

**Waverly Health Center  
Waverly, Iowa**

**FINANCIAL REPORT**

**June 30, 2009**

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**Waverly Health Center  
OFFICIALS  
June 30, 2009**

**BOARD OF TRUSTEES**

**Expiration of term**

**Officers**

Susan Vallem, Chair  
Gary Burke, Secretary

December 31, 2011  
December 31, 2009

**Members**

Roger Johnson  
John Johnston  
Jennifer Seward

December 31, 2009  
December 31, 2011  
December 31, 2011

**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, 2009 and 2008, 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, 2009 and 2008, 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 November 11, 2009 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 United 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**

West Des Moines, Iowa  
November 11, 2009

**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, 2009 and 2008. 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 decreased by \$545,413, or 1%, to \$42,311,829.
- Total noncurrent assets whose use is limited decreased by \$29,375 to \$3,390,076.
- Total property and equipment decreased by \$1,986,434 to \$26,227,308.
- Total fund equity increased by \$955,048 to \$22,462,602.
- Total long-term debt decreased by \$2,172,930 to \$16,021,156.
- Net patient service revenue increased by \$2,050,491, or 6%, to \$37,664,226.
- Expenses increased by \$2,004,565, or 5%, to \$38,540,046.

**Financial Analysis of the Health Center**

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

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

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

	<b>June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Current assets	\$12,358,824	\$10,851,173	\$10,144,616
Noncurrent assets whose use is limited	3,390,076	3,419,451	3,575,839
Property and equipment	26,227,308	28,213,742	25,207,923
Other asset	<u>335,621</u>	<u>372,876</u>	<u>410,130</u>
Total assets	<u>\$42,311,829</u>	<u>\$42,857,242</u>	<u>\$39,338,508</u>
Current liabilities	\$ 5,854,179	\$ 5,103,378	\$ 4,147,494
Long-term debt, less current maturities	<u>13,995,048</u>	<u>16,246,310</u>	<u>15,493,508</u>
Total liabilities	<u>\$19,849,227</u>	<u>\$21,349,688</u>	<u>\$19,641,002</u>
Invested in capital assets, net of related debt	\$10,206,152	\$10,019,656	\$ 8,384,248
Restricted	1,928,634	1,915,238	2,021,126
Unrestricted	<u>10,327,816</u>	<u>9,572,660</u>	<u>9,292,132</u>
Total fund equity	<u>\$22,462,602</u>	<u>\$21,507,554</u>	<u>\$19,697,506</u>

As depicted in Table 1, total assets decreased in fiscal year 2009 to \$42,311,829. The change in total assets results primarily from a decrease in property and equipment due to depreciation in excess of equipment acquisitions during fiscal year 2009.

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**

	<b>Year ended June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net patient service revenue	\$37,664,226	\$35,613,735	\$30,994,603
Other revenue	<u>2,654,378</u>	<u>2,581,792</u>	<u>2,239,291</u>
Total operating revenue	<u>40,318,604</u>	<u>38,195,527</u>	<u>33,233,894</u>
Salaries	18,164,538	15,572,353	13,165,573
Supplies and expenses	17,811,199	18,392,876	16,192,175
Provision for depreciation	<u>2,564,309</u>	<u>2,570,252</u>	<u>2,399,392</u>
Total expenses	<u>38,540,046</u>	<u>36,535,481</u>	<u>31,757,140</u>
Operating income	<u>1,778,558</u>	<u>1,660,046</u>	<u>1,476,754</u>
Investment income	159,356	235,133	258,057
Unrestricted contributions	80,947	30,793	2,968
Interest and amortization expense	(921,330)	(926,622)	(887,689)
Loss on disposal of assets	(292,000)	-	-
Transfer from related foundation	<u>149,517</u>	<u>810,698</u>	<u>42,005</u>
Total nonoperating gains (losses)	<u>(823,510)</u>	<u>150,002</u>	<u>(584,659)</u>
Change in fund equity	955,048	1,810,048	892,095
Total fund equity, beginning	<u>21,507,554</u>	<u>19,697,506</u>	<u>18,805,411</u>
Total fund equity, ending	<u>\$22,462,602</u>	<u>\$21,507,554</u>	<u>\$19,697,506</u>

## **Operating and Financial Performance**

The following summarizes the Health Center's statement of revenue, expenses and changes in fund equity between June 30, 2009 and 2008.

