

**Waverly Health Center
Waverly, Iowa**

FINANCIAL REPORT

June 30, 2007

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**Waverly Health Center
OFFICIALS
June 30, 2007**

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, 2007 and 2006, 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, 2007 and 2006, 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 15, 2007 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 5-8 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 15, 2007

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, 2007 and 2006. 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 \$1,774,654 or 5% to \$39,338,508
- Total noncurrent assets whose use is limited decreased by \$998,427 to \$3,575,839
- Total property and equipment increased by \$1,350,466 to \$25,207,923
- Total fund equity increased by \$892,095 to \$19,697,506
- Total long-term debt increased by \$511,675
- Net patient service revenue increased by \$4,158,472, or 15% primarily due to significant increase in ancillary revenues in 2007
- Expenses increased by \$4,641,635, or 17% to \$31,757,140

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

	June 30		
	2007	2006	2005
Current assets	\$10,144,616	\$ 8,684,746	\$ 8,387,976
Noncurrent assets whose use is limited	3,575,839	4,574,266	2,912,346
Property and equipment	25,207,923	23,857,457	25,707,487
Other asset	<u>410,130</u>	<u>447,385</u>	<u>484,639</u>
Total assets	<u>\$39,338,508</u>	<u>\$37,563,854</u>	<u>\$37,492,448</u>
Current liabilities	\$ 4,147,494	\$ 3,429,443	\$ 3,777,446
Long-term debt, less current maturities	<u>15,493,508</u>	<u>15,329,000</u>	<u>16,312,000</u>
Total liabilities	<u>\$19,641,002</u>	<u>\$18,758,443</u>	<u>\$20,089,446</u>
Invested in capital assets, net of related debt	\$ 8,384,248	\$ 7,545,457	\$ 8,368,720
Restricted	2,021,126	1,884,331	1,881,200
Unrestricted	<u>9,292,132</u>	<u>9,375,623</u>	<u>7,153,082</u>
Total fund equity	<u>\$19,697,506</u>	<u>\$18,805,411</u>	<u>\$17,403,002</u>

As depicted in Table 1, total assets increased in fiscal year 2007 to \$39,338,508. The change in total assets results primarily from an increase in property and equipment due to significant equipment acquisitions during fiscal year 2007. The costs of these acquisitions were partially 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

	Year ended June 30		
	2007	2006	2005
Net patient service revenue	\$30,994,603	\$26,836,131	\$23,567,790
Other revenue	<u>2,239,291</u>	<u>1,614,783</u>	<u>862,132</u>
Total operating revenue	<u>33,233,894</u>	<u>28,450,914</u>	<u>24,429,922</u>
Salaries	13,165,573	10,914,425	9,452,680
Other expenses	16,192,175	13,939,988	11,173,543
Provision for depreciation	<u>2,399,392</u>	<u>2,261,092</u>	<u>1,808,700</u>
Total expenses	<u>31,757,140</u>	<u>27,115,505</u>	<u>22,434,923</u>
Operating income	<u>1,476,754</u>	<u>1,335,409</u>	<u>1,994,999</u>
Investment income	258,057	81,666	119,797
Unrestricted contributions	2,968	3,753	200,289
Interest and amortization expense	(887,689)	(828,496)	(304,389)
Transfer from related foundation	<u>42,005</u>	<u>810,077</u>	<u>507,015</u>
Total nonoperating gains (losses)	<u>(584,659)</u>	<u>67,000</u>	<u>522,712</u>
Change in fund equity	892,095	1,402,409	2,517,711
Total fund equity, beginning	<u>18,805,411</u>	<u>17,403,002</u>	<u>14,885,291</u>
Total fund equity, ending	<u>\$19,697,506</u>	<u>\$18,805,411</u>	<u>\$17,403,002</u>

Operating and Financial Performance

The following summarizes the Health Center's statement of revenue, expenses and changes in fund equity between June 30, 2007 and 2006.

