Waverly Health Center
Waverly, Iowa

FINANCIAL REPORT

June 30, 2008

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Waverly Health Center
OFFICIALS
June 30, 2008

BOARD OF TRUSTEES	**Expiration of term**
Officers	
Susan Vallem, Chair	December 31, 2011
Gary Burke, Secretary	December 31, 2009
Members	
Roger Johnson	December 31, 2009
John Johnston	December 31, 2011
Traci Magsamen	December 31, 2011

CHIEF EXECUTIVE OFFICER

Michael Trachta

CHIEF FINANCIAL OFFICER

Lisa Bennett

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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, 2008 and 2007, 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 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, 2008 and 2007, 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 September 12, 2008 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 accounting principles generally accepted in the Untied States of America. 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

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 12, 2008

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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, 2008 and 2007. 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 $3,518,734, or 9%, to $42,857,242
- Total noncurrent assets whose use is limited decreased by $156,388 to $3,419,451
- Total property and equipment increased by $3,005,819 to $28,213,742
- Total fund equity increased by $1,810,048 to $21,507,554
- Total long-term debt increased by $1,370,411 to $18,194,086
- Net patient service revenue increased by $4,619,132, or 15%, to $35,613,735 primarily due to significant increase in ancillary revenues in 2008
- Expenses increased by $4,778,341, or 15%, to $36,535,481

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		
	2008	**2007**	**2006**
Current assets	$10,851,173	$10,144,616	$ 8,684,746
Noncurrent assets whose use is limited	3,419,451	3,575,839	4,574,266
Property and equipment	28,213,742	25,207,923	23,857,457
Other asset	372,876	410,130	447,385
Total assets	$42,857,242	$39,338,508	$37,563,854
Current liabilities	$ 5,103,378	$ 4,147,494	$ 3,429,443
Long-term debt, less current maturities	16,246,310	15,493,508	15,329,000
Total liabilities	$21,349,688	$19,641,002	$18,758,443
Invested in capital assets, net of related debt	$10,019,656	$ 8,384,248	$ 7,545,457
Restricted	1,915,238	2,021,126	1,884,331
Unrestricted	9,572,660	9,292,132	9,375,623
Total fund equity	$21,507,554	$19,697,506	$18,805,411

As depicted in Table 1, total assets increased in fiscal year 2008 to $42,857,242. The change in total assets results primarily from an increase in property and equipment due to significant equipment acquisitions during fiscal year 2008. The costs of these acquisitions were partially funded by issuance of long-term debt.

A summary of the Health Center's statements of 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		
	2008	**2007**	**2006**
Net patient service revenue	$35,613,735	$30,994,603	$26,836,131
Other revenue	2,581,792	2,239,291	1,614,783
Total operating revenue	38,195,527	33,233,894	28,450,914
Salaries	15,572,353	13,165,573	10,914,425
Supplies and expenses	18,392,876	16,192,175	13,939,988
Provision for depreciation	2,570,252	2,399,392	2,261,092
Total expenses	36,535,481	31,757,140	27,115,505
Operating income	1,660,046	1,476,754	1,335,409
Investment income	235,133	258,057	81,666
Unrestricted contributions	30,793	2,968	3,753
Interest and amortization expense	(926,622)	(887,689)	(828,496)
Transfer from related foundation	810,698	42,005	810,077
Total nonoperating gains (losses)	150,002	(584,659)	67,000
Change in fund equity	1,810,048	892,095	1,402,409
Total fund equity, beginning	19,697,506	18,805,411	17,403,002
Total fund equity, ending	$21,507,554	$19,697,506	$18,805,411

Operating and Financial Performance

The following summarizes the Health Center's statement of revenue, expenses and changes in fund equity between June 30, 2008 and 2007.

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 2008 were 1,152 compared to 1,003 in fiscal year 2007. Average length of stay decreased slightly as patient days increased to 3,266 from 3,073 in 2007. Volume on the outpatient side also indicated significant positive growth in 2008. In 2008, gross outpatient charges increased to $41,304,920 compared to $34,450,565 in 2007. Operating and recovery rooms, emergency service, radiology, laboratory, and clinics reflected departments with the most significant growth in 2008.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2008. Overall, gross patient service revenue increased to $51,558,983 from $43,546,868 in 2007.

