

POCAHONTAS COMMUNITY HOSPITAL

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2004 AND 2003

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
George Tuttle	Mayor	December, 2005
Gus Holzmueller	Member	December, 2007
Kent Wood	Member	December, 2007
John DeWall	Member	December, 2005
Brooks Taylor	Member	November, 2004
Rod Stoullil	Member	December, 2005
Jeffrey A. Johnson	City Treasurer	
HOSPITAL BOARD OF TRUSTEES		
Rick Winegarden	President	December, 2007
Bev Holzmueller	Vice-President	December, 2005
Duane Wiemers	Secretary-Treasurer	December, 2005
Don Beneke	Member	December, 2007
Cheryl Smith	Member	December, 2007
HOSPITAL OFFICIALS		
James Roetman	CEO	
Lynne Raveling	CFO	
Sherrie Laubenthal	Director of Nursing	

Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited the accompanying consolidated balance sheets of Pocahontas Community Hospital as of June 30, 2004 and 2003, and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

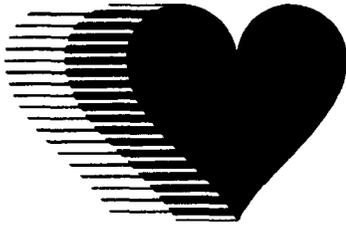
The management's discussion and analysis on pages 4 through 4d are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of 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 audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 19 through 31) 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 our audits 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.

To the Board of Trustees
Pocahontas Community Hospital

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2004 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is 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.

Gronewold, Bell, Kuhn + Co. P.C.
Atlantic, Iowa
July 23, 2004



Pocahontas Community Hospital

Pocahontas Community Hospital Management's Discussion and Analysis

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$502,132 or 9 percent increase in 2004 and a \$745,481 or 14 percent increase in 2003.

The Hospital reported operating income of \$154,442 in 2004 and \$536,789 in 2003. Nonoperating revenues decreased by \$14,692 or 10 percent in 2004 compared to 2003.

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

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its 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. The Hospital's net assets - the difference between assets and liabilities - is one way to measure the Hospital's financial health, or financial position. 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 need to be considered in assessing 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.

Pocahontas Community Hospital
Management Discussion and Analysis - Continued

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 5 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 2,392,796	\$ 2,265,214	\$ 1,801,828
Capital assets, net	4,582,184	2,277,648	1,631,461
Other assets, net	<u>909,897</u>	<u>2,503,236</u>	<u>2,468,098</u>
Total assets	<u>\$ 7,884,877</u>	<u>\$ 7,046,098</u>	<u>\$ 5,901,387</u>
Liabilities:			
Long-term debt, less current maturities	\$ 465,991	\$ --	\$ --
Other current and noncurrent liabilities	<u>1,015,326</u>	<u>1,144,670</u>	<u>745,440</u>
Total liabilities	<u>\$ 1,481,317</u>	<u>\$ 1,144,670</u>	<u>\$ 745,440</u>
Net Assets:			
Invested in capital assets	\$ 4,082,183	\$ 2,277,648	\$ --
Restricted expendable assets	277,160	79,848	--
Unrestricted	<u>2,044,217</u>	<u>3,543,932</u>	<u>5,155,947</u>
Total net assets	<u>\$ 6,403,560</u>	<u>\$ 5,901,428</u>	<u>\$ 5,155,947</u>

A significant component of the change in the Hospital's assets is the increase in capital assets and contributions related to the current building project. Net patient service revenue increased \$80,329 or 2% in 2004.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2004, the Hospital's net assets increased by \$502,132 or 9 percent, as shown in Table 2. This represents a decline of 32 percent compared with the increase in net assets of \$745,481 for 2003.

Pocahontas Community Hospital
Management Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Net patient service revenues	\$ 5,185,213	\$ 5,104,884	\$ 4,474,287
Other operating revenues	<u>75,277</u>	<u>54,260</u>	<u>62,145</u>
Total operating revenues	5,260,490	5,159,144	4,536,432
Operating Expenses:			
Nursing service	1,399,656	1,291,241	1,163,734
Other professional service	2,048,910	1,824,218	1,765,899
General Service	398,005	331,301	344,820
Fiscal and administrative service	977,887	939,994	669,374
Provision for depreciation	<u>281,590</u>	<u>235,601</u>	<u>185,269</u>
Total operating expenses	5,106,048	4,622,355	4,129,096
Operating income	154,442	536,789	407,336
Nonoperating Revenues and Expenses:			
Noncapital gifts, grants and bequests	56,160	17,897	629,518
Investment income	66,264	113,098	119,185
Ambulance subsidy	5,020	12,549	3,921
Clinic operations, net	(375)	(356)	(1,495)
Gain on disposal of equipment expenses, net	<u>1,427</u>	<u>--</u>	<u>275</u>
Total nonoperating revenues (expenses)	<u>128,496</u>	<u>143,188</u>	<u>751,404</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments	282,938	679,977	1,158,740
Grants, Contributions, and Endowments			
Capital grants and contributions and endowments	<u>219,194</u>	<u>63,004</u>	<u>35,500</u>
Increase in net assets	502,132	742,981	1,194,240
Net Assets Beginning of Year	<u>5,901,428</u>	<u>5,158,447</u>	<u>3,961,707</u>
Net Assets End of Year	<u>\$ 6,403,560</u>	<u>\$ 5,901,428</u>	<u>\$ 5,155,947</u>

Pocahontas Community Hospital
Management Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Hospital's net assets is its operating income, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported operating income. Operating income decreased from \$536,789 in 2003 to \$154,442 in 2004.

The primary components of this decrease in operating incomes are:

An increase in revenue of 2 percent in 2004 compared to a 14 percent revenue increase in 2003.

Increases in nursing service expenses of 8 percent in 2004 and increases in professional service expenses of 12 percent in 2004 compared to a 3 percent increase in 2003. These increases are related to increases in salary and supplies expenses as well as an increased cost in 2004 for an increase in contracted emergency room coverage.