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 2007 were 1,003 compared to 851 in fiscal year 2006. Average length of stay increased slightly as patient days increased to 3,073 from 2,550 in 2006. Volume on the outpatient side also indicated significant positive growth in 2007. In 2007, gross outpatient charges increased to \$34,450,565 compared to \$28,879,765 in 2006. Operating and recovery rooms, radiology, pharmacy, anesthesiology and general surgery and women's clinic departments reflected the most significant growth in 2007.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporate certain price increases in 2007. Overall, gross patient service revenue increased to \$43,546,868 from \$36,894,618 in 2006.

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 \$12,396,594 in 2007 from \$10,009,611 in 2006. This represents 28% of gross patient charges for 2007.

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

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2007	2006	2005
Medicare	42%	42%	44%
Medicaid	5	6	6
Commercial insurance	48	48	45
Patients	<u>5</u>	<u>4</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$2,239,291 in 2007 compared to \$1,614,783 in 2006, primarily due to an increase in revenue income from retail pharmacy.

Expenses

Approximately 40% of Health Center's expenses are for salaries. Total salaries increased by 21% to \$13,165,573 in 2007 from \$10,914,425 in 2006. The Health Center departments experiencing the most significant increase in 2007 included medical, surgical and obstetrical, radiology, anesthesiology and general surgery and women's clinic.

Approximately 50% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 16% to \$16,192,175 in 2007 from \$13,939,988 in 2006. The most significant increase related to emergency service, retail pharmacy 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 \$2,399,392 in 2007 from \$2,261,092 in 2006.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$(584,659) from \$67,000 in 2006, primarily due to a significant decrease in transfer from related foundation.

Property and Equipment

At the end of 2007, the Health Center had \$25,207,923 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 2007, \$3,751,864 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

	June 30		
	2007	2006	2005
Land	\$ 1,947,993	\$ 1,039,243	\$ 1,039,243
Land improvements	1,992,624	1,961,537	1,961,537
Buildings	6,142,647	6,107,054	6,098,449
Fixed equipment	16,183,314	15,671,999	15,523,335
Major movable equipment	<u>10,687,794</u>	<u>8,441,759</u>	<u>8,198,576</u>
Subtotal	36,954,372	33,221,592	32,821,140
Less accumulated depreciation	<u>(11,746,449)</u>	<u>(9,364,135)</u>	<u>(7,113,653)</u>
Property and equipment	<u>\$25,207,923</u>	<u>\$23,857,457</u>	<u>\$25,707,487</u>

Debt Administration

At year end, the Health Center had a combined \$15,230,000 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 2007, 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 78% of the Health Center's total liabilities as of year end.

At year end, the Health Center had \$99,000 in current and long-term loan payable. This has decreased \$33,000 in fiscal year 2007, which was the required amount of principal payment on the outstanding note and loan for fiscal year 2007. More detailed information about the Health Center's 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.

At year end, the Health Center had \$1,494,675 in current and long-term notes payable. This increased in fiscal year 2007 as the Health Center entered into two note agreements to finance the purchase of certain equipment. More detailed information about the Health Center's notes payable are presented in the Notes to Financial Statements. Note that the notes payable represent 8% 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**

