

**Waverly Health Center  
Waverly, Iowa**

**FINANCIAL REPORT**

**June 30, 2006**

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**Waverly Health Center  
OFFICIALS  
June 30, 2006**

**BOARD OF TRUSTEES**

**Expiration of term**

**Officers**

Susan Vallem, Chair  
Gary Burke, Secretary

December 31, 2009  
December 31, 2011

**Members**

Roger Johnson  
John Johnston  
Darold Wolff

December 31, 2011  
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, 2006 and 2005, 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, 2006 and 2005, 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 16, 2006 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 16, 2006

## **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, 2006 and 2005. 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 \$71,406 or 1% to \$37,563,854
- Total noncurrent assets whose use is limited increased by \$1,661,920 to \$4,574,266
- Total property and equipment decreased by \$1,850,030 to \$23,857,457
- Total fund equity increased by \$1,402,409 to \$18,805,411
- Total long-term debt decreased by \$1,026,767
- Net patient service revenue increased by \$3,268,341, or 14% primarily due to significant increase in ancillary revenues in 2006.
- Expenses increased by \$4,680,582, or 21% to \$27,115,505

### **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>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 8,684,746	\$ 8,387,976	\$ 7,084,807
Noncurrent assets whose use is limited	4,574,266	2,912,346	13,250,405
Property and equipment	23,857,457	25,707,487	15,332,771
Other asset	<u>447,385</u>	<u>484,639</u>	<u>522,043</u>
Total assets	<u>\$37,563,854</u>	<u>\$37,492,448</u>	<u>\$36,190,026</u>
Current liabilities	\$ 3,429,443	\$ 3,777,446	\$ 3,965,992
Long-term debt, less current maturities	<u>15,329,000</u>	<u>16,312,000</u>	<u>17,338,743</u>
Total liabilities	<u>\$18,758,443</u>	<u>\$20,089,446</u>	<u>\$21,304,735</u>
Invested in capital assets, net of related debt	\$ 7,545,457	\$ 8,368,720	\$ (3,005,006)
Restricted	1,884,331	1,881,200	10,698,917
Unrestricted	<u>9,375,623</u>	<u>7,153,082</u>	<u>7,191,380</u>
Total fund equity	<u>\$18,805,411</u>	<u>\$17,403,002</u>	<u>\$14,885,291</u>

As depicted in Table 1, total assets increased in fiscal year 2006 to \$37,563,854. 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>2006</b>	<b>2005</b>	<b>2004</b>
Net patient service revenue	\$26,836,131	\$23,567,790	\$18,982,056
Other revenue	<u>1,614,783</u>	<u>862,132</u>	<u>651,483</u>
Total operating revenue	<u>28,450,914</u>	<u>24,429,922</u>	<u>19,633,539</u>
Salaries	10,914,425	9,452,680	7,640,824
Other expenses	13,939,988	11,173,543	9,490,132
Provision for depreciation	<u>2,261,092</u>	<u>1,808,700</u>	<u>997,213</u>
Total expenses	<u>27,115,505</u>	<u>22,434,923</u>	<u>18,128,169</u>
Operating income	<u>1,335,409</u>	<u>1,994,999</u>	<u>1,505,370</u>
Investment income	81,666	119,797	101,413
Unrestricted contributions	3,753	200,289	170
Interest and amortization expense	(828,496)	(304,389)	(133,594)
Transfer from (to) related foundation	<u>810,077</u>	<u>507,015</u>	<u>(25,000)</u>
Total nonoperating gains (losses)	<u>67,000</u>	<u>522,712</u>	<u>(57,011)</u>
Excess of revenues over expenses before contributions	1,402,409	2,517,711	1,448,359
Restricted contributions	<u>-</u>	<u>-</u>	<u>54,469</u>
Change in fund equity	1,402,409	2,517,711	1,502,828
Total fund equity, beginning	<u>17,403,002</u>	<u>14,885,291</u>	<u>13,382,463</u>
Total fund equity, ending	<u>\$18,805,411</u>	<u>\$17,403,002</u>	<u>\$14,885,291</u>

## **Operating and Financial Performance**

The following summarizes the Health Center's statement of revenue, expenses and changes in fund equity between June 30, 2006 and 2005.

