

**HANCOCK COUNTY
MEMORIAL HOSPITAL**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2004 AND 2003

**HANCOCK COUNTY MEMORIAL HOSPITAL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2004 AND 2003**

BOARD OF TRUSTEES	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	10
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	12
STATEMENTS OF CASH FLOWS	13
NOTES TO FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY INFORMATON	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)	29
OTHER SUPPLEMENTARY INFORMATON	
SCHEDULES OF NET PATIENT SERVICE REVENUES	30
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES AND OTHER REVENUES	32
SCHEDULES OF OPERATING EXPENSES	33
SCHEDULES OF AGED ANALYSIS OF ACCOUNTING RECEIVABLE FROM PATIENT AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	35
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	36
SCHEDULE OF COMPARATIVE STATISTICS	37
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38
SCHEDULE OF FINDINGS	40

HANCOCK COUNTY MEMORIAL HOSPITAL
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mary Kopacek	Chairperson	2004
Alvin Denny	Vice-Chairperson/Treasurer	2008
Patricia DeWaard	Secretary	2004
Brian Cataldo	Member	2006
DeAnna Kelly	Member	2008
Lisa Noty	Member	2006
Rob Willms	Member	2004

* * * * *

Toni Ebeling	Administrator
--------------	---------------

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying financial statements of Hancock County Memorial Hospital as of June 30, 2004 and 2003, which collectively comprised the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, and Chapter 11 of the Code of Iowa and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hancock County Memorial Hospital as of June 30, 2004 and 2003, and the changes in financial position and cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Hancock County Memorial Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003, have been reclassified to conform to the current year presentation.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2004 on our consideration of Hancock County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, 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 the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on page 3 through page 9 and budget comparison information on page 29 are not a required part of the basic financial statements, but is supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hancock County Memorial Hospital's basic financial statements. The other supplementary information from pages 30 to 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 37 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 27, 2004

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

This section of Hancock County Memorial Hospital's (the Hospital) annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2004. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2004 and June 30, 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Financial Highlights

- The Hospital's total assets increased by \$442,436 or 3.5% in 2004 and increased by \$1,084,603 or 9.5% in 2003.
- The Hospital's net assets increased in each of the last two years with assets increased by \$468,685 or 6.4% in 2004 and increased by \$470,908 or 6.9% in 2003.
- The Hospital reported negative operating income of (\$355,369) in 2004 and (\$320,883) in 2003. This represents a decrease of \$34,486 or 10.7% in 2004 and decrease of \$276,448 or 622% in 2003.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenues
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedule of Comparative Statistics

The Hospital's accounting policies changed when procedures for the use of electronic signatures for accounts payable and payroll checks were put into place in FY04.

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Financial Analysis of the Hospital

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows has been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Hancock County and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 3,143,175	\$ 2,589,747	\$ 1,618,159
Noncurrent Cash and Investments	2,162,509	2,010,024	1,913,862
Capital Assets, Net	6,194,089	6,607,074	5,991,445
Succeeding Year Property Tax Receivable	778,525	755,900	665,000
Other Assets	<u>662,129</u>	<u>535,246</u>	<u>1,224,922</u>
Total Assets	<u><u>\$ 12,940,427</u></u>	<u><u>\$ 12,497,991</u></u>	<u><u>\$ 11,413,388</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,105,173	\$ 1,506,207	\$ 1,180,645
Long-Term Debt (Less Current Maturities)	3,260,368	2,908,208	2,710,975
Deferred Revenue from Succeeding Year Property Tax Receivable	<u>778,525</u>	<u>755,900</u>	<u>665,000</u>
Total Liabilities	<u>5,144,066</u>	<u>5,170,315</u>	<u>4,556,620</u>
Total Net Assets	<u>7,796,361</u>	<u>7,327,676</u>	<u>6,856,768</u>
Total Liabilities and Net Assets	<u><u>\$ 12,940,427</u></u>	<u><u>\$ 12,497,991</u></u>	<u><u>\$ 11,413,388</u></u>

Asset categories changing significantly during 2004 and 2003 included Cash and Cash Equivalents, and Capital Assets, Net. Current Assets increased by \$553,428 or 21.4% in 2004 and increased by \$971,588 or 60.0% in 2003. Capital Assets decreased by \$412,985 or 6.3% in 2004 and increased by \$615,629 or 10.3% in 2003.

The current ratio (current assets divided by current liabilities) for 2004 was 2.8 and 2003 was 1.7. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Financial Analysis of the Hospital (Continued)

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 7,742,080	\$ 7,311,192	\$ 7,113,836
Operating Expenses	<u>8,097,449</u>	<u>7,632,075</u>	<u>7,158,271</u>
Operating Income	(355,369)	(320,883)	(44,435)
Non-Operating Revenues (Expenses)	<u>798,393</u>	<u>756,219</u>	<u>812,774</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	443,024	435,336	768,339
Capital Grants and Contributions	36,560	46,017	113,239
Restricted Contributions, Net of Pledges Written Off	<u>(10,899)</u>	<u>(10,445)</u>	<u>(10,934)</u>
Increase in Net Assets	468,685	470,908	870,644
Net Assets, Beginning of Year	<u>7,327,676</u>	<u>6,856,768</u>	<u>5,986,124</u>
Net Assets, End of Year	<u>\$ 7,796,361</u>	<u>\$ 7,327,676</u>	<u>\$ 6,856,768</u>

Net patient service revenue made up 96% in 2004 and 97% in 2003 of the Hospital's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 9,501,236	\$ 8,952,668	\$ 9,048,201
Contractual Adjustments and Provisions for Bad Debt	<u>2,073,897</u>	<u>1,834,797</u>	<u>2,207,397</u>
Net Patient Service Revenue	<u>\$ 7,427,339</u>	<u>\$ 7,117,871</u>	<u>\$ 6,840,804</u>
Contractual Adjustments as a Percent of Revenues	<u>21.83%</u>	<u>20.49%</u>	<u>24.4%</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Financial Analysis of the Hospital (Continued)

Total operating expenses increased by \$465,374 or 6.1% in 2004 and increased by \$473,804 or 6.6% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses; please see pages 33-34 of the audited financial statements for this information.

