# WAYNE COUNTY HOSPITAL

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

## YEARS ENDED JUNE 30, 2007 AND 2006

WAYNE COUNTY HOSPITAL
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**WAYNE COUNTY HOSPITAL**
**OFFICIALS**
**YEAR ENDED JUNE 30, 2007**

| Name | Title |
|---|---|
| BOARD OF TRUSTEES | |
| Gary Runyon | Chairperson |
| Norman Reikens | Vice Chairperson |
| Bill Wells | Secretary |
| Darrell Cook | Treasurer |
| Harriet Gustafson | Member |
| Marvin Ryan | Member |
| Bill Miles | Member |
| HOSPITAL OFFICIALS | |
| Brian Burnside | Chief Executive 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, 2007 and 2006, 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, 2007 and 2006, 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 September 28, 2007 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.



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Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Wayne County Hospital. 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.

**LarsonAllen LLP**

Austin, Minnesota
September 28, 2007

# WAYNE COUNTY HOSPITAL
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# YEARS ENDED JUNE 30, 2007 AND 2006

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, 2007. 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, 2007, 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 decreased by $274,583 or 12.7% in 2007, compared to an increase of $277,838 or 14.7% in 2006.
- The Hospital's net assets increased by $61,128 or 0.6% in 2007 compared to an increase of $33,739 or 0.4% in 2006.
- Total operating revenues increased by $822,123 or 9.1% in 2007 compared to an increase of $530,543 or 6.2% in 2006.

## 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 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

There were no significant changes in Wayne County Hospital's accounting policies for the fiscal year ended June 30, 2007 or 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**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Assets: | | | |
| Current Assets | $ 4,385,970 | $ 3,704,509 | $ 3,650,548 |
| Noncurrent Cash and Investments | 1,843,851 | 1,933,055 | 1,950,417 |
| Capital Assets, Net | 5,237,412 | 5,410,170 | 5,699,545 |
| Succeeding Year Property Tax Receivable | 843,806 | 802,740 | 742,184 |
| Other Assets | 17,500 | - | 26,859 |
| Total Assets | $ 12,328,539 | $ 11,850,474 | $ 12,069,553 |
| Liabilities: | | | |
| Total Current Liabilities | $ 1,101,503 | $ 666,612 | $ 913,468 |
| Long Term Debt | 769,570 | 831,676 | 892,554 |
| Deferred Revenue from Succeeding Year Property Tax Receivable | 841,255 | 797,103 | 742,187 |
| Total Liabilities | 2,712,328 | 2,295,391 | 2,548,209 |
| Net Assets: | | | |
| Invested in Capital Assets Net of Related Debt | 4,405,410 | 4,517,660 | 4,747,692 |
| Restricted for Capital Expenditures | 45,539 | 32,903 | 26,288 |
| Restricted Under Debt Agreements | 9,080 | 9,080 | 7,608 |
| Restricted for Payment Reserve - Capital Lease | 8,142 | 6,486 | 4,968 |
| Unrestricted | 5,148,040 | 4,988,954 | 4,734,788 |
| Total Net Assets | 9,616,211 | 9,555,083 | 9,521,344 |
| Total Liabilities and Net Assets | $ 12,328,539 | $ 11,850,474 | $ 12,069,553 |

Asset categories changing significantly during 2007 and 2006 included cash and cash equivalents, patient accounts receivable, noncurrent cash and investments, and capital assets. Current assets increased $681,461 or 18.4% in 2007 compared to an increase of $53,961 or 1.5% in 2006. Noncurrent cash and investments decreased in 2007 by $89,204 or 4.6%. In 2006 they decreased by $17,362 or 0.9%. Capital assets decreased in 2007 by $172,758 or 3.2%, in 2006 they decreased by $289,375 or 5.1%.

The current ratio (current assets divided by current liabilities) for 2007 was 4.0 compared to 5.6 in 2006. 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**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Net Patient Service Revenue | $ 9,354,632 | $ 8,563,816 | $ 8,029,110 |
| Assisted Living and Multi Unit Housing | 249,700 | 245,146 | 256,754 |
| Other Operating Revenue | 275,407 | 248,654 | 241,209 |
| Total Revenue | 9,879,739 | 9,057,616 | 8,527,073 |
| Operating Expenses | | | |
| Nursing Service | 2,743,786 | 2,404,423 | 2,008,259 |
| Other Professional Service | 3,711,671 | 3,388,685 | 3,419,736 |
| General Service | 1,250,298 | 1,223,934 | 1,211,355 |
| Fiscal and Administrative Services | 2,499,383 | 2,287,204 | 2,324,916 |
| Depreciation | 580,318 | 590,608 | 661,387 |
| Interest | 30,783 | 32,086 | 33,220 |
| Total Expenses | 10,816,239 | 9,926,940 | 9,658,873 |
| Operating Loss | (936,500) | (869,324) | (1,131,800) |
| Non-Operating Revenues (Expenses) | 985,683 | 858,685 | 820,921 |
| Deficit of Revenues over Expenses Before Capital Grants and Contributions | 49,183 | (10,639) | (310,879) |
| Capital Grants and Contributions | 11,945 | 44,378 | 9,018 |
| Increase (Decrease) in Net Assets | 61,128 | 33,739 | (301,861) |
| Net Assets, Beginning of Year | 9,555,083 | 9,521,344 | 9,823,205 |
| Net Assets, End of Year | $ 9,616,211 | $ 9,555,083 | $ 9,521,344 |

Net patient service revenue made up 94.7% in 2007, 94.5% in 2006, 93.4% 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**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Total Patient Service Revenues | $ 13,053,349 | $ 12,692,969 | $ 12,975,339 |
| Contractual Adjustments and Provisions for Bad Debt | 3,698,717 | 4,129,153 | 4,946,229 |
| Net Patient Service Revenue | $ 9,354,632 | $ 8,563,816 | $ 8,029,110 |
| Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues | 28.34% | 32.53% | 38.12% |

Patient volumes declined during 2007 as they did in 2006, however, net patient service revenue continued to increase due to increases in reimbursement rates from third party payors. Total operating expenses increased $889,299 or 9.0% in 2007 and $268,067 or 2.8% in 2006, with the most of the increases related to direct patient care departments. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 30-34 of the audited financial statements for this information.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was negative 9.5% in 2007 and negative 9.6% in 2006. The operating loss in 2007 was $936,500, 2006.