**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 2006 were 851 compared to 725 in fiscal year 2005. Average length of stay increased slightly as patient days increased to 2,550 from 2,121 in 2005. Volume on the outpatient side indicated significant positive growth in 2006. In 2006, gross outpatient charges increased to \$28,879,765 compared to \$24,646,935 in 2005. Operating and recovery rooms, central supply, emergency service and radiology departments reflected the most significant growth in 2006.

**Price Increase:** As is customary annually, the Health Center did review its charge structure and incorporate certain price increases in 2006. Overall, gross patient service revenue increased to \$36,894,618 from \$31,866,525 in 2005.

**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 \$10,009,611 in 2006 from \$8,281,441 in 2005. This represents 27% of gross patient charges for 2006.

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>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	42%	44%	46%
Medicaid	6	6	5
Wellmark	20	19	14
Commercial insurance	28	26	29
Self pay	<u>4</u>	<u>5</u>	<u>6</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue increased to \$1,614,783 in 2006 compared to \$862,132 in 2005, 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 15% to \$10,914,425 in 2006 from \$9,452,680 in 2005. The Health Center departments experiencing the most significant increase in 2006 included medical, surgical and obstetrical, health information management and administration/administrative services.

Approximately 50% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 25% to \$13,939,988 in 2006 from \$11,173,543 in 2005. The most significant increase related to central supply, emergency service, retail pharmacy, plant services and group health, life and other benefits.

Approximately 10% of Health Center's expenses relate to provision for depreciation. This provision for depreciation increased to \$2,261,092 in 2006 from \$1,808,700 in 2005.

**Nonoperating Gains (Losses)**

Nonoperating gains (losses) decreased to \$67,000 from \$522,712 in 2005, primarily due to an increase in interest and amortization expense.

**Property and Equipment**

At the end of 2006, the Health Center had \$23,857,457 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 2006, \$430,902 was spent to acquire new equipment.

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>2006</b>	<b>2005</b>	<b>2004</b>
Land	\$ 1,039,243	\$ 1,039,243	\$ 979,243
Land improvements	1,961,537	1,961,537	506,076
Buildings	6,107,054	6,098,449	3,283,312
Fixed equipment	15,671,999	15,523,335	4,960,596
Major movable equipment	8,441,759	8,198,576	6,069,269
Construction in progress	—	—	6,926,218
Subtotal	<u>33,221,592</u>	<u>32,821,140</u>	<u>22,724,714</u>
Less accumulated depreciation	<u>(9,364,135)</u>	<u>(7,113,653)</u>	<u>(7,391,943)</u>
Property and equipment	<u>\$23,857,457</u>	<u>\$25,707,487</u>	<u>\$15,332,771</u>

**Debt Administration**

At year end, the Health Center had a combined \$16,180,000 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 2006, 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 89% of the Health Center's total liabilities as of year end.

At year end, the Health Center had \$132,000 in current and long-term loan payable. This has decreased \$101,767 in fiscal year 2006, which was the required amount of principal payment on the outstanding note and loan for fiscal year 2006. More detailed information about the Health Center's note and loan payable are presented in the Notes to Financial Statements. Note that the loan payable represents 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>2006</b>	<b>2005</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,220,096	\$ 408,526
Assets whose use is limited-required for current liabilities	1,046,583	1,653,078
Patient receivables, less allowances for contractual adjustments and uncollectibles	5,028,192	5,120,986
Other receivables	19,622	13,261
Estimated third-party payor settlements	600,000	450,000
Inventories	565,064	675,149
Prepaid expenses	205,189	66,976
Total current assets	<u>8,684,746</u>	<u>8,387,976</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	1,481,707	1,365,204
Certificates of deposit	2,232,263	897,350
U.S. Government securities	-	346,238
Interest receivable	22,548	75,432
	<u>3,736,518</u>	<u>2,684,224</u>
Restricted for payment of long-term debt and interest		
Cash	167,675	164,544
Certificates of deposit	215,000	215,000
U.S. Government securities	1,501,656	1,501,656
Total assets whose use is limited	<u>5,620,849</u>	<u>4,565,424</u>
Less assets whose use is limited and that are required for current liabilities	<u>1,046,583</u>	<u>1,653,078</u>
Noncurrent assets whose use is limited	<u>4,574,266</u>	<u>2,912,346</u>
<b>PROPERTY AND EQUIPMENT</b>	33,221,592	32,821,140
Less accumulated depreciation	<u>9,364,135</u>	<u>7,113,653</u>
Total property and equipment	<u>23,857,457</u>	<u>25,707,487</u>
<b>OTHER ASSET</b>		
Unamortized financing costs	<u>447,385</u>	<u>484,639</u>
Totals	<u>\$37,563,854</u>	<u>\$37,492,448</u>

