

WAYNE COUNTY HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009

**WAYNE COUNTY HOSPITAL
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YEARS ENDED JUNE 30, 2010 AND 2009**

OFFICIALS

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WAYNE COUNTY HOSPITAL
OFFICIALS
YEAR ENDED JUNE 30, 2010

<u>Name</u>	<u>Title</u>
BOARD OF TRUSTEES	
Gary Runyon	Chairperson
Norman Riekens	Vice Chairperson
Bill Wells	Secretary
Darrell Cook	Treasurer
Donald Besco	Member
Harriet Gustafson	Member
Jill Tueth	Member
Marvin Ryan	Member
HOSPITAL OFFICIALS	
Daren Relph	Chief Executive 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, 2010 and 2009, 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, 2010 and 2009, 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 January 20, 2011 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 28 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 29-38 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 39 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 "LarsonAllen LLP". The signature is written in a cursive, flowing style.

LarsonAllen LLP

Austin, Minnesota
January 20, 2011

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2010 AND 2009**

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, 2010. 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, 2010, 2009 and 2008 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 \$767,191 or 67% in 2010 and \$410,701 or 26.4% in 2009.
- The Hospital's net assets decreased by \$478,457 or 4.9% in 2010 and increased by \$6,278 or .06% in 2009.
- Total operating revenues increased by \$1,941,779 or 16.2% in 2010, \$893,931 or 8% in 2009.

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, 2010 AND 2009**

The Hospital adopted Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, during the year ended June 30, 2010. There were no other significant changes in Wayne County Hospital's accounting policies for the fiscal year ended June 30, 2010, 2009 or 2008.

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>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current Assets	\$ 4,535,552	\$ 5,319,115	\$ 4,429,187
Noncurrent Cash and Investments	2,923,968	3,441,679	8,157,988
Capital Assets, Net	10,655,019	10,422,509	5,846,869
Succeeding Year Property Tax Receivable	1,063,190	986,056	874,263
Other Assets	448,126	551,043	335,355
Total Assets	<u>\$ 19,625,855</u>	<u>\$ 20,720,402</u>	<u>\$ 19,643,662</u>
Liabilities:			
Total Current Liabilities	\$ 1,697,045	\$ 2,523,447	\$ 1,369,698
Other Post Employment Benefit Obligation	25,000	-	-
Long Term Debt	7,537,055	7,420,747	7,611,975
Deferred Revenue from Succeeding Year Property Tax Receivable	1,045,292	976,288	868,337
Total Liabilities	<u>10,304,392</u>	<u>10,920,482</u>	<u>9,850,010</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	2,850,543	4,036,951	3,734,897
Restricted for Capital Expenditures	410,431	561,704	551,576
Restricted Under Debt Agreements	581,793	658,533	870,604
Restricted for Payment Reserve - Capital Lease	13,110	11,454	9,798
Unrestricted	5,465,586	4,531,278	4,626,777
Total Net Assets	<u>9,321,463</u>	<u>9,799,920</u>	<u>9,793,652</u>
Total Liabilities and Net Assets	<u>\$ 19,625,855</u>	<u>\$ 20,720,402</u>	<u>\$ 19,643,662</u>

Asset categories changing significantly during 2010 and 2009 included patient noncurrent cash and investments, capital assets and pledges receivable. Current assets decreased \$783,563 or 14.7% in 2010 compared to an increase of \$889,928 or 20.1% in 2009. Noncurrent cash and investments decreased in 2010 by \$517,711 and in 2009 by \$4,716,309 or 57.8% due to the expenditure of bond issue funds for an expansion and renovation project. Capital assets increased in 2009 by \$4,575,640 or 78.3% and by \$232,510 or 2.2% in 2010 from the completion the construction projects.

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2010 AND 2009**

The current ratio (current assets divided by current liabilities) for 2010 was 2.7, 2009 was 2.1, and 3.2 in 2008. 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>2010</u>	<u>2009</u>	<u>2008</u>
Net Patient Service Revenue	\$ 13,326,636	\$ 11,414,853	\$ 10,651,167
Assisted Living and Multi Unit Housing	304,919	285,279	216,072
Other Operating Revenue	331,631	321,275	260,237
Total Revenue	<u>13,963,186</u>	<u>12,021,407</u>	<u>11,127,476</u>
Operating Expenses			
Nursing Service	4,559,372	4,408,335	3,561,435
Other Professional Service	4,456,414	3,987,612	4,118,745
General Service	1,539,097	1,572,753	1,297,148
Fiscal and Administrative Services	3,678,516	2,985,304	2,835,414
Depreciation	1,034,849	691,344	580,177
Interest	288,138	12,580	33,304
Total Expenses	<u>15,556,386</u>	<u>13,657,928</u>	<u>12,426,223</u>
Operating Loss	(1,593,200)	(1,636,521)	(1,298,747)
Non-Operating Revenues (Expenses)	<u>1,068,152</u>	<u>981,633</u>	<u>972,928</u>
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(525,048)	(654,888)	(325,819)
Capital Grants and Contributions	<u>46,591</u>	<u>661,156</u>	<u>503,260</u>
Increase (Decrease) in Net Assets	(478,457)	6,268	177,441
Net Assets, Beginning of Year	<u>9,799,920</u>	<u>9,793,652</u>	<u>9,616,211</u>
Net Assets, End of Year	<u>\$ 9,321,463</u>	<u>\$ 9,799,920</u>	<u>\$ 9,793,652</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2010 AND 2009**

