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

Basic Financial Statements
June 30, 2004 and 2003

Together with Independent Auditor's Report

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

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

OFFICIALS

June 30, 2004

	Address	Term Expires
Board of Trustees		
Pam Harvey, President	Hawarden, Iowa	December 2005
Mary K. Jacobs	Hawarden, Iowa	December 2007
Matt Hummel	Hawarden, Iowa	December 2007
Glea Hamik	Hawarden, Iowa	December 2007
Cynthia Porter	Hawarden, Iowa	December 2005
Administrator		
Brian Monsma	Hawarden, Iowa	Indefinite
Chief Financial Officer		
Robert Jaminet	Sioux City, Iowa	Indefinite

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

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of HAWARDEN COMMUNITY HOSPITAL (Hospital), a component unit of the City of Hawarden, Iowa, as of and for the years ended June 30, 2004 and 2003, 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, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

As explained in Note 1, the Hospital adopted Governmental Accounting Standards Board (GASB) Statements No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In 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, 2004 and 2003, and the results of its operations, changes in fund balances and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, included in Exhibits 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
August 20, 2004.

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

Management's Discussion and Analysis
June 30, 2004 and 2003

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, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements, which begin on page 7.

Financial Highlights

- The Hospital's net assets increased in each of the past two years with a $158,072 or 10.82% increase in 2004 and a $359,958 or 32.69% increase in 2003.
- The Hospital reported an operating income (loss) in 2004 of $(32,118) and a operating income in 2003 of $178,933. Income in 2004 decreased by $211,051 or 117.95% over the income reported in 2003. Operating income in 2003 decreased by $144,200 or 44.63% over the income reported in 2002.
- Nonoperating revenues and restricted gifts received increased by $190,190 or 105.07% in 2004 compared to 2003. Nonoperating revenues also increased in 2003 by $181,025 or 211.02% compared to 2002.

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

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 7. The Hospital's net assets increased in each of the past two years by $158,072 (10.82%) in 2004 and $359,958 (32.69%) in 2003, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Assets

	2004	2003	Change from Prior Year	% Change
Assets:				
Current assets	$ 1,278,747	1,253,699	25,048	2.00
Capital assets, net	1,178,053	1,226,810	(48,757)	(3.98)
Other noncurrent assets	207,761	164,967	42,794	25.94
Total assets	**2,664,561**	**2,645,476**	**19,085**	**0.73**
Liabilities:				
Long-term debt outstanding	90,896	177,305	(86,409)	(48.73)
Other current and noncurrent liabilities	954,327	1,006,903	(52,576)	(5.23)
Total liabilities	**1,045,223**	**1,184,208**	**(138,985)**	**(11.74)**
Net assets:				
Invested in capital assets, net of related debt	1,087,157	1,049,505	37,652	3.59
Restricted for capital acquisitions and operating activities	29,390	111,460	(82,070)	(73.64)
Restricted expendable net assets				
Restricted nonexpendable net assets	96,123	5,193	90,930	1751.01
Unrestricted	406,668	295,108	111,560	37.81
Total net assets	**$ 1,619,338**	**1,461,266**	**158,072**	**10.82**

A significant component of the change in the Hospital's net assets is the decrease in payables. In 2004 the balance of the bond payment ($85,000) was made and a reduction of $86,355 in the payable due to Mercy. In 2003 the balance of the bond was reduced by $85,000 and the Mercy payable was reduced by $211,833. Operating revenues increased in 2004 by $74,172 (2.05%), patient accounts receivable, net of estimated uncollectible amounts, increased by $618 or 0.08% in 2004. In addition, patient service revenue increased by $218,688 in 2003 compared to 2002, and receivables increased by $30,251 or 3.62%. In both cases, the increase in accounts receivable is primarily the result of increased revenues and an overall slowdown by third party payors in making payments in attempting to cut costs by managing their cash flows.

