

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

Basic Financial Statements
June 30, 2008 and 2007

Together with Independent Auditor's Report

Table of Contents

	<u>Page</u>
Officials -- June 30, 2008	1
Independent Auditor's Report	2
Management's Discussion and Analysis	3 – 6
Basic Financial Statements:	
Balance Sheets	
June 30, 2008 and 2007	7
Statements of Revenue, Expenses and Changes in Net Assets	
For the Years Ended June 30, 2008 and 2007	8
Statements of Cash Flows	
For the Years Ended June 30, 2008 and 2007	9 – 10
Notes to Financial Statements	
June 30, 2008 and 2007	11 – 21
Other Supplementary Information:	
Exhibit 1- Patient Service Revenue	
For the Years Ended June 30, 2008 and 2007	22
Exhibit 2 - Other Operating Revenue	
For the Years Ended June 30, 2008 and 2007	23
Exhibit 3 - Departmental Expenses	
For the Years Ended June 30, 2008 and 2007	24
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts	
For the Years Ended June 30, 2008 and 2007	25
Exhibit 5 - Inventory/Prepaid Expenses	
For the Years Ended June 30, 2008 and 2007	26
Exhibit 6 - Financial and Statistical Highlights	
For the Years Ended June 30, 2008 and 2007	27
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	28 - 29
Schedule of Findings and Questioned Costs.....	30 – 31
Summary Schedule of Prior Year Audit Findings	32
Audit Staff.....	33

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Officials
June 30, 2008

	Address	Term Expires
Board of Trustees:		
Matt Hummel, President	Hawarden, Iowa	December 2011
Pam Harvey, Vice-President	Hawarden, Iowa	December 2011
Glea Hamik, Secretary	Hawarden, Iowa	December 2011
Kathy Jacobs	Hawarden, Iowa	December 2008
Stan Hoekstra	Hawarden, Iowa	December 2011
Administrator:		
Chad Markham	Sioux City, Iowa	Indefinite

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, 2008 and 2007, 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, 2008 and 2007, 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 November 25, 2008 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 3 through 6 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,
November 25, 2008.

Management's Discussion and Analysis
June 30, 2008 and 2007

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, 2008 and 2007. Please read it in conjunction with the Hospital's financial statements, which begin on page 8.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a \$294,998 or 12.0% increase in 2008 and \$390,190 or 18.9% increase in 2007.
- The Hospital reported operating income in 2008 of \$46,066 and operating income in 2007 of \$121,020. Operating income in 2008 decreased by \$74,954, or 61.9% under the income reported in 2007. Operating income in 2007 increased by \$74,422, or 159.7% over the gain reported in 2006.
- Operating revenues increased by \$600,680 or 12.7% over the revenues reported in 2007 and by \$360,347 or 8.2% over the revenues reported in 2006.
- Nonoperating revenues and restricted gifts received decreased by \$49,090 or 21.0% in 2008 compared to 2007 and increased by \$25,824 or 12.4% in 2007 compared to 2006.

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 8. The Hospital's net assets increased in each of the past two years by \$294,998 (12.0%) in 2008 and \$390,190 (18.9%) in 2007, as you can see from **Table 1**.

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Management's Discussion and Analysis
June 30, 2008 and 2007

Table 1: Assets, Liabilities, and Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 2,023,180	2,030,137	1,629,917
Capital assets, net	1,384,979	1,312,660	1,034,102
Other noncurrent assets	<u>438,315</u>	<u>748,075</u>	<u>378,062</u>
Total assets	<u>3,846,474</u>	<u>4,090,872</u>	<u>3,042,081</u>
Liabilities:			
Long-term debt outstanding	453,835	348,698	32,193
Other current and noncurrent liabilities	<u>649,892</u>	<u>1,294,425</u>	<u>952,329</u>
Total liabilities	<u>1,103,727</u>	<u>1,643,123</u>	<u>984,522</u>
Net assets:			
Invested in capital assets, net of related debt	931,144	963,962	1,001,909
Restricted for capital acquisitions and operating activities	67,214	150,944	144,529
Restricted nonexpendable net assets	96,123	96,123	96,123
Unrestricted	<u>1,648,266</u>	<u>1,236,720</u>	<u>814,998</u>
Total net assets	<u>\$ 2,742,747</u>	<u>2,447,749</u>	<u>2,057,559</u>

In 2008, the total assets decreased by \$244,398. A significant component of the change is a decrease in category assets limited as to use which decreased \$311,877. In 2005, a restricted gift of \$85,878 was received and the gift was used in 2008 for health information management expenses and the funds set aside for the Medicare payable were used. In 2008, accounts receivable aging increased by \$52,126 and cash on hand decreased by \$36,401 mostly due to implementation of new patient accounting software. The receivable from the clinic, a related party, was \$153,190 in 2008 and \$279,596 in 2007.

