# Hawarden Community Hospital

**A Component Unit of the City of Hawarden, Iowa**

**Basic Financial Statements**
**June 30, 2009 and 2008**

**Together with Independent Auditor's Report**

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

## Officials
## June 30, 2009

| | 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 2011 |
| Stan Hoekstra | Hawarden, Iowa | December 2011 |
| **Administrator:** | | |
| Chad Markham | Sioux City, Iowa | Indefinite |

SEIM JOHNSON

## 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, 2009 and 2008, 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, 2009 and 2008, 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 September 30, 2009 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,
September 30, 2009.



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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, 2009 and 2008. 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 $327,276 or 12.0% increase in 2009 and a $294,998 or 12.0% increase in 2008.
- The Hospital reported operating loss in 2009 of $(15,301) and operating income in 2008 of $46,066. Operating income in 2009 decreased by $61,367 or 133.2%. Operating income in 2008 decreased by $74,954, or 61.9% under the income reported in 2007.
- Operating revenues increased by $299,059 or 5.6% over the revenues reported in 2008 and by $600,680 or 12.7% over the revenues reported in 2007.
- Nonoperating revenues and restricted gifts received increased by $69,991 or 38.0% in 2009 compared to 2008 and a decrease of $49,090 or 21% in 2008 compared to 2007.

## 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 $327,276 (12.0%) in 2009 and $294,998 (12.0%) in 2008, as you can see from **Table 1**.

*Table 1: Assets, Liabilities, and Net Assets*

| | | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current assets | $ | 2,124,930 | 2,023,180 | 2,030,137 |
| Capital assets, net | | 1,258,821 | 1,384,979 | 1,312,660 |
| Other noncurrent assets | | 963,850 | 438,315 | 748,075 |
| **Total assets** | **$** | **4,347,601** | **3,846,474** | **4,090,872** |
| **Liabilities:** | | | | |
| Long-term debt outstanding | $ | 342,270 | 453,835 | 348,698 |
| Other current and noncurrent liabilities | | 935,308 | 649,892 | 1,294,425 |
| **Total liabilities** | **$** | **1,277,578** | **1,103,727** | **1,643,123** |
| **Net assets:** | | | | |
| Invested in capital assets, net of related debt | $ | 916,551 | 931,144 | 963,962 |
| Restricted for capital acquisitions and operating activities | | 87,485 | 67,214 | 150,944 |
| Restricted nonexpendable net assets | | 96,123 | 96,123 | 96,123 |
| Unrestricted | | 1,969,864 | 1,648,266 | 1,236,720 |
| **Total net assets** | **$** | **3,070,023** | **2,742,747** | **2,447,749** |

In 2009, the total assets increased by $501,127. A significant component of the change is an increase in the category assets limited as to use which increased $526,694. This is where Medicare Receivable funds received are recorded. In 2009 the hospital received $381,595 in Medicare Cost Report Settlement and $181,941 in interim payments. The receivable from the clinic, a related party, was $190,274 in 2009 and $153,190 in 2008.

In 2009, the total liabilities increased by $173,851. The change was primarily due to three items. The estimated third-party payor settlements is a payable of $441,403 in 2009 compared to a receivable in 2008, decrease in trade accounts payable of $156,852 and principal payments on long term debt with no new debt issues decreasing long term debt by $117,804.

## Operating Results and Changes in The Hospital's Net Assets

In 2009, the Hospital's net assets increased by $327,276 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 2008 of $294,998 or 12.0%.

