

WAYNE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2006 AND 2005

**WAYNE COUNTY HOSPITAL
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YEARS ENDED JUNE 30, 2006 AND 2005**

OFFICIALS

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WAYNE COUNTY HOSPITAL
OFFICIALS
YEAR ENDED JUNE 30, 2006

<u>Name</u>	<u>Title</u>
BOARD OF TRUSTEES	
Gary Runyon	Chairperson
Norm Reikens	Vice Chairperson
Bill Wells	Secretary
Darrell Cook	Treasurer
Harriet Gustafson	Member
Marvin Ryan	Member
Bill Miles	Member
HOSPITAL OFFICIALS	
Brian Burnside	Chief Executive Office
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, 2006 and 2005, 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.

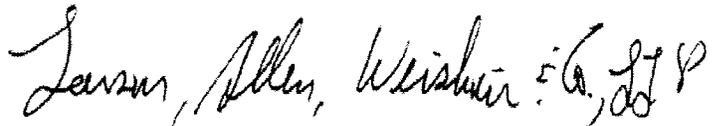
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2006 and 2005, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006 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 3-9 and the Budgetary Comparison Information on page 27 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 28-37 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 38 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, WEISHAAR & CO., LLP

Austin, Minnesota
August 17, 2006

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

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, 2006. 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, 2006 and 2005 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

- Cash and cash equivalents and investments increased by \$277,838 or 14.7% in 2006 versus a decrease of \$33,594 or 1.7% in 2005.
- The Hospital's net assets increased by \$33,739 or .4% in 2006 versus a decrease of \$301,861 or 3.1% in 2005.
- Total operating revenues increased by \$527,940 or 5.7% in 2006 versus an increase of \$674,726 or 7.8% in 2005.

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.

Supplementary information to the above statements is also provided in:

- Budgetary Comparison Schedules of Revenues, Expenses and Changes in Net Assets,
- 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, 2006 AND 2005**

There were no significant changes in Wayne County Hospital's accounting policies for the fiscal year ended June 30, 2006. However, in fiscal year 2005 the amount to qualify for an item as a capital expenditure increased from \$500 to \$5,000.

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 has 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 Wayne County and the surrounding area.

Table 1: Assets, Liabilities, and Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current Assets	\$ 3,704,509	\$ 3,650,548	\$ 3,704,989
Noncurrent Cash and Investments	1,933,055	1,950,417	1,825,272
Capital Assets, Net	5,410,170	5,699,545	6,321,757
Succeeding Year Property Tax Receivable	802,740	742,184	747,962
Other Assets	-	26,859	43,552
Total Assets	<u>\$ 11,850,474</u>	<u>\$ 12,069,553</u>	<u>\$ 12,643,532</u>
Liabilities:			
Total Current Liabilities	\$ 666,611	\$ 913,468	\$ 905,236
Long Term Debt	831,676	892,554	1,167,128
Deferred Revenue from Succeeding Year Property Tax Receivable	797,103	742,187	747,963
Total Liabilities	<u>2,295,390</u>	<u>2,548,209</u>	<u>2,820,327</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	4,517,660	4,747,692	5,118,330
Restricted for Capital Expenditures	32,903	26,288	23,769
Restricted Under Debt Agreements	9,080	7,608	7,608
Restricted for Payment Reserve - Capital Lease	6,486	4,968	3,312
Unrestricted	4,988,954	4,734,788	4,670,186
Total Net Assets	<u>9,555,083</u>	<u>9,521,344</u>	<u>9,823,205</u>
Total Liabilities and Net Assets	<u>\$ 11,850,473</u>	<u>\$ 12,069,553</u>	<u>\$ 12,643,532</u>

Asset categories changing significantly during 2006 and 2005 included cash and cash equivalents, patient accounts receivable, noncurrent cash and investments, and capital assets. Current assets increased by \$53,960 or 1.5% in 2006 versus a decrease of \$54,441 or 1.5% in 2005. Noncurrent cash and investments decreased in 2006 by \$17,362 or .9% versus an increase in 2005 of \$125,145 or 6.9%. Capital assets decreased in 2006 by \$289,375 or 5.1% versus a decrease in 2005 of \$622,212 or 9.8%.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

The current ratio (current assets divided by current liabilities) for 2006 was 5.6 versus 4.0 in 2005. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a ratio of 2.0 or higher is preferred.

