

**WAYNE COUNTY HOSPITAL**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

**WAYNE COUNTY HOSPITAL  
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YEARS ENDED JUNE 30, 2004 AND 2003**

**OFFICIALS**

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WAYNE COUNTY HOSPITAL  
OFFICIALS  
YEAR ENDED JUNE 30, 2004

<u>Name</u>	<u>Title</u>
BOARD OF TRUSTEES	
Gary Runyon	Chairperson
Norm Reikens	Vice Chairperson
Ruth Ann McMurry	Secretary
Junior Rockhold	Treasurer
Harriet Gustafson	Member
Larry Harlan	Member
Bill Miles	Member
HOSPITAL OFFICIALS	
Bill Wilson	Administrator
Joyce McDanel	Chief Operating Officer
Mark Raven	Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Wayne County Hospital  
Corydon, Iowa

We have audited the accompanying financial statements of Wayne County Hospital for the years ended June 30, 2004 and 2003, which collectively comprise the Hospital's financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Hospital as of June 30, 2004 and 2003, and the in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Wayne County Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Disclosures* as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004 on our consideration of Wayne County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3-8 and the Budgetary Comparison Information on page 26 are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles.. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Wayne County Hospital's basic financial statements. The other supplementary information from pages 27-36 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the Schedule of Statistics on page 37 has been summarized from the Hospital's records and was not subjected to audit procedures. Accordingly, we express no opinion on such data.



**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
September 3, 2004

**WAYNE COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

This section of the Wayne County Hospital (the Hospital) annual audited financial report represents management's discussion and analysis of Wayne County Hospital's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on Wayne County Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

**Using This Annual Report**

The June 30, 2004 and 2003 Independent Auditors' Report includes audited financial statements that include:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

**Financial Highlights**

- The Hospital's total assets increased by \$861,135 or 7.3% in 2004 and increased by \$532,825 or 4.7% in 2003.
- The Hospital's net assets decreased by \$100,506 or 1.0% in 2004 and increased by \$165,764 or 1.7% in 2003.
- The Hospital reported operating losses of \$631,109 in 2004 and \$209,097 in 2003. This represents a decrease in 2004 of \$422,012 and a decrease in 2003 of \$327,812.

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

These financial statements report information about Wayne County Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenue and Other Revenues
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Comparative Statistics

**WAYNE COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

There were no significant changes in Wayne County Hospital's accounting policies for the Fiscal Year Ended June 30, 2004. However, in fiscal year 2005 the amount to qualify for an item as a capital expenditure will increase from \$500 to \$5000.

**Financial Analysis of the Hospital**

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Sample and the surrounding areas.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Current Assets	\$ 3,712,597	\$ 3,966,739	\$ 3,711,004
Noncurrent Cash and Investments	1,817,664	2,338,912	2,390,674
Capital Assets, Net	6,321,757	4,754,574	4,473,140
Succeeding Year Property Tax Receivable	747,962	655,219	635,573
Other Assets	<u>43,552</u>	<u>66,953</u>	<u>39,181</u>
Total Assets	<u>\$ 12,643,532</u>	<u>\$ 11,782,397</u>	<u>\$ 11,249,572</u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 905,236	\$ 917,987	\$ 568,052
Long Term Debt	1,167,128	285,480	288,000
Deferred Revenue from Succeeding Year			
Property Tax Receivable	<u>747,963</u>	<u>655,219</u>	<u>635,573</u>
Total Liabilities	<u>2,820,327</u>	<u>1,858,686</u>	<u>1,491,625</u>
Total Net Assets	<u>9,823,205</u>	<u>9,923,711</u>	<u>9,757,947</u>
Total Liabilities and Net Assets	<u>\$ 12,643,532</u>	<u>\$ 11,782,397</u>	<u>\$ 11,249,572</u>

Asset categories changing significantly during 2004 and 2003 included Cash and Cash Equivalents, Noncurrent Cash and Investments, and Capital Assets Net. Current Assets decreased by \$254,142 or 6.4% in 2004 and increased by \$255,735 or 6.9% in 2003. Noncurrent Cash and investments decreased in 2004 by \$521,248 or 22.3% and in 2003 decreased by \$51,762 or 2.2%. Capital Assets increased in 2004 by \$1,567,183 or 33% and increased in 2003 by \$281,434 or 6.3% in 2003.

The current ratio (current assets divided by current liabilities) for 2004 was 4.10 and 2003 was 4.32 in 2003. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**WAYNE COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**Table 2: Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 8,597,138	\$ 8,429,780	\$ 8,469,175
Operating Expenses	<u>9,228,247</u>	<u>8,638,877</u>	<u>8,350,460</u>
Operating Income	(631,109)	(209,097)	118,715
Non-Operating Revenues (Expenses)	<u>529,403</u>	<u>372,855</u>	<u>100,512</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	(101,706)	163,758	219,227
Capital Grants and Contributions	<u>1,200</u>	<u>2,006</u>	<u>-</u>
Increase (Decrease) in Net Assets	(100,506)	165,764	219,227
Net Assets, Beginning of Year	<u>9,923,711</u>	<u>9,757,947</u>	<u>9,538,720</u>
Net Assets, End of Year	<u>\$ 9,823,205</u>	<u>\$ 9,923,711</u>	<u>\$ 9,757,947</u>

Net patient service revenue made up 88.9% in 2004 and 89.4% in 2003 of the Wayne County Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 12,396,742	\$ 11,218,521	\$ 10,779,644
Contractual Adjustments and Provisions for Bad Debt	<u>4,753,090</u>	<u>3,682,823</u>	<u>3,447,438</u>
Net Patient Service Revenue	<u>\$ 7,643,652</u>	<u>\$ 7,535,698</u>	<u>\$ 7,332,206</u>
Contractual Adjustments as a Percent of Revenues	<u>38.34%</u>	<u>32.83%</u>	<u>31.98%</u>

Total operating expenses increased \$589,362 or 6.8% in 2004 and increased \$288,417 or 3.4% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 31-34 of the audited financial statements for this information.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was a negative 7.3% in 2004 down from negative 2.5% in 2003. Operating loss in 2004 was (\$631,109) and in 2003 was (\$209,097).

