

WAYNE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008

**WAYNE COUNTY HOSPITAL
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YEARS ENDED JUNE 30, 2009 AND 2008**

OFFICIALS

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**WAYNE COUNTY HOSPITAL
OFFICIALS
YEAR ENDED JUNE 30, 2009**

<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, 2009 and 2008, 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, 2009 and 2008, 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, 2010 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.

Board of Trustees
Wayne County Hospital

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.

Larson Allen LLP
LarsonAllen LLP

Austin, Minnesota
March 12, 2010

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2009 AND 2008**

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, 2009. 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, 2009, 2008 and 2007 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 \$410,701 or 26.4% in 2009 and \$92,838 or 5.6% in 2008.
- The Hospital's net assets decreased by \$33,732 or .3% in 2009 and increased by \$177,441 or 1.8% in 2008.
- Total operating revenues increased by \$853,931 or 7.7% in 2009, \$1,247,737 or 12.6% in 2008 and \$822,123 or 9.1% in 2007.

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, 2009 AND 2008**

There were no significant changes in Wayne County Hospital's accounting policies for the fiscal year ended June 30, 2009, 2008 or 2007.

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>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current Assets	\$ 5,319,115	\$ 4,429,187	\$ 4,385,970
Noncurrent Cash and Investments	3,441,679	8,157,988	1,843,851
Capital Assets, Net	10,422,509	5,846,869	5,237,412
Succeeding Year Property Tax Receivable	986,056	874,263	843,806
Other Assets	551,043	335,355	17,500
Total Assets	<u><u>\$ 20,720,402</u></u>	<u><u>\$ 19,643,662</u></u>	<u><u>\$ 12,328,539</u></u>
Liabilities:			
Total Current Liabilities	\$ 2,523,447	\$ 1,369,698	\$ 1,101,503
Long Term Debt	7,420,747	7,611,975	769,570
Deferred Revenue from Succeeding Year Property Tax Receivable	976,288	868,337	841,255
Total Liabilities	<u>10,920,482</u>	<u>9,850,010</u>	<u>2,712,328</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	4,036,951	3,734,897	4,405,410
Restricted for Capital Expenditures	561,704	551,576	45,539
Restricted Under Debt Agreements	658,533	870,604	9,080
Restricted for Payment Reserve - Capital Lease	11,454	9,798	8,142
Unrestricted	4,531,278	4,626,777	5,148,040
Total Net Assets	<u>9,799,920</u>	<u>9,793,652</u>	<u>9,616,211</u>
Total Liabilities and Net Assets	<u><u>\$ 20,720,402</u></u>	<u><u>\$ 19,643,662</u></u>	<u><u>\$ 12,328,539</u></u>

Asset categories changing significantly during 2009 and 2008 included patient noncurrent cash and investments, capital assets and pledges receivable. Current assets increased \$849,928 or 19.2% in 2009 compared to an increase of \$43,217 or 1% in 2008. Noncurrent cash and investments decreased in 2009 by \$4,716,309 or 57.8% due to the expenditure of bond issue funds for an expansion and renovation project compared to an increase in 2008 of \$6,314,137 or 342.4% due to the proceeds of the bond issue. Capital assets increased in 2008 by \$609,457 or 11.6%. In 2009, there was an increase in capital assets of \$4,575,640 or 78.5% from the completion of a significant portion of the construction projects.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2009 AND 2008**

The current ratio (current assets divided by current liabilities) for 2009 was 2.1, 2008 was 3.2, and 4.0 in 2007. 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>2009</u>	<u>2008</u>	<u>2007</u>
Net Patient Service Revenue	\$ 11,414,853	\$ 10,651,167	\$ 9,354,632
Assisted Living and Multi Unit Housing	285,279	216,072	249,700
Other Operating Revenue	321,275	260,237	275,407
Total Revenue	<u>12,021,407</u>	<u>11,127,476</u>	<u>9,879,739</u>
Operating Expenses			
Nursing Service	4,408,335	3,561,435	2,743,786
Other Professional Service	3,987,612	4,118,745	3,711,671
General Service	1,572,753	1,297,148	1,250,298
Fiscal and Administrative Services	2,985,304	2,835,414	2,499,383
Depreciation	691,344	580,177	580,318
Interest	12,580	33,304	30,783
Total Expenses	<u>13,657,928</u>	<u>12,426,223</u>	<u>10,816,239</u>
Operating Loss	(1,636,521)	(1,298,747)	(936,500)
Non-Operating Revenues (Expenses)	<u>981,633</u>	<u>972,928</u>	<u>985,683</u>
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(654,888)	(325,819)	49,183
Capital Grants and Contributions	<u>661,156</u>	<u>503,260</u>	<u>11,945</u>
Increase (Decrease) in Net Assets	6,268	177,441	61,128
Net Assets, Beginning of Year	<u>9,793,652</u>	<u>9,616,211</u>	<u>9,555,083</u>
Net Assets, End of Year	<u>\$ 9,799,920</u>	<u>\$ 9,793,652</u>	<u>\$ 9,616,211</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2009 AND 2008**

