

WAYNE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2008 AND 2007

**WAYNE COUNTY HOSPITAL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2008 AND 2007**

OFFICIALS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	9
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	11
STATEMENTS OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	26
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF PATIENT SERVICE REVENUE	27
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUE AND OTHER REVENUES	29
SCHEDULES OF NURSING SERVICE EXPENSES	30
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES	31
SCHEDULES OF GENERAL SERVICE EXPENSES	33
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES	34
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	35
SCHEDULES OF INVENTORY AND PREPAID EXPENSES	36
COMPARATIVE STATISTICS	37
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38
SCHEDULE OF FINDINGS AND RESPONSES	40

WAYNE COUNTY HOSPITAL
OFFICIALS
YEAR ENDED JUNE 30, 2008

<u>Name</u>	<u>Title</u>
BOARD OF TRUSTEES	
Gary Runyon	Chairperson
Norman Riekens	Vice Chairperson
Bill Wells	Secretary
Darrell Cook	Treasurer
Harriet Gustafson	Member
Jill Tueth	Member
Marvin Ryan	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, 2008 and 2007, 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, 2008 and 2007, 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 March 12, 2009 on our consideration of Wayne County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Our audits were conducted for the purpose of forming an opinion on the 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.

A handwritten signature in black ink that reads "Larson Allen LLP". The signature is written in a cursive, flowing style.

LarsonAllen LLP

Austin, Minnesota
March 12, 2009

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007**

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, 2008. 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, 2008, 2007 and 2006 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 \$92,838 or 5.6% in 2008 compared to a decrease of \$285,933 or 14.7% in 2007.
- The Hospital's net assets increased by \$177,441 or 1.9% in 2008 and \$61,128 or 0.6% in 2007.
- Total operating revenues increased by \$1,247,737 or 12.6% in 2008, \$822,123 or 9.1% in 2007 and \$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

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007**

There were no significant changes in Wayne County Hospital's accounting policies for the fiscal year ended June 30, 2008, 2007 or 2006.

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>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current Assets	\$ 4,429,187	\$ 4,385,970	\$ 3,704,509
Noncurrent Cash and Investments	8,157,988	1,843,851	1,933,055
Capital Assets, Net	5,846,869	5,237,412	5,410,170
Succeeding Year Property Tax Receivable	874,263	843,806	802,740
Other Assets	335,355	17,500	-
Total Assets	<u><u>\$ 19,643,662</u></u>	<u><u>\$ 12,328,539</u></u>	<u><u>\$ 11,850,474</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,369,698	\$ 1,101,503	\$ 666,612
Long Term Debt	7,611,975	769,570	831,676
Deferred Revenue from Succeeding Year Property Tax Receivable	868,337	841,255	797,103
Total Liabilities	<u><u>9,850,010</u></u>	<u><u>2,712,328</u></u>	<u><u>2,295,391</u></u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	3,734,897	4,405,410	4,517,660
Restricted for Capital Expenditures	551,576	45,539	32,903
Restricted Under Debt Agreements	870,604	9,080	9,080
Restricted for Payment Reserve - Capital Lease	9,798	8,142	6,486
Unrestricted	4,626,777	5,148,040	4,988,954
Total Net Assets	<u><u>9,793,652</u></u>	<u><u>9,616,211</u></u>	<u><u>9,555,083</u></u>
Total Liabilities and Net Assets	<u><u>\$ 19,643,662</u></u>	<u><u>\$ 12,328,539</u></u>	<u><u>\$ 11,850,474</u></u>

Asset categories changing significantly during 2008 and 2007 included patient accounts receivable, noncurrent cash and investments, capital assets and pledges receivable. Current assets increased \$43,217 or .1% in 2008 compared to increases of \$681,461 or 18.4% in 2007 and \$53,961 or 1.5% in 2006. Noncurrent cash and investments increased in 2008 by \$6,314,137 or 342.4% from the proceeds of a bond issue for an expansion and renovation project compared to a decrease in 2007 of \$89,204 or 4.6%. In 2006 they also 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%. In 2008, there was an increase in capital assets of \$609,457 or 11.6%.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007**

The current ratio (current assets divided by current liabilities) for 2008 was 3.2, 2007 was 4.0, and 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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net Patient Service Revenue	\$ 10,651,167	\$ 9,354,632	\$ 8,563,816
Assisted Living and Multi Unit Housing	216,072	249,700	245,146
Other Operating Revenue	260,237	275,407	248,654
Total Revenue	<u>11,127,476</u>	<u>9,879,739</u>	<u>9,057,616</u>
Operating Expenses			
Nursing Service	3,561,435	2,743,786	2,404,423
Other Professional Service	4,118,745	3,711,671	3,388,685
General Service	1,297,148	1,250,298	1,223,934
Fiscal and Administrative Services	2,835,414	2,499,383	2,287,204
Depreciation	580,177	580,318	590,608
Interest	33,304	30,783	32,086
Total Expenses	<u>12,426,223</u>	<u>10,816,239</u>	<u>9,926,940</u>
Operating Loss	(1,298,747)	(936,500)	(869,324)
Non-Operating Revenues (Expenses)	<u>972,928</u>	<u>985,683</u>	<u>858,685</u>
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(325,819)	49,183	(10,639)
Capital Grants and Contributions	<u>503,260</u>	<u>11,945</u>	<u>44,378</u>
Increase (Decrease) in Net Assets	177,441	61,128	33,739
Net Assets, Beginning of Year	<u>9,616,211</u>	<u>9,555,083</u>	<u>9,521,344</u>
Net Assets, End of Year	<u>\$ 9,793,652</u>	<u>\$ 9,616,211</u>	<u>\$ 9,555,083</u>

