

**Waverly Health Center  
Waverly, Iowa**

**FINANCIAL REPORT**

**June 30, 2013**

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**Waverly Health Center  
OFFICIALS  
June 30, 2013**

**BOARD OF TRUSTEES**

**Expiration of term**

**Officers**

Susan Vallem, Chair

December 31, 2015

Roger Johnson, Secretary

December 31, 2013

**Members**

Gloria Campbell

December 31, 2015

John Johnston

December 31, 2015

Jill Kwikkel

December 31, 2013

**CHIEF EXECUTIVE OFFICER**

Kyle Richards

**CHIEF FINANCIAL OFFICER**

Lisa Bennett

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Waverly Health Center  
Waverly, Iowa

We have audited the accompanying financial statements of Waverly Health Center, an enterprise fund of the City of Waverly, Iowa, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-10, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of Waverly Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waverly Health Center's internal control over financial reporting and compliance.



**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
October 9, 2013

## **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, 2013 and 2012. 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 net position. 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 \$1,779,957, or 5%, to \$39,386,795
- Total noncurrent assets whose use is limited increased by \$2,264,587 to \$8,275,294
- Total property and equipment decreased by \$1,990,766 to \$20,032,227
- Total net position decreased by \$204,223 to \$26,866,285
- Total long-term debt decreased by \$2,126,310 to \$8,545,695
- Net patient service revenue increased by \$107,897 to \$44,974,200
- Operating expenses increased by \$345,392, or 1%, to \$46,826,516

### **Financial Analysis of the Health Center**

The balance sheet and the statement of revenues, expenses, and changes in net position 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>2013</b>	<b>2012</b>	<b>2011</b>
Current assets	\$10,509,976	\$12,599,442	\$10,097,443
Noncurrent assets whose use is limited	8,275,294	6,010,707	6,216,523
Property and equipment	20,032,227	22,022,993	23,025,805
Other assets	<u>569,298</u>	<u>533,610</u>	<u>609,584</u>
Total assets	<u>\$39,386,795</u>	<u>\$41,166,752</u>	<u>\$39,949,355</u>
Current liabilities	\$ 5,676,122	\$ 5,130,549	\$ 5,626,765
Long-term debt, less current maturities	<u>6,844,388</u>	<u>8,965,695</u>	<u>10,263,105</u>
Total liabilities	<u>\$12,520,510</u>	<u>\$14,096,244</u>	<u>\$15,889,870</u>
Net investment in capital assets	\$11,784,796	\$11,350,988	\$10,950,438
Restricted	1,027,877	1,891,049	1,950,359
Unrestricted	<u>14,053,612</u>	<u>13,828,471</u>	<u>11,158,688</u>
Total net position	<u>\$26,866,285</u>	<u>\$27,070,508</u>	<u>\$24,059,485</u>

As depicted in Table 1, total assets decreased in fiscal year 2013 to \$39,386,795. The change in total assets results primarily from an decrease in cash due to an decrease in other revenue.

A summary of the Health Center's statements of historical revenues, expenses, and changes in net position is presented in Table 2.

**Table 2**  
**Condensed Statements of Revenue, Expenses, and Changes in Net position**

	<b>Year ended June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net patient service revenue	\$44,974,200	\$44,866,303	\$41,957,026
Other revenue	<u>2,357,304</u>	<u>4,611,080</u>	<u>2,485,838</u>
Total operating revenue	<u>47,331,504</u>	<u>49,477,383</u>	<u>44,442,864</u>
Salaries	22,829,208	22,475,276	20,549,908
Supplies and expenses	21,146,229	21,073,602	20,153,633
Provision for depreciation	<u>2,851,079</u>	<u>2,932,246</u>	<u>2,965,883</u>
Total operating expenses	<u>46,826,516</u>	<u>46,481,124</u>	<u>43,669,424</u>
Operating income	<u>504,988</u>	<u>2,996,259</u>	<u>773,440</u>
Investment income	126,770	130,569	134,833
Interest and amortization expense	(866,997)	(670,793)	(755,337)
Gain (loss) on disposal of assets	(66,410)	(65,594)	(21,894)
Transfer from related foundation	<u>97,426</u>	<u>620,582</u>	<u>644,350</u>
Total nonoperating gains (losses)	<u>(709,211)</u>	<u>14,764</u>	<u>1,952</u>
Change in net position	(204,223)	3,011,023	775,392
Total net position, beginning	<u>27,070,508</u>	<u>24,059,485</u>	<u>23,284,093</u>
Total net position, ending	<u>\$26,866,285</u>	<u>\$27,070,508</u>	<u>\$24,059,485</u>

## **Operating and Financial Performance**

The following summarizes the Health Center's statement of revenue, expenses and changes in net position between June 30, 2013 and 2012.