Net patient service revenue made up 95.0% in 2009, 95.7% in 2008, and 94.7% in 2007, 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>2009</u>	<u>2008</u>	<u>2007</u>
Total Patient Service Revenues	\$ 17,371,260	\$ 15,579,360	\$ 13,053,349
Contractual Adjustments and Provisions for Bad Debt	5,956,407	4,928,193	3,698,717
Net Patient Service Revenue	<u>\$ 11,414,853</u>	<u>\$ 10,651,167</u>	<u>\$ 9,354,632</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>34.29%</u>	<u>31.63%</u>	<u>28.34%</u>

Patient volumes increased in 2009 for acute patients, but swing bed volumes declined. This decline follows a substantial increase in volumes in 2008 compared to 2007. However, net patient service revenue continued to increase due to increases in reimbursement rates from third party payors, as well as the addition of service lines such as orthopedic services. Total operating expenses increased \$1,231,705 or 9.9% in 2008, \$1,609,984 or 14.9% in 2008 and \$889,299 or 9.0% in 2007, 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 14.0% in 2009, negative 11.7% in 2008 and negative 9.5% in 2007. The operating loss in 2009 was \$1,636,521, compared to an operating loss in 2008 of \$1,298,747, and \$936,500 in 2007.

Other Operating Revenues increased by \$61,038 or 23.5% in 2009 compared to a decrease of \$15,170 or 5.5% in 2008 and an increase of \$26,753 or 10.8% in 2007. Table 4 shows the detail for this line item.

Table 4: Other Operating Revenues

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Office Rent	\$ 106,220	\$ 91,353	\$ 95,499
Miscellaneous	6,421	8,746	39,215
Laundry Revenue	31,149	31,504	30,506
Cafeteria	147,915	95,709	75,698
Meals on Wheels	10,175	10,330	10,070
Emergency Telephone Services	18,415	20,710	19,475
Restricted contributions	-	1,005	4,444
Community Programs	980	880	500
Total Other Revenues	<u>\$ 321,275</u>	<u>\$ 260,237</u>	<u>\$ 275,407</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2009 AND 2008**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In 2009, total patient days decreased from 2008, however, due to rate increases inpatient revenue increased from 22.8% of total revenue to 25.3%.

Table 5: Statistical Data

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Patient Days			
Acute	1,604	1,461	1,383
Swing Bed	929	1,227	720
Newborn	152	131	133
Intermediate Care	217	155	75
Total	<u>2,902</u>	<u>2,974</u>	<u>2,311</u>
Admissions			
Acute	626	551	514
Swing Bed	89	94	77
Newborn	101	84	92
Intermediate Care	14	16	9
Total	<u>830</u>	<u>745</u>	<u>692</u>
Discharges			
Acute	630	547	510
Swing Bed	88	100	73
Newborn	101	84	91
Intermediate Care	14	16	9
Total	<u>833</u>	<u>747</u>	<u>683</u>
Average Length of Stay, Acute	<u>2.5</u>	<u>2.7</u>	<u>2.7</u>
Beds			
Acute, Swing and Intermediate	25	25	25
Occupancy Percentage	30%	31%	24%

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, 2009 the Hospital had \$10,422,509, compared to \$5,846,869 in 2008, invested in capital assets net of accumulated depreciation. In 2009, the Hospital reflected \$4,859,880 in capital asset additions compared to \$1,206,681 in 2008. The significant increase is the result of the continuation of a significant capital project to add an inpatient wing.

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**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2009 AND 2008**

Long-Term Debt

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
2004 Hospital Revenue Bonds	\$ -	\$ -	\$ 410,915
Note Payable	100,223	122,445	144,667
Capital Lease Payable	269,624	273,104	276,420
2008 Hospital Revenue Bonds	<u>7,241,772</u>	<u>7,242,129</u>	<u>-</u>
 Total Long-Term Debt	 <u>\$ 7,611,619</u>	 <u>\$ 7,637,678</u>	 <u>\$ 832,002</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 as part of a Hospital Revenue Bond issue 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. During 2009, the Hospital entered into an agreement with two other area hospitals through which the services of an orthopedic surgeon are shared between the three facilities.

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, 2009 AND 2008**

ASSETS	2009	2008
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,144,656	\$ 1,555,357
Patient Receivables, Less Allowance for Uncollectible Accounts of Approximately \$891,000 in 2009 and \$555,000 in 2008	2,115,851	2,086,320
Investments	652,531	114,461
Other Receivables	151,125	99,716
Estimated Third-Party Payor Settlements	734,664	128,546
Current Portion of Pledges Receivable	191,250	176,250
Inventories	235,528	210,684
Prepaid Expenses	93,510	57,853
Total Current Assets	5,319,115	4,429,187
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	1,406,484	1,409,990
Internally Designated for Health Insurance	139,147	105,931
Restricted for Construction	1,226,061	5,525,706
Restricted for Payment Reserve-Capital Lease	11,454	9,798
Restricted by Contributors	-	235,959
Restricted Under Debt Agreement	658,533	870,604
Total Noncurrent Cash and Investments	3,441,679	8,157,988
CAPITAL ASSETS, NET	10,422,509	5,846,869
OTHER ASSETS		
Debt Issue Costs	159,589	167,988
Note Receivable	21,000	28,000
Pledges Receivable, Net of Current Portion	370,454	139,367
Succeeding Year Property Tax Receivable	986,056	874,263
Total Other Assets	1,537,099	1,209,618
Total Assets	\$ 20,720,402	\$ 19,643,662