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>2006</u>	<u>2005</u>	<u>2004</u>
Net Patient Service Revenue	\$ 8,563,816	\$ 8,029,110	\$ 7,643,652
Assisted Living and Multi Unit Housing	245,146	256,754	17,126
Other Operating Revenue	990,842	986,000	936,360
Total Revenue	<u>9,799,804</u>	<u>9,271,864</u>	<u>8,597,138</u>
Operating Expenses			
Nursing Service	2,404,423	2,008,259	1,976,955
Other Professional Service	3,388,685	3,419,736	3,453,032
General Service	1,223,934	1,211,355	1,029,584
Fiscal and Administrative Services	2,287,204	2,324,916	2,199,048
Depreciation	590,608	661,387	546,361
Interest	32,086	33,220	23,267
Total Expenses	<u>9,926,940</u>	<u>9,658,873</u>	<u>9,228,247</u>
Operating Loss	(127,136)	(387,009)	(631,109)
Non-Operating Revenues (Expenses)	<u>116,497</u>	<u>76,130</u>	<u>529,403</u>
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(10,639)	(310,879)	(101,706)
Capital Grants and Contributions	<u>44,378</u>	<u>9,018</u>	<u>1,200</u>
Increase (Decrease) in Net Assets	33,739	(301,861)	(100,506)
Net Assets, Beginning of Year	<u>9,521,344</u>	<u>9,823,205</u>	<u>9,923,711</u>
Net Assets, End of Year	<u>\$ 9,555,083</u>	<u>\$ 9,521,344</u>	<u>\$ 9,823,205</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

Net patient service revenue made up 87.4% in 2006 versus 86.5% in 2005 of Wayne County Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments and provisions for bad debt have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments and provisions for bad debt that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Patient Service Revenues	\$ 12,692,969	\$ 12,975,339	\$ 12,396,742
Contractual Adjustments and Provisions for Bad Debt	4,129,153	4,946,229	4,753,090
Net Patient Service Revenue	<u>\$ 8,563,816</u>	<u>\$ 8,029,110</u>	<u>\$ 7,643,652</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>32.53%</u>	<u>38.12%</u>	<u>38.34%</u>

Patient volumes declined during 2006, however, net patient service revenue continued to increase due to increases in reimbursement rates from third party payors. Net patient service revenue increased in 2005 due to increases in patient volumes as well as an increase in rates during the first year of critical access reimbursement. Total operating expenses increased \$267,977 or 2.8% in 2006 versus increasing \$430,626 or 4.7% in 2005. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 31-35 of the audited financial statements for this information.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was negative 1.3% in 2006, an improvement from negative 4.1% in 2005. The operating loss in 2006 was \$67,539 versus \$376,872 in 2005.

Other Operating Revenues increased by \$3,901 or .4% in 2006 versus an increase of \$59,777 or 6.4% in 2005. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	<u>2006</u>	<u>2005</u>	<u>2004</u>
County Taxes	\$ 742,188	\$ 744,791	\$ 678,496
Office Rent	109,629	120,808	117,302
Miscellaneous	15,268	21,432	65,498
Laundry Revenue	28,422	-	-
Cafeteria	64,258	60,147	45,624
Meals on Wheels	10,080	11,327	12,548
Emergency Telephone Services	18,975	20,810	16,892
Restricted contributions	1,522	6,185	-
Community Programs	500	500	-
Total Other Revenues	<u>\$ 990,842</u>	<u>\$ 986,000</u>	<u>\$ 936,360</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. There has been an overall decline in utilization and revenue in inpatient services since fiscal year 2003. During this time period, however, utilization has also shifted from inpatient to outpatient services. Outpatient revenue made up approximately 67% of gross patient revenue in 2003 versus approximately 75% in 2006. During 2002-2004 the benefit of converting to Critical Access status was analyzed, and this designation was obtained on August 1, 2004.

Table 5: Statistical Data

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patient Days			
Acute	1,425	1,929	1,696
Swing Bed	1,417	1,353	1,562
Newborn	131	118	87
Intermediate Care	200	608	594
Total	<u>3,173</u>	<u>4,008</u>	<u>3,939</u>
Admissions			
Acute	538	628	537
Swing Bed	108	98	115
Newborn	88	73	53
Intermediate Care	11	10	11
Total	<u>745</u>	<u>809</u>	<u>716</u>
Discharges			
Acute	533	629	539
Swing Bed	111	101	114
Newborn	88	73	53
Intermediate Care	13	10	11
Total	<u>745</u>	<u>813</u>	<u>717</u>
Average Length of Stay, Acute	<u>2.7</u>	<u>3.1</u>	<u>3.1</u>
Beds			
Acute, Swing and Intermediate	25	25	28
Occupancy Percentage	33%	43%	38%

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, 2006 the Hospital had \$5,410,170 invested in capital assets net of accumulated depreciation. In 2006, the Hospital expended \$307,706 to purchase capital assets; also, during 2004 and 2003 the Hospital expended approximately \$2,495,000 for the construction of a ten unit Assisted Living complex, new laundry and cafeteria buildings and a four-unit Independent Living complex.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

Long-Term Debt

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

Table 6: Long-Term Debt

	<u>2006</u>	<u>2005</u>	<u>2004</u>
2004 Hospital Revenue Bonds	\$ 446,036	\$ 480,362	\$ 717,947
Note Payable	166,889	188,889	200,000
Capital Lease Payable	<u>279,585</u>	<u>282,602</u>	<u>285,480</u>
Total Long-Term Debt	<u>\$ 892,510</u>	<u>\$ 951,853</u>	<u>\$ 1,203,427</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 significant impact on the economic situation of the community.

The economic outlook of the community continues to be positive. With the expected addition and expansion of various businesses in the community that are projecting to add in excess of 100 new jobs.