Net patient service revenue made up 95.4% in 2010, 95.0% in 2009, and 95.7% in 2008, 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>2010</u>	<u>2009</u>	<u>2008</u>
Total Patient Service Revenues	\$ 20,304,427	\$ 17,371,260	\$ 15,579,360
Contractual Adjustments and Provisions for Bad Debt	6,977,791	5,956,407	4,928,193
Net Patient Service Revenue	<u>\$ 13,326,636</u>	<u>\$ 11,414,853</u>	<u>\$ 10,651,167</u>
Contractual Adjustments and Provision for Bad Debt as a Percent of Revenues	<u>34.37%</u>	<u>34.29%</u>	<u>31.63%</u>

Patient volumes increased in 2010 for acute care and swing bed patients, compared to a decrease in 2009. This increase continues a trend of increase in volumes in 2008. 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 \$1,898,458 or 13.9% in 2010, \$1,231,705 or 9.9% in 2009 and \$1,609,984 or 14.9% in 2008, 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 32-36 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 11.4% in 2010, negative 13.6% in 2009 and negative 11.7% in 2008. The operating loss in 2010 was \$1,593,200, compared to an operating loss in 2009 of \$1,636,521, and \$1,298,747 in 2008.

Other Operating Revenues increased by \$10,356 or 3.2% in 2010 compared to a decrease of \$61,038 or 23.5% in 2009 and an increase of \$15,170 or 5.5% in 2008. Table 4 shows the detail for this line item.

Table 4: Other Operating Revenues

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Office Rent	\$ 107,147	\$ 106,220	\$ 91,353
Miscellaneous	3,314	6,421	8,746
Laundry Revenue	29,336	31,149	31,504
Cafeteria	164,074	147,915	95,709
Meals on Wheels	9,595	10,175	10,330
Emergency Telephone Services	17,220	18,415	20,710
Restricted contributions	-	-	1,005
Community Programs	945	980	880
Total Other Revenues	<u>\$ 331,631</u>	<u>\$ 321,275</u>	<u>\$ 260,237</u>

**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2010 AND 2009**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In 2010, total patient days increased from 2009. Combined with increases in payment rates inpatient revenue increased from 25.3% of total revenue to 31.0%.

Table 5: Statistical Data

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Patient Days			
Acute	1,802	1,604	1,461
Swing Bed	980	929	1,227
Newborn	157	152	131
Intermediate Care	154	217	155
Total	<u>3,093</u>	<u>2,902</u>	<u>2,974</u>
Admissions			
Acute	656	626	551
Swing Bed	98	89	94
Newborn	98	101	84
Intermediate Care	3	14	16
Total	<u>855</u>	<u>830</u>	<u>745</u>
Discharges			
Acute	655	630	547
Swing Bed	101	88	100
Newborn	98	101	84
Intermediate Care	3	14	16
Total	<u>857</u>	<u>833</u>	<u>747</u>
Average Length of Stay, Acute	<u>2.8</u>	<u>2.5</u>	<u>2.7</u>
Beds			
Acute, Swing and Intermediate	25	25	25
Occupancy Percentage	32%	30%	31%

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, 2010 the Hospital had \$10,655,019, compared to \$10,422,509 in 2009, invested in capital assets net of accumulated depreciation. In 2009, the Hospital reflected \$4,859,880 in capital asset additions compared to \$973,022 in 2010. A significant amount of expenditures on the capital project to add an inpatient wing, with the project being finalized and placed in service during the year ended June 30, 2010.

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**WAYNE COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2010 AND 2009**

Long-Term Debt

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Note Payable	\$ 78,001	\$ 100,223	\$ 122,445
Capital Leases Payable	649,988	269,624	273,104
2008 Hospital Revenue Bonds	<u>7,076,487</u>	<u>7,241,772</u>	<u>7,242,129</u>
 Total Long-Term Debt	 <u>\$ 7,804,476</u>	 <u>\$ 7,611,619</u>	 <u>\$ 7,637,678</u>

During 2008 Hospital Revenue Bonds were 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. During 2010 the Hospital entered into capital leases obligations for various equipment items in the amount of \$403,485

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 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 are 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 Daren Relph at Wayne County Hospital, 417 South East Street, Corydon, Iowa 50060.