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

| | | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **Operating Revenue:** | | | | |
| Net patient service revenue | $ | 5,025,750 | 4,903,714 | 4,266,915 |
| Other operating revenues | | 734,162 | 631,810 | 623,179 |
| **Total operating revenue** | | **5,759,912** | **5,535,524** | **4,890,094** |
| **Operating Expenses:** | | | | |
| Salaries and benefits | | 2,431,306 | 2,324,691 | 2,276,767 |
| Purchased services and other | | 2,928,441 | 2,713,070 | 2,142,584 |
| Provision for bad debt | | 118,329 | 193,000 | 148,250 |
| Depreciation and amortization | | 274,059 | 234,841 | 187,771 |
| Interest | | 23,078 | 23,856 | 13,702 |
| **Total operating expenses** | | **5,775,213** | **5,489,458** | **4,769,074** |
| **Operating income (loss)** | | **(15,301)** | **46,066** | **121,020** |
| **Nonoperating Revenues and Expenses** | | | | |
| Joint venture loss, net | | (65,444) | (110,280) | (40,674) |
| Investment income | | 21,699 | 29,747 | 26,209 |
| Sales tax revenue | | 277,808 | 264,435 | 235,318 |
| Restricted Gifts, net | | 108,514 | 65,030 | 48,317 |
| **Total nonoperating revenue (expenses), net** | | 342,577 | 248,932 | 269,170 |
| **Increase in net assets** | | **327,276** | **294,998** | **390,190** |
| **Net assets beginning of year** | | **2,742,747** | **2,447,749** | **2,057,559** |
| **Net assets end of year** | $ | **3,070,023** | **2,742,747** | **2,447,749** |

*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 2009 the Hospital received a unrestricted gift of $20,000 and grants from the Auxiliary of $68,243 for purchase of equipment.

The loss for the joint venture and clinic investment was $(65,444) in 2009 compared to $(110,280) in 2008. 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 2009 increased compared to 2008 due to an increase in payment from third-party payors and a deposit to assets limited as to use.

## Capital Asset and Debt Administration

*Capital Assets*

As of end of the year 2009, the Hospital had $1,258,821 invested in capital assets, net of accumulated depreciation, as compared to $1,384,979 in 2008 and $1,312,660 in 2007, as detailed in Note 6 to the financial statements. In 2009, the hospital purchased new equipment costing $141,490 compared to $237,315 being spent in 2008. The hospital purchased an ultrasound for $111,000, two defibrillators for $13,243, an air conditioner for $8,847and $8,400 for repair to the roof of the ambulance garage.

*Debt*

The Hospital had loans and capital lease obligations outstanding of $342,270 at year-end 2008 and $453,835 at year-end 2008. No new loans in 2009. One new loan initiated in 2008 for $200,000. The Hospital's formal debt issuances, revenue notes, cannot be issued without approval of the Board of Directors.

*Other Economic Factors*

Many urban hospitals and/or non-governmental nonprofit hospitals saw major losses in 2009 due to increasing bad debt and charity from a rise in uninsured and underinsured patients as well as significant losses in investment income. Rural governmental hospitals did not see the same kinds of swings last year, but we should be cautious in the year to come. Staffing the emergency room continues to be a costly endeavor. Fortunately the city understands this economic pressure and continues to be supportive of the Local Option Sales Tax.

## 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, 2009 and 2008

| | | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 806,275 | 799,543 |
| Receivables - | | | |
| Patients, net of allowance for doubtful accounts of $249,667 in 2009 and $268,656 in 2008 | | 940,488 | 819,829 |
| Due from related party | | 190,274 | 153,190 |
| Other | | 56,554 | 63,882 |
| Inventories | | 65,412 | 63,405 |
| Prepaid expenses | | 65,927 | 41,139 |
| Estimated third-party payor settlements | | – | 82,192 |
| Total current assets | | 2,124,930 | 2,023,180 |
| Assets limited as to use: | | | |
| By board for capital improvements and endowments | | 857,901 | 331,207 |
| By donor | | 99,579 | 99,446 |
| | | 957,480 | 430,653 |
| Capital assets, net | | 1,258,821 | 1,384,979 |
| Other assets | | 6,370 | 7,662 |
| Total assets | $ | 4,347,601 | 3,846,474 |
| **LIABILITIES AND NET ASSETS** | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | $ | 117,804 | 111,565 |
| Accounts payable- | | | |
| Mercy | | 96,961 | 98,630 |
| Trade | | 104,919 | 261,771 |
| Salaries, wages and accrued benefits payable | | 227,899 | 221,020 |
| Payroll taxes withheld and accrued | | 24,952 | 16,909 |
| Other accrued liabilites | | 39,174 | 51,562 |
| Estimated third-party payor settlements | | 441,403 | – |
| Total current liabilities | | 1,053,112 | 761,457 |
| Long-term debt, net of current portion | | 224,466 | 342,270 |
| Total liabilities | | 1,277,578 | 1,103,727 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | | 916,551 | 931,144 |
| Restricted: | | | |
| Expendable for capital acquisitions and operating activities | | 87,485 | 67,214 |
| Nonexpendable permanent endowments | | 96,123 | 96,123 |
| Unrestricted | | 1,969,864 | 1,648,266 |
| Total net assets | | 3,070,023 | 2,742,747 |
| Total liabilities and net assets | $ | 4,347,601 | 3,846,474 |

