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

Basic Financial Statements
June 30, 2006 and 2005

Together with Independent Auditor's Report

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

Table of Contents
June 30, 2006 and 2005

	Page No.
Officials -- June 30, 2006	1
Independent Auditor's Report	2 – 3
Management's Discussion and Analysis	4 – 8
Basic Financial Statements:	
Balance Sheets June 30, 2006 and 2005	9
Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2006 and 2005	10
Statements of Cash Flows For the Years Ended June 30, 2006 and 2005	11 – 12
Notes to Financial Statements June 30, 2006 and 2005	13 – 23
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue For the Years Ended June 30, 2006 and 2005	24
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2006 and 2005	25
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2006 and 2005	26
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts For the Years Ended June 30, 2006 and 2005	27
Exhibit 5 - Inventory/Prepaid Expenses For the Years Ended June 30, 2006 and 2005	28
Exhibit 6 - Financial and Statistical Highlights For the Years Ended June 30, 2006 and 2005	29
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	30 – 31
Independent Auditor's Comments on Resolution of Prior Audit Findings	32
Schedule of Findings and Questioned Costs	33 – 34
Audit Staff	35

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

OFFICIALS

June 30, 2006

	Address	Term Expires
Board of Trustees		
Matt Hummel, President	Hawarden, Iowa	December 2007
Pam Harvey, Vice-President	Hawarden, Iowa	December 2008
Kathy Jacobs, Secretary	Hawarden, Iowa	December 2007
Glea Hamik	Hawarden, Iowa	December 2007
Rick Reinking	Hawarden, Iowa	December 2008
Administrator		
Chad Markham	Sioux City, Iowa	Indefinite

SEIM
JOHNSON
SESTAK &
QUIST, LLP

CONSULTANTS
& ACCOUNTANTS

8807 INDIAN HILLS DR.
Suite 300
OMAHA, NEBRASKA
68114-4123

TEL (402) 330 2660
FAX (402) 330 5108

mail@sjsq.com
www.sjsq.com

Harvey D. Johnson, CPA
Wendell L. Quist, CPA
Clifford C Huntington, CPA
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 Friehauf, 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, 2006 and 2005, 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, 2006 and 2005, 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 18, 2006 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 18, 2006.

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

Management's Discussion and Analysis
June 30, 2006 and 2005

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, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 7.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a $288,339 or 16.2% increase in 2006 and $149,882 or 9.62% increase in 2005.
- The Hospital reported operating income in 2006 of $46,598 and operating loss in 2005 $(109,870). Operating income in 2006 increased by $156,468, or 142.4% over the loss reported in 2005. Operating income (loss) in 2005 increased by $77,752 or 242.08% over the income reported in 2004.
- Operating revenues increased by $604,563 or 16.0% over the income reported in 2005 and by $286,734 or 8.2% over the income reported in 2004.
- Nonoperating revenues and restricted gifts received decreased by $18,011 or 6.9% in 2006 compared to 2005 and increased by $62,165 or 31.46% in 2005 compared to 2004.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Revenues, 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 Revenues, Expenses, and Changes in Net Assets

Our analysis of the Hospital finances begins on page 4. The Balance Sheet and the Statement of Revenues, 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 nonfinancial 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.

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 7. The Hospital's net assets increased in each of the past two years by $288,338 (16.2%) in 2006 and $149,882 (9.26%) in 2005, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

	2006	2005	2004
Assets:			
Current assets	$ 1,629,917	1,230,542	1,278,747
Capital assets, net	1,034,102	1,147,129	1,178,053
Other noncurrent assets	378,062	350,217	207,761
Total assets	**3,042,081**	**2,727,888**	**2,664,561**
Liabilities:			
Long-term debt outstanding	32,193	76,500	90,896
Other current and noncurrent liabilities	952,329	882,188	954,327
Total liabilities	**984,522**	**958,668**	**1,045,223**
Net assets:			
Invested in capital assets, net of related debt	1,001,909	1,087,157	1,087,157
Restricted for capital acquisitions and operating activities	144,529	122,164	29,390
Restricted expendable net assets			
Restricted nonexpendable net assets	96,123	96,123	96,123
Unrestricted	814,998	480,304	406,668
Total net assets	**$ 2,057,559**	**1,769,220**	**1,619,338**

- In 2006, the total assets increased by $314,193. A significant component of the change is an increase in current assets. In 2006, accounts receivable aging increased by $239,317 and cash on hand also increased by $230,973. The increase in accounts receivable is attributable to a late increase in patient revenues in 2006. In 2005, a restricted gift of $85,878 was received. It is to be used for health information management expenses. The receivable from the clinic, a related party, was $132,997 in 2006 and $217,256 in 2005.