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 $15,734,361 in 2008 from $12,396,594 in 2007. This represents 31% and 29% of gross patient charges for 2008 and 2007, respectively.

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		
	2008	2007	2006
Medicare	40%	42%	42%
Medicaid	5	5	6
Commercial insurance	49	48	48
Patients	6	5	4
Totals	100%	100%	100%

Other Revenue

Other revenue increased to $2,581,792 in 2008 compared to $2,239,291 in 2007, primarily due to an increase in retail pharmacy.

Expenses

Approximately 43% of Health Center's expenses are for salaries. Total salaries increased by 18% to $15,572,353 in 2008 from $13,165,573 in 2007. The Health Center departments experiencing the most significant increase in 2008 included medical, surgical and obstetrical, emergency service, ambulance, clinics, business office and data processing.

Approximately 50% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 14% to $18,392,876 in 2008 from $16,192,175 in 2007. The most significant increase related to clinics, administrative services and data processing.

Approximately 7% of Health Center's expenses relate to provision for depreciation. This provision for depreciation increased to $2,570,252 in 2008 from $2,399,392 in 2007.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to $150,002 from $(584,659) in 2007, primarily due to a significant increase in transfer from related foundation.

Property and Equipment

At the end of 2008, the Health Center had $28,213,742 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 2008, $5,576,071 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		
	2008	**2007**	**2006**
Land	$ 2,114,243	$ 1,947,993	$ 1,039,243
Land improvements	2,165,128	1,992,624	1,961,537
Buildings	6,390,708	6,142,647	6,107,054
Fixed equipment	17,396,647	16,183,314	15,671,999
Major movable equipment	14,463,717	10,687,794	8,441,759
Subtotal	42,530,443	36,954,372	33,221,592
Less accumulated depreciation	(14,316,701)	(11,746,449)	(9,364,135)
Property and equipment	$28,213,742	$25,207,923	$23,857,457

Debt Administration

At year end, the Health Center had a combined $14,245,000 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 2008, 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. The Notes represent 67% of the Health Center's total liabilities as of year end.

At year end, the Health Center had $66,000 in current and long-term loan payable. This has decreased $33,000 in fiscal year 2008, which was the required amount of principal payment on the outstanding note and loan for fiscal year 2008. More detailed information about the Health Center's loan payable is presented in the Notes to Financial Statements. The loan payable represents less than 1% of the Health Center's total liabilities as of year end.

At year end, the Health Center had $3,883,086 in current and long-term notes payable. This increased in fiscal year 2008 as the Health Center entered into three note agreements to finance the purchase of certain equipment. More detailed information about the Health Center's notes payable is presented in the Notes to Financial Statements. The notes payable represent 18% 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

ASSETS	June 30 2008	June 30 2007
CURRENT ASSETS		
Cash	$ 634,682	$ 1,799,585
Assets whose use is limited-required for current liabilities	1,077,808	1,391,043
Patient receivables, less allowances for contractual adjustments and bad debts	8,080,108	5,678,137
Other receivables	66,719	69,910
Inventories	663,300	624,675
Prepaid expenses	328,556	581,266
Total current assets	10,851,173	10,144,616
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,500,334	968,937
Certificates of deposit	1,071,107	2,072,415
Interest receivable	10,580	24,972
	2,582,021	3,066,324
Restricted for payment of long-term debt and interest		
Cash	198,582	183,902
Certificates of deposit	215,000	215,000
U.S. Government securities	1,501,656	1,501,656
Total assets whose use is limited	4,497,259	4,966,882
Less assets whose use is limited and that are required for current liabilities	1,077,808	1,391,043
Noncurrent assets whose use is limited	3,419,451	3,575,839
PROPERTY AND EQUIPMENT	42,530,443	36,954,372
Less accumulated depreciation	14,316,701	11,746,449
Total property and equipment	28,213,742	25,207,923
OTHER ASSET		
Unamortized financing costs	372,876	410,130
Totals	$42,857,242	$39,338,508