**WAYNE COUNTY HOSPITAL
BALANCE SHEETS
JUNE 30, 2010 AND 2009**

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 377,465	\$ 1,144,656
Patient Receivables, Less Allowance for Uncollectible Accounts of Approximately \$1,208,000 in 2010 and \$891,000 in 2009	2,634,806	2,115,851
Investments	-	652,531
Other Receivables	92,523	151,125
Estimated Third-Party Payor Settlements	969,595	734,664
Current Portion of Pledges Receivable	151,250	191,250
Inventories	213,749	235,528
Prepaid Expenses	96,164	93,510
Total Current Assets	<u>4,535,552</u>	<u>5,319,115</u>
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	2,139,359	1,406,484
Internally Designated for Health Insurance	189,706	139,147
Restricted for Construction	-	1,226,061
Restricted for Payment Reserve-Capital Lease	13,110	11,454
Restricted Under Debt Agreement	581,793	658,533
Total Noncurrent Cash and Investments	<u>2,923,968</u>	<u>3,441,679</u>
CAPITAL ASSETS, NET	10,655,019	10,422,509
OTHER ASSETS		
Debt Issue Costs	152,861	159,589
Note Receivable	36,084	21,000
Pledges Receivable, Net of Current Portion	259,181	370,454
Succeeding Year Property Tax Receivable	1,063,190	986,056
Total Other Assets	<u>1,511,316</u>	<u>1,537,099</u>
Total Assets	<u><u>\$ 19,625,855</u></u>	<u><u>\$ 20,720,402</u></u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 720,000	\$ 1,296,912
Construction Payable	-	227,984
Accrued Employee Compensation	413,787	388,020
Accrued Interest Payable	126,007	128,482
Payroll Taxes and Withholdings	169,830	291,177
Current Portion of Long-Term Debt	267,421	190,872
Total Current Liabilities	<u>1,697,045</u>	<u>2,523,447</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	1,045,292	976,288
OTHER POST EMPLOYMENT BENEFIT OBLIGATION	25,000	-
LONG-TERM DEBT, Net of Current Portion	<u>7,537,055</u>	<u>7,420,747</u>
Total Liabilities	10,304,392	10,920,482
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,850,543	4,036,951
Restricted by Donor for Capital Expenditures	410,431	561,704
Restricted Under Debt Agreements	581,793	658,533
Restricted for Payment Reserve - Capital Lease	13,110	11,454
Unrestricted	5,465,586	4,531,278
Total Net Assets	<u>9,321,463</u>	<u>9,799,920</u>
Total Liabilities and Net Assets	<u>\$ 19,625,855</u>	<u>\$ 20,720,402</u>

**WAYNE COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debt of \$697,922 in 2010 and \$690,293 in 2009)	\$ 13,326,636	\$ 11,414,853
Assisted Living and Multi-Unit Housing Revenue	304,919	285,279
Other Operating Revenues	331,631	321,275
Total Operating Revenues	13,963,186	12,021,407
EXPENSES		
Nursing Service	4,559,372	4,408,335
Other Professional Service	4,456,414	3,987,612
General Service	1,539,097	1,572,753
Fiscal and Administrative Services and Unassigned Expenses	3,678,516	2,985,304
Depreciation and Amortization	1,034,849	691,344
Interest	288,138	12,580
Total Expenses	15,556,386	13,657,928
OPERATING LOSS	(1,593,200)	(1,636,521)
NON-OPERATING GAINS (LOSSES)		
County Tax revenue	973,847	866,400
Interest Income	54,216	70,332
Loss on Disposal of Fixed Assets	(29)	3,842
Unrestricted Grants and Contributions	40,118	41,059
Net Non-Operating Gains	1,068,152	981,633
DEFICIT OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(525,048)	(654,888)
Capital Grants and Contributions	46,591	661,156
INCREASE (DECREASE) IN NET ASSETS	(478,457)	6,268
NETS ASSETS BEGINNING OF YEAR	9,799,920	9,793,652
NETS ASSETS END OF YEAR	\$ 9,321,463	\$ 9,799,920

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Party Payors	\$ 12,928,141	\$ 11,009,232
Cash Paid to Employees	(8,556,839)	(7,311,520)
Cash Paid to Suppliers	(6,320,011)	(4,809,821)
Other Receipts and Payments, Net	331,631	321,275
Net Cash Used by Operating Activities	(1,617,078)	(790,834)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
County Taxes Received	973,847	866,400
Restricted and Unrestricted Contributions Received	86,709	702,215
Increase (Decrease) in Pledges Receivable	151,273	(246,087)
Net Cash Provided by Non-Capital Financing Activities	1,211,829	1,322,528
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(973,022)	(4,859,880)
Payments on Long Term Debt	(210,343)	(25,702)
Interest Paid on Long-Term Debt	(403,035)	(372,329)
Net Cash Used by Capital and Related Financial Activities	(1,586,400)	(5,257,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Noncurrent Cash and Investments	2,352,366	6,550,964
Purchase of Noncurrent Cash and Investments	(1,834,655)	(1,834,655)
Decrease in Investments	652,531	(538,070)
Interest Received	54,216	137,277
Net Cash Provided by Investing Activities	1,224,458	4,315,516
NET DECREASE IN CASH AND CASH EQUIVALENTS	(767,191)	(410,701)
Cash and Cash Equivalents - Beginning of Year	1,144,656	1,555,357
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 377,465	\$ 1,144,656

See accompanying Notes to Financial Statements.