Other Operating Revenues increased by $26,753 or 10.8% in 2007$7,445 or 3.1% in 2006. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Office Rent | $ 95,499 | $ 109,629 | $ 120,808 |
| Miscellaneous | 39,215 | 15,268 | 21,432 |
| Laundry Revenue | 30,506 | 28,422 | - |
| Cafeteria | 75,698 | 64,258 | 60,147 |
| Meals on Wheels | 10,070 | 10,080 | 11,327 |
| Emergency Telephone Services | 19,475 | 18,975 | 20,810 |
| Restricted contributions | 4,444 | 1,522 | 6,185 |
| Community Programs | 500 | 500 | 500 |
| Total Other Revenues | $ 275,407 | $ 248,654 | $ 241,209 |

## 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 79% in 2007. 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**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Patient Days** | | | |
| Acute | 1,357 | 1,425 | 1,929 |
| Swing Bed | 720 | 1,417 | 1,353 |
| Newborn | 133 | 131 | 118 |
| Intermediate Care | 75 | 200 | 608 |
| Total | 2,285 | 3,173 | 4,008 |
| **Admissions** | | | |
| Acute | 514 | 538 | 628 |
| Swing Bed | 77 | 108 | 98 |
| Newborn | 92 | 88 | 73 |
| Intermediate Care | 9 | 11 | 10 |
| Total | 692 | 745 | 809 |
| **Discharges** | | | |
| Acute | 510 | 533 | 629 |
| Swing Bed | 73 | 111 | 101 |
| Newborn | 91 | 88 | 73 |
| Intermediate Care | 9 | 13 | 10 |
| Total | 683 | 745 | 813 |
| **Average Length of Stay, Acute** | 2.7 | 2.7 | 3.1 |
| **Beds** | | | |
| Acute, Swing and Intermediate | 25 | 25 | 25 |
| **Occupancy Percentage** | 24% | 33% | 43% |

## 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, 2007 the Hospital had $5,237,412 invested in capital assets net of accumulated depreciation. In 2007, the Hospital reflected $408,636 in capital asset additions; 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.

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## Long-Term Debt

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

**Table 6: Long-Term Debt**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| 2004 Hospital Revenue Bonds | $ 410,915 | $ 446,036 | $ 480,362 |
| Note Payable | 144,667 | 166,889 | 188,889 |
| Capital Lease Payable | 276,420 | 279,585 | 282,602 |
| Total Long-Term Debt | $ 832,002 | $ 892,510 | $ 951,853 |

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 added a physician in July 2006 who is providing family practice and emergency room services, and added two additional physicians providing family practice services and a dentist in July 2007.

## 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, 2007 AND 2006

| ASSETS | 2007 | 2006 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 1,648,195 | $ 1,934,128 |
| Patient Receivables, Less Allowance for Uncollectible Accounts of Approximately $396,000 in 2007 and $303,000 in 2006 | 1,519,114 | 1,130,542 |
| Investments | 242,197 | 230,847 |
| Other Receivables | 84,417 | 47,577 |
| Current Maturities of Note Receivable | - | 9,704 |
| Estimated Third-Party Payor Settlements | 659,834 | 77,348 |
| Inventories | 178,685 | 190,528 |
| Prepaid Expenses | 53,528 | 83,835 |
| Total Current Assets | 4,385,970 | 3,704,509 |
| **NONCURRENT CASH AND INVESTMENTS** | | |
| Internally Designated for Capital Improvement | 1,628,953 | 1,735,376 |
| Internally Designated for Health Insurance | 152,137 | 149,210 |
| Restricted for Payment Reserve-Capital Lease | 8,142 | 6,486 |
| Restricted by Contributors | 45,539 | 32,903 |
| Restricted Under Debt Agreement | 9,080 | 9,080 |
| Total Noncurrent Cash and Investments | 1,843,851 | 1,933,055 |
| **CAPITAL ASSETS, NET** | 5,237,412 | 5,410,170 |
| **OTHER ASSETS** | | |
| Note Receivable | 17,500 | - |
| Succeeding Year Property Tax Receivable | 843,806 | 802,740 |
| Total Other Assets | 861,306 | 802,740 |
| Total Assets | $ 12,328,539 | $ 11,850,474 |

*See accompanying Notes to Financial Statements.*

| LIABILITIES AND NET ASSETS | 2007 | 2006 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts Payable | $ 341,251 | $ 235,518 |
| Construction Payable | 246,465 | - |
| Accrued Employee Compensation | 266,256 | 214,370 |
| Accrued Interest Payable | 2,282 | 2,282 |
| Payroll Taxes and Withholdings | 182,817 | 153,608 |
| Current Portion of Long-Term Debt | 62,432 | 60,834 |
| Total Current Liabilities | 1,101,503 | 666,612 |
| **DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE** | 841,255 | 797,103 |
| **LONG-TERM DEBT, Net of Current Portion** | 769,570 | 831,676 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| Total Liabilities | 2,712,328 | 2,295,391 |
| **NET ASSETS** | | |
| Invested in Capital Assets Net of Related Debt | 4,405,410 | 4,517,660 |
| Restricted for Capital Expenditures | 45,539 | 32,903 |
| Restricted Under Debt Agreements | 9,080 | 9,080 |
| Restricted for Payment Reserve - Capital Lease | 8,142 | 6,486 |
| Unrestricted | 5,148,040 | 4,988,954 |
| Total Net Assets | 9,616,211 | 9,555,083 |
| Total Liabilities and Net Assets | $ 12,328,539 | $ 11,850,474 |