		<u>June 30</u>	
<b>LIABILITIES AND FUND EQUITY</b>		<u>2006</u>	<u>2005</u>
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 983,000	\$ 1,026,767
Accounts payable			
Trade		673,803	1,091,104
Construction		-	560,340
Accrued employee compensation		1,004,462	961,644
Payroll taxes and amounts withheld from employees		54,595	71,620
Accrued interest		63,583	65,971
Estimated third-party payor settlements		<u>650,000</u>	<u>-</u>
Total current liabilities		<u>3,429,443</u>	<u>3,777,446</u>
<b>LONG-TERM DEBT</b> , less current maturities		15,329,000	16,312,000
<b>FUND EQUITY</b>			
Invested in capital assets, net of related debt		7,545,457	8,368,720
Restricted		1,884,331	1,881,200
Unrestricted		<u>9,375,623</u>	<u>7,153,082</u>
Total fund equity		<u>18,805,411</u>	<u>17,403,002</u>
Totals		<u>\$37,563,854</u>	<u>\$37,492,448</u>

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2006 \$821,632; 2005 \$472,054	\$26,836,131	\$23,567,790
<b>OTHER REVENUE</b>	<u>1,614,783</u>	<u>862,132</u>
Total revenue	<u>28,450,914</u>	<u>24,429,922</u>
<b>EXPENSES</b>		
Nursing service	7,274,937	6,191,230
Other professional service	9,157,115	7,509,286
General service	2,604,904	1,886,728
Fiscal and administrative service and unassigned expenses	5,817,457	5,038,979
Provision for depreciation	<u>2,261,092</u>	<u>1,808,700</u>
Total expenses	<u>27,115,505</u>	<u>22,434,923</u>
Operating income	<u>1,335,409</u>	<u>1,994,999</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment income	81,666	119,797
Unrestricted contributions	3,753	200,289
Interest and amortization expense	(828,496)	(304,389)
Transfer from related foundation	<u>810,077</u>	<u>507,015</u>
Total nonoperating gains (losses)	<u>67,000</u>	<u>522,712</u>
Change in fund equity	1,402,409	2,517,711
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>17,403,002</u>	<u>14,885,291</u>
Ending	<u>\$18,805,411</u>	<u>\$17,403,002</u>

See Notes to Financial Statements.