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 1,296,912	\$ 552,863
Construction Payable	227,984	142,699
Accrued Employee Compensation	388,020	326,396
Accrued Interest Payable	128,482	111,351
Payroll Taxes and Withholdings	291,177	210,686
Current Portion of Long-Term Debt	190,872	25,703
Total Current Liabilities	<u>2,523,447</u>	<u>1,369,698</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	976,288	868,337
LONG-TERM DEBT, Net of Current Portion		
	<u>7,420,747</u>	<u>7,611,975</u>
Total Liabilities	10,920,482	9,850,010
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,036,951	3,734,897
Restricted by Donor for Capital Expenditures	561,704	551,576
Restricted Under Debt Agreements	658,533	870,604
Restricted for Payment Reserve - Capital Lease	11,454	9,798
Unrestricted	4,531,278	4,626,777
Total Net Assets	<u>9,799,920</u>	<u>9,793,652</u>
 Total Liabilities and Net Assets	 <u>\$ 20,720,402</u>	 <u>\$ 19,643,662</u>

**WAYNE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debt of \$690,293 in 2009 and \$439,053 in 2008)	\$ 11,414,853	\$ 10,651,167
Assisted Living and Multi-Unit Housing Revenue	285,279	216,072
Other Operating Revenues	321,275	260,237
Total Operating Revenues	12,021,407	11,127,476
EXPENSES		
Nursing Service	4,408,335	3,561,435
Other Professional Service	3,987,612	4,118,745
General Service	1,572,753	1,297,148
Fiscal and Administrative Services and Unassigned Expenses	2,985,304	2,835,414
Depreciation and Amortization	691,344	580,177
Interest	12,580	33,304
Total Expenses	13,657,928	12,426,223
OPERATING LOSS	(1,636,521)	(1,298,747)
NON-OPERATING GAINS (LOSSES)		
County Tax revenue	866,400	839,700
Interest Income	70,332	77,905
Loss on Sale of Fixed Assets	3,842	9,190
Gain on Joint Venture	-	(239)
Unrestricted Grants and Contributions	41,059	46,372
Net Non-Operating Gains	981,633	972,928
DEFICIT OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(654,888)	(325,819)
Capital Grants and Contributions	661,156	503,260
INCREASE (DECREASE) IN NET ASSETS	6,268	177,441
NETS ASSETS BEGINNING OF YEAR	9,793,652	9,616,211
NETS ASSETS END OF YEAR	\$ 9,799,920	\$ 9,793,652

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 11,009,232	\$ 10,812,647
Cash Paid to Employees	(7,311,520)	(6,682,091)
Cash Paid to Suppliers	(4,809,821)	(4,867,354)
Other Receipts and Payments, Net	<u>321,275</u>	<u>260,237</u>
Net Cash Used by Operating Activities	(790,834)	(476,561)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
County Taxes Received	866,400	839,700
Gain on Investment in Joint Venture	-	(239)
Restricted and Unrestricted Contributions Received	702,215	549,632
Increase in Pledges Receivable	<u>(246,087)</u>	<u>(315,617)</u>
Net Cash Provided by Non-Capital Financing Activities	1,322,528	1,073,476
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(4,859,880)	(1,206,681)
Payments on Long Term Debt	(25,702)	(436,453)
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>(372,329)</u>	<u>(35,586)</u>
Net Cash Provided (Used) by Capital and Related Financial Activities	(5,257,911)	5,428,652
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Noncurrent Cash and Investments	6,550,964	745,000
Purchase of Noncurrent Cash and Investments	(1,834,655)	(7,058,546)
Decrease in Investments	(538,070)	127,736
Interest Received	137,277	77,905
Increase in Note Receivable	<u>-</u>	<u>(10,500)</u>
Net Cash Provided (Used) by Investing Activities	<u>4,315,516</u>	<u>(6,118,405)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(410,701)	(92,838)
Cash and Cash Equivalents - Beginning of Year	<u>1,555,357</u>	<u>1,648,195</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,144,656</u>	<u>\$ 1,555,357</u>

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (1,636,521)	\$ (1,298,747)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operations		
Provision for Depreciation	691,344	580,177
Cash Paid for Interest	12,580	33,304
Amortization of Physician Note Receivable	7,000	-
Decrease (Increase) in:		
Patient Receivables	(29,531)	(567,206)
Estimated Third-Party Payor Settlements	(606,118)	531,288
Inventories	(24,844)	(31,999)
Prepaid Expenses	(35,657)	(4,325)
Other Receivables	(55,251)	(18,674)
Increase (Decrease) in:		
Accounts Payable	744,049	211,612
Accrued Employee Compensation	61,624	60,140
Payroll Taxes and Withholdings	80,491	27,869
Accrued Interest		
Net Cash Used by Operating Activities	\$ (790,834)	\$ (476,561)

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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, 2009 AND 2008**

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, 2009 and 2008, the allowance for uncollectible accounts was approximately \$891,000 and \$555,000, 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 by 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, 2009 AND 2008**

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, 2009 and 2008, are due to time restrictions. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in 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, 2009 AND 2008**

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, 2009 and 2008 were \$12,159 and \$16,004, respectively.

