

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Basic Financial Statements
June 30, 2005 and 2004

Together with Independent Auditor's Report

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

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HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

OFFICIALS

June 30, 2005

	<u>Address</u>	<u>Term Expires</u>
Board of Trustees		
Pam Harvey, President	Hawarden, Iowa	December 2005
Mary K. Jacobs	Hawarden, Iowa	December 2007
Matt Hummel	Hawarden, Iowa	December 2007
Glea Hamik	Hawarden, Iowa	December 2007
Cynthia Porter	Hawarden, Iowa	December 2005
Administrators		
Brian Monsma	Hawarden, Iowa	July 11, 2005
Chad Markham	Sioux City, Iowa	Interim

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Roger E. Howard, CPA
Roger E. Thompson, CPA
Tom H. Schnack, CPA
Daniel L. Hassel, CPA
Dennis K. Grindle, CPA
Dennis R. Hein, CPA
Brent T. Frieauf, CPA
Barbara J. Fajen, CPA
Brian D. Green, CPA

Independent Auditor's Report

To the Board of Trustees
Hawarden Community Hospital
Hawarden, Iowa:

We have audited the accompanying basic financial statements of HAWARDEN COMMUNITY HOSPITAL (Hospital), a component unit of the City of Hawarden, Iowa, as of and for the years ended June 30, 2005 and 2004, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 audit provides a reasonable basis for our opinion.

As explained in Note 1, the accompanying financial statements present only the Hospital Fund of the city of Hawarden, Iowa, and are not intended to present fairly the financial position of the city of Hawarden, Iowa, and the results of its operations, changes in fund balance and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawarden Community Hospital as of June 30, 2005 and 2004, and the results of its operations, changes in fund balances and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2005 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on page 4 through 8 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, included in Exhibits 1 through 6, 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.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
August 17, 2005.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Our discussion and analysis of Hawarden Community Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the Hospital's financial statements, which begin on page 9.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a \$149,882 [9.26%] increase in 2005 and \$158,072 [10.82%] increase in 2004.
- The Hospital reported an operating loss in 2005 of \$(109,870) and in 2004 of \$(39,515). The operating loss in 2005 increased by \$77,752 [242.08%] from the loss reported in 2004. The operating loss in 2004 increased by \$218,448 [122.08%] from the income reported in 2003.
- Nonoperating revenue and restricted gifts received increased by \$62,165 [31.46%] in 2005 compared to 2004 and by \$190,190 [105.07%] in 2004 compared to 2003.
- The Hospital and Mercy Medical Services each have a 50% ownership interest in the Clinic and share equally in the net loss of the Clinic. Effective January 2005 the Hospital took over the accounting functions for the Clinic. The Clinic has contracted with the hospital to provide staff. This revenue and related expense are reflected in other revenue and operating expenses.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Revenue, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 9. The Hospital's net assets increased in each of the past two years by \$149,882 [9.26%] in 2005 and \$158,072 [10.82%] in 2004, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 1,230,542	1,278,747	1,253,699
Capital assets, net	1,147,129	1,178,053	1,226,810
Other noncurrent assets	350,217	207,761	164,967
Total assets	<u>2,727,888</u>	<u>2,664,561</u>	<u>2,645,476</u>
Liabilities:			
Long-term debt outstanding	76,500	90,896	177,305
Other current and noncurrent liabilities	882,188	954,327	1,006,903
Total liabilities	<u>958,668</u>	<u>1,045,223</u>	<u>1,184,208</u>
Net assets:			
Invested in capital assets, net of related debt	1,070,629	1,087,157	1,049,505
Restricted for capital acquisitions and operating activities	122,164	29,390	111,460
Restricted expendable net assets			
Restricted nonexpendable net assets	96,123	96,123	5,193
Unrestricted	480,304	406,668	295,108
Total net assets	<u>\$ 1,769,220</u>	<u>1,619,338</u>	<u>1,461,266</u>

- In 2005, total assets increased by \$63,327. A significant component of the change was an increase in other noncurrent assets. In 2005, a restricted gift of \$85,878 was received. It is to be used for health information management.
- In 2005, the total liabilities decreased by \$86,555. The decrease was primarily due to the change in the estimated third-party payor settlements from a liability of \$72,729 in 2004 to a receivable of \$19,036 in 2005. Also in 2005 the payable to Mercy was reduced by \$28,770. In 2004, the balance of the bond payment (\$85,000) was made as well as the payable to Mercy was reduced by \$86,355.

HAWARDEN COMMUNITY HOSPITAL
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Management's Discussion and Analysis
June 30, 2005 and 2004

- Two other mentionable activities led to changes in assets. First, patient accounts receivable, net of estimated uncollectible amounts, decreased by \$318,446 [36.76%] in 2005, which in 2004 increased by \$618 [0.08%]. The 2005 decrease in patient accounts receivable is due, in part, to focused efforts by the business office and also through the use of outside services to better manage the receivables. Also, in 2005, the Hospital incurred a \$217,256 receivable from the Hawarden Community Clinic for hospital resources provided for the clinics operations.