**WAYNE COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (1,593,200)	\$ (1,636,521)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operations		
Provision for Depreciation	1,034,849	691,344
Cash Paid for Interest	288,138	12,580
Amortization of Physician Note Receivable	9,916	7,000
Decrease (Increase) in:		
Patient Receivables	(518,955)	(29,531)
Estimated Third-Party Payor Settlements	(234,931)	(606,118)
Inventories	21,779	(24,844)
Prepaid Expenses	(2,654)	(35,657)
Note Receivable	(25,000)	-
Other Receivables	50,472	(55,251)
Increase (Decrease) in:		
Accounts Payable	(576,912)	744,049
Accrued Employee Compensation	25,767	61,624
Payroll Taxes and Withholdings	(121,347)	80,491
Other Post Employment Benefit Obligation	25,000	-
Net Cash Used by Operating Activities	\$ (1,617,078)	\$ (790,834)

SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended June 30, 2010 capital assets were acquired under capital lease in the amount of \$403,485.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 AND 2009**

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, 2010 and 2009, the allowance for uncollectible accounts was approximately \$1,208,000 and \$891,000, 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, 2010 AND 2009**

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, 2010 and 2009, 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, 2010 AND 2009**

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, 2010 and 2009 were \$60,907 and \$12,159, respectively.

Reclassifications

Certain items in the 2009 financial statements have been reclassified for comparison purposes with the 2010 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 January 20, 2011, the date the financial statements were issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$5,465,586 and \$4,531,278 of unrestricted net assets at June 30, 2010 and 2009, respectively, \$2,139,359 and \$1,406,484 have been designated by the Hospital's Board of Trustees for capital acquisitions and \$189,706 and \$139,147 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, 2010 AND 2009**

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, 2009.

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>2010</u>	<u>2009</u>
Total Patient Service Revenue	\$ 20,304,427	\$ 17,371,260
Contractual Adjustments		
Medicare	3,104,212	2,898,126
Medicaid	859,651	872,378
Provision for Bad Debts	697,922	690,293
Other	2,316,006	1,495,610
Total Contractual Adjustments	<u>6,977,791</u>	<u>5,956,407</u>
Net Patient Service Revenue	<u>\$ 13,326,636</u>	<u>\$ 11,414,853</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Receivable from Patients and Their Insurance Carriers	\$ 2,659,909	\$ 2,227,626
Receivable from Medicare	740,438	616,778
Receivable from Medicaid	442,459	162,447
Total Patient Receivables	3,842,806	3,006,851
Less Allowance for Doubtful Accounts	(1,208,000)	(891,000)
Patient Receivables, Net	\$ 2,634,806	\$ 2,115,851

NOTE 5 PLEDGES RECEIVABLE

During the year ended June 30, 2008, the Hospital received a number of pledge contributions for the construction project as described in Note 7. An allowance for uncollectible pledges was not considered necessary as of June 30, 2010.

Expected future receipts of pledges receivable as of June 30, 2010, are as follows:

	2010
Due in Less Than One Year	\$ 151,250
Due in One to Five Years	301,250
Total Pledges Receivable	452,500
Less Discount	(42,069)
Net Pledges Receivable	\$ 410,431

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

NOTE 6 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2010 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, 2010 AND 2009**

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, 2010 and 2009 the Hospital's deposits at fair market value are as follows:

	<u>2010</u>	<u>2009</u>
Deposits	\$ 3,301,433	\$ 4,586,335

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

	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents	\$ 377,465	\$ 1,144,656
Noncurrent Cash and Investments		
Internally Designated for Capital Improvement	2,139,359	1,406,484
Internally Designated for Health Insurance	189,706	139,147
Restricted for Construction	-	1,226,061
Restricted for Payment Reserve-Capital Lease	13,110	11,454
Restricted Under Debt Agreement	581,793	658,533
Total Noncurrent Cash and Investments	<u>\$ 3,301,433</u>	<u>\$ 4,586,335</u>

NOTE 7 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2010 and 2009 are as follows:

Capital Assets	<u>July 1, 2009</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Transfers</u>	<u>June 30, 2010</u>
Land	\$ 86,883	\$ -	\$ -	\$ -	\$ 86,883
Land Improvements	352,762	12,974	(1,100)	-	364,636
Buildings	6,926,517	239	(15,476)	5,000,846	11,912,126
Fixed Equipment	2,722,107	5,500	(99,254)	30,470	2,658,823
Movable Equipment	2,916,608	504,857	(119,134)	210,523	3,512,854
Construction in Progress	4,393,317	737,090	-	(5,241,839)	(111,432)
Totals	17,398,194	1,260,660	(234,964)	-	18,423,890
Accumulated Depreciation					
Land Improvements	264,619	18,811	(1,100)	-	282,330
Buildings	3,020,113	565,013	(15,476)	-	3,569,650
Fixed Equipment	1,475,842	127,186	(99,224)	-	1,503,804
Movable Equipment	2,215,111	317,111	(119,135)	-	2,413,087
Totals	6,975,685	<u>\$ 1,028,121</u>	<u>\$ (234,935)</u>	<u>\$ -</u>	7,768,871
	<u>\$ 10,422,509</u>				<u>\$ 10,655,019</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 7 CAPITAL ASSETS (CONTINUED)

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	\$ 682,945	\$ (305,183)	\$ -	6,975,685
	<u>\$ 5,846,869</u>				<u>\$ 10,422,509</u>

Construction in progress at June 30, 2009, consisted 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. All projects were completed as of June 30, 2010. These projects are funded by the 2008 revenue bonds and the Hospital's reserves.