**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 2009 were 974 compared to 1,152 in fiscal year 2008. Average length of stay decreased slightly as patient days decreased to 2,650 from 3,266 in 2008. Volume on the outpatient side also indicated significant positive growth in 2009. In 2009, gross outpatient charges increased to \$44,183,522 compared to \$41,304,920 in 2008. Radiology, laboratory, and clinics were the departments with the most significant growth in 2009.

**Price Increase:** As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2009. Overall, gross patient service revenue increased to \$52,190,905 from \$51,348,096 in 2008.

**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 decreased to \$14,526,679 in 2009 from \$15,734,361 in 2008. This represents 28% and 31% of gross patient charges for 2009 and 2008, 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**

	<b>Year ended June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Medicare	37%	40%	42%
Medicaid	6	5	5
Commercial insurance	51	49	48
Patients	<u>6</u>	<u>6</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

## **Other Revenue**

Other revenue increased to \$2,654,378 in 2009 compared to \$2,581,792 in 2008, primarily due to an increase in retail pharmacy.

## **Expenses**

Approximately 47% of Health Center's expenses are for salaries. Total salaries increased by 17% to \$18,164,538 in 2009 from \$15,572,353 in 2008. The Health Center departments experiencing the most significant increase in 2009 included emergency service, clinics, and data processing.

Approximately 46% of Health Center's expenses are for supplies and expenses. Total supplies and expenses decreased by 3% to \$17,811,199 in 2009 from \$18,392,876 in 2008. The most significant decrease related to central supply, emergency service and pharmacy.

Approximately 7% of Health Center's expenses relate to provision for depreciation. This provision for depreciation decreased slightly to \$2,564,309 in 2009 from \$2,570,252 in 2008.

### **Nonoperating Gains (Losses)**

Nonoperating gains (losses) decreased to a \$823,510 loss in 2009 from a \$150,002 gain in 2008, primarily due to a significant decrease in transfer from related foundation.

### **Property and Equipment**

At the end of 2009, the Health Center had \$26,227,308 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 2009, \$870,376 was spent to acquire new equipment.

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

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

	<b>June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Land	\$ 2,131,302	\$ 2,114,243	\$ 1,947,993
Land improvements	2,165,128	2,165,128	1,992,624
Buildings	6,064,811	6,390,708	6,142,647
Fixed equipment	17,438,470	17,396,647	16,183,314
Major movable equipment	<u>15,184,635</u>	<u>14,463,717</u>	<u>10,687,794</u>
Subtotal	42,984,346	42,530,443	36,954,372
Less accumulated depreciation	<u>(16,757,038)</u>	<u>(14,316,701)</u>	<u>(11,746,449)</u>
Property and equipment	<u>\$26,227,308</u>	<u>\$28,213,742</u>	<u>\$25,207,923</u>

### **Debt Administration**

At year end, the Health Center had a combined \$13,225,000 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 2009, 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 a \$33,000 loan payable due in 2010. This has decreased \$33,000 in fiscal year 2009, which was the required amount of principal payment on the outstanding note and loan for fiscal year 2009. 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 \$2,763,156 in current and long-term notes payable. This has decreased \$1,119,930 in fiscal year 2009, which was the required amount of principal payment on the outstanding notes payable for the fiscal year 2009. More detailed information about the Health Center's notes payable is presented in the Notes to Financial Statements. The notes payable represent 14% of the Health Center's total liabilities at year end.

