Other Professional Services						
Laboratory	4,139,899	599,883	3,540,016	4,150,348	826,786	3,323,562
Electrocardiology	437,066	15,103	421,963	434,193	27,004	407,189
Radiology	4,746,566	303,303	4,443,263	5,006,773	419,927	4,586,846
Pharmacy	2,629,539	635,459	1,994,080	2,605,963	928,626	1,677,337
Anesthesiology	1,221,993	236,891	985,102	1,186,638	75,801	1,110,837
Respiratory therapy	226,654	119,420	107,234	302,919	197,736	105,183
Physical therapy	942,941	179,007	763,934	894,006	205,006	689,000
Speech therapy	26,374	11,016	15,358	39,988	20,758	19,230
Occupational therapy	194,504	65,822	128,682	217,266	93,327	123,939
Lineville clinic	252,365		252,365	209,834		209,834
SCIMC clinic	4,012,217		4,012,217	3,762,129		3,762,129
Seymour medical clinic	572,954		572,954	450,151		450,151
Dental clinic	454,701		454,701	827,794		827,794
Surgeon and outpatient clinics	1,493,778		1,493,778	1,269,244		1,269,244
Cardiac Rehab	67,640		67,640	91,743		91,743
Wound care clinic	82,890		82,890	106,930		106,930
HFMC	251,168		251,168	258,972		258,972
	21,753,249	2,165,904	19,587,345	21,814,891	2,794,971	19,019,920
Gross Patient Service Revenue	34,322,904	$ 6,552,890	$ 27,770,014	34,880,273	$ 8,150,556	$ 26,729,717
Contractual Adjustments	(13,032,419)			(12,619,290)		
Electronic Health Records Incentive Program Revenue	68,000			72,250		
Net Patient Service Revenue before Provision for Uncollectible Accounts	21,358,485			22,333,233		
Provision for Uncollectible Accounts	(836,618)			(939,128)		
Net Patient Service Revenue	$ 20,521,867			$ 21,394,105		

Wayne County Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2014 and 2013

	2014	2013
Other Revenues		
Office rent	$ 28,341	$ 27,242
Miscellaneous	44,625	19,641
Cafeteria	264,838	235,242
Meals on Wheels	13,361	11,381
Community programs	1,840	1,005
	$ 353,005	$ 294,511

Wayne County Hospital

Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014			2013		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	$ 105,000	$ 101,555	$ 3,445	$ 102,451	$ 98,935	$ 3,516
Operating room	1,370,953	353,853	1,017,100	1,435,419	356,330	1,079,089
Medical surgical	1,493,475	1,318,577	174,898	1,796,513	1,454,491	342,022
Nursery	28,152	28,152		10,944	10,944	-
Obstetrics	174,023	144,119	29,904	126,426	94,486	31,940
Emergency service	1,925,490	1,714,918	210,572	1,838,461	1,575,478	262,983
	5,097,093	3,661,174	1,435,919	5,310,214	3,590,664	1,719,550
Other Professional Services						
Anesthesiology	490,699		490,699	489,647		489,647
Laboratory	759,057	321,594	437,463	772,529	305,493	467,036
Electrocardiology	78,573	2,509	76,064	66,151	2,483	63,668
Ambulance	103,414	67,170	36,244	134,100	90,076	44,024
Respiratory therapy	106,286	71,458	34,828	116,124	76,179	39,945
Kidney dialysis	251,751	176,899	74,852	255,031	160,462	94,569
Radiology	710,330	237,154	473,176	810,022	269,740	540,282
Orthopedics	311,205	228,547	82,658	196,134	172,751	23,383
Speech therapy	13,807		13,807	18,134		18,134
Physical therapy	268,506	240,786	27,720	286,712	250,324	36,388
Occupational therapy	92,421	55,385	37,036	87,292	61,190	26,102
Pharmacy	760,324	188,739	571,585	676,277	198,520	477,757
Lineville clinic	334,496	267,184	67,312	277,403	209,383	68,020
Seymour medical clinic	498,577	346,831	151,746	361,516	251,800	109,716
SCIMC clinic	3,328,584	2,810,741	517,843	3,139,947	2,646,017	493,930
Dental clinic	381,311	265,235	116,076	607,279	402,362	204,917
Wound care clinic	33,160	19,938	13,222	50,787	25,778	25,009
Surgeon and outpatient clinics	329,815	269,951	59,864	335,646	264,150	71,496
Assisted living	137,306	120,332	16,974	251,141	195,334	55,807
Day care	23,581		23,581	22,089		22,089
Medical records	314,076	278,917	35,159	276,479	246,873	29,606
Cardiac Rehab	27,953	25,003	2,950	37,554	31,730	5,824
HFMC	289,795	222,334	67,461	259,923	208,051	51,872
	9,645,027	6,216,707	3,428,320	9,527,917	6,068,696	3,459,221
General Services						
Operation of plant	595,973	251,081	344,892	592,483	244,086	348,397
Dietary	626,683	336,362	290,321	612,295	332,173	280,122
Purchasing	85,147	53,206	31,941	83,420	52,215	31,205
Housekeeping	290,503	245,183	45,320	283,173	238,813	44,360
Laundry	65,120	48,350	16,770	61,207	41,568	19,639
	1,663,426	934,182	729,244	1,632,578	908,855	723,723
Administrative Services	2,342,330	1,156,144	1,186,186	2,308,243	1,037,510	1,270,733
Employee Benefits	3,230,537		3,230,537	2,903,130		2,903,130
Insurance	281,353		281,353	277,470		277,470
Loss on Disposal of Capital Assets	104,283		104,283	301,736		301,736
Depreciation	1,237,283		1,237,283	1,299,738		1,299,738
	$ 23,601,332	$ 11,968,207	$ 11,633,125	$ 23,561,026	$ 11,605,725	$ 11,955,301