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	June 30 2008	June 30 2007
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 1,947,776	$ 1,330,167
Accounts payable	1,281,105	866,316
Accrued employee compensation	1,391,108	1,063,375
Payroll taxes and amounts withheld from employees	425,581	326,760
Accrued interest	57,808	60,876
Estimated third-party payor settlements	–	500,000
Total current liabilities	5,103,378	4,147,494
LONG-TERM DEBT, less current maturities	16,246,310	15,493,508
FUND EQUITY		
Invested in capital assets, net of related debt	10,019,656	8,384,248
Restricted	1,915,238	2,021,126
Unrestricted	9,572,660	9,292,132
Total fund equity	21,507,554	19,697,506
Totals	$42,857,242	$39,338,508

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

	Year ended June 30	
	2008	**2007**
NET PATIENT SERVICE REVENUE, net of provision for bad debts 2008 $1,186,001; 2007 $846,825	$35,613,735	$30,994,603
OTHER REVENUE	2,581,792	2,239,291
Total revenue	38,195,527	33,233,894
EXPENSES		
Nursing service	9,570,664	8,347,768
Other professional service	12,580,105	11,279,579
General service	2,980,714	2,647,935
Fiscal and administrative service and unassigned expenses	8,833,746	7,082,466
Provision for depreciation	2,570,252	2,399,392
Total expenses	36,535,481	31,757,140
Operating income	1,660,046	1,476,754
NONOPERATING GAINS (LOSSES)		
Investment income	235,133	258,057
Unrestricted contributions	30,793	2,968
Interest and amortization expense	(926,622)	(887,689)
Transfer from related foundation	810,698	42,005
Total nonoperating gains (losses)	150,002	(584,659)
Change in fund equity	1,810,048	892,095
TOTAL FUND EQUITY		
Beginning	19,697,506	18,805,411
Ending	$21,507,554	$19,697,506

See Notes to Financial Statements.

Waverly Health Center
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$32,714,955	$30,794,658
Cash paid to suppliers for goods and services	(17,810,769)	(16,213,473)
Cash paid to employees for services	(15,099,032)	(13,106,660)
Other operating revenue received	2,581,792	2,239,291
Net cash provided by operating activities	2,386,946	3,713,816
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted contributions received	30,793	2,968
Transfer from related foundation	810,698	42,005
Net cash provided by noncapital financing activities	841,491	44,973
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(5,576,071)	(3,749,858)
Proceeds from issuance of long-term debt	2,934,167	1,714,650
Interest paid on long-term debt	(892,436)	(853,141)
Principal payments on long-term debt	(1,563,756)	(1,202,975)
Net cash (used in) capital and related financing activities	(5,098,096)	(4,091,324)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(612,203)	(1,351,255)
Proceeds from maturities of investments	1,613,511	1,511,103
Interest received	249,525	255,633
Net cash provided by investing activities	1,250,833	415,481
NET INCREASE (DECREASE) IN CASH	(618,826)	82,946
CASH		
Beginning	2,952,424	2,869,478
Ending	$ 2,333,598	$ 2,952,424

See Notes to Financial Statements.

Waverly Health Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2008	**2007**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 1,660,046	$ 1,476,754
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,570,252	2,399,392
Changes in assets and liabilities		
(Increase) in patient receivables	(2,401,971)	(649,945)
(Increase) decrease in other receivables	3,191	(50,288)
(Increase) in inventories	(38,625)	(59,611)
(Increase) decrease in prepaid expenses	252,710	(376,077)
Increase in accounts payable	414,789	192,513
Increase in accrued employee compensation	327,733	58,913
Increase in payroll taxes and amounts withheld from employees	98,821	272,165
Increase (decrease) in estimated third-party payor settlements	(500,000)	450,000
Net cash provided by operating activities	$ 2,386,946	$ 3,713,816
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	$ 634,682	$ 1,799,585
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,500,334	968,937
Restricted for payment of long-term debt and interest, cash	198,582	183,902
Total per statement of cash flows	$ 2,333,598	$ 2,952,424

See 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.

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:

Type	Method
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 issues, 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

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

Unrestricted fund equity has no externally imposed restrictions on use.

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, 2008 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, 2008 are as follows:

	Fair value	Maturity
U.S. Government Agency securities	$1,501,656	November, 2008

As to interest rate risk, the Health Center'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 Health Center.