In 2008, the total liabilities decreased by \$539,396. The change was primarily due to two items. The estimated third-party payor settlements is a receivable of \$345,000 in 2008 compared to a payable of \$777,493 in 2007 and a new debt issue for \$200,000. The payable to Mercy was reduced in each of the past two years by \$65,630 in 2008 and \$167,325 in 2007.

Operating Results and Changes in The Hospital's Net Assets

In 2008, the Hospital's net assets increased by \$294,998 or 12.0%, 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 2007 of \$390,190 or 18.9%.

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Management's Discussion and Analysis
June 30, 2008 and 2007

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenue:			
Net patient service revenue	\$ 4,895,399	4,266,915	4,051,088
Other operating revenues	<u>640,125</u>	<u>623,179</u>	<u>490,401</u>
Total operating revenue	5,535,524	4,890,094	4,541,489
Operating Expenses:			
Salaries and benefits	2,324,691	2,276,767	2,122,432
Purchased services and other	2,713,070	2,142,584	2,044,724
Provision for bad debt	193,000	148,250	159,992
Depreciation and amortization	234,841	187,771	164,730
Interest	<u>23,856</u>	<u>13,702</u>	<u>3,013</u>
Total operating expenses	5,489,458	4,769,074	4,494,891
Operating income (loss)	46,066	121,020	46,598
Nonoperating Revenues and Expenses			
Joint venture loss, net	(110,280)	(40,674)	(37,797)
Loss on disposal of assets	--	--	(17,616)
Investment income	29,747	26,209	13,142
Sales tax revenue	264,435	235,318	223,450
Restricted Gifts, net	<u>65,030</u>	<u>48,317</u>	<u>60,562</u>
Total nonoperating revenues (expenses), net	248,932	269,170	241,741
Increase in net assets	294,998	390,190	288,339
Net assets beginning of year	2,447,749	2,057,559	1,769,220
Net assets end of year	\$ <u>2,742,747</u>	<u>2,447,749</u>	<u>2,057,559</u>

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 and the gift was used in 2008.

The loss for the joint venture and clinic investment was \$(110,280) in 2008 compared to \$(40,674) in 2007. We continue to fund the clinic as part of our mission to provide for the health & wellness of all the people in our community.

Management's Discussion and Analysis
June 30, 2008 and 2007

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 2008 decreased compared to 2007 due to a decrease in payment from third-party payors, payments on Mercy payable, withdrawal from assets limited as to use, and increase in net patient accounts receivable.

Capital Asset and Debt Administration

Capital Assets

As of end of the year 2008, the Hospital had \$1,384,979 invested in capital assets, net of accumulated depreciation, as compared to \$1,312,660 in 2007 and \$1,034,102 in 2006, as detailed in Note 6 to the financial statements. In 2008, the hospital purchased new equipment costing \$237,315 compared to \$491,549 being spent in 2007. The hospital purchased the software/hardware for new hospital information system totaling \$195,108 and updated the fire sprinkler system in the hospital for \$41,315. 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 \$453,835 at year-end 2008 and \$348,698 at year-end 2007. One new loan initiated in 2008 for \$200,000. New loans in 2007 were for \$172,000, \$135,000 and \$74,184 for a total of \$381,184. The Hospital's formal debt issuances, revenue notes, cannot be issued without approval of the Board of Directors.