### **Contacting Waverly Health Center's Management**

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

**Waverly Health Center  
BALANCE SHEETS**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 839,033	\$ 634,682
Assets whose use is limited-required for current liabilities	1,114,359	1,077,808
Patient receivables, less allowances for contractual adjustments and bad debts	7,736,336	8,080,108
Other receivables	664,063	66,719
Estimated third-party payor settlements	500,000	-
Inventories	1,318,733	663,300
Prepaid expenses	186,300	328,556
Total current assets	<u>12,358,824</u>	<u>10,851,173</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	2,316,878	1,500,334
Certificates of deposit	252,953	1,071,107
Interest receivable	5,970	10,580
	<u>2,575,801</u>	<u>2,582,021</u>
Restricted for payment of long-term debt and interest		
Cash	211,978	198,582
Certificates of deposit	1,716,656	215,000
U.S. Government securities	-	1,501,656
Total assets whose use is limited	<u>4,504,435</u>	<u>4,497,259</u>
Less assets whose use is limited and that are required for current liabilities	<u>1,114,359</u>	<u>1,077,808</u>
Noncurrent assets whose use is limited	<u>3,390,076</u>	<u>3,419,451</u>
<b>PROPERTY AND EQUIPMENT</b>		
	42,984,346	42,530,443
Less accumulated depreciation	<u>16,757,038</u>	<u>14,316,701</u>
Total property and equipment	<u>26,227,308</u>	<u>28,213,742</u>
<b>OTHER ASSET</b>		
Unamortized financing costs	<u>335,621</u>	<u>372,876</u>
Totals	<u>\$42,311,829</u>	<u>\$42,857,242</u>

See Notes to Financial Statements.

		<u>June 30</u>	
<b>LIABILITIES AND FUND EQUITY</b>		<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 2,026,108	\$ 1,947,776
Accounts payable		1,699,023	1,281,105
Accrued employee compensation		1,613,664	1,391,108
Payroll taxes and amounts withheld from employees		461,025	425,581
Accrued interest		54,359	57,808
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
<b>LONG-TERM DEBT, less current maturities</b>			
<b>FUND EQUITY</b>			
Invested in capital assets, net of related debt		10,206,152	10,019,656
Restricted		1,928,634	1,915,238
Unrestricted		<u>10,327,816</u>	<u>9,572,660</u>
Total fund equity		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
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		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
		<u>1,928,634</u>	<u>1,915,238</u>
		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
		<u>1,928,634</u>	<u>1,915,238</u>
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		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
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		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
		<u>1,928,634</u>	<u>1,915,238</u>
		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
		<u>1,928,634</u>	<u>1,915,238</u>
		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
		<u>1,928,634</u>	<u>1,915,238</u>
		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,462,602</u>	<u>21,507,554</u>
		<u>5,854,179</u>	<u>5,103,378</u>
		<u>13,995,048</u>	<u>16,246,310</u>
		<u>10,206,152</u>	<u>10,019,656</u>
		<u>1,928,634</u>	<u>1,915,238</u>
		<u>10,327,816</u>	<u>9,572,660</u>
		<u>22,46</u>	

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

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2009 \$1,184,112; 2008 \$1,186,001	\$37,664,226	\$35,613,735
<b>OTHER REVENUE</b>	<u>2,654,378</u>	<u>2,581,792</u>
Total revenue	<u>40,318,604</u>	<u>38,195,527</u>
<b>EXPENSES</b>		
Nursing service	9,371,841	9,570,664
Other professional service	13,637,521	12,580,105
General service	2,976,310	2,980,714
Fiscal and administrative service and unassigned expenses	9,990,065	8,833,746
Provision for depreciation	<u>2,564,309</u>	<u>2,570,252</u>
Total expenses	<u>38,540,046</u>	<u>36,535,481</u>
Operating income	<u>1,778,558</u>	<u>1,660,046</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment income	159,356	235,133
Unrestricted contributions	80,947	30,793
Interest and amortization expense	(921,330)	(926,622)
Loss on disposal of assets	(292,000)	-
Transfer from related foundation	<u>149,517</u>	<u>810,698</u>
Total nonoperating gains (losses)	<u>(823,510)</u>	<u>150,002</u>
Change in fund equity	955,048	1,810,048
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>21,507,554</u>	<u>19,697,506</u>
Ending	<u>\$22,462,602</u>	<u>\$21,507,554</u>