# WAYNE COUNTY HOSPITAL
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSSETS
## YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Net Patient Service Revenue (Net of Provision for Bad Debt of $381,914 in 2007 and $255,797 in 2006 | $ 9,354,632 | $ 8,563,816 |
| Assisted Living and Multi-Unit Housing Revenue | 249,700 | 245,146 |
| Other Operating Revenues | 275,407 | 248,654 |
| Total Operating Revenues | 9,879,739 | 9,057,616 |
| **EXPENSES** | | |
| Nursing Service | 2,743,786 | 2,404,423 |
| Other Professional Service | 3,711,671 | 3,388,685 |
| General Service | 1,250,298 | 1,223,934 |
| Fiscal and Administrative Service and Unassigned Expenses | 2,499,383 | 2,287,204 |
| Depreciation | 580,318 | 590,608 |
| Interest | 30,783 | 32,086 |
| Total Expenses | 10,816,239 | 9,926,940 |
| **OPERATING LOSS** | (936,500) | (869,324) |
| **NON-OPERATING GAINS (LOSSES)** | | |
| County Tax revenue | 797,103 | 742,188 |
| Interest Income | 109,873 | 85,026 |
| Loss on Sale of Fixed Assets | (1,076) | (6,473) |
| Gain on Joint Venture | 1,044 | 10,657 |
| Unrestricted Grants and Contributions | 78,739 | 27,287 |
| Net Non-Operating Gains | 985,683 | 858,685 |
| **EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS** | 49,183 | (10,639) |
| Capital Grants and Contributions | 11,945 | 44,378 |
| **INCREASE IN NET ASSETS** | 61,128 | 33,739 |
| **NETS ASSETS BEGINNING OF YEAR** | 9,555,083 | 9,521,344 |
| **NETS ASSETS END OF YEAR** | $ 9,616,211 | $ 9,555,083 |

*See accompanying Notes to Financial Statements.*

# WAYNE COUNTY HOSPITAL
## STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash Received from Patients and Third Party Payors | $ 8,599,520 | $ 8,991,322 |
| Cash Paid to Employees | (5,915,533) | (5,469,289) |
| Cash Paid to Suppliers | (4,060,627) | (4,054,460) |
| Other Receipts and Payments, Net | 275,407 | 248,654 |
| Net Cash Used by Operating Activities | (1,101,233) | (283,773) |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | |
| County Taxes Received | 797,103 | 742,188 |
| Gain on Investment in Joint Venture | 1,044 | 10,657 |
| Unrestricted Contributions Received | 90,684 | 71,665 |
| Net Cash Provided by Non-Capital Financing Activities | 888,831 | 824,510 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Purchase of Capital Assets | (162,171) | (307,706) |
| Payments on Long Term Debt | (60,508) | (59,343) |
| Interest Paid on Long-Term Debt | (30,783) | (32,086) |
| Net Cash Used by Capital and Related Financial Activities | (253,462) | (399,135) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from Sale of Noncurrent Cash and Investments | (727,203) | (942,638) |
| Purchase of Noncurrent Cash and Investments | 816,407 | 960,000 |
| Increase in Investments | (11,350) | (130,847) |
| Interest Received | 109,873 | 85,026 |
| Decrease (Increase) in Investment, Physician-Hospital Organization | - | 17,000 |
| Decrease (Increase) in Note Receivable | (7,796) | 16,848 |
| Net Cash Provided by Investing Activities | 179,931 | 5,389 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (285,933) | 146,991 |
| Cash and Cash Equivalents - Beginning of Year | 1,934,128 | 1,787,137 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 1,648,195 | $ 1,934,128 |

*See accompanying Notes to Financial Statements.*

# WAYNE COUNTY HOSPITAL
## STATEMENTS OF CASH FLOWS (CONTINUED)
## YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Operating Loss | $ (936,500) | $ (869,324) |
| Adjustments to Reconcile Operating Income to Net Cash Used by Operations | | |
| Provision for Depreciation | 580,318 | 590,608 |
| Cash Paid for Interest | 30,783 | 32,086 |
| Decrease (Increase) in: | | |
| Patient Receivables | (388,572) | 192,770 |
| Estimated Third-Party Payor Settlements | (582,486) | (13,885) |
| Inventories | 11,843 | 4,457 |
| Prepaid Expenses | 30,307 | 24,431 |
| Other Receivables | (33,754) | 3,475 |
| Increase (Decrease) in: | | |
| Accounts Payable | 105,733 | (124,697) |
| Accrued Employee Compensation | 51,886 | (174,906) |
| Payroll Taxes and Withholdings | 29,209 | 51,212 |
| Net Cash Used by Operating Activities | $ (1,101,233) | $ (283,773) |

*See accompanying Notes to Financial Statements.*

## 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.

## 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, 2007 and 2006, the allowance for uncollectible accounts was approximately $396,000 and $303,000, 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.

## 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 non-operating revenue.

## 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, 2007 and 2006 was $28,155 and $21,155, respectively.

### Reclassifications

Certain items in the 2006 financial statements have been reclassified for comparison purposes with the 2007 financial statements. These reclassifications did not affect the net assets or results of operations as previously reported.

## NOTE 2 DESIGNATED NET ASSETS

Of the $5,148,040 and $4,988,954 of unrestricted net assets at June 30, 2007 and 2006, respectively, $1,628,953 and $1,735,376 have been designated by the Hospital's Board of Trustees for capital acquisitions and $152,137 and $149,210 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.

## 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**

The Hospital has 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, 2005.

**Medicaid**

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.