**Waverly Health Center  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$27,428,925	\$22,148,338
Cash paid to suppliers for goods and services	(14,408,803)	(11,273,369)
Cash paid to employees for services	(10,871,607)	(9,245,188)
Other operating revenue received	<u>1,614,783</u>	<u>862,132</u>
Net cash provided by operating activities	<u>3,763,298</u>	<u>2,491,913</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Unrestricted contributions received	3,753	200,289
Transfer from related foundation	<u>810,077</u>	<u>507,015</u>
Net cash provided by noncapital financing activities	<u>813,830</u>	<u>707,304</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(971,402)	(12,419,952)
Interest paid on long-term debt	(793,630)	(823,999)
Principal payments on long-term debt	<u>(1,026,767)</u>	<u>(999,010)</u>
Net cash (used in) capital and related financing activities	<u>(2,791,799)</u>	<u>(14,242,961)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,093,409)	(3,263,651)
Proceeds from maturities of investments	1,104,734	1,970,810
Interest received	<u>134,550</u>	<u>159,354</u>
Net cash (used in) investing activities	<u>(854,125)</u>	<u>(1,133,487)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	931,204	(12,177,231)
<b>CASH</b>		
Beginning	<u>1,938,274</u>	<u>14,115,505</u>
Ending	<u>\$ 2,869,478</u>	<u>\$ 1,938,274</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,335,409	\$ 1,994,999
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,261,092	1,808,700
Changes in assets and liabilities		
(Increase) decrease in patient receivables	92,794	(1,069,452)
(Increase) decrease in other receivables	(6,361)	179
(Increase) decrease in estimated third-party payor settlements	500,000	(350,000)
(Increase) decrease in inventories	110,085	(353,574)
(Increase) in prepaid expenses	(138,213)	(25,699)
Increase (decrease) in accounts payable, trade	(417,301)	338,285
Increase in accrued employee compensation	42,818	207,492
(Decrease) in payroll taxes and amounts withheld from employees	<u>(17,025)</u>	<u>(59,017)</u>
Net cash provided by operating activities	<u>\$ 3,763,298</u>	<u>\$ 2,491,913</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 1,220,096	\$ 408,526
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,481,707	1,365,204
Restricted for payment of long-term debt and interest, cash	<u>167,675</u>	<u>164,544</u>
Total per statement of cash flows	<u>\$ 2,869,478</u>	<u>\$ 1,938,274</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 notes 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, 2006 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, 2006 are as follows:

	<u>Fair value</u>	<u>Maturity</u>
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:

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Receivable from patients	\$2,034,524	\$2,144,350
Receivable from insurance carriers	2,530,176	2,455,582
Receivable from Medicare	2,105,384	2,092,149
Receivable from Medicaid	<u>248,108</u>	<u>178,905</u>
Total patient receivables	6,918,192	6,870,986
Less allowance for contractual adjustments and uncollectibles	<u>(1,890,000)</u>	<u>(1,750,000)</u>
Net patient receivables	<u>\$5,028,192</u>	<u>\$5,120,986</u>

**NOTE 4 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited restricted for payment of long-term debt and interest on Hospital Revenue Capital Loan Notes are as follows for the year ended June 30, 2006:

	<b>Sinking Funds</b>	<b>Debt Reserve Funds</b>	<b>Total</b>
<b>BALANCE</b> , beginning of year	\$ 164,544	\$1,716,656	\$1,881,200
Transfer from current assets, cash	1,719,782	-	1,719,782
Principal and interest payments	<u>(1,716,651)</u>	<u>-</u>	<u>(1,716,651)</u>
<b>BALANCE</b> , end of year	<u>\$ 167,675</u>	<u>\$1,716,656</u>	<u>\$1,884,331</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

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

	<b>June 30, 2006</b>		<b>June 30, 2005</b>	
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Cost</b>	<b>Accumulated depreciation</b>
Land	\$ 1,039,243	\$ -	\$ 1,039,243	\$ -
Land improvements	1,961,537	450,468	1,961,537	334,843
Buildings	6,107,054	1,001,415	6,098,449	819,301
Fixed equipment	15,671,999	3,601,359	15,523,335	2,651,329
Major movable equipment	<u>8,441,759</u>	<u>4,310,893</u>	<u>8,198,576</u>	<u>3,308,180</u>
Totals	<u>\$33,221,592</u>	<u>\$ 9,364,135</u>	<u>\$32,821,140</u>	<u>\$ 7,113,653</u>

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

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

During the year ended June 30, 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.