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**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007**

Net patient service revenue made up 95.7% in 2008, 94.7% in 2007, and 94.5% in 2006, 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>2008</u>	<u>2007</u>	<u>2006</u>
Total Patient Service Revenues	\$ 15,579,360	\$ 13,053,349	\$ 12,692,969
Contractual Adjustments and Provisions for Bad Debt	4,928,193	3,698,717	4,129,153
Net Patient Service Revenue	<u>\$ 10,651,167</u>	<u>\$ 9,354,632</u>	<u>\$ 8,563,816</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>31.63%</u>	<u>28.34%</u>	<u>32.53%</u>

Patient volumes increased in 2008, after declines during 2007 and 2006, however, net patient service revenue continued to increase due to increases in reimbursement rates from third party payors. Total operating expenses increased \$1,609,984 or 14.9% in 2008, \$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 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 11.7% in 2008, negative 9.5% in 2007 and negative 9.6% in 2006. The operating loss in 2008 was \$1,298,747, compared to an operating loss in 2007 of \$936,500, and \$869,324 in 2006.

Other Operating Revenues decreased by \$15,170 or 5.5% in 2008 compared to increases of \$26,753 or 10.8% in 2007 and \$7,445 or 3.1% in 2006. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Office Rent	\$ 91,353	\$ 95,499	\$ 109,629
Miscellaneous	8,746	39,215	15,268
Laundry Revenue	31,504	30,506	28,422
Cafeteria	95,709	75,698	64,258
Meals on Wheels	10,330	10,070	10,080
Emergency Telephone Services	20,710	19,475	18,975
Restricted contributions	1,005	4,444	1,522
Community Programs	880	500	500
Total Other Revenues	<u>\$ 260,237</u>	<u>\$ 275,407</u>	<u>\$ 248,654</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In 2008, total patient days increased from 2007, which also resulted in an increase in inpatient revenue from 20.9% of total revenue to 22.8%.

Table 5: Statistical Data

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Patient Days			
Acute	1,461	1,383	1,425
Swing Bed	1,227	720	1,417
Newborn	131	133	131
Intermediate Care	155	75	200
Total	<u>2,974</u>	<u>2,311</u>	<u>3,173</u>
Admissions			
Acute	551	514	538
Swing Bed	94	77	108
Newborn	84	92	88
Intermediate Care	16	9	11
Total	<u>745</u>	<u>692</u>	<u>745</u>
Discharges			
Acute	547	510	533
Swing Bed	100	73	111
Newborn	84	91	88
Intermediate Care	16	9	13
Total	<u>747</u>	<u>683</u>	<u>745</u>
Average Length of Stay, Acute	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>
Beds			
Acute, Swing and Intermediate	25	25	25
Occupancy Percentage	31%	24%	33%

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, 2008 the Hospital had \$5,846,869, compared to \$5,237,412 in 2007, invested in capital assets net of accumulated depreciation. In 2008, the Hospital reflected \$1,220,804 in capital asset additions compared to \$408,636 in 2007.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2008 AND 2007**

Long-Term Debt

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
2004 Hospital Revenue Bonds	\$ -	\$ 410,915	\$ 446,037
Note Payable	122,445	144,667	166,889
Capital Lease Payable	273,104	276,420	279,585
2008 Hospital Revenue Bonds	<u>7,242,129</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 7,637,678</u>	<u>\$ 832,002</u>	<u>\$ 892,511</u>

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 2004 Bonds were paid off in 2008 with a Hospital Revenue Bond in the amount of \$7,325,000 to fund an expansion and facility renovation project. The interest rate for these bonds varies from 4.5% to 5.75%. The 2008 bonds mature in 2033.

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, 2008 AND 2007**

ASSETS	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,555,357	\$ 1,648,195
Patient Receivables, Less Allowance for Uncollectible Accounts of Approximately \$555,000 in 2008 and \$396,000 in 2007	2,086,320	1,519,114
Investments	114,461	242,197
Other Receivables	99,716	84,417
Estimated Third-Party Payor Settlements	128,546	659,834
Current Portion of Pledges Receivable	176,250	-
Inventories	210,684	178,685
Prepaid Expenses	57,853	53,528
Total Current Assets	4,429,187	4,385,970
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	1,409,990	1,628,953
Internally Designated for Health Insurance	105,931	152,137
Restricted for Construction	5,525,706	-
Restricted for Payment Reserve-Capital Lease	9,798	8,142
Restricted by Contributors	235,959	45,539
Restricted Under Debt Agreement	870,604	9,080
Total Noncurrent Cash and Investments	8,157,988	1,843,851
CAPITAL ASSETS, NET	5,846,869	5,237,412
OTHER ASSETS		
Debt Issue Costs	167,988	-
Note Receivable	28,000	17,500
Pledges Receivable, Net of Current Portion	139,367	-
Succeeding Year Property Tax Receivable	874,263	843,806
Total Other Assets	1,209,618	861,306
Total Assets	\$ 19,643,662	\$ 12,328,539

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2008</u>	<u>2007</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 552,863	\$ 341,251
Construction Payable	142,699	246,465
Accrued Employee Compensation	326,396	266,256
Accrued Interest Payable	111,351	2,282
Payroll Taxes and Withholdings	210,686	182,817
Current Portion of Long-Term Debt	25,703	62,432
Total Current Liabilities	<u>1,369,698</u>	<u>1,101,503</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	868,337	841,255
LONG-TERM DEBT, Net of Current Portion		
	<u>7,611,975</u>	<u>769,570</u>
Total Liabilities	9,850,010	2,712,328
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	3,734,897	4,405,410
Restricted by Donor for Capital Expenditures	551,576	45,539
Restricted Under Debt Agreements	870,604	9,080
Restricted for Payment Reserve - Capital Lease	9,798	8,142
Unrestricted	4,626,777	5,148,040
Total Net Assets	<u>9,793,652</u>	<u>9,616,211</u>
Total Liabilities and Net Assets	<u>\$ 19,643,662</u>	<u>\$ 12,328,539</u>