*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, 2009 and 2008

| | | 2009 | 2008 |
|---|---|---|---|
| UNRESTRICTED REVENUE: | | | |
| Net patient service revenue before provision for bad debt | $ | 5,025,750 | 4,903,714 |
| Provision for bad debts | | (118,329) | (193,000) |
| Net patient service revenue | | 4,907,421 | 4,710,714 |
| Other revenue | | 734,162 | 631,810 |
| Total revenue | | 5,641,583 | 5,342,524 |
| EXPENSES: | | | |
| Salaries | | 1,941,004 | 1,862,997 |
| Employee benefits | | 490,302 | 461,694 |
| Purchased services and professional fees | | 2,071,639 | 1,876,574 |
| Utilities | | 79,506 | 81,346 |
| Supplies and other expenses | | 705,848 | 680,259 |
| Depreciation | | 274,059 | 234,841 |
| Insurance | | 71,448 | 74,891 |
| Interest | | 23,078 | 23,856 |
| Total expenses | | 5,656,884 | 5,296,458 |
| OPERATING INCOME | | (15,301) | 46,066 |
| NONOPERATING GAINS (LOSSES), NET: | | | |
| Joint venture and clinic investment loss | | (65,444) | (110,280) |
| Investment income | | 21,699 | 29,747 |
| Sales tax revenue | | 277,808 | 264,435 |
| Noncapital grants and contributions | | 20,000 | 170 |
| Nonoperating gains, net | | 254,063 | 184,072 |
| EXCESS OF REVENUE OVER EXPENSES | | 238,762 | 230,138 |
| CAPITAL GRANTS AND CONTRIBUTIONS, NET | | 88,514 | 64,860 |
| INCREASE IN NET ASSETS | | 327,276 | 294,998 |
| NET ASSETS, BEGINNING OF YEAR | | 2,742,747 | 2,447,749 |
| NET ASSETS, END OF YEAR | $ | 3,070,023 | 2,742,747 |

*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, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third party payors | $ 5,310,357 | 3,798,903 |
| Cash paid to employees for salaries and benefits | (2,416,384) | (2,296,341) |
| Cash paid to suppliers and contractors | (3,118,817) | (2,629,992) |
| Other receipts and payments, net | 697,078 | 758,216 |
| Net cash provided (used) by operating activities | 472,234 | (369,214) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Sales tax received | 277,808 | 264,435 |
| Noncapital grants and contributions | 20,000 | 170 |
| Net cash provided by noncapital financing activities | 297,808 | 264,605 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of property and equipment, net | (147,901) | (307,160) |
| Capital grants and contributions | 88,514 | 64,860 |
| Proceeds from issuance of long-term debt | – | 200,000 |
| Payments on long-term debt | (111,565) | (94,863) |
| Interest paid on long-term debt and capital lease obligations | (23,078) | (23,856) |
| Net cash used in capital and related financing activities | (194,030) | (161,019) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Joint venture and clinic investment loss | (65,444) | (110,280) |
| Withdrawls from (deposits to) assets limited as to use | (526,827) | 311,877 |
| Interest on investments | 21,699 | 29,747 |
| Deposits to other assets | 1,292 | (2,117) |
| Net cash provided (used) in investing activities | (569,280) | 229,227 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,732 | (36,401) |
| CASH AND CASH EQUIVALENTS - Beginning of year | 799,543 | 835,944 |
| CASH AND CASH EQUIVALENTS - End of year | $ 806,275 | 799,543 |