**WAYNE COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Other Operating Revenues increased by \$42,278 or 4.8% in 2004 and increased by \$109,794 or 14.0% in 2003. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues for Expenses of Wayne County Hospital			
Office Rent	\$ 117,302	\$ 93,094	\$ 132,300
Miscellaneous	65,498	89,016	25,986
County Taxes	678,496	669,486	576,892
Meals on Wheels	12,548	12,023	9,419
Cafeteria	45,624	28,498	32,281
Community Programs	-	1,965	7,410
Emergency Telephone Program	16,892	-	-
Total Other Revenues	<u>\$ 936,360</u>	<u>\$ 894,082</u>	<u>\$ 784,288</u>

**Hospital Statistical Data**

Table 5 shows the Hospital's statistical data. There has been a steady decline in utilization changes and revenue changes in inpatient services since fiscal year 2002. Each year over the past three years we have analyzed the benefit of converting to Critical Access status, but did not pursue it, hoping that these declining trends would reverse. However they did not, and Wayne County Hospital converted to Critical Access on August 1, 2004.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	1,696	1,960	2,110
Swing Bed	1,562	1,667	1,350
Newborn	87	110	196
Intermediate Care	594	614	625
Total	<u>3,939</u>	<u>4,351</u>	<u>4,281</u>
<b>Admissions</b>			
Acute	537	598	690
Swing Bed	115	102	96
Newborn	53	75	101
Intermediate Care	11	16	10
Total	<u>716</u>	<u>791</u>	<u>897</u>
<b>Discharges</b>			
Acute	539	599	690
Swing Bed	114	97	100
Newborn	53	44	101
Intermediate Care	11	15	10
Total	<u>717</u>	<u>755</u>	<u>901</u>
<b>Average Length of Stay, Acute</b>	<u>3.2</u>	<u>3.4</u>	<u>3.7</u>
<b>Beds</b>			
Acute, Swing and Intermediate	28	28	28
<b>Occupancy Percentage</b>	37.9%	41.5%	40.0%

**WAYNE COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**The Hospital's Cash Flows**

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**Capital Assets**

At June 30, 2004 the Hospital had \$6,321,757 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$297,954 to purchase new equipment; also, during 2003 and 2004 the Hospital expended approximately \$2,495,000 for construction of a ten unit Assisted Living complex, new laundry and cafeteria buildings and a four-unit Independent Living complex. In 2003, the Hospital began construction of these projects.

**Long Term Debt**

Table 6 shows a summary of the Hospital's long term debt outstanding.

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Hospital Revenue Bonds	\$ 717,947	\$ -	\$ -
Note Payable	200,000	-	-
Capital Lease Payable	285,480	288,000	288,000
 Total Long Term Debt	 <u>\$ 1,203,427</u>	 <u>\$ 288,000</u>	 <u>\$ 288,000</u>

The most significant number in Table 6 is the 2004 Hospital Revenue Bonds payable. The Board of Trustees adopted a resolution authorizing the issuance of up to \$1,200,000 of Bonds Payable in December 2003 to finance the renovation of the laundry, kitchen and cafeteria and the building of the independent living and assisted living facilities. The bonds are payable through November of 2016 at annual rates starting at 4.0%. The interest rate on the bonds will adjust on April 1 in the years 2007, 2010, 2013 and 2016 to a rate per annum determined by the Lender to be equal to the Prime Rate as published on the Interest Rate Adjustment Date in the Wall Street Journal in its Money Rate table as "Prime Rate" and if more than one Prime Rate is published on such date, then the highest of such published Prime Rates. Interest only on the unpaid outstanding principal balance of the bonds, calculated from the date of each advance, was payable on the first day of each month beginning April 1, 2004 and including July 1, 2004. The repayment terms of the bonds were finalized in August 2004 for total Bonds Payable of \$717,947. Early payoff is an option for these bonds with no penalty.

**Economic Factors**

The Economic trends in our community, as well as our population figures, have declined slightly over the past years, although there has been little change in the economic profile of the community.

Agriculture plays an important role in our community's economics. The past year's yields will not have a huge impact on the economic situation of the community.

There appears, at this time, to be no sign of any new industries making a move to our community nor are there any indications of any businesses closing. With that, the economic outlook for our community should remain steady.

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**WAYNE COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

We are experiencing an increase in uninsured patients as well as an increase in the patient portion of patient accounts which has an economic impact on our community due to the high percentage of near of below poverty level households. We implemented a Charity Program last year and have seen an increased number of applications. We have also entered into agreements with two agencies that assist in identifying patients that may be eligible for assistance as well as assist them in completing the paperwork for assistance. The second agency assists in payment arrangements for self pay portions of patient accounts.

**Contacting the Hospital**

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Wayne County Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Wayne County Hospital, Address.