**Waverly Health Center  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$37,507,998	\$32,714,955
Cash paid to suppliers for goods and services	(18,468,358)	(17,810,769)
Cash paid to employees for services	(17,941,982)	(15,099,032)
Other operating revenue received	<u>2,654,378</u>	<u>2,581,792</u>
Net cash provided by operating activities	<u>3,752,036</u>	<u>2,386,946</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Unrestricted contributions received	80,947	30,793
Transfer from related foundation	<u>149,517</u>	<u>810,698</u>
Net cash provided by noncapital financing activities	<u>230,464</u>	<u>841,491</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(869,875)	(5,576,071)
Proceeds from issuance of long-term debt	-	2,934,167
Interest paid on long-term debt	(887,524)	(892,436)
Principal payments on long-term debt	<u>(2,172,930)</u>	<u>(1,563,756)</u>
Net cash (used in) capital and related financing activities	<u>(3,930,329)</u>	<u>(5,098,096)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,788,227)	(612,203)
Proceeds from maturities of investments	2,606,381	1,613,511
Interest received	<u>163,966</u>	<u>249,525</u>
Net cash provided by investing activities	<u>982,120</u>	<u>1,250,833</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,034,291	(618,826)
<b>CASH</b>		
Beginning	<u>2,333,598</u>	<u>2,952,424</u>
Ending	<u>\$ 3,367,889</u>	<u>\$ 2,333,598</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2009</b>	<b>2008</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,778,558	\$ 1,660,046
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,564,309	2,570,252
Changes in assets and liabilities		
(Increase) decrease in patient receivables	343,772	(2,401,971)
(Increase) decrease in other receivables	(597,344)	3,191
(Increase) in estimated third-party payor settlements	(500,000)	(500,000)
(Increase) in inventories	(655,433)	(38,625)
Decrease in prepaid expenses	142,256	252,710
Increase in accounts payable	417,918	414,789
Increase in accrued employee compensation	222,556	327,733
Increase in payroll taxes and amounts withheld from employees	<u>35,444</u>	<u>98,821</u>
Net cash provided by operating activities	<u>\$ 3,752,036</u>	<u>\$ 2,386,946</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 839,033	\$ 634,682
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	2,316,878	1,500,334
Restricted for payment of long-term debt and interest, cash	<u>211,978</u>	<u>198,582</u>
Total per statement of cash flows	<u>\$ 3,367,889</u>	<u>\$ 2,333,598</u>

**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 three 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.

**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, 2009 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.

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.

**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>2009</u>	<u>2008</u>
Medicare	\$ 2,820,990	\$ 2,832,846
Medicaid	850,069	489,748
Commercial insurance	4,082,995	4,348,831
Patients	<u>2,922,282</u>	<u>2,918,683</u>
Total patient receivables	10,676,336	10,590,108
Less allowance for contractual adjustments and bad debts	<u>(2,940,000)</u>	<u>(2,510,000)</u>
Net patient receivables	<u>\$ 7,736,336</u>	<u>\$ 8,080,108</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, 2009:

	<u>Sinking Funds</u>	<u>Debt Reserve Funds</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ 198,582	\$1,716,656	\$1,915,238
Transfer from current assets, cash	1,727,087	-	1,727,087
Principal and interest payments	<u>(1,713,691)</u>	<u>-</u>	<u>(1,713,691)</u>
<b>BALANCE</b> , end of year	<u>\$ 211,978</u>	<u>\$1,716,656</u>	<u>\$1,928,634</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