A summary of changes in property and equipment for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 1,039,243	\$ —	\$ —	\$ 1,039,243
Land improvements	1,961,537	—	—	1,961,537
Buildings	6,098,449	8,605	—	6,107,054
Fixed equipment	15,523,335	148,664	—	15,671,999
Major movable equipment	<u>8,198,576</u>	<u>273,633</u>	<u>(30,450)</u>	<u>8,441,759</u>
Totals	32,821,140	430,902	(30,450)	33,221,592
Less accumulated depreciation	<u>(7,113,653)</u>	<u>(2,261,092)</u>	<u>10,610</u>	<u>(9,364,135)</u>
Net property and equipment	<u>\$25,707,487</u>	<u>\$(1,830,190)</u>	<u>\$(19,840)</u>	<u>\$23,857,457</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Construction period--interest and amortization expense	\$ —	\$ 554,895
Less interest earned on proceeds	<u>—</u>	<u>(90,511)</u>
Amount capitalized	<u>\$ —</u>	<u>\$ 464,384</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>2006</b>	<b>2005</b>
Hospital Revenue Capital Loan Notes, Series 2004	\$ 5,800,000	\$ 6,005,000
Hospital Revenue Capital Loan Notes, Series 2003	8,700,000	9,255,000
Hospital Revenue Capital Loan Notes, Series 1999	1,680,000	1,845,000
Note payable	-	68,767
Loan	132,000	165,000
Total	16,312,000	17,338,767
Less current maturities	983,000	1,026,767
Long-term debt, net of current maturities	<u>\$15,329,000</u>	<u>\$16,312,000</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 remaining interest rates ranging from 2.7% 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 2007 \$462,356; 2008 \$466,821; 2009 \$465,371; 2010 \$463,221; 2011 \$465,346.

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, 2006.

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 remaining interest rates ranging from 3.1% 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 2007 \$981,945; 2008 \$984,275; 2009 \$983,625; 2010 \$984,835; 2011 \$983,165.

**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, 2006.

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 remaining interest rates ranging from 5.3% 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 2007 \$268,690; 2008 \$264,415; 2009 \$264,695; 2010 \$264,245; 2011 \$268,145.

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, 2006.

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.

**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.

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Capital Loan Notes</u>	<u>Loan</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
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	1,110,000	-	1,110,000	606,656	1,716,656
2012-2016	6,390,000	-	6,390,000	2,182,265	8,572,265
2017-2019	<u>4,665,000</u>	<u>-</u>	<u>4,665,000</u>	<u>478,823</u>	<u>5,143,823</u>
Total	16,180,000	132,000	16,312,000	6,107,238	22,419,238
Less current maturities	<u>950,000</u>	<u>33,000</u>	<u>983,000</u>	<u>762,991</u>	<u>1,745,991</u>
Total long-term debt	<u>\$15,230,000</u>	<u>\$ 99,000</u>	<u>\$15,329,000</u>	<u>\$5,344,247</u>	<u>\$20,673,247</u>

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

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

A summary of changes in long-term debt for the year ended June 30, 2006 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	\$ 6,005,000	\$ —	\$ 205,000	\$ 5,800,000	\$ 205,000
Series 2003	9,255,000	—	555,000	8,700,000	570,000
Series 1999	1,845,000	—	165,000	1,680,000	175,000
Note payable	68,767	—	68,767	—	—
Loan	<u>165,000</u>	<u>—</u>	<u>33,000</u>	<u>132,000</u>	<u>33,000</u>
Totals	<u>\$17,338,767</u>	<u>\$ —</u>	<u>\$1,026,767</u>	<u>\$16,312,000</u>	<u>\$ 983,000</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
Series 2003	9,800,000	—	545,000	9,255,000	555,000
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>

**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, 2004.

**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.

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

**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, 2006, 2005 and 2004 were \$585,389, \$515,143 and \$425,743, 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, 2006 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.

**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 2006 and 2005 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 16, 2006