Reclassifications

Certain items in the 2008 financial statements have been reclassified for comparison purposes with the 2009 financial statements. These reclassifications did not affect the net assets or results of operations as previously reported.

Subsequent Events

In preparation of the financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through March 12, 2010, the date the financial statements were issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$4,491,278 and \$4,626,777 of unrestricted net assets at June 30, 2009 and 2008, respectively, \$1,406,484 and \$1,409,990 have been designated by the Hospital's Board of Trustees for capital acquisitions and \$139,147 and \$105,931 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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

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, 2008.

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:

	2009	2008
Total Patient Service Revenue	\$ 17,371,260	\$ 15,579,360
Contractual Adjustments		
Medicare	2,898,126	2,737,938
Medicaid	872,378	711,326
Provision for Bad Debts	690,293	439,053
Other	1,495,610	1,039,876
Total Contractual Adjustments	5,956,407	4,928,193
Net Patient Service Revenue	\$ 11,414,853	\$ 10,651,167

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2009 and 2008 consisted of the following:

	2009	2008
Receivable from Patients and Their Insurance Carriers	\$ 2,227,626	\$ 1,771,666
Receivable from Medicare	576,778	505,294
Receivable from Medicaid	162,447	364,360
Total Patient Receivables	2,966,851	2,641,320
Less Allowance for Doubtful Accounts	(891,000)	(555,000)
Patient Receivables, Net	\$ 2,075,851	\$ 2,086,320

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 not considered necessary as of June 30, 2009.

Expected future receipts of pledges receivable as of June 30, 2009, are as follows:

	2009
Due in Less Than One Year	\$ 191,250
Due in One to Five Years	452,500
Total Pledges Receivable	643,750
Less Discount	(82,046)
Net Pledges Receivable	\$ 561,704

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

NOTE 6 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2009 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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2009 and 2008 the Hospital's deposits at fair market value are as follows:

	<u>2009</u>	<u>2008</u>
Deposits	\$ 4,586,335	\$ 9,713,345

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

	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents	\$ 1,144,656	\$ 1,555,357
Noncurrent Cash and Investments		
Internally Designated for Capital Improvement	1,406,484	1,409,990
Internally Designated for Health Insurance	139,147	105,931
Restricted for Construction	1,226,061	5,525,706
Restricted for Payment Reserve-Capital Lease	11,454	9,798
Restricted by Contributors	-	235,959
Restricted Under Debt Agreement	658,533	870,604
Total Noncurrent Cash and Investments	<u>\$ 4,586,335</u>	<u>\$ 9,713,345</u>

NOTE 7 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2009 and 2008 are as follows:

Capital Assets	July 1, 2008	Additions	(Retirements)	Transfers	June 30, 2009
Land	\$ 86,883	\$ -	\$ -	\$ -	\$ 86,883
Land Improvements	352,762	-	-	-	352,762
Buildings	5,647,443	4,766	(4,831)	1,279,139	6,926,517
Fixed Equipment	2,782,942	17,554	(78,389)	-	2,722,107
Movable Equipment	2,703,011	235,283	(295,106)	273,420	2,916,608
Construction in Progress	871,751	5,075,468	-	(1,553,902)	4,393,317
Totals	12,444,792	5,333,071	(378,326)	(1,343)	17,398,194
Accumulated Depreciation					
Land Improvements	243,499	21,120	-	-	264,619
Buildings	2,739,320	285,618	(4,825)	-	3,020,113
Fixed Equipment	1,427,169	127,062	(78,389)	-	1,475,842
Movable Equipment	2,187,935	249,145	(221,969)	-	2,215,111
Totals	6,597,923	<u>\$ 682,945</u>	<u>\$ (305,183)</u>	<u>\$ -</u>	6,975,685
	<u>\$ 5,846,869</u>				<u>\$ 10,422,509</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 7 CAPITAL ASSETS (CONTINUED)

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	<u>232,987</u>	<u>1,031,837</u>	<u>-</u>	<u>(393,073)</u>	<u>871,751</u>
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	<u>2,273,828</u>	<u>179,175</u>	<u>(265,068)</u>	<u>-</u>	<u>2,187,935</u>
Totals	<u>6,300,719</u>	<u>\$ 580,177</u>	<u>\$ (282,973)</u>	<u>\$ -</u>	<u>6,597,923</u>
	<u>\$ 5,237,412</u>				<u>\$ 5,846,869</u>

Construction in progress at June 30, 2009, 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, the imaging department, the therapy areas and the significant phases of the information system upgrade were completed during 2009. The private wing was substantially completed subsequent to June 30, 2009, with an estimated remaining cost of \$4.5 million. These projects are funded by the 2008 revenue bonds and the Hospital's reserves.