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

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 2,131,302	\$ -	\$ 2,114,243	\$ -
Land improvements	2,165,128	804,046	2,165,128	685,906
Buildings	6,064,811	1,467,414	6,390,708	1,376,197
Fixed equipment	17,438,470	6,617,792	17,396,647	5,578,526
Major movable equipment	<u>15,184,635</u>	<u>7,867,786</u>	<u>14,463,717</u>	<u>6,676,072</u>
Totals	<u>\$42,984,346</u>	<u>\$16,757,038</u>	<u>\$42,530,443</u>	<u>\$14,316,701</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, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 2,114,243	\$ 17,059	\$ —	\$ 2,131,302
Land improvements	2,165,128	—	—	2,165,128
Buildings	6,390,708	64,103	390,000	6,064,811
Fixed equipment	17,396,647	41,823	—	17,438,470
Major movable equipment	<u>14,463,717</u>	<u>747,391</u>	<u>26,473</u>	<u>15,184,635</u>
Totals	42,530,443	870,376	416,473	42,984,346
Less accumulated depreciation	<u>(14,316,701)</u>	<u>(2,564,309)</u>	<u>(123,972)</u>	<u>(16,757,038)</u>
Net property and equipment	<u>\$28,213,742</u>	<u>\$(1,693,933)</u>	<u>\$ 292,501</u>	<u>\$26,227,308</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
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	<u>10,687,794</u>	<u>3,775,923</u>	—	<u>14,463,717</u>
Totals	36,954,372	5,576,071	—	42,530,443
Less accumulated depreciation	<u>(11,746,449)</u>	<u>(2,570,252)</u>	—	<u>(14,316,701)</u>
Net property and equipment	<u>\$25,207,923</u>	<u>\$3,005,819</u>	<u>\$ —</u>	<u>\$28,213,742</u>

**NOTE 6 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Hospital Revenue Capital Loan Notes, Series 2004	\$ 5,160,000	\$ 5,380,000
Hospital Revenue Capital Loan Notes, Series 2003	6,930,000	7,540,000
Hospital Revenue Capital Loan Notes, Series 1999	1,135,000	1,325,000
Notes payable, equipment	2,763,156	3,883,086
Loan	<u>33,000</u>	<u>66,000</u>
Total	16,021,156	18,194,086
Less current maturities	<u>2,026,108</u>	<u>1,947,776</u>
Long-term debt, net of current maturities	<u>\$13,995,048</u>	<u>\$16,246,310</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 3.5% to 4.9%. At June 30, 2009, the remaining balance on these Notes is \$5,160,000.

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 2010 \$463,221; 2011 \$465,346; 2012 \$466,534; 2013 \$461,734; 2014 \$561,234.

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, 2009.

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 4.2% to 5.5%. At June 30, 2009, the remaining balance on these Notes is \$6,930,000.

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 2010 \$984,835; 2011 \$983,165; 2012 \$983,465; 2013 \$985,345; 2014 \$984,095.

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, 2009.

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 5.6% to 5.8%. At June 30, 2009, the remaining balance on these Notes is \$1,135,000.

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 2010 \$264,245; 2011 \$268,145; 2012 \$266,105; 2013 \$268,392; 2014 \$169,713.

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, 2009.

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, 2009 the remaining principal and interest on the Series 2004, 2003 and 1999 Notes was \$17,145,045. 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, 2009 and 2008:

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Change in fund equity	\$ 955,048	\$1,810,048
Provision for depreciation	2,564,309	2,570,252
Interest expense on the Notes	<u>690,242</u>	<u>727,443</u>
 Pledged net revenues	 <u>\$4,209,599</u>	 <u>\$5,107,743</u>
 Principal and interest requirements		
Hospital Revenue Capital Loan Notes, Series 2004	\$ 465,371	\$ 466,821
Hospital Revenue Capital Loan Notes, Series 2003	983,625	984,275
Hospital Revenue Capital Loan Notes, Series 1999	<u>264,695</u>	<u>264,415</u>
 Totals	 <u>\$1,713,691</u>	 <u>\$1,715,511</u>

**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, 2009, the remaining balance on this loan is \$33,000.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**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, 2009, the remaining balance on this note is \$489,323.

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 May, 2010. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2009, the remaining balance on this note is \$137,234.

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, 2009, the remaining balance on this note is \$1,953,496.

