

**Waverly Health Center  
Waverly, Iowa**

**FINANCIAL REPORT**

**June 30, 2005**

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**Waverly Health Center  
OFFICIALS  
June 30, 2005**

**BOARD OF TRUSTEES**

**Expiration of term**

**Officers**

Susan Vallem, Chair  
Karen Thalacker, Secretary

December 31, 2009  
December 31, 2005

**Members**

Gary Burke  
John Johnston  
Darold Wolff

December 31, 2005  
December 31, 2009  
December 31, 2009

**CHIEF EXECUTIVE OFFICER**

Michael Trachta

**CHIEF FINANCIAL OFFICER**

Lisa Bennett

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Waverly Health Center  
Waverly, Iowa

We have audited the accompanying balance sheets of Waverly Health Center, a component unit of the City of Waverly, Iowa, as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions 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 Waverly Health Center as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2005 on our consideration of Waverly Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 3, 2005

**Waverly Health Center**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Waverly Health Center, we offer readers of the financial statements this narrative overview and analysis of the Health Center's financial performance during the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the Health Center's financial statements, which follow this section.

**Overview of the Financial Statements**

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the Health Center, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**Required Financial Statements**

The financial statements of the Health Center report information of the Health Center using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Health Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Health Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Health Center operations over the past year and can be used to determine whether the Health Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Financial Highlights**

- Total assets increased by \$1,302,422 or 4% to \$37,492,448
- Total noncurrent assets whose use is limited decreased by \$10,338,059 to \$2,912,346
- Total property and equipment increased by \$10,374,716 to \$25,707,487
- Total fund equity increased by \$2,517,711 to 17,403,002
- Total long-term debt decreased by \$999,010
- Net patient service revenue increased by \$4,585,734, or 24% primarily due to significant increase in ancillary revenues in 2005.
- Expenses increased by \$4,306,754, or 24% to \$22,434,923

**Financial Analysis of the Health Center**

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of the Health Center and the changes in them. The Health Center's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Health Center's balance sheets is presented in Table 1.

**Table 1**  
**Condensed Balance Sheets**

	<b>June 30</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current assets	\$ 8,387,976	\$ 7,084,807	\$ 5,178,716
Noncurrent assets whose use is limited	2,912,346	13,250,405	2,907,015
Property and equipment	25,707,487	15,332,771	9,074,033
Other asset	<u>484,639</u>	<u>522,043</u>	<u>67,154</u>
Total assets	<u>\$37,492,448</u>	<u>\$36,190,026</u>	<u>\$17,226,918</u>
Current liabilities	\$ 3,777,446	\$ 3,965,992	\$ 1,506,679
Long-term debt, less current maturities	<u>16,312,000</u>	<u>17,338,743</u>	<u>2,337,776</u>
Total liabilities	<u>\$20,089,446</u>	<u>\$21,304,735</u>	<u>\$ 3,844,455</u>
Invested in capital assets, net of related debt	\$ 8,368,720	\$ (3,005,006)	\$ 6,486,156
Restricted	1,881,200	10,698,917	249,533
Unrestricted	<u>7,153,082</u>	<u>7,191,380</u>	<u>6,646,774</u>
Total fund equity	<u>\$17,403,002</u>	<u>\$14,885,291</u>	<u>\$13,382,463</u>

As depicted in Table 1, total assets increased in fiscal year 2005 to \$37,492,448. The change in total assets results primarily from continuing operating income. During fiscal year 2005, the Health Center completed a construction project and capitalized costs of approximately \$18 million. The project consisted primarily of new construction of a three-story building adjoining the existing Health Center. The costs were primarily funded by issuance of long-term debt.

## **Revenues, Expenses, and Changes in Fund Equity**

A summary of the Health Center's historical revenues, expenses, and changes in fund equity is presented in Table 2.

**Table 2**  
**Condensed Statements of Revenue, Expenses, and Changes in Fund Equity**

	<b>Year ended June 30</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net patient service revenue	\$23,567,790	\$18,982,056	\$18,176,918
Other revenue	<u>862,132</u>	<u>651,483</u>	<u>483,964</u>
Total operating revenue	<u>24,429,922</u>	<u>19,633,539</u>	<u>18,660,882</u>
Salaries	9,452,680	7,640,824	6,687,940
Other expenses	11,173,543	9,490,132	8,883,656
Provision for depreciation	<u>1,808,700</u>	<u>997,213</u>	<u>926,818</u>
Total expenses	<u>22,434,923</u>	<u>18,128,169</u>	<u>16,498,414</u>
Operating income	<u>1,994,999</u>	<u>1,505,370</u>	<u>2,162,468</u>
Investment income	119,797	101,413	74,239
Unrestricted contributions	200,289	170	418,062
Interest and amortization expense	(304,389)	(133,594)	(143,313)
Transfer from (to) related foundation	<u>507,015</u>	<u>(25,000)</u>	<u>(353,062)</u>
Total nonoperating gains (losses)	<u>522,712</u>	<u>(57,011)</u>	<u>(4,074)</u>
Excess of revenues over expenses before contributions	2,517,711	1,448,359	2,158,394
Restricted contributions	<u>-</u>	<u>54,469</u>	<u>40,636</u>
Change in fund equity	2,517,711	1,502,828	2,199,030
Total fund equity, beginning	<u>14,885,291</u>	<u>13,382,463</u>	<u>11,183,433</u>
Total fund equity, ending	<u>\$17,403,002</u>	<u>\$14,885,291</u>	<u>\$13,382,463</u>

## **Operating and Financial Performance**

The following summarizes the Health Center's statement of revenue, expenses and changes in fund equity between June 30, 2005, 2004 and 2003.