- In 2006, the total liabilities increased by $25,854. The change was primarily due to two items. The estimated third-party payor settlements is a payable of $209,967 in 2006 compared to a receivable of $19,036 in 2005. The payable to Mercy was reduced in each of the past two years by $190,352 in 2006 and $28,770 in 2005.

Operating Results and Changes in The Hospital's Net Assets

In 2006, the Hospital's net assets increased by $288,339 or 16.2%, 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 2005 of $149,882 or 9.26%.

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

	2006	2005	2004
Operating Revenue:			
Net patient service revenue	$ 4,051,088	3,598,500	3,556,295
Other operating revenues	490,401	380,754	139,639
Total operating revenue	**4,541,489**	**3,979,254**	**3,695,934**
Operating Expenses:			
Salaries and benefits	2,122,432	1,867,982	1,683,401
Purchased services and other	2,044,724	1,845,742	1,666,743
Provision for bad debt	159,992	202,320	205,734
Depreciation and amortization	164,730	168,746	162,728
Interest	3,013	4,334	9,446
Total operating expenses	**4,494,891**	**4,089,124**	**3,728,052**
Operating income (loss)	**46,598**	**(109,870)**	**(32,118)**
Nonoperating Revenues and Expenses			
Joint venture loss, net	(37,797)	(138,811)	(141,986)
Loss on disposal of assets	(17,616)	(11,663)	--
Investment income	13,142	8,140	9,662
Sales tax revenue	223,450	193,320	191,576
Restricted Gifts, net	60,562	208,766	130,938
Total nonoperating revenues (expenses), net	241,741	259,752	197,587
Increase in net assets	**288,339**	**149,882**	**158,072**
Net assets beginning of year	**1,769,220**	**1,619,338**	**1,461,266**
Net assets end of year	**$ 2,057,559**	**1,769,220**	**1,619,338**

Nonoperating Revenues and Expenses

Nonoperating revenues 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 expenses.

The loss for the joint venture and clinic investment was $(37,797) in 2006 compared to $(138,811) in 2005. The decrease of loss of $101,014 or 72.7% represents structure change made in 2005 to become a Rural Health Care facility. We continue to fund the clinic as part of our mission to provide for the health & wellness of all the people in our community.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by operating activities in 2006 decreased compared to 2005 due to change in estimated third-party payor settlements, payments on Mercy payable and increase in net patient accounts receivable.

Capital Asset and Debt Administration

Capital Assets

As of end of the year 2005, the Hospital had $1,034,102 invested in capital assets, net of accumulated depreciation, as compared to the end of 2005, the Hospital had $1,147,129 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2006, the hospital purchased new equipment costing $29,000 compared to $105,282 being spent in 2005. In addition, in 2006 the Hospital invested $41,069 to purchase a CT Scanner and related improvement expenses. The CT will be completed in July 2006 with a total estimated cost of $400,000. 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 $32,193 at year end 2006 and 76,500 at year end 2005. No new loans were initiated in 2006. A loan was initiated 2005 for $21,500. 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. The hospital has received board approval for approximately $300,000 debt for the CT scanner project in the 2007 fiscal year.

Other Economic Factors

Challenges in 2006 and 2005 included a reduction of total number of local medical providers and reduced continuity through significant use of locum tenens coverage. The hospital incurs additional expense for locum coverage. In addition, the hospital faced increased cost related to maintaining an aging physical plant.

