

**Waverly Health Center
Waverly, Iowa**

FINANCIAL REPORT

June 30, 2015

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**Waverly Health Center
OFFICIALS
June 30, 2015**

BOARD OF TRUSTEES

Expiration of term

Officers

Susan Vallem, Chair
Roger Johnson, Secretary

December 31, 2015
December 31, 2017

Members

Gloria Campbell
John Johnston
Barbara Lutz

December 31, 2015
December 31, 2015
December 31, 2017

CHIEF EXECUTIVE OFFICER

Jim Atty

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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the Health Center adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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, 2015 and 2014, 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, the schedule of the Health Center's proportionate share of the net position liability, and the schedule of Health Center pension contributions on pages 6-10 and 32-33 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 23, 2015, 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 23, 2015

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, 2015 and 2014. 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 statement of net position includes the Health Center's assets, liabilities, deferred outflows and deferred inflows 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 \$367,825, or 1%, to \$38,997,760
- Total noncurrent assets whose use is limited increased by \$2,035,962 to \$11,119,702
- Total capital assets decreased by \$1,778,548 to \$17,589,450
- Total net position increased by \$3,062,931 to \$14,023,673
- Current and long-term debt decreased by \$1,855,378 to \$5,787,428
- Net patient service revenue increased by \$3,411,263, or 8%, to \$48,841,024
- Operating expenses increased by \$296,061, or 1%, to \$48,477,077

Financial Analysis of the Health Center

The statements of net position and the statements of revenues, expenses, and changes in net position report the net position of the Health Center and the changes in them. The Health Center's net position is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's net position is 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 statements of net position is presented in Table 1.

Table 1
Condensed Statements of Net Position

	June 30		
	2015	2014 (Not restated)	2013 (Not restated)
Current assets	\$10,095,012	\$10,681,532	\$10,509,976
Noncurrent assets whose use is limited	11,119,702	9,083,740	8,275,294
Capital assets	17,589,450	19,367,998	20,032,227
Other asset	<u>193,596</u>	<u>232,315</u>	<u>271,034</u>
Total assets	<u>38,997,760</u>	<u>39,365,585</u>	<u>39,088,531</u>
Deferred outflows of resources	<u>2,827,718</u>	<u>234,350</u>	<u>298,264</u>
Current liabilities	6,358,769	6,954,044	5,676,122
Long-term debt, less current maturities	3,935,782	5,787,410	6,844,388
Net pension liability	<u>12,418,969</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>22,713,520</u>	<u>12,741,454</u>	<u>12,520,510</u>
Deferred inflows of resources	<u>5,088,285</u>	<u>—</u>	<u>—</u>
Net investment in capital assets	11,972,459	11,959,542	11,784,796
Unrestricted	<u>2,051,214</u>	<u>14,898,939</u>	<u>15,081,489</u>
Total net position	<u>\$14,023,673</u>	<u>\$26,858,481</u>	<u>\$26,866,285</u>

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated and decreased by \$15,897,739 to retroactively report the net pension liability as of June 30, 2014 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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 Revenues, Expenses, and Changes in Net Position

	Year ended June 30		
	2015	2014 (Not restated)	2013 (Not restated)
Net patient service revenue	\$48,841,024	\$45,429,761	\$44,974,200
Other revenue	<u>2,641,874</u>	<u>2,665,768</u>	<u>2,357,304</u>
Total operating revenue	<u>51,482,898</u>	<u>48,095,529</u>	<u>47,331,504</u>
Salaries	23,902,323	23,310,307	22,829,208
Supplies and expenses	21,862,659	21,983,161	21,146,229
Provision for depreciation	<u>2,712,095</u>	<u>2,887,548</u>	<u>2,851,079</u>
Total operating expenses	<u>48,477,077</u>	<u>48,181,016</u>	<u>46,826,516</u>
Operating income (loss)	<u>3,005,821</u>	<u>(85,487)</u>	<u>504,988</u>
Investment income	51,642	68,394	126,770
Interest and amortization expense	(260,892)	(281,092)	(866,997)
Loss on disposal of assets	-	-	(66,410)
Transfer from related foundation	<u>266,360</u>	<u>290,381</u>	<u>97,426</u>
Total nonoperating gains (losses)	<u>57,110</u>	<u>77,683</u>	<u>(709,211)</u>
Change in net position	3,062,931	(7,804)	(204,223)
Total net position, beginning	<u>10,960,742</u>	<u>26,866,285</u>	<u>27,070,508</u>
Total net position, ending	<u>\$14,023,673</u>	<u>\$26,858,481</u>	<u>\$26,866,285</u>

Operating and Financial Performance

The following summarizes the Health Center's statement of revenues, expenses and changes in net position between June 30, 2015 and 2014.