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

| | 2007 | 2006 |
|---|---|---|
| Total Patient Service Revenue | $ 13,053,349 | $ 12,692,969 |
| Contractual Adjustments | | |
| Medicare | 2,152,049 | 2,644,624 |
| Medicaid | 616,632 | 684,671 |
| Provision for Bad Debts | 381,914 | 255,797 |
| Other | 548,122 | 544,061 |
| Total Contractual Adjustments | 3,698,717 | 4,129,153 |
| Net Patient Service Revenue | $ 9,354,632 | $ 8,563,816 |

## NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2007 and 2006 consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| Receivable from Patients and Their Insurance Carriers | $ 1,240,002 | $ 924,430 |
| Receivable from Medicare | 514,022 | 413,742 |
| Receivable from Medicaid | 161,090 | 95,370 |
| Total Patient Receivables | 1,915,114 | 1,433,542 |
| Less Allowance for Doubtful Accounts | (396,000) | (303,000) |
| Patient Receivables, Net | $ 1,519,114 | $ 1,130,542 |

## NOTE 5 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2007 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 investment policy does not limit investments on interest rate risk and credit risk. The Hospital complies with State of Iowa statutes in regards to interest rate and credit risk.

At June 30, 2007 and 2006 the Hospital's deposits at fair market value are as follows:

| | 2007 | 2006 |
|---|---|---|
| Deposits | $ 3,492,046 | $ 3,867,183 |

## NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

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

| | 2007 | 2006 |
|---|---|---|
| Cash and Cash Equivalents | $ 1,648,195 | $ 1,934,128 |
| Noncurrent Cash and Investments | | |
| Internally Designated for Capital Improvement | 1,628,953 | 1,735,376 |
| Internally Designated for Health Insurance | 152,137 | 149,210 |
| Restricted Under Debt Agreement | 9,080 | 9,080 |
| Restricted by Contributors | 45,539 | 32,903 |
| Payment Reserve-Capital Lease | 8,142 | 6,486 |
| | $ 3,492,046 | $ 3,867,183 |

## NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2007 and 2006 are as follows:

| Capital Assets | July 1, 2006 | Additions | (Retirements) | June 30, 2007 |
|---|---|---|---|---|
| Land | $ 86,883 | $ - | $ - | $ 86,883 |
| Land Improvements | 356,583 | - | - | 356,583 |
| Buildings | 5,172,529 | - | - | 5,172,529 |
| Fixed Equipment | 2,788,599 | - | - | 2,788,599 |
| Movable Equipment | 2,823,207 | 175,649 | (98,306) | 2,900,550 |
| Construction in Progress | - | 232,987 | - | 232,987 |
| Totals | 11,227,801 | 408,636 | (98,306) | 11,538,131 |
| **Accumulated Depreciation** | | | | |
| Land Improvements | 198,602 | 23,663 | - | 222,265 |
| Buildings | 2,242,418 | 249,784 | - | 2,492,202 |
| Fixed Equipment | 1,179,476 | 132,948 | - | 1,312,424 |
| Movable Equipment | 2,197,135 | 173,923 | (97,230) | 2,273,828 |
| Totals | 5,817,631 | $ 580,318 | $ (97,230) | 6,300,719 |
| | $ 5,410,170 | | | $ 5,237,412 |

## NOTE 6 CAPITAL ASSETS (CONTINUED)

| Capital Assets | July 1, 2005 | Additions | (Retirements) | June 30, 2006 |
|---|---|---|---|---|
| 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 | $ 590,608 | $ (483,636) | 5,817,631 |
| | $ 5,699,545 | | | $ 5,410,170 |

Construction in progress at June 30, 2007, consists of costs related to an upgrade of the Hospital's information system including the addition of electronic health records, as well as preliminary costs related to a potential hospital renovation and expansion project. The information system project is expected to cost approximately $415,000 and be completed in January 2008. This project will be funded from the Hospital's reserves. The renovation and expansion project is still in very preliminary stages.

## 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. The total outstanding balance of this promissory note was $- and $9,704 for the years ended June 30, 2007 and 2006, respectively.

## NOTE 7 NOTE RECEIVABLE (CONTINUED)

The Hospital also advanced a bonus payment to a dentist to begin practicing at Wayne County Hospital effective July 1, 2007. Under the terms of the agreement the bonus is considered repayable to the Hospital until after a period of 5 years of continuous practice by the dentist. The bonus will be amortized on a straight line basis over a period of 5 years. At June 30, 2007, $17,500 had been advanced and is reflected as a note receivable on the financial statements. Subsequent to year end an additional $17,500 was advanced for a total of $35,000.

## NOTE 8 LONG-TERM DEBT

A schedule of changes in long-term debt for 2007 and 2006 is as follows:

| | Balance July 1, 2006 | Additions | (Payments) | Balance June 30, 2007 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Clarke Electric Note | $ 166,889 | $ - | $ (22,222) | $ 144,667 | $ 22,222 |
| Hospital Revenue Bonds | 446,036 | - | (35,121) | 410,915 | 36,891 |
| Obligation Under Capital Lease | 279,585 | - | (3,165) | 276,420 | 3,319 |
| Total Long-Term Debt | $ 892,510 | $ - | $ (60,508) | $ 832,002 | $ 62,432 |

| | 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 | $ 951,853 | $ - | $ (59,343) | $ 892,510 | $ 60,834 |

### 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.

## NOTE 8 LONG-TERM DEBT (CONTINUED)

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.

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 and 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, 2007, 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, 2007 and 2006.