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 CEO-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, 2006 and 2005

ASSETS		2006	2005
Current assets:			
Cash and cash equivalents	$	501,976	271,003
Receivables -			
Patients, net of allowance for doubtful accounts of $166,311 in 2006 and $154,437 in 2005		787,217	547,900
Due from related party		132,997	217,256
Other		106,117	70,034
Inventories		54,997	56,382
Prepaid expenses		46,613	46,649
Estimated third-party payor settlements		--	19,036
Total current assets		1,629,917	1,228,260
Assets limited as to use:			
By board for capital improvements and endowments		167,939	160,421
By donor		204,706	184,283
		372,645	344,704
Capital assets, net		1,034,102	1,147,129
Other assets		5,417	7,795
Total assets	$	3,042,081	2,727,888
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion of-			
Long-term debt	$	15,187	15,202
Capital lease		10,091	29,081
Accounts payable-			
Mercy		318,709	512,419
Trade		187,105	184,589
Salaries, wages and accrued benefits payable		190,648	162,446
Payroll taxes withheld and accrued		20,611	12,427
Other accrued liabilites		25,289	10,287
Estimated third-party payor settlements		209,967	--
Total current liabilities		977,607	926,451
Long-term debt, net of current portion		6,915	22,126
Capital lease, net of current portion		--	10,091
Total liabilities		984,522	958,668
Net assets:			
Invested in capital assets, net of related debt		1,001,909	1,070,629
Restricted:			
Expendable for capital acquisitions and operating activities		144,529	122,164
Nonexpendable permanent endowments		96,123	96,123
Unrestricted		814,998	480,304
Total net assets		2,057,559	1,769,220
Total liabilities and net assets	$	3,042,081	2,727,888

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, 2006 and 2005

	2006	2005
UNRESTRICTED REVENUE:		
Net patient service revenue before provision for bad debt	$ 4,051,088	3,598,500
Provision for bad debts	(159,992)	(202,320)
Net patient service revenue	3,891,096	3,396,180
Other revenue	490,401	380,754
Total revenue	4,381,497	3,776,934
EXPENSES:		
Salaries	1,672,974	1,496,316
Employee benefits	449,458	371,666
Purchased services and professional fees	1,415,103	1,291,726
Utilities	70,812	64,229
Supplies and other expenses	489,810	433,885
Depreciation and amortization	164,730	168,746
Insurance	68,999	55,902
Interest	3,013	4,334
Total expenses	4,334,899	3,886,804
OPERATING INCOME (LOSS)	46,598	(109,870)
NONOPERATING GAINS (LOSSES), NET:		
Joint venture and clinic investment loss, net	(37,797)	(138,811)
Loss on sale of property and equipment	(17,616)	(11,663)
Investment income	13,142	8,140
Sales tax revenue	223,450	193,320
Noncapital grants and contributions	26,159	107,870
Nonoperating gains, net	207,338	158,856
EXCESS OF REVENUE OVER EXPENSES	253,936	48,986
CAPITAL GRANTS AND CONTRIBUTIONS, NET	34,403	100,896
INCREASE IN NET ASSETS	288,339	149,882
NET ASSETS, BEGINNING OF YEAR	1,769,220	1,619,338
NET ASSETS, END OF YEAR	$ 2,057,559	1,769,220

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, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	$ 3,956,928	3,632,234
Cash paid to employees for salaries and benefits	(2,071,044)	(1,830,630)
Cash paid to suppliers and contractors	(2,234,497)	(1,853,737)
Other receipts and payments, net	465,946	160,131
Net cash provided by operating activities	117,333	107,998
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales tax received	219,935	190,233
Noncapital grants and contributions	26,159	107,870
Net cash provided by noncapital financing activities	246,094	298,103
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(69,319)	(149,485)
Capital grants and contributions	34,403	100,896
Proceeds from issuance of long-term debt	--	21,500
Payments on long-term debt	(15,226)	(8,548)
Payments on capital lease obligations	(29,081)	(27,371)
Interest paid on long-term debt and capital lease obligations	(3,013)	(4,334)
Net cash used in capital and related financing activities	(82,236)	(67,342)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Joint venture and clinic investment loss	(37,797)	(199,065)
Purchase of assets limited as to use, net	(27,941)	(140,820)
Interest on investments	13,142	8,140
Withdrawls from (deposits to) other assets, net	2,378	(3,889)
Net cash used in investing activities	(50,218)	(335,634)
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,973	3,125
CASH AND CASH EQUIVALENTS - Beginning of year	271,003	267,878
CASH AND CASH EQUIVALENTS - End of year	$ 501,976	271,003