**WAYNE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debt of \$439,053 in 2008 and \$381,914 in 2007)	\$ 10,651,167	\$ 9,354,632
Assisted Living and Multi-Unit Housing Revenue	216,072	249,700
Other Operating Revenues	260,237	275,407
Total Operating Revenues	11,127,476	9,879,739
EXPENSES		
Nursing Service	3,561,435	2,743,786
Other Professional Service	4,118,745	3,711,671
General Service	1,297,148	1,250,298
Fiscal and Administrative Services and Unassigned Expenses	2,835,414	2,499,383
Depreciation	580,177	580,318
Interest	33,304	30,783
Total Expenses	12,426,223	10,816,239
OPERATING LOSS	(1,298,747)	(936,500)
NON-OPERATING GAINS (LOSSES)		
County Tax revenue	839,700	797,103
Interest Income	77,905	109,873
Loss on Sale of Fixed Assets	9,190	(1,076)
Gain on Joint Venture	(239)	1,044
Unrestricted Grants and Contributions	46,372	78,739
Net Non-Operating Gains	972,928	985,683
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(325,819)	49,183
Capital Grants and Contributions	503,260	11,945
INCREASE IN NET ASSETS	177,441	61,128
NETS ASSETS BEGINNING OF YEAR	9,616,211	9,555,083
NETS ASSETS END OF YEAR	\$ 9,793,652	\$ 9,616,211

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 10,812,647	\$ 8,599,520
Cash Paid to Employees	(6,682,091)	(5,915,533)
Cash Paid to Suppliers	(4,867,354)	(4,060,627)
Other Receipts and Payments, Net	260,237	275,407
Net Cash Used by Operating Activities	<u>(476,561)</u>	<u>(1,101,233)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
County Taxes Received	839,700	797,103
Gain on Investment in Joint Venture	(239)	1,044
Restricted and Unrestricted Contributions Received	549,632	90,684
Increase in Pledges Receivable	<u>(315,617)</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	1,073,476	888,831
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(1,206,681)	(162,171)
Payments on Long Term Debt	(436,453)	(60,509)
Proceeds from Issuance of Debt	7,235,000	-
Cash Paid for Debt Issue Costs	(167,988)	-
Cash Received from Sale of Capital Assets	40,360	-
Interest Paid on Long-Term Debt	<u>(35,586)</u>	<u>(30,783)</u>
Net Cash Provided (Used) by Capital and Related Financial Activities	5,428,652	(253,463)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Noncurrent Cash and Investments	(7,058,546)	(870,796)
Purchase of Noncurrent Cash and Investments	745,000	960,000
Decrease in Investments	127,736	(11,350)
Interest Received	77,905	109,873
Increase in Note Receivable	<u>(10,500)</u>	<u>(7,795)</u>
Net Cash Provided (Used) by Investing Activities	<u>(6,118,405)</u>	<u>179,932</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,838)	(285,933)
Cash and Cash Equivalents - Beginning of Year	<u>1,648,195</u>	<u>1,934,128</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,555,357</u>	<u>\$ 1,648,195</u>

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (1,298,747)	\$ (936,500)
Adjustments to Reconcile Operating Income to Net Cash Used by Operations		
Provision for Depreciation	580,177	580,318
Cash Paid for Interest	35,586	30,783
Decrease (Increase) in:		
Patient Receivables	(567,206)	(388,572)
Estimated Third-Party Payor Settlements	531,288	(582,486)
Inventories	(31,999)	11,843
Prepaid Expenses	(4,325)	30,307
Other Receivables	(18,674)	(33,754)
Increase (Decrease) in:		
Accounts Payable	211,612	105,733
Accrued Employee Compensation	60,140	51,886
Payroll Taxes and Withholdings	27,869	29,209
Accrued Interest	(2,282)	-
Net Cash Used by Operating Activities	\$ (476,561)	\$ (1,101,233)

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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 expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital has elected not to apply the provisions of relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets and Liabilities (Continued)

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, 2008 and 2007, the allowance for uncollectible accounts was approximately \$555,000 and \$396,000, 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.

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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets and Liabilities (Continued)

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. Restricted net assets at June 30, 2008 and 2007, are for capital expenditures and by time restrictions. *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.

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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Charges foregone for charity care provided during the years ending June 30, 2008 and 2007 was \$16,004 and \$28,155, respectively.

Reclassifications

Certain items in the 2007 financial statements have been reclassified for comparison purposes with the 2008 financial statements. These reclassifications did not affect the net assets or results of operations as previously reported.