Operating Results and Changes in The Hospital's Net Assets

In 2005, the Hospital's net assets increased by \$149,882 or 9.26%, as shown in **Table 2**. This increase is made up of very different components. And it is comparable with the increase in net assets for 2004 of \$158,072 [10.82%].

Table 2: Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenue:			
Net patient service revenue	\$ 3,598,500	3,556,295	3,488,561
Other operating revenue	380,754	139,639	133,201
Total operating revenue	3,979,254	3,695,934	3,621,762
Operating Expenses:			
Salaries and benefits	1,867,982	1,683,503	1,622,122
Purchased services and other	1,845,742	1,674,038	1,561,819
Provision for bad debt	202,320	205,734	93,000
Depreciation and amortization	168,746	162,728	151,236
Interest	4,334	9,446	14,652
Total operating expenses	4,089,124	3,735,449	3,442,829
Operating income (loss)	(109,870)	(39,515)	178,933
Nonoperating Revenue and Expenses			
Joint venture loss, net	(138,811)	(134,589)	(119,189)
Loss on disposal of assets	(11,663)	--	--
Investment income	8,140	9,662	7,267
Sales tax revenue	193,320	191,576	180,737
Restricted Gifts, net	208,766	130,938	112,210
Total nonoperating revenue (expenses), net	259,752	197,587	181,025
Increase in net assets	149,882	158,072	359,958
Net assets beginning of year	1,619,338	1,461,266	1,101,308
Net assets end of year	\$ 1,769,220	1,619,338	1,461,266

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services.

The primary components of the 2005 operating loss include:

- Inpatient days decreased by 278 [31.74%] in 2005 and by 136 [13.43%] in 2004. The decrease in 2005 is mainly due to reduction of swing bed patients. Swing bed patient days decreased by 242 [54.87%] in 2005.
- Outpatient revenue increased by \$5,676 [0.18%] in 2005 and \$214,118 [7.64%] in 2004. Increases in 2004 were due to 21.06% [3,310] additional patients treated as outpatients.
- Other operating revenue increased by 241,115 [172.67%] in 2005 and 6,438 [4.83%] in 2004. Two major contributing factors for this increase. As of Jan 1, 2005 the Hospital is contracted with the Clinic to employ Clinic personnel. In addition, in 2005 we received a grant for \$70,000 from Health Resources Services Administration (HRSA) that allows us to have a regional HRSA Planner located in Hawarden.
- Salary and benefit costs for the hospital's employees increased \$184,479 [10.96%] in 2005 and \$61,279 [3.78%] in 2004. The Clinic and HRSA grant expenses are reflected in this increase.
- Purchased services, professional fees, medical supplies and drug costs increased \$171,704 [10.26%] in 2005 and \$104,924 [6.72%] in 2004. In 2004, medical supplies and prescription drug costs totaled \$1,674,038, representing 44.90% of total expenses and an increase of 7.19% over 2003. And, in 2005, medical supplies and prescription drug costs totaled \$1,845,742 representing 45.14% of total expenses and an increase of 10.26% over 2004. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in case mix and shortage of medical professionals requiring the Hospital to use outside locum tenens services.
- Bad debt decreased \$3,414 in 2005. This reflects the reduction of patient accounts receivable in 2005. An increase in provision of bad debts of \$112,743 [121.22%] in 2004 was due to an increasing amount of uncollected receivables. The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. In 2005, the total amount expensed for bad debts was \$202,320.

Nonoperating Revenue and Expenses

Nonoperating revenue consist primarily of local option sales taxes, interest revenue, investment earnings and gifts, grants and bequests for the purchase of property and equipment. In 2005 the Hospital received a restricted gift of \$85,878 to be used for health information management. In 2004 the Hospital received a permanently restricted gift of \$90,930 from which the Hospital receives the income.

In 2005 the loss for joint venture was \$138,811. We continue to fund the clinic as part of our mission to provide for the health & wellness of all the people in our community.

HAWARDEN COMMUNITY HOSPITAL
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Management's Discussion and Analysis
June 30, 2005 and 2004

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses, discussed earlier. Cash flows provided by operating activities increased slightly more than operating income in 2004 due to reduction in estimated third-party payor settlements of \$31,664 in 2004.

Capital Asset and Debt Administration

Capital Assets

As of end of the year 2005, the Hospital had \$1,147,129 invested in capital assets, net of accumulated depreciation, as compared to the end of 2004 when the Hospital had \$1,178,053 invested in capital assets, as detailed in Note 6 to the financial statements. In 2005, the Hospital purchased new equipment costing \$105,282. Nearly the same amount, \$113,971, was spent to acquire new equipment in 2004. In addition, in 2005 the Hospital invested \$44,203 in pre-construction costs for future capital building projects.