Interest expense was capitalized in the amount of \$376,880 and \$111,351 and interest income was capitalized in the amount of \$66,945 and \$24,632 during the years ended June 30, 2009 and 2008, respectively.

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. During the years ended June 30, 2009 and 2008, \$7,000 per year was recognized as expense related to the outstanding receivable.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 9 LONG-TERM DEBT

A schedule of changes in long-term debt for 2009 and 2008 is as follows:

	Balance July 1, 2008	Additions	(Payments)	Balance June 30, 2009	Amounts Due Within One Year
Clarke Electric Note	\$ 122,445	\$ -	\$ (22,222)	\$ 100,223	\$ 22,222
Obligation Under Capital Lease	273,104	-	(3,480)	269,624	3,650
Series 2008 Hospital Revenue Bonds	7,235,000	-	-	7,235,000	165,000
	<u>7,630,549</u>	<u>-</u>	<u>(25,702)</u>	<u>7,604,847</u>	<u>190,872</u>
Series 2008 Bond Premium	7,129	-	(357)	6,772	-
Total Long-Term Debt	<u>\$ 7,637,678</u>	<u>\$ -</u>	<u>\$ (26,059)</u>	<u>\$ 7,611,619</u>	<u>\$ 190,872</u>

	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
Obligation Under Capital Lease	276,420	-	(3,316)	273,104	3,481
Hospital Revenue Bonds	410,915	-	(410,915)	-	-
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>

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, 2009 AND 2008**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Capital Lease Obligation (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 having a balance of 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, 2009 and 2008.

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

	2009	2008
Child Day Care Center	\$ 288,000	\$ 288,000
Less Accumulated Amortization	(50,400)	(43,200)
Total	\$ 237,600	\$ 244,800

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

Years Ending June 30:	Long-Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2010	\$ 187,222	\$ 385,445	\$ 3,650	\$ 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	206,335	353,945	4,414	12,002
2015-2019	1,115,000	1,627,250	25,513	56,567
2020-2024	1,440,000	1,317,393	32,360	49,720
2025-2029	1,865,000	881,273	41,044	41,036
2030-2034	1,920,000	283,763	52,060	30,020
2035-2039	-	-	66,031	16,049
2040-2044	-	-	32,502	1,699
	\$ 7,335,223	\$ 5,959,729	\$ 269,624	\$ 257,057

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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 \$767,548 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, 2009, 2008, and 2007 were \$398,877, \$329,840, and \$272,792, 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 \$188,668 and \$132,872 for the years ended June 30, 2009 and 2008, respectively. The Hospital had accounts payable to Mercy of \$125,229 and \$195,415 at June 30, 2009 and 2008, respectively.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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, 2009 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, 2009**

	<u>Actual Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Original Budget</u>	<u>Final to Actual Cash Basis Variance</u>
Amount to be Raised by Taxation	\$ 866,400	\$ -	\$ 866,400	\$ 835,554	\$ 30,846
Other Revenues/Receipts	12,797,796	(873,884)	11,923,912	16,802,422	(4,878,510)
	13,664,196	(873,884)	12,790,312	17,637,976	(4,847,664)
Expenses/Expenditures	13,657,928	(456,915)	13,201,013	16,967,157	(3,766,144)
Net	6,268	(416,969)	(410,701)	670,819	(1,081,520)
Balance, Beginning	9,793,652	(8,238,295)	1,555,357	4,469,820	(2,914,463)
Balance, Ending	<u>\$ 9,799,920</u>	<u>\$ (8,655,264)</u>	<u>\$ 1,144,656</u>	<u>\$ 5,140,639</u>	<u>\$ (3,995,983)</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, 2009 AND 2008**