Operating Results and Changes in The Hospital's Net Assets

In 2004, the Hospital's net assets increased by $158,072 or 10.82%, as shown in **Table 2**. This increase is made up of very different components. And it represents a decline of 43.92% compared with the increase in net assets for 2003 of $359,958.

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

	2004	*2003*	*Change from Prior Year*	*Percent Change*
Operating Revenue:				
Net patient service revenue	$ 3,556,295	3,488,561	67,734	1.95
Other operating revenues	139,639	133,201	6,438	4.84
Total operating revenue	**3,695,934**	**3,621,762**	**74,172**	**2.05**
Operating Expenses:				
Salaries and benefits	1,683,401	1,622,122	61,279	3.78
Purchased services and other	1,666,743	1,561,819	104,924	6.72
Provision for bad debt	205,734	93,000	112,734	121.22
Depreciation and amortization	162,728	151,236	11,492	7.60
Interest	9,446	14,652	(5,206)	(35.53)
Total operating expenses	**3,728,052**	**3,442,829**	**285,223**	**8.29**
Operating income (loss)	**(32,118)**	**178,933**	**(211,051)**	**(117.95)**
Nonoperating Revenues and Restricted Gifts, Net				
Joint venture loss, net	(141,986)	(119,189)	(22,797)	(19.13)
Investment income	9,662	7,267	2,395	32.96
Sales tax revenue	191,576	180,737	10,839	6.00
Restricted gifts, net	130,938	112,210	18,728	16.69
Total nonoperating revenues (expenses), net	190,190	181,025	9,165	5.06
Increase in net assets	**158,072**	**359,958**	**(201,886)**	**(56.09)**
Net assets beginning of year	**1,461,266**	**1,101,308**	**359,958**	**32.69**
Net assets end of year	**$ 1,619,338**	**1,461,266**	**158,072**	**10.82**

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss)—generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating income.

The primary components of the operating income are:

- Decrease in patient days of 161 or 13.10% in 2004 and 370 or 23.14% in 2003.
- Increased outpatient revenue, $214,118 or 7.64% in 2004 and $409,658 or 17.12% in 2003. Increases in 2004 were due to 21.06% or 3,310 additional patients treated as outpatients. Increases in 2003 were due to improved reimbursement due to being a Critical Access Hospital.
- Increases in salary and benefit costs for the hospital's employees ($61,279 or 3.78% in 2004 and $101,526 or 6.68% in 2003).
- Increases in purchased services and professional fees and medical supply and drug costs of $104,924 or 6.72% in 2004 and of $244,652 or 18.58% in 2003.
- An increase in provision for bad debts of $112,734 or 121.22% in 2004 and $17,325 or 22.90% in 2003 due to an increasing amount of uncollected receivables.
- Net patient service revenues increased in 2004 primarily because patient charges were increased in July 2003, and from increased reimbursement from the Hospital's licensure as a Critical Access Hospital. Net patient service revenues increased in 2003 primarily because patient charges were increased in May 2002, and from increased reimbursement from the Hospital's licensure change. Effective November 2, 2000 the Hospital changed from being an Acute Care Hospital to a Critical Access Hospital. As a Critical Access Hospital the Hospital is reimbursed reasonable cost for most inpatient and outpatient services by Medicare and Medicaid. Reasonable cost reimbursement exceeds the amount Medicare and Medicaid reimbursed the Hospital under the prospective payment system as an Acute Care Hospital.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs are expenses for purchased services and other, including medical supplies and prescription drugs. In 2002, purchased services and other costs totaled $1,317,167. In 2003, they totaled $1,561,819 or 45.37% of total expenses and an increase of 18.58% over 2002. And, in 2004, purchased services and other costs totaled $1,666,743, representing 44.71% of total expenses and an increase of 6.72% over 2003. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This has meant increasing our provision for bad debt by $121,734 in 2004 and $17,325 in 2003.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of location option sales taxes and interest revenue and investment earnings and gifts, grants and bequests for the purchase of property and equipment. In 2004 the Hospital received a permanently restricted gift of $90,930 from which the Hospital receives the income.