Increases in fiscal and administrative services expenses were due in part to an increase in management fees paid to Trinity Health Systems from \$6,000 per year in 2003 to \$24,000 per year in 2004.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Interest revenue decreased from \$113,098 in 2003 to \$66,264 in 2004. The Hospital used its reserves to fund the current building project, which reduced revenue from investments in 2004. Cuts in the county budget reduced the ambulance subsidy from \$12,549 in 2003 to \$5,020 in 2004.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The foundation embarked on a capital campaign to raise money for the current building project at the hospital. The foundation is also the conduit for the funds from the annual Hospice fund drive.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating revenues and nonoperating revenues and expenses as discussed earlier.

BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2004 was prepared on a modified accrual basis. Actual expenditures were lower than the budget by approximately \$1,697,000 due to a delay in the timing of certain expenditures.

Pocahontas Community Hospital
Management Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2003, the Hospital had \$2,277,648 invested in capital assets, net of accumulated depreciation. In 2004, the Hospital purchased new equipment costing \$318,855, and completed phase I of the current building project and several previous projects costing a total of \$1,673,866. The Hospital had \$4,082,183 invested in capital assets net of accumulated depreciation at the end of 2004.

With phase II of the current building project scheduled for completion in late October 2004, the Board of Trustees is completing a study for the implementation of phase III of this project.

Debt:

At year-end, the Hospital had \$500,000 in debt outstanding. This is a portion of a \$2,000,000 promissory note signed by the City of Pocahontas on behalf of the Hospital for financing the current building project. The Hospital plans to draw on the remaining \$1,500,000 in fiscal year 2005.

OTHER ECONOMIC FACTORS

Two of the area's manufacturing plants closed in last two years. Hydraulic Technologies ceased operations at the Pocahontas plant in May 2003. E.R. Buske Manufacturing closed its plant in Pocahontas in October 2003.

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 Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7th St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Balance Sheets
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 1,627,693	\$ 1,446,785
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$533,000 in 2004, \$542,000 in 2003)	521,843	414,755
Other receivables	4,640	6,131
Inventory	108,741	154,488
Prepaid expense	64,309	72,895
Internally designated assets	<u>65,570</u>	<u>170,160</u>
Total current assets	2,392,796	2,265,214
Designated and Restricted Assets:		
Internally designated assets	698,307	2,593,548
Restricted assets	<u>277,160</u>	<u>79,848</u>
	975,467	2,673,396
Less amounts required to meet current liabilities	<u>65,570</u>	<u>170,160</u>
	909,897	2,503,236
Property and Equipment, Net	3,450,819	1,753,737
Construction in Progress	<u>1,131,365</u>	<u>523,911</u>
Total assets	<u>\$ 7,884,877</u>	<u>\$ 7,046,098</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 34,009	\$ --
Accounts payable	238,765	525,377
Accrued employee compensation	162,459	160,085
Other accrued expenses	42,093	29,208
Estimated third-party payor settlements	<u>538,000</u>	<u>430,000</u>
Total current liabilities	1,015,326	1,144,670
Long-Term Debt, less current maturities	<u>465,991</u>	<u>--</u>
Total liabilities	1,481,317	1,144,670
Net Assets:		
Invested in capital assets	4,082,183	2,277,648
Restricted - expendable	277,160	79,848
Unrestricted	<u>2,044,217</u>	<u>3,543,932</u>
	<u>6,403,560</u>	<u>5,901,428</u>
Total liabilities and net assets	<u>\$ 7,884,877</u>	<u>\$ 7,046,098</u>

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Revenue:		
Net patient service revenue	\$ 5,185,213	\$ 5,104,884
Other revenue	<u>75,277</u>	<u>54,260</u>
Total revenue	5,260,490	5,159,144
Expenses:		
Nursing service	1,399,656	1,291,241
Other professional service	2,045,836	1,824,218
General service	398,005	331,301
Fiscal and administrative service	980,961	939,994
Provision for depreciation	<u>281,590</u>	<u>235,601</u>
Total expenses	<u>5,106,048</u>	<u>4,622,355</u>
Operating Income	154,442	536,789
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	56,160	17,897
Investment income	66,264	113,098
Ambulance subsidy	5,020	12,549
Clinic operations, net	(375)	(356)
Gain on disposal of equipment	<u>1,427</u>	<u>--</u>
Non-operating revenues, net	<u>128,496</u>	<u>143,188</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	282,938	679,977
Capital Grants and Contributions	<u>219,194</u>	<u>63,004</u>
Increase in Net Assets	502,132	742,981
Net Assets Beginning of Year	<u>5,901,428</u>	<u>5,158,447</u>
Net Assets End of Year	<u>\$ 6,403,560</u>	<u>\$ 5,901,428</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Statements of Cash Flows
Year ended June 30,

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 5,187,616	\$ 5,376,499
Cash paid to suppliers	(2,923,479)	(2,571,751)
Cash paid to employees	(1,979,400)	(1,822,999)
Other operating revenue	75,277	54,260
Net cash provided by operating activities	360,014	1,036,009
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	56,160	2,897
Ambulance subsidy	5,020	12,549
Net cash provided by non-capital financing activities	61,180	15,446
Cash flows from capital and related financing activities:		
Capital expenditures	(2,728,898)	(730,113)
Proceeds from long-term debt	500,000	--
Capital grants and contributions	154,194	78,004
Proceeds from disposal of equipment	5,600	--
Net cash used in capital and related financing activities	(2,069,104)	(652,109)
Cash flows from investing activities:		
(Increase) decrease in designated and restricted assets	1,896,895	(175,802)
Investment income	66,264	113,098
Clinic operations, net	(375)	(356)
Net cash provided by (used in) investing activities	1,962,784	(63,060)
Net increase in cash and cash equivalents	314,874	336,286
Cash and cash equivalents beginning of year	1,627,684	1,291,398
Cash and cash equivalents end of year	\$ 1,942,558	\$ 1,627,684
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,627,693	\$ 1,446,785
Cash and cash equivalents in designated and restricted assets	314,865	180,899
Total cash and cash equivalents	\$ 1,942,558	\$ 1,627,684

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL
Consolidated Statements of Cash Flows - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 154,442	\$ 536,789
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	281,590	235,601
Provision for bad debts	182,944	135,557
Change in assets and liabilities		
Accounts receivable	(288,541)	(33,942)
Inventory	45,747	(49,190)
Prepaid expense	8,586	(32,395)
Accounts payable	(148,013)	25,449
Accrued employee compensation	2,374	20,909
Other accrued expenses	12,885	27,231
Estimated third-party payor settlements	<u>108,000</u>	<u>170,000</u>
Total adjustments	<u>205,572</u>	<u>499,220</u>
Net cash provided by operating activities	<u>\$ 360,014</u>	<u>\$ 1,036,009</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has 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 criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Hospital Foundation (Foundation) has been identified as a component unit of the Hospital, and accordingly, the assets, liabilities, and activities of the Foundation have been consolidated with those of the Hospital in their financial statements. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives.