The Hospital also added a physician in July 2006 who will provide family practice and emergency room services.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

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 Brian Burnside at Wayne County Hospital, 417 South East Street, Corydon, Iowa 50060.

**WAYNE COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2006 AND 2005**

ASSETS	2006	2005
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,934,128	\$ 1,787,137
Patient Receivables, Less Allowance for Uncollectible Accounts of Approximately \$303,000 in 2006 and \$312,000 in 2005	1,130,542	1,323,312
Investments	230,847	100,000
Other Receivables	47,577	56,692
Current Maturities of Note Receivable	9,704	16,693
Estimated Third-Party Payor Settlements	77,348	63,463
Inventories	190,528	194,985
Prepaid Expenses	83,835	108,266
Total Current Assets	3,704,509	3,650,548
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	1,735,376	1,780,894
Internally Designated for Health Insurance	149,210	130,659
Restricted for Payment Reserve-Capital Lease	6,486	4,968
Restricted by Contributors	32,903	26,288
Restricted Under Debt Agreement	9,080	7,608
Total Noncurrent Cash and Investments	1,933,055	1,950,417
CAPITAL ASSETS, NET	5,410,170	5,699,545
OTHER ASSETS		
Note Receivable	-	9,859
Investment, Physician-Hospital Organization	-	17,000
Succeeding Year Property Tax Receivable	802,740	742,184
Total Other Assets	802,740	769,043
Total Assets	\$ 11,850,474	\$ 12,069,553

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES		
Accounts Payable	\$ 235,518	\$ 360,215
Accrued Employee Compensation	214,370	389,276
Accrued Interest Payable	2,282	2,282
Payroll Taxes and Withholdings	153,608	102,396
Current Portion of Long-Term Debt	60,834	59,299
Total Current Liabilities	<u>666,612</u>	<u>913,468</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	797,103	742,187
LONG-TERM DEBT, Net of Current Portion	<u>831,676</u>	<u>892,554</u>
COMMITMENTS AND CONTINGENCIES		
Total Liabilities	2,295,391	2,548,209
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,517,660	4,747,692
Restricted for Capital Expenditures	32,903	26,288
Restricted Under Debt Agreements	9,080	7,608
Restricted for Payment Reserve - Capital Lease	6,486	4,968
Unrestricted	4,988,954	4,734,788
Total Net Assets	<u>9,555,083</u>	<u>9,521,344</u>
Total Liabilities and Net Assets	<u>\$ 11,850,474</u>	<u>\$ 12,069,553</u>

**WAYNE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debt of \$255,797 in 2006 and \$435,106 in 2005)	\$ 8,563,816	\$ 8,029,110
Assisted Living and Multi-Unit Housing Revenue	245,146	256,754
Other Revenues, Including County Taxes 2006, \$742,188; 2005, \$744,791	990,842	986,000
Total Operating Revenues	9,799,804	9,271,864
EXPENSES		
Nursing Service	2,404,423	2,008,259
Other Professional Service	3,388,685	3,419,736
General Service	1,223,934	1,211,355
Fiscal and Administrative Service and Unassigned Expenses	2,287,204	2,324,916
Depreciation	590,608	661,387
Interest	32,086	33,220
Total Expenses	9,926,940	9,658,873
OPERATING LOSS	(127,136)	(387,009)
NON-OPERATING GAINS (LOSSES)		
Interest Income	85,026	60,499
Loss on Sale of Fixed Assets	(6,473)	(4,650)
Gain on Joint Venture	10,657	-
Unrestricted Grants and Contributions	27,287	20,281
Net Non-Operating Gains	116,497	76,130
DEFICIT OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(10,639)	(310,879)
Capital Grants and Contributions	44,378	9,018
INCREASE (DECREASE) IN NET ASSETS	33,739	(301,861)
NETS ASSETS BEGINNING OF YEAR	9,521,344	9,823,205
NETS ASSETS END OF YEAR	\$ 9,555,083	\$ 9,521,344

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 8,991,322	\$ 8,122,050
Cash Paid to Employees	(5,469,289)	(5,005,436)
Cash Paid to Suppliers	(4,054,460)	(3,812,594)
Other Receipts and Payments, Net	248,654	241,209
Net Cash Used by Operating Activities	<u>(283,773)</u>	<u>(454,771)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
County Taxes Received	742,188	744,791
Gain on Investment in Joint Venture	10,657	-
Unrestricted Contributions Received	71,665	29,299
Net Cash Provided by Non-Capital Financing Activities	<u>824,510</u>	<u>774,090</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(307,706)	(158,305)
Cash Received from Sale of Assets	-	998
Payments on Long Term Debt	(59,343)	(251,574)
Interest Paid on Long-Term Debt	(32,086)	(33,220)
Net Cash Used by Capital and Related Financial Activities	<u>(399,135)</u>	<u>(442,101)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	17,362	12,834
Increase in Investments	(130,847)	(100,000)
Interest Received	85,026	60,499
Decrease (Increase) in Investment, Physician-Hospital Organization	17,000	-
Decrease (Increase) in Note Receivable	16,848	15,855
Net Cash Provided (Used) by Investing Activities	<u>5,389</u>	<u>(10,812)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	146,991	(133,594)
Cash and Cash Equivalents - Beginning of Year	<u>1,787,137</u>	<u>1,920,731</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,934,128</u>	<u>\$ 1,787,137</u>