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, with one exception. Cash flows provided by operating activities increased slightly more than operating income in both 2004 and 2003 due to reduction in estimated third-party payor settlements of $31,664 in 2004 and $170,607 in 2003.

Capital Asset and Debt Administration

Capital Assets

At the end of 2004, the Hospital had $1,178,053 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2004, the Hospital purchased new equipment costing $113,971. Nearly the same amount, $111,466, was spent to acquire new equipment in 2003. Both of these amounts are more than 2002, when the Hospital spent $80,839 for new equipment.

Debt

At year-end, the Hospital had $90,896 in loans, and capital lease obligations outstanding. Except for loan of $25,000 initiated in 2004, the Hospital issued no new debt in 2004 or 2003. The Hospital's formal debt issuances, revenue notes, cannot be issued without approval of the Board of Directors. In 2004 the Hospital paid off the balance of the general obligation bond payment to the City of Hawarden.

Other Economic Factors

Fiscal 2003 provided the Hospital substantial challenges due to a slumping economy and decreased returns on investments.

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

Contacting The Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Director of Fiscal Services Office, 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, 2004 and 2003

ASSETS		2004	2003
Current assets:			
Cash and cash equivalents	$	267,878	255,436
Receivables -			
Patients, net of allowance for doubtful accounts of $171,840 in 2004 and $171,156 in 2003		866,346	865,728
Other		72,959	62,362
Inventories		55,693	55,288
Prepaid expenses		15,871	14,885
Total current assets		1,278,747	1,253,699
Assets limited as to use:			
By board for capital improvements and endowments		107,761	95,877
By donor		96,123	67,090
		203,884	162,967
Capital assets, net		1,178,053	1,226,810
Other assets		3,877	2,000
Total assets	$	2,664,561	2,645,476
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion of-	$		
Long-term debt		7,993	85,000
Capital lease		27,371	25,762
Accounts payable-			
Mercy		541,189	627,544
Trade		192,601	128,764
Salaries, wages and accrued benefits payable		134,021	117,474
Payroll taxes withheld and accrued		7,156	20,876
Other accrued liabilites		6,631	7,852
Estimated third-party payor settlements		72,729	104,393
Total current liabilities		989,691	1,117,665
Long-term debt, net of current portion		16,359	--
Capital lease, net of current portion		39,173	66,543
Total liabilities		1,045,223	1,184,208
Net assets:			
Invested in capital assets, net of related debt		1,087,157	1,049,505
Restricted:			
Expendable for capital acquisitions and operating activities		29,390	111,460
Nonexpendable permanent endowments		96,123	5,193
Unrestricted		406,668	295,108
Total net assets		1,619,338	1,461,266
Total liabilities and net assets	$	2,664,561	2,645,474

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, 2004 and 2003

		2004	2003
UNRESTRICTED REVENUE:			
Net patient service revenue	$	3,556,295	3,488,561
Other revenue		139,639	133,201
Total revenue		3,695,934	3,621,762
EXPENSES:			
Salaries		1,343,636	1,292,518
Employee benefits		339,765	329,604
Purchased services and professional fees		1,093,868	914,848
Utilities		61,101	58,068
Supplies and other expenses		460,146	543,573
Depreciation and amortization		162,728	151,236
Insurance		51,628	45,330
Interest		9,446	14,652
Provision for bad debts		205,734	93,000
Total expenses		3,728,052	3,442,829
OPERATING INCOME (LOSS)		(32,118)	178,933
NONOPERATING GAINS (LOSSES), NET:			
Joint venture loss, net		(141,986)	(119,189)
Investment income		9,662	7,267
Sales tax revenue		191,576	180,737
Unrestricted gifts, grants and bequests		101	155
Nonoperating gains, net		59,353	68,970
EXCESS OF REVENUE OVER EXPENSES		27,235	247,903
ADDITIONS TO PERMANENT ENDOWMENTS		90,930	5,193
GIFTS, GRANTS AND BEQUESTS FOR PURCHASE OF PROPERTY AND EQUIPMENT, NET		39,907	106,862
INCREASE IN NET ASSETS		158,072	359,958
NET ASSETS, BEGINNING OF YEAR		1,461,266	1,101,308
NET ASSETS, END OF YEAR	$	1,619,338	1,461,266