Debt

The Hospital had loans and capital lease obligations outstanding of \$76,500 at year-end 2005 and 90,896 at year-end 2004. A new loan was initiated 2005 for \$21,500 and a new loan was initiated in 2004 for \$25,000. No other debt has been issued in 2005 or 2004. The Hospital's formal debt issuances, revenue notes, cannot be issued without approval of the Board of Directors. In 2004 the Hospital paid off the balance of the general obligation bond payment to the City of Hawarden.

Other Economic Factors

Challenges in 2005 included a reduction in the total number of local medical providers and reduced continuity through significant use of locum tenens coverage most of the year. The turnover in medical providers may have impacted patient loyalty. In addition the hospital faced increased cost related to maintaining an aging physical plant.

Inflation continued in 2004 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

Contacting The Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator, at Hawarden Community Hospital, 1111 11th Street, Hawarden, Iowa 51023.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Balance Sheets
June 30, 2005 and 2004

ASSETS	2005	2004
Current assets:		
Cash and cash equivalents	\$ 273,285	267,878
Receivables -		
Patients, net of allowance for doubtful accounts of \$154,437 in 2005 and \$171,840 in 2004	547,900	866,346
Due from related party	217,256	--
Other	70,034	72,959
Inventories	56,382	55,693
Prepaid expenses	46,649	15,871
Estimated third-party payor settlements	19,036	--
Total current assets	1,230,542	1,278,747
Assets limited as to use:		
By board for capital improvements and endowments	160,421	107,761
By donor	182,001	96,123
	342,422	203,884
Capital assets, net	1,147,129	1,178,053
Other assets	7,795	3,877
Total assets	\$ 2,727,888	2,664,561
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of-		
Long-term debt	\$ 15,202	7,993
Capital lease	29,081	27,371
Accounts payable-		
Mercy	512,419	541,189
Trade	184,589	192,601
Salaries, wages and accrued benefits payable	162,446	134,021
Payroll taxes withheld and accrued	12,427	7,156
Other accrued liabilities	10,287	6,631
Estimated third-party payor settlements	--	72,729
Total current liabilities	926,451	989,691
Long-term debt, net of current portion	22,126	16,359
Capital lease, net of current portion	10,091	39,173
Total liabilities	958,668	1,045,223
Net assets:		
Invested in capital assets, net of related debt	1,070,629	1,087,157
Restricted:		
Expendable for capital acquisitions and operating activities	122,164	29,390
Nonexpendable permanent endowments	96,123	96,123
Unrestricted	480,304	406,668
Total net assets	1,769,220	1,619,338
Total liabilities and net assets	\$ 2,727,888	2,664,561

See notes to financial statements

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	2005	2004
UNRESTRICTED REVENUE:		
Net patient service revenue before provision for bad debt	\$ 3,598,500	3,556,295
Provision for bad debts	(202,320)	(205,734)
Net patient service revenue	3,396,180	3,350,561
Other revenue	380,754	139,639
Total revenue	3,776,934	3,490,200
EXPENSES:		
Salaries	1,496,316	1,343,636
Employee benefits	371,666	339,867
Purchased services and professional fees	1,291,726	1,095,086
Utilities	64,229	61,101
Supplies and other expenses	433,885	466,223
Depreciation and amortization	168,746	162,728
Insurance	55,902	51,628
Interest	4,334	9,446
Total expenses	3,886,804	3,529,715
OPERATING LOSS	(109,870)	(39,515)
NONOPERATING GAINS (LOSSES), NET:		
Joint venture and clinic investment loss, net	(138,811)	(134,589)
Loss on sale of property and equipment	(11,663)	--
Investment income	8,140	9,662
Sales tax revenue	193,320	191,576
Noncapital grants and contributions	107,870	101
Nonoperating gains, net	158,856	66,750
EXCESS OF REVENUE OVER EXPENSES	48,986	27,235
ADDITIONS TO PERMANENT ENDOWMENTS	--	90,930
CAPITAL GRANTS AND CONTRIBUTIONS, NET	100,896	39,907
INCREASE IN NET ASSETS	149,882	158,072
NET ASSETS, BEGINNING OF YEAR	1,619,338	1,461,266
NET ASSETS, END OF YEAR	\$ 1,769,220	1,619,338