**WAYNE COUNTY HOSPITAL  
BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,058,710	\$ 2,324,494
Patient Receivables, Less Allowance for Uncollectible Accounts of \$366,435 (2004) and \$297,511(2003)	1,313,735	1,340,453
Other Receivables	62,891	34,400
Current Maturities of Note Receivable	15,855	-
Inventories	175,073	182,870
Prepaid Expenses	78,725	84,522
Total Current Assets	3,704,989	3,966,739
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Improvement	1,790,583	1,467,442
Restricted Payment Reserve-Capital Lease	3,312	1,656
Restricted by Contributors	23,769	869,814
Restricted Under Debt Agreement	7,608	-
Total Noncurrent Cash and Investments	1,825,272	2,338,912
<b>CAPITAL ASSETS, NET</b>	6,321,757	4,754,574
<b>OTHER ASSETS</b>		
Note Receivable	26,552	49,953
Investment, Physician-Hospital Organization	17,000	17,000
Succeeding Year Property Tax Receivable	747,962	655,219
Total Other Assets	791,514	722,172
Total Assets	\$ 12,643,532	\$ 11,782,397

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND FUND BALANCES</b>	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 210,401	\$ 188,345
Construction Accounts Payable	113,484	186,072
Accrued Employee Compensation	329,650	308,746
Accrued Interest Payable	2,282	-
Payroll Taxes and Withholdings	116,147	70,489
Estimated Third-Party Payor Settlements	96,973	161,815
Current Portion of Long-Term Debt	36,299	2,520
Total Current Liabilities	<u>905,236</u>	<u>917,987</u>
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	747,963	655,219
<b>LONG-TERM DEBT, Net of Current Portion</b>	<u>1,167,128</u>	<u>285,480</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
Total Liabilities	2,820,327	1,858,686
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	5,118,330	4,466,574
Restricted for Capital Expenditures	23,769	869,814
Restricted Under Debt Agreements	7,608	-
Restricted for Payment Reserve - Capital Lease	3,312	1,656
Unrestricted	4,670,186	4,585,667
Total Net Assets	<u>9,823,205</u>	<u>9,923,711</u>
Total Liabilities and Net Assets	<u>\$ 12,643,532</u>	<u>\$ 11,782,397</u>

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (net of provision for bad debt of \$228,743 in 2004 and \$149,552 in 2003)	\$ 7,643,652	\$ 7,535,698
Assisted Living and Multi Unit Housing Revenue	17,126	-
Other Revenues, Including County Taxes 2004 \$678,496; 2003 \$669,486	936,360	894,082
Total Revenue	8,597,138	8,429,780
<b>EXPENSES</b>		
Nursing Service	1,976,955	1,972,146
Other Professional Service	3,453,032	3,229,239
General Service	1,029,584	791,072
Fiscal and Administrative Service and Unassigned Expenses	2,199,048	2,096,304
Depreciation	546,361	541,548
Interest	23,267	8,568
Total Expenses	9,228,247	8,638,877
<b>OPERATING LOSS</b>	(631,109)	(209,097)
<b>NON-OPERATING GAINS (LOSSES)</b>		
Interest Income	51,620	85,116
Loss on Sale of Fixed Assets	(570)	(15,419)
Unrestricted Contributions	478,353	303,158
Net Nonoperating Gains	529,403	372,855
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	(101,706)	163,758
Capital Grants and Contributions	1,200	2,006
Increase (Decrease) in Net Assets	(100,506)	165,764
Net Assets Beginning of Year	9,923,711	9,757,947
Net Assets End of Year	\$ 9,823,205	\$ 9,923,711

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Party Payors	\$ 7,622,654	\$ 7,838,884
Cash Paid to Employees	(4,941,106)	(4,759,958)
Cash Paid to Suppliers	(3,615,301)	(3,314,288)
Interest Paid on Long-Term Debt	(20,985)	(13,680)
Other Receipts and Payments, Net	257,864	224,596
Net Cash Used by Operating Activities	(696,874)	(24,446)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
County Taxes Received	678,496	669,486
Unrestricted Contributions Received	479,553	305,164
Net Cash Provided by Non-Capital Financing Activities	1,158,049	974,650
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(2,186,701)	(652,329)
Proceeds from Issuance of Long Term Debt	917,947	-
Payments on Long Term Debt	(2,520)	-
Net Cash Used by Capital and Related Financial Activities	(1,271,274)	(652,329)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in Noncurrent Cash and Investments	513,640	51,762
Interest Received	51,620	85,116
Decrease (Increase) in Other Receivables	(28,491)	66,311
Decrease (Increase) in Note Receivable	7,546	(2,867)
Net Cash Provided by Investing Activities	544,315	200,322
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(265,784)	498,197
Cash and Cash Equivalents - Beginning of Year	2,324,494	1,826,297
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,058,710	\$ 2,324,494

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Loss	\$ (631,109)	\$ (209,097)
Adjustments to Reconcile Operating Income to Net Cash Used by Operations		
County Taxes	(678,496)	(669,486)
Provision for Depreciation	546,361	541,548
Decrease (Increase) in:		
Patient Receivables	26,718	67,059
Estimated Third-Party Payor Settlements	-	74,312
Inventories	7,797	28,980
Prepaid Expenses	5,797	(19,105)
Increase (Decrease) in:		
Accounts Payable	22,056	(23,154)
Accrued Employee Compensation	20,904	42,312
Payroll Taxes and Withholdings	45,658	(14,518)
Estimated Third-Party Payor Settlements	(64,842)	161,815
Accrued Interest	2,282	(5,112)
Net Cash Used by Operating Activities	\$ (696,874)	\$ (24,446)

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

Wayne County Hospital (the Hospital) is a county public hospital, organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Wayne County. Taxes are included in other revenue when received and distributed by the County Treasurer.

**Reporting Entity**

For financial reporting purposes, Wayne County Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units, which meet the Governmental Accounting Standards Board criteria.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**Basis of Accounting**

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expense are recorded when the liability is incurred.