*See notes to financial statements*

## Statements of Cash Flows (Continued)
## For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating income | $ (15,301) | 46,066 |
| Adjustments to reconcile operating income to net cash provided by operating activities - | | |
| Depreciation | 274,059 | 234,841 |
| Interest expense | 23,078 | 23,856 |
| (Increase) decrease in current assets - | | |
| Receivables - | | |
| Patients | (120,659) | (52,126) |
| Due from related party | (37,084) | 126,406 |
| Other | 7,328 | (15,686) |
| Inventories | (2,007) | 3,122 |
| Prepaid expenses | (24,788) | (8,968) |
| Estimated third-party payor settlements | 82,192 | (82,192) |
| Increase (decrease) in current liabilities - | | |
| Accounts payable- | | |
| Current portion of Mercy payable | (1,669) | (53,754) |
| Accounts payable | (156,852) | 141,395 |
| Salaries, wages and accrued benefits payable | 6,879 | 25,729 |
| Payroll taxes withheld and accrued | 8,043 | 2,621 |
| Other accrued liabilities | (12,388) | 16,969 |
| Estimated third-party payor settlements | 441,403 | (777,493) |
| Net cash provided (used) by operating activities | $ 472,234 | (369,214) |

*See notes to financial statements*

## (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 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.

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 fumiture | 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 eamed. 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, 2009 and 2008 was $137,176 and $138,272, 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. 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.

*P. Subsequent Events*

The Hospital considered events occuring through the date of the report for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

## (2) Cash and Investments

The Hospital's deposits in banks at June 30, 2009 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 govemment, 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.

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, 2009 and 2008 are as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Marketable equity securities, at fair value | $ | 8,809 | 8,147 |

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, 2009 and 2008 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 5%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2009 compared to 47% and 4%, respectively in 2008. 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, 2009 and 2008 consist of the following:

| | | 2009 | 2008 |
|---|---|---|---|
| Patient accounts | $ | 1,179,646 | 1,152,976 |
| Plus (Less) estimated third-party contractual adjustments | | 10,509 | (64,491) |
| Less allowance for uncollectibles | | (249,667) | (268,656) |
| | $ | 940,488 | 819,829 |

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:

| | 2009 | 2008 |
|---|---|---|
| Medicare | 32% | 29% |
| Medicaid | 3 | 3 |
| Blue Cross Blue Shield | 12 | 17 |
| Other third-party payors | 27 | 27 |
| Private pay | 26 | 24 |
| | 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, 2009 and 2008, are summarized as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Capital Improvements and Endowments - | | | |
| Cash and certificates of deposit | $ | 849,092 | 323,060 |
| Marketable equity securities | | 8,809 | 8,147 |
| | $ | 857,901 | 331,207 |

*By Donor*

Cash deposits and investments restricted by donor for future capital improvements, and endowments as of June 30, 2009 and 2008, are summarized as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Capital Improvements and Endowments - | | | |
| Cash and certificates of deposit | $ | 99,579 | 99,446 |

## (6) Capital Assets, Net

Capital asset additions, retirements and balances as of June 30, 2009 and 2008, are summarized as follows:

| | June 30, 2008 | Additions | Transfers and Disposals | June 30, 2009 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 7,000 | – | – | 7,000 |
| Construction in progress | 59,552 | 6,414 | – | 65,966 |
| Total capital assets, not being depreciated | 66,552 | 6,414 | – | 72,966 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 41,289 | – | – | 41,289 |
| Hospital buildings | 1,546,920 | 8,400 | – | 1,555,320 |
| Fixed equipment | 513,618 | 8,846 | 6,431 | 516,033 |
| Major moveable equipment | 1,661,578 | 124,241 | 61,387 | 1,724,432 |
| Total capital assets, being depreciated | 3,763,405 | 132,641 | 61,387 | 3,837,074 |
| Less accumulated depreciation: | | | | |
| Land improvements | 28,114 | 1,147 | – | 29,261 |
| Hospital buildings | 996,794 | 47,625 | – | 1,044,419 |
| Fixed equipment | 385,666 | 15,202 | 6,431 | 394,437 |
| Major moveable equipment | 1,034,404 | 210,085 | 61,387 | 1,183,102 |
| Total accumulated depreciation | 2,444,978 | 274,059 | 61,387 | 2,651,219 |
| Total capital assets, being depreciated, net | 1,318,427 | (141,418) | – | 1,185,855 |
| Total capital assets, net | $ 1,384,979 | (135,004) | – | 1,258,821 |

| | 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 | 51,223 | 15,329 | – | 66,552 |
| 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 | 3,695,905 | 291,831 | 224,331 | 3,763,405 |
| 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 | 2,434,468 | 234,841 | 224,331 | 2,444,978 |
| Total capital assets, being depreciated, net | 1,261,437 | 56,990 | – | 1,318,427 |
| Total capital assets, net | $ 1,312,660 | 72,319 | – | 1,384,979 |

