

**Waverly Health Center
Waverly, Iowa**

FINANCIAL REPORT

June 30, 2010

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**Waverly Health Center
OFFICIALS
June 30, 2010**

BOARD OF TRUSTEES

Expiration of term

Officers

Susan Vallem, Chair
Roger Johnson, Secretary

December 31, 2011
December 31, 2013

Members

John Johnston
Jill Kwikkel
Jennifer Seward

December 31, 2011
December 31, 2013
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, 2010 and 2009, 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, 2010 and 2009, 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 30, 2010 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
September 30, 2010

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, 2010 and 2009. 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 \$1,038,794, or 2%, to \$41,273,035.
- Total noncurrent assets whose use is limited increased by \$1,486,951 to \$4,877,027.
- Total property and equipment decreased by \$1,938,316 to \$24,288,992.
- Total fund equity increased by \$821,491 to \$23,284,093.
- Total long-term debt decreased by \$2,026,142 to \$13,995,014.
- Net patient service revenue increased by \$1,131,370, or 3%, to \$38,795,596.
- Expenses increased by \$1,250,020, or 3%, to \$39,790,066.

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		
	2010	2009	2008
Current assets	\$11,808,649	\$12,358,824	\$10,851,173
Noncurrent assets whose use is limited	4,877,027	3,390,076	3,419,451
Property and equipment	24,288,992	26,227,308	28,213,742
Other asset	<u>298,367</u>	<u>335,621</u>	<u>372,876</u>
Total assets	<u>\$41,273,035</u>	<u>\$42,311,829</u>	<u>\$42,857,242</u>
Current liabilities	\$ 5,913,575	\$ 5,854,179	\$ 5,103,378
Long-term debt, less current maturities	<u>12,075,367</u>	<u>13,995,048</u>	<u>16,246,310</u>
Total liabilities	<u>\$17,988,942</u>	<u>\$19,849,227</u>	<u>\$21,349,688</u>
Invested in capital assets, net of related debt	\$10,293,978	\$10,206,152	\$10,019,656
Restricted	1,941,016	1,928,634	1,915,238
Unrestricted	<u>11,049,099</u>	<u>10,327,816</u>	<u>9,572,660</u>
Total fund equity	<u>\$23,284,093</u>	<u>\$22,462,602</u>	<u>\$21,507,554</u>

As depicted in Table 1, total assets decreased in fiscal year 2010 to \$41,273,035. 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 2010.

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		
	2010	2009	2008
Net patient service revenue	\$38,795,596	\$37,664,226	\$35,613,735
Other revenue	2,468,849	2,654,378	2,581,792
Total operating revenue	<u>41,264,445</u>	<u>40,318,604</u>	<u>38,195,527</u>
Salaries	18,366,504	18,164,538	15,572,353
Supplies and expenses	18,613,441	17,811,199	18,392,876
Provision for depreciation	2,810,121	2,564,309	2,570,252
Total expenses	<u>39,790,066</u>	<u>38,540,046</u>	<u>36,535,481</u>
Operating income	<u>1,474,379</u>	<u>1,778,558</u>	<u>1,660,046</u>
Investment income	137,028	159,356	235,133
Unrestricted contributions	-	-	30,793
Interest and amortization expense	(841,811)	(921,330)	(926,622)
Gain (loss) on disposal of assets	5,944	(292,000)	-
Transfer from related foundation	45,951	230,464	810,698
Total nonoperating gains (losses)	<u>(652,888)</u>	<u>(823,510)</u>	<u>150,002</u>
Change in fund equity	821,491	955,048	1,810,048
Total fund equity, beginning	<u>22,462,602</u>	<u>21,507,554</u>	<u>19,697,506</u>
Total fund equity, ending	<u>\$23,284,093</u>	<u>\$22,462,602</u>	<u>\$21,507,554</u>

Operating and Financial Performance

The following summarizes the Health Center's statement of revenue, expenses and changes in fund equity between June 30, 2010 and 2009.