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 2015 were 773 compared to 724 in fiscal year 2014. Average length of stay decreased slightly as patient days increased to 2,164 from 2,090 in 2014. Volume on the outpatient side indicated significant positive growth in 2015. In 2015, gross outpatient charges increased to \$77,818,087 compared to \$70,763,162 in 2014. Operating and recovery rooms, laboratory and clinics were the departments with the most significant growth in 2015.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2015. Overall, gross patient service revenue increased to \$88,430,014 from \$80,371,374 in 2014.

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 \$39,588,990 in 2015 from \$34,941,613 in 2014. This represents 45% and 43% of gross patient charges for 2015 and 2014, 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

	<u>Year ended June 30</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Medicare	39%	34%	35%
Medicaid	10	9	8
Commercial insurance	49	54	55
Patients	<u>2</u>	<u>3</u>	<u>2</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue was \$2,641,874 in 2015 compared to \$2,665,768 in 2014.

Operating Expenses

Approximately 49% of Health Center's expenses are for salaries. Total salaries increased by 3% to \$23,902,323 in 2015 from \$23,310,307 in 2014. The Health Center department experiencing the most significant increase in 2015 was clinics.

Approximately 45% of Health Center's expenses are for supplies and expenses. Total supplies and expenses decreased to \$21,862,659 in 2015 from \$21,983,161 in 2014. The most significant decrease related to IPERS expense.

Approximately 6% of Health Center's expenses relate to provision for depreciation. This provision for depreciation decreased to \$2,712,095 in 2015 from \$2,887,548 in 2014.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$57,110 in 2015 from \$77,683 in 2014.

Capital Assets

At the end of 2015, the Health Center had \$17,589,450 invested in capital assets, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in capital assets. In 2015, \$933,547 was spent to acquire new capital assets.

A summary of the Health Center's capital assets is presented in Table 4.

Table 4
Capital Assets

	June 30		
	2015	2014	2013
Land	\$ 2,206,302	\$ 2,206,302	\$ 2,206,302
Land improvements	2,439,773	2,439,773	2,434,288
Buildings	6,689,227	6,689,227	6,676,860
Fixed equipment	19,036,221	19,045,934	18,260,422
Major movable equipment	18,207,737	17,077,536	15,608,149
Construction in progress	<u>27,779</u>	<u>288,390</u>	<u>351,037</u>
Subtotal	48,607,039	47,747,162	45,537,058
Less accumulated depreciation	<u>(31,017,589)</u>	<u>(28,379,164)</u>	<u>(25,504,831)</u>
Capital assets	<u>\$17,589,450</u>	<u>\$19,367,998</u>	<u>\$20,032,227</u>

Construction in progress at June 30, 2015 relates to equipment deposits and equipment installations in progress.

Debt Administration

At year end, the Health Center had \$5,100,000 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 22% of the Health Center's total liabilities as of year end.

At year end, the Health Center had \$687,428 in current and long-term notes payable. More detailed information about the notes payable is presented in the Notes to Financial Statements. The notes payable represent 3% of the Health Center's total liabilities at year end.

Deferred Outflows and Inflows of Resources

As of June 30, 2015, the Health Center reported \$2,827,718 of deferred outflows of resources and \$5,088,285 of deferred inflows of resources. The Notes to the Financial Statements provide more detail regarding the nature and components of the deferred outflows and inflows of resources.

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 2015 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	\$51,482,898	\$50,737,238	\$ 745,660
Total expenses	(48,477,077)	(49,143,921)	666,844
Nonoperating gains (losses)	<u>57,110</u>	<u>(51,741)</u>	<u>108,851</u>
Net	<u>\$ 3,062,931</u>	<u>\$ 1,541,576</u>	<u>\$1,521,355</u>

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2016 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
STATEMENTS OF NET POSITION