**Net Patient Service Revenue:** Net patient service revenue is a product of volume, price increases and payor mix.

**Volume:** Medical, surgical and obstetrical discharges for fiscal year 2005 were 725 compared to 716 in fiscal year 2004. Average length of stay decreased slightly as patient days decreased to 2,121 from 2,179 in 2004. Volume on the outpatient side indicated significant positive growth in 2005. In 2005, gross outpatient charges increased to \$24,646,935 compared to \$19,425,853 in 2004. General surgeon and women's clinic, emergency service, laboratory and radiology departments reflected the most significant growth in 2005.

**Price Increase:** As is customary annually, the Health Center did review its charge structure and incorporate certain price increases in 2005. Overall, gross patient service revenue increased to \$31,866,525 from \$25,776,898 in 2004.

**Payor Mix:** The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Under this designation, contractual adjustments and bad debts increased to \$8,281,441 in 2005 from \$6,762,580 in 2004. This represents 26% of gross patient charges for 2005.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

**Table 3**  
**Payor Mix by Percentage**

	<u>Year ended June 30</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	44%	46%	48%
Medicaid	6	5	4
Wellmark	19	14	15
Commercial insurance	26	29	28
Self pay	<u>5</u>	<u>6</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue increased to \$862,132 in 2005 compared to \$651,483 in 2004, primarily due to income derived from retail pharmacy during its first year of operation.

**Expenses**

Approximately 40% of Health Center's expenses are for salaries. Total salaries increased by 24% to \$9,452,680 in 2005 from \$7,640,824 in 2004. The Health Center departments experiencing the most significant increase in 2005 included operating and recovery rooms, general surgeon and emergency service.

Approximately 50% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 18% to \$11,173,543 in 2005 from \$9,490,132 in 2004. The most significant increase related to operating and recovery rooms, laboratory, radiology and administration/administrative services.

Approximately 10% of Health Center's expenses relate to provision for depreciation. This provision for depreciation increased to \$1,808,700 in 2005 from \$997,213 in 2004.

**Nonoperating Gains (Losses)**

Nonoperating gains (losses) increased to \$522,712 from \$(57,011) in 2004, primarily due to an increase in transfer from (to) related foundation.

**Property and Equipment**

At the end of 2005, the Health Center had \$25,707,487 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2005, \$12,183,416 was spent to acquire new equipment and complete the Health Center's construction project, consisting of construction of a three-story building adjoining the existing Health Center.

A summary of the Health Center's property and equipment is presented in Table 4.

**Table 4**  
**Property and Equipment**

	<b>June 30</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Land	\$ 1,039,243	\$ 979,243	\$ 979,243
Land improvements	1,961,537	506,076	506,076
Building	6,098,449	3,283,312	3,257,211
Fixed equipment	15,523,335	4,960,596	4,934,838
Major movable equipment	8,198,576	6,069,269	5,451,025
Construction in progress	—	6,926,218	485,907
Subtotal	<u>32,821,140</u>	<u>22,724,714</u>	<u>15,614,300</u>
Less accumulated depreciation	<u>(7,113,653)</u>	<u>(7,391,943)</u>	<u>(6,540,267)</u>
Property and equipment	<u>\$25,707,487</u>	<u>\$15,332,771</u>	<u>\$ 9,074,033</u>

**Debt Administration**

At year end, the Health Center had a combined \$17,105,000 in current and long-term debt related to Hospital Revenue Capital Loan Notes, Series 1999, 2003 and 2004. The overall principal balance decreased in fiscal year 2005, equal to the required amount of principal payments on the outstanding Notes. More detailed information about the Health Center's outstanding debt is presented in the Notes to Financial Statements. Note that the Notes represent 85% of the Health Center's total liabilities as of year end.

At year end, the Health Center had \$233,767 in current and long-term note and loan payable. This has decreased \$104,010 in fiscal year 2005, which was the required amount of principal payment on the outstanding note and loan for fiscal year 2005. More detailed information about the Health Center's note and loan payable are presented in the Notes to Financial Statements. Note that total note and loan payable represent 1% of the Health Center's total liabilities at year end.

**Contacting Waverly Health Center's Management**

This financial report is designed to provide users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about this report or need additional information, contact Waverly Health Center at (319) 352-4120 or write care of: Chief Financial Officer, Waverly Health Center, 312 Ninth Street, SW, Waverly, Iowa 50677.