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (127,136)	\$ (387,009)
Adjustments to Reconcile Operating Income to Net Cash Used by Operations		
County Taxes	(742,188)	(744,791)
Provision for Depreciation	590,608	661,387
Cash Paid for Interest	32,086	33,220
Decrease (Increase) in:		
Patient Receivables	192,770	(9,577)
Estimated Third-Party Payor Settlements	(13,885)	(63,463)
Inventories	4,457	(19,912)
Prepaid Expenses	24,431	(29,541)
Other Receivables	3,475	6,199
Increase (Decrease) in:		
Accounts Payable	(124,697)	149,814
Accrued Employee Compensation	(174,906)	59,626
Payroll Taxes and Withholdings	51,212	(13,751)
Estimated Third-Party Payor Settlements	-	(96,973)
Net Cash Used by Operating Activities	\$ (283,773)	\$ (454,771)

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

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

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.

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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2006 and 2005, the allowance for uncollectible accounts was approximately \$303,000 and \$312,000, 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 \$5,000 or greater are capitalized and depreciated over the life of the assets. Capital expenditures less than \$5,000 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.

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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

County Tax Revenue

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

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, unrestricted 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, 2006 and 2005 was \$21,155 and \$10,931, respectively.

Reclassifications

Certain items in the 2005 financial statements have been reclassified for comparison purposes with the 2006 financial statements. These reclassifications did not affect the net assets or results of operations as previously reported.

NOTE 2 DESIGNATED NET ASSETS

Of the \$4,988,954 and \$4,734,788 of unrestricted net assets at June 30, 2006 and 2005, respectively, \$1,735,376 and \$1,780,894 have been designated by the Hospital's Board of Trustees for capital acquisitions and \$149,210 and \$130,659 have been designated for health insurance. 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, 2006 AND 2005**

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.

Through July 31, 2004, the Hospital's classification of patients under the Medicare program and the appropriateness of their admission were subject to an independent review by a peer review organization under contract with the Hospital. Outpatient services were reimbursed under the Ambulatory Payment Classification (APC) method, which reimbursed the Hospital a predetermined amount for most outpatient services. The APC payments were not based on the provider's annual cost report and during the transition period there was a hold harmless provision which prevented the Hospital from experiencing large reductions in payment through January 1, 2006. Effective August 1, 2004, the Hospital received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. 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. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2004.

Medicaid

Through July 31, 2004, inpatient services rendered to Medicaid program beneficiaries were paid at prospectively determined rates per discharge. Outpatient services were paid at prospectively determined rates per outpatient ambulatory patient group. Effective August 1, 2004, the Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided by Medicaid beneficiaries based on the cost of providing those services. Interim rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

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.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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

	<u>2006</u>	<u>2005</u>
Total Patient Service Revenue	\$ 12,692,969	\$ 12,975,339
Contractual Adjustments		
Medicare	2,644,624	3,303,377
Medicaid	684,671	742,811
Provision for Bad Debts	255,797	435,106
Other	544,061	464,935
Total Contractual Adjustments	<u>4,129,153</u>	<u>4,946,229</u>
Net Patient Service Revenue	<u>\$ 8,563,816</u>	<u>\$ 8,029,110</u>

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Receivable from Patients and Their Insurance Carriers	\$ 924,883	\$ 956,272
Receivable from Medicare	413,742	536,874
Receivable from Medicaid	95,370	141,943
Total Patient Receivables	<u>1,433,995</u>	<u>1,635,089</u>
Less Allowance for Doubtful Accounts	<u>(303,453)</u>	<u>(311,777)</u>
Patient Receivables, Net	<u>\$ 1,130,542</u>	<u>\$ 1,323,312</u>

NOTE 5 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2006 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 Health System's investment policy does not limit investments on interest rate risk and credit risk. The Health System complies with State of Iowa statutes in regards to interest rate and credit risk.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2005 and 2004 the Hospital's deposits at fair market value are as follows:

	<u>2006</u>	<u>2005</u>
Deposits	\$ 3,867,183	\$ 3,737,554

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

	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 1,934,128	\$ 1,787,137
Noncurrent Cash and Investments		
Internally Designated for Capital Improvement	1,735,376	1,780,894
Internally Designated for Health Insurance	149,210	130,659
Restricted Under Debt Agreement	9,080	7,608
Restricted by Contributors	32,903	26,288
Payment Reserve-Capital Lease	6,486	4,968
	<u>\$ 3,867,183</u>	<u>\$ 3,737,554</u>

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2006 and 2005 are as follows:

Capital Assets	<u>July 1, 2005</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2006</u>
Land	\$ 86,883	\$ -	\$ -	\$ 86,883
Land Improvements	370,731	-	(14,148)	356,583
Buildings	5,215,366	17,767	(60,604)	5,172,529
Fixed Equipment	2,941,768	8,279	(161,448)	2,788,599
Movable Equipment	2,783,956	293,160	(253,909)	2,823,207
Construction in Progress	11,500	6,267	(17,767)	-
Totals	11,410,204	325,473	(507,876)	11,227,801
Accumulated Depreciation				
Land Improvements	188,153	24,116	(13,667)	198,602
Buildings	2,051,024	251,998	(60,604)	2,242,418
Fixed Equipment	1,203,781	135,784	(160,089)	1,179,476
Movable Equipment	2,267,701	178,710	(249,276)	2,197,135
Totals	5,710,659	<u>\$ 590,608</u>	<u>\$ (483,636)</u>	5,817,631
	<u>\$ 5,699,545</u>			<u>\$ 5,410,170</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 6 CAPITAL ASSETS (CONTINUED)

Capital Assets	July 1, 2004	Additions	(Retirements)	June 30, 2005
Land	\$ 86,883	\$ -	\$ -	\$ 86,883
Land Improvements	355,807	17,904	(2,980)	370,731
Buildings	5,223,312	-	(7,946)	5,215,366
Fixed Equipment	2,963,738	-	(21,970)	2,941,768
Movable Equipment	2,988,260	15,417	(219,721)	2,783,956
Construction in Progress	-	11,500	-	11,500
Totals	11,618,000	44,821	(252,617)	11,410,204
Accumulated Depreciation				
Land Improvements	168,767	22,366	(2,980)	188,153
Buildings	1,801,072	257,501	(7,549)	2,051,024
Fixed Equipment	1,085,220	135,642	(17,081)	1,203,781
Movable Equipment	2,241,184	245,878	(219,361)	2,267,701
Totals	5,296,243	\$ 661,387	\$ (246,971)	5,710,659
	<u>\$ 6,321,757</u>			<u>\$ 5,699,545</u>

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.

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 \$9,704 and \$26,552 for the years ended June 30, 2006 and 2005, respectively.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 8 LONG-TERM DEBT

A schedule of changes in long-term debt for 2006 and 2005 is as follows:

	Balance July 1, 2005	Additions	(Payments)	Balance June 30, 2006	Amounts Due Within One Year
Clarke Electric Note	\$ 188,889	\$ -	\$ (22,000)	\$ 166,889	\$ 22,222
Hospital Revenue Bonds	480,362	-	(34,326)	446,036	35,447
Obligation Under Capital Lease	282,602	-	(3,017)	279,585	3,165
Total Long-Term Debt	<u>\$ 951,853</u>	<u>\$ -</u>	<u>\$ (59,343)</u>	<u>\$ 892,510</u>	<u>\$ 60,834</u>
	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Clarke Electric Note	\$ 200,000	\$ -	\$ (11,111)	\$ 188,889	\$ 22,222
Hospital Revenue Bonds	717,947	-	(237,585)	480,362	34,059
Obligation Under Capital Lease	285,480	-	(2,878)	282,602	3,018
Total Long-Term Debt	<u>\$ 1,203,427</u>	<u>\$ -</u>	<u>\$ (251,574)</u>	<u>\$ 951,853</u>	<u>\$ 59,299</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.

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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 8 LONG-TERM DEBT (CONTINUED)

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. The Hospital made an additional payment of \$200,000 on the bonds during fiscal year 2005. Remaining monthly payments of \$4,388 including principal and interest are due through November 2016. 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, 2005, the interest rate was 4%. The notes are collateralized by the gross revenues of the Hospital.

The revenue bonds contain certain financial and other covenants with which the Hospital was in compliance at June 30, 2006 and 2005.

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

	2006	2005
Child Day Care Center	\$ 288,000	\$ 288,000
Less Accumulated Amortization	(28,800)	(21,600)
Total	\$ 259,200	\$ 266,400

Debt Service Requirements

Years Ending June 30:	Long-Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2007	\$ 57,669	\$ 17,207	\$ 3,165	\$ 13,251
2008	59,113	15,763	3,319	13,097
2009	60,616	14,260	3,480	12,936
2010	62,180	12,696	3,650	12,766
2011	63,808	11,068	3,827	12,589
2012-2016	290,545	28,501	22,121	60,986
2017-2021	18,994	176	28,058	55,325
2022-2026	-	-	35,588	48,144
2027-2031	-	-	45,140	39,037
2032-2036	-	-	57,254	27,485
2037-2041	-	-	72,620	12,833
2042-2046	-	-	1,363	484
	\$ 612,925	\$ 99,671	\$ 279,585	\$ 308,933

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 9 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 \$653,854 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 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, 2006, 2005, and 2004 were \$238,576, \$228,701, and \$226,817, respectively, equal to the required contributions for each year.

NOTE 11 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 \$122,073 and \$306,583 for the years ended June 30, 2006 and 2005, respectively. The Hospital had accounts payable to Mercy of \$63,098 and \$54,132 at June 30, 2006 and 2005, respectively.