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, 2009 and 2008 is summarized as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Mercy Medical Services for share of Hawarden Mercy Medical Clinic and Ireton Community Clinic operating support | $ | 48,478 | 53,282 |
| Mercy Medical Center for professional and management services | | 48,483 | 45,348 |
| | $ | 96,961 | 98,630 |

(8) **Long-Term Debt**

A summary of long-term debt at June 30, 2009 and 2008, is as follows:

| | Balance June 30, 2008 | Borrowings | Payments | Balance June 30, 2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bank Note (B) | $ 112,089 | -- | 34,112 | 77,977 | 36,215 |
| Bank Note (C) | 98,765 | -- | 26,158 | 72,607 | 27,757 |
| Bank Note (D) | 61,016 | -- | 13,968 | 47,048 | 14,793 |
| Bank Note (E) | 181,965 | -- | 37,327 | 144,638 | 39,038 |
| | $ 453,835 | -- | 111,565 | 342,270 | 117,803 |

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

(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:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 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 |
| | $ 342,270 | 27,123 | 369,393 |

A summary of interest expense on borrowed funds during the years ended June 30, 2009 and 2008 follows:

| | 2009 | 2008 |
|---|---|---|
| Interest cost expense | $ 23,078 | 23,856 |

**(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, 2009, 2008 and 2007 were $121,143, $99,174 and $99,136, 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 2009 and 2008 operating loss was $35,986 and $104,385, 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 2009 and 2008 was $314,700 and $306,068, 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 $50,000 and $40,000 in 2009 and 2008, respectively, and monthly rent totaling $27,600 for the years ended June 30, 2009 and 2008. These amounts are included in other revenue.

HCC owed the Hospital $183,822 and $153,190 at June 30, 2009 and 2008, 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 2009 and 2008 operating loss was $29,458 and $5,895, 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 ICC and leases them back to ICC. Amounts received by the Hospital for expenses paid in 2009 and 2008 was $35,054 and $4,554, respectively, and is included in the accompanying statements of revenue, expenses and changes in net assets. The Hospital also received management fees from ICC totaling $10,000 and $-0- in 2009 and 2008, respectively, and monthly rent totaling $3,900 and $-0- for the years ended June 30, 2009 and 2008, respectively. These amounts are included in other revenue.

ICC owed the Hospital $6,452 and $-0- at June 30, 2009 and 2008, respectively. These amounts are recorded in due from related party on the balance sheet.