	June 30	
ASSETS	2007	2006
CURRENT ASSETS		
Cash	\$ 1,799,585	\$ 1,220,096
Assets whose use is limited-required for current liabilities	1,391,043	1,046,583
Patient receivables, less allowances for contractual adjustments and uncollectibles	5,678,137	5,028,192
Other receivables	69,910	19,622
Estimated third-party payor settlements	-	600,000
Inventories	624,675	565,064
Prepaid expenses	581,266	205,189
Total current assets	<u>10,144,616</u>	<u>8,684,746</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	968,937	1,481,707
Certificates of deposit	2,072,415	2,232,263
Interest receivable	24,972	22,548
	<u>3,066,324</u>	<u>3,736,518</u>
Restricted for payment of long-term debt and interest		
Cash	183,902	167,675
Certificates of deposit	215,000	215,000
U.S. Government securities	1,501,656	1,501,656
Total assets whose use is limited	<u>4,966,882</u>	<u>5,620,849</u>
Less assets whose use is limited and that are required for current liabilities	<u>1,391,043</u>	<u>1,046,583</u>
Noncurrent assets whose use is limited	<u>3,575,839</u>	<u>4,574,266</u>
PROPERTY AND EQUIPMENT		
	36,954,372	33,221,592
Less accumulated depreciation	11,746,449	9,364,135
Total property and equipment	<u>25,207,923</u>	<u>23,857,457</u>
OTHER ASSET		
Unamortized financing costs	<u>410,130</u>	<u>447,385</u>
Totals	<u>\$39,338,508</u>	<u>\$37,563,854</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2007	2006
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2007 \$846,825; 2006 \$821,632	\$30,994,603	\$26,836,131
OTHER REVENUE	<u>2,239,291</u>	<u>1,614,783</u>
Total revenue	<u>33,233,894</u>	<u>28,450,914</u>
EXPENSES		
Nursing service	8,347,768	7,370,937
Other professional service	11,279,579	9,061,115
General service	2,647,935	2,604,904
Fiscal and administrative service and unassigned expenses	7,082,466	5,817,457
Provision for depreciation	<u>2,399,392</u>	<u>2,261,092</u>
Total expenses	<u>31,757,140</u>	<u>27,115,505</u>
Operating income	<u>1,476,754</u>	<u>1,335,409</u>
NONOPERATING GAINS (LOSSES)		
Investment income	258,057	81,666
Unrestricted contributions	2,968	3,753
Interest and amortization expense	(887,689)	(828,496)
Transfer from related foundation	<u>42,005</u>	<u>810,077</u>
Total nonoperating gains (losses)	<u>(584,659)</u>	<u>67,000</u>
Change in fund equity	892,095	1,402,409
TOTAL FUND EQUITY		
Beginning	18,805,411	17,403,002
Ending	<u>\$19,697,506</u>	<u>\$18,805,411</u>

See Notes to Financial Statements.

**Waverly Health Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$30,794,658	\$27,428,925
Cash paid to suppliers for goods and services	(16,213,473)	(14,408,803)
Cash paid to employees for services	(13,106,660)	(10,871,607)
Other operating revenue received	<u>2,239,291</u>	<u>1,614,783</u>
Net cash provided by operating activities	<u>3,713,816</u>	<u>3,763,298</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	2,968	3,753
Transfer from related foundation	<u>42,005</u>	<u>810,077</u>
Net cash provided by noncapital financing activities	<u>44,973</u>	<u>813,830</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(3,749,858)	(971,402)
Proceeds from issuance of long-term debt	1,714,650	-
Interest paid on long-term debt	(853,141)	(793,630)
Principal payments on long-term debt	<u>(1,202,975)</u>	<u>(1,026,767)</u>
Net cash (used in) capital and related financing activities	<u>(4,091,324)</u>	<u>(2,791,799)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,351,255)	(2,093,409)
Proceeds from maturities of investments	1,511,103	1,104,734
Interest received	<u>255,633</u>	<u>134,550</u>
Net cash provided by (used in) investing activities	<u>415,481</u>	<u>(854,125)</u>
NET INCREASE IN CASH	82,946	931,204
CASH		
Beginning	<u>2,869,478</u>	<u>1,938,274</u>
Ending	<u>\$ 2,952,424</u>	<u>\$ 2,869,478</u>

See Notes to Financial Statements.

Waverly Health Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,476,754	\$ 1,335,409
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,399,392	2,261,092
Changes in assets and liabilities		
(Increase) decrease in patient receivables	(649,945)	92,794
(Increase) in other receivables	(50,288)	(6,361)
Decrease in estimated third-party payor settlements	450,000	500,000
(Increase) decrease in inventories	(59,611)	110,085
(Increase) in prepaid expenses	(376,077)	(138,213)
Increase (decrease) in accounts payable	192,513	(417,301)
Increase in accrued employee compensation	58,913	42,818
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>272,165</u>	<u>(17,025)</u>
Net cash provided by operating activities	<u>\$ 3,713,816</u>	<u>\$ 3,763,298</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 1,799,585	\$ 1,220,096
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	968,937	1,481,707
Restricted for payment of long-term debt and interest, cash	<u>183,902</u>	<u>167,675</u>
Total per statement of cash flows	<u>\$ 2,952,424</u>	<u>\$ 2,869,478</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, 2007 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, 2007 are as follows:

	<u>Fair value</u>	<u>Maturity</u>
U.S. Government Agency securities	\$1,501,656	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 receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Medicare	\$2,379,196	\$2,105,384
Medicaid	239,743	248,108
Commercial insurance	2,707,641	2,530,176
Patients	<u>2,431,557</u>	<u>2,034,524</u>
Total patient receivables	7,758,137	6,918,192
Less allowance for contractual adjustments and uncollectibles	<u>(2,080,000)</u>	<u>(1,890,000)</u>
Net patient receivables	<u>\$5,678,137</u>	<u>\$5,028,192</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, 2007:

	<u>Sinking Funds</u>	<u>Debt Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 167,675	\$1,716,656	\$1,884,331
Transfer from current assets, cash	1,729,218	-	1,729,218
Principal and interest payments	<u>(1,712,991)</u>	<u>-</u>	<u>(1,712,991)</u>
BALANCE , end of year	<u>\$ 183,902</u>	<u>\$1,716,656</u>	<u>\$1,900,558</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 1,947,993	\$ -	\$ 1,039,243	\$ -
Land improvements	1,992,627	565,684	1,961,537	450,468
Buildings	6,142,641	1,184,454	6,107,054	1,001,415
Fixed equipment	16,183,317	4,568,242	15,671,999	3,601,359
Major movable equipment	<u>10,687,794</u>	<u>5,428,069</u>	<u>8,441,759</u>	<u>4,310,893</u>
Totals	<u>\$36,954,372</u>	<u>\$11,746,449</u>	<u>\$33,221,592</u>	<u>\$ 9,364,135</u>

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 1,039,243	\$ 908,750	\$ -	\$ 1,947,993
Land improvements	1,961,537	31,087	-	1,992,624
Buildings	6,107,054	35,593	-	6,142,647
Fixed equipment	15,671,999	511,315	-	16,183,314
Major movable equipment	<u>8,441,759</u>	<u>2,265,119</u>	<u>(19,084)</u>	<u>10,687,794</u>
Totals	33,221,592	3,751,864	(19,084)	36,954,372
Less accumulated depreciation	<u>(9,364,135)</u>	<u>(2,399,392)</u>	<u>17,078</u>	<u>(11,746,449)</u>
Net property and equipment	<u>\$23,857,457</u>	<u>\$1,352,472</u>	<u>\$ (2,006)</u>	<u>\$25,207,923</u>

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>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Hospital Revenue Capital Loan Notes, Series 2004	\$ 5,595,000	\$ 5,800,000
Hospital Revenue Capital Loan Notes, Series 2003	8,130,000	8,700,000
Hospital Revenue Capital Loan Notes, Series 1999	1,505,000	1,680,000
Notes payable	1,494,675	-
Loan	<u>99,000</u>	<u>132,000</u>
Total	16,823,675	16,312,000
Less current maturities	<u>1,330,167</u>	<u>983,000</u>
Long-term debt, net of current maturities	<u>\$15,493,508</u>	<u>\$15,329,000</u>

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

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 3% to 4.9%. At June 30, 2007, the remaining balance on these Notes is \$5,595,000.

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 2008 \$466,821; 2009 \$465,371; 2010 \$463,221; 2011 \$465,346; 2012 \$466,534.

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, 2007.

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 3.5% to 5.5%. At June 30, 2007, the remaining balance on these Notes is \$8,130,000.

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 2008 \$984,275; 2009 \$983,625; 2010 \$984,835; 2011 \$983,165; 2012 \$983,465.

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, 2007.

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.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

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 5.4% to 5.8%. At June 30, 2007, the remaining balance on these Notes is \$1,505,000.

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 2008 \$264,415; 2009 \$264,695; 2010 \$264,245; 2011 \$268,145; 2012 \$266,105.

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, 2007.

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. At June 30, 2007, the remaining balance on this loan is \$99,000.

Notes Payable

The Health Center has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$19,680, including interest at 7.18%, with the final payment due October, 2011. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2007, the remaining balance on this note is \$862,814.