- Contract Labor increased \$80,128 or 5% due to physician locum coverage needed in the Britt and Gamer Clinics, until a permanent physician is placed.
- Purchased Services increased by \$109,456 or 13% due to increased costs for grant expenses. However, all grant expenses are covered by grant reimbursement, allocated in Other Operating Revenue.
- Interest expense increased by \$34,415 or 21% due to the finalization of the Revenue note with Farmers Trust for the 2nd floor-remodeling project.
- Depreciation expense increased by \$82,051 or 16% due to depreciating the 2nd floor-remodeling project.

Operating Income (total operating revenue less total operating expenses divided by total operating revenue) was (\$355,369) or (4.6%) of total operating revenue in 2004 compared to (\$320,883) or (4.4%) in 2003.

Other Operating Revenue increased by \$121,420 or 62.8% in 2004 and increased by \$79,659 or 70.1% in 2003. Table 4 shows the detail for this line item. Other Operating Revenue increased mainly due to grant reimbursement.

Table 4: Other Operating Revenue

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Meals Sold	\$ 131,458	\$ 129,684	\$ 75,496
First Call	-	3,655	16,589
Transfer from Specific Purpose Fund	10,898	10,445	10,934
Dietary Assessment and Consulting	-	1,818	1,087
Medical Records Transcripts	1,278	1,652	1,956
Grant Revenues	138,936	18,652	4,655
Miscellaneous	32,171	27,415	2,950
	<u>\$ 314,741</u>	<u>\$ 193,321</u>	<u>\$ 113,667</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes.

- Total patient days increased by 30% from 2003 to 2004 mainly in the Acute and SNF Self-Pay level. One patient stayed on the SNF Self-Pay level from October 2003 to May 2004.
- Surgeries are 16% lower than 2003. Dr. Unger was on personal leave for most of March-June 2004. Dr. Ahari has had increasing referrals for surgery.
- OP Visits are 3% lower than 2003. Referrals to CT and Ultrasound were down until new technology was purchased spring of 2004.
- ER visits increased 5% from 2003 to 2004.
- Physician Clinic visits are similar from 2003 to 2004.

Patient Days

Acute/Hospice	1,158	986	1,186
SNF Swing Bed/SNF Self Pay	1,087	742	957
Total	2,245	1,728	2,143

Admissions

Acute/Hospice	355	321	401
SNF Swing Bed/SNF Self Pay	132	115	96
Total	487	436	497

Discharges

Acute/Hospice	354	326	398
SNF Swing Bed/SNF Self Pay	131	115	98
Total	485	441	496

Average Length of Stay, Acute

	3.1	3	2.9
--	-----	---	-----

Beds

Acute and Swing	25	25	25
-----------------	----	----	----

Occupancy Percentage

Acute, Based on 25 Beds	19.2%	17.1%	12.5%
Swing, Based on 25 Beds	29.7%	20.3%	24.4%

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2004 the Hospital had \$6,194,089 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$215,554 to purchase new equipment. In 2003 the Hospital purchased new equipment costing \$1,168,078, which includes the 2nd floor-remodeling project.

Long Term Debt

Table 6 shows a summary of the Hospital's long term debt outstanding.

Table 6: Long Term Debt

	<u>2004</u>	<u>2003</u>	<u>2002</u>
1st floor 1996 Revenue note	\$ 830,000	\$ 895,000	\$ 955,000
1st floor 1996 GO Bond	470,000	510,000	550,000
1st floor 1997 USDA GO Bond	763,282	803,480	841,768
GFP Clinic 2000 USDA Revenue note	431,197	449,070	466,116
2nd floor 2003 Farmers Trust loan	377,735	395,501	-
2nd floor 2003 USDA Revenue Note	581,833	-	-
Capital Lease Obligations	35,528	53,157	83,091
	<u>\$ 3,489,575</u>	<u>\$ 3,106,208</u>	<u>\$ 2,895,975</u>

- A Hospital Revenue note was issued in 1996 for \$1,200,000 and GO bond of \$700,000 to finance the 1st floor renovation of the hospital. These notes are payable through 2012 with interest coupons payable semi-annually on June 1 and December 1 at annual rates varying from 5.75% to 7% for the hospital revenue note and 4.0 to 5.5% for the GO bond. Hospital Revenue Note maturing on or after December 1, 2009 shall be subject to prior payment on December 1, 2008, or on any date thereafter at par plus accrued interest. A USDA GO bond was issued in 1997 for \$1,000,000 also to finance the 1st floor renovation of the hospital. Monthly principal and interest payments are payable through December 2017 with an interest rate of 4.875%.
- A USDA Hospital Revenue note was issued in 2000 for \$500,000 to finance the building of the GFP clinic in Garner. Monthly principal and interest payments are payable through July 2020 with an interest rate of 4.75%.
- A loan through Farmers Trust and Savings Bank was issued in 2003 for \$400,000 to finance the 2nd floor renovation of the hospital. Monthly principal and interest payments are payable through June 2017 with an interest rate of 6.63%. A USDA Revenue bond was issued in 2003 for \$600,000 also to finance the 2nd floor renovation of the hospital. Monthly principal and interest payments are payable through August 2023 with an interest rate of 4.25%.