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**

| | 2007 | 2006 |
|---|---|---|
| Child Day Care Center | $ 288,000 | $ 288,000 |
| Less Accumulated Amortization | (36,000) | (28,800) |
| Total | $ 252,000 | $ 259,200 |

**Debt Service Requirements**

| | Long-Term Debt | | Capital Lease | |
|---|---|---|---|---|
| Years Ending June 30: | Principal | Interest | Principal | Interest |
| 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 | 65,503 | 9,373 | 4,014 | 12,402 |
| 2013-2017 | 244,362 | 19,304 | 23,198 | 58,882 |
| 2018-2022 | - | - | 29,424 | 52,656 |
| 2023-2027 | - | - | 37,321 | 44,759 |
| 2028-2032 | - | - | 47,337 | 34,743 |
| 2033-2037 | - | - | 60,042 | 22,038 |
| 2038-2042 | - | - | 60,808 | 6,220 |
| | $ 555,582 | $ 82,464 | $ 276,420 | $ 283,088 |

## 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 $678,779 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, 2007, 2006, and 2005 were $272,792, $238,576, and $228,701, 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 $143,769 and $122,073 for the years ended June 30, 2007 and 2006, respectively. The Hospital had accounts payable to Mercy of $49,418 and $38,823 at June 30, 2007 and 2006, 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.

## NOTE 12 COMMITMENT AND CONTINGENCIES (CONTINUED)

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2007 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.

# 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, 2007

| | Actual Accrual Basis | Accrual Adjustments | Cash Basis | Original Budget | Final to Actual Cash Basis Variance |
|---|---|---|---|---|---|
| Amount to be Raised by Taxation | $ 797,103 | $ - | $ 797,103 | $ 797,103 | $ - |
| Other Revenues/Receipts | 10,080,264 | (1,003,736) | 9,076,528 | 10,008,829 | (932,301) |
| | 10,877,367 | (1,003,736) | 9,873,631 | 10,805,932 | (932,301) |
| Expenses/Expenditures | 10,816,239 | (656,675) | 10,159,564 | 10,395,483 | (235,919) |
| Net | 61,128 | (347,061) | (285,933) | 410,449 | (696,382) |
| Balance, Beginning | 9,555,083 | (7,620,955) | 1,934,128 | 4,421,431 | (2,487,303) |
| Balance, Ending | $ 9,616,211 | $ (7,968,016) | $ 1,648,195 | $ 4,831,880 | $ (3,183,685) |

## NOTE 1 BUDGETARY REPORTING

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 PATIENT SERVICE REVENUE
## YEARS ENDED JUNE 30, 2007 AND 2006

| | TOTAL | |
|---|---|---|
| | 2007 | 2006 |
| **DAILY PATIENT SERVICES** | | |
| Medical and Surgical | $ 779,096 | $ 766,794 |
| Obstetric | 98,600 | 95,756 |
| Special Care | 25,339 | 38,253 |
| Swing Bed | 298,580 | 567,029 |
| Nursery | 61,238 | 56,985 |
| Total | 1,262,853 | 1,524,817 |
| **OTHER NURSING SERVICES** | | |
| Operating and Recovery Rooms | 1,086,398 | 1,173,588 |
| Delivery and Labor Room | 61,296 | 58,869 |
| Medical and Surgical Supplies | 354,744 | 336,148 |
| Emergency Service | 912,961 | 762,770 |
| Ambulance | 653,247 | 552,781 |
| Kidney Dialysis | 575,307 | 498,046 |
| | 3,643,953 | 3,382,202 |
| **OTHER PROFESSIONAL SERVICES** | | |
| Laboratory | 1,372,321 | 1,186,879 |
| Electrocardiology and Monitors | 212,904 | 146,344 |
| Radiology | 2,050,280 | 1,757,265 |
| Pharmacy | 1,371,050 | 1,580,361 |
| Anesthesiology | 433,473 | 432,509 |
| Respiratory Therapy | 235,979 | 293,897 |
| Physical Therapy | 452,112 | 448,872 |
| Speech Therapy | 37,648 | 13,970 |
| Occupational Therapy | 40,551 | 43,146 |
| Medical Clinics | 1,790,301 | 1,750,669 |
| Daycare | 178,079 | 153,193 |
| Total | 8,174,698 | 7,807,105 |
| Charity Care | (28,155) | (21,155) |
| Total Gross Patient Service Revenues | 13,053,349 | 12,692,969 |
| Provision for Contractual and Other Adjustments | (3,698,717) | (4,129,153) |
| Net Patient Service Revenue | $ 9,354,632 | $ 8,563,816 |