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, 2009, the remaining balance on this note is \$111,452.

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, 2009, the remaining balance on this note is \$71,651.

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>
2010	\$ 1,060,000	\$ 33,000	\$ 933,108	\$ 2,026,108	\$ 778,185	\$ 2,804,293
2011	1,110,000	-	809,681	1,919,681	683,131	2,602,812
2012	1,160,000	-	652,262	1,812,262	591,265	2,403,527
2013	1,215,000	-	368,105	1,583,105	506,776	2,089,881
2014	1,275,000	-	-	1,275,000	440,042	1,715,042
2015-2019	7,405,000	-	-	7,405,000	1,164,471	8,569,471
Total	13,225,000	33,000	2,763,156	16,021,156	4,163,870	20,185,026
Less current maturities	1,060,000	33,000	933,108	2,026,108	778,185	2,804,293
Total long-term debt	\$12,165,000	\$ -	\$1,830,048	\$13,995,048	\$3,385,685	\$17,380,733

A summary of changes in long-term debt for the year ended June 30, 2009 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	\$ 5,380,000	\$ -	\$ 220,000	\$ 5,160,000	\$ 225,000
Series 2003	7,540,000	-	610,000	6,930,000	635,000
Series 1999	1,325,000	-	190,000	1,135,000	200,000
Loan	66,000	-	33,000	33,000	33,000
Notes payable	3,883,086	-	1,119,930	2,763,156	933,108
Totals	\$18,194,086	\$ -	\$2,172,930	\$16,021,156	\$2,026,108

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

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

A summary of changes in long-term debt for the year ended June 30, 2008 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	\$ 5,595,000	\$ —	\$ 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	<u>1,494,675</u>	<u>2,934,167</u>	<u>545,756</u>	<u>3,883,086</u>	<u>894,776</u>
Totals	<u>\$16,823,675</u>	<u>\$2,934,167</u>	<u>\$1,563,756</u>	<u>\$18,194,086</u>	<u>\$1,947,776</u>

**NOTE 7 NET PATIENT SERVICE REVENUE**

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

**Medicare and Medicaid**

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

**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, 2009, regular plan members were required to contribute 4.1% of their annual salary and the Health Center is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$1,088,866, \$896,910 and \$732,899, respectively, equal to the required contributions for each year.

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

**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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Charges foregone, based on established rates	\$ <u>306,660</u>	\$ <u>210,887</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.4%</u>

**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, 2009 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 2009 and 2008 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  
November 11, 2009

**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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
0 - 30 days (includes patients in Health Center at end of year)	\$ 4,565,097	\$ 4,572,488	42.76%	43.18%
31 - 60 days	1,907,469	2,599,832	17.87	24.55
61 - 90 days	1,163,250	1,181,635	10.90	11.16
91 - 120 days	812,276	538,291	7.61	5.08
121 - 365 days	1,794,149	1,198,155	16.80	11.31
Over one year	<u>434,095</u>	<u>499,707</u>	<u>4.06</u>	<u>4.72</u>
Totals	<u>10,676,336</u>	<u>10,590,108</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,000,000	900,000		
Medicaid	370,000	230,000		
Other	700,000	640,000		
Bad debts	<u>870,000</u>	<u>740,000</u>		
Total allowances	<u>2,940,000</u>	<u>2,510,000</u>		
Totals	<u>\$ 7,736,336</u>	<u>\$ 8,080,108</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 103,190</u>	<u>\$ 97,305</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>75</u>	<u>83</u>		

**ANALYSIS OF ALLOWANCE FOR BAD DEBTS**

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>BALANCE</b> , beginning	\$ 740,000	\$ 620,000		
<b>ADD</b>				
Provision for bad debts	1,184,112	1,186,001	3.14%	3.33%
Recoveries of accounts previously written off	<u>389,254</u>	<u>307,137</u>	1.03	.86
	2,313,366	2,113,138		
<b>DEDUCT</b>				
Accounts written off	<u>1,443,366</u>	<u>1,373,138</u>	3.83	3.86
<b>BALANCE</b> , ending	<u>\$ 870,000</u>	<u>\$ 740,000</u>		