**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 2013 were 807 compared to 825 in fiscal year 2012. Average length of stay decreased slightly as patient days decreased to 2,255 from 2,329 in 2012. Volume on the outpatient side indicated significant positive growth in 2013. In 2013, gross outpatient charges increased to \$66,056,879 compared to \$62,775,308 in 2012. Emergency service, laboratory, radiology and clinics were the departments with the most significant growth in 2013.

**Price Increase:** As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2013. Overall, gross patient service revenue increased to \$76,080,158 from \$72,066,858 in 2012.

**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 \$31,105,958 in 2013 from \$27,200,555 in 2012. This represents 41% and 38% of gross patient charges for 2013 and 2012, 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>2013</b>	<b>2012</b>	<b>2011</b>
Medicare	35%	33%	34%
Medicaid	8	8	7
Commercial insurance	55	56	54
Patients	<u>2</u>	<u>3</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

## **Other Revenue**

Other revenue was \$2,357,304 in 2013 compared to \$4,611,080 in 2012. The decrease in other revenue resulted from receipt of electronic health records incentive revenue in 2012.

## **Operating Expenses**

Approximately 49% of Health Center's expenses are for salaries. Total salaries increased by 2% to \$22,829,208 in 2013 from \$22,475,276 in 2012. The Health Center departments experiencing the most significant increase in 2013 included radiology and administrative services.

Approximately 45% of Health Center's expenses are for supplies and expenses. Total supplies and expenses increased to \$21,146,229 in 2013 from \$21,073,602 in 2012. The most significant increases related to data processing and IPERS.

Approximately 6% of Health Center's expenses relate to provision for depreciation. This provision for depreciation decreased to \$2,851,079 in 2013 from \$2,932,246 in 2012.

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

Nonoperating gains (losses) decreased to \$(709,211) in 2013 from \$14,764 in 2012.

### **Property and Equipment**

At the end of 2013, the Health Center had \$20,032,227 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 2013, \$951,723 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><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Land	\$ 2,206,302	\$ 2,206,302	\$ 2,206,302
Land improvements	2,434,288	2,217,135	2,165,128
Buildings	6,676,860	6,655,261	6,069,921
Fixed equipment	18,260,422	18,379,218	17,840,775
Major movable equipment	15,608,149	17,523,748	15,845,679
Construction in progress	<u>351,037</u>	<u>173,821</u>	<u>1,248,665</u>
Subtotal	45,537,058	47,155,485	45,376,470
Less accumulated depreciation	<u>(25,504,831)</u>	<u>(25,132,492)</u>	<u>(22,350,665)</u>
Property and equipment	<b><u>\$20,032,227</u></b>	<b><u>\$22,022,993</u></b>	<b><u>\$23,025,805</u></b>

Construction in progress at June 30, 2013 relates to the construction of a clinic, equipment deposits and equipment installations in progress.

### **Debt Administration**

At year end, the Health Center had \$8,260,000 in current and long-term debt related to Hospital Revenue Refunding Bonds, Series 2013. The Bonds were issued in fiscal year 2013 in the amount of \$9,685,000 to refund earlier issued Hospital Revenue Capital Loan Notes. More detailed information about the Bonds is presented in the Notes to Financial Statements. The Bonds represent 66% of the Health Center's total liabilities as of year end.

At year end, the Health Center had \$285,695 in current and long-term notes payable. This has decreased by \$491,310 in fiscal year 2013, which was the required amount of principal payment on the outstanding notes payable for the fiscal year 2013. More detailed information about the notes payable is presented in the Notes to Financial Statements. The notes payable represent 2% of the Health Center's total liabilities at year end.

### **Performance Compared to Hospital Budget**

The Health Center annually adopts a budget and presents it to the City Council for inclusion in the City's annual budget, which is adopted following required public notice and hearings for all funds. The City's annual budget may be amended during the year utilizing statutorily-prescribed procedures. A comparison of the Health Center's fiscal year 2013 actual results to its adopted budget is presented in Table 5.

**Table 5  
Actual vs Budget**

	<u>Actual results</u>	<u>Adopted budget</u>	<u>Variance</u>
Total revenue	\$47,331,504	\$49,479,798	\$(1,814,020)
Total expenses	(46,826,516)	(47,618,821)	792,305
Nonoperating gains (losses)	<u>(709,211)</u>	<u>(372,457)</u>	<u>(336,754)</u>
Net	\$ <u>(204,223)</u>	\$ <u>1,488,520</u>	\$ <u>(1,358,469)</u>

Actual total revenue was lower than adopted budget primarily due to an increase in contractual adjustments during the current year. Actual operating expenses were less than adopted budget primarily due to less salaries, payroll taxes and other operating expenses than expected.