The Health Center has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$14,382, including interest at 7.08%, with the final payment due October, 2011. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2007, the remaining balance on this note is \$631,861.

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>Loan</u>	<u>Notes payable</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 985,000	\$ 33,000	\$ 312,167	\$ 1,330,167	\$ 827,087	\$ 2,157,254
2009	1,020,000	33,000	335,185	1,388,185	767,249	2,155,434
2010	1,060,000	33,000	359,901	1,452,901	701,144	2,154,045
2011	1,110,000	-	386,439	1,496,439	628,961	2,125,400
2012	1,160,000	-	100,983	1,260,983	557,308	1,818,291
2013-2017	6,705,000	-	-	6,705,000	1,863,922	8,568,922
2018-2019	<u>3,190,000</u>	<u>-</u>	<u>-</u>	<u>3,190,000</u>	<u>241,062</u>	<u>3,431,062</u>
Total	15,230,000	99,000	1,494,675	16,823,675	5,586,733	22,410,408
Less current maturities	<u>985,000</u>	<u>33,000</u>	<u>312,167</u>	<u>1,330,167</u>	<u>827,087</u>	<u>2,157,254</u>
Total long-term debt	<u>\$14,245,000</u>	<u>\$ 66,000</u>	<u>\$1,182,508</u>	<u>\$15,493,508</u>	<u>\$4,759,646</u>	<u>\$20,253,154</u>

A summary of changes in long-term debt for the year ended June 30, 2007 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	\$ 5,800,000	\$ -	\$ 205,000	\$ 5,595,000	\$ 215,000
Series 2003	8,700,000	-	570,000	8,130,000	590,000
Series 1999	1,680,000	-	175,000	1,505,000	180,000
Loan	132,000	-	33,000	99,000	33,000
Notes payable	<u>-</u>	<u>1,714,650</u>	<u>219,975</u>	<u>1,494,675</u>	<u>312,167</u>
Totals	<u>\$16,312,000</u>	<u>\$1,714,650</u>	<u>\$1,202,975</u>	<u>\$16,823,675</u>	<u>\$1,330,167</u>

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
Loan	165,000	-	33,000	132,000	33,000
Note payable	<u>68,767</u>	<u>-</u>	<u>68,767</u>	<u>-</u>	<u>-</u>
Totals	<u>\$17,338,767</u>	<u>\$ -</u>	<u>\$1,026,767</u>	<u>\$16,312,000</u>	<u>\$ 983,000</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, 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.

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, 2007, 2006 and 2005 were \$732,899, \$585,389 and \$515,143, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2007 and 2006.

	2007	2006
Charges foregone, based on established rates	\$ <u>155,671</u>	\$ <u>48,876</u>
Equivalent percentage of charity care patients to all patients served	<u>.4%</u>	<u>.1%</u>

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 10 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, 2007 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 11 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 2007 and 2006 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 15, 2007

**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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
0 - 30 days (includes patients in Health Center at end of year)	\$3,785,165	\$3,379,450	48.79%	48.85%
31 - 60 days	1,459,839	1,508,262	18.82	21.80
61 - 90 days	587,340	502,872	7.57	7.27
91 - 120 days	402,731	308,765	5.19	4.46
121 - 365 days	1,146,693	831,328	14.78	12.02
Over one year	<u>376,369</u>	<u>387,515</u>	<u>4.85</u>	<u>5.60</u>
Totals	<u>7,758,137</u>	<u>6,918,192</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	900,000	830,000		
Medicaid	160,000	130,000		
Other	400,000	310,000		
Uncollectibles	<u>620,000</u>	<u>620,000</u>		
Total allowances	<u>2,080,000</u>	<u>1,890,000</u>		
Totals	<u>\$5,678,137</u>	<u>\$5,028,192</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 84,917</u>	<u>\$ 73,524</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>67</u>	<u>68</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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
BALANCE , beginning	\$ 620,000	\$ 500,000		
ADD				
Provision for bad debts	846,825	821,632	2.73%	3.06%
Recoveries of accounts previously written off	<u>291,417</u>	<u>245,088</u>	.94	.91
	1,758,242	1,566,720		
DEDUCT				
Accounts written off	<u>1,138,242</u>	<u>946,720</u>	3.67	3.53
BALANCE , ending	<u>\$ 620,000</u>	<u>\$ 620,000</u>		