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Long Term Debt (Continued)

- Two capital leases are in effect. A capital lease balance of \$12,844 is payable through 2006 and is secured by lighting and HVAC equipment and a capital lease balance of \$22,684 is payable through 2006 secured by an anesthesia machine.

Economic Factors

The Hospital continued to improve its financial position during the current year. However, the current condition of the economy continues to be a concern for Hospital officials. Some of the realities that may potentially become challenges for the Hospital are as follows:

- Expenses will continue to increase.
- Facilities at the Hospital require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.
- Potential professional labor shortages.

The Hospital anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Hospital Administration at Hancock County Memorial Hospital, 532 1st St NW, Britt, IA, 50423.

**HANCOCK COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,410,783	\$ 568,414
Current Portion of Noncurrent Cash and Investments	55,000	52,500
Patient Receivables, Less Allowance for Uncollectible Accounts (2004 - \$191,795; 2003 - \$176,896)	1,392,085	1,291,501
Other Receivables	57,888	12,257
Inventories	165,927	177,364
Prepaid Expenses	61,492	52,812
Third-Party Payor Settlement Receivable	-	434,899
Total Current Assets	<u>3,143,175</u>	<u>2,589,747</u>
 NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	1,745,637	1,619,422
Restricted by Bond Agreement	261,593	230,927
Restricted by Specific Purpose Fund	64,449	64,401
Restricted Foundation Fund	32,668	38,013
Restricted Plant Replacement and Expansion Funds	113,162	109,761
Are Required for Current Liabilities	<u>(55,000)</u>	<u>(52,500)</u>
Net Assets Whose Use is Limited	2,162,509	2,010,024
 CAPITAL ASSETS, NET	 6,194,089	 6,607,074
 OTHER ASSETS	 <u>1,440,654</u>	 <u>1,291,146</u>
 Total Assets	 <u>\$ 12,940,427</u>	 <u>\$ 12,497,991</u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 229,207	\$ 198,000
Construction Loan Payable	-	600,000
Accounts Payable - Trade	216,126	218,740
Accounts Payable - Construction	-	58,243
Due To Affiliated Organization	161,527	150,816
Accrued Expenses	330,741	280,408
Third-Party Payor Settlement Payable	167,572	-
Total Current Liabilities	<u>1,105,173</u>	<u>1,506,207</u>
LONG-TERM DEBT, Less Current Maturities	3,260,368	2,908,208
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>778,525</u>	<u>755,900</u>
Total Liabilities	5,144,066	5,170,315
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,704,514	2,900,866
Restricted :		
For Debt Service	261,593	230,927
Expendable for Specific Operating Activities	64,449	64,401
Restricted by Contributors and Donors	32,668	38,013
Expendable for Capital Acquisitions	113,162	109,761
Unrestricted	4,619,975	3,983,708
Total Net Assets	<u>7,796,361</u>	<u>7,327,676</u>
Total Liabilities and Net Assets	<u>\$ 12,940,427</u>	<u>\$ 12,497,991</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of \$237,531 in 2004 and \$145,677 in 2003)	\$ 7,427,339	\$ 7,117,871
Other Revenue	314,741	193,321
Total Revenues	7,742,080	7,311,192
EXPENSES		
Salaries and Wages	2,784,596	2,656,206
Employee Benefits	688,537	579,778
Professional Fees	2,093,633	2,006,315
Utilities	176,858	166,402
Management, Legal, and Accounting Fees	349,956	333,326
Insurance	75,835	75,445
Supplies and Miscellaneous	1,146,135	1,149,170
Depreciation and Amortization	588,320	506,269
Interest	193,579	159,164
Total Expenses	8,097,449	7,632,075
OPERATING LOSS	(355,369)	(320,883)
NON-OPERATING GAINS (LOSSES)		
Tax Apportionments	756,321	702,490
Interest Income	43,841	55,720
Rental Income	16,393	15,587
Contributions	35,570	-
Gain (Loss) on Sale of Property and Equipment	2,266	(22,479)
Miscellaneous Income (Expense)	(55,998)	4,901
Net Non-Operating Gains (Losses)	798,393	756,219
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS		
	443,024	435,336
Capital Grants and Contributions	36,560	46,017
Net Assets Released from Restriction, Used for Operations	(10,899)	(10,445)
Increase in Net Assets	468,685	470,908
Net Assets Beginning of Year	7,327,676	6,856,768
Net Assets End of Year	\$ 7,796,361	\$ 7,327,676

**HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 7,929,226	\$ 6,545,196
Cash Paid to Employees	(3,424,955)	(3,226,590)
Cash Paid to Suppliers	(3,831,563)	(3,723,962)
Cash Paid for Interest	(191,424)	(159,682)
Other Receipts and Payments, Net	112,470	194,837
Net Cash Provided (Used) by Operating Activities	593,754	(370,201)
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions and Grants	72,130	46,017
Tax Apportionments	756,321	702,490
Miscellaneous Income (Loss)	(55,998)	4,901
Rental Income	16,393	15,587
Net Cash Provided by Non-Capital Financing Activities	788,846	768,995
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(215,554)	(1,168,078)
Proceeds from Sale of Capital Assets	3,100	-
Payments on Long Term Debt	(216,633)	(189,768)
Proceeds from Issuance of Long Term Debt	600,000	400,000
Proceeds from Issuance of Short Term Debt	-	324,997
Payments on Short Term Debt	(600,000)	-
Net Cash Used by Capital and Related Financing Activities	(429,087)	(632,849)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Noncurrent Cash and Investments	(154,985)	(98,662)
Interest Earned on Investments	43,841	55,720
Net Cash Used by Investing Activities	(111,144)	(42,942)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	842,369	(276,997)
Cash and Cash Equivalents - Beginning	568,414	845,411
 CASH AND CASH EQUIVALENTS - ENDING	\$ 1,410,783	\$ 568,414

**HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Income from Operations	\$ (355,369)	\$ (320,883)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	588,320	506,269
Net Assets Released from Restrictions	(10,899)	(10,445)
Decrease (Increase) in -		
Patient Receivables	(100,584)	(198,782)
Accounts Receivable - Other	(45,631)	(633)
Inventories	11,437	(7,135)
Prepaid Expenses	(8,680)	(642)
Third Party Payor	434,899	(373,893)
Other Assets	(145,741)	12,594
Increase (Decrease) in -		
Accounts Payable	(2,614)	20,857
Accrued Expenses	50,333	8,876
Due to Affiliated Organization	10,711	(6,384)
Third Party Payor Settlements Payable	167,572	-
Net Cash (Used) Provided by Operating Activities	\$ 593,754	\$ (370,201)

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hancock County Memorial Hospital (HCMH) is the county hospital of Hancock County, in the City of Britt, organized under Chapter 347, Code of Iowa. The Hospital provides health care services under the name of Hancock County Memorial Hospital (HCMH) in accordance with a Master Affiliation Agreement - see Note 10. Services are provided primarily to residents of Hancock County and the surrounding area in northeastern Iowa.

A. Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Government 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 organization 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 organization. Hancock County Memorial Hospital Foundation meets these criteria and is included in the Hospital's financial statements under the provisions of GASB Statement No. 14. The Hospital has no other component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

The Organization has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Fund Balance

The following accounting policies are used in preparing the balance sheets:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Hospital considers savings accounts and all other highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Patient Receivables - The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 90 days are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$191,795 and \$176,896, respectively.

Inventory - Inventory is valued at cost using the first-in, first-out method.

Investments - The Hospital investments are in debt securities, which are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized on debt securities are included in non-operating income when earned.

Capital Assets, Net - Capital assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned asset.

Property Tax Receivable - Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Fund Balance (Continued)

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Net Assets – Net assets of the Hospital are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

E. Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

F. Restricted Resources

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

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Organization's principal activity. Other revenues, including interest income, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

H. 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. Medicare and Medicaid cost reports through June 30, 2001 have been audited and settled by the intermediary.

I. County Tax Apportionment

The Hospital has received from Hancock County, county tax apportionments of \$756,321 and \$696,095 in 2004 and 2003, respectively. In addition, the Hospital received \$-0- and \$6,395 from state apportioned property taxes in 2004 and 2003, respectively. These funds have been used to finance expenditures for remodeling and major repairs as well as to finance current working capital requirements.

J. Charity Care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

NOTE 2 NET PATIENT SERVICE REVENUE

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

Medicare

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 9,501,236	\$ 8,952,668
Contractual Adjustments:		
Medicare	1,153,938	873,942
Medicaid	131,118	205,451
Provision for Bad Debt	237,531	145,677
Other	551,310	609,727
Total Contractual Adjustments and Bad Debts	<u>2,073,897</u>	<u>1,834,797</u>
Net Patient Service Revenues	<u>\$ 7,427,339</u>	<u>\$ 7,117,871</u>

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,010,489	\$ 1,150,622
Receivable from Medicare	554,617	281,155
Receivable from Medicaid	18,774	36,620
Total Patient Receivables	<u>1,583,880</u>	<u>1,468,397</u>
Less Allowance for Doubtful Accounts	<u>(191,795)</u>	<u>(176,896)</u>
Patient Receivables, Net	<u>\$ 1,392,085</u>	<u>\$ 1,291,501</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2004 and 2003 were entirely covered by Federal depository insurance or 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 Hospital 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's cash and cash equivalents and investments are all Category 1, which means that the cash and cash equivalents and investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

At June 30, 2004 and 2003, the Hospital had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 3,795,857</u>	<u>\$ 2,535,947</u>
Carrying Amount	<u>\$ 3,515,130</u>	<u>\$ 2,521,176</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2004 and 2003, the Hospital's investments consisted of the following:

	<u>2004</u>	<u>2003</u>
Carrying Amount		
U.S. Government Agency Securities (at Fair Value)	<u>\$ 113,162</u>	<u>\$ 109,762</u>

The carrying amount of deposits and investments shown above are included in the Hospital's balance sheets as follows:

	<u>2004</u>	<u>2003</u>
Deposits	\$ 3,508,060	\$ 2,497,012
Investments	113,162	109,762
Pledges Receivable	<u>7,070</u>	<u>24,164</u>
	<u>\$ 3,628,292</u>	<u>\$ 2,630,938</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 1,410,783	\$ 568,414
Noncurrent Cash and Investments		
Restricted by Bond Agreement	261,593	230,927
Internally Designated for Capital Improvements	1,745,637	1,619,422
Restricted by Specific Purpose Fund	64,449	64,401
Restricted Foundation Fund	32,668	38,013
Restricted Plant Replacement and Expansion Funds	<u>113,162</u>	<u>109,761</u>
	<u>\$ 3,628,292</u>	<u>\$ 2,630,938</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

Capital Assets	<u>June 30, 2003</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2004</u>
Land and Land Improvements	\$ 406,794	\$ 5,398	\$ -	\$ 412,192
Building	5,467,344	-	(2,316)	5,465,028
Fixed Equipment	1,449,371	1,000	(3,988)	1,446,383
Major Movable Equipment	2,874,911	237,910	(62,276)	3,050,545
Construction in Progress	82,949	15,428	(90,446)	7,931
Totals	10,281,369	259,736	(159,026)	10,382,079
Accumulated Depreciation				
Land and Land Improvements	131,965	31,110	-	163,075
Building	1,619,603	217,817	-	1,837,420
Fixed Equipment	285,511	84,802	-	370,313
Major Movable Equipment	1,637,216	241,742	(61,776)	1,817,182
Totals	3,674,295	<u>\$ 575,471</u>	<u>\$ (61,776)</u>	4,187,990
	<u>\$ 6,607,074</u>			<u>\$ 6,194,089</u>
Capital Assets	<u>June 30, 2002</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2003</u>
Land and Land Improvements	\$ 403,956	\$ 14,006	\$ (11,168)	\$ 406,794
Building	4,932,985	640,526	(106,167)	5,467,344
Fixed Equipment	764,471	859,818	(174,918)	1,449,371
Major Movable Equipment	2,544,703	475,846	(145,638)	2,874,911
Construction in Progress	940,851	865,109	(1,723,011)	82,949
Totals	9,586,966	2,855,305	(2,160,902)	10,281,369
Accumulated Depreciation				
Land Improvements	113,800	29,331	(11,166)	131,965
Building	1,509,149	199,320	(88,866)	1,619,603
Fixed Equipment	412,687	44,350	(171,526)	285,511
Major Movable Equipment	1,559,885	221,185	(143,854)	1,637,216
Totals	3,595,521	<u>\$ 494,186</u>	<u>\$ (415,412)</u>	3,674,295
	<u>\$ 5,991,445</u>			<u>\$ 6,607,074</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 OTHER ASSETS

A summary of the other assets held at June 30, 2004 and 2003 is as follows:

	2004	2003
Real Estate Held for Investment	\$ 281,284	\$ 281,284
Issuance Costs, Net	166,901	145,778
Notes Receivable	97,166	101,410
Succeeding Year Property Tax Receivable	778,525	755,900
Medical Records	600	3,000
Investment in Mobile Radiology	116,178	3,774
Total Other Assets	\$ 1,440,654	\$ 1,291,146

Real Estate Held For Investment - The real estate held for investment consists of 149 acres of farmland. The current value of \$281,284 represents the original purchase price. At June 30, 2004 the market value is in excess of the carrying value.

Issuance Costs - Deferred financing costs are amortized over the period the obligation is outstanding using the interest method. Amortization of deferred financing costs is capitalized during the period of construction of capital assets.

Notes Receivable - The note receivable consists of an advance to a physician in order to establish a medical practice in Garner, Iowa. As of June 30, 1998, the physician had not established this practice, and as a result the note became due in full. During the year ended June 30, 1999, the physician signed a note payable as a result of a court settlement. Interest has been accrued, and current monthly payments have been deducted from the principal owed. Also included in notes receivable is a promissory note for the sale of land to an independent developer for the construction of an independent senior living project next to the hospital building.

Property Tax Receivable - The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in next fiscal year for the purposes set out in the budget for the next fiscal year.

Medical Records - Medical records represents consideration paid for these assets of a physician practice and is being amortized over five years

Investment in Mobile Radiology - The investment in Mobile Radiology represents 5% investment in a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 7 LONG-TERM DEBT

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Hospital Revenue Note, Series A	\$ 895,000	\$ -	\$ (65,000)	\$ 830,000	\$ 70,000
Hospital General Obligation County Bonds	510,000	-	(40,000)	470,000	40,000
USDA - RECD Hospital General Obligation	803,480	-	(40,198)	763,282	42,161
USDA - Hospital Revenue Note #1	449,070	-	(17,873)	431,197	18,542
USDA - Hospital Revenue Note #2	-	600,000	(18,167)	581,833	20,305
Farmers Trust & Savings Bank	395,501	-	(17,766)	377,735	18,975
Obligations Under Capital Lease	53,157	-	(17,629)	35,528	19,224
Total Long-Term Debt	<u>\$ 3,106,208</u>	<u>\$ 600,000</u>	<u>\$ (216,633)</u>	<u>\$ 3,489,575</u>	<u>\$ 229,207</u>
	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Hospital Revenue Note, Series A	\$ 955,000	\$ -	\$ (60,000)	\$ 895,000	\$ 65,000
Hospital General Obligation County Bonds	550,000	-	(40,000)	510,000	40,000
USDA - RECD Hospital General Obligation	841,768	-	(38,288)	803,480	40,000
USDA - Hospital Revenue Note #1	466,116	-	(17,046)	449,070	17,800
Farmers Trust & Savings Bank	-	400,000	(4,499)	395,501	17,700
Obligations Under Capital Lease	83,091	-	(29,934)	53,157	17,500
Total Long-Term Debt	<u>\$ 2,895,975</u>	<u>\$ 400,000</u>	<u>\$ (189,767)</u>	<u>\$ 3,106,208</u>	<u>\$ 198,000</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

The Hospital revenue note, series A requires semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 5.75 to 7.00%. All debt maturing on or after December 1, 2009 shall be subject to prior payment on December 1, 2008, or on any date thereafter, at par plus accrued interest. Principal and interest payments are due through December 2012.