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 2010 were 918 compared to 974 in fiscal year 2009. Average length of stay increased slightly as patient days decreased to 2,599 from 2,650 in 2009. Volume on the outpatient side indicated significant positive growth in 2010. In 2010, gross outpatient charges increased to \$47,941,234 compared to \$44,183,522 in 2009. Laboratory, pharmacy and clinics were the departments with the most significant growth in 2010.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2010. Overall, gross patient service revenue increased to \$56,398,286 from \$52,190,905 in 2009.

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 \$17,602,690 in 2010 from \$14,526,679 in 2009. This represents 31% and 28% of gross patient charges for 2010 and 2009, 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		
	2010	2009	2008
Medicare	35%	37%	40%
Medicaid	7	6	5
Commercial insurance	54	51	49
Patients	<u>4</u>	<u>6</u>	<u>6</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$2,468,849 in 2010 compared to \$2,654,378 in 2009, due to decreases in wellness and miscellaneous revenues.

Expenses

Approximately 46% of Health Center's expenses are for salaries. Total salaries increased by 1% to \$18,366,504 in 2010 from \$18,164,538 in 2009. The Health Center departments experiencing the most significant increase in 2010 included clinics and administrative services.

Approximately 47% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased by 5% to \$18,613,441 in 2010 from \$17,811,199 in 2009. The most significant decreases related to operating and recovery rooms, pharmacy and clinics.

Approximately 7% of Health Center's expenses relate to provision for depreciation. This provision for depreciation increased to \$2,810,121 in 2010 from \$2,564,309 in 2009.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to a \$652,888 loss in 2010 from a \$823,510 loss in 2009, primarily due to a loss on disposal of assets occurring in 2009 but not 2010.

Property and Equipment

At the end of 2010, the Health Center had \$24,288,992 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 2010, \$871,805 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		
	2010	2009	2008
Land	\$ 2,156,302	\$ 2,131,302	\$ 2,114,243
Land improvements	2,165,128	2,165,128	2,165,128
Buildings	6,069,921	6,064,811	6,390,708
Fixed equipment	17,736,540	17,438,470	17,396,647
Major movable equipment	<u>15,669,161</u>	<u>15,184,635</u>	<u>14,463,717</u>
Subtotal	43,797,052	42,984,346	42,530,443
Less accumulated depreciation	<u>(19,508,060)</u>	<u>(16,757,038)</u>	<u>(14,316,701)</u>
Property and equipment	<u>\$24,288,992</u>	<u>\$26,227,308</u>	<u>\$28,213,742</u>

Debt Administration

At year end, the Health Center had a combined \$12,165,000 in current and long-term debt related to Hospital Revenue Capital Loan Notes, Series 1999, 2003 and 2004. This has decreased by \$1,060,000 in fiscal year 2010, which was 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 68% of the Health Center's total liabilities as of year end.

At year end, the Health Center had \$1,830,014 in current and long-term notes payable. This has decreased by \$933,142 in fiscal year 2010, which was the required amount of principal payment on the outstanding notes payable for the fiscal year 2010. More detailed information about the Health Center's notes payable is presented in the Notes to Financial Statements. The notes payable represent 10% of the Health Center's total liabilities at year end.