### **Economic and Other Factors and Next Year's Budget**

The Health Center's board and management considered many factors when setting the fiscal year 2014 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

### **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>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 24,036	\$ 1,801,139
Assets whose use is limited-required for current liabilities	142,877	1,256,706
Patient receivables, less allowances for contractual adjustments and bad debts	8,388,435	7,497,009
Other receivables	202,543	211,599
Inventories	1,434,268	1,496,139
Prepaid expenses	317,817	336,850
Total current assets	<u>10,509,976</u>	<u>12,599,442</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	7,376,947	5,365,278
Interest receivable	13,347	11,086
	<u>7,390,294</u>	<u>5,376,364</u>
Restricted for payment of long-term debt and interest		
Cash and cash equivalents	1,027,877	1,891,049
Total assets whose use is limited	<u>8,418,171</u>	<u>7,267,413</u>
Less assets whose use is limited and that are required for current liabilities	142,877	1,256,706
Noncurrent assets whose use is limited	<u>8,275,294</u>	<u>6,010,707</u>
<b>PROPERTY AND EQUIPMENT</b>	45,537,058	47,155,485
Less accumulated depreciation	<u>25,504,831</u>	<u>25,132,492</u>
Total property and equipment	<u>20,032,227</u>	<u>22,022,993</u>
<b>OTHER ASSETS</b>		
Deferred loss on refunding	298,264	-
Unamortized financing costs	-	223,857
Physician practice intangibles	271,034	309,753
Total other assets	<u>569,298</u>	<u>533,610</u>
 Totals	<u>\$39,386,795</u>	<u>\$41,166,752</u>

		<b>June 30</b>	
<b>LIABILITIES AND NET POSITION</b>		<b>2013</b>	<b>2012</b>
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 1,701,307	\$ 1,706,310
Accounts payable		1,337,487	883,621
Accrued employee compensation		1,838,208	1,750,627
Payroll taxes and amounts withheld from employees		487,057	448,285
Accrued interest		12,063	41,706
Estimated third-party payor settlements		300,000	300,000
	Total current liabilities	<u>5,676,122</u>	<u>5,130,549</u>
	<b>LONG-TERM DEBT</b> , less current maturities	<u>6,844,388</u>	<u>8,965,695</u>
<b>NET POSITION</b>			
Net investment in capital assets		11,784,796	11,350,988
Restricted		1,027,877	1,891,049
Unrestricted		<u>14,053,612</u>	<u>13,828,471</u>
	Total net position	<u>26,866,285</u>	<u>27,070,508</u>
Totals		<u>\$39,386,795</u>	<u>\$41,166,752</u>

**Waverly Health Center**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2013 \$1,698,199; 2012 \$1,544,064	\$44,974,200	\$44,866,303
<b>OTHER REVENUE</b>	<u>2,357,304</u>	<u>4,611,080</u>
Total revenue	<u>47,331,504</u>	<u>49,477,383</u>
<b>OPERATING EXPENSES</b>		
Nursing service	9,499,019	9,383,409
Other professional service	19,218,929	19,340,756
General service	2,928,810	2,953,853
Fiscal and administrative service and unassigned expenses	12,328,679	11,870,860
Provision for depreciation	<u>2,851,079</u>	<u>2,932,246</u>
Total operating expenses	<u>46,826,516</u>	<u>46,481,124</u>
Operating income	<u>504,988</u>	<u>2,996,259</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Interest income	126,770	130,569
Interest and amortization expense	(866,997)	(670,793)
Loss on disposal of assets	(66,410)	(65,594)
Transfer from related foundation	<u>97,426</u>	<u>620,582</u>
Total nonoperating gains (losses)	<u>(709,211)</u>	<u>14,764</u>
Change in net position	(204,223)	3,011,023
<b>TOTAL NET POSITION</b>		
Beginning	<u>27,070,508</u>	<u>24,059,485</u>
Ending	<u>\$26,866,285</u>	<u>\$27,070,508</u>

See Notes to Financial Statements.