NOTE 12 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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 12 COMMITMENT AND CONTINGENCIES (CONTINUED)

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2006 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.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Purchase Commitment

The hospital has entered into an agreement whereby it retains the use of a piece of laboratory equipment at no cost contingent upon the purchase of reagents. The volume of the reagents is subject to change depending upon the Hospital's required usage, however, the estimated purchase commitment for the Hospital for the next five years based on the existing agreement is as follows:

<u>Years Ending June 30:</u>	
2007	\$ 40,137
2008	36,123
2009	32,511
2010	29,260
2011	26,334

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, 2006**

	<u>Actual Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Original Budget</u>	<u>Final to Actual Cash Basis Variance</u>
Amount to be Raised by Taxation	\$ 742,188	\$ -	\$ 742,188	\$ 742,188	\$ -
Other Revenues/Receipts	9,218,491	188,833	9,407,324	9,288,571	118,753
	<u>9,960,679</u>	<u>188,833</u>	<u>10,149,512</u>	<u>10,030,759</u>	<u>118,753</u>
Expenses/Expenditures	9,926,940	75,581	10,002,521	10,137,253	(134,732)
Net	33,739	113,252	146,991	(106,494)	253,485
Balance, Beginning	9,521,344	(7,734,207)	1,787,137	5,671,336	(3,884,199)
Balance, Ending	<u>\$ 9,555,083</u>	<u>\$ (7,620,955)</u>	<u>\$ 1,934,128</u>	<u>\$ 5,564,842</u>	<u>\$ (3,630,714)</u>

NOTE 1 RELATED ORGANIZATION

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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.

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OTHER SUPPLEMENTARY INFORMATION

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005**

	TOTAL	
	2006	2005
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 766,794	\$ 1,077,852
Obstetric	95,756	78,934
Special Care	38,253	33,588
Swing Bed	567,029	609,649
Nursery	56,985	51,330
Total	<u>1,524,817</u>	<u>1,851,353</u>
OTHER NURSING SERVICES		
Operating and Recovery Rooms	1,173,588	816,080
Delivery and Labor Room	58,869	47,520
Medical and Surgical Supplies	336,148	281,394
Emergency Service	762,770	705,536
Ambulance	552,781	473,590
Kidney Dialysis	498,046	615,217
	<u>3,382,202</u>	<u>2,939,337</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	1,186,879	1,252,775
Electrocardiology and Monitors	146,344	162,575
Radiology	1,757,265	1,815,507
Pharmacy	1,580,361	1,854,872
Anesthesiology	432,509	406,549
Respiratory Therapy	293,897	343,718
Physical Therapy	448,872	385,400
Speech Therapy	13,970	24,726
Occupational Therapy	43,146	32,853
Medical Clinics	1,750,669	1,766,671
Daycare	153,193	149,934
Total	<u>7,807,105</u>	<u>8,195,580</u>
Charity Care	<u>(21,155)</u>	<u>(10,931)</u>
Total Gross Patient Service Revenues	12,692,969	12,975,339
Provision for Contractual and Other Adjustments	<u>(4,129,153)</u>	<u>(4,946,229)</u>
Net Patient Service Revenue	<u>\$ 8,563,816</u>	<u>\$ 8,029,110</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 766,794	\$ 1,077,852	\$ -	\$ -
95,756	78,934	-	-
38,253	33,588	-	-
567,029	609,649	-	-
56,985	51,330	-	-
<u>1,524,817</u>	<u>1,851,353</u>	<u>-</u>	<u>-</u>
141,392	180,254	1,032,196	635,826
55,412	45,116	3,457	2,404
61,961	80,996	274,187	200,398
33,235	42,410	729,535	663,126
-	-	552,781	473,590
-	-	498,046	615,217
<u>292,000</u>	<u>348,776</u>	<u>3,090,202</u>	<u>2,590,561</u>
251,849	317,222	935,030	935,553
26,930	42,648	119,414	119,927
163,493	222,577	1,593,772	1,592,930
489,569	600,846	1,090,792	1,254,026
34,839	55,680	397,670	350,869
231,015	271,603	62,882	72,115
149,156	144,078	299,716	241,322
9,130	12,206	4,840	12,520
22,721	19,522	20,425	13,331
-	-	1,750,669	1,766,671
-	-	153,193	149,934
<u>1,378,702</u>	<u>1,686,382</u>	<u>6,428,403</u>	<u>6,509,198</u>
(21,155)	(10,931)	-	-
<u>\$ 3,174,364</u>	<u>\$ 3,875,580</u>	<u>\$ 9,518,605</u>	<u>\$ 9,099,759</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 2,644,624	\$ 3,303,377
Medicaid	684,671	742,811
Provision for Bad Debts	255,797	435,106
Other	<u>544,061</u>	<u>464,935</u>
 Total Adjustments	 <u>\$ 4,129,153</u>	 <u>\$ 4,946,229</u>
 OTHER REVENUES		
County Taxes	\$ 742,188	\$ 744,791
Office Rent	109,629	120,808
Miscellaneous	15,268	21,432
Laundry Revenue	28,422	-
Cafeteria	64,258	60,147
Meals on Wheels	10,080	11,327
Emergency Telephone Services	18,975	20,810
Restricted contributions	1,522	6,185
Community Programs	<u>500</u>	<u>500</u>
 Totals	 <u>\$ 990,842</u>	 <u>\$ 986,000</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NURSING SERVICE EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION		
Salaries	\$ 868,459	\$ 837,338
Professional Fees	112,755	87,135
Supplies and Expenses	110,493	101,053
	<u>1,091,707</u>	<u>1,025,526</u>
 OPERATING AND RECOVERY ROOM		
Salaries	137,389	138,176
Supplies and Expenses	290,107	61,564
	<u>427,496</u>	<u>199,740</u>
 EMERGENCY AND OUTPATIENT SERVICE		
Salaries	496,549	372,719
Supplies and Expenses	6,597	1,429
	<u>503,146</u>	<u>374,148</u>
 AMBULANCE AND BIOMEDICAL		
Salaries	145,009	187,632
Supplies and Expenses	29,563	32,709
	<u>174,572</u>	<u>220,341</u>
 KIDNEY DIALYSIS		
Salaries	112,643	105,022
Professional Fees	9,871	5,290
Supplies and Expenses	64,817	61,143
	<u>187,331</u>	<u>171,455</u>
 SCHOOL NURSE		
Salaries	20,171	17,049
	<u>20,171</u>	<u>17,049</u>
 Totals	<u>\$ 2,404,423</u>	<u>\$ 2,008,259</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