NOTE 2 DESIGNATED NET ASSETS

Of the \$4,626,777 and \$5,148,040 of unrestricted net assets at June 30, 2008 and 2007, respectively, \$1,409,990 and \$1,628,953 have been designated by the Hospital's Board of Trustees for capital acquisitions and \$105,931 and \$152,137 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, 2006.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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:

	<u>2008</u>	<u>2007</u>
Total Patient Service Revenue	\$ 15,579,360	\$ 13,053,349
Contractual Adjustments		
Medicare	2,737,938	2,152,049
Medicaid	711,326	616,632
Provision for Bad Debts	439,053	381,914
Other	1,039,876	548,122
Total Contractual Adjustments	<u>4,928,193</u>	<u>3,698,717</u>
Net Patient Service Revenue	<u>\$ 10,651,167</u>	<u>\$ 9,354,632</u>

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,771,666	\$ 1,240,002
Receivable from Medicare	505,294	514,022
Receivable from Medicaid	364,360	161,090
Total Patient Receivables	<u>2,641,320</u>	<u>1,915,114</u>
Less Allowance for Doubtful Accounts	<u>(555,000)</u>	<u>(396,000)</u>
Patient Receivables, Net	<u>\$ 2,086,320</u>	<u>\$ 1,519,114</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 PLEDGES RECEIVABLE

During the year ended June 30, 2008, the Hospital received a number of pledge contributions construction project as described in Note 7. An allowance for uncollectible pledges was included as of June 30, 2008.

Expected future receipts of pledges receivable as of June 30, 2008, are as follows:

	2008
Due in Less Than One Year	\$ 176,250
Due in One to Five Years	627,500
Total Pledges Receivable	803,750
Less Discount	(138,133)
Less Allowance for Uncollectible Pledges	(350,000)
Net Pledges Receivable	\$ 315,617

The Imputed Interest Rate on the Pledge Discount is 5%.

NOTE 6 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2008 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, 2008 and 2007 the Hospital's deposits at fair market value are as follows:

	2008	2007
Deposits	\$ 9,713,345	\$ 3,492,046

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	<u>2008</u>	<u>2007</u>
Cash and Cash Equivalents	\$ 1,555,357	\$ 1,648,195
Noncurrent Cash and Investments		
Internally Designated for Capital Improvement	1,409,990	1,628,953
Internally Designated for Health Insurance	105,931	152,137
Restricted for Construction	5,525,706	-
Restricted for Payment Reserve-Capital Lease	9,798	8,142
Restricted by Contributors	235,959	45,539
Restricted Under Debt Agreement	870,604	9,080
Total Noncurrent Cash and Investments	<u>\$ 9,713,345</u>	<u>\$ 3,492,046</u>

NOTE 7 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2008 and 2007 are as follows:

Capital Assets	July 1, 2007	Additions	(Retirements)	Transfers	June 30, 2008
Land	\$ 86,883	\$ -	\$ -	\$ -	\$ 86,883
Land Improvements	356,583	-	(3,821)	-	352,762
Buildings	5,172,529	81,841	-	393,073	5,647,443
Fixed Equipment	2,788,599	11,168	(16,825)	-	2,782,942
Movable Equipment	2,900,550	95,958	(293,497)	-	2,703,011
Construction in Progress	232,987	1,031,837	-	(393,073)	871,751
Totals	11,538,131	1,220,804	(314,143)	-	12,444,792
Accumulated Depreciation					
Land Improvements	222,265	22,713	(1,479)	-	243,499
Buildings	2,492,202	247,118	-	-	2,739,320
Fixed Equipment	1,312,424	131,171	(16,426)	-	1,427,169
Movable Equipment	2,273,828	179,175	(265,068)	-	2,187,935
Totals	6,300,719	<u>\$ 580,177</u>	<u>\$ (282,973)</u>	<u>\$ -</u>	6,597,923
	<u>\$ 5,237,412</u>				<u>\$ 5,846,869</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 7 CAPITAL ASSETS (CONTINUED)

Capital Assets	July 1, 2006	Additions	(Retirements)	Transfers	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
	<u>\$ 5,410,170</u>				<u>\$ 5,237,412</u>

Construction in progress at June 30, 2008, consists of costs related to a hospital expansion and renovation project which will include the emergency room, inpatient rooms, therapy and other areas as well as an upgrade of the Hospital's information system. The emergency room portion of the project is expected to be completed in November 2008, the imaging department in January 2009, and the private wing in May 2009. Final renovations are expected to be completed in September 2009. These projects are funded by the 2008 revenue bonds and are expected to cost an estimated \$6.2 million. The remaining portion of the information system project is expected to cost approximately \$110,000 and is expected to be completed by June 2009. This project will be funded from the Hospital's reserves.

Interest expense was capitalized in the amount of \$111,351 and interest income was capitalized in the amount of \$24,632 during the year ended June 30, 2008.

NOTE 8 NOTE RECEIVABLE

The Hospital 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, 2008, \$35,000 had been advanced and \$7,000 of the note had been amortized, leaving \$28,000 receivable at June 30, 2008.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 9 LONG-TERM DEBT

A schedule of changes in long-term debt for 2008 and 2007 is as follows:

	Balance July 1, 2007	Additions	(Payments)	Balance June 30, 2008	Amounts Due Within One Year
Clarke Electric Note	\$ 144,667	\$ -	\$ (22,222)	\$ 122,445	\$ 22,222
Hospital Revenue Bonds	410,915	-	(410,915)	-	-
Obligation Under Capital Lease	276,420	-	(3,316)	273,104	3,481
Series 2008 Hospital Revenue Bonds	-	7,235,000	-	7,235,000	-
	<u>832,002</u>	<u>7,235,000</u>	<u>(436,453)</u>	<u>7,630,549</u>	<u>25,703</u>
Series 2008 Bond Premium	-	7,129	-	7,129	-
Total Long-Term Debt	<u>\$ 832,002</u>	<u>\$ 7,242,129</u>	<u>\$ (436,453)</u>	<u>\$ 7,637,678</u>	<u>\$ 25,703</u>

	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	446,037	-	(35,122)	410,915	36,891
Obligation Under Capital Lease	279,585	-	(3,165)	276,420	3,319
Total Long-Term Debt	<u>\$ 892,511</u>	<u>\$ -</u>	<u>\$ (60,509)</u>	<u>\$ 832,002</u>	<u>\$ 62,432</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, 2008 AND 2007**

NOTE 9 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. The Revenue Bonds were retired during the year ended June 30, 2008, with the proceeds of the Series 2008 Hospital Revenue Bonds described below.