NOTE 3 PATIENT RECEIVABLES

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

	Year ended June 30	
	2008	2007
Medicare	$ 2,832,846	$2,379,196
Medicaid	489,748	239,743
Commercial insurance	4,348,831	2,707,641
Patients	2,918,683	2,431,557
Total patient receivables	10,590,108	7,758,137
Less allowance for contractual adjustments and bad debts	(2,510,000)	(2,080,000)
Net patient receivables	$ 8,080,108	$5,678,137

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, 2008:

	Sinking Funds	Debt Reserve Funds	Total
BALANCE, beginning of year	$ 183,902	$1,716,656	$1,900,558
Transfer from current assets, cash	1,730,192	–	1,730,192
Principal and interest payments	(1,715,512)	–	(1,715,512)
BALANCE, end of year	$ 198,582	$1,716,656	$1,915,238

NOTE 5 PROPERTY AND EQUIPMENT

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

	June 30, 2008		June 30, 2007	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 2,114,243	$ –	$ 1,947,993	$ –
Land improvements	2,165,128	685,906	1,992,627	565,684
Buildings	6,390,708	1,376,197	6,142,641	1,184,454
Fixed equipment	17,396,647	5,578,526	16,183,317	4,568,242
Major movable equipment	14,463,717	6,676,072	10,687,794	5,428,069
Totals	$42,530,443	$14,316,701	$36,954,372	$11,746,449

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2008 follows:

	Beginning balance	Additions	Deletions	Ending balance
Land	$ 1,947,993	$ 166,250	$ –	$ 2,114,243
Land improvements	1,992,624	172,504	–	2,165,128
Buildings	6,142,647	248,061	–	6,390,708
Fixed equipment	16,183,314	1,213,333	–	17,396,647
Major movable equipment	10,687,794	3,775,923	–	14,463,717
Totals	36,954,372	5,576,071	–	42,530,443
Less accumulated depreciation	(11,746,449)	(2,570,252)	–	(14,316,701)
Net property and equipment	$25,207,923	$3,005,819	$ –	$28,213,742

Included within major movable equipment additions for the year ended June 30, 2008 is hardware, software and related installation costs of approximately $3,000,000 relating to computer system upgrade and conversion costs. The computer system will be placed in service and depreciated beginning in the June 30, 2009 fiscal year end.

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

	Beginning balance	Additions	Deletions	Ending balance
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	8,441,759	2,265,119	(19,084)	10,687,794
Totals	33,221,592	3,751,864	(19,084)	36,954,372
Less accumulated depreciation	(9,364,135)	(2,399,392)	17,078	(11,746,449)
Net property and equipment	$23,857,457	$1,352,472	$ (2,006)	$25,207,923

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	Year ended June 30	
	2008	2007
Hospital Revenue Capital Loan Notes, Series 2004	$ 5,380,000	$ 5,595,000
Hospital Revenue Capital Loan Notes, Series 2003	7,540,000	8,130,000
Hospital Revenue Capital Loan Notes, Series 1999	1,325,000	1,505,000
Notes payable, equipment	3,883,086	1,494,675
Loan	66,000	99,000
Total	18,194,086	16,823,675
Less current maturities	1,947,776	1,330,167
Long-term debt, net of current maturities	$16,246,310	$15,493,508

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 3.3% to 4.9%. At June 30, 2008, the remaining balance on these Notes is $5,380,000.

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 2009 $465,371; 2010 $463,221; 2011 $465,346; 2012 $466,534; 2013 $461,734.

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, 2008.

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 3.9% to 5.5%. At June 30, 2008, the remaining balance on these Notes is $7,540,000.

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 2009 $983,625; 2010 $984,835; 2011 $983,165; 2012 $983,465; 2013 $985,345.

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, 2008.

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

NOTE 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 5.5% to 5.8%. At June 30, 2008, the remaining balance on these Notes is $1,325,000.

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 2009 $264,695; 2010 $264,245; 2011 $268,145; 2012 $266,105; 2013 $268,392.

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, 2008.

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.