**Waverly Health Center  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$44,082,774	\$43,410,785
Cash paid to suppliers for goods and services	(20,563,631)	(21,422,031)
Cash paid to employees for services	(22,741,627)	(22,168,040)
Other operating revenue received	<u>2,357,304</u>	<u>4,611,080</u>
Net cash provided by operating activities	<u>3,134,820</u>	<u>4,431,794</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer from related foundation	<u>97,426</u>	<u>620,582</u>
Net cash provided by noncapital financing activities	<u>97,426</u>	<u>620,582</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(951,723)	(2,084,084)
Proceeds from sales of property and equipment	25,000	89,056
Interest paid on long-term debt	(634,064)	(599,455)
Proceeds from issuance of debt	-	480,300
Principal payments on long-term debt	<u>(2,424,574)</u>	<u>(1,883,662)</u>
Net cash (used in) capital and related financing activities	<u>(3,985,361)</u>	<u>(3,997,845)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>124,509</u>	<u>128,586</u>
Net cash provided by investing activities	<u>124,509</u>	<u>128,586</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(628,606)	1,183,117
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>9,057,466</u>	<u>7,874,349</u>
Ending	<u>\$ 8,428,860</u>	<u>\$ 9,057,466</u>

See Notes to Financial Statements.

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

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 504,988	\$2,996,259
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,851,079	2,932,246
Changes in assets and liabilities		
Patient receivables	(891,426)	(1,155,518)
Other receivables	9,056	94,900
Inventories	61,871	76,902
Prepaid expenses	19,033	(127,367)
Accounts payable	453,866	(293,188)
Accrued employee compensation	87,581	307,236
Payroll taxes and amounts withheld from employees	38,772	(99,676)
Estimated third-party payor settlements	<u>          —</u>	<u>  (300,000)</u>
Net cash provided by operating activities	<u>\$3,134,820</u>	<u>\$4,431,794</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets	\$ 24,036	\$1,801,139
Assets whose use is limited		
Designated by board for plant replacement and expansion	7,376,947	5,365,278
Restricted for payment of long-term debt and interest	<u>1,027,877</u>	<u>1,891,049</u>
Total per statement of cash flows	<u>\$8,428,860</u>	<u>\$9,057,466</u>
<b>SUMMARY OF NONCASH FINANCING ACTIVITIES</b>		
Issuance and refunding of long-term debt and related costs	<u>\$10,193,264</u>	<u>\$          —</u>

See Notes to Financial Statements.

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Health Center is a municipal hospital and is an enterprise fund 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.

**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**

The Health Center has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Cash and Cash Equivalents**

Cash and cash equivalents include money market funds and certificates of deposit.

**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.

**Deferred Loss on Refunding**

Deferred loss on refunding is being amortized over the life of the refunding debt, a five year period, using the straight-line method.

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

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Physician Practice Intangibles**

Physician practice intangibles, acquired in connection with the purchase of a medical clinic, are being amortized over a ten year period using the straight-line method.

**Net Position**

Net position is presented in the following three components:

**Net investment in capital assets**

Net investment in capital assets 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 net position 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 net position has no externally imposed restrictions on use.

When the Health Center has both restricted and unrestricted resources available to finance a particular program or project, it is the Health Center's policy to use restricted resources before unrestricted resources.

**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 Net Position**

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.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 2012 financial statements in order to conform with the 2013 presentation, with no effect on the change in net position.

**NOTE 2 CASH AND CASH EQUIVALENTS**

The Health Center's deposits at June 30, 2013 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:

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Medicare	\$ 4,260,015	\$ 2,706,352
Medicaid	532,624	861,696
Commercial insurance	4,128,078	3,975,602
Patients	2,736,541	2,770,170
Other governmental	<u>138,177</u>	<u>118,189</u>
Total patient receivables	11,795,435	10,432,009
Less allowances for contractual adjustments and bad debts	<u>(3,407,000)</u>	<u>(2,935,000)</u>
Net patient receivables	<u>\$ 8,388,435</u>	<u>\$ 7,497,009</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 Refunding Bonds are as follows for the year ended June 30, 2013:

	<u>Sinking Funds</u>	<u>Debt Reserve Funds</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ 146,801	\$1,744,248	\$1,891,049
Transfer from (to) current assets, cash	1,705,922	(103,813)	1,602,109
Interest earned	4,068	76,221	80,289
Principal and interest payments	(1,713,914)	(831,656)	(2,545,570)
<b>BALANCE</b> , end of year	<u>\$ 142,877</u>	<u>\$ 885,000</u>	<u>\$1,027,877</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

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

	<u>June 30, 2013</u>		<u>June 30, 2012</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 2,206,302	\$ -	\$ 2,206,302	\$ -
Land improvements	2,434,288	1,256,434	2,217,135	1,142,247
Buildings	6,676,860	2,225,284	6,655,261	2,017,179
Fixed equipment	18,260,422	10,569,505	18,379,218	9,717,801
Major movable equipment	15,608,149	11,453,608	17,523,748	12,255,265
Construction in progress	<u>351,037</u>	<u>-</u>	<u>173,821</u>	<u>-</u>
Totals	<u>\$45,537,058</u>	<u>\$25,504,831</u>	<u>\$47,155,485</u>	<u>\$25,132,492</u>