**Waverly Health Center  
BALANCE SHEETS**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 408,526	\$ 228,597
Assets whose use is limited-required for current liabilities	1,653,078	2,328,384
Patient receivables, less allowances for contractual adjustments and uncollectibles	5,120,986	4,051,534
Other receivables	13,261	13,440
Estimated third-party payor settlements	450,000	100,000
Inventories	675,149	321,575
Prepaid expenses	66,976	41,277
Total current assets	<u>8,387,976</u>	<u>7,084,807</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	1,365,204	4,167,991
Certificates of deposit	897,350	360,000
U.S. Government securities	346,238	327,403
Interest receivable	75,432	24,478
	<u>2,684,224</u>	<u>4,879,872</u>
Restricted for payment of long-term debt and interest		
Cash	164,544	9,718,917
Certificates of deposit	215,000	980,000
U.S. Government securities	1,501,656	-
Total assets whose use is limited	<u>4,565,424</u>	<u>15,578,789</u>
Less assets whose use is limited and that are required for current liabilities	<u>1,653,078</u>	<u>2,328,384</u>
Noncurrent assets whose use is limited	<u>2,912,346</u>	<u>13,250,405</u>
<b>PROPERTY AND EQUIPMENT</b>		
	32,821,140	22,724,714
Less accumulated depreciation	7,113,653	7,391,943
Total property and equipment	<u>25,707,487</u>	<u>15,332,771</u>
<b>OTHER ASSET</b>		
Unamortized financing costs	<u>484,639</u>	<u>522,043</u>
Totals	<u>\$37,492,448</u>	<u>\$36,190,026</u>



**Waverly Health Center**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2005 \$472,054; 2004 \$359,875	\$23,567,790	\$18,982,056
<b>OTHER REVENUE</b>	<u>862,132</u>	<u>651,483</u>
Total revenue	<u>24,429,922</u>	<u>19,633,539</u>
<b>EXPENSES</b>		
Nursing service	7,217,825	6,044,997
Other professional service	6,482,691	4,976,081
General service	1,886,728	1,969,094
Fiscal and administrative service and unassigned expenses	5,038,979	4,140,784
Provision for depreciation	<u>1,808,700</u>	<u>997,213</u>
Total expenses	<u>22,434,923</u>	<u>18,128,169</u>
Operating income	<u>1,994,999</u>	<u>1,505,370</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment income	119,797	101,413
Unrestricted contributions	200,289	170
Interest and amortization expense	(304,389)	(133,594)
Transfer from (to) related foundation	<u>507,015</u>	<u>(25,000)</u>
Total nonoperating gains (losses)	<u>522,712</u>	<u>(57,011)</u>
Excess of revenues over expenses before contributions	2,517,711	1,448,359
<b>RESTRICTED CONTRIBUTIONS</b>		
Change in fund equity	<u>—</u>	<u>54,469</u>
	2,517,711	1,502,828
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>14,885,291</u>	<u>13,382,463</u>
Ending	<u>\$17,403,002</u>	<u>\$14,885,291</u>

**Waverly Health Center  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$22,148,338	\$19,023,223
Cash paid to suppliers for goods and services	(11,273,369)	(9,179,040)
Cash paid to employees for services	(9,245,188)	(7,453,028)
Other operating revenue received	<u>862,132</u>	<u>651,483</u>
Net cash provided by operating activities	<u>2,491,913</u>	<u>3,042,638</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Unrestricted contributions received	200,289	170
Transfer from (to) related foundation	<u>507,015</u>	<u>(25,000)</u>
Net cash provided by (used in) noncapital financing activities	<u>707,304</u>	<u>(24,830)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(12,419,952)	(5,999,234)
Interest paid on long-term debt	(823,999)	(595,564)
Proceeds from issuance of long-term debt	-	16,000,000
Principal payments on long-term debt	(999,010)	(250,100)
Contributions received, restricted for purchase of equipment	<u>-</u>	<u>54,469</u>
Net cash provided by (used in) capital and related financing activities	<u>(14,242,961)</u>	<u>9,209,571</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(3,263,651)	(1,310,851)
Proceeds from maturities of investments	1,970,810	830,897
Interest received	<u>159,354</u>	<u>146,510</u>
Net cash (used in) investing activities	<u>(1,133,487)</u>	<u>(333,444)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(12,177,231)	11,893,935
<b>CASH</b>		
Beginning	<u>14,115,505</u>	<u>2,221,570</u>
Ending	<u>\$ 1,938,274</u>	<u>\$14,115,505</u>

See Notes to Financial Statements.