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, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	$ 46,598	(109,870)
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	164,730	168,746
Interest expense	3,013	4,334
(Increase) decrease in current assets -		
Receivables -		
Patients	(239,317)	318,446
Due from related party	84,259	(217,256)
Other	(32,568)	6,012
Inventories	1,385	(689)
Prepaid expenses	36	(30,778)
Estimated third-party payor settlements	19,036	(19,036)
Increase (decrease) in current liabilities -		
Accounts payable-		
Current portion of Mercy payable	(193,710)	31,478
Accounts payable	2,516	(8,012)
Salaries, wages and accrued benefits payable	28,202	28,425
Payroll taxes withheld and accrued	8,184	5,271
Other accrued liabilities	15,002	3,656
Estimated third-party payor settlements	209,967	(72,729)
Net cash provided by operating activities	$ 117,333	107,998

See notes to financial statements

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

Notes to Financial Statements
June 30, 2006 and 2005

(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, 2006 and 2005 was $118,294 and $101,550, 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 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.

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. *Reclassification*

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 reporting format.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2006 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, 2006 and 2005 are as follows:

	2006	2005
Marketable equity securities, at fair value	$ 13,500	13,669

(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, 2005.

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 62% and 14%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2006. 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, 2006 and 2005 consist of the following:

	2006	2005
Patient accounts	$ 990,876	706,713
Less estimated third-party contractual adjustments	(37,348)	(4,376)
Less allowance for uncollectibles	(166,311)	(154,437)
	$ 787,217	547,900

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:

	2006	2005
Medicare	43%	28%
Medicaid	4	3
Blue Cross Blue Shield	19	15
Other third-party payors	21	32
Private pay	13	22
	100%	100%

(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, 2006 and 2005, are summarized as follows:

	2006	2005
Capital Improvements and Endowments -		
Cash and certificates of deposit	$ 154,439	146,752
Marketable equity securities	13,500	13,669
	$ 167,939	160,421

By Donor

Cash deposits and investments restricted by donor for future capital improvements, and endowments as of June 30, 2006 and 2005, are summarized as follows:

	2006	2005
Capital Improvements and Endowments -		
Cash and certificates of deposit	$ 204,706	182,001

(6) Capital Assets, Net

Capital asset additions, retirements and balances as of June 30, 2006 and 2005, are summarized as follows:

	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
Capital assets, not being depreciated:				
Land	$ 7,000	--	--	7,000
Construction in progress	44,203	41,069	--	85,272
Total capital assets, not being depreciated	51,203	41,069	--	92,272
Capital assets, being depreciated:				
Land improvements	28,089	--	--	28,089
Hospital buildings	1,437,781	--	--	1,437,781
Fixed equipment	513,619	--	--	513,619
Major moveable equipment	1,203,414	29,000	23,375	1,209,039
Total capital assets, being depreciated	3,182,903	29,000	23,375	3,188,528
Less accumulated depreciation:				
Land improvements	22,262	2,389	--	24,651
Hospital buildings	856,127	46,377	--	902,504
Fixed equipment	334,904	19,502	--	354,406
Major moveable equipment	873,684	96,462	5,009	965,137
Total accumulated depreciation	2,086,977	164,730	5,009	2,246,698
Total capital assets, being depreciated, net	1,095,926	(135,730)	18,366	941,828
Total capital assets, net	$ 1,147,129	(94,661)	18,366	1,034,102

	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	7,000	44,203	--	51,203
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	3,094,584	105,282	16,963	3,182,903
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	1,923,531	168,746	5,300	2,086,977
Total capital assets, being depreciated, net	1,171,053	(63,464)	11,663	1,095,926
Total capital assets, net	$ 1,178,053	(19,261)	11,663	1,147,129

Construction in progress consists of two projects. The amounts for the first project are planning and design costs related to an addition and remodel of the current building. No approval for construction has yet been made by the board. The second project is for a purchase of a computer-assisted tomography scanner (CT scanner). It is expected to be completed July 2006 at a total cost of $400,000, financed by loans, estimated at $300,000 (see Note 13).