As to the above Notes, Series 2004, 2003 and 1999, the Health Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Notes were issued to finance capital improvements of the Health Center. The net revenues are pledged through June, 2019. As of June 30, 2008 the remaining principal and interest on the Series 2004, 2003 and 1999 Notes was $18,858,736. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2008 and 2007:

	Year ended June 30	
	2008	2007
Change in fund equity	$1,810,048	$ 892,095
Provision for depreciation	2,570,252	2,399,392
Interest expense on the Notes	727,443	760,285
Pledged net revenues	$5,107,743	$4,051,772
Principal and interest requirements		
Hospital Revenue Capital Loan Notes, Series 2004	$ 466,821	$ 462,356
Hospital Revenue Capital Loan Notes, Series 2003	984,275	981,945
Hospital Revenue Capital Loan Notes, Series 1999	264,415	268,690
Totals	$1,715,511	$1,712,991

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, 2008, the remaining balance on this loan is $66,000.

NOTE 6 LONG-TERM DEBT (continued)

Notes Payable, Equipment

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, 2008, the remaining balance on this note is $682,749.

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, 2008, the remaining balance on this note is $499,758.

The Health Center has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of $49,415, including interest at 4.99%, with the final payment due March, 2013. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2008, the remaining balance on this note is $2,435,863.

The Health Center has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of $2,950, including interest at 4.6%, with the final payment due November, 2012. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2008, the remaining balance on this note is $145,032.

The Health Center has a fifth note agreement to finance the purchase of certain equipment. The note requires monthly payments of $4,398, including interest at 5%, with the final payment due November, 2010. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2008, the remaining balance on this note is $119,684.

Maturities required on long-term debt are as follows:

Year ending June 30	Capital Loan Notes	Loan	Notes payable	Total principal	Interest	Total
2009	$ 1,020,000	$ 33,000	$ 894,776	$ 1,947,776	$ 884,526	$ 2,832,302
2010	1,060,000	33,000	952,226	2,045,226	798,501	2,843,727
2011	1,110,000	–	973,077	2,083,077	692,471	2,775,548
2012	1,160,000	–	694,902	1,854,902	591,769	2,446,671
2013	1,215,000	–	368,105	1,583,105	506,776	2,089,881
2014-2018	6,425,000	–	–	6,425,000	1,524,807	7,949,807
2019	2,255,000	–	–	2,255,000	79,706	2,334,706
Total	14,245,000	66,000	3,883,086	18,194,086	5,078,556	23,272,642
Less current maturities	1,020,000	33,000	894,776	1,947,776	884,526	2,832,302
Total long-term debt	$13,225,000	$ 33,000	$2,988,310	$16,246,310	$4,194,030	$20,440,340

A summary of changes in long-term debt for the year ended June 30, 2008 follows:

	Beginning balance	Additions	Deletions	Ending balance	Amount due within one year
Hospital Revenue Capital Loan Notes					
Series 2004	$ 5,595,000	$ –	$ 215,000	$ 5,380,000	$ 220,000
Series 2003	8,130,000	–	590,000	7,540,000	610,000
Series 1999	1,505,000	–	180,000	1,325,000	190,000
Loan	99,000	–	33,000	66,000	33,000
Notes payable	1,494,675	2,934,167	545,756	3,883,086	894,776
Totals	$16,823,675	$2,934,167	$1,563,756	$18,194,086	$1,947,776

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2007 follows:

	Beginning balance	Additions	Deletions	Ending balance	Amount due within one year
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	–	1,714,650	219,975	1,494,675	312,167
Totals	$16,312,000	$1,714,650	$1,202,975	$16,823,675	$1,330,167

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, 2006.

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.

For the year ended June 30, 2008, plan members were required to contribute 3.90% of their annual salary and the Health Center is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were $896,910, $732,899 and $585,389, 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, 2008 and 2007.