**Waverly Health Center**  
**STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,994,999	\$ 1,505,370
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,808,700	997,213
Changes in assets and liabilities		
(Increase) in patient receivables	(1,069,452)	(458,833)
Decrease in other receivables	179	104,182
(Increase) decrease in estimated third-party payor settlements	(350,000)	500,000
(Increase) in inventories	(353,574)	(9,019)
(Increase) in prepaid expenses	(25,699)	(9,284)
Increase in accounts payable, trade	338,285	231,440
Increase in accrued employee compensation	207,492	187,796
(Decrease) in payroll taxes and amounts withheld from employees	<u>(59,017)</u>	<u>(6,227)</u>
Net cash provided by operating activities	<u>\$ 2,491,913</u>	<u>\$ 3,042,638</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 408,526	\$ 228,597
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,365,204	4,167,991
Restricted for payment of long-term debt and interest, cash	<u>164,544</u>	<u>9,718,917</u>
Total per statement of cash flows	<u>\$ 1,938,274</u>	<u>\$14,115,505</u>

See Notes to Financial Statements.

**Waverly Health Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Health Center is a municipal hospital of the City of Waverly, Iowa, organized under Chapter 392, Code of Iowa, not subject to taxes on income or property. The Health Center is governed by a five member Board of Trustees.

**Reporting Entity**

For financial reporting purposes, Waverly Health Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Health Center 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 Health Center are such that exclusion would cause the Health Center'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 Health Center 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 Health Center. These criteria also include organizations that are fiscally dependent on the Health Center. The Waverly Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

The Health Center is includable as a component unit within the City of Waverly, Iowa reporting entity, due to fiscal dependence.

**Measurement Focus and Basis of Accounting**

The Health Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Health Center is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Health Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Health Center has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments and Investment Income**

The Health Center's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities	
U.S. Government Agency securities	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income from investments is reported as nonoperating gains and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Health Center is four to forty years.

**Unamortized Financing Costs**

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

**Fund Equity**

Fund equity is presented in the following three components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the bonds and capital lease obligations that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted fund equity**

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

**Unrestricted fund equity**

Unrestricted fund equity has no externally imposed restrictions on use.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Charity Care**

The Health Center 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 Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**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.

**Revenues, Expenses and Changes in Fund Equity**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**Credit Policy**

The Health Center grants credit to patients, substantially all of whom are residents of the City and surrounding areas.

**Accounting Estimates and Assumptions**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**NOTE 2 CASH AND INVESTMENTS**

The Health Center's deposits at June 30, 2005 were entirely covered by federal depository insurance or by 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 Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Health Center's investments at June 30, 2005 are as follows:

	<u>Fair value</u>	<u>Maturity</u>
U.S. Government Agency securities	\$ <u>346,238</u>	August, 2005
U.S. Government Agency securities	\$ <u>1,501,656</u>	November, 2008

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 PATIENT RECEIVABLES**

Patient receivable reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Receivable from patients	\$2,144,350	\$1,466,393
Receivable from insurance carriers	2,455,582	1,682,167
Receivable from Medicare	2,092,149	2,098,809
Receivable from Medicaid	178,905	134,165
Total patient receivables	6,870,986	5,381,534
Less allowance for contractual adjustments and uncollectibles	(1,750,000)	(1,330,000)
Net patient receivables	<u>\$5,120,986</u>	<u>\$4,051,534</u>

**NOTE 4 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2005:

	<u>Project Funds</u>	<u>Sinking Funds</u>	<u>Debt Reserve Funds</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ 8,836,016	\$ 146,245	\$ 1,716,656	\$10,698,917
Transfer from current assets, cash	-	1,840,557	-	1,840,557
Payments for construction costs	(8,836,016)	-	-	(8,836,016)
Principal and interest payments	-	(1,822,258)	-	(1,822,258)
<b>BALANCE</b> , end of year	<u>\$ -</u>	<u>\$ 164,544</u>	<u>\$ 1,716,656</u>	<u>\$ 1,881,200</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 1,039,243	\$ -	\$ 979,243	\$ -
Land improvements	1,961,537	334,843	506,076	297,981
Buildings	6,098,449	819,301	3,283,312	828,972
Fixed equipment	15,523,335	2,651,329	4,960,596	2,365,441
Major movable equipment	8,198,576	3,308,180	6,069,269	3,899,549
Construction in progress	-	-	6,926,218	-
Totals	<u>\$32,821,140</u>	<u>\$ 7,113,653</u>	<u>\$22,724,714</u>	<u>\$7,391,943</u>

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 PROPERTY AND EQUIPMENT (continued)**

Construction in progress at June 30, 2004, consisted primarily of progress billings for construction costs related to the Health Center's construction project. The project consisted primarily of new construction of a three-story building adjoining the existing Health Center. The construction provided for various department relocations and expansion. During the year ended June 30, 2005, the Health Center completed the project and capitalized costs of approximately \$18 million. The remaining amount to be paid on contracts entered into by the Health Center total \$560,340 accrued as accounts payable-construction.