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**Assets and Liabilities**

The following accounting policies are followed in preparing the balance sheets:

*Cash and Cash Equivalents*

Cash and cash equivalents include savings accounts and investments in highly liquid debt instruments with an original maturity of three months or less.

*Patient Receivables*

The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients and residents are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 90 days are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historical experience of the organization. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$366,435 and \$297,511, respectively.

*Inventories*

Inventories are stated at cost, based on the first-in, first-out method.

*Capital Assets*

Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The Hospital computes depreciation on buildings and equipment using the straight-line method. Lives for the building and land improvements are fifteen to forty years, while the equipment lives range from three to twenty years. Capital expenditures of \$500 or greater are capitalized and depreciated over the life of the assets. Capital expenditures less than \$500 are expensed when incurred.

*Investments*

Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of savings accounts, certificates of deposits with original deposits greater than three months, and accrued interest receivable.

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property Tax Receivable

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 year 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 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.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets which have been internally designated and which have been restricted contributors. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for the Board-designated purposes are not considered to be restricted. Resources restricted by donors for specific operating purposes are reported in nonoperating income to the extent expended within the period.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Net Assets

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

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**Restricted Resources**

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**Operating Revenues and Expenses**

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity, as well as county tax revenue. Nonexchange revenues, including interest income, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ending June 30, 2004 and 2003 was \$17,561 and \$1,709, respectively.

**County Tax Revenue**

Taxes are levied to finance the current year are included in other nonoperating revenue.

**NOTE 2 DESIGNATED NET ASSETS**

Of the \$4,670,186 and \$4,585,667 of unrestricted net assets at June 30, 2004 and 2003, respectively, \$1,790,583 and \$1,467,442 have been designated by the Hospital's Board of Trustees for capital acquisitions. These are reflected in the Hospital noncurrent cash and investments. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 3 NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services, related to Medicare beneficiaries were paid based upon a cost reimbursement methodology. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits based thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Outpatient services are reimbursed under the Ambulatory Payment Classification (APC) method, which reimburses the Hospital a predetermined amount for most outpatient services. The APC payments are not based on the provider's annual cost report and during the transition period there is hold harmless provision which prevents the Hospital from experiencing large reductions in payment through January 1, 2005. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2003.

**Medicaid**

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

**Other**

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 12,396,742	\$ 11,218,521
Contractual Adjustments		
Medicare	3,154,790	2,527,230
Medicaid	831,199	570,484
Provision for Bad Debts	228,743	149,552
Other	538,358	435,557
Total Contractual Adjustments	<u>4,753,090</u>	<u>3,682,823</u>
Net Patient Service Revenue	<u>\$ 7,643,652</u>	<u>\$ 7,535,698</u>

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 4 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Hospital at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Receivable from Patients and Their Insurance Carriers	\$ 1,116,508	\$ 1,030,528
Receivable from Medicare	401,362	457,228
Receivable from Medicaid	162,300	150,208
Total Patient Receivables	1,680,170	1,637,964
Less Allowance for Doubtful Accounts	(366,435)	(297,511)
Patient Receivables, Net	\$ 1,313,735	\$ 1,340,453

**NOTE 5 DEPOSITS AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2004 are 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.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Hospital's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's cash and cash equivalents and investments are all category 1, which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name

At June 30, 2004 and 2003, the Hospital had bank balances as follows:

	2004	2003
Insured or Collateralized by Iowa Insurance Trust	\$ 3,920,572	\$ 4,585,897
Carrying Amount	\$ 3,883,982	\$ 4,663,406

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)**

The carrying amount of deposits and investments shown above are included in the Hospital's balance as follows:

	2004	2003
Deposits	\$ 3,883,982	\$ 4,663,406
Included in the following balance sheet captions		
Cash and Cash Equivalents	\$ 2,058,710	\$ 2,324,494
Noncurrent Cash and Investments		
Internally Designated for Capital Improvement	1,790,583	1,467,442
Restricted by Contributors	23,769	869,814
Restricted Under Debt Agreement	7,608	-
Payment Reserve-Capital Lease	3,312	1,656
	\$ 3,883,982	\$ 4,663,406

**NOTE 6 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	July 1, 2003	Additions	(Retirements)	June 30, 2004
<b>Capital Assets</b>				
Land	\$ 86,883	\$ -	\$ -	\$ 86,883
Land Improvements	273,394	82,412		355,806
Buildings	3,568,924	1,654,389	-	5,223,313
Fixed Equipment	2,073,700	890,038	-	2,963,738
Movable Equipment	2,712,101	297,954	(21,795)	2,988,260
Construction in Progress	808,971	1,686,382	(2,495,353)	-
Totals	9,523,973	4,611,175	(2,517,148)	11,618,000
<b>Accumulated Depreciation</b>				
Land Improvements	152,619	16,148	-	168,767
Buildings	1,632,070	169,002	-	1,801,072
Fixed Equipment	986,188	99,032	-	1,085,220
Movable Equipment	1,998,522	262,179	(19,517)	2,241,184
Totals	4,769,399	\$ 546,361	\$ (19,517)	5,296,243
	\$ 4,754,574		\$ (19,517)	\$ 6,321,757

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 CAPITAL ASSETS (CONTINUED)**