	TOTAL	
	2009	2008
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 1,040,978	\$ 860,534
Obstetric	139,705	99,385
Special Care	72,456	35,825
Swing Bed	449,413	539,464
Nursery	77,675	62,423
Total	<u>1,780,227</u>	<u>1,597,631</u>
OTHER NURSING SERVICES		
Operating and Recovery Rooms	1,441,836	1,137,817
Orthopedic Services	55,350	-
Delivery and Labor Room	89,593	60,950
Medical and Surgical Supplies	794,557	293,274
Emergency Service	1,652,041	1,453,428
Ambulance	806,791	853,123
Kidney Dialysis	637,185	634,095
	<u>5,477,353</u>	<u>4,432,687</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	1,844,620	1,779,284
Electrocardiology and Monitors	235,125	201,834
Radiology	2,960,814	2,845,626
Pharmacy	1,750,114	1,887,592
Anesthesiology	586,267	416,120
Respiratory Therapy	223,626	93,065
Physical Therapy	543,928	417,550
Speech Therapy	27,186	39,377
Occupational Therapy	42,292	59,506
Medical Clinics	1,711,137	1,626,560
Daycare	200,730	198,532
Total	<u>10,125,839</u>	<u>9,565,046</u>
Charity Care	<u>(12,159)</u>	<u>(16,004)</u>
Total Gross Patient Service Revenues	17,371,260	15,579,360
Provision for Contractual and Other Adjustments	<u>(5,956,407)</u>	<u>(4,928,193)</u>
Net Patient Service Revenue	<u>\$ 11,414,853</u>	<u>\$ 10,651,167</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 1,040,978	\$ 860,534	\$ -	\$ -
139,705	99,385	-	-
72,456	35,825	-	-
449,413	539,464	-	-
77,675	62,423	-	-
<u>1,780,227</u>	<u>1,597,631</u>	<u>-</u>	<u>-</u>
239,740	170,840	1,202,096	966,977
19,434	-	35,916	-
84,322	58,305	5,271	2,645
405,409	87,095	389,148	206,179
66,935	49,770	1,585,106	1,403,658
-	-	806,791	853,123
-	-	637,185	634,095
<u>815,840</u>	<u>366,010</u>	<u>4,661,513</u>	<u>4,066,677</u>
431,297	357,626	1,413,323	1,421,658
45,704	24,295	189,421	177,539
299,435	286,832	2,661,379	2,558,794
654,570	630,918	1,095,544	1,256,674
76,581	55,728	509,686	360,392
133,197	37,542	90,429	55,523
121,392	142,176	422,536	275,374
13,635	27,410	13,551	11,967
28,484	34,913	13,808	24,593
-	-	1,711,137	1,626,560
-	-	200,730	198,532
<u>1,804,295</u>	<u>1,597,440</u>	<u>8,321,544</u>	<u>7,967,606</u>
(12,159)	(16,004)	-	-
<u>\$ 4,388,203</u>	<u>\$ 3,545,077</u>	<u>\$ 12,983,057</u>	<u>\$ 12,034,283</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 2,898,126	\$ 2,737,938
Medicaid	872,378	711,326
Provision for Bad Debts	690,293	439,053
Other	<u>1,495,610</u>	<u>1,039,876</u>
Total Adjustments	<u>\$ 5,956,407</u>	<u>\$ 4,928,193</u>
OTHER REVENUES		
Office Rent	\$ 106,220	\$ 91,353
Miscellaneous	6,421	8,746
Laundry Revenue	31,149	31,504
Cafeteria	147,915	95,709
Meals on Wheels	10,175	10,330
Emergency Telephone Services	18,415	20,710
Restricted contributions	-	1,005
Community Programs	<u>980</u>	<u>880</u>
Totals	<u>\$ 321,275</u>	<u>\$ 260,237</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NURSING SERVICE EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION		
Salaries	\$ 1,523,001	\$ 1,443,434
Professional Fees	438,228	368,651
Supplies and Expenses	275,763	201,591
	<u>2,236,992</u>	<u>2,013,676</u>
 OPERATING AND RECOVERY ROOM		
Salaries	250,531	185,096
Supplies and Expenses	463,441	217,169
	<u>713,972</u>	<u>402,265</u>
 ORTHOPEDIC SERVICES		
Salaries	128,490	-
Supplies and Expenses	53,022	-
	<u>181,512</u>	<u>-</u>
 EMERGENCY AND OUTPATIENT SERVICE		
Salaries	641,304	639,591
Supplies and Expenses	22,132	7,533
	<u>663,436</u>	<u>647,124</u>
 AMBULANCE AND BIOMEDICAL		
Salaries	304,368	197,788
Supplies and Expenses	32,143	49,044
	<u>336,511</u>	<u>246,832</u>
 KIDNEY DIALYSIS		
Salaries	165,928	149,576
Professional Fees	11,275	15,385
Supplies and Expenses	98,709	86,577
	<u>275,912</u>	<u>251,538</u>
 Totals	<u>\$ 4,408,335</u>	<u>\$ 3,561,435</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