Other Economic Factors

Challenges in 2009 and 2008 relate to the decreased volume of inpatient and skilled care utilization at the hospital. In October 2007, a new physician started in Hawarden Clinic and continues to build the clinic practice. Also in October 2007, Acute Care Inc. was contracted to cover the ER, where the hospital incurs a greater expense as compared to prior years for this coverage. In addition, the hospital faces 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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 799,543	835,944
Receivables -		
Patients, net of allowance for doubtful accounts of \$268,656 in 2008 and \$161,293 in 2007	819,829	767,703
Due from related party	153,190	279,596
Other	63,882	48,196
Inventories	63,405	66,527
Prepaid expenses	41,139	32,171
Estimated third-party payor settlements	82,192	--
Total current assets	<u>2,023,180</u>	<u>2,030,137</u>
Assets limited as to use:		
By board for capital improvements and endowments	331,207	531,392
By donor	99,446	211,138
	<u>430,653</u>	<u>742,530</u>
Capital assets, net	1,384,979	1,312,660
Other assets	7,662	5,545
Total assets	<u>\$ 3,846,474</u>	<u>4,090,872</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 111,565	76,828
Accounts payable-		
Mercy	98,630	152,384
Trade	261,771	120,376
Salaries, wages and accrued benefits payable	221,020	195,291
Payroll taxes withheld and accrued	16,909	14,288
Other accrued liabilities	51,562	34,593
Estimated third-party payor settlements	--	777,493
Total current liabilities	761,457	1,371,253
Long-term debt, net of current portion	<u>342,270</u>	<u>271,870</u>
Total liabilities	<u>1,103,727</u>	<u>1,643,123</u>
Net assets:		
Invested in capital assets, net of related debt	931,144	963,962
Restricted:		
Expendable for capital acquisitions and operating activities	67,214	150,944
Nonexpendable permanent endowments	96,123	96,123
Unrestricted	1,648,266	1,236,720
Total net assets	<u>2,742,747</u>	<u>2,447,749</u>
Total liabilities and net assets	<u>\$ 3,846,474</u>	<u>4,090,872</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
UNRESTRICTED REVENUE:		
Net patient service revenue before provision for bad debt	\$ 4,895,399	4,266,915
Provision for bad debts	(193,000)	(148,250)
Net patient service revenue	4,702,399	4,118,665
Other revenue	640,125	623,179
Total revenue	<u>5,342,524</u>	<u>4,741,844</u>
EXPENSES:		
Salaries	1,862,997	1,809,324
Employee benefits	461,694	467,443
Purchased services and professional fees	1,876,574	1,368,986
Utilities	81,346	75,023
Supplies and other expenses	680,259	627,772
Depreciation	234,841	187,771
Insurance	74,891	70,803
Interest	23,856	13,702
Total expenses	<u>5,296,458</u>	<u>4,620,824</u>
OPERATING INCOME	<u>46,066</u>	<u>121,020</u>
NONOPERATING GAINS (LOSSES), NET:		
Joint venture and clinic investment loss	(110,280)	(40,674)
Investment income	29,747	26,209
Sales tax revenue	264,435	235,318
Noncapital grants and contributions	170	12,309
Nonoperating gains, net	<u>184,072</u>	<u>233,162</u>
EXCESS OF REVENUE OVER EXPENSES	230,138	354,182
CAPITAL GRANTS AND CONTRIBUTIONS, NET	<u>64,860</u>	<u>36,008</u>
INCREASE IN NET ASSETS	294,998	390,190
NET ASSETS, BEGINNING OF YEAR	<u>2,447,749</u>	<u>2,057,559</u>
NET ASSETS, END OF YEAR	<u>\$ 2,742,747</u>	<u>2,447,749</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 3,790,588	4,705,705
Cash paid to employees for salaries and benefits	(2,296,341)	(2,278,447)
Cash paid to suppliers and contractors	(2,629,992)	(2,305,501)
Other receipts and payments, net	766,531	476,580
Net cash provided (used) by operating activities	<u>(369,214)</u>	<u>598,337</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales tax received	264,435	235,318
Noncapital grants and contributions	170	12,309
Net cash provided by noncapital financing activities	<u>264,605</u>	<u>247,627</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(307,160)	(466,329)
Capital grants and contributions	64,860	36,008
Proceeds from issuance of long-term debt	200,000	381,184
Payments on long-term debt	(94,863)	(54,588)
Payments on capital lease obligations	--	(10,091)
Interest paid on long-term debt and capital lease obligations	(23,856)	(13,702)
Net cash used in capital and related financing activities	<u>(161,019)</u>	<u>(127,518)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Joint venture and clinic investment loss	(110,280)	(40,674)
Withdrawals from (deposits to) assets limited as to use	311,877	(369,885)
Interest on investments	29,747	26,209
Deposits to other assets	(2,117)	(128)
Net cash provided (used) in investing activities	<u>229,227</u>	<u>(384,478)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,401)	333,968
CASH AND CASH EQUIVALENTS - Beginning of year	835,944	501,976
CASH AND CASH EQUIVALENTS - End of year	\$ <u>799,543</u>	<u>835,944</u>