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, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	$ 3,327,797	3,209,409
Cash paid to employees for salaries and benefits	(1,681,795)	(1,628,296)
Cash paid to suppliers and contractors	(1,613,873)	(1,524,512)
Other receipts and payments, net	95,803	118,592
Net cash provided by operating activities	127,932	175,193
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales tax received	198,262	176,317
Unrestricted gifts, grants and bequests	101	155
Net cash provided by noncapital financing activities	198,363	176,472
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(113,971)	(111,466)
Gifts, grants and bequests for purchase of property and equipment	130,836	112,055
Proceeds from issuance of long-term debt	25,000	--
Payments on long-term debt	(85,648)	(85,000)
Payments on capital lease obligations	(25,761)	(24,248)
Interest paid on long-term debt and capital lease obligations	(9,446)	(14,652)
Net cash used in capital and related financing activities	(78,990)	(123,311)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Joint venture loss, net	(218,766)	(313,600)
Purchase of assets limited as to use, net	(23,882)	28,604
Interest on investments	9,662	7,267
Deposits to other assets, net	(1,877)	(2,000)
Net cash used in investing activities	(234,863)	(279,729)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,442	(51,375)
CASH AND CASH EQUIVALENTS - Beginning of year	255,436	306,811
CASH AND CASH EQUIVALENTS - End of year	$ 267,878	255,436

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, 2004 and 2003

		2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	$	(32,118)	178,933
Adjustments to reconcile operating income to net cash provided by operating activities -			
Depreciation and amortization		162,728	151,236
Interest expense		9,446	14,652
(Increase) decrease in current assets -			
Receivables -			
Patients		(618)	(30,251)
Other		(34,320)	157
Inventories		(405)	6,692
Prepaid expenses		(986)	4,049
Increase (decrease) in current liabilities -			
Accounts payable-			
Current portion of Mercy payable		(9,573)	(17,423)
Accounts payable		63,836	43,929
Salaries, wages and accrued benefits payable		16,547	276
Payroll taxes withheld and accrued		(13,720)	1,315
Other accrued liabilities		(1,221)	(7,765)
Estimated third-party payor settlements		(31,664)	(170,607)
Net cash provided by operating activities	$	127,932	175,193

See notes to financial statements

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

Notes to Financial Statements
June 30, 2004 and 2003

(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*

During the year ended June 30, 2004, the Hospital implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

GASB Statement No. 34, as amended by GASB Statement No. 37, establishes new financial reporting standards for state and local governments, which include a Statement of Net Assets (Balance Sheet), a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows. GASB Statement No. 38, requires certain note disclosures when GASB Statement No. 34 is implemented.

The Statement of Net Assets 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.

The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

D. *Use of Estimates*

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

E. *Measurement Focus and Basis of Accounting*

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

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

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

F. *Cash and Cash Equivalents*

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

G. *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.

H. *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is provided on a straight-line method based upon useful lives set forth by the American Hospital Association. The Hospital's capitalization policy is $5,000. Equipment under capital lease obligations is amortized on a straight-line method. Such amortization is included in depreciation and amortization in the financial statements.

Gifts of cash that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the acquired long-lived assets are placed into service.

I. *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, 2004 and 2003 was $93,546 and $84,209, respectively.

J. *Statement of Revenue and Expenses*

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 revenue and expenses. Peripheral or incidental transactions are reported as gains and losses.