	June 30	
	<u>2015</u>	<u>2014</u> <small>(Not restated)</small>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,211,462	\$ 410,636
Assets whose use is limited-required for current liabilities	140,524	142,994
Patient receivables, less allowances for contractual adjustments and bad debts	6,775,316	8,281,507
Other receivables	176,153	144,033
Estimated third-party payor settlements	207,000	-
Inventories	1,126,052	1,302,897
Prepaid expenses	458,505	399,465
Total current assets	<u>10,095,012</u>	<u>10,681,532</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	10,232,480	8,196,617
Interest receivable	<u>2,222</u>	<u>2,123</u>
	10,234,702	8,198,740
Restricted for payment of long-term debt and interest		
Cash and cash equivalents	<u>1,025,524</u>	<u>1,027,994</u>
Total assets whose use is limited	11,260,226	9,226,734
Less assets whose use is limited and that are required for current liabilities	<u>140,524</u>	<u>142,994</u>
Noncurrent assets whose use is limited	<u>11,119,702</u>	<u>9,083,740</u>
CAPITAL ASSETS		
Less accumulated depreciation	48,607,039	47,747,162
Total capital assets	<u>31,017,589</u>	<u>28,379,164</u>
	<u>17,589,450</u>	<u>19,367,998</u>
OTHER ASSET		
Physician practice intangibles	<u>193,596</u>	<u>232,315</u>
Total assets	<u>38,997,760</u>	<u>39,365,585</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	170,437	234,350
Pension related deferred outflows	<u>2,657,281</u>	<u>-</u>
Total deferred outflows of resources	<u>2,827,718</u>	<u>234,350</u>

See Notes to Financial Statements.

	June 30	
	<u>2015</u>	<u>2014</u> (Not restated)
CURRENT LIABILITIES		
Line of credit	\$ 483,032	\$ 598,659
Current maturities of long-term debt	1,851,646	1,855,396
Accounts payable	1,022,994	1,718,366
Accrued employee compensation	2,137,056	1,907,187
Payroll taxes and amounts withheld from employees	308,403	313,942
Accrued interest	8,638	10,494
Estimated third-party payor settlements	<u>547,000</u>	<u>550,000</u>
Total current liabilities	<u>6,358,769</u>	<u>6,954,044</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	3,935,782	5,787,410
Net pension liability	<u>12,418,969</u>	<u>—</u>
Total long-term liabilities	<u>16,354,751</u>	<u>5,787,410</u>
Total liabilities	<u>22,713,520</u>	<u>12,741,454</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	<u>5,088,285</u>	<u>—</u>
NET POSITION		
Net investment in capital assets	11,972,459	11,959,542
Unrestricted	<u>2,051,214</u>	<u>14,898,939</u>
Total net position	<u>\$14,023,673</u>	<u>\$26,858,481</u>

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

	Year ended June 30	
	2015	2014
		(Not restated)
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2015 \$1,489,135; 2014 \$1,749,736	\$48,841,024	\$45,429,761
OTHER REVENUE	<u>2,641,874</u>	<u>2,665,768</u>
Total revenue	<u>51,482,898</u>	<u>48,095,529</u>
OPERATING EXPENSES		
Nursing service	9,455,054	9,274,717
Other professional service	21,126,249	20,308,359
General service	2,882,257	2,899,789
Fiscal and administrative service and unassigned expenses	12,301,422	12,810,603
Provision for depreciation	<u>2,712,095</u>	<u>2,887,548</u>
Total operating expenses	<u>48,477,077</u>	<u>48,181,016</u>
Operating income (loss)	<u>3,005,821</u>	<u>(85,487)</u>
NONOPERATING GAINS (LOSSES)		
Interest income	51,642	68,394
Interest and amortization expense	(260,892)	(281,092)
Transfer from related foundation	<u>266,360</u>	<u>290,381</u>
Total nonoperating gains (losses)	<u>57,110</u>	<u>77,683</u>
Change in net position	3,062,931	(7,804)
TOTAL NET POSITION		
Beginning, as restated	<u>10,960,742</u>	<u>26,866,285</u>
Ending	<u>\$14,023,673</u>	<u>\$26,858,481</u>

See Notes to Financial Statements.

**Waverly Health Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2015	2014
		(Not restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$50,137,215	\$45,786,689
Cash paid to suppliers for goods and services	(23,525,651)	(21,667,164)
Cash paid to employees for services	(23,672,454)	(23,241,328)
Other operating revenue received	2,641,874	2,665,768
Net cash provided by operating activities	<u>5,580,984</u>	<u>3,543,965</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from related foundation	<u>266,360</u>	<u>290,381</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(933,547)	(2,223,319)
Interest paid on long-term debt	(160,116)	(180,028)
Net proceeds from (payments on) line of credit	(115,627)	598,659
Proceeds from issuance of debt	-	844,153
Principal payments on long-term debt	<u>(1,855,378)</u>	<u>(1,747,042)</u>
Net cash (used in) capital and related financing activities	<u>(3,064,668)</u>	<u>(2,707,577)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>51,543</u>	<u>79,618</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,834,219	1,206,387
CASH AND CASH EQUIVALENTS		
Beginning	<u>9,635,247</u>	<u>8,428,860</u>
Ending	<u>\$12,469,466</u>	<u>\$ 9,635,247</u>

See Notes to Financial Statements.