A summary of changes in property and equipment for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 2,206,302	\$ -	\$ -	\$ -	\$ 2,206,302
Land improvements	2,217,135	207,028	-	10,125	2,434,288
Buildings	6,655,261	21,599	-	-	6,676,860
Fixed equipment	18,379,218	12,651	131,447	-	18,260,422
Major movable equipment	17,523,748	523,104	2,438,703	-	15,608,149
Construction in progress	<u>173,821</u>	<u>187,341</u>	<u>-</u>	<u>(10,125)</u>	<u>351,037</u>
Totals	47,155,485	951,723	2,570,150	-	45,537,058
Less accumulated depreciation	<u>(25,132,492)</u>	<u>(2,851,079)</u>	<u>(2,478,740)</u>	<u>-</u>	<u>(25,504,831)</u>
Net property and equipment	<u>\$22,022,993</u>	<u>\$(1,899,356)</u>	<u>\$ 91,410</u>	<u>\$ -</u>	<u>\$20,032,227</u>

Construction in progress at June 30, 2013 consists of costs related to construction of a clinic, equipment deposits and equipment installations in progress.

**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, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 2,206,302	\$ -	\$ -	\$ -	\$ 2,206,302
Land improvements	2,165,128	52,007	-	-	2,217,135
Buildings	6,069,921	113,317	-	472,023	6,655,261
Fixed equipment	17,840,775	162,701	-	375,742	18,379,218
Major movable equipment	15,845,679	1,582,238	305,069	400,900	17,523,748
Construction in progress	<u>1,248,665</u>	<u>173,821</u>	<u>-</u>	<u>(1,248,665)</u>	<u>173,821</u>
Totals	45,376,470	2,084,084	305,069	-	47,155,485
Less accumulated depreciation	<u>(22,350,665)</u>	<u>(2,932,246)</u>	<u>(150,419)</u>	<u>-</u>	<u>(25,132,492)</u>
Net property and equipment	<u>\$23,025,805</u>	<u>\$ (848,162)</u>	<u>\$ 154,650</u>	<u>\$ -</u>	<u>\$22,022,993</u>

**NOTE 6 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Hospital Revenue Refunding Bonds, Series 2013	\$ 8,260,000	\$ -
Hospital Revenue Capital Loan Notes, Series 2004	-	4,455,000
Hospital Revenue Capital Loan Notes, Series 2003	-	4,945,000
Hospital Revenue Capital Loan Notes, Series 1999	-	495,000
Notes payable, equipment	<u>285,695</u>	<u>777,005</u>
Total	8,545,695	10,672,005
Less current maturities	<u>1,701,307</u>	<u>1,706,310</u>
Long-term debt, net of current maturities	<u>\$ 6,844,388</u>	<u>\$ 8,965,695</u>

**Hospital Revenue Refunding Bonds, Series 2013**

The Health Center issued Hospital Revenue Refunding Bonds, Series 2013 in the original amount of \$9,685,000. 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 1.2% to 2.35%. At June 30, 2013, the remaining balance on the Bonds is \$8,260,000.

The Hospital Revenue Refunding Bonds, Series 2013 require certain funds be maintained as follows:

A Reserve Fund in an amount equal to \$885,000.

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 2014 \$1,714,528; 2015 \$1,715,688; 2016 \$1,713,428; 2017 \$1,711,058 and 2018 \$1,003,358.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

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

**Hospital Revenue Refunding Bonds, Series 2013 (continued)**

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2013.

The Bonds 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 2004, 2003 and 1999**

The Health Center had issued Hospital Revenue Capital Loan Notes, Series 2004, 2003 and 1999 in the original amounts of \$6,200,000, \$9,800,000 and \$2,150,000, respectively. The Notes were refinanced during fiscal year ended June 30, 2013 using the proceeds from the Hospital Revenue Refunding Bonds, Series 2013.