| INPATIENT | | OUTPATIENT | |
|---|---|---|---|
| 2007 | 2006 | 2007 | 2006 |
| $ 779,096 | $ 766,794 | $ - | $ - |
| 98,600 | 95,756 | - | - |
| 25,339 | 38,253 | - | - |
| 298,580 | 567,029 | - | - |
| 61,238 | 56,985 | - | - |
| 1,262,853 | 1,524,817 | - | - |
| | | | |
| 129,824 | 141,392 | 956,574 | 1,032,196 |
| 59,041 | 55,412 | 2,255 | 3,457 |
| 59,245 | 61,961 | 295,499 | 274,187 |
| 35,742 | 33,235 | 877,219 | 729,535 |
| - | - | 653,247 | 552,781 |
| - | - | 575,307 | 498,046 |
| 283,852 | 292,000 | 3,360,101 | 3,090,202 |
| | | | |
| 263,014 | 251,849 | 1,109,307 | 935,030 |
| 29,162 | 26,930 | 183,742 | 119,414 |
| 201,533 | 163,493 | 1,848,747 | 1,593,772 |
| 413,804 | 489,569 | 957,246 | 1,090,792 |
| 38,847 | 34,839 | 394,626 | 397,670 |
| 157,905 | 231,015 | 78,074 | 62,882 |
| 89,893 | 149,156 | 362,219 | 299,716 |
| 9,840 | 9,130 | 27,808 | 4,840 |
| 14,540 | 22,721 | 26,011 | 20,425 |
| - | - | 1,790,301 | 1,750,669 |
| - | - | 178,079 | 153,193 |
| 1,218,538 | 1,378,702 | 6,956,160 | 6,428,403 |
| (28,155) | (21,155) | - | - |
| $ 2,737,088 | $ 3,174,364 | $ 10,316,261 | $ 9,518,605 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUE AND OTHER REVENUES
## YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **ADJUSTMENTS TO PATIENT SERVICE REVENUES** | | |
| Medicare | $ 2,152,049 | $ 2,644,624 |
| Medicaid | 616,632 | 684,671 |
| Provision for Bad Debts | 381,914 | 255,797 |
| Other | 548,122 | 544,061 |
| Total Adjustments | $ 3,698,717 | $ 4,129,153 |
| **OTHER REVENUES** | | |
| Office Rent | $ 95,499 | $ 109,629 |
| Miscellaneous | 39,215 | 15,268 |
| Laundry Revenue | 30,506 | 28,422 |
| Cafeteria | 75,698 | 64,258 |
| Meals on Wheels | 10,070 | 10,080 |
| Emergency Telephone Services | 19,475 | 18,975 |
| Restricted contributions | 4,444 | 1,522 |
| Community Programs | 500 | 500 |
| Totals | $ 275,407 | $ 248,654 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF NURSING SERVICE EXPENSES
## YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION** | | |
| Salaries | $ 1,032,565 | $ 868,459 |
| Professional Fees | 100,482 | 112,755 |
| Supplies and Expenses | 163,470 | 110,493 |
| | 1,296,517 | 1,091,707 |
| **OPERATING AND RECOVERY ROOM** | | |
| Salaries | 149,381 | 137,389 |
| Supplies and Expenses | 178,224 | 290,107 |
| | 327,605 | 427,496 |
| **EMERGENCY AND OUTPATIENT SERVICE** | | |
| Salaries | 675,924 | 496,549 |
| Supplies and Expenses | 9,089 | 6,597 |
| | 685,013 | 503,146 |
| **AMBULANCE AND BIOMEDICAL** | | |
| Salaries | 151,494 | 145,009 |
| Supplies and Expenses | 35,122 | 29,563 |
| | 186,616 | 174,572 |
| **KIDNEY DIALYSIS** | | |
| Salaries | 130,442 | 112,643 |
| Professional Fees | 21,481 | 9,871 |
| Supplies and Expenses | 75,254 | 64,817 |
| | 227,177 | 187,331 |
| **SCHOOL NURSE** | | |
| Salaries | 20,858 | 20,171 |
| | 20,858 | 20,171 |
| Totals | $ 2,743,786 | $ 2,404,423 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
## YEARS ENDED JUNE 30, 2007 AND 2006

| OTHER PROFESSIONAL SERVICE EXPENSES | 2007 | 2006 |
|---|---|---|
| **LABORATORY** | | |
| Salaries | $ 198,320 | $ 174,014 |
| Professional Fees | 86,094 | 88,417 |
| Supplies and Expenses | 200,849 | 176,472 |
| | 485,263 | 438,903 |
| **ELECTROCARDIOLOGY AND MONITORS** | | |
| Salaries | 2,316 | 1,663 |
| Professional Fees | 29,270 | 24,948 |
| Supplies and Expenses | 1,098 | 1,812 |
| | 32,684 | 28,423 |
| **RADIOLOGY** | | |
| Salaries | 145,271 | 139,407 |
| Professional Fees | 533,848 | 517,694 |
| Supplies and Expenses | 53,173 | 31,830 |
| | 732,292 | 688,931 |
| **PHARMACY** | | |
| Professional Fees | 148,896 | 150,234 |
| Drugs | 327,223 | 336,308 |
| Supplies and Expenses | 148,699 | 117,672 |
| | 624,818 | 604,214 |
| **ANESTHESIOLOGY** | | |
| Professional Fees | 265,067 | 254,449 |
| Supplies and Expenses | 8,011 | 15,487 |
| | 273,078 | 269,936 |
| **RESPIRATORY THERAPY** | | |
| Salaries | 23,891 | 19,283 |
| Supplies and Expenses | 22,778 | 25,269 |
| | 46,669 | 44,552 |
| **PHYSICAL THERAPY** | | |
| Salaries | 159,767 | 145,399 |
| Professional Fees | 172 | 258 |
| Supplies and Expenses | 19,749 | 8,240 |
| | 179,688 | 153,897 |
| **SPEECH THERAPY** | | |
| Professional Fees | 12,600 | 7,338 |
| Supplies and Expenses | - | 1,196 |
| | 12,600 | 8,534 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
## YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **OCCUPATIONAL THERAPY** | | |
| Professional Fees | $ 26,749 | $ 26,114 |
| **MEDICAL CLINICS** | | |
| Salaries | 792,582 | 717,547 |
| Professional Fees | 8,103 | 11,632 |
| Supplies and Expenses | 158,201 | 149,934 |
| | 958,886 | 879,113 |
| **MEDICAL RECORDS** | | |
| Salaries | 78,422 | 78,955 |
| Supplies and Expenses | 1,874 | 2,733 |
| | 80,296 | 81,688 |
| **DAYCARE** | | |
| Salaries | 159,627 | 152,633 |
| Supplies and Expenses | 14,801 | 11,747 |
| | 174,428 | 164,380 |
| **DENTAL CLINIC** | | |
| Salaries | 2,301 | - |
| Supplies and Expenses | 81,919 | - |
| | 84,220 | - |
| Totals | $ 3,711,671 | $ 3,388,685 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF GENERAL SERVICE EXPENSES
## YEARS ENDED JUNE 30, 2007 AND 2006