	2008	2007
Charges foregone, based on established rates	$ 210,887	$ 155,671
Equivalent percentage of charity care patients to all patients served	.4%	.4%

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, 2008 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.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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 2008 and 2007 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
September 12, 2008

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Waverly Health Center
ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2008	Amounts June 30 2007	Percent to total June 30 2008	Percent to total June 30 2007
0 - 30 days (includes patients in Health Center at end of year)	$ 4,572,488	$3,785,165	43.18%	48.79%
31 - 60 days	2,599,832	1,459,839	24.55	18.82
61 - 90 days	1,181,635	587,340	11.16	7.57
91 - 120 days	538,291	402,731	5.08	5.19
121 - 365 days	1,198,155	1,146,693	11.31	14.78
Over one year	499,707	376,369	4.72	4.85
Totals	10,590,108	7,758,137	100.00%	100.00%
Allowances				
Contractual				
Medicare	900,000	900,000		
Medicaid	230,000	160,000		
Other	640,000	400,000		
Bad debts	740,000	620,000		
Total allowances	2,510,000	2,080,000		
Totals	$ 8,080,108	$5,678,137		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	$ 97,305	$ 84,917		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	83	67		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	Amounts Year ended June 30 2008	Amounts Year ended June 30 2007	Percent of net patient service revenue Year ended June 30 2008	Percent of net patient service revenue Year ended June 30 2007
BALANCE, beginning	$ 620,000	$ 620,000		
ADD				
Provision for bad debts	1,186,001	846,825	3.33%	2.73%
Recoveries of accounts previously written off	307,137	291,417	.86	.94
	2,113,138	1,758,242		
DEDUCT				
Accounts written off	1,373,138	1,138,242	3.86	3.67
BALANCE, ending	$ 740,000	$ 620,000		

Waverly Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2008, with comparative totals for 2007

	2008			2007
	Inpatient	Outpatient	Total	Total
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	$ 2,808,984	$ –	$ 2,808,984	$ 2,353,944
Swing bed	430,768	–	430,768	448,000
Nursery	496,169	–	496,169	365,478
	3,735,921	–	3,735,921	3,167,422
OTHER NURSING SERVICES				
Observation room	–	758,356	758,356	509,363
Operating and recovery rooms	1,997,423	8,018,684	10,016,107	6,953,350
Delivery and labor rooms	352,928	–	352,928	227,492
Central supply	512,021	912,871	1,424,892	3,112,854
Emergency service	171,193	4,819,711	4,990,904	4,202,093
Ambulance	–	1,056,379	1,056,379	926,152
Hospice	75,670	–	75,670	74,470
Home health	–	1,182,157	1,182,157	1,152,224
	3,109,235	16,748,158	19,857,393	17,157,998
OTHER PROFESSIONAL SERVICES				
Laboratory	706,313	3,568,788	4,275,101	3,413,128
Radiology	527,788	8,475,789	9,003,577	7,143,105
Pharmacy	1,315,226	2,378,941	3,694,167	3,516,628
Anesthesiology	100,652	1,599,427	1,700,079	1,449,355
Respiratory therapy	319,224	1,116,461	1,435,685	1,130,007
Electrocardiology	34,202	369,801	404,003	303,048
Cardiac rehabilitation	–	247,680	247,680	153,804
Physical therapy	252,805	2,775,321	3,028,126	2,880,609
Speech therapy	24,273	56,913	81,186	91,012
Occupational therapy	128,424	242,666	371,090	521,663
Clinics	–	3,701,747	3,701,747	2,619,089
Medical spa	–	23,228	23,228	–
	3,408,907	24,556,762	27,965,669	23,221,448
Totals	$10,254,063	$41,304,920	51,558,983	43,546,868
Charity care charges foregone, based on established rates			(210,887)	(155,671)
Total gross patient service revenue			51,348,096	43,391,197
Provisions for contractual adjustments and bad debts			(15,734,361)	(12,396,594)
Total net patient service revenue			$35,613,735	$30,994,603

Waverly Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	2008	2007
Contractual adjustments		
Medicare	$ 7,300,022	$ 5,924,283
Medicaid	1,646,922	1,299,614
Other adjustments	5,601,416	4,325,872
Provision for bad debts	1,186,001	846,825
Totals	$15,734,361	$12,396,594

OTHER REVENUE

	Year ended June 30	
	2008	2007
Cafeteria	$ 152,963	$ 127,566
Wellness	127,373	145,770
Retail pharmacy	1,685,534	1,469,835
Rental income	115,540	116,719
Miscellaneous	500,382	379,401
Totals	$2,581,792	$2,239,291

Waverly Health Center
EXPENSES
Year ended June 30, 2008, with comparative totals for 2007