Interest expense was capitalized in the amount of \$112,422 and \$376,880 and interest income was capitalized in the amount of \$230 and \$66,945 during the years ended June 30, 2010 and 2009, 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, 2010 and 2009, \$7,000 per year was recognized as expense related to the outstanding receivable.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 LONG-TERM DEBT

A schedule of changes in long-term debt for 2010 and 2009 is as follows:

	Balance July 1, 2009	Additions	(Payments)	Balance June 30, 2010	Amounts Due Within One Year
Clarke Electric Note	\$ 100,223	\$ -	\$ (22,222)	\$ 78,001	\$ 22,222
Obligations Under Capital Lease	269,624	403,485	(23,121)	649,988	75,199
Series 2008 Hospital Revenue Bonds	7,235,000	-	(165,000)	7,070,000	170,000
	<u>7,604,847</u>	<u>403,485</u>	<u>(210,343)</u>	<u>7,797,989</u>	<u>267,421</u>
Series 2008 Bond Premium	6,772	-	(285)	6,487	-
Total Long-Term Debt	<u>\$ 7,611,619</u>	<u>\$ 403,485</u>	<u>\$ (210,628)</u>	<u>\$ 7,804,476</u>	<u>\$ 267,421</u>

	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
Obligations 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>

Capital Lease Obligations

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.

During the year ended June 30, 2010, the Hospital entered into capital lease obligations for various equipment items. The leases have cumulative payments of principal and interest of \$8,152 through February 2015.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Clark Electric Note Payable

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.

Hospital Revenue Bonds

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 7. 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.

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>2010</u>	<u>2009</u>
Child Day Care Center	\$ 288,000	\$ 288,000
Movable Equipment	403,485	-
Less Accumulated Amortization	(73,143)	(50,400)
Total	<u>\$ 618,342</u>	<u>\$ 237,600</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>
2011	\$ 192,222	\$ 378,020	\$ 75,199	\$ 52,452
2012	202,222	370,370	80,943	33,302
2013	207,222	362,270	87,129	27,116
2014	206,335	353,945	93,790	20,455
2015	200,000	345,170	75,204	13,589
2016-2020	1,175,000	1,573,550	26,755	55,325
2021-2025	1,515,000	1,241,608	33,936	48,144
2026-2030	1,970,000	775,988	43,043	39,037
2031-2035	1,480,000	173,363	54,595	27,485
2036-2040	-	-	69,247	12,833
2041-2045	-	-	10,147	479
	<u>\$ 7,148,001</u>	<u>\$ 5,574,284</u>	<u>\$ 649,988</u>	<u>\$ 330,217</u>

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 \$50,000 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, 2010, 2009, and 2008 were \$465,708, \$398,877, and \$329,840, respectively, equal to the required contributions for each year.

NOTE 12 OTHER POST EMPLOYMENT BENEFITS

Certain employees of Wayne County Hospital participate in a health insurance plan provided by the Hospital. In 2010, the Hospital implemented the requirements of a new accounting statement, GASB No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

The Hospital provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The plan provides health insurance and other benefits to participating retirees who have reached the age of 55. Benefits are available for retirees as required by state statutes until they reach the age of 65. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost. As of July 1, 2009, there were no retirees receiving health benefits from the Hospital's health plan.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

The following table shows the components of the Hospital's annual OPEB cost of 2010, the amount actually contributed to the plan, and changes in the Hospital's net OPEB obligation:

	2010
Annual Required Contribution (ARC):	\$ 26,000
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB Cost	26,000
Contributions during the year	(1,000)
Increase in Net OPEB Obligation	25,000
Net OPEB - Beginning of the Year	-
Net OPEB - End of the Year	\$ 25,000

The Hospital's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 is:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation		
June 30, 2010	\$ 26,000	\$ 1,000	3.8%	\$ 25,000		
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
7/1/09	\$ -	\$ 103,000	\$ 103,000	0.00%	\$ 7,135,293	1.4%

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the Hospital's unfunded actuarial accrued liability (UAAL) was \$103,000. The annual payroll for active employees covered by the plan in the actuarial valuation was \$7,135,293 for a ratio of UAAL to covered payroll of 1.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the total effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009, actuarial valuation, projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The healthcare trend rate was 11% reduced by decrements to an ultimate rate of 5% after thirteen years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2010 was 30 years.

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 \$212,045 and \$188,668 for the years ended June 30, 2010 and 2009, respectively. The Hospital had accounts payable to Mercy of \$76,149 and \$125,229 at June 30, 2010 and 2009, respectively.

NOTE 14 COMMITMENT AND CONTINGENCIES

Malpractice Claims

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

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2010 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.