(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, 2006 and 2005 is summarized as follows:

	2006	2005
Mercy Medical Services for share of Hawarden Mercy Medical Clinic operating support	$ 206,297	304,356
Mercy Medical Center for professional and management services	112,412	208,063
	$ 318,709	512,419

(8) Long-Term Debt

A summary of long-term debt at June 30, 2006 and 2005, is as follows:

	Balance June 30, 2005	Borrowings	Payments	Defeased	Balance June 30, 2006	Amounts Due Within One Year
Bank Note 1	$ 16,383	--	8,384	--	7,999	7,996
Bank Note 2	20,945	--	6,842	--	14,103	7,191
	$ 37,328	--	15,226	--	22,102	15,187

	Balance June 30, 2004	Borrowings	Payments	Defeased	Balance June 30, 2005	Amounts Due Within One Year
Bank Note 1	$ 24,352	--	7,969	--	16,383	8,360
Bank Note 2	--	21,500	555	--	20,945	6,842
	$ 24,352	21,500	8,524	--	37,328	15,202

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:

Year		Principal	Interest	Total
2007	$	15,187	726	15,913
2008		6,915	177	6,434
	$	22,102	903	23,005

A summary of interest expense on borrowed funds during the years ended June 30, 2006 and 2005 follows:

	2006	2005
Interest cost expense	$ 1,457	1,022

(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%.

Year		Principal	Interest	Total
2007	$	10,091	129	10,220

(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, 2006, 2005 and 2004 were $93,959, $74,006 and $65,100, respectively, equal to the required contributions for each year.

(12) Related Party Transactions

Hawarden Mercy Medical Clinic

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 2006 and 2005 (from January 1st through June 30th) operating loss was $37,797 and $59,069, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

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) was $79,742 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. Amounts received by the Hospital for expenses paid in 2006 and 2005 was $227,177 and $120,473, respectively, and is included in the accompanying statements of revenue, expenses and changes in net assets. The Hospital also received management fees from HCC totaling $25,000 in 2006 and $12,500 in 2005.

In addition, the Hospital receives monthly rent from the clinic with rental income totaling $27,600 and $27,600 for the years ended June 30, 2006 and 2005, respectively, and is included in other revenue.

See Note 9 regarding amounts due Mercy Medical Services.

(13) Subsequent Event

In July 2006, the Hospital entered into a loan agreement with Farmers State Bank in the amount of $172,000 for the purpose of financing a portion of the cost of purchasing a CT scanner described in Note 6.

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

Patient Service Revenue
For the Years Ended June 30, 2006 and 2005

	2006				2005			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical, surgical and obstetrics	$ 217,185	35,709	--	252,894	221,816	8,336	--	230,152
Swing bed	--	--	92,487	92,487	--	--	74,590	74,590
Observation	3,168	71,693	--	74,861	1,584	71,321	--	72,905
	220,353	107,402	92,487	420,242	223,400	79,657	74,590	377,647
OTHER PROFESSIONAL SERVICES:								
Radiology	46,571	873,083	1,884	921,538	28,118	583,808	2,190	614,116
Laboratory	49,320	767,766	6,804	823,890	65,170	601,345	5,782	672,297
Physical therapy	5,253	697,595	16,460	719,308	2,713	654,119	13,432	670,264
Pharmacy	72,701	381,838	21,603	476,142	81,778	223,521	27,315	332,614
Emergency and outpatient service	3,374	364,427	--	367,801	8,185	395,614	49	403,848
Professional fees	25,586	168,058	--	193,644	66,502	148,955	--	215,457
Gastro-Intestinal	--	117,724	--	117,724	--	73,535	--	73,535
Respiratory therapy	36,213	61,511	7,991	105,715	67,959	63,391	21,059	152,409
Electrocardiology	8,662	88,318	321	97,301	9,000	63,021	314	72,335
Central services and supply	14,812	66,613	6,537	87,962	21,154	62,028	7,289	90,471
Intravenous therapy	17,470	37,938	2,495	57,903	21,775	27,862	2,914	52,551
Cardiac rehab	--	27,200	--	27,200	--	35,438	--	35,438
Occupational therapy	441	19,970	4,771	25,182	--	7,203	3,008	10,211
Speech therapy	610	5,702	1,334	7,646	--	1,520	1,900	3,420
Anesthesiology	205	1,084	--	1,289	16	1,277	--	1,293
Operating and recovery rooms	--	1,053	--	1,053	--	1,201	--	1,201
Delivery and labor room	--	501	--	501	--	72	--	72
	281,218	3,680,381	70,200	4,031,799	372,370	2,943,910	85,252	3,401,532
GROSS PATIENT SERVICE REVENUE	$ 501,571	3,787,783	162,687	4,452,041	595,770	3,023,567	159,842	3,779,179
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(400,953)				(180,679)
Provision for bad debts				(159,992)				(202,320)
NET PATIENT SERVICE REVENUE				$ 3,891,096				3,396,180