	2008			2007
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	$ 468,621	$ 66,669	$ 535,290	$ 418,391
Medical, surgical and obstetrical	1,907,678	303,318	2,210,996	2,001,997
Nursery	175,158	119	175,277	124,170
Operating and recovery rooms	878,488	792,120	1,670,608	1,408,714
Delivery and labor rooms	81,381	4,808	86,189	61,238
Central supply	–	1,369,766	1,369,766	1,489,300
Emergency service	1,236,713	707,996	1,944,709	1,554,594
Ambulance	549,592	70,498	620,090	440,354
Hospice	17,821	–	17,821	25,202
Home health	738,289	201,629	939,918	823,808
Total nursing service	6,053,741	3,516,923	9,570,664	8,347,768
OTHER PROFESSIONAL SERVICE				
Laboratory	723,054	1,133,428	1,856,482	1,716,221
Radiology	781,361	636,106	1,417,467	1,432,941
Pharmacy	407,877	1,042,056	1,449,933	1,213,859
Retail pharmacy	214,346	1,392,595	1,606,941	1,467,772
Anesthesiology	542,365	101,450	643,815	568,669
Respiratory therapy and electrocardiology	334,435	215,783	550,218	493,183
Cardiac rehabilitation	91,447	25,160	116,607	98,915
Physical therapy	–	1,845,299	1,845,299	1,738,243
Speech therapy	60,884	3,152	64,036	60,599
Occupational therapy	–	153,482	153,482	207,071
Occupational health	47,139	7,847	54,986	48,303
Clinics	1,617,576	558,838	2,176,414	1,715,979
Medical spa	15,323	59,559	74,882	–
Health information management	501,557	67,986	569,543	517,824
Total other professional service	5,337,364	7,242,741	12,580,105	11,279,579
GENERAL SERVICE				
Nutrition services	496,516	225,197	721,713	667,089
Plant services	405,765	1,003,697	1,409,462	1,235,168
Environmental services	532,843	180,045	712,888	616,986
Laundry	85,952	50,699	136,651	128,692
Total general service	1,521,076	1,459,638	2,980,714	2,647,935
FISCAL AND AMINISTRATIVE SERVICE				
Administrative services	793,381	1,035,945	1,829,326	1,446,760
Fiscal services	287,380	9,380	296,760	238,816
Human resources	158,954	94,660	253,614	198,820
Marketing	159,467	176,038	335,505	298,094
Business office	751,950	275,036	1,026,986	715,022
Data processing	232,804	512,942	745,746	245,708
Purchasing	122,131	1,898	124,029	116,604

Waverly Health Center
EXPENSES (continued)
Year ended June 30, 2008, with comparative totals for 2007

	2008			2007
	Salaries	Other	Total	Total
UNASSIGNED EXPENSES				
Health promotion	$ 154,105	$ 31,063	$ 185,168	$ 171,762
FICA	–	1,059,253	1,059,253	898,556
IPERS	–	896,910	896,910	732,899
Group health, life and other benefits	–	1,672,380	1,672,380	1,604,655
Workers compensation insurance	–	171,921	171,921	194,942
Insurance	–	236,148	236,148	219,828
Total fiscal and administrative service and unassigned expenses	2,660,172	6,173,574	8,833,746	7,082,466
PROVISION FOR DEPRECIATION	–	2,570,252	2,570,252	2,399,392
Total expenses	$15,572,353	$20,963,128	$36,535,481	$31,757,140

Waverly Health Center
COMPARATIVE STATISTICS

	Year ended June 30	
	2008	**2007**
PATIENT DAYS		
Medical, surgical and obstetrical	3,266	3,073
Swing bed	988	1,120
Nursery	583	474
Totals	4,837	4,667
DISCHARGES		
Medical, surgical and obstetrical	1,152	1,003
Swing bed	146	179
Nursery	268	215
Totals	1,566	1,397
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.84	3.06
Swing bed	6.77	6.26
Nursery	2.18	2.20

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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, 2008, and have issued our report thereon dated September 12, 2008. 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.

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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, 2008 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
September 12, 2008

Waverly Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2008

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, 2008

Part II—Findings Related to Required Statutory Reporting

08-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

08-II-B TRAVEL EXPENSES

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

08-II-C BUSINESS TRANSACTIONS

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

08-II-D BOARD MINUTES

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

08-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.