See notes to financial statements

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 46,066	121,020
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	234,841	187,771
Interest expense	23,856	13,702
(Increase) decrease in current assets -		
Receivables -		
Patients	(52,126)	19,514
Due from related party	126,406	(146,599)
Other	(15,686)	57,921
Inventories	3,122	(11,530)
Prepaid expenses	(8,968)	14,442
Estimated third-party payor settlements	(82,192)	--
Increase (decrease) in current liabilities -		
Accounts payable-		
Current portion of Mercy payable	(53,754)	(166,325)
Accounts payable	141,395	(66,729)
Salaries, wages and accrued benefits payable	25,729	4,643
Payroll taxes withheld and accrued	2,621	(6,323)
Other accrued liabilities	16,969	9,304
Estimated third-party payor settlements	<u>(777,493)</u>	<u>567,526</u>
Net cash provided (used) by operating activities	<u>\$ (369,214)</u>	<u>598,337</u>

See notes to financial statements

Notes to Financial Statements
June 30, 2008 and 2007

(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.

Notes to Financial Statements
June 30, 2008 and 2007

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 revenue 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.

Notes to Financial Statements
June 30, 2008 and 2007

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 maturities 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, 2008 and 2007 was \$138,272 and \$121,190, respectively.

Notes to Financial Statements
June 30, 2008 and 2007

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. Revenue 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 revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue 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.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2008 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.

Notes to Financial Statements
June 30, 2008 and 2007

Credit Risk: 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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Marketable equity securities, at fair value	\$ <u>8,147</u>	<u>12,278</u>

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means of managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.

Investment return, including return on assets limited as to use, for the years ended June 30, 2008 and 2007 is included in investment income on the Statements of Revenue, Expenses and Changes in Net Assets.

(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 June 30, 2006.

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.

Notes to Financial Statements
June 30, 2008 and 2007

Revenue from the Medicare and Medicaid programs accounted for approximately 47% and 4%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2008 compared to 55% and 4%, respectively in 2007. 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, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Patient accounts	\$ 1,152,976	958,487
Less estimated third-party contractual adjustments	(64,491)	(29,491)
Less allowance for uncollectibles	<u>(268,656)</u>	<u>(161,293)</u>
	<u>\$ 819,829</u>	<u>767,703</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>2008</u>	<u>2007</u>
Medicare	29%	29%
Medicaid	3	3
Blue Cross Blue Shield	17	14
Other third-party payors	27	30
Private pay	<u>24</u>	<u>24</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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Capital Improvements and Endowments -		
Cash and certificates of deposit	\$ 323,060	519,114
Marketable equity securities	<u>8,147</u>	<u>12,278</u>
	<u>\$ 331,207</u>	<u>531,392</u>

By Donor

Cash deposits and investments restricted by donor for future capital improvements, and endowments as of June 30, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Capital Improvements and Endowments -		
Cash and certificates of deposit	\$ 99,446	211,138

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Notes to Financial Statements
June 30, 2008 and 2007

(6) Capital Assets, Net

Capital asset additions, retirements and balances as of June 30, 2008 and 2007, are summarized as follows:

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 7,000	--	--	7,000
Construction in progress	44,223	15,329	--	59,552
Total capital assets, not being depreciated	<u>51,223</u>	<u>15,329</u>	<u>--</u>	<u>66,552</u>
Capital assets, being depreciated:				
Land improvements	28,089	13,200	--	41,289
Hospital buildings	1,505,605	41,315	--	1,546,920
Fixed equipment	513,618	--	--	513,618
Major moveable equipment	1,648,593	237,316	224,331	1,661,578
Total capital assets, being depreciated	<u>3,695,905</u>	<u>291,831</u>	<u>224,331</u>	<u>3,763,405</u>
Less accumulated depreciation:				
Land improvements	26,406	1,708	--	28,114
Hospital buildings	948,504	48,290	--	996,794
Fixed equipment	371,442	14,224	--	385,666
Major moveable equipment	1,088,116	170,619	224,331	1,034,404
Total accumulated depreciation	<u>2,434,468</u>	<u>234,841</u>	<u>224,331</u>	<u>2,444,978</u>
Total capital assets, being depreciated, net	<u>1,261,437</u>	<u>56,990</u>	<u>--</u>	<u>1,318,427</u>
Total capital assets, net	<u>\$ 1,312,660</u>	<u>72,319</u>	<u>--</u>	<u>1,384,979</u>
	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 7,000	--	--	7,000
Construction in progress	85,273	--	41,050	44,223
Total capital assets, not being depreciated	<u>92,273</u>	<u>--</u>	<u>41,050</u>	<u>51,223</u>
Capital assets, being depreciated:				
Land improvements	28,089	--	--	28,089
Hospital buildings	1,437,781	67,824	--	1,505,605
Fixed equipment	513,618	--	--	513,618
Major moveable equipment	1,209,039	439,554	--	1,648,593
Total capital assets, being depreciated	<u>3,188,527</u>	<u>507,378</u>	<u>--</u>	<u>3,695,905</u>
Less accumulated depreciation:				
Land improvements	24,651	1,755	--	26,406
Hospital buildings	902,504	46,000	--	948,504
Fixed equipment	354,406	17,036	--	371,442
Major moveable equipment	965,137	122,979	--	1,088,116
Total accumulated depreciation	<u>2,246,698</u>	<u>187,770</u>	<u>--</u>	<u>2,434,468</u>
Total capital assets, being depreciated, net	<u>941,829</u>	<u>319,608</u>	<u>--</u>	<u>1,261,437</u>
Total capital assets, net	<u>\$ 1,034,102</u>	<u>319,608</u>	<u>41,050</u>	<u>1,312,660</u>