<b>Capital Assets</b>	July 1, 2002	Additions	(Retirements)	June 30, 2003
Land	\$ 86,883	\$ -	\$ -	\$ 86,883
Land Improvements	266,889	9,481	(2,976)	273,394
Buildings	3,540,282	28,642	-	3,568,924
Fixed Equipment	2,048,768	30,824	(5,892)	2,073,700
Movable Equipment	2,823,612	230,459	(341,970)	2,712,101
Construction in Progress	269,976	566,605	(27,610)	808,971
<b>Totals</b>	<b>9,036,410</b>	<b>866,011</b>	<b>(378,448)</b>	<b>9,523,973</b>
<b>Accumulated Depreciation</b>				
Land Improvements	139,965	15,629	(2,975)	152,619
Buildings	1,472,777	159,293	-	1,632,070
Fixed Equipment	896,483	95,597	(5,892)	986,188
Movable Equipment	2,054,045	271,029	(326,552)	1,998,522
<b>Totals</b>	<b>4,563,270</b>	<b>\$ 541,548</b>	<b>\$ (335,419)</b>	<b>4,769,399</b>
	<u>\$ 4,473,140</u>			<u>\$ 4,754,574</u>

Construction in process at June 30, 2003, consists of the construction of two independent living duplexes, an assisted living facility and new dietary and laundry facilities. All of the projects were completed during fiscal 2004. The total cost of the projects was approximately \$2,500,000. Interest expense of \$8,946 was capitalized during the construction period.

**NOTE 7 NOTE RECEIVABLE**

The Hospital has entered into an income guarantee agreement with a local physician, wherein monthly payments could be made to the physician over a twenty-four month income guarantee period, which commenced April 2000. The gross monthly income guarantee payments are reduced by the physician's monthly gross salary, which is defined as the cash available to be paid to the physician as the result of his practice in the community. The total maximum income guarantee amount is \$250,000. The aggregate amount of the income guarantee payments are considered a loan and are subject to repayment, including interest, at the applicable federal rate in effect during the month in which the agreement was executed.

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 7 NOTE RECEIVABLE (CONTINUED)**

At the end of the guarantee period, which was May 2003, a promissory note was executed, and monthly principal and interest payments will be required over a twenty-four month period that began during 2004. If requested by the Hospital, the physician will grant to the Hospital a security interest in equipment and accounts receivable. The total outstanding balance of this promissory note was \$42,407 and \$49,953 for the years ended June 30, 2004 and 2003, respectively.

**NOTE 8 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Clarke Electric Note	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 11,111
Hospital Revenue Bonds	-	717,947	-	717,947	22,310
Obligation Under Capital Lease	288,000	-	(2,520)	285,480	2,878
Total Long-Term Debt	<u>\$ 288,000</u>	<u>\$ 917,947</u>	<u>\$ (2,520)</u>	<u>\$ 1,203,427</u>	<u>\$ 36,299</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Obligation Under Capital Lease	\$ 288,000	\$ -	\$ -	\$ 288,000	\$ 2,520
Total Long-Term Debt	<u>\$ 288,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,000</u>	<u>\$ 2,520</u>

**Capital Lease Obligation**

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.

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 8 LONG-TERM DEBT (CONTINUED)**

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

The Hospital issued Revenue Bonds in the amount of \$717,947, including accrued interest, for a project to renovate the Hospital's dietary and laundry facilities. Monthly payments of \$4,388 including principal and interest are due through February 2024. The interest rate is a variable rate and is adjustable every three years. The rate is adjusted to the current prime rate as published in the Wall Street Journal. At June 30, 2004, the interest rate was 4%. The notes are collateralized by the gross revenues of the Hospital.

Below is a schedule of assets acquired under capital lease and corresponding accumulated amortization along with a schedule of future debt service.

**Assets Acquired Under Capital Lease**

	2004	2003
Child Day Care Center	\$ 288,000	\$ 288,000
Less Accumulated Amortization	(14,400)	(7,200)
Total	\$ 273,600	\$ 280,800

**Debt Service Requirements**

Years Ending June 30:	Long-Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2005	\$ 33,421	\$ 25,955	\$ 2,878	\$ 12,171
2006	47,510	27,365	3,018	13,398
2007	48,541	26,335	3,165	13,251
2008	49,613	25,263	3,319	13,097
2009	50,729	24,147	3,480	12,936
2010-2014	260,932	102,336	19,364	62,716
2015-2019	196,497	66,771	26,263	55,817
2020-2024	230,704	23,350	32,360	49,720
2025-2029	-	-	41,045	41,035
2030-2034	-	-	52,060	30,020
2035-2039	-	-	66,032	16,048
2040-2041	-	-	32,496	1,704
	\$ 917,947	\$ 321,522	\$ 285,480	\$ 321,913

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 9 RESTRICTED FUND BALANCE**

Donor restricted funds at June 30, 2004 and 2003, consists of amounts to be expended for the construction of an assisted living facility. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose in the amount of \$846,045 and \$291,672 in 2004 and 2003, respectively. The Hospital also has net assets restricted under a payment reserve for the capital lease for the daycare building and for debt service requirements.

**NOTE 10 DEFINED BENEFIT PENSION PLAN**

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$226,132, \$213,715, and \$200,540, respectively, equal to the required contributions for each year.

**NOTE 11 EMPLOYEE BENEFITS**

The Hospital has adopted a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when reported to the plan administrator. The plan contains a stop-loss provision, which limits the amount of claims paid by the plan to \$30,000 per person, in addition to an aggregate stop-loss provision of \$766,441 for the plan as a whole. Amounts recorded as expenses under this self-insurance program include claims, administration fees and stop-loss insurance premiums.

**NOTE 12 BUILDING LEASED TO OTHERS**

On April 1, 2004, the Hospital entered into an agreement to lease a medical office building located adjacent to the Hospital. The lease calls for annual lease payments of \$61,176 beginning on April 1, 2004 and ending April 2006. The minimum future rentals on the lease as of June 30, 2004 are as follows:

<u>Year Ending June 30,</u>		
2005	\$	61,176
2006		45,882

**WAYNE COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 13 RELATED ORGANIZATION**

**Management Services**

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines, under which Mercy Medical Center – Des Moines (Mercy) provides an administrator, management consultation, and other services. The arrangement does not alter the authority or responsibility of the Board of Trustees of Wayne County Hospital. Expenses for the administrative and management services received were approximately \$242,608 and \$231,100 for the years ended June 30, 2004 and 2003, respectively. The Hospital had accounts payable to Mercy of \$54,132 and \$57,141 at June 30, 2004 and 2003, respectively.