The Hospital general obligation county bonds require semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 4.00 to 5.50%. Principal and interest payments are due through December 2012.

USDA – RECD hospital general obligation bonds require monthly payments of principal and interest with interest at the rate of 4.875%. Principal and interest payments are due through December 2017.

USDA hospital revenue note #1 requires monthly payments of principal and interest with interest at the rate of 4.75%. Principal and interest payments are due through July 2020.

USDA hospital revenue note #2 requires monthly principal and interest payments with interest at the rate of 4.25%. Principal and interest payments are due through June 2023.

Farmers Trust and Savings Bank requires monthly payments of principal and interest with interest at the rate of 6.63%. Principal and interest payments are due through June 2017.

The Hospital leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates from 6.00 to 10.268%. Leases are secured by equipment.

The bonds are payable solely and only from revenues and receipts of the Hospital and do not constitute an indebtedness of the County. The notes are secured by the Hospital building.

Total interest expense for the years ended June 30, 2004 and 2003 was \$193,579 and \$159,164, respectively.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 7 LONG-TERM LIABILITIES (CONTINUED)

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long Term Debt	
	Principal	Interest
2005	\$ 229,206	\$ 184,752
2006	241,346	173,138
2007	237,625	157,900
2008	251,392	144,381
2009	262,500	129,877
2010-2014	1,386,297	398,066
2015-2019	685,363	114,616
2020-2024	195,846	15,004
	\$ 3,489,575	\$ 1,317,734

The following is the leased equipment by major class at June 30, 2004 and 2003:

	2004	2003
Equipment	\$ 286,843	\$ 286,843
Less Accumulated Depreciation	(212,210)	(197,168)
Net Property Under Capital Lease	\$ 74,633	\$ 89,675

NOTE 8 PENSION PLAN

The Hospital 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.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$163,000, \$148,000, and \$127,000, respectively, equal to the required contributions for each year.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 9 CONSTRUCTION LOAN PAYABLE

During 2003, the Hospital entered into a construction project for the purpose of improving the facility. The project consisted of the renovation of a substantial portion of the Hospital and acquisition of equipment and furnishings. Total costs of the project was approximately \$1.7 million was funded from investments and operations of the Hospital and loan funds. As of June 30, 2003, the Hospital had received construction advances through a "Hospital Revenue Loan Agreement Anticipation Project Note" of \$600,000. The project was completed in 2004 and the interim financing was converted to a USDA Revenue Note in the amount of \$600,000 and is payable in month installments through June 2023. The Hospital capitalized \$34,176 of interest from the interim financing loan during 2003.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

The Hospital 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. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

Letter of Credit

The Hospital has a letter of credit with a local bank for \$60,000 as a guarantee for an independent senior living project being constructed next to the Hospital by an independent developer. During 2004 the Hospital was required to make a payment on this letter of credit in the amount of \$60,000 and is included in miscellaneous income (expense) in the Statement of Revenues, Expenses, and Changes in Net Assets.

NOTE 11 RELATED ORGANIZATIONS

Master Affiliation Agreement

Hancock County Memorial Hospital (HCMH) has entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region. As a part of the Master Affiliation Agreement, HCMH entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services. Expenses relating to the provision of these services amounted to \$963,687 and \$965,386 for the years ended June 30, 2004 and 2003.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 11 RELATED ORGANIZATIONS (CONTINUED)

Master Affiliation Agreement (Continued)

Operating gains and losses from the operation of health care services under the Master Affiliation Agreement in Hancock County are shared equally in accordance to the formulas outlined in the Agreement. During 2004 and 2003, there were no payments due to either party under the terms of the agreement.

Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. Expenses for the administrative and management services received for the years ended June 30, 2004 and 2003 were \$322,410 and \$310,190, respectively.

Due to Affiliated Organization

As of June 30, 2004 and 2003, Hancock County Memorial Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$161,527 and \$150,816, respectively, for the various services related to these agreements.

NOTE 12 DEFERRED COMPENSATION AGREEMENTS

The Hospital has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specified dates. The agreement indicates the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provisions of the Internal Revenue Code section 457 were amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of the Hospital. The Governmental Accounting Standards Board (GASB) issued Statement 32 in October 1997. GASB 32 is effective for the year ended June 30, 1999 or on the date (if earlier) that the plan changes its trust provisions. The Hospital plan has been amended to hold the plan assets in trust for the plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was \$224,340 and \$174,688 at June 30, 2004 and 2003, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**HANCOCK COUNTY MEMORIAL HOSPITAL
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 BUDGET AND ACTUAL (CASH BASIS)
 YEAR ENDED JUNE 30, 2004**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 756,321	\$ -	\$ 756,321	\$ 730,827	\$ 25,494
Estimated Other Revenues/Receipts	<u>7,820,712</u>	<u>154,617</u>	<u>8,121,162</u>	<u>8,878,313</u>	<u>(757,151)</u>
	8,577,033	154,617	8,877,483	9,609,140	(731,657)
Expenses/Disbursements	<u>8,097,449</u>	<u>784,087</u>	<u>8,035,114</u>	<u>9,486,905</u>	<u>(1,451,791)</u>
Net	479,584	(629,470)	842,369	122,235	720,134
Transfers	(10,899)	-	-	-	-
Balance Beginning of Year	<u>7,327,676</u>	<u>(4,280,890)</u>	<u>568,414</u>	<u>7,156,479</u>	<u>(6,588,065)</u>
Balance End of Year	<u><u>\$ 7,796,361</u></u>	<u><u>\$ (4,910,360)</u></u>	<u><u>\$ 1,410,783</u></u>	<u><u>\$ 7,278,714</u></u>	<u><u>\$ (5,867,931)</u></u>