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Notes to Financial Statements
June 30, 2008 and 2007

Construction in progress consists of one project. The amount for the project is for 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.

(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 Ireton Community Clinic and other professional and management fees. Mercy accounts payable as of June 30, 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Mercy Medical Services for share of Hawarden Mercy Medical Clinic and Ireton Community Clinic operating support	\$ 53,282	91,858
Mercy Medical Center for professional and management services	<u>45,348</u>	<u>60,526</u>
	<u>\$ 98,630</u>	<u>152,384</u>

(8) Long-Term Debt

A summary of long-term debt at June 30, 2008 and 2007, is as follows:

	<u>Balance June 30, 2007</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Bank Note (B)	6,916	--	6,916	--	--
Bank Note (C)	144,200	--	32,111	112,089	34,112
Bank Note (D)	123,398	--	24,633	98,765	26,158
Bank Note (E)	74,184	--	13,168	61,016	13,968
Bank Note (F)	--	200,000	18,035	181,965	37,327
	<u>\$ 348,698</u>	<u>200,000</u>	<u>94,863</u>	<u>453,835</u>	<u>111,565</u>

	<u>Balance June 30, 2006</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due Within One Year</u>
Bank Note (A)	\$ 7,999	--	7,999	--	--
Bank Note (B)	14,103	--	7,187	6,916	6,916
Bank Note (C)	--	172,000	27,800	144,200	32,111
Bank Note (D)	--	135,000	11,602	123,398	24,633
Bank Note (E)	--	74,184	--	74,184	13,168
	<u>\$ 22,102</u>	<u>381,184</u>	<u>54,588</u>	<u>348,698</u>	<u>76,828</u>

Notes to Financial Statements
June 30, 2008 and 2007

- (A) In May 2003, the Hospital took out a note from Farmers State Bank in Hawarden for \$25,000 to be used for the purchase of property and equipment. The note had an interest rate of 4.5% and was repaid during 2007.
- (B) 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.
- (C) In July 2006, the Hospital took out a note from Farmers State Bank in Hawarden for \$172,000 to be used for the purchase of property and equipment. This note has an interest rate of 6.0% and will be repaid over five years in monthly installments of \$3,326, beginning August 28, 2006.
- (D) In December 2006, the Hospital took out a note from First State Bank in Hawarden for \$135,000 to be used for the purchase of property and equipment. This note has an interest rate of 5.95% and will be repaid over five years in monthly installments of \$2,611, beginning January 10, 2007.
- (E) In May 2007, the Hospital took out a note from Farmers State Bank in Hawarden for \$74,184 for the purchase of property and equipment. This note has an interest rate of 5.75% and will be repaid over five years in monthly installments of \$1,426, beginning July 1, 2007.
- (F) In December 2007, the Hospital took out a note from Peoples Bank in Hawarden for \$200,000 for the purchase of property and equipment. This note has an interest rate of 4.49% and will be repaid over five years in monthly installments of \$3,728, beginning January 5, 2008.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 111,565	21,527	133,092
2010	117,804	15,287	133,091
2011	124,398	8,694	133,092
2012	77,990	2,851	80,841
2013	22,078	291	22,369
	<u>\$ 453,835</u>	<u>48,650</u>	<u>502,485</u>

A summary of interest expense on borrowed funds during the years ended June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Interest cost expense	\$ <u>23,856</u>	<u>13,573</u>

Notes to Financial Statements
June 30, 2008 and 2007

(9) 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.

(10) 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 3.90% of their annual salary and the Hospital is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$99,174, \$99,136 and \$93,959, respectively, equal to the required contributions for each year.