A summary of changes in property and equipment for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 979,243	\$ 60,000	\$ —	\$ —	\$ 1,039,243
Land improvements	506,076	—	1,494,510	(39,049)	1,961,537
Buildings	3,283,312	481,838	2,463,712	(130,413)	6,098,449
Fixed equipment	4,960,596	16,899	10,872,523	(326,683)	15,523,335
Major movable equipment	6,069,269	703,357	3,016,795	(1,590,845)	8,198,576
Construction in progress	<u>6,926,218</u>	<u>10,921,322</u>	<u>(17,847,540)</u>	<u>—</u>	<u>—</u>
Totals	22,724,714	12,183,416	—	(2,086,990)	32,821,140
Less accumulated depreciation	<u>(7,391,943)</u>	<u>(1,808,700)</u>	<u>—</u>	<u>2,086,990</u>	<u>(7,113,653)</u>
Net property and equipment	<u>\$15,332,771</u>	<u>\$10,374,716</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$25,707,487</u>

A summary of changes in property and equipment for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 979,243	\$ —	\$ —	\$ 979,243
Land improvements	506,076	—	—	506,076
Buildings	3,257,211	26,101	—	3,283,312
Fixed equipment	4,934,838	25,758	—	4,960,596
Major movable equipment	5,451,025	809,958	(191,714)	6,069,269
Construction in progress	<u>485,907</u>	<u>6,440,311</u>	<u>—</u>	<u>6,926,218</u>
Totals	15,614,300	7,302,128	(191,714)	22,724,714
Less accumulated depreciation	<u>(6,540,267)</u>	<u>(997,213)</u>	<u>145,537</u>	<u>(7,391,943)</u>
Net property and equipment	<u>\$ 9,074,033</u>	<u>\$6,304,915</u>	<u>\$ (46,177)</u>	<u>\$15,332,771</u>

A summary of interest and amortization costs on borrowed funds capitalized, net of interest earned, follows:

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Construction period--interest and amortization expense	\$ 554,895	\$ 498,081
Less interest earned on proceeds	<u>(90,511)</u>	<u>(47,735)</u>
Amount capitalized	<u>\$ 464,384</u>	<u>\$ 450,346</u>

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Hospital Revenue Capital Loan Notes, Series 2004	\$ 6,005,000	\$ 6,200,000
Hospital Revenue Capital Loan Notes, Series 2003	9,255,000	9,800,000
Hospital Revenue Capital Loan Notes, Series 1999	1,845,000	2,000,000
Note payable	68,767	139,777
Loan	165,000	198,000
Total	17,338,767	18,337,777
Less current maturities	1,026,767	999,034
Long-term debt, net of current maturities	<u>\$16,312,000</u>	<u>\$17,338,743</u>

**Hospital Revenue Capital Loan Notes, Series 2004**

The Health Center has issued Hospital Revenue Capital Loan Notes, Series 2004 in the original amount of \$6,200,000. The Notes are payable solely from future revenues of the Health Center and are due serially each June 1 through 2019, at interest rates ranging from 2.35% to 4.9%.

The Hospital Revenue Capital Loan Notes, Series 2004 require certain funds be maintained as follows:

A Reserve Fund in an amount equal to the lesser of the maximum annual amount of principal and interest due on all parity obligations in any succeeding fiscal year or 10% of the aggregate original amount, \$521,656.

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Deposits are to be made from the general funds of the Health Center. Future funding requirements of the Sinking Fund for the next five years total 2006 \$467,174; 2007 \$462,356; 2008 \$466,821; 2009 \$465,371; 2010 \$463,221.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at June 30, 2005.

The Notes contain a number of covenants regarding the operation of the Health Center, and the Health Center is in substantial compliance with those covenants.

**Hospital Revenue Capital Loan Notes, Series 2003**

The Health Center has issued Hospital Revenue Capital Loan Notes, Series 2003 in the original amount of \$9,800,000. The Notes are payable solely from future revenues of the Health Center and are due serially each June 1 through 2018, at interest rates ranging from 2.75% to 5.5%.

The Hospital Revenue Capital Loan Notes, Series 2003 require certain funds be maintained as follows:

A Reserve Fund in an amount equal to the lesser of the maximum annual amount of principal and interest due on all parity obligations in any succeeding fiscal year or 10% of the aggregate original amount, \$980,000.

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Deposits are to be made from the general funds of the Health Center. Future funding requirements of the Sinking Fund for the next five years total 2006 \$982,208; 2007 \$981,945; 2008 \$984,275; 2009 \$983,625; 2010 \$984,835.

**Waverly Health Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 LONG-TERM DEBT (continued)**

**Hospital Revenue Capital Loan Notes, Series 2003 (continued)**

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at June 30, 2005.

The Notes contain a number of covenants regarding the operation of the Health Center, and the Health Center is in substantial compliance with those covenants.

**Hospital Revenue Capital Loan Notes, Series 1999**

The Health Center has issued Hospital Revenue Capital Loan Notes, Series 1999 in the original amount of \$2,150,000. The Notes are payable solely from future revenues of the Health Center and are due serially each June 1 through 2015, at interest rates ranging from 5.2% to 5.8%.

The Hospital Revenue Capital Loan Notes, Series 1999 require certain funds be maintained as follows:

A Reserve Fund in an amount equal to the lesser of the maximum annual amount of principal and interest due on all parity obligations in any succeeding fiscal year or 10% of the aggregate original amount, \$215,000.