**Waverly Health Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$2,647,880	\$ —	\$ 2,647,880	\$ 2,808,984
Swing bed	284,876	—	284,876	430,768
Nursery	480,949	—	480,949	496,169
	<u>3,413,705</u>	<u>—</u>	<u>3,413,705</u>	<u>3,735,921</u>
<b>OTHER NURSING SERVICES</b>				
Observation	—	894,084	894,084	758,356
Medical services	—	116,473	116,473	—
Operating and recovery rooms	1,717,834	7,915,430	9,633,264	10,016,107
Delivery and labor rooms	308,537	—	308,537	352,928
Central supply	142,374	429,430	571,804	1,424,892
Emergency service	118,557	4,917,993	5,036,550	4,990,904
Ambulance	—	1,330,559	1,330,559	1,056,379
Hospice	70,899	—	70,899	75,670
Home health	—	1,194,125	1,194,125	1,182,157
	<u>2,358,201</u>	<u>16,798,094</u>	<u>19,156,295</u>	<u>19,857,393</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	587,174	4,198,892	4,786,066	4,275,101
Radiology	407,660	9,589,793	9,997,453	9,003,577
Pharmacy	866,380	2,201,939	3,068,319	3,694,167
Anesthesiology	77,549	1,493,643	1,571,192	1,700,079
Respiratory therapy and electrocardiology	323,325	1,671,440	1,994,765	1,839,688
Cardiac rehabilitation	—	239,514	239,514	247,680
Physical therapy	188,906	2,986,372	3,175,278	3,028,126
Speech therapy	14,061	47,407	61,468	81,186
Occupational therapy	77,082	303,689	380,771	371,090
Clinics	—	4,562,721	4,562,721	3,701,747
Medical spa	—	90,018	90,018	23,228
	<u>2,542,137</u>	<u>27,385,428</u>	<u>29,927,565</u>	<u>27,965,669</u>
Totals	<u>\$8,314,043</u>	<u>\$44,183,522</u>	52,497,565	51,558,983
Charity care charges foregone, based on established rates			<u>(306,660)</u>	<u>(210,887)</u>
Total gross patient service revenue			52,190,905	51,348,096
Provisions for contractual adjustments and bad debts			<u>(14,526,679)</u>	<u>(15,734,361)</u>
Total net patient service revenue			<u>\$37,664,226</u>	<u>\$35,613,735</u>

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

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Contractual adjustments		
Medicare	\$ 4,544,082	\$ 7,300,022
Medicaid	1,621,113	1,646,922
Other adjustments	7,177,372	5,601,416
Provision for bad debts	<u>1,184,112</u>	<u>1,186,001</u>
 Totals	 <u>\$14,526,679</u>	 <u>\$15,734,361</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 166,234	\$ 152,963
Wellness	75,348	127,373
Retail pharmacy	1,784,715	1,685,534
Rental income	101,264	115,540
Miscellaneous	<u>526,817</u>	<u>500,382</u>
 Totals	 <u>\$2,654,378</u>	 <u>\$2,581,792</u>