(11) Related Party Transactions

Hawarden Community Clinic

Effective January 1, 2005, the Hospital and Mercy Medical Services (MMS) 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 2008 and 2007 operating loss was \$104,385 and \$40,674, respectively, 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 2008 and 2007 was \$306,068 and \$301,915, 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 \$40,000 in 2008 and 2007 and monthly rent totaling \$27,600 for the years ended June 30, 2008 and 2007. These amounts are included in other revenue.

HCC owed the Hospital \$153,190 and \$279,596 at June 30, 2008 and 2007, respectively. These amounts are recorded in due from related party on the balance sheets.

Ireton Community Clinic

Effective June 1, 2008, the Hospital and Mercy Medical Services (MMS) entered into a joint venture whereby each partner has a 50% sponsorship interest in Ireton Community Clinic, LLC. (ICC). The Hospital and MMS share equally in the net income (loss) of ICC. The Hospital's share of ICC's 2008 operating loss was \$5,895, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

Notes to Financial Statements
June 30, 2008 and 2007

The Hospital hires the employees of ICC and leases them back to ICC. Amounts received by the Hospital for expenses paid in 2007 was \$4,554, and is included in the accompanying statements of revenue, expenses and changes in net assets. There were no management fees related to the Ireton Community Clinic in FY2008. The Hospital has a management agreement with ICC that begins in July 2008.

In addition, the Hospital receives monthly rent from the clinic with rental income totaling \$27,600 for the years ended June 30, 2008 and 2007 and is included in other revenue.

See Note 7 regarding amounts due Mercy Medical Services.

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Exhibit 1

**Patient Service Revenue
For the Years Ended June 30, 2008 and 2007**

	2008			2007				
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical, surgical and obstetrics	\$ 172,493	151,855	--	324,348	257,004	89,703	--	346,707
Swing bed	--	--	110,303	110,303	--	--	215,073	215,073
Observation	--	67,462	--	67,462	--	65,655	--	65,655
	<u>172,493</u>	<u>219,317</u>	<u>110,303</u>	<u>502,113</u>	<u>257,004</u>	<u>155,358</u>	<u>215,073</u>	<u>627,435</u>
OTHER PROFESSIONAL SERVICES:								
Radiology	28,903	1,296,325	5,715	1,330,943	53,307	1,141,793	7,959	1,203,059
Laboratory	41,495	936,410	10,862	988,767	69,168	872,940	18,204	960,312
Physical therapy	7,244	680,167	27,536	714,947	11,243	678,506	40,605	730,354
Pharmacy	70,853	730,239	47,578	848,670	102,190	492,149	80,216	674,555
Emergency and outpatient service	636	314,211	--	314,847	814	321,382	--	322,196
Professional fees	14,307	175,459	--	189,766	16,111	155,533	--	171,644
Gastro-Intestinal	1,053	209,520	--	210,573	--	156,446	1,145	157,591
Respiratory therapy	29,035	49,015	4,196	82,246	42,944	52,501	8,090	103,535
Electrocardiology	4,472	101,842	513	106,827	11,864	111,717	161	123,742
Central services and supply	12,488	98,801	7,393	118,682	20,933	70,121	10,870	101,924
Intravenous therapy	17,814	43,359	5,024	66,197	24,781	39,790	11,121	75,692
Cardiac rehab	--	33,068	--	33,068	--	41,575	--	41,575
Occupational therapy	--	13,383	5,870	19,253	502	19,159	8,047	27,708
Speech therapy	310	4,589	1,336	6,235	575	5,194	1,766	7,535
Anesthesiology	--	41,804	--	41,804	--	4,620	--	4,620
Operating and recovery rooms	--	82,772	--	82,772	--	13,451	--	13,451
Delivery and labor room	--	--	--	--	--	573	--	573
	<u>228,610</u>	<u>4,810,964</u>	<u>116,023</u>	<u>5,155,597</u>	<u>354,432</u>	<u>4,177,450</u>	<u>188,184</u>	<u>4,720,066</u>
GROSS PATIENT SERVICE REVENUE	<u>\$ 401,103</u>	<u>5,030,281</u>	<u>226,326</u>	<u>5,657,710</u>	<u>611,436</u>	<u>4,332,808</u>	<u>403,257</u>	<u>5,347,501</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(762,311)				(1,080,586)
Provision for bad debts				(193,000)				(148,250)
NET PATIENT SERVICE REVENUE			\$	<u>4,702,399</u>				<u>4,118,665</u>