See notes to financial statements

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 3,632,234	3,327,797
Cash paid to employees for salaries and benefits	(1,830,630)	(1,681,897)
Cash paid to suppliers and contractors	(1,853,737)	(1,621,168)
Other receipts and payments, net	<u>160,131</u>	<u>95,803</u>
Net cash provided by operating activities	<u>107,998</u>	<u>120,535</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales tax received	190,233	198,262
Noncapital grants and contributions	<u>107,870</u>	<u>101</u>
Net cash provided by noncapital financing activities	<u>298,103</u>	<u>198,363</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(149,485)	(113,971)
Capital grants and contributions	100,896	130,836
Proceeds from issuance of long-term debt	21,500	25,000
Payments on long-term debt	(8,548)	(85,648)
Payments on capital lease obligations	(27,371)	(25,761)
Interest paid on long-term debt and capital lease obligations	<u>(4,334)</u>	<u>(9,446)</u>
Net cash provided by (used in) capital and related financing activities	<u>(67,342)</u>	<u>(78,990)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Joint venture and clinic investment loss, net	(199,065)	(211,369)
Purchase of assets limited as to use, net	(138,538)	(23,882)
Interest on investments	8,140	9,662
Deposits to other assets, net	<u>(3,889)</u>	<u>(1,877)</u>
Net cash used in investing activities	<u>(333,352)</u>	<u>(227,466)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,407	12,442
CASH AND CASH EQUIVALENTS - Beginning of year	<u>267,878</u>	<u>255,436</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u>273,285</u>	<u>267,878</u>

See notes to financial statements

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ (109,870)	(39,515)
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	168,746	162,728
Interest expense	4,334	9,446
(Increase) decrease in current assets -		
Receivables -		
Patients	318,446	(618)
Due from related party	(217,256)	--
Other	6,012	(34,320)
Inventories	(689)	(405)
Prepaid expenses	(30,778)	(986)
Estimated third-party payor settlements	(19,036)	--
Increase (decrease) in current liabilities -		
Accounts payable-		
Current portion of Mercy payable	31,478	(9,573)
Accounts payable	(8,012)	63,836
Salaries, wages and accrued benefits payable	28,425	16,547
Payroll taxes withheld and accrued	5,271	(13,720)
Other accrued liabilities	3,656	(1,221)
Estimated third-party payor settlements	<u>(72,729)</u>	<u>(31,664)</u>
Net cash provided by operating activities	<u>\$ 107,998</u>	<u>120,535</u>

See notes to financial statements

HAWARDEN COMMUNITY HOSPITAL

A Component Unit of the City of Hawarden, Iowa

Notes to Financial Statements June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Hawarden Community Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a city public hospital organized under Chapter 392 of the Code of Iowa and governed by a five member Board of Trustees elected for terms of four years.

A. *Reporting Entity*

The financial statements of the Hospital are used to account for the provisions of acute hospital and physician clinic services to the residents of the City of Hawarden and the surrounding area.

The Hospital's financial statements are an integral part of the City of Hawarden, Iowa. The accompanying financial statements are not intended to present fairly the financial position and changes in financial position of the City of Hawarden, Iowa, in conformity with accounting principles generally accepted in the United States of America.

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 component 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 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 Hospital 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 Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. During fiscal year 2000, the Hawarden Community Hospital Board of Trustees approved the Health Services' plan to obtain Critical Access Hospital (CAH) designation. CAH's are acute care facilities that provide emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective November 2, 2000.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. *Measurement Focus and Basis of Accounting*

Basis of accounting refers to when revenue 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 accounting principles generally accepted in the United States of America. Revenue is 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 Procedure.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturing of three months or less.

G. *Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Assets Limited as to Use*

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and endowments. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Donor - These funds are restricted for specified purposes as directed by the grantor or donor.

I. *Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

J. *Compensated Absences*

Paid time off (PTO) vests and may be carried forward by an employee in an amount not to exceed 360 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2005 and 2004 was \$101,550 and \$93,546, respectively.

K. *Statement of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

L. *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.

M. *Grants and Contributions*

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

N. *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 revenue.

O. *Sales Tax Revenue*

Taxes are included in nonoperating gains when received and distributed by the City Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

P. *2004 Financial Statements*

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 reporting format.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2005 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 instrumentality's; 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; and certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital's investments at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Marketable equity securities, at fair value	\$ <u>13,669</u>	<u>13,698</u>

(3) 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. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. 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. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2002.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Physician clinic services are paid based on fee schedule amounts. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements primarily includes discounts from established charges.

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 58% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2005. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Patient accounts	\$ 706,713	1,040,671
Less estimated third-party contractual adjustments	(4,376)	(2,485)
Less allowance for uncollectibles	<u>(154,437)</u>	<u>(171,840)</u>
	<u>\$ 547,900</u>	<u>866,346</u>

The Hospital is located in Hawarden, Iowa. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The approximate mix of receivables from patients and third-party payors was as follows:

	<u>2005</u>	<u>2004</u>
Medicare	28%	46%
Medicaid	3	5
Blue Cross Blue Shield	15	9
Other third-party payors	32	22
Private pay	<u>22</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

(5) Assets Limited as to Use

By Board

Cash deposits and investments designated by the Board for future capital improvements, and endowments as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Capital Improvements and Endowments -		
Cash and certificates of deposit	\$ 146,752	94,063
Marketable equity securities	<u>13,669</u>	<u>13,698</u>
	<u>\$ 160,421</u>	<u>107,761</u>