**NOTE 14 COMMITMENT AND CONTINGENCIES**

**Malpractice Claims**

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2004 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**Hospital Risk Management**

The Hospital is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

## REQUIRED SUPPLEMENTARY INFORMATION

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**WAYNE COUNTY HOSPITAL  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET  
ASSETS  
YEAR ENDED JUNE 30, 2004**

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

	<b>Actual Accrual Basis</b>	<b>Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>	<b>Variance Between Cash Basis and Budget</b>
Amount to be Raised by Taxation	\$ 678,496	\$ -	\$ 678,496	\$ 655,219	\$ 23,277
Other Revenues/Receipts	8,449,245	(37,554)	8,411,691	8,529,297	(117,606)
	<u>9,127,741</u>	<u>(37,554)</u>	<u>9,090,187</u>	<u>9,184,516</u>	<u>(94,329)</u>
Expenses/Expenditures Net	9,228,247	127,724	9,355,971	9,132,273	(223,698)
	<u>(100,506)</u>	<u>(165,278)</u>	<u>(265,784)</u>	<u>52,243</u>	<u>(318,027)</u>
Balance, Beginning	9,923,711	(7,599,217)	2,324,494	4,670,373	(2,345,879)
Balance, Ending	<u>\$ 9,823,205</u>	<u>\$ (7,764,495)</u>	<u>\$ 2,058,710</u>	<u>\$ 4,722,616</u>	<u>\$ (2,663,906)</u>

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## OTHER SUPPLEMENTARY INFORMATION

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>DAILY PATIENT SERVICES</b>		
Medical and Surgical	\$ 884,310	\$ 847,640
Obstetric	42,840	56,100
Special Care	20,500	38,990
Swing Bed	620,527	590,755
Nursery	33,516	37,637
Total	<u>1,601,693</u>	<u>1,571,122</u>
<b>OTHER NURSING SERVICES</b>		
Operating and Recovery Rooms	973,895	838,190
Delivery and Labor Room	37,694	42,673
Medical and Surgical Supplies	335,786	306,256
Emergency Service	695,595	618,409
Ambulance	408,280	449,520
Kidney Dialysis	580,178	555,443
	<u>3,031,428</u>	<u>2,810,491</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Laboratory	1,135,487	1,002,706
Electrocardiology and Monitors	158,927	185,967
Radiology	1,815,715	1,267,421
Pharmacy	1,771,600	1,605,745
Anesthesiology	471,782	416,587
Respiratory Therapy	358,576	283,190
Physical Therapy	375,335	358,706
Speech Therapy	13,543	25,153
Occupational Therapy	41,393	63,926
Medical Clinics	1,513,665	1,462,301
Daycare	125,159	166,915
Total	<u>7,781,182</u>	<u>6,838,617</u>
Charity Care	<u>(17,561)</u>	<u>(1,709)</u>
Total Gross Patient Service Revenues	12,396,742	11,218,521
Provision for Contractual and Other Adjustments	<u>(4,753,090)</u>	<u>(3,682,823)</u>
Net Patient Service Revenue	<u>\$ 7,643,652</u>	<u>\$ 7,535,698</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 884,310	\$ 847,640	\$ -	\$ -
42,840	56,100	-	-
20,500	38,990	-	-
620,527	590,755	-	-
33,516	37,637	-	-
<u>1,601,693</u>	<u>1,571,122</u>	<u>-</u>	<u>-</u>
180,447	187,908	793,448	650,282
35,239	41,525	2,455	1,148
84,434	103,511	251,352	202,745
119,872	109,326	575,723	509,083
-	-	408,280	449,520
-	-	580,178	555,443
<u>419,992</u>	<u>442,270</u>	<u>2,611,436</u>	<u>2,368,221</u>
331,783	303,404	803,704	699,302
41,859	67,845	117,068	118,122
227,628	174,589	1,588,087	1,092,832
651,150	616,451	1,120,450	989,294
48,693	55,808	423,089	360,779
290,232	229,150	68,344	54,040
164,027	178,205	211,308	180,501
10,968	18,535	2,575	6,618
29,430	33,780	11,963	30,146
-	-	1,513,665	1,462,301
-	-	125,159	166,915
<u>1,795,770</u>	<u>1,677,767</u>	<u>5,985,412</u>	<u>5,160,850</u>
(17,561)	(1,709)	-	-
<u>\$ 3,799,894</u>	<u>\$ 3,689,450</u>	<u>\$ 8,596,848</u>	<u>\$ 7,529,071</u>

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE  
REVENUE AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Medicare	\$ 3,154,790	\$ 2,527,230
Medicaid	831,199	570,484
Provision for Bad Debts	228,743	149,552
Other	<u>538,358</u>	<u>435,557</u>
 Total Adjustments	 <u>\$ 4,753,090</u>	 <u>\$ 3,682,823</u>
 <b>OTHER REVENUES</b>		
County Taxes	\$ 678,496	\$ 669,486
Office Rent	117,302	93,094
Miscellaneous	65,498	89,016
Cafeteria	45,624	28,498
Meals on Wheels	12,548	12,023
Emergency Telephone Services	16,892	-
Community Programs	<u>-</u>	<u>1,965</u>
 Totals	 <u>\$ 936,360</u>	 <u>\$ 894,082</u>