Other Operating Revenue
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Services provided to clinic	\$ 346,068	341,915
HRSA grant	96,626	105,253
Emergency room/physical therapy contracted revenue	75,076	45,814
Medical office building rent	27,600	27,600
Other	14,171	19,106
Medical records transcript fee	13,457	17,964
MediMate	15,042	14,605
Specialty clinic rent	12,530	12,000
Dietary consulting	8,315	11,629
Occupational health consulting	10,916	9,509
Meals	5,452	5,222
Vending	2,723	3,598
Wellness center dues	2,835	3,401
Purchasing rebates	6,819	2,788
Cholesterol screening	2,495	2,775
	<u>\$ 640,125</u>	<u>623,179</u>

Howarden Community Hospital
A Component Unit of the City of Howarden, Iowa

Department Expenses
For the Years Ended June 30, 2008 and 2007

	2008				2007			
	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	\$ 611,144	4,475	48,035	663,654	572,457	6,844	49,355	628,656
	8,311	--	--	8,311	8,456	--	--	8,456
	<u>619,455</u>	<u>4,475</u>	<u>48,035</u>	<u>671,965</u>	<u>580,913</u>	<u>6,844</u>	<u>49,355</u>	<u>637,112</u>
OTHER PROFESSIONAL SERVICES:								
Physical therapy	42,066	465,081	8,960	516,107	40,447	409,743	12,735	462,925
Emergency room	75,562	623,665	3,468	702,695	66,952	286,954	970	354,876
Laboratory	165,523	130,372	62,414	358,309	137,332	133,164	58,170	328,666
Radiology	71,945	193,324	16,967	282,236	76,005	139,706	30,518	246,229
Howarden community clinic	242,014	--	7,342	249,356	199,693	--	24,695	224,388
Pharmacy	30,113	3,840	261,760	295,713	33,130	3,840	162,806	199,776
Medical records	100,621	24,949	22,265	147,835	95,328	26,532	16,527	138,387
Respiratory therapy	4,375	17,150	360	21,885	7,471	13,975	34	21,480
Outpatient clinic	16,495	--	941	17,436	21,233	--	261	21,494
Central services and supply	1,929	19,408	17,097	38,434	7,441	--	22,418	29,859
Gastro-Intestinal	1,130	--	34,331	35,461	--	--	23,938	23,938
Occupational therapy	--	32,581	11	32,592	--	29,653	91	29,744
Intravenous therapy	13,987	--	3,360	17,347	13,679	--	3,568	17,247
Electrocardiology	6,076	5,638	--	11,714	6,917	4,633	--	11,550
Cardiac rehab	14,163	--	194	14,357	13,765	--	354	14,119
Home Health	--	13,299	--	13,299	--	12,023	--	12,023
Occupation health	5,084	--	2,549	7,633	4,327	--	2,654	6,981
Operating and recovery room	3,979	5,946	11,693	21,618	1,503	4,391	13,445	19,339
Anesthesiology	--	31,990	--	31,990	--	5,000	--	5,000
Speech therapy	--	7,789	--	7,789	--	4,339	--	4,339
Wellness center	--	--	662	662	--	--	741	741
	<u>795,062</u>	<u>1,575,032</u>	<u>454,374</u>	<u>2,824,468</u>	<u>725,223</u>	<u>1,073,963</u>	<u>373,925</u>	<u>2,173,101</u>
GENERAL SERVICES:								
Plant operation and maintenance	52,774	--	121,664	174,438	58,747	--	115,823	174,570
Dietary	113,523	2,048	25,012	140,583	114,154	2,599	20,351	137,104
Housekeeping	36,072	--	13,960	50,032	32,260	--	1,667	33,927
Laundry and linen	28,923	--	3,273	32,196	28,127	--	4,047	32,174
	<u>231,292</u>	<u>2,048</u>	<u>163,909</u>	<u>397,249</u>	<u>233,288</u>	<u>2,599</u>	<u>141,888</u>	<u>377,775</u>
ADMINISTRATIVE SERVICES								
	219,717	296,867	90,910	607,494	269,900	285,590	137,627	693,117
NONDEPARTMENTAL:								
Employee benefits	--	--	461,694	461,694	--	--	467,443	467,443
Depreciation and amortization	--	--	234,841	234,841	--	--	187,771	187,771
Insurance	--	--	74,891	74,891	--	--	70,803	70,803
Interest	--	--	23,856	23,856	--	--	13,702	13,702
	--	--	795,282	795,282	--	--	739,719	739,719
	<u>1,865,526</u>	<u>1,878,422</u>	<u>1,552,510</u>	<u>5,296,458</u>	<u>1,809,324</u>	<u>1,368,986</u>	<u>1,442,514</u>	<u>4,620,824</u>
GRAND TOTAL								