By Donor

Cash deposits and investments restricted by donor for future capital improvements, and endowments as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Capital Improvements and Endowments -		
Cash and certificates of deposit	\$ <u>182,001</u>	<u>96,123</u>

(6) Capital Assets, Net

Capital asset additions, retirements and balances as of June 30, 2005 and 2004, are summarized as follows:

	June 30, 2004	Additions	Transfers and Disposals	June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 7,000	--	--	7,000
Construction in progress	--	44,203	--	44,203
Total capital assets, not being depreciated	<u>7,000</u>	<u>44,203</u>	<u>--</u>	<u>51,203</u>
Capital assets, being depreciated:				
Land improvements	28,089	--	--	28,089
Hospital buildings	1,437,781	--	--	1,437,781
Fixed equipment	501,056	27,776	15,213	513,619
Major moveable equipment	1,127,658	77,506	1,750	1,203,414
Total capital assets, being depreciated	<u>3,094,584</u>	<u>105,282</u>	<u>16,963</u>	<u>3,182,903</u>
Less accumulated depreciation:				
Land improvements	19,711	2,551	--	22,262
Hospital buildings	807,474	48,653	--	856,127
Fixed equipment	318,400	20,054	3,550	334,904
Major moveable equipment	777,946	97,488	1,750	873,684
Total accumulated depreciation	<u>1,923,531</u>	<u>168,746</u>	<u>5,300</u>	<u>2,086,977</u>
Total capital assets, being depreciated, net	<u>1,171,053</u>	<u>(63,464)</u>	<u>11,663</u>	<u>1,095,926</u>
Total capital assets, net	<u>\$ 1,178,053</u>	<u>(19,261)</u>	<u>11,663</u>	<u>1,147,129</u>
	June 30, 2003	Additions	Transfers and Disposals	June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 7,000	--	--	7,000
Total capital assets, not being depreciated	<u>7,000</u>	<u>--</u>	<u>--</u>	<u>7,000</u>
Capital assets, being depreciated:				
Land improvements	28,089	--	--	28,089
Hospital buildings	1,437,781	--	--	1,437,781
Fixed equipment	501,056	--	--	501,056
Major moveable equipment	1,013,687	113,971	--	1,127,658
Total capital assets, being depreciated	<u>2,980,613</u>	<u>113,971</u>	<u>--</u>	<u>3,094,584</u>
Less accumulated depreciation:				
Land improvements	16,998	2,713	--	19,711
Hospital buildings	753,597	53,877	--	807,474
Fixed equipment	299,222	19,178	--	318,400
Major moveable equipment	690,986	86,960	--	777,946
Total accumulated depreciation	<u>1,760,803</u>	<u>162,728</u>	<u>--</u>	<u>1,923,531</u>
Total capital assets, being depreciated, net	<u>1,219,810</u>	<u>(48,757)</u>	<u>--</u>	<u>1,171,053</u>
Total capital assets, net	<u>\$ 1,226,810</u>	<u>(48,757)</u>	<u>--</u>	<u>1,178,053</u>

(7) **Mercy Accounts Payable**

Mercy Accounts Payable includes amounts due Mercy Medical Services and Mercy Medical Center related to the Hospital's portion of financial support for the Hawarden Mercy Medical Clinic and other professional and management fees. Mercy accounts payable as of June 30, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Mercy Medical Services for share of Hawarden Mercy Medical Clinic operating support	\$ 304,356	364,698
Mercy Medical Center for professional and management services	<u>208,063</u>	<u>176,491</u>
	<u>\$ 512,419</u>	<u>541,189</u>

(8) **Long-Term Debt**

A summary of long-term debt at June 30, 2005 and 2004, is as follows:

	<u>Balance June 30, 2004</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Defeased</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Bank Note 1	\$ 24,352	--	7,969	--	16,383	8,360
Bank Note 2	--	21,500	555	--	20,945	6,842
	<u>\$ 24,352</u>	<u>21,500</u>	<u>8,524</u>	<u>--</u>	<u>37,328</u>	<u>15,202</u>
	<u>Balance June 30, 2003</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Defeased</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due Within One Year</u>
General Obligation Hospital Notes	\$ 85,000	--	85,000	--	--	--
Bank Note 1	--	25,000	648	--	24,352	7,993
	<u>\$ 85,000</u>	<u>25,000</u>	<u>85,648</u>	<u>--</u>	<u>24,352</u>	<u>7,993</u>

The Hospital entered into an agreement with the City of Hawarden (City) for repayment of \$400,000 of general obligations hospital notes dated July 1, 1998 issued by the City to provide funds for the construction of an addition to, remodeling, equipping and furnishing of the Hospital. Although the notes are the City's obligation, due to the Hospital's commitment to repay the debt, it has been recorded in the Hospital's financial statements. The notes are scheduled to be repaid over five years beginning on June 1, 2000, with annual interest rates ranging from 4.15% to 4.35%. These notes were paid in full in June 2004.