(This page intentionally left blank)

OTHER SUPPLEMENTARY INFORMATION

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	\$ 929,684	\$ 726,377
OTHER PROFESSIONAL SERVICES		
Operating Room	676,567	775,704
Recovery Room	187,887	214,738
Radiology	1,254,368	1,245,035
Nuclear Medicine	11,427	10,627
Laboratory	1,870,184	1,723,349
Blood	51,945	50,327
Respiratory Therapy	191,351	168,131
Physical Therapy	279,747	267,267
Occupational Therapy	70,406	73,240
Speech Therapy	13,076	18,083
Electrocardiology	123,829	96,142
Medical and Surgical Supplies	116,682	195,845
Pharmacy	592,779	536,892
Cardiac Rehabilitation	43,405	64,352
Massage Therapy	6,424	2,275
Britt Clinic	1,178,682	1,058,944
Garner Clinic	1,045,019	946,676
Wesley Clinic	152,759	179,771
Kanahwa Clinic	92,920	94,117
Emergency Room	595,462	495,120
Ambulance	16,633	9,656
Total	<u>8,571,552</u>	<u>8,226,291</u>
Patient Service Revenues	9,501,236	8,952,668
Less: Contractual Adjustments and Bad Debts	<u>(2,073,897)</u>	<u>(1,834,797)</u>
Net Patient Service Revenues	<u>\$ 7,427,339</u>	<u>\$ 7,117,871</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 896,896	\$ 707,231	\$ 32,788	\$ 19,146
30,963	58,707	645,604	716,997
4,225	8,618	183,662	206,120
171,755	206,582	1,082,613	1,038,453
-	-	11,427	10,627
342,329	327,476	1,527,855	1,395,873
21,961	43,278	29,984	7,049
155,151	149,181	36,200	18,950
44,355	63,588	235,392	203,679
25,528	26,375	44,878	46,865
11,797	12,030	1,279	6,053
25,114	28,028	98,715	68,114
17,562	38,700	99,120	157,145
359,734	332,551	233,045	204,341
-	-	43,405	64,352
-	-	6,424	2,275
-	-	1,178,682	1,058,944
-	-	1,045,019	946,676
-	-	152,759	179,771
-	-	92,920	94,117
20,688	51,287	574,774	443,833
16,633	9,656	-	-
<u>1,247,795</u>	<u>1,356,057</u>	<u>7,323,757</u>	<u>6,870,234</u>
<u>\$ 2,144,691</u>	<u>\$ 2,063,288</u>	<u>\$ 7,356,545</u>	<u>\$ 6,889,380</u>

(This page intentionally left blank)

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual Adjustments - Medicare	\$ 1,153,938	\$ 873,942
Contractual Adjustments - Medicaid	131,118	205,451
Provision for Bad Debt	237,531	145,677
Other Allowances and Adjustments	551,310	609,727
Total Adjustments	\$ 2,073,897	\$ 1,834,797
OTHER REVENUES		
Meal Sold	\$ 131,460	\$ 129,684
Grant Revenues	138,936	18,652
First Call	-	3,655
Transfer From Specific Purpose Fund	10,897	10,445
Dietary Assessment and Consulting	2,893	1,818
Medical Records Transcripts	1,278	1,652
Miscellaneous	29,277	27,415
Total Other Revenue	\$ 314,741	\$ 193,321

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Capital Related Costs - Moveable Equipment	-	-
Employee Benefits	-	-
Administrative and General	424,933	380,979
Operation of Plant	165,190	160,324
Laundry and Linen	5,298	6,396
Housekeeping	87,482	84,224
Dietary	184,717	190,482
Nursing Administration	19,701	22,591
Central Supply	67,512	80,185
Pharmacy	12,448	11,107
Medical Records	132,870	131,686
Social Service	9,109	7,828
Adults and Pediatrics	599,659	532,520
Operating Room	51,985	57,609
Anesthesiology	-	-
Radiology	147,834	140,617
Laboratory	202,081	167,321
Blood	1,271	3,508
Respiratory Therapy	5,058	3,437
Physical Therapy	39,612	49,676
Occupational Therapy	-	-
Speech Pathology	-	-
Electrocardiology	7,283	5,570
Cardiac Rehabilitation	9,454	15,893
Medical Supplies	-	-
Massage Therapy	6,093	1,358
Britt Clinic	236,864	241,309
Garner Clinic	214,741	174,935
Wesley Clinic	43,674	52,143
Kanawah Clinic	25,343	27,110
Emergency	84,384	107,094
Ambulance	-	141
First Call	-	163
Interest Expense	-	-
TOTAL	\$ 2,784,596	\$ 2,656,206