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2008 and 2007**

ANALYSIS OF AGING:

Days Since Discharge	2008		2007	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 524,709	45.51 %	492,088	51.33 %
31 - 60	138,499	12.01	125,829	13.13
61 - 90	78,532	6.81	79,729	8.32
91 - 120	59,700	5.18	53,457	5.58
Over 120	351,536	30.49	207,384	21.64
	<u>1,152,976</u>	<u>100.00 %</u>	<u>958,487</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(268,656)		(161,293)	
Allowance for contractual adjustments	<u>(64,491)</u>		<u>(29,491)</u>	
	<u>\$ 819,829</u>		<u>767,703</u>	

	2008	2007
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	63.64 days	68.03 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:	2008	2007
Balance, beginning of year	\$ 161,293	166,311
Provision of uncollectible accounts	193,000	148,250
Recoveries of accounts previously written off	29,489	49,098
Accounts written off	<u>(115,126)</u>	<u>(202,366)</u>
Balance, end of year	<u>\$ 268,656</u>	<u>161,293</u>

Inventory/Prepaid Expenses
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
INVENTORY:		
Pharmacy drugs	\$ 36,953	37,913
All other	<u>26,452</u>	<u>28,614</u>
	<u>\$ 63,405</u>	<u>66,527</u>
PREPAID EXPENSES:		
Insurance	\$ 28,174	30,319
Dues	1,974	1,852
Service Contracts	<u>10,991</u>	<u>--</u>
	<u>\$ 41,139</u>	<u>32,171</u>

Financial and Statistical Highlights
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Patient days:		
Adult and pediatric -		
Medicare	194	328
Other	<u>96</u>	<u>96</u>
	290	424
Swing bed	<u>221</u>	<u>436</u>
Total	<u><u>511</u></u>	<u><u>860</u></u>
Patient discharges:		
Adult and pediatric -		
Medicare	69	104
Other	<u>25</u>	<u>34</u>
	94	138
Swing bed	<u>28</u>	<u>49</u>
Total	<u><u>122</u></u>	<u><u>187</u></u>
Average length of stay:		
Adult and pediatric -		
Medicare	2.8 days	3.2 days
Other	3.8 days	2.8 days
Swing bed	7.9 days	8.9 days
Emergency room visits	1,037	1,026
Specialty clinic visits	1,979	1,546
Number of employees - full-time equivalents		
Hospital	44.83	44.53
Clinic	<u>6.69</u>	<u>5.50</u>
	<u><u>51.52</u></u>	<u><u>50.03</u></u>

**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 accompanying balance sheets of Hawarden Community Hospital (Hospital), as of June 30, 2008, and have issued our report thereon dated November 25, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items II-A-08 and II-B-08 to be significant deficiencies in internal control over financial reporting:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the item described above as item II-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008, 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. Prior year statutory comment, item II-A-07 has not been resolved.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
November 25, 2008.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. One reportable condition and one material weakness 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.

II-A-08

Material Weakness

Criteria: The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

Condition: We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.

Effect: Audit entries were required to adjust the net realizable value of accounts receivable and estimated third party settlements.

Cause: Allowance and accrual balances requiring estimation and judgment were incorrectly recorded.

Recommendation: The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated.

Response: The Hospital concurs with the recommendation.

Conclusion: Response accepted.

II-B-08

Significant Deficiencies

Segregation of Duties One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

<i>Recommendation</i>	Due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.
<i>Response</i>	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.
<i>Conclusion</i>	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.

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	1,723
Total	\$ 5,563

Glea Hamik, Member Board of Trustees:	
Wages paid for being a part-time employee during the year ended June 30, 2008	\$ 26,154
Food purchased from stores owned by spouse - Fiesta Foods	5,729
Total	\$ 31,883

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 2006 audited financial statements in the city newspaper.

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2008**

Finding	Status	Corrective Action Plan or Other Explanation
II-A-07	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-B-08

Hawarden Community Hospital
A Component Unit of the City of Hawarden, Iowa

Audit Staff
For the Year Ended June 30, 2008

This audit was performed by:

- Brian D. Green, FHFMA, CPA, Partner
- Travis L. Schneckloth, Staff Auditor
- Casey J. Koch, Staff Auditor