Waverly Health Center
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2015	2014
		<small>(Not restated)</small>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 3,005,821	\$ (85,487)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,712,095	2,887,548
Changes in assets, liabilities, deferred outflows and deferred inflows		
Patient receivables	1,506,191	106,928
Other receivables	(32,120)	58,510
Estimated third-party payor settlements	(210,000)	250,000
Inventories	176,845	131,371
Prepaid expenses	(59,040)	(81,648)
Pension related deferred outflows	(727,974)	-
Accounts payable	(695,372)	380,879
Accrued employee compensation	229,869	68,979
Payroll taxes and amounts withheld from employees	(5,539)	(173,115)
Net pension liability	(5,408,077)	-
Deferred inflows of resources	5,088,285	-
Net cash provided by operating activities	\$ 5,580,984	\$3,543,965
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE STATEMENTS OF NET POSITION		
Per statements of net position		
Current assets	\$ 1,211,462	\$ 410,636
Assets whose use is limited		
Designated by board for plant replacement and expansion	10,232,480	8,196,617
Restricted for payment of long-term debt and interest	1,025,524	1,027,994
Total per statements of cash flows	\$12,469,466	\$9,635,247

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 Health Center has no significant 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 all certificates of deposit.

Capital Assets

Capital asset 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.

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 Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred loss on refunding is being amortized over the life of the refunding debt, a five year period, using the straight-line method. Pension related deferred outflows consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Pension related deferred inflows in the statement of net position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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. The Health Center has no restricted net assets.

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.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Charity Care

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenues, Expenses and Changes in 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.

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 2014 financial statements in order to conform with the 2015 presentation with no effect on the change in net position.

NOTE 2 CASH AND CASH EQUIVALENTS

The Health Center's deposits at June 30, 2015 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.

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 PATIENT RECEIVABLES

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

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Medicare	\$ 3,086,617	\$ 3,185,011
Medicaid	1,129,407	1,040,109
Commercial insurance	4,305,303	5,004,612
Patients	2,473,986	2,302,328
Other governmental	<u>75,003</u>	<u>75,447</u>
Total patient receivables	11,070,316	11,607,507
Less allowances for contractual adjustments and bad debts	<u>(4,295,000)</u>	<u>(3,326,000)</u>
Net patient receivables	<u>\$ 6,775,316</u>	<u>\$ 8,281,507</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest on Hospital Revenue Refunding Bonds are as follows for the year ended June 30, 2015:

	<u>Sinking Funds</u>	<u>Debt Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 142,994	\$ 885,000	\$1,027,994
Transfer from (to) current assets, cash	1,711,096	(3,007)	1,708,089
Interest earned	2,856	3,007	5,863
Principal and interest payments	<u>(1,716,422)</u>	<u>—</u>	<u>(1,716,422)</u>
BALANCE , end of year	<u>\$ 140,524</u>	<u>\$ 885,000</u>	<u>\$1,025,524</u>

NOTE 5 CAPITAL ASSETS

A summary of capital assets and related accumulated depreciation follows:

	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 2,206,302	\$ —	\$ 2,206,302	\$ —
Land improvements	2,439,773	1,478,609	2,439,773	1,368,601
Buildings	6,689,227	2,606,870	6,689,227	2,421,856
Fixed equipment	19,036,221	12,492,808	19,045,934	11,520,897
Major movable equipment	18,207,737	14,439,302	17,077,536	13,067,810
Construction in progress	<u>27,779</u>	<u>—</u>	<u>288,390</u>	<u>—</u>
Totals	<u>\$48,607,039</u>	<u>\$31,017,589</u>	<u>\$47,747,162</u>	<u>\$28,379,164</u>

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (continued)

A summary of changes in capital assets for the year ended June 30, 2015 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	2,439,773	-	-	-	2,439,773
Buildings	6,689,227	-	-	-	6,689,227
Fixed equipment	19,045,934	-	9,713	-	19,036,221
Major movable equipment	17,077,536	905,768	63,957	288,390	18,207,737
Construction in progress	<u>288,390</u>	<u>27,779</u>	<u>-</u>	<u>(288,390)</u>	<u>27,779</u>
Totals	47,747,162	933,547	73,670	-	48,607,039
Less accumulated depreciation	<u>(28,379,164)</u>	<u>(2,712,095)</u>	<u>(73,670)</u>	<u>-</u>	<u>(31,017,589)</u>
Net capital assets	<u>\$19,367,998</u>	<u>\$(1,778,548)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$17,589,450</u>

Construction in progress at June 30, 2015 consists of equipment deposits and equipment installations in progress.