The Hospital issued the \$7,235,000 Series 2008 Hospital Revenue Bonds during the year ended June 30, 2008, to refund the Revenue Bonds described above for approximately \$381,000, as well as for a hospital modernization project as described in Note 5. Bond principal payments are due semi-annually on March 1 and September 1 through 2033 at fixed rates of 4.5% to 5.75%. Principal payments are due annually on March 1 through 2033.

The revenue bonds contain certain financial and other covenants with which the Hospital was in compliance at June 30, 2008 and 2007.

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

	<u>2008</u>	<u>2007</u>
Child Day Care Center	\$ 288,000	\$ 288,000
Less Accumulated Amortization	(43,200)	(36,000)
Total	<u>\$ 244,800</u>	<u>\$ 252,000</u>

Scheduled principal and interest payments on long-term debt and capital lease obligations are as follows:

<u>Years Ending June 30:</u>	<u>Long-Term Debt</u>		<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 22,222	\$ 359,750	\$ 3,480	\$ 12,936
2010	187,222	385,445	3,480	12,766
2011	192,222	378,020	3,827	12,589
2012	202,222	370,370	4,014	12,402
2013	207,222	362,270	4,209	12,207
2014-2018	1,076,335	1,677,475	24,328	57,752
2019-2023	1,685,000	1,387,828	30,857	51,223
2024-2028	1,865,000	980,295	39,138	42,942
2029-2033	1,920,000	418,025	49,642	32,438
2034-2038	-	-	62,965	19,115
2039-2043	-	-	47,164	3,624
	<u>\$ 7,357,445</u>	<u>\$ 6,319,478</u>	<u>\$ 273,104</u>	<u>\$ 269,994</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 10 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 11 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, 2008, 2007, and 2006 were \$329,840, \$272,792, and \$238,576, respectively, equal to the required contributions for each year.

NOTE 12 OTHER POST EMPLOYMENT BENEFITS

The Government Accounting Standards Board (GASB) has issued Statement No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The standard provides for the determination, disclosure and potential recognition of other post employment benefits. The standard is effective for the Hospital for the year ended June 30, 2010. The impact of adopting this standard has not yet been determined.

NOTE 13 RELATED ORGANIZATION

Management Services

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines, under which Mercy Medical Center – Des Moines (Mercy) provides an administrator, management consultation, and other services. The arrangement does not alter the authority or responsibility of the Board of Trustees of Wayne County Hospital. Expenses for the administrative and management services received were \$132,872 and \$143,769 for the years ended June 30, 2008 and 2007, respectively. The Hospital had accounts payable to Mercy of \$49,418 and \$38,823 at June 30, 2008 and 2007, respectively.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 14 COMMITMENT AND CONTINGENCIES

Malpractice Claims

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

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2008 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, 2008**

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Amount to be Raised by Taxation	\$ 839,700	\$ -	\$ 839,700	\$ 812,723	\$ 26,977
Other Revenues/Receipts	11,763,964	(379,399)	11,384,565	12,861,694	(1,477,129)
	12,603,664	(379,399)	12,224,265	13,674,417	(1,450,152)
Expenses/Expenditures	12,426,223	(109,120)	12,317,103	12,603,149	(286,046)
Net	177,441	(270,279)	(92,838)	1,071,268	(1,164,106)
Balance, Beginning	9,616,211	(7,968,016)	1,648,195	4,251,064	(2,602,869)
Balance, Ending	<u>\$ 9,793,652</u>	<u>\$ (8,238,295)</u>	<u>\$ 1,555,357</u>	<u>\$ 5,322,332</u>	<u>\$ (3,766,975)</u>

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, 2008 AND 2007**

	TOTAL	
	2008	2007
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 860,534	\$ 779,096
Obstetric	99,385	98,600
Special Care	35,825	25,339
Swing Bed	539,464	298,580
Nursery	62,423	61,238
Total	1,597,631	1,262,853
OTHER NURSING SERVICES		
Operating and Recovery Rooms	1,137,817	1,086,398
Delivery and Labor Room	60,950	61,296
Medical and Surgical Supplies	293,274	354,744
Emergency Service	1,453,428	912,961
Ambulance	853,123	653,247
Kidney Dialysis	634,095	575,307
Total	4,432,687	3,643,953
OTHER PROFESSIONAL SERVICES		
Laboratory	1,779,284	1,372,321
Electrocardiology and Monitors	201,834	212,904
Radiology	2,845,626	2,050,280
Pharmacy	1,887,592	1,371,050
Anesthesiology	416,120	433,473
Respiratory Therapy	93,065	235,979
Physical Therapy	417,550	452,112
Speech Therapy	39,377	37,648
Occupational Therapy	59,506	40,551
Medical Clinics	1,626,560	1,790,301
Daycare	198,532	178,079
Total	9,565,046	8,174,698
Charity Care	(16,004)	(28,155)
Total Gross Patient Service Revenues	15,579,360	13,053,349
Provision for Contractual and Other Adjustments	(4,928,193)	(3,698,717)
Net Patient Service Revenue	\$ 10,651,167	\$ 9,354,632