K. *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.

L. *Operating Income*

Operating income includes transactions deemed by management to be ongoing, major or central to the provision of medical services provided by the Hospital. Revenue and expenses to provide these services are reported as operating income for the reporting period. Operating revenues result from exchange transactions associated with the provision of health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

M. *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.

There was no revenue under the Hospital's charity care policy in 2004.

N. 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.

O. *2003 Financial Statements*

Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 reporting format.

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentality's; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital's investments at June 30, 2004 and 2003 are as follows:

	2004	2003
Marketable equity securities, at fair value	$ 13,698	8,480

(3) Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2001.

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 54% and 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2004. 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, 2004 and 2003 consist of the following:

	2004	2003
Patient accounts	$ 1,040,671	1,108,964
Less estimated third-party contractual adjustments	(2,485)	(72,080)
Less allowance for uncollectibles	(171,840)	(171,156)
	$ 866,346	865,728

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:

	2004	2003
Medicare	46%	47%
Medicaid	5	14
Blue Cross Blue Shield	9	13
Other third-party payors	22	18
Private pay	18	8
	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, 2004 and 2003, are summarized as follows:

	2004	2003
Capital Improvements and Endowments -		
Cash and certificates of deposit	$ 94,063	87,397
Marketable equity securities	13,698	8,480
	$ 107,761	95,877

By Donor

Cash deposits and investments designated by the Board for future capital improvements, and endowments as of June 30, 2004 and 2003, are summarized as follows:

	2004	2003
Capital Improvements and Endowments -		
Cash and certificates of deposit	$ 96,123	67,090

(6) Capital Assets, Net

Capital asset additions, retirements and balances as of June 30, 2004 and 2003, are summarized as follows:

	June 30, 2003	Additions	Transfers and Disposals	June 30, 2004
Capital assets, not being depreciated:				
Land	$ 7,000	--	--	7,000
Total capital assets, not being depreciated	7,000	--	--	7,000
Capital assets, being depreciated:				
Land improvements	28,089	--	--	28,089
Hospital buildings	1,437,781	--	--	1,437,781
Fixed equipment	501,056	--	--	501,056
Major moveable equipment	1,013,687	113,971	--	1,127,658
Total capital assets, being depreciated	2,980,613	113,971	--	3,094,584
Less accumulated depreciation:				
Land improvements	16,998	2,713	--	19,711
Hospital buildings	753,597	53,877	--	807,474
Fixed equipment	299,222	19,178	--	318,400
Major moveable equipment	690,986	86,960	--	777,946
Total accumulated depreciation	1,760,803	162,728	--	1,923,531
Total capital assets, being depreciated, net	1,219,810	(48,757)	--	1,171,053
Total capital assets, net	$ 1,226,810	(48,757)	--	1,178,053

	June 30, 2002	Additions	Transfers and Disposals	June 30, 2003
Capital assets, not being depreciated:				
Land	$ 7,000	--	--	7,000
Total capital assets, not being depreciated	7,000	--	--	7,000
Capital assets, being depreciated:				
Land improvements	28,089	--	--	28,089
Hospital buildings	1,430,152	7,629	--	1,437,781
Fixed equipment	494,574	6,482	--	501,056
Major moveable equipment	916,332	97,355	--	1,013,687
Total capital assets, being depreciated	2,869,147	111,466	--	2,980,613
Less accumulated depreciation:				
Land improvements	14,286	2,712	--	16,998
Hospital buildings	699,579	54,018	--	753,597
Fixed equipment	280,322	18,900	--	299,222
Major moveable equipment	615,380	75,606	--	690,986
Total accumulated depreciation	1,609,567	151,236	--	1,760,803
Total capital assets, being depreciated, net	1,259,580	(39,770)	--	1,219,810
Total capital assets, net	$ 1,266,580	(39,770)	--	1,226,810