Contacting Waverly Health Center's Management

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

**Waverly Health Center
BALANCE SHEETS**

	June 30	
ASSETS	2010	2009
CURRENT ASSETS		
Cash	\$ 1,608,404	\$ 839,033
Assets whose use is limited-required for current liabilities	1,160,555	1,114,359
Patient receivables, less allowances for contractual adjustments and bad debts	7,100,956	7,736,336
Other receivables	58,428	664,063
Estimated third-party payor settlements	-	500,000
Inventories	1,555,383	1,318,733
Prepaid expenses	<u>324,923</u>	<u>186,300</u>
Total current assets	<u>11,808,649</u>	<u>12,358,824</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	3,586,461	2,316,878
Certificates of deposit	502,363	252,953
Interest receivable	<u>7,742</u>	<u>5,970</u>
	4,096,566	2,575,801
Restricted for payment of long-term debt and interest		
Cash	224,360	211,978
Certificates of deposit	<u>1,716,656</u>	<u>1,716,656</u>
Total assets whose use is limited	6,037,582	4,504,435
Less assets whose use is limited and that are required for current liabilities	<u>1,160,555</u>	<u>1,114,359</u>
Noncurrent assets whose use is limited	<u>4,877,027</u>	<u>3,390,076</u>
PROPERTY AND EQUIPMENT	43,797,052	42,984,346
Less accumulated depreciation	<u>19,508,060</u>	<u>16,757,038</u>
Total property and equipment	<u>24,288,992</u>	<u>26,227,308</u>
OTHER ASSET		
Unamortized financing costs	<u>298,367</u>	<u>335,621</u>
 Totals	 <u>\$41,273,035</u>	 <u>\$42,311,829</u>

		<u>June 30</u>	
LIABILITIES AND FUND EQUITY		<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 1,919,647	\$ 2,026,108
Accounts payable		1,280,413	1,699,023
Accrued employee compensation		1,760,759	1,613,664
Payroll taxes and amounts withheld from employees		502,201	461,025
Accrued interest		50,555	54,359
Estimated third-party payor settlements		400,000	-
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
LONG-TERM DEBT, less current maturities			
FUND EQUITY			
Invested in capital assets, net of related debt		10,293,978	10,206,152
Restricted		1,941,016	1,928,634
Unrestricted		<u>11,049,099</u>	<u>10,327,816</u>
Total fund equity		<u>23,284,093</u>	<u>22,462,602</u>
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		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
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		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
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		<u>12,075,367</u>	<u>13,995,048</u>
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		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>
		<u>11,049,099</u>	<u>10,327,816</u>
		<u>23,284,093</u>	<u>22,462,602</u>
		<u>5,913,575</u>	<u>5,854,179</u>
		<u>12,075,367</u>	<u>13,995,048</u>
		<u>10,293,978</u>	<u>10,206,152</u>
		<u>1,941,016</u>	<u>1,928,634</u>

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

	Year ended June 30	
	2010	2009
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2010 \$1,208,396; 2009 \$1,184,112	\$38,795,596	\$37,664,226
OTHER REVENUE	<u>2,468,849</u>	<u>2,654,378</u>
Total revenue	<u>41,264,445</u>	<u>40,318,604</u>
EXPENSES		
Nursing service	9,099,389	9,371,841
Other professional service	15,101,859	13,637,521
General service	2,753,955	2,976,310
Fiscal and administrative service and unassigned expenses	10,024,742	9,990,065
Provision for depreciation	<u>2,810,121</u>	<u>2,564,309</u>
Total expenses	<u>39,790,066</u>	<u>38,540,046</u>
Operating income	<u>1,474,379</u>	<u>1,778,558</u>
NONOPERATING GAINS (LOSSES)		
Investment income	137,028	159,356
Interest and amortization expense	(841,811)	(921,330)
Gain (loss) on disposal of assets	5,944	(292,000)
Transfer from related foundation	<u>45,951</u>	<u>230,464</u>
Total nonoperating gains (losses)	<u>(652,888)</u>	<u>(823,510)</u>
Change in fund equity	821,491	955,048
TOTAL FUND EQUITY		
Beginning	<u>22,462,602</u>	<u>21,507,554</u>
Ending	<u>\$23,284,093</u>	<u>\$22,462,602</u>