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF NURSING SERVICE EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION</b>		
Salaries	\$ 909,375	\$ 877,483
Professional Fees	51,743	44,037
Supplies and Expenses	103,192	185,300
	<u>1,064,310</u>	<u>1,106,820</u>
 <b>OPERATING AND RECOVERY ROOM</b>		
Salaries	149,198	120,449
Supplies and Expenses	41,142	44,080
	<u>190,340</u>	<u>164,529</u>
 <b>EMERGENCY AND OUTPATIENT SERVICE</b>		
Salaries	250,941	250,839
Supplies and Expenses	994	1,688
	<u>251,935</u>	<u>252,527</u>
 <b>AMBULANCE AND BIOMEDICAL</b>		
Salaries	252,423	237,892
Supplies and Expenses	25,513	31,790
	<u>277,936</u>	<u>269,682</u>
 <b>KIDNEY DIALYSIS</b>		
Salaries	111,878	107,860
Professional Fees	6,948	6,595
Supplies and Expenses	65,989	64,133
	<u>184,815</u>	<u>178,588</u>
 <b>SCHOOL NURSE</b>		
Salaries	<u>7,619</u>	-
	<u>7,619</u>	-
 Totals	<u>\$ 1,976,955</u>	<u>\$ 1,972,146</u>

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

**OTHER PROFESSIONAL SERVICE EXPENSES**

	2004	2003
<b>LABORATORY</b>		
Salaries	\$ 167,633	\$ 165,591
Professional Fees	74,057	81,905
Supplies and Expenses	133,150	124,012
	374,840	371,508
 <b>ELECTROCARDIOLOGY AND MONITORS</b>		
Professional Fees	21,502	28,708
Supplies and Expenses	2,563	1,565
	24,065	30,273
 <b>RADIOLOGY</b>		
Salaries	134,839	126,349
Professional Fees	575,261	297,658
Supplies and Expenses	35,837	43,153
	745,937	467,160
 <b>PHARMACY</b>		
Professional Fees	134,973	134,700
Drugs	309,041	337,733
Supplies and Expenses	109,631	111,641
	553,645	584,074
 <b>ANESTHESIOLOGY</b>		
Professional Fees	281,285	263,349
Supplies and Expenses	18,726	14,980
	300,011	278,329
 <b>RESPIRATORY THERAPY</b>		
Salaries	58,651	23,026
Supplies and Expenses	22,869	21,331
	81,520	44,357
 <b>PHYSICAL THERAPY</b>		
Salaries	127,211	111,298
Professional Fees	366	298
Supplies and Expenses	8,227	10,903
	135,804	122,499
 <b>SPEECH THERAPY</b>		
Professional Fees	22,275	31,000
Supplies and Expenses	5,276	5,776
	27,551	36,776

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OCCUPATIONAL THERAPY</b>		
Professional Fees	\$ 23,127	\$ 27,234
Supplies and Expenses	-	1,460
	<u>23,127</u>	<u>28,694</u>
 <b>MEDICAL CLINICS</b>		
Salaries	759,583	822,317
Professional Fees	10,155	1,348
Supplies and Expenses	139,704	143,796
	<u>909,442</u>	<u>967,461</u>
 <b>MEDICAL RECORDS</b>		
Salaries	111,225	98,331
Supplies and Expenses	31,940	52,312
	<u>143,165</u>	<u>150,643</u>
 <b>DAYCARE</b>		
Salaries	123,505	136,545
Supplies and Expenses	10,420	10,920
	<u>133,925</u>	<u>147,465</u>
 <b>Totals</b>	 <u><u>\$ 3,453,032</u></u>	 <u><u>\$ 3,229,239</u></u>

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF GENERAL SERVICE EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

**GENERAL SERVICE EXPENSES**

	<b>2004</b>	<b>2003</b>
<b>DIETARY</b>		
Salaries	\$ 156,388	\$ 122,614
Food	123,922	96,964
Supplies and Expenses	57,211	17,495
	337,521	237,073
 <b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries	120,720	105,040
Utilities	134,652	104,571
Supplies and Expenses	170,172	143,376
	425,544	352,987
 <b>HOUSEKEEPING</b>		
Salaries	151,846	134,312
Supplies and Expenses	27,391	24,632
	179,237	158,944
 <b>LAUNDRY AND LINEN</b>		
Salaries	34,754	34,131
Supplies and Expenses	7,584	7,937
	42,338	42,068
 <b>MULTI USE HOUSING</b>		
Supplies and Expenses	4,718	-
	4,718	-
 <b>ASSISTED LIVING</b>		
Salaries	20,800	-
Supplies and Expenses	19,426	-
	40,226	-
 Totals	\$ 1,029,584	\$ 791,072

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

**FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES**

	<b>2004</b>	<b>2003</b>
<b>FISCAL AND ADMINISTRATIVE SERVICES</b>		
Administration		
Salaries	\$ 326,939	\$ 321,342
Management Fees	242,607	230,437
Professional Fees	65,780	36,548
Telephone	86,014	80,391
Repairs and Maintenance	39,822	37,893
Supplies and Expense	73,315	69,381
Dues	51,229	35,364
Travel	13,071	9,623
Physician Recruitment	49	14,482
Advertising	50,717	61,805
Other Administrative Expense	89,676	106,083
Total Fiscal and Administrative Expenses	1,039,219	1,003,349
<b>UNASSIGNED EXPENSES</b>		
Employee Benefits		
FICA	269,093	252,664
IPERS	226,817	213,714
Group Health, Life Insurance, and Unemployment	536,230	525,955
Insurance	127,689	100,622
Total unassigned expenses	1,159,829	1,092,955
 Totals	 \$ 2,199,048	 \$ 2,096,304