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized \$4,099 of interest costs in 2004 and did not incur any interest costs in 2003.

9. Compensated Absences

Hospital employees earn vacation days at varying rates depending on years of service. Vacation time accumulates to a maximum of 120 hours. Any excess over 120 hours accumulated by the employee's anniversary date is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if employment is ended.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing 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 non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. 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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

12. Grants and Contributions

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

13. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

14. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

15. 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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

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 and Medicaid - Inpatient acute services, inpatient nonacute services, certain outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Ambulance	\$ --	\$ 500
Building	207,026	28,018
Cardiac rehabilitation	10,300	15,000
Hospice services	57,924	36,330
Foundation discretionary	<u>1,910</u>	<u>--</u>
Total restricted expendable net assets	<u>\$ 277,160</u>	<u>\$ 79,848</u>

Restricted nonexpendable net assets represent the principal amounts of permanent endowments, restricted to investment in perpetuity. The Hospital had no permanent endowments as of June 30, 2004 and 2003.

NOTE D - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2004</u>	<u>2003</u>
Purpose of Restrictions Accomplished:		
Ambulance	\$ 500	\$ --
Hospice uncompensated care	2,575	--
Cardiac rehabilitation	<u>4,700</u>	<u>--</u>
	<u>\$ 7,775</u>	<u>\$ --</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE E - DESIGNATED NET ASSETS

Of the \$2,044,217 (\$3,543,932 as of June 30, 2003) of unrestricted net assets as of June 30, 2004, \$698,307 (\$2,593,548 for 2003) has been designated by the Hospital's Board of Trustees for capital acquisitions. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

NOTE F - DEPOSITS AND INVESTMENTS

The Hospital's deposits 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 ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

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

The composition of designated and restricted assets is as follows:

	2004	2003
Internally Designated Assets:		
Capital Improvements:		
Cash and cash equivalents	\$ 102,705	\$ 101,051
Certificates of deposit	320,303	2,162,999
Interest receivable	1,220	16,448
Endowments:		
Certificates of deposit	273,051	310,169
Interest receivable	1,028	2,881
	\$ 698,307	\$ 2,593,548
Restricted Assets:		
Cash	\$ 212,160	\$ 79,848
Pledges receivable, net	65,000	--
	\$ 277,160	\$ 79,848

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2004 and 2003, was as follows:

	2004	2003
Receivable From:		
Patients	\$ 206,945	\$ 208,768
Medicare	514,013	414,247
Medicaid	79,831	60,499
Blue Cross	126,400	124,389
Principal Mutual	13,789	8,737
Others	113,865	140,115
	1,054,843	956,755
Less allowances for doubtful accounts and contractual adjustments	533,000	542,000
	\$ 521,843	\$ 414,755

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2004 and 2003 were as follows:

<u>Cost</u>	<u>Balance</u> 2003	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 2004
Land	\$ 12,500	\$ --	\$ --	\$ 12,500
Land Improvements	95,440	35,804	--	131,244
Buildings	1,741,025	1,638,062	--	3,379,087
Fixed Equipment	501,412	4,873	--	506,285
Major Movable Equipment	2,115,220	313,982	177,076	2,252,126
	4,465,597	1,992,721	177,076	6,281,242
 <u>Depreciation</u>				
Land Improvements	63,314	11,576	--	74,890
Buildings	1,160,534	65,108	--	1,225,642
Fixed Equipment	135,829	28,990	--	164,819
Major Movable Equipment	1,352,183	175,916	163,027	1,365,072
Total Depreciation	2,711,860	281,590	163,027	2,830,423
Property and Equipment, Net	\$ 1,753,737	\$1,711,131	\$ 14,049	\$ 3,450,819
Construction in Progress	\$ 523,911	\$2,238,334	\$1,630,880	\$ 1,131,365

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance</u> <u>2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2003</u>
Land	\$ 12,500	\$ --	\$ --	\$ 12,500
Land Improvements	95,440	--	--	95,440
Buildings	1,741,025	--	--	1,741,025
Fixed Equipment	423,942	77,470	--	501,412
Major Movable Equipment	<u>1,847,545</u>	<u>326,637</u>	<u>58,962</u>	<u>2,115,220</u>
	4,120,452	404,107	58,962	4,465,597
 <u>Depreciation</u>				
Land Improvements	55,560	7,754	--	63,314
Buildings	1,108,121	52,413	--	1,160,534
Fixed Equipment	108,599	27,230	--	135,829
Major Movable Equipment	<u>1,262,941</u>	<u>148,204</u>	<u>58,962</u>	<u>1,352,183</u>
Total Depreciation	<u>2,535,221</u>	<u>235,601</u>	<u>58,962</u>	<u>2,711,860</u>
Property and Equipment, Net	<u>\$ 1,585,231</u>	<u>\$ 168,506</u>	<u>\$ --</u>	<u>\$ 1,753,737</u>
Construction in Progress	<u>\$ 42,264</u>	<u>\$ 551,969</u>	<u>\$ 70,322</u>	<u>\$ 523,911</u>

NOTE I - LONG-TERM DEBT

A schedule of long-term debt for the year ended June 30, 2004 follows:

	<u>Balance</u> <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>2004</u>	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Note Payable	<u>\$ --</u>	<u>\$ 500,000</u>	<u>\$ --</u>	<u>\$ 500,000</u>	<u>\$ 34,009</u>

No debt had been incurred as of June 30, 2003.