**Waverly Health Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$40,330,976	\$37,507,998
Cash paid to suppliers for goods and services	(18,760,513)	(18,468,358)
Cash paid to employees for services	(18,219,409)	(17,941,982)
Other operating revenue received	<u>2,468,849</u>	<u>2,654,378</u>
Net cash provided by operating activities	<u>5,819,903</u>	<u>3,752,036</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from related foundation	<u>45,951</u>	<u>230,464</u>
Net cash provided by noncapital financing activities	<u>45,951</u>	<u>230,464</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(871,805)	(869,875)
Proceeds from sales of property and equipment	5,944	-
Interest paid on long-term debt	(808,361)	(887,524)
Principal payments on long-term debt	<u>(2,026,142)</u>	<u>(2,172,930)</u>
Net cash (used in) capital and related financing activities	<u>(3,700,364)</u>	<u>(3,930,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(505,400)	(1,788,227)
Proceeds from maturities of investments	255,990	2,606,381
Interest received	<u>135,256</u>	<u>163,966</u>
Net cash provided by (used in) investing activities	<u>(114,154)</u>	<u>982,120</u>
NET INCREASE IN CASH	2,051,336	1,034,291
CASH		
Beginning	<u>3,367,889</u>	<u>2,333,598</u>
Ending	<u>\$ 5,419,225</u>	<u>\$ 3,367,889</u>

See Notes to Financial Statements.

Waverly Health Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,474,379	\$ 1,778,558
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,810,121	2,564,309
Changes in assets and liabilities		
Decrease in patient receivables	635,380	343,772
(Increase) decrease in other receivables	605,635	(597,344)
(Increase) decrease in estimated third-party payor settlements	900,000	(500,000)
(Increase) in inventories	(236,650)	(655,433)
(Increase) decrease in prepaid expenses	(138,623)	142,256
Increase (decrease) in accounts payable	(418,610)	417,918
Increase in accrued employee compensation	147,095	222,556
Increase in payroll taxes and amounts withheld from employees	<u>41,176</u>	<u>35,444</u>
Net cash provided by operating activities	<u>\$ 5,819,903</u>	<u>\$ 3,752,036</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 1,608,404	\$ 839,033
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	3,586,461	2,316,878
Restricted for payment of long-term debt and interest, cash	<u>224,360</u>	<u>211,978</u>
Total per statement of cash flows	<u>\$ 5,419,225</u>	<u>\$ 3,367,889</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 are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

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.

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.

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Reclassifications

Certain amounts have been reclassified in the 2009 financial statements in order to conform with the 2010 presentation, with no effect on the change in fund equity.

NOTE 2 CASH AND INVESTMENTS

The Health Center's deposits at June 30, 2010 were entirely covered by federal depository insurance, collateralized securities 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.

NOTE 3 PATIENT RECEIVABLES

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

	Year ended June 30	
	2010	2009
Medicare	\$2,652,585	\$ 2,820,990
Medicaid	460,891	850,069
Commercial insurance	3,861,511	4,082,995
Patients	<u>2,615,969</u>	<u>2,922,282</u>
Total patient receivables	9,590,956	10,676,336
Less allowances for contractual adjustments and bad debts	<u>(2,490,000)</u>	<u>(2,940,000)</u>
Net patient receivables	<u>\$7,100,956</u>	<u>\$ 7,736,336</u>

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

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, 2010:

	Sinking Funds	Debt Reserve Funds	Total
BALANCE , beginning of year	\$ 211,978	\$1,716,656	\$1,928,634
Transfer from current assets, cash	1,724,683	-	1,724,683
Principal and interest payments	(1,712,301)	-	(1,712,301)
BALANCE , end of year	<u>\$ 224,360</u>	<u>\$1,716,656</u>	<u>\$1,941,016</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	June 30, 2010		June 30, 2009	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 2,156,302	\$ -	\$ 2,131,302	\$ -
Land improvements	2,165,128	916,057	2,165,128	804,046
Buildings	6,069,921	1,645,501	6,064,811	1,467,414
Fixed equipment	17,736,540	7,661,217	17,438,470	6,617,792
Major movable equipment	<u>15,669,161</u>	<u>9,285,285</u>	<u>15,184,635</u>	<u>7,867,786</u>
Totals	<u>\$43,797,052</u>	<u>\$19,508,060</u>	<u>\$42,984,346</u>	<u>\$16,757,038</u>