See Independent Auditor's Report

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

Schedules of Patient Receivables

	Amounts 2014	Amounts 2013	Percent to Total 2014	Percent to Total 2013
Days Since Discharge				
0 – 30	$ 2,792,973	$ 2,652,744	59%	56%
31 – 60	462,764	633,966	10%	13%
61 – 90	377,766	531,072	8%	11%
91 and over	1,095,683	961,347	23%	20%
	4,729,186	4,779,129	100%	100%
Less				
Contractual allowances	1,346,613	1,309,430		
Allowance for uncollectible accounts	661,000	550,000		
	$ 2,721,573	$ 2,919,699		
Net Patient Service Revenue Per Calendar Day (Excluding Provision for Bad Debt)	$ 58,516	$ 61,187		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	47	48		

Allowance for Uncollectible Accounts

	2014	2013
Balance, beginning of year	$ 550,000	$ 634,700
Provision for year	836,618	939,128
Recoveries of accounts previously written off	193,911	307,436
	1,580,529	1,881,264
Less accounts written off	919,529	1,331,264
Balance, end of year	$ 661,000	$ 550,000

Wayne County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2014 and 2013

Inventories

	2014	2013
Central supply	$ 41,240	$ 46,820
Clinics	55,437	31,451
Pharmacy	115,031	94,044
Nursing	10,010	10,590
Physical therapy	713	598
Operating room	52,347	48,228
Laboratory	23,092	42,209
Dietary	11,268	11,487
Radiology	1,196	984
Housekeeping	1,996	1,903
Kidney dialysis	3,211	4,737
Laundry and linen	3,443	5,863
Emergency department	6,552	5,247
Dental clinic	-	2,634
HFMC	9,996	1,102
	$ 335,532	$ 307,897

Prepaid Expenses

	2014	2013
Insurance	$ 30,857	$ 15,476
Other	127,231	127,402
	$ 158,088	$ 142,878

Other Supplementary Information

Wayne County Hospital
Schedule of Officials
Year Ended June 30, 2014

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
Bill Wells	Member	2014
	Hospital Officials	
Daren Relph	CEO/Administrator	
Denise Hook	Chief Financial Officer	

Wayne County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2014 and 2013

	2014	2013
Patient Days		
Acute and ICU	1,221	1,539
Swing-bed	644	840
	1,865	2,379
Admissions (Acute and ICU)	397	446
Discharges (Acute and ICU)	396	447
Average Length of Stay in Days (Acute and ICU)	3.1	3.4
Beds	25	25
Occupancy Percentage (Acute, ICU and Swing-bed)	20.44%	26.07%

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 (Hospital), which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

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

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

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

Compliance

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2014. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2014.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2014 did not exceed amounts budgeted.

Questionable Expenditures

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

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 except as noted below:

Criteria or Specific Requirement – Management is responsible for ensuring controls are in place to approve proper reimbursements.

Condition – The Hospital paid one mileage reimbursement in excess of the IRS approved limits per the selections tested.

Context – The Hospital has a general policy to reimburse mileage at the IRS limit.

Effect – Requirements were not met under the Hospital's policy.

Cause – Incorrect rates were not caught during review of the reimbursement forms.

Recommendation – Management should ensure mileage reimbursement rates are approved at the proper amounts.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will ensure proper reimbursements are paid.

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.

Management's Response to Findings

The Hospital's response to the finding identified in our audit is described above. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated December 18, 2014.

Purpose of This Report

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

BKD, LLP

Kansas City, Missouri
December 18, 2014

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

Reference Number	Finding
	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 (Hospital) as of and for the year ended June 30, 2014, 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.

Payroll

- The Human Resources Assistant has the ability to change employee payroll information, upload time from payroll system, has access to payroll checks and is responsible to reconcile certain payroll information.

Inventory Cycle

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

<u>Audit Journal Entries</u>

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements affecting the Hospital's bad debt and contractual allowances, net position and accrued interest. These items were not previously identified by management's internal controls.

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

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving 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.

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 2023. The estimated annual impact of sequestration for the Hospital is approximately $117,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of 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, has resulted in over 200 audits since 2012 and the agency expects to double the number of audits performed each year. The results of the audits are made public on the HRSA website and include instances of non-compliance that may result in paybacks requiring a public letter to drug manufacturers for recoupment. The integrity initiatives also include the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers 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 as it begins to participate in the 340B program, that compliance with the program requirements are monitored.

Conversion to ICD-10

The United States Department of Health and Human Services (HHS) has issued a rule finalizing October 1, 2015 as the new compliance date for health care providers, health plans and health care clearing Houses to transition to ICD-10. This process will convert 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 the conversion date cannot be paid. The conversion will improve the information reported regarding a patients' medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to 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.

We recommend Hospital management evaluate the impact of ICD-10 on the Hospital and develop a strategic plan to address these changes and the implementation process.

Electronic Health Records Meaningful Use Audits

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

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

- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.

- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

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 standard we believe will have the most impact on the Hospital.

- Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions an Amendment of GASB 27* – Effective for the Hospital's fiscal year end June 30, 2015

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.

* * * * * * * *

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 18, 2014