In September of 2003, the City of Pocahontas incurred a promissory note payable to a local bank, for up to \$2,000,000. This made funds available to be drawn from the bank as the construction program progresses. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments, therefore, as the funds are drawn, the liability is being recorded as a liability of the Hospital's financial statements. The Hospital drew \$500,000 of the available funds in April of 2004. Under current terms of the note, monthly interest payments are due through September, 2004. Combined principal and interest payments will be made beginning in October of 2004 and ending in September, 2013. The interest rate on the note is 4.75%, with an adjustment based on the Wall Street Journal prime rate plus .50% after 5 years. The note is collateralized by all assets and revenues of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE I - LONG-TERM DEBT - Continued

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 34,009	\$ 23,215
2006	47,268	21,114
2007	49,563	18,819
2008	51,969	16,413
2009	54,492	13,890
2010-2014	262,699	21,990
	<u>\$ 500,000</u>	<u>\$ 115,441</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

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, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

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 approximately \$113,700, \$105,600, and \$94,600, respectively, equal to the required contributions for each year.

NOTE K - COMMITMENTS AND CONTINGENCIES

Construction and Remodeling

The Hospital began a three phase facility renovation plan in April, 2003. Phase I, which was completed in April, 2004, included costs of approximately \$1,600,000. Phase II, which will be completed in late 2004, includes costs of approximately \$1,450,000 of which \$1,131,000 had been expended at June 30, 2004. It is planned that a Phase III will be started in late 2004 with an estimated cost of approximately \$2,900,000. As of the date of this report the Hospital had not committed to proceeding with Phase III. The funds for the entire three phase project are being provided through a combination of funds generated internally, a fund raising campaign, and debt, as needed.

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year through 2014. This rented space is currently used for specialty clinic reception and for the home health/hospice offices.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Agreement with Donor

During 1999, the Hospital received a \$100,000 donation restricted for the purchase of equipment and properly expended the funds. During 2000, the Hospital received a request from the donor to consider the \$100,000 as a non-callable, non-interest bearing, note payable which will be forgiven after ten years. Hospital management agreed to the treatment, however, since the note will be forgiven, no liability has been recorded on these financial statements.

NOTE L - BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2004 (Hospital only, excluding Foundation).

	Total Per Hospital Statements	Budget	Amount Under Budget
Expenses	\$ 5,102,658	\$ 6,800,000	\$ 1,697,342

NOTE M - NON-CASH TRANSACTIONS

The cash transactions of the Hospital are presented on the consolidated statements of cash flows. The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities:

	2004	2003
Book value of assets traded	\$ 9,876	\$ --

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2004 and 2003

NOTE N - ACCOUNTING CHANGES

During the year ended June 30, 2004, the Hospital completed the implementation of Government Accounting Standards Board (GASB) Statements No. 34, 37, 38, and 39. As a result, certain items on the consolidated balance sheets and statements of revenues, expenses, and changes in net assets for the year ended June 30, 2004 have been reclassified to be comparable to the amounts reported in the new 2004 format. In addition, as a result of GASB Statement No. 39, the Pocahontas Community Hospital Foundation was identified as a component unit, to be consolidated with the financial statements of the Hospital. Therefore, the 2003 financial statements have been restated to include the assets, liabilities, net assets, and activities of the Foundation. The other reclassifications had no effect on total net assets or the total change in net assets for 2003.

* * *

ACCOMPANYING INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2004

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets:				
Cash	\$ 1,627,693	\$ --	\$ --	\$ 1,627,693
Patient receivables, net	521,843	--	--	521,843
Other receivables	4,640	--	--	4,640
Inventory	108,741	--	--	108,741
Prepaid expense	64,309	--	--	64,309
Internally designated assets	<u>65,570</u>	<u>--</u>	<u>--</u>	<u>65,570</u>
Total Current Assets	2,392,796	--	--	2,392,796
Designated and Restricted Assets:				
Internally designated assets	698,307	--	--	698,307
Restricted assets	25,300	277,160	(25,300)	277,160
Current portion	<u>(65,570)</u>	<u>--</u>	<u>--</u>	<u>(65,570)</u>
	658,037	277,160	(25,300)	909,897
Property and Equipment, Net	3,450,819	--	--	3,450,819
Construction in Progress	<u>1,131,365</u>	<u>--</u>	<u>--</u>	<u>1,131,365</u>
Total Assets	<u>\$ 7,633,017</u>	<u>\$ 277,160</u>	<u>\$(25,300)</u>	<u>\$ 7,884,877</u>

LIABILITIES AND NET ASSETS

Current Liabilities:				
Current maturities of long-term debt	\$ 34,009	\$ --	\$ --	\$ 34,009
Accounts payable	238,765	25,300	(25,300)	238,765
Accrued employee compensation	162,459	--	--	162,459
Other accrued expenses	42,093	--	--	42,093
Estimated third-party payor settlement	<u>538,000</u>	<u>--</u>	<u>--</u>	<u>538,000</u>
Total Current Liabilities	1,015,326	25,300	(25,300)	1,015,326
Long-Term Debt, less current maturities	465,991	--	--	465,991
Net Assets:				
Invested in capital assets	4,082,183	--	--	4,082,183
Restricted - expendable	25,300	251,860	--	277,160
Unrestricted	<u>2,044,217</u>	<u>--</u>	<u>--</u>	<u>2,044,217</u>
Total Liabilities and Net Assets	<u>\$ 7,633,017</u>	<u>\$ 277,160</u>	<u>\$(25,300)</u>	<u>\$ 7,884,877</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2003