A summary of changes in property and equipment for the year ended June 30, 2010 follows:

	Beginning balance	Additions	Deletions	Ending balance
Land	\$ 2,131,302	\$ 25,000	\$ -	\$ 2,156,302
Land improvements	2,165,128	-	-	2,165,128
Buildings	6,064,811	5,110	-	6,069,921
Fixed equipment	17,438,470	305,658	7,588	17,736,540
Major movable equipment	<u>15,184,635</u>	<u>536,037</u>	<u>51,511</u>	<u>15,669,161</u>
Totals	42,984,346	871,805	59,099	43,797,052
Less accumulated depreciation	(16,757,038)	(2,810,121)	(59,099)	(19,508,060)
Net property and equipment	<u>\$26,227,308</u>	<u>\$(1,938,316)</u>	<u>\$ -</u>	<u>\$24,288,992</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>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Hospital Revenue Capital Loan Notes, Series 2004	\$ 4,935,000	\$ 5,160,000
Hospital Revenue Capital Loan Notes, Series 2003	6,295,000	6,930,000
Hospital Revenue Capital Loan Notes, Series 1999	935,000	1,135,000
Notes payable, equipment	1,830,014	2,763,156
Loan	-	33,000
Total	<u>13,995,014</u>	<u>16,021,156</u>
Less current maturities	<u>1,919,647</u>	<u>2,026,108</u>
Long-term debt, net of current maturities	<u>\$12,075,367</u>	<u>\$13,995,048</u>

Hospital Revenue Capital Loan Notes, Series 2004

The Health Center has issued Hospital Revenue Capital Loan Notes, Series 2004 in the original amount of \$6,200,000. The Notes are payable solely from future revenues of the Health Center and are due serially each June 1 through 2019, at remaining interest rates ranging from 3.8% to 4.9%. At June 30, 2010, the remaining balance on these Notes is \$4,935,000.

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 2011 \$465,346; 2012 \$466,534; 2013 \$461,734; 2014 \$561,234; 2015 \$620,394.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Capital Loan Notes, Series 2004 (continued)

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Notes at June 30, 2010.

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 4.5% to 5.5%. At June 30, 2010, the remaining balance on these Notes is \$6,295,000.

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 2011 \$983,165; 2012 \$983,465; 2013 \$985,345; 2014 \$984,095; 2015 \$985,335.

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, 2010.

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

Hospital Revenue Capital Loan Notes, Series 1999

The Health Center has issued Hospital Revenue Capital Loan Notes, Series 1999 in the original amount of \$2,150,000. The Notes are payable solely from future revenues of the Health Center and are due serially each June 1 through 2015, at remaining interest rates ranging from 5.6% to 5.8%. At June 30, 2010, the remaining balance on these Notes is \$935,000.

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 2011 \$268,145; 2012 \$266,105; 2013 \$268,392; 2014 \$169,713; 2015 \$105,800.

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, 2010.

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Capital Loan Notes, Series 1999 (continued)

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, 2010 the remaining principal and interest on the Series 2004, 2003 and 1999 Notes was \$15,432,744. 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, 2010 and 2009:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Change in fund equity	\$ 821,491	\$ 955,048
Provision for depreciation	2,810,121	2,564,309
Interest expense on the Notes	<u>648,498</u>	<u>690,242</u>
 Pledged net revenues	 <u>\$4,280,110</u>	 <u>\$4,209,599</u>
 Principal and interest requirements		
Hospital Revenue Capital Loan Notes, Series 2004	\$ 463,221	\$ 465,371
Hospital Revenue Capital Loan Notes, Series 2003	984,835	983,625
Hospital Revenue Capital Loan Notes, Series 1999	<u>264,245</u>	<u>264,695</u>
 Totals	 <u>\$1,712,301</u>	 <u>\$1,713,691</u>

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, 2010, the remaining balance on this note is \$281,542.