OTHER PROFESSIONAL SERVICE EXPENSES	<u>2009</u>	<u>2008</u>
LABORATORY		
Salaries	\$ 224,974	\$ 205,744
Professional Fees	103,211	107,065
Supplies and Expenses	239,678	203,233
	<u>567,863</u>	<u>516,042</u>
ELECTROCARDIOLOGY AND MONITORS		
Salaries	797	1,305
Professional Fees	36,538	31,489
Supplies and Expenses	2,344	1,236
	<u>39,679</u>	<u>34,030</u>
RADIOLOGY		
Salaries	217,658	194,384
Professional Fees	505,530	646,094
Supplies and Expenses	109,265	90,696
	<u>832,453</u>	<u>931,174</u>
PHARMACY		
Salaries	34,838	
Professional Fees	165,024	153,535
Drugs	353,649	447,669
Supplies and Expenses	244,043	104,521
	<u>797,554</u>	<u>705,725</u>
ANESTHESIOLOGY		
Professional Fees	364,508	268,380
Supplies and Expenses	6,066	6,630
	<u>370,574</u>	<u>275,010</u>
RESPIRATORY THERAPY		
Salaries	37,409	27,835
Supplies and Expenses	22,031	27,147
	<u>59,440</u>	<u>54,982</u>
PHYSICAL THERAPY		
Salaries	139,062	133,583
Professional Fees	7,698	1,406
Supplies and Expenses	18,848	12,087
	<u>165,608</u>	<u>147,076</u>
SPEECH THERAPY		
Professional Fees	21,542	16,980
Supplies and Expenses	1,368	3,781
	<u>22,910</u>	<u>20,761</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OCCUPATIONAL THERAPY		
Professional Fees	\$ 5,824	\$ 30,223
MEDICAL CLINICS		
Salaries	289,434	508,200
Professional Fees	-	3,420
Supplies and Expenses	45,722	110,565
	<u>335,156</u>	<u>622,185</u>
MEDICAL RECORDS		
Salaries	126,604	109,406
Supplies and Expenses	43,417	1,939
	<u>170,021</u>	<u>111,345</u>
DAYCARE		
Salaries	243,065	218,093
Supplies and Expenses	14,646	18,517
	<u>257,711</u>	<u>236,610</u>
DENTAL CLINIC		
Salaries	292,926	266,232
Supplies and Expenses	69,893	167,350
	<u>362,819</u>	<u>433,582</u>
 Totals	 <u>\$ 3,987,612</u>	 <u>\$ 4,118,745</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF GENERAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

GENERAL SERVICE EXPENSES	<u>2009</u>	<u>2008</u>
DIETARY		
Salaries	\$ 190,849	\$ 189,782
Food	250,029	205,503
Supplies and Expenses	<u>38,060</u>	<u>27,176</u>
	478,938	422,461
PLANT OPERATION AND MAINTENANCE		
Salaries	182,861	91,352
Utilities	173,691	154,746
Supplies and Expenses	<u>203,429</u>	<u>180,528</u>
	559,981	426,626
HOUSEKEEPING		
Salaries	175,059	133,471
Supplies and Expenses	<u>48,253</u>	<u>36,267</u>
	223,312	169,738
LAUNDRY AND LINEN		
Salaries	47,260	47,583
Supplies and Expenses	<u>23,481</u>	<u>23,149</u>
	70,741	70,732
MULTI USE HOUSING		
Supplies and Expenses	<u>509</u>	<u>1,296</u>
	509	1,296
ASSISTED LIVING		
Salaries	192,100	172,351
Supplies and Expenses	<u>47,172</u>	<u>33,944</u>
	239,272	206,295
 Totals	 <u>\$ 1,572,753</u>	 <u>\$ 1,297,148</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 645,173	\$ 492,563
Management Fees	188,668	132,872
Professional Fees	50,976	69,406
Telephone	75,922	77,497
Repairs and Maintenance	20,784	52,765
Supplies and Expense	71,278	66,145
Dues	78,252	75,252
Travel	20,548	57,562
Physician Recruitment	43,397	28,096
Advertising	40,265	40,990
Other Administrative Expense	133,239	170,512
Total Fiscal and Administrative Expenses	1,368,502	1,263,660
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	414,084	384,107
IPERS	398,877	329,840
Group Health, Life Insurance, and Unemployment	593,983	648,784
Insurance	209,858	209,023
Total Unassigned Expenses	1,616,802	1,571,754
Totals	\$ 2,985,304	\$ 2,835,414

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2009 AND 2008**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2009		2008	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 1,265,179	34.5 %	\$ 971,512	30.1 %
31-60 Days	462,914	12.6	435,951	13.5
61-90 Days	270,596	7.4	200,973	6.2
91 Days and Over	1,474,445	40.2	1,473,939	45.6
Clinic Receivables	194,324	5.3	147,706	4.6
Total Accounts Receivable	<u>3,667,458</u>	<u>100.0 %</u>	<u>3,230,081</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare	(449,722)		(292,722)	
Medicaid	(119,728)		(154,728)	
Other	(91,157)		(141,311)	
Doubtful Accounts	(891,000)		(555,000)	
Net Accounts Receivable	<u>\$ 2,115,851</u>		<u>\$ 2,086,320</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 33,165</u>		<u>\$ 30,384</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>64</u>		<u>69</u>	

Analysis of Allowance for Doubtful Accounts

	2009		2008	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 555,000		\$ 396,000	
Add:				
Provision for Doubtful Accounts	690,293	5.6 %	439,053	3.9 %
Recoveries Previously Written Off	(78,090)	(0.6)	(159,079)	(1.4)
	<u>1,167,203</u>		<u>675,974</u>	
Deduct:				
Accounts Written Off	(276,203)	(2.2)	(120,974)	(1.1)
Ending Balance	<u>\$ 891,000</u>		<u>\$ 555,000</u>	