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets:				
Cash	\$ 1,446,785	\$ --	\$ --	\$ 1,446,785
Patient receivables, net	414,755	--	--	414,755
Other receivables	6,131	--	--	6,131
Inventory	154,488	--	--	154,488
Prepaid expense	72,895	--	--	72,895
Internally designated assets	<u>170,160</u>	<u>--</u>	<u>--</u>	<u>170,160</u>
Total Current Assets	2,265,214	--	--	2,265,214
Designated and Restricted Assets:				
Internally designated assets	2,593,548	--	--	2,593,548
Restricted assets	30,000	79,848	(30,000)	79,848
Current portion	<u>(170,160)</u>	<u>--</u>	<u>--</u>	<u>(170,160)</u>
	2,453,388	79,848	(30,000)	2,503,236
Property and Equipment, Net	1,753,737	--	--	1,753,737
Construction in Progress	<u>523,911</u>	<u>--</u>	<u>--</u>	<u>523,911</u>
Total Assets	<u>\$ 6,996,250</u>	<u>\$ 79,848</u>	<u>\$(30,000)</u>	<u>\$ 7,046,098</u>

LIABILITIES AND NET ASSETS

Current Liabilities:				
Current maturities of long-term debt	\$ --	\$ --	\$ --	\$ --
Accounts payable	525,377	30,000	(30,000)	525,377
Accrued employee compensation	160,085	--	--	160,085
Other accrued expenses	29,208	--	--	29,208
Estimated third-party payor settlement	<u>430,000</u>	<u>--</u>	<u>--</u>	<u>430,000</u>
Total Current Liabilities	1,144,670	30,000	(30,000)	1,144,670
Long-Term Debt, less current maturities	--	--	--	--
Net Assets:				
Invested in capital assets	2,277,648	--	--	2,277,648
Restricted - expendable	30,000	49,848	--	79,848
Unrestricted	<u>3,543,932</u>	<u>--</u>	<u>--</u>	<u>3,543,932</u>
Total Liabilities and Net Assets	<u>\$ 6,996,250</u>	<u>\$ 79,848</u>	<u>\$(30,000)</u>	<u>\$ 7,046,098</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2004

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Revenue:			
Net patient service revenue	\$ 5,185,213	\$ --	\$ 5,185,213
Other revenue	<u>75,277</u>	<u>--</u>	<u>75,277</u>
Total revenue	5,260,490	--	5,260,490
Expenses:			
Nursing service	1,399,656	--	1,399,656
Other professional service	2,045,836	--	2,045,836
General service	398,005	--	398,005
Fiscal and administrative service	977,571	3,390	980,961
Provision for depreciation	<u>281,590</u>	<u>--</u>	<u>281,590</u>
Total expenses	<u>5,102,658</u>	<u>3,390</u>	<u>5,106,048</u>
Operating Income (Loss)	157,832	(3,390)	154,442
Non-Operating Revenues (Expenses):			
Noncapital gifts, grants, and bequests	56,160	--	56,160
Investment income	63,973	2,291	66,264
Ambulance subsidy	5,020	--	5,020
Clinic operations, net	(375)	--	(375)
Gain on disposal of equipment	<u>1,427</u>	<u>--</u>	<u>1,427</u>
Non-operating revenues, net	<u>126,205</u>	<u>2,291</u>	<u>128,496</u>
Excess of Revenues Over (Under)			
Expenses Before Capital Grants and Contributions	284,037	(1,099)	282,938
Capital Grants and Contributions	<u>16,083</u>	<u>203,111</u>	<u>219,194</u>
Increase in Net Assets	300,120	202,012	502,132
Net Assets Beginning of Year	<u>5,851,580</u>	<u>49,848</u>	<u>5,901,428</u>
Net Assets End of Year	<u>\$ 6,151,700</u>	<u>\$ 251,860</u>	<u>\$ 6,403,560</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2003

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Revenue:			
Net patient service revenue	\$ 5,104,884	\$ --	\$ 5,104,884
Other revenue	<u>54,260</u>	<u>--</u>	<u>54,260</u>
Total revenue	5,159,144	--	5,159,144
Expenses:			
Nursing service	1,291,241	--	1,291,241
Other professional service	1,824,218	--	1,824,218
General service	331,301	--	331,301
Fiscal and administrative service	938,858	1,136	939,994
Provision for depreciation	<u>235,601</u>	<u>--</u>	<u>235,601</u>
Total expenses	<u>4,621,219</u>	<u>1,136</u>	<u>4,622,355</u>
Operating Income (Loss)	537,925	(1,136)	536,789
Non-Operating Revenues (Expenses):			
Noncapital gifts, grants, and bequests	17,897	--	17,897
Investment income	112,618	480	113,098
Ambulance subsidy	12,549	--	12,549
Clinic operations, net	(356)	--	(356)
Gain on disposal of equipment	<u>--</u>	<u>--</u>	<u>--</u>
Non-operating revenues, net	<u>142,708</u>	<u>480</u>	<u>143,188</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	680,633	(656)	679,977
Capital Grants and Contributions	<u>15,000</u>	<u>48,004</u>	<u>63,004</u>
Increase in Net Assets	695,633	47,348	742,981
Net Assets Beginning of Year	<u>5,155,947</u>	<u>2,500</u>	<u>5,158,447</u>
Net Assets End of Year	<u>\$ 5,851,580</u>	<u>\$ 49,848</u>	<u>\$ 5,901,428</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 544,750	51.6%	\$ 483,534	50.5%
31 - 90	260,314	24.7	264,291	27.6
91 - 150	94,704	9.0	88,039	9.2
151 - 365	146,462	13.9	118,108	12.3
366 and over	<u>8,613</u>	<u>.8</u>	<u>2,783</u>	<u>.4</u>
	<u>1,054,843</u>	<u>100.0%</u>	<u>956,755</u>	<u>100.0%</u>
Allowance for doubtful accounts	98,000		92,000	
Allowance for contractual adjustments	<u>435,000</u>		<u>450,000</u>	
	<u>\$ 521,843</u>		<u>\$ 414,755</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 92,000	\$ 64,867
Provision for bad debts	182,944	135,557
Recoveries of accounts previously written off	<u>42,097</u>	<u>54,766</u>
	317,041	255,190
Accounts written off	<u>219,041</u>	<u>163,190</u>
Balance, ending	<u>\$ 98,000</u>	<u>\$ 92,000</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2004	2003
<u>Inventory</u>		
Medical and surgical	\$ 38,565	\$ 45,117
Pharmacy	49,093	49,008
Laboratory and radiology	21,083	60,363
	\$ 108,741	\$ 154,488
 <u>Prepaid Expense</u>		
Insurance	\$ 39,852	\$ 29,973
Service contracts	24,457	42,922
	\$ 64,309	\$ 72,895