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Deposits are to be made from the general funds of the Health Center. Future funding requirements of the Sinking Fund for the next five years total 2006 \$267,270; 2007 \$268,690; 2008 \$264,415; 2009 \$264,695; 2010 \$264,245.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at June 30, 2005.

The Notes contain a number of covenants regarding the operation of the Health Center, and the Health Center is in substantial compliance with those covenants.

**Note Payable**

The Health Center entered into a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$6,431, including interest at 5.71%, with the final payment due June, 2006. The note is collateralized by the equipment purchased by the Health Center.

In addition, the agreement includes a provision allowing the Health Center to terminate the note in the event no funds or insufficient funds are appropriated or budgeted to make all payments for a subsequent fiscal period. This option must be exercised by the Health Center sixty days prior to the end of a fiscal period to allow for proper termination of the Note. Consequently, this obligation does not constitute indebtedness of the Health Center under the laws of the State of Iowa, however, generally accepted accounting principles require the asset and liability to be recorded on the balance sheet at June 30, 2005.

**Loan**

The City of Waverly issued a \$330,000 loan to the Health Center to assist in financing an addition to the Health Center and remodeling of certain existing areas. This loan directly resulted from the issuance of a Rural Economic Development loan to the City from the U.S. Department of Agriculture. The loan is interest free and is due in ten annual installments of \$33,000.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 LONG-TERM DEBT (continued)**

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Capital Loan Notes</u>	<u>Note payable</u>	<u>Loan</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 925,000	\$ 68,767	\$ 33,000	\$ 1,026,767	\$ 793,650	\$ 1,820,417
2007	950,000	-	33,000	983,000	762,991	1,745,991
2008	985,000	-	33,000	1,018,000	730,511	1,748,511
2009	1,020,000	-	33,000	1,053,000	693,691	1,746,691
2010	1,060,000	-	33,000	1,093,000	652,301	1,745,301
2011-2015	6,095,000	-	-	6,095,000	2,479,802	8,574,802
2016-2019	<u>6,070,000</u>	<u>-</u>	<u>-</u>	<u>6,070,000</u>	<u>787,942</u>	<u>6,857,942</u>
Total	17,105,000	68,767	165,000	17,338,767	6,900,888	24,239,655
Less current maturities	<u>925,000</u>	<u>68,767</u>	<u>33,000</u>	<u>1,026,767</u>	<u>793,650</u>	<u>1,820,417</u>
Total long-term debt	<u>\$16,180,000</u>	<u>\$ -</u>	<u>\$132,000</u>	<u>\$16,312,000</u>	<u>\$6,107,238</u>	<u>\$22,419,238</u>

A summary of changes in long-term debt for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Capital Loan Notes, Series 2004	\$ 6,200,000	\$ -	\$ 195,000	\$ 6,005,000	\$ 205,000
Hospital Revenue Capital Loan Notes, Series 2003	9,800,000	-	545,000	9,255,000	555,000
Hospital Revenue Capital Loan Notes, Series 1999	2,000,000	-	155,000	1,845,000	165,000
Note payable	139,777	-	71,010	68,767	68,767
Loan	<u>198,000</u>	<u>-</u>	<u>33,000</u>	<u>165,000</u>	<u>33,000</u>
Totals	<u>\$18,337,777</u>	<u>\$ -</u>	<u>\$ 999,010</u>	<u>\$17,338,767</u>	<u>\$1,026,767</u>

A summary of changes in long-term debt for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Capital Loan Notes, Series 2004	\$ -	\$ 6,200,000	\$ -	\$ 6,200,000	\$ 195,000
Hospital Revenue Capital Loan Notes, Series 2003	-	9,800,000	-	9,800,000	545,000
Hospital Revenue Capital Loan Notes, Series 1999	2,150,000	-	150,000	2,000,000	155,000
Note payable	206,877	-	67,100	139,777	71,034
Loan	<u>231,000</u>	<u>-</u>	<u>33,000</u>	<u>198,000</u>	<u>33,000</u>
Totals	<u>\$2,587,877</u>	<u>\$16,000,000</u>	<u>\$ 250,100</u>	<u>\$18,337,777</u>	<u>\$ 999,034</u>

**Waverly Health Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 NET PATIENT SERVICE REVENUE**

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare and Medicaid**

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

**Other**

The Health Center has payment agreements with Blue Cross, other commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**NOTE 8 DEFINED BENEFIT PENSION PLAN**

The Health Center 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 State 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 Health Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$515,143, \$425,743 and \$361,993, respectively, equal to the required contributions for each year.

**NOTE 9 MALPRACTICE CLAIMS**

The Health Center 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.

The Health Center is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant impact on the financial position or the results of operations of the Health center.

Incidents occurring through June 30, 2005 may result in the assertion of claims. 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.