In May 2005, the Hospital took out a note from Farmers State Bank in Hawarden for \$21,500 to be used for the purchase of property and equipment. The note has an interest rate of 5.0% and will be repaid over three years in monthly installments of \$644 beginning June 11, 2005.

Annual debt service requirements related to the Notes are as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$	15,202	1,457	16,659
2007		15,189	726	15,915
2008		6,257	177	6,434
	\$	<u>36,648</u>	<u>2,360</u>	<u>39,008</u>

A summary of interest expense on borrowed funds during the years ended June 30, 2005 and 2004 follows:

	<u>2005</u>	<u>2004</u>
Interest cost expense	\$ <u>1,022</u>	<u>4,548</u>

(9) Capital Lease

The Hospital has entered into a capital lease agreement to acquire medical equipment at a cost of \$176,534. The liability under the capital lease is due in monthly installments of \$2,555 including interest at a rate of 6.1%.

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$	29,081	1,579	30,660
2007		10,092	128	10,220
	\$	<u>39,173</u>	<u>1,707</u>	<u>40,880</u>

(10) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(11) Employee Retirement and Defined Benefit 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, PO Box 9117, Des Moines, Iowa 50360-9117.

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, 2005, 2004 and 2003 were \$74,006, \$65,100 and \$67,757, respectively, equal to the required contributions for each year.

(12) Related Party Transactions

Hawarden Mercy Medical Clinic

Prior to January 1, 2005, the Hospital and Mercy Medical Services (MMS) each had a 50% sponsorship interest in the Hawarden Mercy Medical Clinic (Clinic) located adjacent to the Hospital. Each party provided facilities, equipment and/or personnel to operate the Clinic, and shared equally in revenues and expenses. The Hospital's share of the Clinic's 2005 (from July 1st through December 31st) and 2004 operating losses was \$79,742 and \$134,589, respectively and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

Effective January 1, 2005, the Hospital and Mercy Medical Services entered into a joint venture whereby each partner has a 50% sponsorship interest in Hawarden Community Clinic, LLC. (HCC). The Hospital and MMS share equally in the net income (loss) of HCC. The Hospital's share of HCC's 2005 (from January 1st through June 30th) operating loss was \$59,069 and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

The Hospital hires the employees of HCC and leases them back to HCC. Salary and benefit expense paid by the Hospital in 2005 was \$120,473 and is included in the accompanying statements of revenue, expenses and changes in net assets.

In addition, the Hospital receives monthly rent from the clinic with rental income totaling \$27,600 and \$28,560 for the years ended June 30, 2005 and 2004, respectively, and is included in other revenue.

See Note 9 regarding amounts due Mercy Medical Services.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Patient Service Revenue
For the Years Ended June 30, 2005 and 2004

	2005			2004				
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical, surgical and obstetrics	\$ 221,816	8,336	--	230,152	237,844	--	237,844	237,844
Swing bed	--	--	74,590	74,590	--	160,917	160,917	160,917
Observation	1,584	71,321	--	72,905	1,918	--	1,918	121,304
	<u>223,400</u>	<u>79,657</u>	<u>74,590</u>	<u>377,647</u>	<u>239,762</u>	<u>119,386</u>	<u>160,917</u>	<u>520,065</u>
OTHER PROFESSIONAL SERVICES:								
Physical therapy	2,713	654,119	13,432	670,264	4,271	665,537	35,930	705,738
Laboratory	65,170	601,345	5,782	672,297	56,435	568,331	10,769	635,535
Radiology	28,118	583,808	2,190	614,116	21,233	553,790	5,208	580,231
Pharmacy	81,778	223,521	27,315	332,614	87,808	292,001	42,399	422,208
Emergency and outpatient service	8,185	395,614	49	403,848	10,321	356,400	--	366,721
Professional fees	66,502	148,955	--	215,457	26,096	125,402	460	151,958
Respiratory therapy	67,959	63,391	21,059	152,409	67,292	57,006	22,618	146,916
Central services and supply	21,154	62,028	7,289	90,471	24,121	65,551	10,636	100,308
Electrocardiology	9,000	63,021	314	72,335	7,767	73,090	624	81,481
Intravenous therapy	21,775	27,862	2,914	52,551	24,522	35,965	4,218	64,705
Gastro-Intestinal	--	73,535	--	73,535	--	58,675	--	58,675
Cardiac rehab	--	36,438	--	36,438	--	24,146	--	24,146
Speech therapy	--	1,520	1,900	3,420	--	8,191	5,044	13,235
Occupational therapy	--	7,203	3,008	10,211	114	8,263	1,909	10,286
Operating and recovery rooms	--	1,201	--	1,201	2,683	3,296	--	5,979
Anesthesiology	--	1,277	--	1,293	1,291	2,476	--	3,767
Delivery and labor room	16	72	--	88	--	385	--	385
	<u>372,370</u>	<u>2,943,910</u>	<u>85,252</u>	<u>3,401,532</u>	<u>333,954</u>	<u>2,898,505</u>	<u>139,815</u>	<u>3,372,274</u>
GROSS PATIENT SERVICE REVENUE	<u>\$ 595,770</u>	<u>3,023,567</u>	<u>159,842</u>	<u>3,779,179</u>	<u>573,716</u>	<u>3,017,891</u>	<u>300,732</u>	<u>3,892,349</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(180,679)				(336,044)
NET PATIENT SERVICE REVENUE	\$	\$	\$	\$ 3,598,500				\$ 3,556,295