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

Other Operating Revenue
For the Years Ended June 30, 2006 and 2005

	2006	2005
Services provided to clinic	$ 252,177	132,973
HRSA grant	70,304	64,167
Emergency room/physical therapy contracted revenue	57,128	81,549
Medical office building rent	27,600	27,600
Medical records transcript fee	16,715	8,146
Dietary consulting	15,398	9,142
Other	15,224	14,578
Occupational health consulting	7,492	6,055
Specialty clinic rent	5,980	5,180
MediMate	5,842	9,379
Meals	5,082	4,632
Purchasing rebates	3,914	3,795
Wellness center dues	2,728	3,824
Cholesterol screening	2,725	2,195
Vending	2,092	2,057
Physician charges to clinic	--	5,482
	$ 490,401	380,754

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

Department Expenses
For the Years Ended June 30, 2006 and 2005

	2006				2005			
	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	$ 566,484	6,424	18,045	590,953	496,988	8,408	17,382	522,778
Observation	8,106	-	-	8,106	9,154	-	-	9,154
	574,590	6,424	18,045	599,059	506,142	8,408	17,382	531,932
OTHER PROFESSIONAL SERVICES:								
Physical therapy	44,247	409,298	24,145	477,690	39,691	439,561	18,931	498,183
Emergency room	71,319	284,582	1,750	357,651	94,642	228,470	270	323,382
Laboratory	116,116	114,096	55,259	285,471	96,607	86,809	51,004	234,420
Radiology	52,103	196,362	21,626	270,091	42,431	160,903	8,309	211,643
Hawarden community clinic	165,952	135	22,101	188,188	102,553	-	8,007	110,560
Pharmacy	24,893	3,840	119,546	148,279	21,229	3,840	96,422	121,491
Medical records	90,524	26,392	16,674	133,590	90,294	13,465	12,729	116,488
Respiratory therapy	7,385	16,250	7,847	31,482	8,463	7,900	10,471	26,834
Outpatient clinic	24,685	-	189	24,874	27,726	-	264	27,990
Central services and supply	6,746	-	17,326	24,072	6,638	-	25,526	32,164
Gastro-Intestinal	-	-	22,949	22,949	-	-	18,583	18,583
Occupational therapy	-	22,645	-	22,645	-	18,812	-	18,812
Intravenous therapy	10,698	-	3,775	14,473	11,297	-	3,777	15,074
Electrocardiology	6,465	3,058	1,750	11,273	7,451	3,870	-	11,321
Cardiac rehab	8,584	-	156	8,740	12,022	-	327	12,349
Home Health	-	8,288	-	8,288	-	9,543	-	9,543
Occupation health	3,671	-	4,460	8,131	4,288	-	1,195	5,483
Operating and recovery room	23	3,650	-	3,673	141	2,436	140	2,717
Speech therapy	-	3,565	-	3,565	-	1,265	-	1,265
Wellness center	80	-	667	747	3,243	-	978	4,221
	633,491	1,092,161	320,220	2,045,872	568,716	976,874	256,933	1,802,523
GENERAL SERVICES:								
Plant operation and maintenance	51,877	-	101,923	153,800	44,519	-	104,016	148,535
Dietary	107,016	2,123	25,296	134,435	99,946	2,708	18,726	121,380
Housekeeping	31,501	-	777	32,278	28,083	-	1,086	29,169
Laundry and linen	25,537	-	2,951	28,488	24,802	-	3,299	28,101
	215,931	2,123	130,947	349,001	197,350	2,708	127,127	327,185
ADMINISTRATIVE SERVICES	248,962	314,395	91,410	654,767	224,108	303,736	96,672	624,516
NONDEPARTMENTAL:								
Employee benefits	-	-	449,458	449,458	-	-	371,666	371,666
Depreciation and amortization	-	-	164,730	164,730	-	-	168,746	168,746
Insurance	-	-	68,999	68,999	-	-	55,902	55,902
Interest	-	-	3,013	3,013	-	-	4,334	4,334
	-	-	686,200	686,200	-	-	600,648	600,648
GRAND TOTAL	$ 1,672,974	1,415,103	1,246,822	4,334,899	1,496,316	1,291,726	1,098,762	3,886,804