OTHER PROFESSIONAL SERVICE EXPENSES	<u>2006</u>	<u>2005</u>
LABORATORY		
Salaries	\$ 174,014	\$ 164,471
Professional Fees	88,417	84,775
Supplies and Expenses	176,472	199,318
	<u>438,903</u>	<u>448,564</u>
ELECTROCARDIOLOGY AND MONITORS		
Salaries	1,663	990
Professional Fees	24,948	21,771
Supplies and Expenses	1,812	1,840
	<u>28,423</u>	<u>24,601</u>
RADIOLOGY		
Salaries	139,407	136,287
Professional Fees	517,694	540,394
Supplies and Expenses	31,830	31,533
	<u>688,931</u>	<u>708,214</u>
PHARMACY		
Professional Fees	150,234	140,294
Drugs	336,308	376,802
Supplies and Expenses	117,672	86,510
	<u>604,214</u>	<u>603,606</u>
ANESTHESIOLOGY		
Professional Fees	254,449	241,715
Supplies and Expenses	15,487	11,343
	<u>269,936</u>	<u>253,058</u>
RESPIRATORY THERAPY		
Salaries	19,283	53,506
Supplies and Expenses	25,269	31,517
	<u>44,552</u>	<u>85,023</u>
PHYSICAL THERAPY		
Salaries	145,399	124,836
Professional Fees	258	833
Supplies and Expenses	8,240	6,817
	<u>153,897</u>	<u>132,486</u>
SPEECH THERAPY		
Professional Fees	7,338	30,448
Supplies and Expenses	1,196	7,038
	<u>8,534</u>	<u>37,486</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OCCUPATIONAL THERAPY		
Professional Fees	\$ 26,114	\$ 19,322
MEDICAL CLINICS		
Salaries	717,547	689,915
Professional Fees	11,632	9,442
Supplies and Expenses	149,934	149,892
	<u>879,113</u>	<u>849,249</u>
MEDICAL RECORDS		
Salaries	78,955	80,767
Supplies and Expenses	2,733	25,251
	<u>81,688</u>	<u>106,018</u>
DAYCARE		
Salaries	152,633	140,005
Supplies and Expenses	11,747	12,104
	<u>164,380</u>	<u>152,109</u>
 Totals	 <u>\$ 3,388,685</u>	 <u>\$ 3,419,736</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF GENERAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

GENERAL SERVICE EXPENSES	<u>2006</u>	<u>2005</u>
DIETARY		
Salaries	\$ 176,167	\$ 173,432
Food	161,891	162,980
Supplies and Expenses	<u>20,527</u>	<u>25,560</u>
	358,585	361,972
PLANT OPERATION AND MAINTENANCE		
Salaries	134,575	114,140
Utilities	175,109	133,823
Supplies and Expenses	<u>186,036</u>	<u>217,047</u>
	495,720	465,010
HOUSEKEEPING		
Salaries	131,623	149,393
Supplies and Expenses	<u>25,543</u>	<u>25,075</u>
	157,166	174,468
LAUNDRY AND LINEN		
Salaries	50,466	37,214
Supplies and Expenses	<u>14,730</u>	<u>7,747</u>
	65,196	44,961
MULTI USE HOUSING		
Supplies and Expenses	<u>1,437</u>	<u>8,614</u>
	1,437	8,614
ASSISTED LIVING		
Salaries	137,966	134,217
Supplies and Expenses	<u>7,864</u>	<u>22,113</u>
	<u>145,830</u>	<u>156,330</u>
Totals	<u>\$ 1,223,934</u>	<u>\$ 1,211,355</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 395,145	\$ 338,023
Management Fees	122,073	306,583
Professional Fees	44,273	43,069
Telephone	69,369	71,300
Repairs and Maintenance	38,811	38,924
Supplies and Expense	75,768	69,593
Dues	72,689	70,286
Travel	12,102	11,569
Physician Recruitment	21,117	15,489
Advertising	40,153	46,758
Other Administrative Expense	97,507	97,587
Total Fiscal and Administrative Expenses	989,007	1,109,181
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	286,158	273,449
IPERS	238,576	228,701
Group Health, Life Insurance, and Unemployment	585,798	554,029
Insurance	187,665	159,556
Total Unassigned Expenses	1,298,197	1,215,735
Totals	\$ 2,287,204	\$ 2,324,916