As to the above Bonds, the Health Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to refinance capital improvements of the Health Center. The net revenues are pledged through June, 2018. As of June 30, 2013 the remaining principal and interest on the Bonds was \$8,753,060. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Bonds and Notes for the years ended June 30, 2013 and 2012:

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Change in net position	\$ (204,223)	\$3,011,023
Provision for depreciation	2,851,079	2,932,246
Interest expense on the Bonds and Notes	<u>384,139</u>	<u>551,468</u>
 Pledged net revenues	 <u>\$3,030,995</u>	 <u>\$6,494,737</u>
 Principal and interest requirements		
Hospital Revenue Refunding Bonds, Series 2013	\$1,463,428	\$ -
Hospital Revenue Capital Loan Notes, Series 2004	158,800	466,534
Hospital Revenue Capital Loan Notes, Series 2003	195,259	983,465
Hospital Revenue Capital Loan Notes, Series 1999	<u>21,294</u>	<u>266,105</u>
 Totals	 <u>\$1,838,781</u>	 <u>\$1,716,104</u>

The Health Center has a note agreement to finance the purchase of certain equipment. The note requires annual payments of \$45,518, including interest at 3.05%, with the final payment due January, 2014. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2013, the remaining balance on this note is \$44,176.

The Health Center has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$8,033, including interest at 4.59%, with the final payment due March, 2016. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2013, the remaining balance on this note is \$241,519.

**Waverly Health Center  
NOTES TO FINANCIAL STATEMENTS**

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

**Notes Payable, Equipment (continued)**

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Refunding Bonds</u>	<u>Notes payable</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$1,570,000	\$ 131,307	\$1,701,307	\$ 155,136	\$1,856,443
2015	1,590,000	91,215	1,681,215	130,872	1,812,087
2016	1,610,000	63,173	1,673,173	104,521	1,777,694
2017	1,635,000	-	1,635,000	76,058	1,711,058
2018	<u>1,855,000</u>	<u>-</u>	<u>1,855,000</u>	<u>43,358</u>	<u>1,898,358</u>
Total	8,260,000	285,695	8,545,695	509,945	9,055,640
Less current maturities	<u>1,570,000</u>	<u>131,307</u>	<u>1,701,307</u>	<u>155,136</u>	<u>1,856,443</u>
Total long-term debt	<u>\$6,690,000</u>	<u>\$ 154,388</u>	<u>\$6,844,388</u>	<u>\$ 354,809</u>	<u>\$7,199,197</u>

A summary of changes in long-term debt for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Refunding Bonds Series 2013	\$ -	\$9,685,000	\$ 1,425,000	\$8,260,000	\$1,570,000
Hospital Revenue Capital Loan Notes Series 2004	4,455,000	-	4,455,000	-	-
Series 2003	4,945,000	-	4,945,000	-	-
Series 1999	495,000	-	495,000	-	-
Notes payable	<u>777,005</u>	<u>-</u>	<u>491,310</u>	<u>285,695</u>	<u>131,307</u>
Totals	<u>\$10,672,005</u>	<u>\$9,685,000</u>	<u>\$11,811,310</u>	<u>\$8,545,695</u>	<u>\$1,701,307</u>

A summary of changes in long-term debt for the year ended June 30, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Capital Loan Notes Series 2004	\$ 4,700,000	\$ -	\$ 245,000	\$ 4,455,000	\$ 250,000
Series 2003	5,635,000	-	690,000	4,945,000	725,000
Series 1999	720,000	-	225,000	495,000	240,000
Notes payable	<u>1,020,367</u>	<u>480,300</u>	<u>723,662</u>	<u>777,005</u>	<u>491,310</u>
Totals	<u>\$12,075,367</u>	<u>\$ 480,300</u>	<u>\$1,883,662</u>	<u>\$10,672,005</u>	<u>\$1,706,310</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, 2011.

**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, 2013, regular plan members were required to contribute 5.78% of their annual salary and the Health Center is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$1,834,654, \$1,674,361 and \$1,367,075, 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, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Charges foregone, based on established rates	\$ <u>426,127</u>	\$ <u>289,895</u>
Equivalent percentage of charity care patients to all patients served	<u>.6%</u>	<u>.4%</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, 2013 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.

**NOTE 12 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Health Center has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*. An actuarial valuation has been performed and other post employment benefits have been judged by management to be immaterial to the financial statements.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

Board of Trustees  
Waverly Health Center  
Waverly, Iowa

We have audited the financial statements of Waverly Health Center as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 9, 2013, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
October 9, 2013