The Health Center has a second 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, 2010, the remaining balance on this note is \$1,446,500.

The Health Center has a third 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, 2010, the remaining balance on this note is \$80,675.

The Health Center has a fourth 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, 2010, the remaining balance on this note is \$21,297.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LONG-TERM DEBT (continued)

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Capital Loan Notes</u>	<u>Notes payable</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,110,000	\$ 809,647	\$ 1,919,647	\$ 683,131	\$ 2,602,778
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	1,335,000	-	1,335,000	376,529	1,711,529
2016-2019	<u>6,070,000</u>	<u>-</u>	<u>6,070,000</u>	<u>787,942</u>	<u>6,857,942</u>
Total	12,165,000	1,830,014	13,995,014	3,385,685	17,380,699
Less current maturities	<u>1,110,000</u>	<u>809,647</u>	<u>1,919,647</u>	<u>683,131</u>	<u>2,602,778</u>
Total long-term debt	<u>\$11,055,000</u>	<u>\$1,020,367</u>	<u>\$12,075,367</u>	<u>\$2,702,554</u>	<u>\$14,777,921</u>

A summary of changes in long-term debt for the year ended June 30, 2010 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	\$ 5,160,000	\$ -	\$ 225,000	\$ 4,935,000	\$ 235,000
Series 2003	6,930,000	-	635,000	6,295,000	660,000
Series 1999	1,135,000	-	200,000	935,000	215,000
Loan	33,000	-	33,000	-	-
Notes payable	<u>2,763,156</u>	<u>-</u>	<u>933,142</u>	<u>1,830,014</u>	<u>809,647</u>
Totals	<u>\$16,021,156</u>	<u>\$ -</u>	<u>\$2,026,142</u>	<u>\$13,995,014</u>	<u>\$1,919,647</u>

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	<u>3,883,086</u>	<u>-</u>	<u>1,119,930</u>	<u>2,763,156</u>	<u>933,108</u>
Totals	<u>\$18,194,086</u>	<u>\$ -</u>	<u>\$2,172,930</u>	<u>\$16,021,156</u>	<u>\$2,026,108</u>

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 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, 2010, regular plan members were required to contribute 4.3% of their annual salary and the Health Center is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$1,162,155, \$1,088,866 and \$896,910, 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, 2010 and 2009.

	2010	2009
Charges foregone, based on established rates	\$ <u>429,222</u>	\$ <u>306,660</u>
Equivalent percentage of charity care patients to all patients served	<u>.8%</u>	<u>.6%</u>

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 10 MALPRACTICE CLAIMS

The Health Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

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

Incidents occurring through June 30, 2010 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 2010 and 2009 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 30, 2010

**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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 - 30 days (includes patients in Health Center at end of year)	\$4,981,395	\$ 4,565,097	51.94%	42.76%
31 - 60 days	1,518,298	1,907,469	15.83	17.87
61 - 90 days	998,856	1,163,250	10.41	10.90
91 - 120 days	562,346	812,276	5.86	7.61
121 - 365 days	1,226,017	1,794,149	12.78	16.80
Over one year	<u>304,044</u>	<u>434,095</u>	<u>3.18</u>	<u>4.06</u>
Totals	<u>9,590,956</u>	<u>10,676,336</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	920,000	1,000,000		
Medicaid	180,000	370,000		
Other	690,000	700,000		
Bad debts	<u>700,000</u>	<u>870,000</u>		
Total allowances	<u>2,490,000</u>	<u>2,940,000</u>		
Totals	<u>\$7,100,956</u>	<u>\$ 7,736,336</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 106,289</u>	<u>\$ 103,190</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>67</u>	<u>75</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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
BALANCE , beginning	\$ 870,000	\$ 740,000		
ADD				
Provision for bad debts	1,208,396	1,184,112	3.11%	3.14%
Recoveries of accounts previously written off	<u>228,643</u>	<u>389,254</u>	.59	1.03
	2,307,039	2,313,366		
DEDUCT				
Accounts written off	<u>1,607,039</u>	<u>1,443,366</u>	4.14	3.83
BALANCE , ending	<u>\$ 700,000</u>	<u>\$ 870,000</u>		