**WAYNE COUNTY HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSES
JUNE 30, 2009 AND 2008**

	2009	2008
INVENTORY		
Central Supply	\$ 30,705	\$ 23,535
Clinics	2,646	2,517
Pharmacy	71,733	78,343
Nursing	11,258	14,345
Physical Therapy	1,250	800
Operating Room	50,080	25,809
Laboratory	28,915	33,308
Dietary	15,143	14,133
Radiology	1,251	2,331
Housekeeping	2,343	1,938
Kidney Dialysis	2,030	4,171
Laundry and Linen	3,510	5,172
Dental Clinic	14,664	4,282
	\$ 235,528	\$ 210,684
 PREPAID EXPENSES		
Insurance	\$ 39,362	\$ 23,017
Other	54,148	34,836
	\$ 93,510	\$ 57,853

**WAYNE COUNTY HOSPITAL
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2009 AND 2008
UNAUDITED**

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	1,604	1,461
Nursery	152	131
Swing Bed		
Skilled Nursing Care	929	1,227
Intermediate Care	<u>217</u>	<u>155</u>
Totals	<u><u>2,902</u></u>	<u><u>2,974</u></u>
ADMISSIONS		
Acute and Special Care	626	551
DISCHARGES		
Acute and Special Care	630	547
AVERAGE LENGTH OF STAY		
Acute and Special Care	2.5	2.7
BEDS	25	25
OCCUPANCY PERCENTAGE		
Including Swing Bed	<u><u>30%</u></u>	<u><u>31%</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, 2009, and have issued our report thereon dated March 12, 2010. 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 09-I-1, 09-I-2, 09-I-3 and 09-I-4 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 09-I-1, 09-I-2 and 09-I-3 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, 2010.

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.

Larson Allen LLP
LarsonAllen LLP

Austin, Minnesota
March 12, 2010

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS

09-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.

09-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, 2009**

09-I-3 SEGREGATION OF DUTIES

The financial reporting process of an organization includes the preparation and recording of a number of manual journal entries as part of each period end. A number of manual journal entries were identified that had a limited amount of documentation, but did not reflect what was considered adequate support or documented approval.

Recommendation

We recommend retaining adequate documentation and documenting approval of all manual journal entries.

Response

Management will evaluate its internal control process in order to identify and implement a process for reviewing and approving manual journal entries.

09-I-4 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, 2009**

PART II – FINDINGS RELATED TO COMPLIANCE

09-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, 2009.

09-II-2 CERTIFIED BUDGET

Hospital cash basis expenditures during the year ended June 30, 2009 did not exceed budgeted amounts.

09-II-3 QUESTIONABLE EXPENDITURES

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

09-II-4 TRAVEL EXPENSES

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

09-II-5 BUSINESS TRANSACTIONS

We noted no business transactions between the Hospital and Hospital officials and/or employees.

09-II-6 BOARD MINUTES

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

09-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.

09-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.

09-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 sell items of property during 2009.

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, 2009, 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.

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 years' 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.

Recording of Manual Journal Entries

The accounting and financial reporting process at most organizations involves the preparation and recording of manual journal entries during the course of monthly operations and at the close of the reporting period. As part of our audit we reviewed the manual journal entries posted at the Hospital, as well as reviewing any supporting documentation and authorization.

During our audit of these transactions we noted that there is a limited amount of documentation for most of these journal entries, often limited simply to a record of the entry record. In many instances support for the amounts and purpose of the journal entry was not retained, and there was not documentation of approval for the entries. We did not identify any manual journal entries that considered unusual, however, we recommend reviewing the current policies and procedures related to recording manual journal entries in order to establish adequate controls over this process.

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, 2009, the subsidiary ledger reflected a balance approximately \$54,000 more than the general ledger. At June 30, 2008, the subsidiary ledger was approximately \$15,000 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

In our management letter for the year ended June 30, 2008 we noted that accounts receivable in total had increased approximately \$836,000 from June 30, 2007 to June 30, 2008, which represented an increase of 38%, whereas net revenues had increased approximately 14% from the prior year. This change lead 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. During the year ended June 30, 2009, accounts receivable in total increased in correlation with the increase net patient service revenue.

However, we also identified in 2008 that the accounts receivable over 90 days old had continued to increase substantially since 2006 compared to total accounts receivable, to the point that accounts receivable over 90 days represented 48% of total accounts receivable at June 30, 2009. During 2009, accounts receivable from third party payors were reduced overall, and particularly in the older aging categories, for which business office personnel should be commended. We also noted, however, that self pay accounts receivable increased 45%, from approximately \$892,000 to 1,296,000. In addition to the overall increased, the amount over 90 days continued to increase so that 83% of all self pay accounts are older than 90 days, and 69% are older than 1 year. As these self pay accounts continue to age, the collectibility continues to decline, which has resulted in recording a large allowance amount.

Accounts Receivable Aging (continued)

With the facility renovation that has recently been completed and the significant debt service requirements that begin in fiscal year 2010, 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.

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.

Larson Allen LLP
LarsonAllen LLP

Austin, Minnesota
March 12, 2010