Waverly Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2007, with comparative totals for 2006

	<u>2007</u>			<u>2006</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$2,353,944	\$ —	\$ 2,353,944	\$ 1,346,389
Swing bed	448,000	—	448,000	321,420
Nursery	<u>365,478</u>	<u>—</u>	<u>365,478</u>	<u>325,867</u>
	<u>3,167,422</u>	<u>—</u>	<u>3,167,422</u>	<u>1,993,676</u>
OTHER NURSING SERVICES				
Observation room	—	509,363	509,363	518,578
Operating and recovery rooms	1,058,675	5,894,675	6,953,350	6,297,487
Delivery and labor rooms	227,492	—	227,492	293,824
Central supply	1,249,997	1,862,857	3,112,854	3,203,627
Emergency service	89,864	4,112,229	4,202,093	3,788,757
Ambulance	—	926,152	926,152	727,515
Hospice	74,470	—	74,470	54,832
Home health	—	<u>1,152,224</u>	<u>1,152,224</u>	<u>1,065,589</u>
	<u>2,700,498</u>	<u>14,457,500</u>	<u>17,157,998</u>	<u>15,950,209</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	567,147	2,845,981	3,413,128	2,874,475
Radiology	439,075	6,704,030	7,143,105	6,079,380
Pharmacy	1,169,570	2,347,058	3,516,628	2,777,057
Anesthesiology	98,308	1,351,047	1,449,355	507,810
Respiratory therapy	265,525	864,482	1,130,007	955,422
Electrocardiology	33,149	269,899	303,048	303,249
Cardiac rehabilitation	—	153,804	153,804	137,659
Physical therapy	257,162	2,623,447	2,880,609	2,589,503
Speech therapy	19,488	71,524	91,012	49,556
Occupational therapy	160,870	360,793	521,663	510,201
General surgery and women's clinic	<u>218,089</u>	<u>2,401,000</u>	<u>2,619,089</u>	<u>2,166,421</u>
	<u>3,228,383</u>	<u>19,993,065</u>	<u>23,221,448</u>	<u>18,950,733</u>
Totals	<u>\$9,096,303</u>	<u>\$34,450,565</u>	43,546,868	36,894,618
Charity care charges foregone, based on established rates			<u>(155,671)</u>	<u>(48,876)</u>
Total gross patient service revenue			43,391,197	36,845,742
Provisions for contractual adjustments and bad debts			<u>(12,396,594)</u>	<u>(10,009,611)</u>
Total net patient service revenue			<u>\$30,994,603</u>	<u>\$26,836,131</u>

Waverly Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contractual adjustments		
Medicare	\$ 5,924,283	\$ 4,204,534
Medicaid	1,299,614	1,199,735
Other adjustments	4,325,872	3,783,710
Provision for bad debts	<u>846,825</u>	<u>821,632</u>
 Totals	 <u>\$12,396,594</u>	 <u>\$10,009,611</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 127,566	\$ 100,921
Wellness	145,770	127,864
Retail pharmacy	1,469,835	946,240
Rental income	116,719	112,016
Miscellaneous	<u>379,401</u>	<u>327,742</u>
 Totals	 <u>\$2,239,291</u>	 <u>\$1,614,783</u>

Waverly Health Center
EXPENSES
Year ended June 30, 2007, with comparative totals for 2006