(7) Mercy Accounts Payable

Mercy Accounts Payable includes amounts due Mercy Medical Services and Mercy Medical Center related to the Hospital's portion of financial support for the Hawarden Mercy Medical Clinic and other professional and management fees. Mercy accounts payable as of June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Mercy Medical Services for share of Hawarden Mercy Medical Clinic operating support	$ 364,698	441,480
Mercy Medical Center for professional and management services	176,491	186,064
	$ 541,189	627,544

(8) Long-Term Debt

A summary of long-term debt at June 30, 2004 and 2003, is as follows:

	Balance June 30, 2003	Borrowings	Payments	Defeased	Balance June 30, 2004	Amounts Due Within One Year
General Obligation Hospital Notes	$ 85,000	--	85,000	--	--	--
Bank Note	--	25,000	648	--	24,352	7,993
	$ 85,000	25,000	85,648	--	24,352	7,993

	Balance June 30, 2002	Borrowings	Payments	Defeased	Balance June 30, 2003	Amounts Due Within One Year
General Obligation Hospital Notes	$ 170,000	--	85,000	--	85,000	85,000

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

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 has an interest rate of 4.5% and will be repaid over three years in monthly installments of $743 beginning June 28, 2004.

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

Year		Principal	Interest	Total
2005	$	7,993	932	8,925
2006		8,360	565	8,925
2007		7,999	182	8,181
	$	24,352	1,679	26,031

A summary of interest expense on borrowed funds during the years ended June 30, 2004 and 2003 follows:

		2004	2003
Interest cost expense	$	4,548	7,653

(9) Capital Lease

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

Year		Principal	Interest	Total
2005	$	27,371	3,289	30,660
2006		29,081	1,579	30,660
2007		10,092	182	10,274
	$	66,544	5,050	71,594

(10) Professional Liability Insurance

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

(11) Employee Retirement and Defined Benefit Pension Plan

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50360-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were $65,100, $67,757 and $69,077, respectively, equal to the required contributions for each year.

(12) Related Party Transactions

Hawarden Mercy Medical Clinic

The Hospital and Mercy Medical Services each have a 50% sponsorship interest in the Hawarden Mercy Medical Clinic (Clinic) located adjacent to the Hospital. Each party provides facilities, equipment and/or personnel to operate the Clinic, and shares equally in revenues and expenses. The Hospital's share of the Clinic's 2004 and 2003 operating losses was $134,589 and $102,793, respectively and is included in joint venture gain (loss), net in the accompanying statements of revenue and expenses.

In addition, the Hospital receives monthly rent from the Clinic with rental income totaling $28,560 and $30,450 for the years ended June 30, 2004 and 2003, respectively, and is included in other revenue.

See Note 9 regarding amounts due Mercy Medical Services.