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, 2009 and 2008

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Inpatient | Outpatient | Swing Bed | Total | Inpatient | Outpatient | Swing Bed | Total |
| **NURSING SERVICES:** | | | | | | | | |
| Medical, surgical and obstetrics | $ 215,157 | 128,646 | -- | 343,803 | 172,493 | 151,855 | -- | 324,348 |
| Swing bed | -- | -- | 113,545 | 113,545 | -- | -- | 110,303 | 110,303 |
| Observation | -- | 82,179 | -- | 82,179 | -- | 67,462 | -- | 67,462 |
| | 215,157 | 210,825 | 113,545 | 539,527 | 172,493 | 219,317 | 110,303 | 502,113 |
| **OTHER PROFESSIONAL SERVICES:** | | | | | | | | |
| Radiology | 44,871 | 1,539,887 | 3,336 | 1,588,094 | 28,903 | 1,296,325 | 5,715 | 1,330,943 |
| Laboratory | 59,698 | 1,110,181 | 10,158 | 1,180,037 | 41,495 | 936,410 | 10,862 | 988,767 |
| Physical therapy | 5,717 | 743,123 | 16,555 | 765,395 | 7,244 | 680,167 | 27,536 | 714,947 |
| Pharmacy | 102,974 | 711,874 | 59,404 | 874,252 | 70,853 | 730,239 | 47,578 | 848,670 |
| Emergency and outpatient service | 573 | 374,521 | -- | 375,094 | 636 | 314,211 | -- | 314,847 |
| Professional fees | 24,137 | 201,585 | -- | 225,722 | 14,307 | 175,459 | -- | 189,766 |
| Gastro-Intestinal | 1,250 | 232,172 | -- | 233,422 | 1,053 | 209,520 | -- | 210,573 |
| Respiratory therapy | 30,674 | 43,265 | 16,275 | 90,214 | 29,035 | 49,015 | 4,196 | 82,246 |
| Electrocardiology | 7,294 | 101,550 | -- | 108,844 | 4,472 | 101,842 | 513 | 106,827 |
| Central services and supply | 19,655 | 88,965 | 6,341 | 114,961 | 12,488 | 98,801 | 7,393 | 118,682 |
| Intravenous therapy | 26,613 | 42,459 | 8,687 | 77,759 | 17,814 | 43,359 | 5,024 | 66,197 |
| Cardiac rehab | -- | 30,363 | -- | 30,363 | -- | 33,068 | -- | 33,068 |
| Occupational therapy | 159 | 37,562 | 3,663 | 41,384 | -- | 13,383 | 5,870 | 19,253 |
| Speech therapy | -- | 20,517 | -- | 20,517 | 310 | 4,589 | 1,336 | 6,235 |
| Anesthesiology | -- | 25,101 | -- | 25,101 | -- | 41,804 | -- | 41,804 |
| Operating and recovery rooms | -- | 39,837 | -- | 39,837 | -- | 82,772 | -- | 82,772 |
| Dietary consulting | -- | 5,818 | -- | 5,818 | -- | 8,315 | -- | 8,315 |
| | 323,615 | 5,348,780 | 124,419 | 5,796,814 | 228,610 | 4,819,279 | 116,023 | 5,163,912 |
| **GROSS PATIENT SERVICE REVENUE** | $ 538,772 | 5,559,605 | 237,964 | 6,336,341 | 401,103 | 5,038,596 | 226,326 | 5,666,025 |
| **LESS:** | | | | | | | | |
| Contractual allowances and other deductions, primarily Medicare and Medicaid | | | | (1,310,591) | | | | (762,311) |
| Provision for bad debts | | | | (118,329) | | | | (193,000) |
| **NET PATIENT SERVICE REVENUE** | | | | $ 4,907,421 | | | | 4,710,714 |

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

## Other Operating Revenue
## For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Services provided to clinic | $ 409,754 | 346,068 |
| HRSA grant | 110,516 | 96,626 |
| Emergency room/physical therapy contracted revenue | 98,890 | 75,076 |
| Medical office building rent | 27,600 | 27,600 |
| Other | 13,887 | 14,171 |
| Medical records transcript fee | 14,348 | 13,457 |
| MediMate | 16,782 | 15,042 |
| Specialty clinic rent | 11,710 | 12,530 |
| Occupational health consulting | 13,418 | 10,916 |
| Meals | 6,242 | 5,452 |
| Vending | 2,207 | 2,723 |
| Wellness center dues | 2,570 | 2,835 |
| Purchasing rebates | 3,453 | 6,819 |
| Cholesterol screening | 2,785 | 2,495 |
| | $ 734,162 | 631,810 |