INPATIENT		OUTPATIENT	
2008	2007	2008	2007
\$ 860,534	\$ 779,096	\$ -	\$ -
99,385	98,600	-	-
35,825	25,339	-	-
539,464	298,580	-	-
62,423	61,238	-	-
<u>1,597,631</u>	<u>1,262,853</u>	<u>-</u>	<u>-</u>
170,840	129,824	966,977	956,574
58,305	59,041	2,645	2,255
87,095	59,245	206,179	295,499
49,770	35,742	1,403,658	877,219
(1,230)	-	854,353	653,247
-	-	634,095	575,307
<u>364,780</u>	<u>283,852</u>	<u>4,067,907</u>	<u>3,360,101</u>
357,626	263,014	1,421,658	1,109,307
24,295	29,162	177,539	183,742
286,832	201,533	2,558,794	1,848,747
630,918	413,804	1,256,674	957,246
55,728	38,847	360,392	394,626
37,542	157,905	55,523	78,074
142,176	89,893	275,374	362,219
27,410	9,840	11,967	27,808
34,913	14,540	24,593	26,011
-	-	1,626,560	1,790,301
-	-	198,532	178,079
<u>1,597,440</u>	<u>1,218,538</u>	<u>7,967,606</u>	<u>6,956,160</u>
(16,004)	(28,155)	-	-
<u>\$ 3,543,847</u>	<u>\$ 2,737,088</u>	<u>\$ 12,035,513</u>	<u>\$ 10,316,261</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 2,737,938	\$ 2,152,049
Medicaid	711,326	616,632
Provision for Bad Debts	439,053	381,914
Other	1,039,876	548,122
Total Adjustments	\$ 4,928,193	\$ 3,698,717
 OTHER REVENUES		
Office Rent	\$ 91,353	\$ 95,499
Miscellaneous	8,746	39,215
Laundry Revenue	31,504	30,506
Cafeteria	95,709	75,698
Meals on Wheels	10,330	10,070
Emergency Telephone Services	20,710	19,475
Restricted contributions	1,005	4,444
Community Programs	880	500
Totals	\$ 260,237	\$ 275,407

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NURSING SERVICE EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION		
Salaries	\$ 1,443,214	\$ 1,032,565
Professional Fees	368,651	100,482
Supplies and Expenses	201,591	163,470
	<u>2,013,456</u>	<u>1,296,517</u>
OPERATING AND RECOVERY ROOM		
Salaries	185,096	149,381
Supplies and Expenses	217,169	178,224
	<u>402,265</u>	<u>327,605</u>
EMERGENCY AND OUTPATIENT SERVICE		
Salaries	639,591	675,924
Supplies and Expenses	7,533	9,089
	<u>647,124</u>	<u>685,013</u>
AMBULANCE AND BIOMEDICAL		
Salaries	197,788	151,494
Supplies and Expenses	49,044	35,122
	<u>246,832</u>	<u>186,616</u>
KIDNEY DIALYSIS		
Salaries	149,576	130,442
Professional Fees	15,385	21,481
Supplies and Expenses	86,577	75,254
	<u>251,538</u>	<u>227,177</u>
SCHOOL NURSE		
Salaries	220	20,858
	<u>220</u>	<u>20,858</u>
 Totals	 <u>\$ 3,561,435</u>	 <u>\$ 2,743,786</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

OTHER PROFESSIONAL SERVICE EXPENSES	<u>2008</u>	<u>2007</u>
LABORATORY		
Salaries	\$ 205,744	\$ 198,320
Professional Fees	107,065	86,094
Supplies and Expenses	203,233	200,849
	<u>516,042</u>	<u>485,263</u>
ELECTROCARDIOLOGY AND MONITORS		
Salaries	1,305	2,316
Professional Fees	31,489	29,270
Supplies and Expenses	1,236	1,098
	<u>34,030</u>	<u>32,684</u>
RADIOLOGY		
Salaries	194,384	145,271
Professional Fees	646,094	533,848
Supplies and Expenses	90,696	53,173
	<u>931,174</u>	<u>732,292</u>
PHARMACY		
Professional Fees	153,535	148,896
Drugs	447,669	327,223
Supplies and Expenses	104,521	148,699
	<u>705,725</u>	<u>624,818</u>
ANESTHESIOLOGY		
Professional Fees	268,380	265,067
Supplies and Expenses	6,630	8,011
	<u>275,010</u>	<u>273,078</u>
RESPIRATORY THERAPY		
Salaries	27,835	23,891
Supplies and Expenses	27,147	22,778
	<u>54,982</u>	<u>46,669</u>
PHYSICAL THERAPY		
Salaries	133,583	159,767
Professional Fees	1,406	172
Supplies and Expenses	12,087	19,749
	<u>147,076</u>	<u>179,688</u>
SPEECH THERAPY		
Professional Fees	16,980	12,600
Supplies and Expenses	3,781	-
	<u>20,761</u>	<u>12,600</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OCCUPATIONAL THERAPY		
Professional Fees	\$ 30,223	\$ 26,749
MEDICAL CLINICS		
Salaries	508,200	792,582
Professional Fees	3,420	8,103
Supplies and Expenses	110,565	158,201
	<u>622,185</u>	<u>958,886</u>
MEDICAL RECORDS		
Salaries	109,406	78,422
Supplies and Expenses	1,939	1,874
	<u>111,345</u>	<u>80,296</u>
DAYCARE		
Salaries	218,093	159,627
Supplies and Expenses	18,517	14,801
	<u>236,610</u>	<u>174,428</u>
DENTAL CLINIC		
Salaries	266,232	2,301
Supplies and Expenses	167,350	81,919
	<u>433,582</u>	<u>84,220</u>
Totals	<u>\$ 4,118,745</u>	<u>\$ 3,711,671</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF GENERAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