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Other Operating Revenue
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Services provided to clinic	\$ 132,973	--
Emergency room/physical therapy contracted revenue	81,549	56,209
HRSA grant	64,167	--
Medical office building rent	27,600	28,560
Other	14,578	5,582
MediMate	9,379	9,518
Dietary consulting	9,142	5,928
Medical records transcript fee	8,146	906
Occupational health consulting	6,055	7,020
Physician charges to clinic	5,482	3,838
Specialty clinic rent	5,180	6,240
Meals	4,632	4,389
Wellness center dues	3,824	4,690
Purchasing rebates	3,795	2,012
Cholesterol screening	2,195	2,795
Vending	2,057	1,952
	<u>\$ 380,754</u>	<u>139,639</u>

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Department Expenses
For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Medical and surgical Observation	\$ 496,988 9,154	8,408 --	17,382 --	522,778 9,154	478,313 15,288	12,610 --	23,401 --	514,324 15,288
	<u>506,142</u>	<u>8,408</u>	<u>17,382</u>	<u>531,932</u>	<u>493,601</u>	<u>12,610</u>	<u>23,401</u>	<u>529,612</u>
OTHER PROFESSIONAL SERVICES:								
Physical therapy	39,691	439,561	18,931	498,183	38,512	414,040	16,061	468,613
Laboratory	96,607	86,809	51,004	234,420	93,277	83,580	44,707	221,564
Radiology	42,431	160,903	8,309	211,643	43,776	152,388	8,855	205,019
Emergency room	94,642	228,470	270	323,382	129,997	121,762	796	252,555
Pharmacy	21,229	3,840	96,422	121,491	18,607	3,840	127,240	149,687
Home Health	--	9,543	--	9,543	--	10,341	--	10,341
Medical records	90,294	13,465	12,729	116,488	76,663	16,624	14,111	107,398
Hawarden community clinic	102,553	--	8,007	110,560	--	1,218	6,077	7,295
Central services and supply	6,638	--	25,526	32,164	6,261	--	32,074	38,335
Outpatient clinic	27,726	--	264	27,990	26,760	361	223	27,344
Respiratory therapy	8,463	7,900	10,471	26,834	10,223	4,900	9,334	24,457
Cardiac rehab	12,022	--	327	12,349	7,776	--	2,351	10,127
Operating and recovery room	141	2,436	140	2,717	1,062	3,752	3,621	8,435
Electrocardiology	7,451	3,870	--	11,321	7,918	3,788	78	11,784
Intravenous therapy	11,297	--	3,777	15,074	11,141	--	4,604	15,745
Occupational therapy	--	18,812	--	18,812	--	19,963	215	20,178
Gastro-Intestinal	--	--	18,583	18,583	--	--	16,284	16,284
Wellness center	3,243	--	978	4,221	1,930	--	38	1,968
Occupation health	4,288	--	1,195	5,483	4,133	--	426	4,559
Speech therapy	--	1,265	--	1,265	--	10,852	--	10,852
Anesthesiology	--	--	--	--	570	--	81	651
	<u>568,716</u>	<u>976,874</u>	<u>256,933</u>	<u>1,802,523</u>	<u>478,606</u>	<u>847,409</u>	<u>287,176</u>	<u>1,613,191</u>
GENERAL SERVICES:								
Plant operation and maintenance	44,519	--	104,016	148,535	43,227	--	99,063	142,290
Dietary	99,946	2,708	18,726	121,380	96,715	1,628	21,735	120,078
Housekeeping	28,083	--	1,086	29,169	27,253	--	1,944	29,197
Laundry and linen	24,802	--	3,299	28,101	22,867	--	3,542	26,409
	<u>197,350</u>	<u>2,708</u>	<u>127,127</u>	<u>327,185</u>	<u>190,062</u>	<u>1,628</u>	<u>126,284</u>	<u>317,974</u>
ADMINISTRATIVE SERVICES								
	224,108	303,736	96,672	624,516	181,367	233,439	90,463	505,269
GRAND TOTAL	<u>\$ 1,496,316</u>	<u>1,291,726</u>	<u>498,114</u>	<u>3,286,156</u>	<u>1,343,636</u>	<u>1,095,086</u>	<u>527,324</u>	<u>2,966,046</u>