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

**Exhibit 3**

## Department Expenses
## For the Years Ended June 30, 2009 and 2008

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 640,032 | 4,309 | 95,230 | 739,571 | 596,144 | 4,475 | 63,035 | 663,654 |
| Observation | 9,742 | -- | -- | 9,742 | 8,311 | -- | -- | 8,311 |
| | 649,774 | 4,309 | 95,230 | 749,313 | 604,455 | 4,475 | 63,035 | 671,965 |
| **OTHER PROFESSIONAL SERVICES:** | | | | | | | | |
| Physical therapy | 44,367 | 490,351 | 14,466 | 549,184 | 42,066 | 465,081 | 8,960 | 516,107 |
| Emergency room | 67,370 | 730,341 | 1,520 | 799,231 | 75,562 | 623,665 | 3,468 | 702,695 |
| Laboratory | 186,078 | 134,785 | 69,376 | 390,239 | 165,523 | 130,372 | 62,414 | 358,309 |
| Radiology | 65,615 | 197,353 | 34,084 | 297,052 | 71,945 | 193,324 | 16,967 | 282,236 |
| Hawarden community clinic | 275,080 | - | 7,213 | 282,293 | 243,325 | -- | 7,342 | 250,667 |
| Pharmacy | 11,473 | 3,840 | 235,061 | 250,374 | 30,113 | 3,840 | 261,760 | 295,713 |
| Medical records | 98,000 | 27,921 | 27,396 | 153,317 | 100,621 | 24,949 | 22,265 | 147,835 |
| Respiratory therapy | 3,354 | 14,950 | 5,035 | 23,339 | 4,375 | 17,150 | 360 | 21,885 |
| Outpatient clinic | 16,104 | -- | 576 | 16,680 | 17,625 | -- | 941 | 18,566 |
| Central services and supply | 888 | 33,614 | 21,018 | 55,520 | 1,929 | 19,408 | 17,097 | 38,434 |
| Gastro-Intestinal | 10,450 | -- | 39,735 | 50,185 | 1,130 | -- | 34,331 | 35,461 |
| Occupational therapy | -- | 54,012 | - | 54,012 | -- | 32,581 | 11 | 32,592 |
| Intravenous therapy | 15,507 | -- | 3,360 | 18,867 | 13,987 | -- | 3,360 | 17,347 |
| Electrocardiology | 4,693 | 3,548 | 96 | 8,337 | 6,076 | 5,638 | -- | 11,714 |
| Cardiac rehab | 28,604 | -- | 4,134 | 32,738 | 14,163 | -- | 194 | 14,357 |
| Home Health | -- | 14,703 | -- | 14,703 | -- | 13,299 | -- | 13,299 |
| Occupation health | 236 | -- | 589 | 825 | 5,084 | -- | 2,549 | 7,633 |
| Operating and recovery room | 2,295 | 5,422 | 6,200 | 13,917 | 3,979 | 5,946 | 11,693 | 21,618 |
| Anesthesiology | -- | 16,360 | -- | 16,360 | -- | 31,990 | -- | 31,990 |
| Speech therapy | -- | 15,704 | -- | 15,704 | -- | 7,789 | -- | 7,789 |
| Wellness center | -- | -- | 593 | 593 | -- | -- | 662 | 662 |
| | 830,114 | 1,742,904 | 470,452 | 3,043,470 | 797,503 | 1,575,032 | 454,374 | 2,826,909 |
| **GENERAL SERVICES:** | | | | | | | | |
| Plant operation and maintenance | 58,202 | -- | 140,011 | 198,213 | 52,774 | -- | 121,664 | 174,438 |
| Dietary | 112,961 | 2,623 | 20,923 | 136,507 | 113,523 | 2,048 | 25,012 | 137,104 |
| Housekeeping | 32,577 | -- | 9,610 | 42,187 | 44,039 | -- | 5,993 | 50,032 |
| Laundry and linen | 28,049 | -- | 5,488 | 33,537 | 28,923 | -- | 3,273 | 32,196 |
| | 231,789 | 2,623 | 176,032 | 410,444 | 239,259 | 2,048 | 155,942 | 393,770 |
| **ADMINISTRATIVE SERVICES** | 229,327 | 322,980 | 42,463 | 594,770 | 222,910 | 296,867 | 88,755 | 608,532 |
| **NONDEPARTMENTAL:** | | | | | | | | |
| Employee benefits | -- | -- | 490,302 | 490,302 | -- | -- | 461,694 | 461,694 |
| Depreciation and amortization | -- | -- | 274,059 | 274,059 | -- | -- | 234,841 | 234,841 |
| Insurance | -- | -- | 71,448 | 71,448 | -- | -- | 74,891 | 74,891 |
| Interest | -- | -- | 23,078 | 23,078 | -- | -- | 23,856 | 23,856 |
| | -- | -- | 858,887 | 858,887 | -- | -- | 795,282 | 795,282 |
| **GRAND TOTAL** | $ 1,941,004 | 2,072,816 | 1,643,064 | 5,656,884 | 1,864,127 | 1,878,422 | 1,557,388 | 5,296,458 |