	<u>2007</u>			<u>2006</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 372,388	\$ 46,003	\$ 418,391	\$ 402,770
Medical, surgical and obstetrical	1,687,993	314,004	2,001,997	1,612,428
Nursery	122,497	1,673	124,170	119,088
Operating and recovery rooms	791,433	617,281	1,408,714	1,248,823
Delivery and labor rooms	56,645	4,593	61,238	69,973
Central supply	-	1,489,300	1,489,300	1,437,679
Emergency service	717,626	836,968	1,554,594	1,351,713
Ambulance	413,145	27,209	440,354	391,130
Hospice	25,202	-	25,202	19,082
Home health	666,441	157,367	823,808	718,251
Total nursing service	<u>4,853,370</u>	<u>3,494,398</u>	<u>8,347,768</u>	<u>7,370,937</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	625,828	1,090,393	1,716,221	1,469,489
Radiology	728,514	704,427	1,432,941	1,285,106
Pharmacy	367,354	846,505	1,213,859	1,031,639
Retail pharmacy	202,392	1,265,380	1,467,772	1,042,728
Anesthesiology	482,674	85,995	568,669	30,483
Respiratory therapy and electrocardiology	311,693	181,490	493,183	403,022
Cardiac rehabilitation	86,653	12,262	98,915	101,109
Physical therapy	-	1,738,243	1,738,243	1,635,792
Speech therapy	57,297	3,302	60,599	52,349
Occupational therapy	-	207,071	207,071	213,382
Occupational health	43,750	4,553	48,303	49,172
General surgery and women's clinic	1,420,682	295,297	1,715,979	1,295,932
Health information management	450,842	66,982	517,824	450,912
Total other professional service	<u>4,777,679</u>	<u>6,501,900</u>	<u>11,279,579</u>	<u>9,061,115</u>
GENERAL SERVICE				
Nutrition services	459,702	207,387	667,089	563,179
Plant services	380,579	854,589	1,235,168	1,365,669
Environmental services	482,923	134,063	616,986	555,067
Laundry	82,048	46,644	128,692	120,989
Total general service	<u>1,405,252</u>	<u>1,242,683</u>	<u>2,647,935</u>	<u>2,604,904</u>
FISCAL AND AMINISTRATIVE SERVICE				
Administrative services	757,600	689,160	1,446,760	1,086,185
Fiscal services	221,003	17,813	238,816	196,670
Human resources	113,287	85,533	198,820	229,975
Marketing	154,106	143,988	298,094	210,759
Business office	530,709	184,313	715,022	632,800
Data processing	99,074	146,634	245,708	233,715
Purchasing	112,243	4,361	116,604	106,602

Waverly Health Center
EXPENSES (continued)
Year ended June 30, 2007, with comparative totals for 2006

	<u>2007</u>			<u>2006</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
UNASSIGNED EXPENSES				
Health promotion	\$ 141,250	\$ 30,512	\$ 171,762	\$ 154,907
FICA	-	898,556	898,556	765,763
IPERS	-	732,899	732,899	585,389
Group health, life and other benefits	-	1,604,655	1,604,655	1,277,662
Workers compensation insurance	-	194,942	194,942	155,701
Insurance	-	<u>219,828</u>	<u>219,828</u>	<u>181,329</u>
Total fiscal and administrative service and unassigned expenses	<u>2,129,272</u>	<u>4,953,194</u>	<u>7,082,466</u>	<u>5,817,457</u>
PROVISION FOR DEPRECIATION	<u>-</u>	<u>2,399,392</u>	<u>2,399,392</u>	<u>2,261,092</u>
Total expenses	<u>\$13,165,573</u>	<u>\$18,591,567</u>	<u>\$31,757,140</u>	<u>\$27,115,505</u>

**Waverly Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	2007	2006
PATIENT DAYS		
Medical, surgical and obstetrical	3,073	2,550
Swing bed	1,120	858
Nursery	474	446
Totals	4,667	3,854
DISCHARGES		
Medical, surgical and obstetrical	1,003	851
Swing bed	179	155
Nursery	215	197
Totals	1,397	1,203
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	3.06	3.00
Swing bed	6.26	5.54
Nursery	2.20	2.26

**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, 2007, and have issued our report thereon dated August 15, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Health Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Health Center's financial statements that is more than inconsequential will not be prevented or detected by the Health Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Health Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 2007 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

West Des Moines, Iowa
August 15, 2007

**Waverly Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part I—Findings Related to the Financial Statements

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

**Waverly Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part II—Findings Related to Required Statutory Reporting

07-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

07-II-B TRAVEL EXPENSES

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

07-II-C BUSINESS TRANSACTIONS

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

07-II-D BOARD MINUTES

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

07-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.