GENERAL SERVICE EXPENSES	2008	2007
DIETARY		
Salaries	\$ 189,782	\$ 178,911
Food	205,503	178,410
Supplies and Expenses	27,176	25,387
	422,461	382,708
PLANT OPERATION AND MAINTENANCE		
Salaries	91,352	136,369
Utilities	154,746	172,699
Supplies and Expenses	180,528	158,580
	426,626	467,648
HOUSEKEEPING		
Salaries	133,471	144,831
Supplies and Expenses	36,267	25,788
	169,738	170,619
LAUNDRY AND LINEN		
Salaries	47,583	45,319
Supplies and Expenses	23,149	15,845
	70,732	61,164
MULTI USE HOUSING		
Supplies and Expenses	1,296	796
	1,296	796
ASSISTED LIVING		
Salaries	172,351	151,869
Supplies and Expenses	33,944	15,494
	206,295	167,363
Totals	\$ 1,297,148	\$ 1,250,298

**WAYNE COUNTY HOSPITAL
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 492,563	\$ 421,529
Management Fees	132,872	143,769
Professional Fees	69,406	45,945
Telephone	77,497	80,369
Repairs and Maintenance	52,765	43,048
Supplies and Expense	66,145	58,876
Dues	75,252	74,257
Travel	57,562	27,030
Physician Recruitment	28,096	54,230
Advertising	40,990	40,882
Other Administrative Expense	170,512	116,335
Total Fiscal and Administrative Expenses	1,263,660	1,106,270
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	384,107	329,975
IPERS	329,840	272,792
Group Health, Life Insurance, and Unemployment	648,784	591,872
Insurance	209,023	198,474
Total Unassigned Expenses	1,571,754	1,393,113
Totals	\$ 2,835,414	\$ 2,499,383

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2008 AND 2007**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2008		2007	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 971,512	30.1 %	\$ 916,057	37.3 %
31-60 Days	435,951	13.5	322,686	13.1
61-90 Days	200,973	6.2	253,401	10.3
91 Days and Over	1,473,939	45.6	687,774	28.0
Clinic Receivables	147,706	4.6	276,226	11.3
Total Accounts Receivable	<u>3,230,081</u>	<u>100.0 %</u>	<u>2,456,144</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare	(292,722)		(308,408)	
Medicaid	(154,728)		(107,974)	
Other	(141,311)		(124,648)	
Doubtful Accounts	(555,000)		(396,000)	
Net Accounts Receivable	<u>\$ 2,086,320</u>		<u>\$ 1,519,114</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 30,384</u>		<u>\$ 26,675</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>69</u>		<u>57</u>	

Analysis of Allowance for Doubtful Accounts

	2008		2007	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 396,000		\$ 311,777	
Add:				
Provision for Doubtful Accounts	439,053	3.9 %	381,914	3.8 %
Recoveries Previously Written Off	(159,079)	(1.4)	(62,705)	(0.6)
	<u>675,974</u>		<u>630,986</u>	
Deduct:				
Accounts Written Off	(120,974)	(1.1)	(234,986)	(2.4)
Ending Balance	<u>\$ 555,000</u>		<u>\$ 396,000</u>	

**WAYNE COUNTY HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSES
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
INVENTORY		
Central Supply	\$ 23,535	\$ 19,306
Clinics	2,517	8,245
Pharmacy	78,343	58,505
Nursing	14,345	10,791
Physical Therapy	800	1,016
Operating Room	25,809	26,691
Laboratory	33,308	23,293
Dietary	14,133	19,740
Radiology	2,331	2,659
Housekeeping	1,938	1,619
Kidney Dialysis	4,171	3,480
Laundry and Linen	5,172	3,326
Dental Clinic	4,282	-
Ambulance	-	14
	<u>\$ 210,684</u>	<u>\$ 178,685</u>
 PREPAID EXPENSES		
Insurance	\$ 23,017	\$ 14,652
Other	34,836	38,876
	<u>\$ 57,853</u>	<u>\$ 53,528</u>

**WAYNE COUNTY HOSPITAL
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2008 AND 2007
UNAUDITED**

	<u>2008</u>	<u>2007</u>
PATIENT DAYS		
Acute	1,461	1,383
Nursery	131	133
Swing Bed		
Skilled Nursing Care	1,227	720
Intermediate Care	<u>155</u>	<u>75</u>
Totals	<u><u>2,974</u></u>	<u><u>2,311</u></u>
ADMISSIONS		
Acute and Special Care	551	514
DISCHARGES		
Acute and Special Care	547	510
AVERAGE LENGTH OF STAY		
Acute and Special Care	2.6	2.7
BEDS	25	25
OCCUPANCY PERCENTAGE		
Including Swing Bed	<u><u>31%</u></u>	<u><u>24%</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 the Wayne County Hospital as of and for the year ended June 30, 2008, and have issued our report thereon dated March 12, 2009. 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 08-I-1, 08-I-2 and 08-I-3 described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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 significant deficiencies 08-I-1 and 08-I-2 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 March 12, 2009.

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

Austin, Minnesota
March 12, 2009

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS

08-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.

08-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.

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

08-I-3 SEGREGATION OF DUTIES

As part of the audit process, it was identified that proper segregation of duties is not in place at the Dental Clinic. The Dental Clinic's office manager, performs the billing functions, receives payments, posts payments to patient accounts, prepares the bank deposit and makes the bank deposit.

Recommendation

We recommend limiting one person's access to all functions related to the cash receipts and billing function.

Response

Management will consider ways to mitigate the segregation of duties issues while also considering the cost versus the benefit derived from implementing changes.

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

PART II – FINDINGS RELATED TO COMPLIANCE

08-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 exceeded during the year ended June 30, 2008.