**WAYNE COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 14 COMMITMENT AND CONTINGENCIES (CONTINUED)

Healthcare 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, 2010**

	<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	\$ 973,847	\$ -	\$ 973,847	\$ 942,372	\$ 31,475
Other Revenues/Receipts	14,104,082	(552,112)	13,551,970	13,526,970	25,000
	<u>15,077,929</u>	<u>(552,112)</u>	<u>14,525,817</u>	<u>14,469,342</u>	<u>56,475</u>
Expenses/Expenditures	15,556,386	(263,378)	15,293,008	16,993,847	(1,700,839)
Net	<u>(478,457)</u>	<u>(288,734)</u>	<u>(767,191)</u>	<u>(2,524,505)</u>	<u>1,757,314</u>
Balance, Beginning	9,799,920	(8,655,264)	1,144,656	15,102,381	(13,957,725)
Balance, Ending	<u>\$ 9,321,463</u>	<u>\$ (8,943,998)</u>	<u>\$ 377,465</u>	<u>\$ 12,577,876</u>	<u>\$ (12,200,411)</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, 2010 AND 2009**

	TOTAL	
	2010	2009
DAILY PATIENT SERVICES		
Medical and Surgical	\$ 1,465,182	\$ 1,040,978
Obstetric	159,800	139,705
Special Care	59,535	72,456
Swing Bed	581,920	449,413
Nursery	96,744	77,675
Total	<u>2,363,181</u>	<u>1,780,227</u>
OTHER NURSING SERVICES		
Operating and Recovery Rooms	1,822,794	1,441,836
Orthopedic Services	-	55,350
Delivery and Labor Room	96,083	89,593
Medical and Surgical Supplies	1,343,778	794,557
Emergency Service	1,891,918	1,652,041
Ambulance	769,959	806,791
Kidney Dialysis	718,042	637,185
	<u>6,642,574</u>	<u>5,477,353</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	2,227,267	1,844,620
Electrocardiology and Monitors	294,428	235,125
Radiology	3,174,523	2,960,814
Pharmacy	2,104,778	1,750,114
Anesthesiology	503,229	586,267
Respiratory Therapy	360,299	223,626
Physical Therapy	617,469	543,928
Speech Therapy	53,279	27,186
Occupational Therapy	120,107	42,292
Medical Clinics	1,879,046	1,711,137
Daycare	25,154	200,730
Total	<u>11,359,579</u>	<u>10,125,839</u>
Charity Care	<u>(60,907)</u>	<u>(12,159)</u>
Total Gross Patient Service Revenues	20,304,427	17,371,260
Provision for Contractual and Other Adjustments	<u>(6,977,791)</u>	<u>(5,956,407)</u>
Net Patient Service Revenue	<u>\$ 13,326,636</u>	<u>\$ 11,414,853</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 1,465,182	\$ 1,040,978	\$ -	\$ -
159,800	139,705	-	-
59,535	72,456	-	-
581,920	449,413	-	-
96,744	77,675	-	-
<u>2,363,181</u>	<u>1,780,227</u>	<u>-</u>	<u>-</u>
320,678	239,740	1,502,116	1,202,096
-	19,434	-	35,916
86,484	84,322	9,599	5,271
949,202	405,409	394,576	389,148
96,169	66,935	1,795,749	1,585,106
796	-	769,163	806,791
-	-	718,042	637,185
<u>1,453,329</u>	<u>815,840</u>	<u>5,189,245</u>	<u>4,661,513</u>
595,876	431,297	1,631,391	1,413,323
44,165	45,704	250,263	189,421
412,055	299,435	2,762,468	2,661,379
869,178	654,570	1,235,600	1,095,544
98,547	76,581	404,682	509,686
249,433	133,197	110,866	90,429
170,203	121,392	447,266	422,536
28,210	13,635	25,069	13,551
78,980	28,484	41,127	13,808
-	-	1,879,046	1,711,137
-	-	25,154	200,730
<u>2,546,647</u>	<u>1,804,295</u>	<u>8,812,932</u>	<u>8,321,544</u>
(60,907)	(12,159)	-	-
<u>\$ 6,302,250</u>	<u>\$ 4,388,203</u>	<u>\$ 14,002,177</u>	<u>\$ 12,983,057</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUE AND OTHER REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Medicare	\$ 3,104,212	\$ 2,898,126
Medicaid	859,651	872,378
Provision for Bad Debts	697,922	690,293
Other	<u>2,316,006</u>	<u>1,495,610</u>
 Total Adjustments	 <u>\$ 6,977,791</u>	 <u>\$ 5,956,407</u>
 OTHER REVENUES		
Office Rent	\$ 107,147	\$ 106,220
Miscellaneous	3,314	6,421
Laundry Revenue	29,336	31,149
Cafeteria	164,074	147,915
Meals on Wheels	9,595	10,175
Emergency Telephone Services	17,220	18,415
Community Programs	<u>945</u>	<u>980</u>
 Totals	 <u>\$ 331,631</u>	 <u>\$ 321,275</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF NURSING SERVICE EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
MEDICAL AND SURGICAL, NURSERY, DELIVERY AND LABOR ROOM, AND CARDIAC REHABILITATION		
Salaries	\$ 1,560,165	\$ 1,523,001
Professional Fees	402,058	438,228
Supplies and Expenses	283,131	275,763
	2,245,354	2,236,992
OPERATING AND RECOVERY ROOM		
Salaries	277,912	250,531
Supplies and Expenses	301,430	463,441
	579,342	713,972
ORTHOPEDIC SERVICES		
Salaries	159,571	128,490
Supplies and Expenses	27,311	53,022
	186,882	181,512
EMERGENCY AND OUTPATIENT SERVICE		
Salaries	906,370	641,304
Supplies and Expenses	44,482	22,132
	950,852	663,436
AMBULANCE AND BIOMEDICAL		
Salaries	271,032	304,368
Supplies and Expenses	41,772	32,143
	312,804	336,511
KIDNEY DIALYSIS		
Salaries	181,883	165,928
Professional Fees	12,192	11,275
Supplies and Expenses	90,063	98,709
	284,138	275,912
Totals	\$ 4,559,372	\$ 4,408,335