**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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
0 - 30 days (includes patients in Health Center at end of year)	\$3,379,450	\$3,199,708	48.85%	46.57%
31 - 60 days	1,508,262	1,916,616	21.80	27.89
61 - 90 days	502,872	622,295	7.27	9.06
91 - 120 days	308,765	324,908	4.46	4.73
121 - 365 days	831,328	603,722	12.02	8.78
Over one year	<u>387,515</u>	<u>203,737</u>	<u>5.60</u>	<u>2.97</u>
Totals	<u>6,918,192</u>	<u>6,870,986</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	830,000	800,000		
Medicaid	130,000	150,000		
Other	310,000	300,000		
Uncollectibles	<u>620,000</u>	<u>500,000</u>		
Total allowances	<u>1,890,000</u>	<u>1,750,000</u>		
Totals	<u>\$5,028,192</u>	<u>\$5,120,986</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 73,524</u>	<u>\$ 64,569</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>68</u>	<u>79</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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>BALANCE</b> , beginning	\$ 500,000	\$ 390,000		
<b>ADD</b>				
Provision for bad debts	821,632	472,054	3.06%	2.00%
Recoveries of accounts previously written off	<u>245,088</u>	<u>221,730</u>	.91	.94
	1,566,720	1,083,784		
<b>DEDUCT</b>				
Accounts written off	<u>946,720</u>	<u>583,784</u>	3.53	2.47
<b>BALANCE</b> , ending	<u>\$ 620,000</u>	<u>\$ 500,000</u>		

**Waverly Health Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$1,864,967	\$ -	\$ 1,864,967	\$ 1,421,081
Swing bed	321,420	-	321,420	320,034
Nursery	325,867	-	325,867	203,711
	<u>2,512,254</u>	<u>-</u>	<u>2,512,254</u>	<u>1,944,826</u>
<b>OTHER NURSING SERVICES</b>				
Operating and recovery rooms	971,495	5,325,992	6,297,487	5,252,472
Delivery and labor rooms	293,824	-	293,824	166,053
Central supply	1,559,158	1,644,469	3,203,627	2,999,478
Emergency service	97,414	3,691,343	3,788,757	3,150,139
Ambulance	-	727,515	727,515	630,917
Hospice	54,832	-	54,832	16,476
Home health	-	1,065,589	1,065,589	998,519
	<u>2,976,723</u>	<u>12,454,908</u>	<u>15,431,631</u>	<u>13,214,054</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	464,771	2,409,704	2,874,475	2,674,842
Radiology	333,456	5,745,924	6,079,380	5,163,005
Pharmacy	916,886	1,860,171	2,777,057	2,484,638
Anesthesiology	99,538	408,272	507,810	383,786
Respiratory therapy	220,520	734,902	955,422	933,127
Electrocardiology	23,587	279,662	303,249	266,172
Cardiac rehabilitation	-	137,659	137,659	95,660
Physical therapy	147,787	2,441,716	2,589,503	2,468,653
Speech therapy	14,125	35,431	49,556	47,135
Occupational therapy	107,478	402,723	510,201	394,400
General surgery and women's clinic	197,728	1,968,693	2,166,421	1,796,227
	<u>2,525,876</u>	<u>16,424,857</u>	<u>18,950,733</u>	<u>16,707,645</u>
Totals	<u>\$8,014,853</u>	<u>\$28,879,765</u>	36,894,618	31,866,525
Charity care charges foregone, based on established rates			(48,876)	(17,294)
Total gross patient service revenue			36,845,742	31,849,231
Provisions for contractual adjustments and bad debts			(10,009,611)	(8,281,441)
Total net patient service revenue			<u>\$26,836,131</u>	<u>\$23,567,790</u>

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare	\$ 4,204,534	\$ 5,119,616
Medicaid	1,199,735	240,729
Other adjustments	3,783,710	2,449,042
Provision for bad debts	<u>821,632</u>	<u>472,054</u>
 Totals	 <u>\$10,009,611</u>	 <u>\$8,281,441</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 98,911	\$ 108,503
County Law Center meals	2,010	29,323
Wellness	127,864	146,500
Retail pharmacy	946,240	196,504
Rental income	112,016	88,975
Miscellaneous	<u>327,742</u>	<u>292,327</u>
 Totals	 <u>\$1,614,783</u>	 <u>\$ 862,132</u>