Waverly Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$2,765,506	\$ —	\$ 2,765,506	\$ 2,647,880
Swing bed	490,509	—	490,509	284,876
Nursery	561,566	—	561,566	480,949
	<u>3,817,581</u>	<u>—</u>	<u>3,817,581</u>	<u>3,413,705</u>
OTHER NURSING SERVICES				
Observation	—	810,025	810,025	894,084
Medical services	—	491,855	491,855	116,473
Operating and recovery rooms	1,804,906	8,253,299	10,058,205	9,633,264
Delivery and labor rooms	352,585	—	352,585	308,537
Central supply	—	—	—	571,804
Emergency service	9,065	5,053,596	5,062,661	5,036,550
Ambulance	—	1,404,334	1,404,334	1,330,559
Hospice	43,246	—	43,246	70,899
Home health	—	940,764	940,764	1,194,125
	<u>2,209,802</u>	<u>16,953,873</u>	<u>19,163,675</u>	<u>19,156,295</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	758,807	4,932,315	5,691,122	4,786,066
Radiology	338,337	9,758,198	10,096,535	9,997,453
Pharmacy	1,037,395	2,728,562	3,765,957	3,068,319
Anesthesiology	106,447	1,508,708	1,615,155	1,571,192
Respiratory therapy and electrocardiology	272,863	1,806,086	2,078,949	1,994,765
Cardiac rehabilitation	—	259,712	259,712	239,514
Physical therapy	255,103	3,167,585	3,422,688	3,175,278
Speech therapy	10,731	81,977	92,708	61,468
Occupational therapy	79,208	280,358	359,566	380,771
Clinics	—	6,374,919	6,374,919	4,562,721
Medical spa	—	88,941	88,941	90,018
	<u>2,858,891</u>	<u>30,987,361</u>	<u>33,846,252</u>	<u>29,927,565</u>
Totals	<u>\$8,886,274</u>	<u>\$47,941,234</u>	56,827,508	52,497,565
Charity care charges foregone, based on established rates			<u>(429,222)</u>	<u>(306,660)</u>
Total gross patient service revenue			56,398,286	52,190,905
Provisions for contractual adjustments and bad debts			<u>(17,602,690)</u>	<u>(14,526,679)</u>
Total net patient service revenue			<u>\$38,795,596</u>	<u>\$37,664,226</u>

Waverly Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare	\$ 6,488,382	\$ 4,544,082
Medicaid	1,090,009	1,621,113
Other adjustments	8,815,903	7,177,372
Provision for bad debts	<u>1,208,396</u>	<u>1,184,112</u>
 Totals	 <u>\$17,602,690</u>	 <u>\$14,526,679</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Cafeteria	\$ 156,661	\$ 166,234
Wellness	10,623	75,348
Retail pharmacy	1,748,642	1,784,715
Rental income	81,890	101,264
Miscellaneous	<u>471,033</u>	<u>526,817</u>
 Totals	 <u>\$2,468,849</u>	 <u>\$2,654,378</u>