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

OTHER PROFESSIONAL SERVICE EXPENSES	2010	2009
LABORATORY		
Salaries	\$ 228,842	\$ 224,974
Professional Fees	92,517	103,211
Supplies and Expenses	251,578	239,678
	572,937	567,863
ELECTROCARDIOLOGY AND MONITORS		
Salaries	1,203	797
Professional Fees	54,824	36,538
Supplies and Expenses	2,730	2,344
	58,757	39,679
RADIOLOGY		
Salaries	221,569	217,658
Professional Fees	555,607	505,530
Supplies and Expenses	95,005	109,265
	872,181	832,453
PHARMACY		
Salaries	174,894	34,838
Professional Fees	6,109	165,024
Drugs	420,868	353,649
Supplies and Expenses	525,430	244,043
	1,127,301	797,554
ANESTHESIOLOGY		
Professional Fees	323,704	364,508
Supplies and Expenses	8,762	6,066
	332,466	370,574
RESPIRATORY THERAPY		
Salaries	46,828	37,409
Supplies and Expenses	25,353	22,031
	72,181	59,440
PHYSICAL THERAPY		
Salaries	244,561	139,062
Professional Fees	2,447	7,698
Supplies and Expenses	7,922	18,848
	254,930	165,608
SPEECH THERAPY		
Professional Fees	30,428	21,542
Supplies and Expenses	6,225	1,368
	36,653	22,910

**WAYNE COUNTY HOSPITAL
SCHEDULES OF OTHER PROFESSIONAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OCCUPATIONAL THERAPY		
Professional Fees	\$ 59,819	\$ 5,824
	<u>59,819</u>	<u>5,824</u>
 MEDICAL CLINICS		
Salaries	382,570	289,434
Supplies and Expenses	46,368	45,722
	<u>428,938</u>	<u>335,156</u>
 MEDICAL RECORDS		
Salaries	144,026	126,604
Supplies and Expenses	37,221	43,417
	<u>181,247</u>	<u>170,021</u>
 DAYCARE		
Salaries	48,991	243,065
Supplies and Expenses	18,862	14,646
	<u>67,853</u>	<u>257,711</u>
 DENTAL CLINIC		
Salaries	304,950	292,926
Supplies and Expenses	86,201	69,893
	<u>391,151</u>	<u>362,819</u>
 Totals	<u>\$ 4,456,414</u>	<u>\$ 3,987,612</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF GENERAL SERVICE EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

GENERAL SERVICE EXPENSES	<u>2010</u>	<u>2009</u>
DIETARY		
Salaries	\$ 210,637	\$ 190,849
Food	239,813	250,029
Supplies and Expenses	<u>19,068</u>	<u>38,060</u>
	469,518	478,938
PLANT OPERATION AND MAINTENANCE		
Salaries	199,121	182,861
Utilities	198,729	173,691
Supplies and Expenses	<u>143,721</u>	<u>203,429</u>
	541,571	559,981
HOUSEKEEPING		
Salaries	182,185	175,059
Supplies and Expenses	<u>44,372</u>	<u>48,253</u>
	226,557	223,312
LAUNDRY AND LINEN		
Salaries	47,473	47,260
Supplies and Expenses	<u>17,101</u>	<u>23,481</u>
	64,574	70,741
MULTI USE HOUSING		
Supplies and Expenses	<u>249</u>	<u>509</u>
	249	509
ASSISTED LIVING		
Salaries	204,691	192,100
Supplies and Expenses	<u>31,937</u>	<u>47,172</u>
	236,628	239,272
 Totals	 <u>\$ 1,539,097</u>	 <u>\$ 1,572,753</u>

**WAYNE COUNTY HOSPITAL
SCHEDULES OF FISCAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009**

FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES	2010	2009
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 718,191	\$ 645,173
Management Fees	212,045	188,668
Professional Fees	60,653	50,976
Telephone	109,432	75,922
Repairs and Maintenance	83,647	20,784
Supplies and Expense	63,735	71,278
Dues	43,221	78,252
Travel	24,166	20,548
Physician Recruitment	30,934	43,397
Advertising	106,682	40,265
Other Administrative Expense	239,598	133,239
Total Fiscal and Administrative Expenses	1,692,304	1,368,502
UNASSIGNED EXPENSES		
Employee Benefits		
FICA	466,865	414,084
IPERS	465,708	398,877
Group Health, Life Insurance, and Unemployment	820,937	593,983
Insurance	232,702	209,858
Total Unassigned Expenses	1,986,212	1,616,802
Totals	\$ 3,678,516	\$ 2,985,304