| GENERAL SERVICE EXPENSES | 2007 | 2006 |
|---|---|---|
| **DIETARY** | | |
| Salaries | $ 178,911 | $ 176,167 |
| Food | 178,410 | 161,891 |
| Supplies and Expenses | 25,387 | 20,527 |
| | 382,708 | 358,585 |
| **PLANT OPERATION AND MAINTENANCE** | | |
| Salaries | 136,369 | 134,575 |
| Utilities | 172,699 | 175,109 |
| Supplies and Expenses | 158,580 | 186,036 |
| | 467,648 | 495,720 |
| **HOUSEKEEPING** | | |
| Salaries | 144,831 | 131,623 |
| Supplies and Expenses | 25,788 | 25,543 |
| | 170,619 | 157,166 |
| **LAUNDRY AND LINEN** | | |
| Salaries | 45,319 | 50,466 |
| Supplies and Expenses | 15,845 | 14,730 |
| | 61,164 | 65,196 |
| **MULTI USE HOUSING** | | |
| Supplies and Expenses | 796 | 1,437 |
| | 796 | 1,437 |
| **ASSISTED LIVING** | | |
| Salaries | 151,869 | 137,966 |
| Supplies and Expenses | 15,494 | 7,864 |
| | 167,363 | 145,830 |
| Totals | $ 1,250,298 | $ 1,223,934 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES
## YEARS ENDED JUNE 30, 2007 AND 2006

| FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES | 2007 | 2006 |
|---|---|---|
| **FISCAL AND ADMINISTRATIVE SERVICES** | | |
| Administration | | |
| Salaries | $ 421,529 | $ 395,145 |
| Management Fees | 143,769 | 122,073 |
| Professional Fees | 45,945 | 44,273 |
| Telephone | 80,369 | 69,369 |
| Repairs and Maintenance | 43,048 | 38,811 |
| Supplies and Expense | 58,876 | 75,768 |
| Dues | 74,257 | 72,689 |
| Travel | 27,030 | 12,102 |
| Physician Recruitment | 54,230 | 21,117 |
| Advertising | 40,882 | 40,153 |
| Other Administrative Expense | 116,335 | 97,507 |
| Total Fiscal and Administrative Expenses | 1,106,270 | 989,007 |
| **UNASSIGNED EXPENSES** | | |
| Employee Benefits | | |
| FICA | 329,975 | 286,158 |
| IPERS | 272,792 | 238,576 |
| Group Health, Life Insurance, and Unemployment | 591,872 | 585,798 |
| Insurance | 198,474 | 187,665 |
| Total Unassigned Expenses | 1,393,113 | 1,298,197 |
| Totals | $ 2,499,383 | $ 2,287,204 |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
## YEARS ENDED JUNE 30, 2007 AND 2006

### Analysis of Aging

| Age of Accounts (by Date of Discharge) | 2007 Amount | 2007 Percent | 2006 Amount | 2006 Percent |
|---|---|---|---|---|
| 1-30 days (Includes Patients in Hospital June 30) | $ 916,057 | 37.3 % | $ 892,128 | 47.7 % |
| 31-60 Days | 322,686 | 13.1 | 172,529 | 9.2 |
| 61-90 Days | 253,401 | 10.3 | 146,085 | 7.8 |
| 91 Days and Over | 687,774 | 28.0 | 448,566 | 24.0 |
| Clinic Receivables | 276,226 | 11.3 | 210,562 | 11.3 |
| Total Accounts Receivable | 2,456,144 | 100.0 % | 1,869,870 | 100.0 % |
| ALLOWANCES | | | | |
| Contractual - | | | | |
| Medicare | (308,408) | | (272,292) | |
| Medicaid | (107,974) | | (64,684) | |
| Other | (124,648) | | (99,352) | |
| Doubtful Accounts | (396,000) | | (303,000) | |
| Net Accounts Receivable | $ 1,519,114 | | $ 1,130,542 | |
| Net Patient Service Revenue per Calendar Day (excluding bad debt) | $ 26,675 | | $ 24,163 | |
| Days of Net Patient Service Revenue in Accounts Receivable at Year End | 57 | | 47 | |

### Analysis of Allowance for Doubtful Accounts

| | 2007 Amount | 2007 Percent of Net Patient Service Revenue | 2006 Amount | 2006 Percent of Net Patient Service Revenue |
|---|---|---|---|---|
| Beginning Balance | $ 303,000 | | $ 311,777 | |
| Add: | | | | |
| Provision for Doubtful Accounts | 381,914 | 3.8 % | 255,797 | 2.8 % |
| Recoveries Previously Written Off | (62,705) | (0.6) | (106,596) | (1.2) |
| | 622,209 | | 460,978 | |
| Deduct: | | | | |
| Accounts Written Off | (226,209) | (2.3) | (157,978) | (1.7) |
| Ending Balance | $ 396,000 | | $ 303,000 | |

# WAYNE COUNTY HOSPITAL
## SCHEDULES OF INVENTORY AND PREPAID EXPENSES
## JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **INVENTORY** | | |
| Central Supply | $ 19,306 | $ 27,840 |
| Clinics | 8,245 | 7,419 |
| Pharmacy | 58,505 | 60,971 |
| Nursing | 10,791 | 11,060 |
| Physical Therapy | 1,016 | 1,744 |
| Operating Room | 26,691 | 31,833 |
| Laboratory | 23,293 | 24,422 |
| Dietary | 19,740 | 15,386 |
| Radiology | 2,659 | 3,435 |
| Housekeeping | 1,619 | 598 |
| Kidney Dialysis | 3,480 | 1,350 |
| Laundry and Linen | 3,326 | 3,265 |
| Ambulance | 14 | 1,205 |
| | $ 178,685 | $ 190,528 |
| **PREPAID EXPENSES** | | |
| Insurance | $ 14,652 | $ 38,051 |
| Other | 38,876 | 45,784 |
| | $ 53,528 | $ 83,835 |

# WAYNE COUNTY HOSPITAL
## COMPARATIVE STATISTICS
## YEARS ENDED JUNE 30, 2007 AND 2006
## UNAUDITED

| | 2007 | 2006 |
|---|---|---|
| **PATIENT DAYS** | | |
| Acute | 1,357 | 1,425 |
| Nursery | 133 | 131 |
| Swing Bed | | |
| Skilled Nursing Care | 720 | 1,417 |
| Intermediate Care | 75 | 200 |
| Totals | 2,285 | 3,173 |
| **ADMISSIONS** | | |
| Acute and Special Care | 514 | 538 |
| **DISCHARGES** | | |
| Acute and Special Care | 510 | 533 |
| **AVERAGE LENGTH OF STAY** | | |
| Acute and Special Care | 2.7 | 2.7 |
| **BEDS** | 25 | 25 |
| **OCCUPANCY PERCENTAGE** | | |
| Including Swing Bed | 24% | 33% |

# 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 the Wayne County Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated September 28, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purposed described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider deficiencies 07-I-1 and 07-I-2 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiencies described above 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Wayne County Hospital in a separate letter dated September 28, 2007.