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2006 AND 2005**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2006		2005	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 892,128	47.7 %	\$ 913,672	41.9 %
31-60 Days	172,529	9.2	327,733	15.0
61-90 Days	146,085	7.8	142,589	6.5
91 Days and Over	449,019	24.0	442,417	20.3
Clinic Receivables	210,562	11.3	353,488	16.3
Total Accounts Receivable	<u>1,870,323</u>	<u>100.0 %</u>	<u>2,179,899</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare	(272,292)		(325,330)	
Medicaid	(64,684)		(86,864)	
Other	(99,352)		(132,616)	
Doubtful Accounts	<u>(303,453)</u>		<u>(311,777)</u>	
Net Accounts Receivable	<u>\$ 1,130,542</u>		<u>\$ 1,323,312</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 24,163</u>		<u>\$ 23,190</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>47</u>		<u>57</u>	

Analysis of Allowance for Doubtful Accounts

	2006		2005	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 311,777		\$ 366,435	
Add:				
Provision for Doubtful Accounts	255,797	2.8 %	435,106	5.0 %
Recoveries Previously Written Off	<u>(106,596)</u>	(1.2)	<u>(295,037)</u>	(3.4)
	460,978		506,504	
Deduct:				
Accounts Written Off	<u>(157,525)</u>	(1.7)	<u>(194,727)</u>	(2.2)
Ending Balance	<u>\$ 303,453</u>		<u>\$ 311,777</u>	

**WAYNE COUNTY HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSES
JUNE 30, 2006 AND 2005**

	2006	2005
INVENTORY		
Central Supply	\$ 27,840	\$ 20,738
Clinics	7,419	7,735
Pharmacy	60,971	60,639
Nursing	11,060	9,046
Physical Therapy	1,744	2,705
Operating Room	31,833	45,272
Laboratory	24,422	17,900
Dietary	15,386	15,897
Radiology	3,435	7,126
Housekeeping	598	942
Kidney Dialysis	1,350	3,326
Laundry and Linen	3,265	3,659
Ambulance	1,205	-
	\$ 190,528	\$ 194,985
 PREPAID EXPENSES		
Insurance	\$ 38,051	\$ 38,587
Other	45,784	69,679
	\$ 83,835	\$ 108,266

**WAYNE COUNTY HOSPITAL
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2006 AND 2005
UNAUDITED**

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Acute	1,425	1,929
Nursery	131	118
Swing Bed		
Skilled Nursing Care	1,417	1,353
Intermediate Care	<u>200</u>	<u>608</u>
Totals	<u><u>3,173</u></u>	<u><u>4,008</u></u>
ADMISSIONS		
Acute and Special Care	538	628
DISCHARGES		
Acute and Special Care	533	629
AVERAGE LENGTH OF STAY		
Acute and Special Care	2.7	3.1
BEDS	25	25
OCCUPANCY PERCENTAGE		
Including Swing Bed	<u><u>33%</u></u>	<u><u>43%</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 GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Wayne County Hospital
Corydon, Iowa

We have audited the financial statements of Wayne County Hospital as of and for the year ended June 30, 2006, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 that might be material weaknesses. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This instance of non-compliance can be found on the schedule of findings as item 06-II-4

We also noted certain additional matters that we reported to management of Wayne County Hospital in a separate letter dated August 17, 2006.

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.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 17, 2006

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006**

PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

PART II – FINDINGS RELATED TO COMPLIANCE

06-II-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, 2006.

06-II-2 CERTIFIED BUDGET

Hospital cash basis expenditures during the year ended June 30, 2005 did not exceed budgeted amounts.

06-II-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.

06-II-4 TRAVEL EXPENSES

The board of trustees did not approve the increase in the mileage reimbursement rate implemented by the Hospital during 2006.

Recommendation:

We recommend changes to mileage reimbursement rates be approved by the full board of trustees.

Response:

The increase in reimbursement was discussed with and approved by the chairperson of the board of trustees but was not brought before the full board. Changes in reimbursement will be brought before the Board of Trustees for approval in the future.

Conclusion:

Response accepted.

06-II-5 BUSINESS TRANSACTIONS

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

06-II-6 BOARD MINUTES

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

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006**

PART II – FINDINGS RELATED TO COMPLIANCE (CONTINUED)

06-II-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.

06-II-8 PUBLICATION OF BILLS ALLOWED AND SALARIES

Chapter 374.13(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 and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." The Hospital did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.