A summary of changes in capital assets for the year ended June 30, 2014 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	2,434,288	5,485	-	-	2,439,773
Buildings	6,676,860	12,367	-	-	6,689,227
Fixed equipment	18,260,422	742,024	-	43,488	19,045,934
Major movable equipment	15,608,149	1,168,903	13,215	313,699	17,077,536
Construction in progress	<u>351,037</u>	<u>294,540</u>	<u>-</u>	<u>(357,187)</u>	<u>288,390</u>
Totals	45,537,058	2,223,319	13,215	-	47,747,162
Less accumulated depreciation	<u>(25,504,831)</u>	<u>(2,887,548)</u>	<u>(13,215)</u>	<u>-</u>	<u>(28,379,164)</u>
Net capital assets	<u>\$20,032,227</u>	<u>\$(664,229)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$19,367,998</u>

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit

The Health Center has entered into a line of credit agreement for \$650,000 expiring October, 2020. The line is due on demand and requires monthly payments of interest at 3.5%. The principal balance was \$483,032 at June 30, 2015.

Long-term Debt

Long-term debt is summarized as follows:

	Year ended June 30	
	2015	2014
Hospital Revenue Refunding Bonds, Series 2013	\$5,100,000	\$6,690,000
Notes payable, equipment	<u>687,428</u>	<u>952,806</u>
Total	5,787,428	7,642,806
Less current maturities	<u>1,851,646</u>	<u>1,855,396</u>
Long-term debt, net of current maturities	<u><u>\$3,935,782</u></u>	<u><u>\$5,787,410</u></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 1.7% to 2.35%. At June 30, 2015, the remaining balance on the Bonds is \$5,100,000.

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 three years total 2016 \$1,713,428; 2017 \$1,711,058 and 2018 \$1,013,358.

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, 2015.

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.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 6 LINE OF CREDIT AND LONG-TERM DEBT (continued)

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, 2015 the remaining principal and interest on the Bonds was \$5,322,844. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Bonds for the years ended June 30, 2015 and 2014:

	Year ended June 30	
	2015	2014
Change in net position	\$3,062,931	\$ (7,804)
Provision for depreciation	2,712,095	2,887,548
Interest expense on the Bonds	124,067	143,193
 Pledged net revenues	 \$5,899,093	 \$3,022,937
 Principal and interest requirements		
Hospital Revenue Refunding Bonds, Series 2013	\$1,715,923	\$1,714,763

Notes Payable, Equipment

The Health Center has a 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, 2015, the remaining balance on this note is \$63,190.

The Health Center has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$13,966, including interest at 2.84%, with the final payment due March, 2019. The note is collateralized by the equipment purchased by the Health Center. At June 30, 2015, the remaining balance on this note is \$585,967.

The Health Center has a third note agreement to finance the purchase of certain software. The note requires monthly principal payments of \$2,126 with the final payment due December, 2016. The note does not provide for interest and is collateralized by the software purchased by the Health Center. At June 30, 2015, the remaining balance on this note is \$38,271.

Maturities required on long-term debt are as follows:

Year ending June 30	Revenue Refunding Bonds	Notes payable	Total principal	Interest	Total
2016	\$1,610,000	\$ 241,646	\$1,851,646	\$ 119,174	\$1,970,820
2017	1,635,000	170,097	1,805,097	86,313	1,891,410
2018	1,855,000	161,865	2,016,865	49,088	2,065,953
2019	-	113,820	113,820	1,250	115,070
Total	5,100,000	687,428	5,787,428	255,825	6,043,253
Less current maturities	1,610,000	241,646	1,851,646	119,174	1,970,820
 Total long-term debt	 \$3,490,000	 \$ 445,782	 \$3,935,782	 \$ 136,651	 \$4,072,433

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LINE OF CREDIT AND LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2015 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	\$6,690,000	\$ -	\$1,590,000	\$5,100,000	\$1,610,000
Notes payable	<u>952,806</u>	<u>-</u>	<u>265,378</u>	<u>687,428</u>	<u>241,646</u>
Totals	<u>\$7,642,806</u>	<u>\$ -</u>	<u>\$1,855,378</u>	<u>\$5,787,428</u>	<u>\$1,851,646</u>

A summary of changes in long-term debt for the year ended June 30, 2014 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	\$8,260,000	\$ -	\$1,570,000	\$6,690,000	\$1,590,000
Notes payable	<u>285,695</u>	<u>844,153</u>	<u>177,042</u>	<u>952,806</u>	<u>265,396</u>
Totals	<u>\$8,545,695</u>	<u>\$ 844,153</u>	<u>\$1,747,042</u>	<u>\$7,642,806</u>	<u>\$1,855,396</u>

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the fiscal intermediary. The Health Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012.