**WAYNE COUNTY HOSPITAL
SCHEDULES OF ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2010 AND 2009**

ANALYSIS OF AGING

Age of Accounts (by Date of Discharge)	2010		2009	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 1,763,748	37.5 %	\$ 1,265,179	34.5 %
31-60 Days	580,869	12.4	462,914	12.6
61-90 Days	330,319	7.0	270,596	7.4
91 Days and Over	1,853,848	39.4	1,474,445	40.2
Clinic Receivables	174,519	3.7	194,324	5.3
Total Accounts Receivable	<u>4,703,303</u>	<u>100.0 %</u>	<u>3,667,458</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare	(523,112)		(449,722)	
Medicaid	(105,228)		(119,728)	
Other	(232,157)		(91,157)	
Doubtful Accounts	(1,208,000)		(891,000)	
Net Accounts Receivable	<u>\$ 2,634,806</u>		<u>\$ 2,115,851</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 38,423</u>		<u>\$ 33,165</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>69</u>		<u>64</u>	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2010		2009	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 891,000		\$ 555,000	
Add:				
Provision for Doubtful Accounts	697,922	4.9 %	690,293	5.6 %
Recoveries Previously Written Off	(67,727)	(0.5)	(78,090)	(0.6)
	<u>1,521,195</u>		<u>1,167,203</u>	
Deduct:				
Accounts Written Off	(313,195)	(2.2)	(276,203)	(2.2)
Ending Balance	<u>\$ 1,208,000</u>		<u>\$ 891,000</u>	

**WAYNE COUNTY HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSES
JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
INVENTORY		
Central Supply	\$ 30,710	\$ 30,705
Clinics	2,401	2,646
Pharmacy	71,930	71,733
Nursing	7,870	11,258
Physical Therapy	636	1,250
Operating Room	32,217	50,080
Laboratory	35,536	28,915
Dietary	11,499	15,143
Radiology	1,470	1,251
Housekeeping	1,848	2,343
Kidney Dialysis	4,133	2,030
Laundry and Linen	4,464	3,510
Emergency Department	3,326	-
Dental Clinic	5,709	14,664
	<u>\$ 213,749</u>	<u>\$ 235,528</u>
 PREPAID EXPENSES		
Insurance	\$ 17,155	\$ 39,362
Other	79,009	54,148
	<u>\$ 96,164</u>	<u>\$ 93,510</u>

**WAYNE COUNTY HOSPITAL
COMPARATIVE STATISTICS
YEARS ENDED JUNE 30, 2010 AND 2009
UNAUDITED**

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	1,802	1,604
Nursery	157	152
Swing Bed		
Skilled Nursing Care	980	929
Intermediate Care	<u>154</u>	<u>217</u>
Totals	<u><u>3,093</u></u>	<u><u>2,902</u></u>
ADMISSIONS		
Acute and Special Care	855	626
DISCHARGES		
Acute and Special Care	857	630
AVERAGE LENGTH OF STAY		
Acute and Special Care	2.1	2.5
BEDS	25	25
OCCUPANCY PERCENTAGE		
Including Swing Bed	<u><u>32%</u></u>	<u><u>30%</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, 2010, and have issued our report thereon dated January 20, 2011. 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Care Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses that therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Schedule of Findings and Responses, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in the accompanying Schedule of Findings and Responses listed as item 2010-1, 2010-2 and 2010-3 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany Schedule of Findings and Responses listed as item 2010-4 and 2010-5 to be significant deficiencies.

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 January 20, 2011.

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 Hospital, 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
January 20, 2011

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS

2010-1 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.

2010-2 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, 2010**

PART I – FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

2010-3 RECORDING OF MANUAL JOURNAL ENTRIES

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.

2010-4 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.

2010-5 ACCOUNTS RECEIVABLE

The Hospital has experienced significant increases in accounts receivable over the past four years, including the continued increase the age of accounts receivable, particularly in self pay balances. The Hospital has also continued to reflect a variance between the accounts receivable sub ledger and the general ledger.

Recommendation

We recommend applying the resources needed to reduce the size and age of outstanding patient accounts receivable in order to reduce the amount of account receivable that have been or will be written off as uncollectible in order to enhance the cash flow of the Hospital.

Response

Management has begun implementing changes in the accounts receivable billing and collection processes and will continue to do so in order to improve the revenue cycle process.

**WAYNE COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

PART II – FINDINGS RELATED TO COMPLIANCE

10-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, 2010.

10-II-2 CERTIFIED BUDGET

Hospital cash basis expenditures during the year ended June 30, 2010 did not exceed budgeted amounts.

10-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.

10-II-4 TRAVEL EXPENSES

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

10-II-5 BUSINESS TRANSACTIONS

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

10-II-6 BOARD MINUTES

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

10-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.

10-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.

10-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 2010.