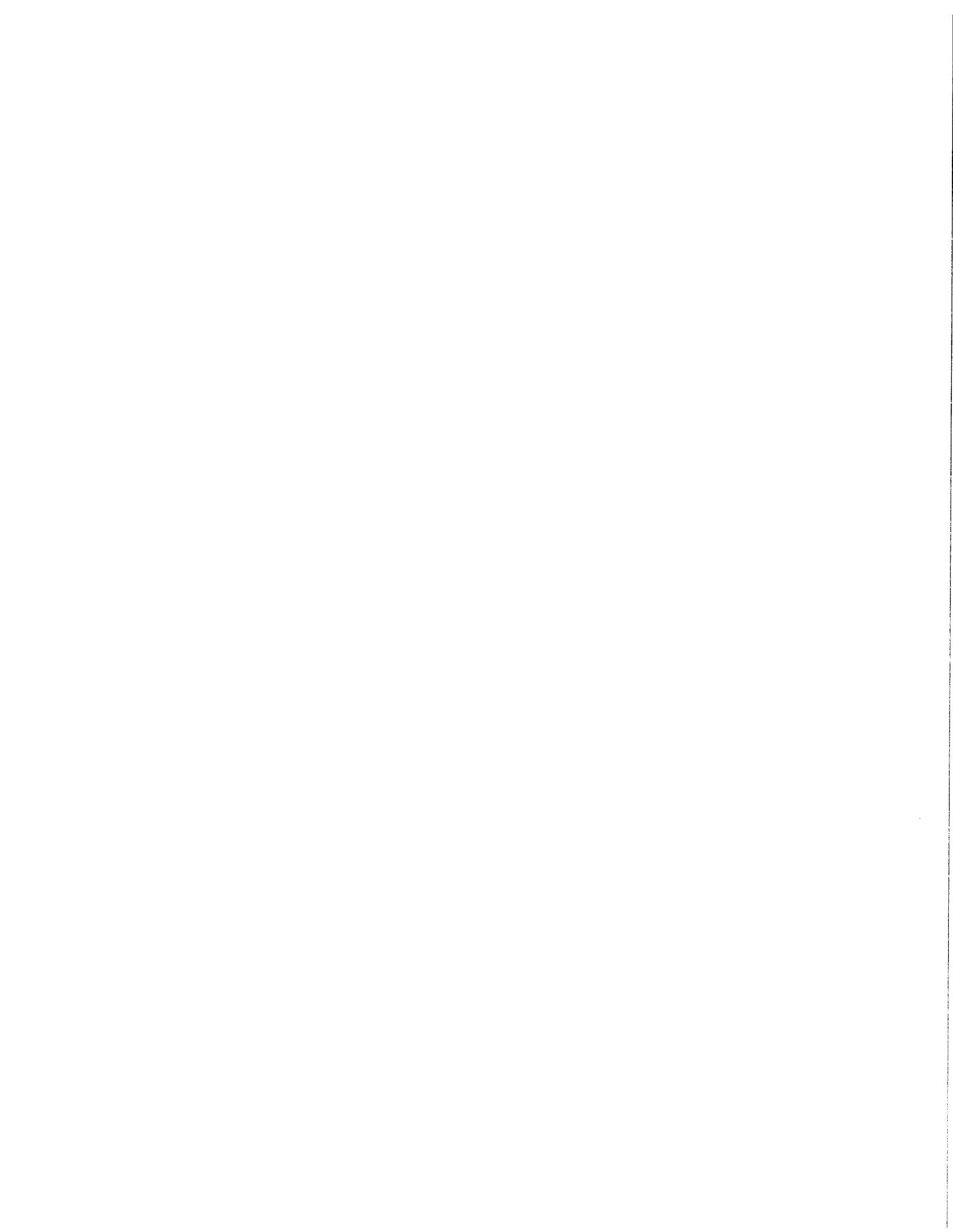
See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2004		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 301,825	\$ --	\$ --
Swing bed	--	--	138,820
CCU and ICU	--	--	--
	<u>301,825</u>	<u>--</u>	<u>138,820</u>
Other Nursing Services:			
Operating and recovery rooms	40,870	539,550	1,270
Emergency service	16,951	147,302	10
Central services and supply	93,726	211,413	30,613
Intravenous therapy	11,917	12,111	2,009
Observation	--	53,476	--
	<u>163,464</u>	<u>963,852</u>	<u>33,902</u>
Other Professional Services:			
Emergency room physician	--	95,707	--
Anesthesiology	14,552	184,904	900
Laboratory	166,506	1,315,916	28,391
Radiology	86,672	1,139,444	13,594
Blood administration	14,290	22,678	1,000
Pharmacy	132,141	186,043	65,560
Chemotherapy	2,730	216,397	515
Electrocardiology	17,632	163,582	1,482
Physical therapy	8,210	200,672	31,040
Speech therapy	--	5,000	--
Occupational therapy	2,375	40,597	12,230
Cardiac rehabilitation	--	88,395	--
Ambulance services	--	135,742	--
Industrial Health	30,625	--	--
Home Health Care	--	146,776	--
Hospice	--	415,568	--
Clinic services	561	43,185	33
	<u>476,294</u>	<u>4,400,606</u>	<u>154,745</u>
	<u>\$ 941,583</u>	<u>\$ 5,364,458</u>	<u>\$ 327,467</u>