OTHER		TOTAL	
2004	2003	2004	2003
\$ 230,970	\$ 221,356	\$ 230,970	\$ 221,356
344,168	272,831	344,168	272,831
688,537	579,778	688,537	579,778
741,292	663,120	1,166,225	1,044,099
199,718	195,939	364,908	356,263
18,437	19,353	23,735	25,749
16,893	20,856	104,375	105,080
69,035	69,299	253,752	259,781
32,286	395	51,987	22,986
(2,732)	(376)	64,780	79,809
219,954	189,938	232,402	201,045
25,077	26,575	157,947	158,261
-	-	9,109	7,828
79,356	59,256	679,015	591,776
62,478	84,773	114,463	142,382
77,612	97,232	77,612	97,232
299,927	294,516	447,761	435,133
214,513	246,253	416,594	413,574
21,296	22,214	22,567	25,722
14,914	7,354	19,972	10,791
107,475	93,716	147,087	143,392
36,030	40,742	36,030	40,742
5,508	10,535	5,508	10,535
9,345	8,418	16,628	13,988
2,302	11,596	11,756	27,489
49,241	67,314	49,241	67,314
1,506	2,440	7,599	3,798
608,307	641,521	845,171	882,830
451,737	442,227	666,478	617,162
139,704	120,863	183,378	173,006
72,388	61,062	97,731	88,172
266,167	234,116	350,551	341,210
15,833	9,656	15,833	9,797
-	1,837	-	2,000
193,579	159,164	193,579	159,164
<u>\$ 5,312,853</u>	<u>\$ 4,975,869</u>	<u>\$ 8,097,449</u>	<u>\$ 7,632,075</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF AGED ANALYSIS OF ACCOUNTING RECEIVABLE
FROM PATIENT AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003**

Analysis of Aging Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 880,669	50.03 %	\$ 712,286	41.24 %
31-60 Days	325,050	18.47	337,211	19.52
61-90 Days	119,670	6.80	123,309	7.14
91 Days and Over	434,874	24.70	554,664	32.10
Total Accounts Receivable	<u>1,760,263</u>	<u>100.00 %</u>	<u>1,727,470</u>	<u>100.00 %</u>
ALLOWANCES				
Contractual -				
Medicare	77,540		147,461	
Medicaid	14,734		18,327	
Other	84,109		93,285	
Doubtful Accounts	<u>191,795</u>		<u>176,896</u>	
Net Accounts Receivable	<u>\$ 1,392,085</u>		<u>\$ 1,291,501</u>	
Net Patient Service Revenue Per Calendar Day (Excluding Provision for Doubtful Accounts)	<u>\$ 21,000</u>		<u>\$ 19,900</u>	
Days of net Revenue in net Accounts Receivable at Year End	<u>66</u>		<u>65</u>	
Analysis of Allowance for Doubtful Accounts				
	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 176,896		\$ 175,293	
Add:				
Provision for Doubtful Accounts	237,531	3.10 %	145,677	2.08 %
Deduct:				
Accounts Written Off , Net	<u>(222,632)</u>	<u>(2.90)%</u>	<u>(144,074)</u>	<u>(2.06)%</u>
Ending Balance	<u>\$ 191,795</u>		<u>\$ 176,896</u>	

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
INVENTORIES		
General	\$ 33,426	\$ 48,356
Pharmacy	63,352	59,426
Central Supply	69,149	69,582
 Total Inventories	 \$ 165,927	 \$ 177,364
 PREPAID EXPENSES		
Insurance	\$ 16,767	\$ 14,681
Service Contracts/Other	37,456	31,761
Membership Dues	7,269	6,370
 Total Prepaid Expenses	 \$ 61,492	 \$ 52,812

**HANCOCK COUNTY MEMORIAL HOSPITAL
 SCHEDULE OF COMPARATIVE STATISTICS
 YEARS ENDED JUNE 30, 2004 AND 2003
 (UNAUDITED)**

	<u>2004</u>	<u>2003</u>
ACUTE		
Admissions	336	314
Discharges	335	319
Average Length of Stay	3.2	2.9
Patient Days	1,059	939
Occupancy Percentage	11.61%	10.29%
Beds	25	25
SWING BED		
Admissions	132	115
Discharges	131	115
Average Length of Stay	8.3	6.5
Patient Days	1,087	742

**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
Hancock County Memorial Hospital
Britt, Iowa

We have audited the financial statements of Hancock County Memorial Hospital as of and for the year ended June 30, 2004, which collectively comprise Hancock County Memorial Hospital's basic financial statements, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County Memorial Hospital's internal control over financial reporting in order to determine audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Hancock County Memorial Hospital in a separate letter dated August 27, 2004.

This report is intended solely for the information and use of the officials, employees, and constituents of Hancock County Memorial Hospital and other parties to whom Hancock County Memorial Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specific parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 27, 2004

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

04-1 Official Depository Banks

A resolution of official depository banks has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget

Hospital disbursements for the year ended June 30, 2004 did not exceed amounts budgeted.

04-3 Questionable Expenditures

We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

04-4 Travel Expense

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

04-5 Business Transactions

There were no business transactions between the Hospital and Hospital officials and/or employees.

04-6 Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the Board.

04-7 Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

04-8 Publication of Bills Allowed and Salaries

Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the Board of Supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..."The Hospital did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.

04-9 Chapter 28E Organization

The Hospital has entered into a joint venture agreement under the provision of Chapter 28E of the Code of Iowa. This joint venture has contracted for an audit under the provisions of Chapter 28E.