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2005 and 2004

ANALYSIS OF AGING:

Days Since Discharge	2005		2004	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 258,295	36.55 %	336,598	32.34 %
31 - 60	128,410	18.17	85,595	8.22
61 - 90	57,270	8.10	123,262	11.84
91 - 120	30,251	4.28	106,122	10.20
Over 120	232,487	32.90	389,094	37.40
	<u>706,713</u>	100.00 %	<u>1,040,671</u>	100.00 %
Less:				
Allowance for doubtful accounts	(154,437)		(171,840)	
Allowance for contractual adjustments	<u>(4,376)</u>		<u>(2,485)</u>	
	<u>\$ 547,900</u>		<u>866,346</u>	

	2005	2004
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	58.08 days	88.54 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 171,840	171,156
Provision of uncollectible accounts	202,320	205,734
Recoveries of accounts previously written off	32,729	55,371
Accounts written off	<u>(252,452)</u>	<u>(260,421)</u>
Balance, end of year	<u>\$ 154,437</u>	<u>171,840</u>

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Inventory/Prepaid Expenses
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
INVENTORY:		
Pharmacy drugs	\$ 35,616	32,757
All other	<u>20,766</u>	<u>22,936</u>
	<u>\$ 56,382</u>	<u>55,693</u>
 PREPAID EXPENSES:		
Insurance	\$ 44,942	14,343
Dues	<u>1,707</u>	<u>1,528</u>
	<u>\$ 46,649</u>	<u>15,871</u>

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Financial and Statistical Highlights
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Patient days:		
Adult and pediatric-		
Medicare	326	303
Other	71	107
	<u>397</u>	<u>410</u>
Swing bed	199	441
Rest bed	2	25
	<u> </u>	<u> </u>
Total	<u>598</u>	<u>876</u>
Patient discharges:		
Adult and pediatric-		
Medicare	103	101
Other	30	37
	<u>133</u>	<u>138</u>
Swing bed	31	51
Rest bed	1	3
	<u> </u>	<u> </u>
Total	<u>165</u>	<u>192</u>
Average length of stay:		
Adult and pediatric-		
Medicare	3.2 days	3.0 days
Other	2.4 days	2.9 days
Swing bed	6.4 days	8.6 days
Rest bed	2.0 days	8.3 days
Surgical procedures	97	82
Emergency room visits	1,089	1,075
Number of employees - full-time equivalents		
Hospital	42.61	40.69
Clinic	4.83	--
	<u>47.44</u>	<u>40.69</u>

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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

To the Board of Trustees
Hawarden Community Hospital
Hawarden, Iowa:

We have audited the financial statements of Hawarden Community Hospital, a component unit of the city of Hawarden, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon, dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. The reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a 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 error 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable condition is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawarden Community 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.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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. Comments have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

This report is intended solely for the information and use of the Board of Trustees, management and others within the Hospital. However, this report is a matter of public record and its distribution is not limited.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
August 17, 2005.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

**Independent Auditor's Comments on
Resolution of Prior Audit Findings**

For the Year Ended June 30, 2005

There were no audit findings in the prior year.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) One reportable condition and no material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

Segregation of Duties: The Hospital does not have adequate internal control procedures because of an inadequate segregation of duties. A good system of internal control procedures contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Hospital may not be large enough to permit an adequate segregation of duties, in all respects, for an effective system of internal control procedures, it is important that you be aware of this condition.

Response: We will continue to review the system of internal control in order to achieve the best segregation of duties possible under the circumstances.

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

Business Transactions: The following transactions between the Hospital and Hospital officials:

Matt Hummel, Member Board of Trustees:	
Hospital pharmacy supervision fee	\$ 4,160
Hospital purchased of drugs and supplies from Businesses operated by Matt Hummel - Booth Pharmacy	<u>2,405</u>
Total	<u>\$ 6,565</u>
Glea Hamik, Member Board of Trustees:	
Wages paid for being a part-time employee during the year ended June 30, 2005	\$ 17,255
Food purchased from stores owned by spouse - Fiesta Foods	<u>4,687</u>
Total	<u>\$ 21,942</u>

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

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

Publishing Requirements: An annual condensed statement of total receipts and expenditures is to be published in a newspaper of the city in which the Hospital is located according to Chapter 392.6 of the Code of Iowa. The Hospital published the 2004 audited financial statements in the city newspaper.

HAWARDEN COMMUNITY HOSPITAL
A Component Unit of the City of Hawarden, Iowa

Audit Staff
For the Year Ended June 30, 2005

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Matthew R. Heemstra, CPA, Senior Auditor

Sarah A. Terryberry, Staff Auditor