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>
<u>Total</u>	<u>Total</u>
\$ 301,825	\$ 304,025
138,820	149,760
--	1,200
440,645	454,985
581,690	637,704
164,263	171,564
335,752	331,318
26,037	30,062
53,476	52,975
1,161,218	1,223,623
95,707	96,349
200,356	200,999
1,510,813	1,304,816
1,239,710	1,273,521
37,968	85,290
383,744	403,044
219,642	221,504
182,696	150,399
239,922	220,305
5,000	10,105
55,202	33,659
88,395	86,000
135,742	127,749
30,625	21,005
146,776	143,710
415,568	401,366
43,779	39,192
5,031,645	4,819,013
\$ 6,633,508	\$ 6,497,621



POCAHONTAS COMMUNITY HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	2004	2003
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 6,633,508	\$ 6,497,621
Contractual adjustments	(1,265,351)	(1,255,056)
Provision for bad debts	(182,944)	(135,557)
Charity care	--	(2,124)
	<u>\$ 5,185,213</u>	<u>\$ 5,104,884</u>
 <u>Other Revenue</u>		
Meals sold	\$ 23,559	\$ 17,838
Histories	13,876	1,631
Lifeline	6,868	1,021
Sale of x-ray film	20	50
Rebates and refunds	533	702
Rent income	28,874	28,928
Miscellaneous	1,547	4,090
	<u>\$ 75,277</u>	<u>\$ 54,260</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2004		
	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Supplies and Other Expenses</u>
<u>Daily Patient Services</u>			
Nursing administration	\$ 56,283	\$ --	\$ --
Medical and surgical	535,593	--	60,249
	<u>591,876</u>	<u>--</u>	<u>60,249</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	80,263	--	39,973
Central services and supply	13,270	--	145,931
Emergency service	55,113	--	4,021
	<u>148,646</u>	<u>--</u>	<u>189,925</u>
<u>Other Professional Services</u>			
Laboratory	159,606	--	174,591
Blood administration	--	--	12,525
Electrocardiology	--	--	--
Radiology	147,788	--	93,653
Cardiac rehabilitation	79,720	--	4,576
Pharmacy	462	--	159,025
Chemotherapy	8,321	--	78,603
Anesthesiology	--	--	--
Ambulance services	59,570	--	12,592
Physical therapy	25,345	--	2,821
Speech therapy	--	--	--
Occupational therapy	--	--	877
Industrial Health	23,442	--	3,355
Home Health Care	147,040	--	19,967
Medical records	68,005	--	15,422
Hospice	82,746	--	115,315
	<u>802,045</u>	<u>--</u>	<u>693,322</u>
<u>General Services</u>			
Dietary	88,628	--	53,654
Plant operations	78,624	--	105,350
Housekeeping	36,457	--	12,937
Laundry and linen	--	--	17,850
	<u>203,709</u>	<u>--</u>	<u>189,791</u>
<u>Fiscal and Administrative Services</u>	235,498	474,747	190,667
<u>Provision for Depreciation</u>	<u>--</u>	<u>--</u>	<u>281,590</u>
Total all departments	<u>\$ 1,981,774</u>	<u>\$ 474,747</u>	<u>\$ 1,605,544</u>

See Independent Auditor's Report.

<u>2004</u>			
<u>Professional Fees</u>	<u>Total</u>	<u>2003 Total</u>	
\$ --	\$ 56,283	\$ 51,459	
--	<u>595,842</u>	<u>574,248</u>	
--	652,125	625,707	
--	120,236	121,016	
--	159,201	168,917	
<u>408,960</u>	<u>468,094</u>	<u>375,601</u>	
408,960	747,531	665,534	
57,121	391,318	291,188	
--	12,525	20,296	
13,510	13,510	12,635	
186,310	427,751	398,992	
--	84,296	71,285	
26,095	185,582	178,331	
--	86,924	105,575	
110,348	110,348	99,922	
--	72,162	60,321	
121,156	149,322	137,692	
2,790	2,790	5,890	
33,139	34,016	23,270	
--	26,797	24,280	
--	167,007	151,481	
--	83,427	72,986	
--	<u>198,061</u>	<u>170,074</u>	
<u>550,469</u>	<u>2,045,836</u>	<u>1,824,218</u>	
4,505	146,787	119,041	
--	183,974	153,810	
--	49,394	39,832	
--	<u>17,850</u>	<u>18,618</u>	
<u>4,505</u>	<u>398,005</u>	<u>331,301</u>	
80,049	980,961	939,994	
--	<u>281,590</u>	<u>235,601</u>	
<u>\$ 1,043,983</u>	<u>\$ 5,106,048</u>	<u>\$ 4,622,355</u>	

POCAHONTAS COMMUNITY HOSPITAL
 Fiscal and Administrative Service Expenses
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Fiscal and Administrative:		
Salaries and wages	\$ 235,498	\$ 252,071
Employee benefits	1,067	--
Professional fees	80,049	52,265
Dues	6,189	5,566
Telephone	12,632	12,143
Supplies and other expense	<u>118,189</u>	<u>137,062</u>
	453,624	459,107
Employee Welfare:		
Payroll taxes	259,298	240,726
Group health insurance	<u>214,382</u>	<u>198,928</u>
	473,680	439,654
Insurance:		
Liability and property insurance	50,267	40,097
Foundation Expenditures:		
Supplies and other expense	<u>3,390</u>	<u>1,136</u>
	<u>\$ 980,961</u>	<u>\$ 939,994</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Acute Care:					
Admissions	242	241	197	162	182
Discharges	247	237	195	164	183
Patient Days	760	781	586	512	614
Average Length of Stay	3.1	3.3	3.0	3.1	3.4
Average Occupied Beds	2.1	2.1	1.6	1.4	1.7
Swing Bed:					
Admissions	81	84	89	93	90
Discharges	83	85	87	95	87
SNF Days	589	535	560	536	464
ICF Days	47	216	452	515	969
Combined Average Occupied Beds	3.8	4.2	4.4	4.3	5.6
Outpatient Occasions of Service	23,299	25,304	26,887	26,326	25,317
Home Healthcare Visits	2,224	2,288	2,137	2,596	2,967