**Waverly Health Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 RISK MANAGEMENT**

The Health Center 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 Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

Board of Trustees  
Waverly Health Center  
Waverly, Iowa

Our report on our audits of the basic financial statements of Waverly Health Center for 2005 and 2004 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes 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 audits 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.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 3, 2005

**Waverly Health Center  
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
0 - 30 days (includes patients in Health Center at end of year)	\$3,199,708	\$2,661,177	46.57%	49.45%
31 - 60 days	1,916,616	1,303,876	27.89	24.23
61 - 90 days	622,295	483,515	9.06	8.98
91 - 120 days	324,908	272,175	4.73	5.06
121 - 365 days	603,722	469,192	8.78	8.72
Over one year	<u>203,737</u>	<u>191,599</u>	<u>2.97</u>	<u>3.56</u>
Totals	<u>6,870,986</u>	<u>5,381,534</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	800,000	750,000		
Medicaid	150,000	110,000		
Other	300,000	80,000		
Uncollectibles	<u>500,000</u>	<u>390,000</u>		
Total allowances	<u>1,750,000</u>	<u>1,330,000</u>		
Totals	<u>\$5,120,986</u>	<u>\$4,051,534</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 64,569</u>	<u>\$ 51,864</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>79</u>	<u>78</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>BALANCE</b> , beginning	\$ 390,000	\$ 360,000		
<b>ADD</b>				
Provision for bad debts	472,054	359,875	2.00%	1.90%
Recoveries of accounts previously written off	<u>221,730</u>	<u>189,245</u>	.94	1.00
	1,083,784	909,120		
<b>DEDUCT</b>				
Accounts written off	<u>583,784</u>	<u>519,120</u>	2.47	2.73
<b>BALANCE</b> , ending	<u>\$ 500,000</u>	<u>\$ 390,000</u>		

**Waverly Health Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2005, with comparative totals for 2004

	<u>2005</u>			<u>2004</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$1,421,081	\$ —	\$ 1,421,081	\$ 1,254,480
Swing bed	320,034	—	320,034	350,035
Nursery	203,711	—	203,711	127,862
	<u>1,944,826</u>	<u>—</u>	<u>1,944,826</u>	<u>1,732,377</u>
<b>OTHER NURSING SERVICES</b>				
Operating and recovery rooms	662,157	3,837,505	4,499,662	4,290,432
General surgeon and women's clinic	458,548	2,090,489	2,549,037	1,062,228
Delivery and labor rooms	166,053	—	166,053	108,398
Central supply	1,530,850	1,168,527	2,699,377	2,313,455
Intravenous solutions	129,190	170,911	300,101	273,212
Emergency service	100,303	3,049,836	3,150,139	2,413,247
Ambulance	—	630,917	630,917	590,985
Hospice	16,476	—	16,476	37,152
Home health	—	998,519	998,519	854,119
	<u>3,063,577</u>	<u>11,946,704</u>	<u>15,010,281</u>	<u>11,943,228</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	427,717	2,247,125	2,674,842	1,906,870
Radiology	274,474	4,888,531	5,163,005	4,061,645
Pharmacy	832,595	1,652,043	2,484,638	2,012,819
Anesthesiology	76,554	307,232	383,786	126,829
Respiratory therapy	351,331	581,796	933,127	783,806
Electrocardiology	25,363	240,809	266,172	202,880
Cardiac rehabilitation	—	95,660	95,660	44,500
Physical therapy	151,407	2,317,246	2,468,653	2,327,797
Speech therapy	10,056	37,079	47,135	53,049
Occupational therapy	61,690	332,710	394,400	581,098
	<u>2,211,187</u>	<u>12,700,231</u>	<u>14,911,418</u>	<u>12,101,293</u>
Totals	<u>\$7,219,590</u>	<u>\$24,646,935</u>	31,866,525	25,776,898
Charity care charges foregone, based on established rates			(17,294)	(32,262)
Total gross patient service revenue			31,849,231	25,744,636
Provisions for contractual adjustments and bad debts			(8,281,441)	(6,762,580)
Total net patient service revenue			<u>\$23,567,790</u>	<u>\$18,982,056</u>

**Waverly Health Center**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Contractual adjustments		
Medicare	\$5,119,616	\$4,277,322
Medicaid	240,729	527,298
Other adjustments	2,449,042	1,598,085
Provision for bad debts	<u>472,054</u>	<u>359,875</u>
 Totals	 <u>\$8,281,441</u>	 <u>\$6,762,580</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Cafeteria	\$ 108,503	\$ 96,416
County Law Center meals	29,323	35,844
Wellness	146,500	152,524
Retail pharmacy	196,504	-
Ambulance subsidy	-	30,000
Rental income	88,975	83,329
Miscellaneous	<u>292,327</u>	<u>253,370</u>
 Totals	 <u>\$ 862,132</u>	 <u>\$ 651,483</u>