**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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
0 - 30 days (includes patients in Health Center at end of year)	\$ 5,859,561	\$ 5,873,321	49.68%	56.30%
31 - 60 days	2,486,625	1,741,329	21.08	16.69
61 - 90 days	1,092,534	715,013	9.26	6.85
91 - 120 days	639,086	465,011	5.42	4.46
121 - 365 days	1,446,495	1,462,663	12.26	14.02
Over one year	<u>271,134</u>	<u>174,672</u>	<u>2.30</u>	<u>1.68</u>
Totals	<u>11,795,435</u>	<u>10,432,009</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,400,000	870,000		
Medicaid	300,000	320,000		
Other	1,032,000	1,070,000		
Bad debts	<u>675,000</u>	<u>675,000</u>		
Total allowances	<u>3,407,000</u>	<u>2,935,000</u>		
Totals	<u>\$ 8,388,435</u>	<u>\$ 7,497,009</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 123,217</u>	<u>\$ 122,586</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>68</u>	<u>61</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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>BALANCE</b> , beginning	\$ 675,000	\$ 750,000		
<b>ADD</b>				
Provision for bad debts	1,698,199	1,544,064	3.78%	3.44%
Recoveries of accounts previously written off	<u>541,648</u>	<u>444,702</u>	1.20	0.99
	2,914,847	2,738,766		
<b>DEDUCT</b>				
Accounts written off	<u>2,239,847</u>	<u>2,063,766</u>	4.98	4.60
<b>BALANCE</b> , ending	<u>\$ 675,000</u>	<u>\$ 675,000</u>		

**Waverly Health Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2013, with comparative totals for 2012

	<b>2013</b>			<b>2012</b>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$ 2,664,591	\$ 845,909	\$ 3,510,500	\$ 3,574,082
Swing bed	566,580	-	566,580	563,680
Nursery	654,325	-	654,325	593,171
	<u>3,885,496</u>	<u>845,909</u>	<u>4,731,405</u>	<u>4,730,933</u>
<b>OTHER NURSING SERVICES</b>				
Medical services	-	466,066	466,066	654,586
Operating and recovery rooms	2,477,225	8,767,983	11,245,208	12,920,729
Delivery and labor rooms	447,444	1,863	449,307	434,188
Emergency service	79,010	6,924,875	7,003,885	5,919,625
Ambulance	-	2,253,964	2,253,964	1,804,989
Hospice	139,766	-	139,766	79,515
	<u>3,143,445</u>	<u>18,414,751</u>	<u>21,558,196</u>	<u>21,813,632</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	926,101	7,668,328	8,594,429	7,518,540
Radiology	336,238	13,872,552	14,208,790	12,278,234
Pharmacy	1,058,921	3,316,109	4,375,030	4,265,098
Anesthesiology	109,580	1,501,357	1,610,937	1,807,909
Respiratory therapy and electrocardiology	345,147	2,232,295	2,577,442	2,754,391
Cardiac rehabilitation	-	331,815	331,815	335,523
Physical therapy	370,745	4,212,557	4,583,302	4,129,814
Speech therapy	23,092	79,549	102,641	93,399
Occupational therapy	250,641	266,000	516,641	396,350
Clinics	-	13,193,872	13,193,872	12,080,118
Medical spa	-	121,785	121,785	152,812
	<u>3,420,465</u>	<u>46,796,219</u>	<u>50,216,684</u>	<u>45,812,188</u>
Totals	<u>\$10,449,406</u>	<u>\$66,056,879</u>	76,506,285	72,356,753
Charity care charges foregone, based on established rates			(426,127)	(289,895)
Total gross patient service revenue			76,080,158	72,066,858
Provisions for contractual adjustments and bad debts			(31,105,958)	(27,200,555)
Total net patient service revenue			<u>\$44,974,200</u>	<u>\$44,866,303</u>

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

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Contractual adjustments		
Medicare	\$10,892,269	\$ 9,057,903
Medicaid	2,356,173	2,284,998
Other adjustments	16,159,317	14,313,590
Provision for bad debts	<u>1,698,199</u>	<u>1,544,064</u>
 Totals	 <u>\$31,105,958</u>	 <u>\$27,200,555</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Electronic health records incentive revenue, net	\$ (162,033)	\$2,121,691
Cafeteria	162,153	167,985
Wellness	11,865	11,266
Retail pharmacy	1,775,445	1,830,508
Rental income	53,131	48,620
Miscellaneous	<u>516,743</u>	<u>431,010</u>
 Totals	 <u>\$2,357,304</u>	 <u>\$4,611,080</u>