**Waverly Health Center**  
**EXPENSES**  
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 286,216	\$ 20,554	\$ 306,770	\$ 271,090
Medical, surgical and obstetrical	1,434,538	177,890	1,612,428	1,471,337
Nursery	116,728	2,360	119,088	94,953
Operating and recovery rooms	684,254	564,569	1,248,823	1,122,180
Delivery and labor rooms	65,295	4,678	69,973	59,577
Central supply	40,072	1,397,607	1,437,679	1,134,711
Emergency service	728,685	623,028	1,351,713	1,033,957
Ambulance	366,278	24,852	391,130	337,625
Hospice	19,082	-	19,082	11,775
Home health	580,416	137,835	718,251	654,025
Total nursing service	<u>4,321,564</u>	<u>2,953,373</u>	<u>7,274,937</u>	<u>6,191,230</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	544,945	924,544	1,469,489	1,512,905
Radiology	526,376	758,730	1,285,106	1,141,247
Pharmacy	281,858	749,781	1,031,639	878,116
Retail pharmacy	176,167	866,561	1,042,728	282,882
Anesthesiology	4,821	25,662	30,483	28,142
Respiratory therapy and electrocardiology	294,420	108,602	403,022	349,946
Cardiac rehabilitation	80,519	20,590	101,109	75,230
Physical therapy	-	1,635,792	1,635,792	1,486,323
Speech therapy	49,047	3,302	52,349	47,793
Occupational therapy	-	213,382	213,382	188,444
Occupational health	43,066	6,106	49,172	44,284
General surgery and women's clinic	1,000,125	295,807	1,295,932	1,043,266
Health information management	390,964	59,948	450,912	348,333
Social services	58,635	733	59,368	57,998
Utilization review	35,013	1,619	36,632	24,377
Total other professional service	<u>3,485,956</u>	<u>5,671,159</u>	<u>9,157,115</u>	<u>7,509,286</u>
<b>GENERAL SERVICE</b>				
Nutrition services	403,213	159,966	563,179	501,404
Plant services	359,816	1,005,853	1,365,669	830,514
Environmental services	450,528	104,539	555,067	459,845
Laundry	80,084	40,905	120,989	94,965
Total general service	<u>1,293,641</u>	<u>1,311,263</u>	<u>2,604,904</u>	<u>1,886,728</u>
<b>FISCAL AND AMINISTRATIVE SERVICE</b>				
Administration/administrative services	575,897	510,288	1,086,185	878,458
Fiscal services	184,866	11,804	196,670	200,188
Human resources	123,131	106,844	229,975	203,367
Marketing	84,159	100,994	185,153	202,588
Fund development	23,994	1,612	25,606	63,944
Business office	508,446	124,354	632,800	603,201
Data processing	89,119	144,596	233,715	212,604
Purchasing	99,447	7,155	106,602	87,685

**Waverly Health Center**  
**EXPENSES (continued)**  
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>UNASSIGNED EXPENSES</b>				
Health promotion	\$ 124,205	\$ 30,702	\$ 154,907	\$ 165,543
FICA	-	765,763	765,763	669,726
IPERS	-	585,389	585,389	515,143
Group health, life and other benefits	-	1,277,662	1,277,662	915,085
Workers compensation insurance	-	155,701	155,701	106,144
Insurance	-	181,329	181,329	215,303
Total fiscal and administrative service and unassigned expenses	<u>1,813,264</u>	<u>4,004,193</u>	<u>5,817,457</u>	<u>5,038,979</u>
<b>PROVISION FOR DEPRECIATION</b>	<u>-</u>	<u>2,261,092</u>	<u>2,261,092</u>	<u>1,808,700</u>
Total expenses	<u>\$10,914,425</u>	<u>\$16,201,080</u>	<u>\$27,115,505</u>	<u>\$22,434,923</u>

**Waverly Health Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	2,550	2,121
Swing bed	858	929
Nursery	446	301
Totals	3,854	3,351
<b>DISCHARGES</b>		
Medical, surgical and obstetrical	851	725
Swing bed	155	179
Nursery	197	136
Totals	1,203	1,040
<b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	3.00	2.93
Swing bed	5.54	5.19
Nursery	2.26	2.21

**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, 2006, and have issued our report thereon dated August 16, 2006. 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, 2006 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 16, 2006

**Waverly Health Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2006**

**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, 2006**

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

**06-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Health Center funds were noted.

**06-II-B TRAVEL EXPENSES**

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

**06-II-C BUSINESS TRANSACTIONS**

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

**06-II-D BOARD MINUTES**

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

**06-II-E 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.