Waverly Health Center
EXPENSES
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 392,651	\$ 65,127	\$ 457,778	\$ 609,121
Medical, surgical and obstetrical	1,720,734	289,514	2,010,248	2,165,853
Nursery	344,969	50	345,019	294,079
Observation	66,423	11,074	77,497	74,305
Operating and recovery rooms	865,966	1,530,221	2,396,187	1,501,371
Delivery and labor rooms	95,707	3,268	98,975	82,953
Central supply	-	192,454	192,454	798,425
Emergency service	2,010,266	148,523	2,158,789	2,205,751
Ambulance	599,073	49,135	648,208	667,681
Hospice	16,278	-	16,278	11,708
Home health	565,331	132,625	697,956	960,594
Total nursing service	<u>6,677,398</u>	<u>2,421,991</u>	<u>9,099,389</u>	<u>9,371,841</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	779,996	1,333,575	2,113,571	1,940,410
Radiology	803,765	629,355	1,433,120	1,488,473
Pharmacy	432,537	1,008,751	1,441,288	1,187,704
Retail pharmacy	280,756	1,458,898	1,739,654	1,678,293
Anesthesiology	607,615	136,170	743,785	706,484
Respiratory therapy and electrocardiology	357,100	220,981	578,081	574,234
Cardiac rehabilitation	109,122	23,444	132,566	125,007
Physical therapy	-	1,799,363	1,799,363	1,924,564
Speech therapy	61,512	3,054	64,566	63,107
Occupational therapy	-	339,196	339,196	151,451
Occupational health	5,958	4,615	10,573	43,471
Clinics	3,093,782	996,815	4,090,597	3,127,793
Medical spa	23,101	43,287	66,388	79,992
Health information management	503,449	45,662	549,111	546,538
Total other professional service	<u>7,058,693</u>	<u>8,043,166</u>	<u>15,101,859</u>	<u>13,637,521</u>
GENERAL SERVICE				
Nutrition services	484,388	202,915	687,303	716,429
Plant services	400,489	886,716	1,287,205	1,397,166
Environmental services	524,952	155,430	680,382	723,462
Laundry	66,097	32,968	99,065	139,253
Total general service	<u>1,475,926</u>	<u>1,278,029</u>	<u>2,753,955</u>	<u>2,976,310</u>
FISCAL AND AMINISTRATIVE SERVICE				
Administrative services	1,166,597	990,882	2,157,479	1,984,673
Fiscal services	132,966	4,906	137,872	337,862
Human resources	162,977	25,474	188,451	164,019
Marketing	274,388	167,513	441,901	351,697
Business office	870,259	212,709	1,082,968	1,091,977
Data processing	423,814	612,080	1,035,894	1,162,573
Purchasing	123,486	2,195	125,681	131,307

Waverly Health Center
EXPENSES (continued)
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
UNASSIGNED EXPENSES				
Health promotion	\$ -	\$ -	\$ -	\$ 100,220
FICA	-	1,181,002	1,181,002	1,190,352
IPERS	-	1,162,155	1,162,155	1,088,866
Group health, life and other benefits	-	2,070,584	2,070,584	1,890,424
Workers compensation insurance	-	229,803	229,803	221,216
Insurance	-	210,952	210,952	274,879
Total fiscal and administrative service and unassigned expenses	<u>3,154,487</u>	<u>6,870,255</u>	<u>10,024,742</u>	<u>9,990,065</u>
PROVISION FOR DEPRECIATION	<u>-</u>	<u>2,810,121</u>	<u>2,810,121</u>	<u>2,564,309</u>
Total expenses	<u>\$18,366,504</u>	<u>\$21,423,562</u>	<u>\$39,790,066</u>	<u>\$38,540,046</u>

**Waverly Health Center
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Medical, surgical and obstetrical	2,599	2,650
Swing bed	999	622
Nursery	<u>555</u>	<u>533</u>
Totals	<u>4,153</u>	<u>3,805</u>
DISCHARGES		
Medical, surgical and obstetrical	918	974
Swing bed	127	112
Nursery	<u>252</u>	<u>232</u>
Totals	<u>1,297</u>	<u>1,318</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.83	2.72
Swing bed	7.87	5.55
Nursery	2.20	2.30

**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, 2010, and have issued our report thereon dated September 30, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Health Center's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 2010 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
September 30, 2010

**Waverly Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

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, 2010**

Part II—Findings Related to Required Statutory Reporting

10-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

10-II-B TRAVEL EXPENSES

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

10-II-C BUSINESS TRANSACTIONS

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

10-II-D BOARD MINUTES

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

10-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.