08-II-2 CERTIFIED BUDGET

Hospital cash basis expenditures during the year ended June 30, 2008 did not exceed budgeted amounts.

08-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.

08-II-4 TRAVEL EXPENSES

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

08-II-5 BUSINESS TRANSACTIONS

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

08-II-6 BOARD MINUTES

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

08-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.

08-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.

08-II-9 PUBLICATION OF SALES OF PERSONAL PROPERTY

Chapter 347.30 of the Code of Iowa states "A county or city hospital shall serve notice before selling or leasing any personal property..." The Hospital did not provide notice with a description of certain pieces of property prior to selling them.

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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, 2008, 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 significant deficiencies and 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 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. We believe that the following deficiency constitutes a significant deficiency.

Segregation of Duties

In any system of internal accounting control, one primary goal is adequate segregation of duties. Because of the way certain duties are assigned and carried out within the various accounting cycles, an adequate segregation of duties and responsibilities is not always present.

The size of the Dental Clinic and its staff sometimes limits the application of adequate segregation of duties. The accounting controls should be reviewed periodically and consideration should be given to improving the segregation of duties and developing procedures which additionally mitigate potential risks. In making this review, it is most important to consider the benefit derived versus the cost of proposed changes.

In reviewing the Dental Clinic's internal control policies and procedures we have identified that the Dental Clinic's office manager, performs the billing functions, receives payments, posts payments to patient accounts, prepares the bank deposit and makes the bank deposit. We recommend limiting one person's access to all functions related to the cash receipts and billing function.



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a worldwide network of independent accounting and consulting firms.

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. We believe that the following deficiencies constitute 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 year's audit we proposed, as well as management providing, twenty audit adjustments increasing net income approximately \$26,000. The most significant of these entries were to record the write off of certain clinic accounts receivable of \$30,000, recognize contribution revenue for pledges receivable of \$262,000, capitalize construction project related expenses of \$82,000, increase the allowance on accounts receivable from third party payors and to reduce the receivable from third party payors for filed cost reports in the amount of \$75,000. We recommend consulting with us during the year as these types of unusual transaction arise, and we have provided management with guidance to assist with these in the future.

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.

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 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, 2008, the subsidiary ledger reflected a balance approximately \$15,000 less than the general ledger. At June 30, 2007, the subsidiary ledger was approximately \$8,700 more 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:

Accounts receivable in total has increased approximately \$836,000 from June 30, 2007 to June 30, 2008. This represents an increase of 38%, whereas net revenues have increased approximately 14% from the prior year. This change has led to an increase of 10 net days in accounts receivable, increasing to 66 net days at June 30, 2008 compared to 56 net days at June 30, 2007.

At June 30, 2008 compared to June 30, 2007, the accounts receivable over 90 days has increased substantially. The total accounts receivable over 90 days was approximately \$1,474,000 and accounting for 48% of the total accounts receivable, and \$690,000, or 31% of total accounts receivable, at June 30, 2008 and June 30, 2007. From inquiry of management and business office personnel as well as review of the processes, it appears that the increase is due primarily to staff turnover and minimal billing staff. In addition, there have been billing delays due to software updates that were needed both for the Hospital as well as for Medicare in order for claims to be accepted.

With the facility renovation that is currently underway and the significant capital expenditures that go hand in hand with the project, it is important to address the issues that are delaying billing and collecting accounts receivable in order to increase cash flow for the Hospital. Subsequent to year end management has made a focused effort to improve billing and collections and has improved overall collections of accounts receivable, including the collection of the older self pay accounts receivable. We recognize this effort and the results achieved and encourage the continue focus in order to reduce accounts receivable balances to management levels in the future.

Dentist Receivable:

The dental clinic was started in fiscal year 2008. At June 30, 2008, there was some difficulty in obtaining a detail accounts receivable listing for the dental receivables. In addition, there was not a calculation done to determine a reasonable contractual allowance or allowance for bad debts related to these receivables. We recommend reconciling the general ledger to the dental receivable detail on a monthly basis. In addition, we recommend considering including the dental receivables in the monthly allowance calculations.

Capitalization of Construction Projects

The Hospital is currently undergoing a facility renovation project and a computer system project. We recommend monitoring these projects and when the project or a phase of the project is complete and in use to capitalize and begin depreciating the appropriate portion of the project at the date placed into service. In the current year, there were phases of a project completed and in use during the year, however, the project was not capitalized and depreciation did not begin on the project until year end. A proposed adjusting entry properly recorded the completed project and related depreciation expense. Since the construction project underway is significant, it will be important to capitalize the project and begin depreciating it at the time it is placed in service in order to avoid significant year end audit adjustments and misleading depreciation expense throughout the course of the year.

Iowa Compliance

Depository Resolution:

During the course of the audit, it was identified that the Hospital was not in compliance with the depository resolution approved by the board of trustees as required by the Code of Iowa. The amounts deposited at two financial institutions exceeded the depository resolution approved by the board of trustees. We recommend monitoring the cash and investment balances held at financial institutions and reviewing the related depository resolution amounts and ensuring that they are in compliance.

Sale of Assets:

There were several assets that were sold during the year, which were not published prior to the sale. The Code of Iowa requires that publications be made prior to selling any personal property. In the future, we recommend that the Hospital properly publish any personal property that is for sale prior to selling it in order to comply with the Code of Iowa.

We wish to express our appreciation to the management of Wayne County Hospital for the many courtesies and cooperation extended to us during the course of our work. We would be pleased to furnish any additional information with respect to these suggestions and discuss this memorandum with you at your convenience.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Austin, Minnesota
March 12, 2009