Wayne County Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Wayne County Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board trustees, others within the Entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

**LarsonAllen LLP**

Austin, Minnesota
September 28, 2007

## PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS

### 07-I-1 MATERIAL AUDIT ADJUSTMENTS

As part of the audit process, several adjusting entries were proposed by the audit firm and accepted by management. These adjustments resulted in material changes to previously reported balances in the Hospitals balance sheet and statement of operations.

Recommendation
Management should continue to evaluate the accuracy and completeness of internal financial statements, and ensure all necessary adjusting entries are recorded on a timely basis.

Response
Management chooses to take a conservative approach to financial reporting, which may result in the need for the auditors to propose adjustments to correct financial statement balances at year end. Management will review and modify procedures as necessary to improve internal financial reporting, by ensuring all known entries are properly recorded in the Hospital's financial statements.

Conclusion
Response accepted.

### 07-I-2 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). The Hospital does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in organizations of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

Recommendation
We recommend preparing and drafting your financial statements in a manner that is consistent with U.S. Generally Accepted Auditing Standards.

Response

Management feels that committing the resources necessary to remain current on GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion
Response accepted.

## PART II – FINDINGS RELATED TO COMPLIANCE

### 07-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, 2007.

### 07-II-2 CERTIFIED BUDGET

Hospital cash basis expenditures during the year ended June 30, 2007 did not exceed budgeted amounts.

### 07-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.

### 07-II-4 TRAVEL EXPENSES

There were no changes in mileage reimbursement rates during the year.

### 07-II-5 BUSINESS TRANSACTIONS

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

### 07-II-6 BOARD MINUTES

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

### 07II-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.

### 07II-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.

Board of Trustees
Wayne County Hospital
Corydon, Iowa

In planning and performing our audit of the financial statements of Wayne County Hospital (the Hospital) as of and for the year ended June 30, 2007, in accordance with U.S. generally accepted auditing standards, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal controls.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control that we consider to be significant deficiencies and deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs to be incurred in internal controls with related benefits. Our responsibility is to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management decisions.

We believe that the following deficiencies constitute material weaknesses.

## MATERIAL WEAKNESSES

### *Material Audit Adjustments*

Management is responsible for the accuracy and completeness of all financial records and related information. Included in these responsibilities are controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger, initiate, authorize, record, and process adjusting journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

During the completion of this years' audit, there were a total of 15 adjusting entries proposed with the impact of increasing net income by approximately $154,000. These entries consisted of a combination of entries provided by the Hospital staff and those identified during the course of the audit. Several of these entries resulted in material changes to financial information included in previously issued internal financial statements, in addition to the changes to net income identified above. Throughout the year management chooses to maintain a relatively conservative approach to financial reporting, and so acknowledges that this conservative approach to financial reporting can often result in the over-accrual of costs or under-accrual of revenues that require us to propose audit adjustments at year end. However, because of the number of entries and corresponding material impact on net income, total assets and liabilities, we have assessed the controls over financial reporting to have material weaknesses.

During the course of reviewing manual journal entries we also identified numerous entries recorded each month for which the description indicated they were corrections of previously misposted journal entries. In order to enhance controls over financial reporting and to assist with limiting the number journal entries posted that are incorrect we recommend ensuring that all manual journal entries are reviewed for accuracy and that approval is documented.

### *Control over the Financial Reporting Process*

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the internal control policies and procedures of the organization. Management is as responsible for outsourced functions performed by a service provider as it is for your personnel.

Management is also responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements and the completeness of the footnote disclosures. Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

The outsourcing of these services is not unusual in organizations of this size and is a result of a cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

## GENERAL COMMENTS AND RECOMMENDATIONS

In addition to the comments identified above, we had the following observations and recommendations for consideration by Wayne County Hospital's management and Board of Trustees.

### *Accounts Receivable*

We identified the following items related to the accounts receivable aging that we would like to bring to your attention:

Subsidiary Ledger Variance:
The Hospital's accounts receivable subsidiary ledger has reflected a variance from the general ledger balance for a number of years. At June 30, 2007, the subsidiary ledger reflected a balance approximately $8,700 more than the general ledger. At June 30, 2006, the subsidiary ledger was approximately $12,700 less than the general ledger. Management has been monitoring the variance, but has been unsuccessful in identifying the cause. We recommend adjusting the general ledger to the subsidiary ledger, then closely monitoring any variances generated from month to month.

Accounts Receivable Aging:
The most significant source of cash flow for a Hospital is from the collection of cash from patient revenue, therefore the timely billing and collection of patient accounts receivable is a critical process within an organization. The balance in the accounts receivable aging increased approximately 31% or $523,000 through June 30, 2007 to 59 days revenue outstanding. While 59 days revenue outstanding is a reasonable level for the industry, this increase represents approximately 19 days cash on hand that remains in accounts receivable. From inquiry of management and business office personnel and review of the revenue/receivable process the main contributing factors to the increase are changes to and loss of business office personnel. With the significant capital expenditures that the Hospital is currently considering and the financial stresses that this can place on an organization, it is important to address the personnel issues causing the increase in order to expedite the billing and collection of patient accounts receivable.

Wayne County Hospital's written responses to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**LarsonAllen LLP**

Austin, Minnesota
September 28, 2007