**Waverly Health Center**  
**EXPENSES**  
Year ended June 30, 2005, with comparative totals for 2004

	<u>2005</u>			<u>2004</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 249,188	\$ 21,902	\$ 271,090	\$ 320,895
Medical, surgical and obstetrical	1,277,277	194,060	1,471,337	1,391,231
Nursery	92,548	2,405	94,953	57,672
Operating and recovery rooms	942,042	435,291	1,377,333	826,956
General surgeon	651,272	136,841	788,113	324,207
Delivery and labor rooms	51,346	8,231	59,577	38,227
Central supply	67,831	1,066,880	1,134,711	1,279,222
Emergency service	590,553	443,404	1,033,957	883,659
Ambulance	313,996	23,629	337,625	352,257
Hospice	11,119	656	11,775	14,166
Home health	517,033	120,321	637,354	556,505
Total nursing service	<u>4,764,205</u>	<u>2,453,620</u>	<u>7,217,825</u>	<u>6,044,997</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	462,494	1,050,411	1,512,905	893,980
Radiology	434,804	706,443	1,141,247	822,833
Pharmacy	239,215	638,901	878,116	659,273
Retail pharmacy	90,093	192,789	282,882	-
Anesthesiology	-	28,142	28,142	17,562
Respiratory therapy and electrocardiology	246,507	103,439	349,946	248,815
Cardiac rehabilitation	68,473	6,757	75,230	34,906
Physical therapy	-	1,486,323	1,486,323	1,485,072
Speech therapy	45,271	2,522	47,793	51,934
Occupational therapy	-	188,444	188,444	304,910
Occupational health	40,740	3,544	44,284	53,164
Health information management	279,122	69,211	348,333	295,484
Social services	69,773	4,896	74,669	74,600
Utilization review	23,267	1,110	24,377	33,548
Total other professional service	<u>1,999,759</u>	<u>4,482,932</u>	<u>6,482,691</u>	<u>4,976,081</u>
<b>GENERAL SERVICE</b>				
Nutrition services	348,330	153,074	501,404	450,865
Plant services	482,884	556,588	1,039,472	1,260,198
Environmental services	205,524	45,363	250,887	194,419
Laundry	31,420	63,545	94,965	63,612
Total general service	<u>1,068,158</u>	<u>818,570</u>	<u>1,886,728</u>	<u>1,969,094</u>
<b>FISCAL AND AMINISTRATIVE SERVICE</b>				
Administration/administrative services	401,876	452,948	854,824	583,452
Fiscal services	192,435	7,753	200,188	166,752
Human resources	91,200	112,167	203,367	131,709
Marketing	80,324	122,264	202,588	126,302
Fund development	74,086	13,492	87,578	48,554
Business office	484,033	119,168	603,201	569,529
Data processing	86,766	125,838	212,604	252,763
Purchasing	78,898	8,787	87,685	68,831

**Waverly Health Center**  
**EXPENSES (continued)**  
Year ended June 30, 2005, with comparative totals for 2004

	<u>2005</u>			<u>2004</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>UNASSIGNED EXPENSES</b>				
Health promotion	\$ 130,940	\$ 34,603	\$ 165,543	\$ 165,608
FICA	-	669,726	669,726	555,640
IPERS	-	515,143	515,143	425,743
Workers compensation insurance	-	106,144	106,144	111,294
Group health, life and other benefits	-	915,085	915,085	732,008
Insurance	-	<u>215,303</u>	<u>215,303</u>	<u>202,599</u>
Total fiscal and administrative service and unassigned expenses	<u>1,620,558</u>	<u>3,418,421</u>	<u>5,038,979</u>	<u>4,140,784</u>
<b>PROVISION FOR DEPRECIATION</b>	<u>-</u>	<u>1,808,700</u>	<u>1,808,700</u>	<u>997,213</u>
Total expenses	<u>\$9,452,680</u>	<u>\$12,982,243</u>	<u>\$22,434,923</u>	<u>\$18,128,169</u>

**Waverly Health Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	2,121	2,179
Swing bed	929	1,139
Nursery	301	210
Totals	3,351	3,528
<b>DISCHARGES</b>		
Medical, surgical and obstetrical	725	716
Swing bed	179	201
Nursery	136	99
Totals	1,040	1,016
<b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	2.93	3.04
Swing bed	5.19	5.67
Nursery	2.21	2.12

**INDEPENDENT AUDITOR'S 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  
Waverly Health Center  
Waverly, Iowa

We have audited the financial statements of Waverly Health Center as of and for the year ended June 30, 2005, and have issued our report thereon dated August 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health Center'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*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are present in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of the City of Waverly and other parties to whom the Health Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 3, 2005

**Waverly Health Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2005**

**Part I—Findings Related to the Financial Statements**

No matters regarding reportable conditions, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Waverly Health Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2005**

**Part II—Findings Related to Required Statutory Reporting**

**05-II-A 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, 2005.

**05-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Health Center funds were noted.

**05-II-C TRAVEL EXPENSES**

No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

**05-II-D BUSINESS TRANSACTIONS**

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

**05-II-E BOARD MINUTES**

No transactions were found that we believe should have been approved in the Board minutes but were not.

**05-II-F DEPOSITS AND INVESTMENTS**

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center's investment policy.