# 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, 2009 and 2008

ANALYSIS OF AGING:

| Days Since Discharge | 2009 Amount | 2009 Percent of Total | 2008 Amount | 2008 Percent of Total |
|---|---|---|---|---|
| 0 - 30 | $ 629,112 | 53.33 % | 524,709 | 45.50 % |
| 31 - 60 | 221,394 | 18.77 | 138,499 | 12.01 |
| 61 - 90 | 96,739 | 8.20 | 78,532 | 6.81 |
| 91 - 120 | 37,439 | 3.17 | 59,700 | 5.18 |
| Over 120 | 194,962 | 16.53 | 351,536 | 30.49 |
| | 1,179,646 | 100.00 % | 1,152,976 | 100.00 % |
| Less: | | | | |
| Allowance for doubtful accounts | (249,667) | | (268,656) | |
| Allowance for contractual adjustments | 10,509 | | (64,491) | |
| | $ 940,488 | | 819,829 | |

| | 2009 | 2008 |
|---|---|---|
| NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE | 69.95 days | 63.52 days |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS: | | |
| Balance, beginning of year | $ 268,656 | 161,293 |
| Provision of uncollectible accounts | 118,329 | 193,000 |
| Recoveries of accounts previously written off | 24,748 | 29,489 |
| Accounts written off | (162,066) | (115,126) |
| Balance, end of year | $ 249,667 | 268,656 |

## Inventory/Prepaid Expenses
## For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| INVENTORY: | | |
| Pharmacy drugs | $ 49,742 | 36,953 |
| All other | 15,670 | 26,452 |
| | $ 65,412 | 63,405 |
| PREPAID EXPENSES: | | |
| Insurance | $ 32,536 | 28,174 |
| Service Contracts | 16,639 | 10,991 |
| Dues | 14,597 | 1,974 |
| Other | 2,155 | – |
| | $ 65,927 | 41,139 |

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

Exhibit 6

## Financial and Statistical Highlights
## For the Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Patient days: | | |
| Adult and pediatric - | | |
| Medicare | 229 | 194 |
| Other | 91 | 96 |
| | 320 | 290 |
| Swing bed | 221 | 221 |
| Total | 541 | 511 |
| Patient discharges: | | |
| Adult and pediatric - | | |
| Medicare | 79 | 69 |
| Other | 35 | 25 |
| | 114 | 94 |
| Swing bed | 33 | 28 |
| Total | 147 | 122 |
| Average length of stay: | | |
| Adult and pediatric - | | |
| Medicare | 2.9 days | 2.8 days |
| Other | 2.6 days | 3.8 days |
| Swing bed | 6.7 days | 7.9 days |
| Emergency room visits | 1,160 | 1,037 |
| Specialty clinic visits | 1,981 | 1,979 |
| Number of employees - full-time equivalents | | |
| Hospital | 43.25 | 44.83 |
| Clinic | 7.76 | 6.69 |
| | 51.01 | 51.52 |

SEIM JOHNSON

## 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, 2009, and have issued our report thereon dated September 30, 2009. 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-09 and II-B-09 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.

***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*.



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Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, 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, items II-A-08 and II-B-08 have 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,
September 30, 2009.

## Schedule of Findings and Questioned Costs
## For the Year Ended June 30, 2009

### 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.

**Significant Deficiencies**

**II-A-09**

| | |
|---|---|
| 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-09**

| | |
|---|---|
| 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. |
| Recommendation: | 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. |

Response: 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.

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.

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 | | 1,469 |
| Total | $ | 5,309 |

| | | |
|---|---|---|
| Glea Hamik, Member Board of Trustees: | | |
| Wages paid for being a part-time employee during the year ended June 30, 2009 | $ | 28,561 |
| Food purchased from stores owned by spouse - Fiesta Foods | | 7,484 |
| Total | $ | 36,045 |

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.

## 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, 2009

| Finding | Status | Corrective Action Plan or Other Explanation |
|---|---|---|
| II-A-08 | Net realizable value of accounts receivable and third party settlements | Unresolved, similar finding reported at II-A-09 |
| II-B-08 | Segregation of duties over accounting functions | Unresolved, similar finding reported at II-B-09 |

## Audit Staff
## For the Year Ended June 30, 2009

**This audit was performed by:**

- Brian D. Green, FHFMA, CPA, Partner
- Casey J. Koch, Staff Auditor
- Chase S. Manstedt, Staff Auditor