Exhibit 1

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

Patient Service Revenue
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical, surgical and obstetrics	$ 237,844	--	--	237,844	254,944	--	--	254,944
Swing bed	--	--	160,917	160,917	--	--	181,745	181,745
Observation	1,918	119,386	--	121,304	10,509	91,888	--	102,397
	239,762	119,386	160,917	520,065	265,453	91,888	181,745	539,086
OTHER PROFESSIONAL SERVICES:								
Physical therapy	4,271	665,537	35,930	705,738	3,635	515,927	35,091	554,653
Laboratory	56,435	568,331	10,769	635,535	66,110	493,866	11,366	571,342
Radiology	21,233	553,790	5,208	580,231	29,370	543,978	9,899	583,247
Pharmacy	87,808	292,001	42,399	422,208	91,781	406,667	63,212	561,660
Emergency and outpatient service	10,321	356,400	--	366,721	13,408	277,954	--	291,362
Professional fees	26,096	125,402	460	151,958	30,205	127,555	3,483	161,243
Respiratory therapy	67,292	57,006	22,618	146,916	77,773	40,554	38,915	157,242
Central services and supply	24,121	65,551	10,636	100,308	30,994	77,502	13,819	122,315
Electrocardiology	7,767	73,090	624	81,481	5,062	59,296	208	64,566
Intravenous therapy	24,522	35,965	4,218	64,705	33,950	41,794	2,993	78,737
Gastro-Intestinal	--	58,675	--	58,675	1,300	55,475	--	56,775
Cardiac rehab	--	24,146	--	24,146	--	25,117	--	25,117
Speech therapy	--	8,191	5,044	13,235	270	--	1,232	1,502
Occupational therapy	114	8,263	1,909	10,286	530	5,034	5,198	10,762
Operating and recovery rooms	2,683	3,296	--	5,979	7,488	30,478	273	38,239
Anesthesiology	1,291	2,476	--	3,767	1,804	10,038	--	11,842
Delivery and labor room	--	385	--	385	--	650	--	650
	333,954	2,898,505	139,815	3,372,274	393,680	2,711,885	185,689	3,291,254
GROSS PATIENT SERVICE REVENUE	$ 573,716	3,017,891	300,732	3,892,339	659,133	2,803,773	367,434	3,830,340
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(336,044)				(341,779)
NET PATIENT SERVICE REVENUE				$ 3,556,295				3,488,561

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

Other Operating Revenue
For the Years Ended June 30, 2004 and 2003

		2004	2003
Emergency room/physical therapy contracted revenue	$	56,209	36,004
Medical office building rent		28,560	30,450
MediMate		9,518	14,706
Other		8,500	6,788
Occupational health consulting		7,020	15,663
Specialty clinic rent		6,240	5,915
Dietary consulting		5,928	929
Wellness center dues		4,690	2,481
Meals		4,389	3,726
Physician charges to clinic		3,838	11,636
Cholesterol screening		2,795	2,440
Vending		1,952	2,463
	$	139,639	133,201

Exhibit 3

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

Department Expenses
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	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	$ 478,313	12,610	23,401	514,324	485,303	10,447	20,150	515,900
Observation	15,288	--	--	15,288	9,283	--	--	9,283
	493,601	12,610	23,401	529,612	494,586	10,447	20,150	525,183
OTHER PROFESSIONAL SERVICES:								
Physical therapy	38,512	414,040	16,061	468,613	34,579	282,655	9,477	326,711
Laboratory	93,277	83,580	44,707	221,564	86,883	71,556	50,097	208,536
Radiology	43,776	152,388	8,855	205,019	43,971	154,226	28,546	226,743
Emergency room	129,997	121,762	796	252,555	103,837	170,015	237	274,089
Pharmacy	18,607	3,840	127,240	149,687	13,019	3,840	193,138	209,997
Home Health	--	10,341	--	10,341	--	9,471	(460)	9,011
Medical records	76,663	16,624	14,111	107,398	76,145	6,697	6,335	89,177
Central services and supply	6,261	--	32,074	38,335	7,425	--	35,532	42,957
Outpatient clinic	26,760	361	223	27,344	24,888	--	234	25,122
Respiratory therapy	10,223	4,900	9,334	24,457	9,337	7,739	9,558	26,634
Cardiac rehab	7,776	--	2,351	10,127	10,904	--	2,364	13,268
Operating and recovery room	1,062	3,752	3,621	8,435	8,443	1,416	33	9,892
Electrocardiology	7,918	3,788	78	11,784	6,097	5,033	188	11,318
Intravenous therapy	11,141	--	4,604	15,745	2,699	--	6,927	9,626
Occupational therapy	--	19,963	215	20,178	--	14,807	37	14,844
Gastro-Intestinal	--	--	16,284	16,284	--	--	13,872	13,872
Wellness center	1,930	--	38	1,968	3,785	--	798	4,583
Occupation health	4,133	--	426	4,559	6,205	--	1,576	7,781
Speech therapy	--	10,852	--	10,852	--	757	--	757
Anesthesiology	570	--	81	651	3,284	--	369	3,653
	478,606	846,191	281,099	1,605,896	441,501	728,212	358,858	1,528,571
GENERAL SERVICES:								
Plant operation and maintenance	43,227	--	99,063	142,290	40,795	--	119,100	159,895
Dietary	96,715	1,628	21,735	120,078	95,374	3,210	21,620	120,204
Housekeeping	27,253	--	1,944	29,197	25,847	--	1,878	27,725
Laundry and linen	22,867	--	3,542	26,409	23,097	--	4,757	27,854
	190,062	1,628	126,284	317,974	185,113	3,210	147,355	335,678
ADMINISTRATIVE SERVICES	181,367	233,439	90,463	505,269	171,318	172,979	75,278	419,575
GRAND TOTAL	$ 1,343,636	1,093,868	521,247	2,958,751	1,292,518	914,848	601,641	2,809,007