**Waverly Health Center**  
**EXPENSES**  
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 534,610	\$ 74,511	\$ 609,121	\$ 535,290
Medical, surgical and obstetrical	1,882,366	283,487	2,165,853	2,210,996
Nursery	284,188	9,891	294,079	175,277
Observation	42,026	32,279	74,305	-
Operating and recovery rooms	895,059	606,312	1,501,371	1,670,608
Delivery and labor rooms	78,666	4,287	82,953	86,189
Central supply	-	798,425	798,425	1,369,766
Emergency service	2,032,070	173,681	2,205,751	1,944,709
Ambulance	625,760	41,921	667,681	620,090
Hospice	11,708	-	11,708	17,821
Home health	748,660	211,934	960,594	939,918
Total nursing service	<u>7,135,113</u>	<u>2,236,728</u>	<u>9,371,841</u>	<u>9,570,664</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	778,268	1,162,142	1,940,410	1,856,482
Radiology	837,740	650,733	1,488,473	1,417,467
Pharmacy	408,696	779,008	1,187,704	1,449,933
Retail pharmacy	275,150	1,403,143	1,678,293	1,606,941
Anesthesiology	600,442	106,042	706,484	643,815
Respiratory therapy and electrocardiology	358,208	216,026	574,234	550,218
Cardiac rehabilitation	108,905	16,102	125,007	116,607
Physical therapy	-	1,924,564	1,924,564	1,845,299
Speech therapy	60,210	2,897	63,107	64,036
Occupational therapy	-	151,451	151,451	153,482
Occupational health	39,526	3,945	43,471	54,986
Clinics	2,487,089	640,704	3,127,793	2,176,414
Medical spa	29,154	50,838	79,992	74,882
Health information management	502,924	43,614	546,538	569,543
Total other professional service	<u>6,486,312</u>	<u>7,151,209</u>	<u>13,637,521</u>	<u>12,580,105</u>
<b>GENERAL SERVICE</b>				
Nutrition services	496,708	219,721	716,429	721,713
Plant services	410,786	986,380	1,397,166	1,409,462
Environmental services	537,277	186,185	723,462	712,888
Laundry	78,980	60,273	139,253	136,651
Total general service	<u>1,523,751</u>	<u>1,452,559</u>	<u>2,976,310</u>	<u>2,980,714</u>
<b>FISCAL AND AMINISTRATIVE SERVICE</b>				
Administrative services	883,658	1,101,015	1,984,673	1,829,326
Fiscal services	328,149	9,713	337,862	296,760
Human resources	149,168	14,851	164,019	253,614
Marketing	203,891	147,806	351,697	335,505
Business office	847,535	244,442	1,091,977	1,026,986
Data processing	398,348	764,225	1,162,573	745,746
Purchasing	127,953	3,354	131,307	124,029

**Waverly Health Center**  
**EXPENSES (continued)**  
Year ended June 30, 2009, with comparative totals for 2008

	<u>2009</u>			<u>2008</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>UNASSIGNED EXPENSES</b>				
Health promotion	\$ 80,660	\$ 19,560	\$ 100,220	\$ 185,168
FICA	-	1,190,352	1,190,352	1,059,253
IPERS	-	1,088,866	1,088,866	896,910
Group health, life and other benefits	-	1,890,424	1,890,424	1,672,380
Workers compensation insurance	-	221,216	221,216	171,921
Insurance	-	274,879	274,879	236,148
Total fiscal and administrative service and unassigned expenses	<u>3,019,362</u>	<u>6,970,703</u>	<u>9,990,065</u>	<u>8,833,746</u>
<b>PROVISION FOR DEPRECIATION</b>	<u>-</u>	<u>2,564,309</u>	<u>2,564,309</u>	<u>2,570,252</u>
Total expenses	<u>\$18,164,538</u>	<u>\$20,375,508</u>	<u>\$38,540,046</u>	<u>\$36,535,481</u>

**Waverly Health Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	2,650	3,266
Swing bed	622	988
Nursery	<u>533</u>	<u>583</u>
Totals	<u>3,805</u>	<u>4,837</u>
<b>DISCHARGES</b>		
Medical, surgical and obstetrical	974	1,152
Swing bed	112	146
Nursery	<u>232</u>	<u>268</u>
Totals	<u>1,318</u>	<u>1,566</u>
<b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	2.72	2.84
Swing bed	5.55	6.77
Nursery	2.30	2.18

**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, 2009, and have issued our report thereon dated November 11, 2009. 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, 2009 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  
November 11, 2009

**Waverly Health Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2009**

**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, 2009**

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

**09-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Health Center funds were noted.

**09-II-B TRAVEL EXPENSES**

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

**09-II-C BUSINESS TRANSACTIONS**

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

**09-II-D BOARD MINUTES**

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

**09-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.