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.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN

Plan Description

IPERS is a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System. Membership is mandatory for employees of the Health Center, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Health Center contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the Health Center contributed 10.14 percent for a total rate of 16.90 percent.

The Health Center's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$1,980,817 and \$1,929,307, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2015, the Health Center reported a liability of \$12,418,969 for its proportionate share of the net pension liability. The Health Center net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health Center's proportion of the net pension liability was based on the Health Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. The following table summarizes the change in the Health Center's proportionate share:

	June 30		Change
	2014	2013	
Health Center's proportionate share	0.313143%	0.310485%	0.002658%

For the year ended June 30, 2015, the Health Center recognized pension expense of \$933,055. At June 30, 2015, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 120,964	\$ -
Change in assumptions	555,500	-
Net difference between projected and actual earnings on pension plan investments	-	4,977,444
Change in proportion and difference between Health Center contributions and proportionate share of contributions	-	110,841
Health Center contributions subsequent to the measurement date	<u>1,980,817</u>	<u>-</u>
Totals	<u>\$2,657,281</u>	<u>\$5,088,285</u>

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

\$1,980,817 reported as deferred outflows of resources related to pensions resulting from the Health Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Regular Members</u>	<u>Protection Occupation Members</u>	<u>Total</u>
2016	\$(1,065,839)	\$ (46,366)	\$(1,112,205)
2017	(1,065,839)	(46,366)	(1,112,205)
2018	(1,065,839)	(46,366)	(1,112,205)
2019	(1,065,840)	(46,365)	(1,112,205)
2020	<u>37,817</u>	<u>(818)</u>	<u>36,999</u>
Totals	\$(<u>4,225,540</u>)	\$ (<u>186,281</u>)	\$(<u>4,411,821</u>)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Health Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Health Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Health Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Health Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Health Center's proportionate share of the net pension liability (asset)	<u>\$23,985,754</u>	<u>\$12,418,969</u>	<u>\$2,655,936</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

**Waverly Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

Payables to the Pension Plan

At June 30, 2015, the Health Center reported payables to the defined benefit pension plan of approximately \$100,000 for legally required employer contributions and approximately \$150,000 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Charges foregone, based on established rates	\$ <u>260,548</u>	\$ <u>521,800</u>
Equivalent percentage of charity care patients to all patients served	<u>.3%</u>	<u>.7%</u>

NOTE 10 MALPRACTICE CLAIMS

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

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

Incidents occurring through June 30, 2015 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.

Waverly Health Center
NOTES TO FINANCIAL STATEMENTS

NOTE 13 ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for the fiscal year ended June 30, 2015 was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net position</u>
Net position June 30, 2014, as previously reported	\$26,858,481
Net pension liability at June 30, 2014	(17,827,046)
Deferred outflows of resources related to contributions made After the June 30, 2013 measurement date	<u>1,929,307</u>
Net position July 1, 2014, as restated	<u>\$10,960,742</u>

Waverly Health Center
SCHEDULE OF THE HEALTH CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	<u>June 30, 2015</u>
Health Center's proportion of the net pension liability	0.313143%
Health Center's proportionate share of the net pension liability	\$12,419
Health Center's total payroll	\$23,902
Health Center's proportionate share of the net pension liability as a percentage of its total payroll	52%
Plan fiduciary net position as a percentage of the total pension liability	88%

See accompanying notes to required supplementary information - pension liability.

Waverly Health Center
SCHEDULE OF HEALTH CENTER PENSION CONTRIBUTIONS
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	<u>Year ended June 30</u>			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 1,981	\$ 1,929	\$ 1,835	\$ 1,674
Contributions in relation to the statutorily required contribution	<u>1,981</u>	<u>1,929</u>	<u>1,835</u>	<u>1,674</u>
Contribution deficiency (excess)	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
Health Center's total payroll	\$23,902	\$23,310	\$22,829	\$22,475
Contributions as a percentage of total payroll	8.3%	8.3%	8.0%	7.5%

See accompanying notes to required supplementary information - pension liability.

Year ended June 30

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,367	\$ 1,162	\$ 1,089	\$ 897	\$ 733	\$ 585
<u>1,367</u>	<u>1,162</u>	<u>1,089</u>	<u>897</u>	<u>733</u>	<u>585</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$20,550	\$18,367	\$18,165	\$15,572	\$13,166	\$10,914
6.7%	6.3%	6.0%	5.8%	5.6%	5.4%

Waverly Health Center
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
Year ended June 30, 2015

CHANGES OF BENEFIT TERMS

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

CHANGES OF ASSUMPTIONS

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.