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, 2004 and 2003

ANALYSIS OF AGING:

	2004		2003	
Days Since Discharge	Amount	Percent of Total	Amount	Percent of Total
0 - 30	$ 336,598	32.34 %	326,527	29.44 %
31 - 60	85,595	8.22	165,335	14.91
61 - 90	123,262	11.84	89,732	8.09
91 - 120	106,122	10.20	69,803	6.29
Over 120	389,094	37.40	457,567	41.27
	1,040,671	100.00 %	1,108,964	100.00 %
Less:				
Allowance for doubtful accounts	(171,840)		(171,156)	
Allowance for contractual adjustments	(2,485)		(72,080)	
	$ 866,346		865,728	

	2004	2003
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	88.54 days	90.58 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	$ 171,156	129,034
Provision of uncollectible accounts	205,734	93,000
Recoveries of accounts previously written off	55,371	23,118
Accounts written off	(260,421)	(73,996)
Balance, end of year	$ 171,840	171,156

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

Inventory/Prepaid Expenses
For the Years Ended June 30, 2004 and 2003

		2004	2003
INVENTORY:			
Pharmacy drugs	$	32,757	27,710
All other		22,936	27,578
	$	55,693	55,288
PREPAID EXPENSES:			
Insurance	$	14,343	13,152
Dues		1,528	1,733
	$	15,871	14,885

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

Financial and Statistical Highlights
For the Years Ended June 30, 2004 and 2003

	2004	2003
Patient days:		
Adult and pediatric-		
Medicare	303	381
Other	107	98
	410	479
Swing bed	441	526
Rest bed	25	7
Total	876	1,012
Patient discharges:		
Adult and pediatric-		
Medicare	101	117
Other	37	42
	138	159
Swing bed	51	55
Rest bed	3	3
Total	192	217
Average length of stay:		
Adult and pediatric-		
Medicare	3.0 days	3.3 days
Other	2.9 days	2.3 days
Swing bed	8.6 days	9.6 days
Rest bed	8.3 days	2.3 days
Surgical procedures	82	81
Emergency room visits	1,075	1,034
Number of employees - full-time equivalents	41.88	41.65

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Independent Auditor's Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of Hawarden Community Hospital, a component unit of the city of Hawarden, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon, dated August 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable condition is a material weakness.

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

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

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
August 20, 2004.

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

Independent Auditor's Comments on Resolution of Prior Audit Findings

For the Year Ended June 30, 2004

There were no audit findings in the prior year.

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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

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

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

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

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

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

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

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

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

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

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		2,253
Total	$	6,093

Glea Hamik, Member of Trustees:		
Wages paid for being a part-time employee during the year ended June 30, 2004	$	20,804
Food purchased from stores owned by spouse - Fiesta Foods		6,208
Total	$	27,012

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 2003 audited financial statements in the city newspaper.

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

Audit Staff
For the Year Ended June 30, 2004

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Matthew R. Heemstra, CPA, Senior Auditor

Jackie Werner, Staff Auditor