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, 2006 and 2005

ANALYSIS OF AGING:

Days Since Discharge	2006 Amount	2006 Percent of Total	2005 Amount	2005 Percent of Total
0 - 30	$ 425,826	42.97 %	258,295	36.55 %
31 - 60	124,946	12.61	128,410	18.17
61 - 90	82,813	8.36	57,270	8.10
91 - 120	71,702	7.24	30,251	4.28
Over 120	285,589	28.82	232,487	32.90
	990,876	100.00 %	706,713	100.00 %
Less:				
Allowance for doubtful accounts	(166,311)		(154,437)	
Allowance for contractual adjustments	(37,348)		(4,376)	
	$ 787,217		547,900	

	2006	2005
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	73.84 days	58.08 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	$ 154,437	171,840
Provision of uncollectible accounts	159,992	202,320
Recoveries of accounts previously written off	35,018	32,729
Accounts written off	(183,136)	(252,452)
Balance, end of year	$ 166,311	154,437

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

Inventory/Prepaid Expenses
For the Years Ended June 30, 2006 and 2005

	2006	2005
INVENTORY:		
Pharmacy drugs	$ 34,598	35,616
All other	20,399	20,766
	$ 54,997	56,382
PREPAID EXPENSES:		
Insurance	$ 44,836	44,942
Dues	1,777	1,707
	$ 46,613	46,649

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

Financial and Statistical Highlights
For the Years Ended June 30, 2006 and 2005

	2006	2005
Patient days:		
Adult and pediatric-		
Medicare	268	326
Other	115	71
	383	397
Swing bed	178	199
Rest bed	4	2
Total	565	598
Patient discharges:		
Adult and pediatric-		
Medicare	99	103
Other	27	30
	126	133
Swing bed	30	31
Rest bed	1	1
Total	157	165
Average length of stay:		
Adult and pediatric-		
Medicare	2.7 days	3.2 days
Other	4.3 days	2.4 days
Swing bed	5.9 days	6.4 days
Rest bed	4.0 days	2.0 days
Surgical procedures	104	97
Emergency room visits	1,085	1,089
Number of employees - full-time equivalents		
Hospital	44.11	42.61
Clinic	5.00	4.83
	49.11	47.44

SEIM
JOHNSON
SESTAK &
QUIST, LLP

CONSULTANTS
& ACCOUNTANTS

8807 INDIAN HILLS DR
Suite 300
OMAHA, NEBRASKA
68114-4123

TEL (402) 330 2660
FAX (402) 330 5108

mail@sjsq com
www.sjsq.com

Harvey D Johnson, CPA
Wendell L Quist, CPA
Clifford C. Huntington, CPA
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. Friehauf, CPA
Barbara J Fajen, CPA
Brian D Green, CPA

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, 2006, and have issued our report thereon, dated August 18, 2006. 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, 2006 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 18, 2006.

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, 2006

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, 2006

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

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, 2006

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

Matt Hummel, Member Board of Trustees:		
Hospital pharmacy supervision fee	$	3,840
Hospital purchased of drugs and supplies from Businesses operated by Matt Hummel - Booth Pharmacy		1,972
Total	$	5,812
Glea Hamik, Member Board of Trustees:		
Wages paid for being a part-time employee during the year ended June 30, 2006	$	19,172
Food purchased from stores owned by spouse - Fiesta Foods		6,555
Total	$	25,727

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 2005 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, 2006

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Sarah A. Terryberry, Staff Auditor

Devin J. Moylan, Staff Auditor