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, 2015 and 2014, and our report thereon dated October 23, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 4-5. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited", 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 23, 2015

**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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
0 - 30 days (includes patients in Health Center at end of year)	\$ 6,496,352	\$ 6,860,190	58.68%	59.10%
31 - 60 days	1,733,702	1,494,600	15.66	12.88
61 - 90 days	741,535	883,939	6.70	7.62
91 - 120 days	449,947	457,710	4.06	3.94
121 - 180 days	585,407	704,279	5.29	6.07
Over 180 days	<u>1,063,373</u>	<u>1,206,789</u>	<u>9.61</u>	<u>10.39</u>
Totals	<u>11,070,316</u>	<u>11,607,507</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,425,000	1,100,000		
Medicaid	400,000	425,000		
Other	1,570,000	1,226,000		
Bad debts	<u>900,000</u>	<u>575,000</u>		
Total allowances	<u>4,295,000</u>	<u>3,326,000</u>		
Totals	<u>\$ 6,775,316</u>	<u>\$ 8,281,507</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 133,811</u>	<u>\$ 124,465</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>51</u>	<u>67</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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
BALANCE , beginning	\$ 575,000	\$ 675,000		
ADD				
Provision for bad debts	1,489,135	1,749,736	3.05%	3.85%
Recoveries of accounts previously written off	<u>621,272</u>	<u>527,547</u>	1.27	1.16
	2,685,407	2,952,283		
DEDUCT				
Accounts written off	<u>1,785,407</u>	<u>2,377,283</u>	3.66	5.23
BALANCE , ending	<u>\$ 900,000</u>	<u>\$ 575,000</u>		

Waverly Health Center
PATIENT SERVICE REVENUE
Year ended June 30, 2015, with comparative totals for 2014

	<u>2015</u>			<u>2014</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 2,652,834	\$ 728,438	\$ 3,381,272	\$ 3,118,113
Swing bed	553,473	-	553,473	607,209
Nursery	698,175	-	698,175	689,352
	<u>3,904,482</u>	<u>728,438</u>	<u>4,632,920</u>	<u>4,414,674</u>
OTHER NURSING SERVICES				
Medical services	-	552,533	552,533	681,133
Operating and recovery rooms	2,873,891	9,509,747	12,383,638	11,205,602
Delivery and labor rooms	575,761	6,419	582,180	484,320
Emergency service	72,565	8,043,642	8,116,207	7,136,075
Ambulance	-	2,250,463	2,250,463	2,129,360
Hospice	73,724	-	73,724	106,403
	<u>3,595,941</u>	<u>20,362,804</u>	<u>23,958,745</u>	<u>21,742,893</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	955,132	8,959,373	9,914,505	8,679,176
Radiology	307,393	15,573,636	15,881,029	14,986,516
Pharmacy	1,043,207	3,539,112	4,582,319	4,612,079
Anesthesiology	128,230	2,137,620	2,265,850	1,850,457
Respiratory therapy and electrocardiology	323,686	2,733,753	3,057,439	2,745,645
Cardiac rehabilitation	-	443,146	443,146	429,828
Physical therapy	363,221	5,153,518	5,516,739	4,849,186
Speech therapy	24,577	85,369	109,946	100,768
Occupational therapy	226,606	292,470	519,076	493,807
Nutrition therapy	-	67,947	67,947	56,112
Clinics	-	17,740,901	17,740,901	15,932,033
	<u>3,372,052</u>	<u>56,726,845</u>	<u>60,098,897</u>	<u>54,735,607</u>
Totals	<u>\$10,872,475</u>	<u>\$77,818,087</u>	88,690,562	80,893,174
Charity care charges foregone, based on established rates			(260,548)	(521,800)
Total gross patient service revenue			88,430,014	80,371,374
Provisions for contractual adjustments and bad debts			(39,588,990)	(34,941,613)
Total net patient service revenue			<u>\$48,841,024</u>	<u>\$45,429,761</u>

Waverly Health Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	2015	2014
Contractual adjustments		
Medicare	\$13,646,881	\$12,500,144
Medicaid	4,286,626	2,707,709
Other adjustments	20,166,348	17,984,024
Provision for bad debts	1,489,135	1,749,736
Totals	\$39,588,990	\$34,941,613

OTHER REVENUE

	Year ended June 30	
	2015	2014
Electronic health records incentive revenue, net	\$ 175,261	\$ 322,051
Cafeteria	181,820	167,100
Wellness	5,276	10,975
Retail pharmacy	1,706,847	1,739,641
Rental income	55,615	51,065
Miscellaneous	517,055	374,936
Totals	\$2,641,874	\$2,665,768

Waverly Health Center
EXPENSES
Year ended June 30, 2015, with comparative totals for 2014