**Waverly Health Center**  
**EXPENSES**  
Year ended June 30, 2013, with comparative totals for 2012

	<b>2013</b>			<b>2012</b>
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Total</b>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 396,253	\$ 101,239	\$ 497,492	\$ 417,682
Medical, surgical and obstetrical	1,833,540	280,727	2,114,267	2,142,794
Nursery	323,258	1,425	324,683	311,285
Observation	240,532	14,142	254,674	219,065
Operating and recovery rooms	953,030	1,932,632	2,885,662	3,046,211
Delivery and labor rooms	96,007	4,150	100,157	89,708
Central supply	—	26,703	26,703	24,311
Emergency service	2,363,098	183,331	2,546,429	2,455,402
Ambulance	650,104	46,307	696,411	640,172
Hospice	52,541	—	52,541	36,779
Total nursing service	<u>6,908,363</u>	<u>2,590,656</u>	<u>9,499,019</u>	<u>9,383,409</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	816,561	1,327,446	2,144,007	2,160,814
Radiology	958,071	657,126	1,615,197	1,465,495
Pharmacy	498,791	1,102,239	1,601,030	1,545,861
Retail pharmacy	321,124	1,360,840	1,681,964	1,753,291
Anesthesiology	710,693	72,277	782,970	788,067
Respiratory therapy and electrocardiology	420,952	231,031	651,983	692,874
Cardiac rehabilitation	136,563	29,304	165,867	150,332
Physical therapy	—	2,150,072	2,150,072	2,098,859
Speech therapy	74,977	3,444	78,421	66,429
Occupational therapy	—	349,738	349,738	289,663
Integrative therapy	60,937	1,149	62,086	52,783
Occupational health	22,655	2,638	25,293	18,566
Clinics	5,879,063	1,322,771	7,201,834	7,494,446
Medical spa	60,711	51,313	112,024	122,637
Health information management	486,220	36,597	522,817	569,703
Social services	70,480	3,146	73,626	70,936
Total other professional service	<u>10,517,798</u>	<u>8,701,131</u>	<u>19,218,929</u>	<u>19,340,756</u>
<b>GENERAL SERVICE</b>				
Nutrition services	538,090	230,415	768,505	734,247
Plant services	420,415	904,505	1,324,920	1,372,422
Environmental services	566,654	153,455	720,109	736,026
Laundry	74,219	41,057	115,276	111,158
Total general service	<u>1,599,378</u>	<u>1,329,432</u>	<u>2,928,810</u>	<u>2,953,853</u>
<b>FISCAL AND AMINISTRATIVE SERVICE</b>				
Administrative services	1,350,870	711,898	2,062,768	2,054,205
Fiscal services	182,753	8,049	190,802	176,431
Human resources	207,455	41,991	249,446	276,583
Marketing	275,001	225,032	500,033	436,059
Business office	1,068,745	387,457	1,456,202	1,390,665
Data processing	572,311	875,263	1,447,574	1,236,774
Purchasing	146,534	1,172	147,706	141,264

**Waverly Health Center**  
**EXPENSES (continued)**  
Year ended June 30, 2013, with comparative totals for 2012

	<u>2013</u>			<u>2012</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>UNASSIGNED EXPENSES</b>				
FICA	\$ —	\$ 1,459,687	\$ 1,459,687	\$ 1,431,119
IPERS	—	1,834,654	1,834,654	1,674,361
Group health, life and other benefits	—	2,465,418	2,465,418	2,440,885
Workers compensation insurance	—	237,335	237,335	275,053
Insurance	—	<u>277,054</u>	<u>277,054</u>	<u>337,461</u>
Total fiscal and administrative service and unassigned expenses	<u>3,803,669</u>	<u>8,525,010</u>	<u>12,328,679</u>	<u>11,870,860</u>
<b>PROVISION FOR DEPRECIATION</b>	<u>—</u>	<u>2,851,079</u>	<u>2,851,079</u>	<u>2,932,246</u>
Total expenses	<u>\$22,829,208</u>	<u>\$23,997,308</u>	<u>\$46,826,516</u>	<u>\$46,481,124</u>

**Waverly Health Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	2,255	2,329
Swing bed	994	1,040
Nursery	<u>553</u>	<u>530</u>
Totals	<u>3,802</u>	<u>3,899</u>
<b>DISCHARGES</b>		
Medical, surgical and obstetrical	807	825
Swing bed	156	140
Nursery	<u>261</u>	<u>247</u>
Totals	<u>1,224</u>	<u>1,212</u>
<b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	2.79	2.82
Swing bed	6.37	7.43
Nursery	2.12	2.15

**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, in accordance with the 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, the financial statements of Waverly Health Center, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

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 that a material misstatement of the Health Center's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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, 2013 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 presented in Part II of the accompanying Schedule of Findings.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
October 9, 2013

**Waverly Health Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2013**

**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, 2013**

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

**13-II-A CERTIFIED BUDGET**

Based on a comparison of actual and budgeted expenditures, it appears the Health Center did not exceed its budget for the year ended June 30, 2013.

**13-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Health Center funds were noted.

**13-II-C TRAVEL EXPENSES**

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

**13-II-D BUSINESS TRANSACTIONS**

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

**13-II-E BOARD MINUTES**

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

**13-II-F 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.