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS  
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 803,701	33.7 %	\$ 835,362	42.0 %
31-60 Days	425,050	17.8	247,537	12.5
61-90 Days	156,362	6.6	89,904	4.5
91 Days and Over	723,826	30.4	494,125	24.9
Clinic Receivables	272,620	11.5	319,874	16.1
Total Accounts Receivable	<u>2,381,559</u>	<u>100.0 %</u>	<u>1,986,802</u>	<u>100.0 %</u>
<b>ALLOWANCES</b>				
Contractual -				
Medicare	(389,982)		(377,390)	
Medicaid	(131,243)		(30,362)	
Other	(98,635)		(40,994)	
Unapplied PIP Payments	(81,529)		99,908	
Doubtful Accounts	(366,435)		(297,511)	
Net Accounts Receivable	<u>\$ 1,313,735</u>		<u>\$ 1,340,453</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 21,568</u>		<u>\$ 20,998</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>61</u>		<u>64</u>	

**Analysis of Allowance for Doubtful Accounts**

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 297,511		\$ 340,818	
Add:				
Provision for Doubtful Accounts	228,743	3.3 %	149,552	2.6 %
Recoveries Previously Written Off	<u>(82,560)</u>	<u>(1.2)</u>	<u>(88,592)</u>	<u>(1.5)</u>
	443,694		401,778	
Deduct:				
Accounts Written Off	<u>(77,259)</u>	<u>(1.1)</u>	<u>(104,267)</u>	<u>(1.8)</u>
Ending Balance	<u>\$ 366,435</u>		<u>\$ 297,511</u>	

**WAYNE COUNTY HOSPITAL  
SCHEDULES OF INVENTORY AND PREPAID EXPENSES  
JUNE 30, 2004 AND 2003**

**INVENTORY**

	<u>2004</u>	<u>2003</u>
Central Supply	\$ 24,875	\$ 34,708
Clinics	10,008	9,834
Pharmacy	53,832	57,154
Nursing	8,914	9,163
Physical Therapy	2,705	2,489
Operating Room	37,233	32,725
Laboratory	13,031	12,252
Dietary	11,434	8,303
Radiology	5,873	5,269
Housekeeping	1,035	1,334
Kidney Dialysis	1,773	4,571
Laundry and Linen	4,360	5,068
	<u>\$ 175,073</u>	<u>\$ 182,870</u>

**PREPAID EXPENSES**

Insurance	\$ 37,886	\$ 42,411
Other	40,839	42,111
	<u>\$ 78,725</u>	<u>\$ 84,522</u>

**WAYNE COUNTY HOSPITAL  
COMPARATIVE STATISTICS  
YEARS ENDED JUNE 30, 2004 AND 2003  
UNAUDITED**

	<u>2004</u>	<u>2003</u>
<b>PATIENT DAYS</b>		
Acute	1,696	1,907
Special Care	25	53
Nursery	87	110
Swing Bed		
Skilled Nursing Care	1,562	1,667
Intermediate Care	<u>594</u>	<u>614</u>
Totals	<u><u>3,964</u></u>	<u><u>4,351</u></u>
<b>ADMISSIONS</b>		
Acute and Special Care	537	598
<b>DISCHARGES</b>		
Acute and Special Care	539	599
<b>AVERAGE LENGTH OF STAY</b>		
Acute and Special Care	3.2	3.3
<b>BEDS</b>	28	28
<b>OCCUPANCY PERCENTAGE</b>		
Including Swing Bed	<u><u>37.9%</u></u>	<u><u>41.5%</u></u>

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Trustees  
Wayne County Hospital  
Corydon, Iowa

We have audited the financial statements of Wayne County Hospital as of and for the year ended June 30, 2004, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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

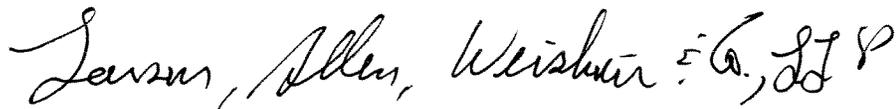
In planning and performing our audit, we considered Wayne County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Wayne County 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 an instance of noncompliance and other matters that is required to be reported under *Government Auditing Standards*, and which is described in the Schedule of Findings.

We also noted certain additional matters that we reported to management of Wayne County Hospital in a separate letter dated September 3, 2004.

This report is intended solely for the information and use of the Board of Trustees, management, employees, and citizens of Wayne County and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
September 3, 2004

**WAYNE COUNTY HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**04-1 OFFICIAL DEPOSITORIES**

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

**04-2 CERTIFIED BUDGET**

Hospital cash basis expenditures during the year ended June 30, 2004 exceeded budgeted amounts.

**Recommendation**

We recommend monitoring the Hospital's expenditures in relation to the approved budget and amending the budget in accordance with the Code of Iowa, if required, in order to remain in compliance

**Response**

The Hospital will monitor the Hospital's expenditures and amend the budget as needed.

**Conclusion**

Response accepted

**04-3 QUESTIONABLE EXPENDITURES**

We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**04-4 TRAVEL EXPENSES**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**04-5 BUSINESS TRANSACTIONS**

No business transactions were found between the Hospital and Hospital officials and/or employees.

**04-6 BOARD MINUTES**

Board minutes were examined and appeared to give a condensed accurate account of business transacted by the Board.

**04-7 DEPOSITS AND INVESTMENTS**

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

**WAYNE COUNTY HOSPITAL  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**04-8 PUBLICATION OF BILLS ALLOWED AND SALARIES**

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the country as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish schedules of bills allowed and a schedule of salaries paid as required by the Code.