	2015			2014
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	\$ 390,476	\$ 46,916	\$ 437,392	\$ 436,275
Medical, surgical and obstetrical	1,763,942	274,505	2,038,447	2,067,777
Nursery	286,397	7,811	294,208	266,516
Observation	216,354	19,956	236,310	244,097
Operating and recovery rooms	911,588	1,938,034	2,849,622	2,712,300
Delivery and labor rooms	77,035	2,075	79,110	88,304
Central supply	-	106,758	106,758	141,454
Emergency service	2,532,102	166,764	2,698,866	2,577,248
Ambulance	642,336	40,224	682,560	704,554
Hospice	31,781	-	31,781	36,192
Total nursing service	<u>6,852,011</u>	<u>2,603,043</u>	<u>9,455,054</u>	<u>9,274,717</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	784,180	1,304,536	2,088,716	2,073,446
Radiology	972,278	759,468	1,731,746	1,588,818
Pharmacy	520,961	1,239,524	1,760,485	1,798,955
Retail pharmacy	316,698	1,342,772	1,659,470	1,651,095
Anesthesiology	618,458	126,509	744,967	801,247
Respiratory therapy and electrocardiology	427,843	274,176	702,019	690,858
Cardiac rehabilitation	165,785	22,692	188,477	170,645
Physical therapy	-	2,223,820	2,223,820	2,170,304
Speech therapy	73,871	1,031	74,902	78,311
Occupational therapy	-	374,525	374,525	363,358
Integrative therapy	54,752	1,199	55,951	61,601
Occupational health	6,790	2,295	9,085	16,887
Clinics	7,053,527	1,840,959	8,894,486	8,259,756
Health information management	490,139	52,386	542,525	530,153
Social services	73,050	2,025	75,075	52,925
Total other professional service	<u>11,558,332</u>	<u>9,567,917</u>	<u>21,126,249</u>	<u>20,308,359</u>
GENERAL SERVICE				
Nutrition services	487,751	227,183	714,934	719,209
Plant services	498,879	976,305	1,475,184	1,357,088
Environmental services	465,865	118,218	584,083	722,623
Laundry	72,669	35,387	108,056	100,869
Total general service	<u>1,525,164</u>	<u>1,357,093</u>	<u>2,882,257</u>	<u>2,899,789</u>
FISCAL AND AMINISTRATIVE SERVICE				
Administrative services	1,312,719	689,928	2,002,647	1,909,233
Fiscal services	197,231	2,101	199,332	191,957
Human resources	229,017	48,704	277,721	269,524
Marketing	279,760	194,873	474,633	461,400
Business office	1,143,917	520,036	1,663,953	1,601,093
Data processing	649,717	986,547	1,636,264	1,483,947
Purchasing	154,455	-	154,455	149,880

Waverly Health Center
EXPENSES (continued)
Year ended June 30, 2015, with comparative totals for 2014

	2015			2014
	Salaries	Other	Total	Total
UNASSIGNED EXPENSES				
FICA	\$ —	\$ 1,536,839	\$ 1,536,839	\$ 1,508,811
IPERS	—	933,055	933,055	1,935,032
Group health, life and other benefits	—	2,919,240	2,919,240	2,805,603
Workers compensation insurance	—	203,922	203,922	192,030
Insurance	—	299,361	299,361	302,093
Total fiscal and administrative service and unassigned expenses	<u>3,966,816</u>	<u>8,334,606</u>	<u>12,301,422</u>	<u>12,810,603</u>
PROVISION FOR DEPRECIATION	<u>—</u>	<u>2,712,095</u>	<u>2,712,095</u>	<u>2,887,548</u>
Total expenses	<u>\$23,902,323</u>	<u>\$24,574,754</u>	<u>\$48,477,077</u>	<u>\$48,181,016</u>

**Waverly Health Center
COMPARATIVE STATISTICS
(Unaudited)**

	Year ended June 30	
	2015	2014
PATIENT DAYS		
Medical, surgical and obstetrical	2,164	2,090
Swing bed	897	1,024
Nursery	545	558
Totals	3,606	3,672
DISCHARGES		
Medical, surgical and obstetrical	773	724
Swing bed	129	147
Nursery	263	259
Totals	1,165	1,130
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.80	2.89
Swing bed	6.95	6.97
Nursery	2.07	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, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2015.

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, 2015 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 23, 2015

**Waverly Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2015**

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, 2015**

Part II—Findings Related to Required Statutory Reporting

15-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, 2015.

15-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Health Center funds were noted.

15-II-C TRAVEL EXPENSES

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

15-II-D BUSINESS TRANSACTIONS

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

15-II-E BOARD MINUTES

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

15-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.