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 1,627,693	\$ 1,446,785
Receivables	526,483	420,886
Inventory	108,741	154,488
Prepaid expense	64,309	72,895
Internally designated assets	<u>65,570</u>	<u>170,160</u>
Total current assets	2,392,796	2,265,214
Other Assets:		
Designated and restricted assets	909,897	2,503,236
Property and equipment, net	3,450,819	1,753,737
Construction in progress	<u>1,131,365</u>	<u>523,911</u>
	<u>5,492,081</u>	<u>4,780,884</u>
Total assets	<u>\$ 7,884,877</u>	<u>\$ 7,046,098</u>
Current Liabilities:		
Current maturities	\$ 34,009	\$ --
Accounts payable	238,765	525,377
Accrued expenses	204,552	189,293
Estimated third party payor settlements	<u>538,000</u>	<u>430,000</u>
Total current liabilities	1,015,326	1,144,670
Long-Term Debt, Net	<u>465,991</u>	<u>--</u>
Total liabilities	1,481,317	1,144,670
Net Assets	<u>6,403,560</u>	<u>5,901,428</u>
Total liabilities and net assets	<u>\$ 7,884,877</u>	<u>\$ 7,046,098</u>

* Excludes amounts from Foundation which were first consolidated for 2003.

See Independent Auditor's Report.

<u>2002*</u>	<u>2001*</u>	<u>2000*</u>
\$ 1,133,529	\$ 350,509	\$ 243,512
522,501	599,136	510,595
105,298	94,443	69,627
40,500	37,317	24,758
14,519	--	--
<u>1,816,347</u>	<u>1,081,405</u>	<u>848,492</u>
2,457,545	1,872,906	1,579,643
1,585,231	1,426,677	1,263,981
42,264	36,269	37,684
<u>4,085,040</u>	<u>3,335,852</u>	<u>2,881,308</u>
<u>\$ 5,901,387</u>	<u>\$ 4,417,257</u>	<u>\$ 3,729,800</u>
\$ --	\$ --	\$ --
344,287	251,360	175,332
141,153	140,190	141,883
260,000	64,000	72,000
<u>745,440</u>	<u>455,550</u>	<u>389,215</u>
--	--	--
<u>745,440</u>	<u>455,550</u>	<u>389,215</u>
<u>5,155,947</u>	<u>3,961,707</u>	<u>3,340,585</u>
<u>\$ 5,901,387</u>	<u>\$ 4,417,257</u>	<u>\$ 3,729,800</u>

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Patient Service Revenue	\$ 6,633,508	\$ 6,497,621
Adjustments to Patient Service Revenue	<u>(1,448,295)</u>	<u>(1,392,737)</u>
Net Patient Service Revenue	5,185,213	5,104,884
Other Revenue	<u>75,277</u>	<u>54,260</u>
Total Revenue	5,260,490	5,159,144
Expenses	<u>5,106,048</u>	<u>4,622,355</u>
Operating Income (Loss)	154,442	536,789
Non-Operating Revenues, Net	<u>128,496</u>	<u>143,188</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	282,938	679,977
Capital Grants and Contributions	<u>219,194</u>	<u>63,004</u>
Increase in Net Assets	<u>\$ 502,132</u>	<u>\$ 742,981</u>

* Excludes amounts from Foundation which were first consolidated for 2003.

See Independent Auditor's Report.

<u>2002*</u>	<u>2001*</u>	<u>2000*</u>
\$ 5,818,931	\$ 5,119,223	\$ 4,400,749
<u>(1,344,644)</u>	<u>(1,186,234)</u>	<u>(1,165,292)</u>
4,474,287	3,932,989	3,235,457
<u>62,145</u>	<u>57,021</u>	<u>60,995</u>
4,536,432	3,990,010	3,296,452
<u>4,129,096</u>	<u>3,604,058</u>	<u>3,338,774</u>
407,336	385,952	(42,322)
<u>751,404</u>	<u>210,788</u>	<u>121,614</u>
1,158,740	596,740	79,292
<u>35,500</u>	<u>24,382</u>	<u>6,625</u>
<u>\$ 1,194,240</u>	<u>\$ 621,122</u>	<u>\$ 85,917</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees of
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited the consolidated financial statements of Pocahontas Community Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated July 23, 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

As part of obtaining reasonable assurance about whether Pocahontas Community Hospital consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

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 consolidated 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 comments have been resolved except for item 04-II-B.

To the Board of Trustees of
Pocahontas Community Hospital

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Community Hospital internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Pocahontas Community Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the consolidated financial statements. Reportable conditions are 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 in amounts that would be material in relation to the consolidated 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. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of Pocahontas Community 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.

Gronewald, Bell, Kylvn + Co. P.C.
Atlantic, Iowa
July 23, 2004

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2004

PART I - REPORTABLE CONDITIONS

04-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

04-II-A Official Depositories: A resolution naming official depositories has been adopted by the City of Pocahontas.

04-II-B Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The City officials informed the Hospital that the Hospital budget would not be included in the City's official filed budget. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2004.

Recommendation: We recommend that the Hospital continue to file its summary budget with the City of Pocahontas by February and retain documentation that it has done so.

Response: We will continue to meet our obligation of filing our original budget with the City in future years.

Conclusion: Response accepted.

POCAHONTAS COMMUNITY HOSPITAL
 Schedule of Findings - Continued
 Year ended June 30, 2004

PART II - REQUIRED STATUTORY REPORTING - Continued

04-II-C Questionable Expenditures: During the audit, we noted certain expenditures approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated March 12, 1975. The expenses were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Pocahontas Golf Club	Employee recognition dinner	\$ 100
Palmer House	Employee recognition dinner	1,265

Recommendation: We recommend that the Board continue to document the public purpose of such expenditures before authorization is given.

Response: The expenditures are considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

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

04-II-E Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Gustave Holzmueller, City Council Member, Owner of Pocahontas Ford and wife, Bev Holzmueller, Board Member	Miscellaneous	\$ 1,707
George Tuttle - Mayor of City and Information Technology employee of Hospital	Wages	9,484

The transactions with Pocahontas Ford do not appear to represent conflicts of interest since the total does not exceed \$2,500.

The wages paid to George Tuttle do not appear to be a conflict of interest because he has several part time positions including Mayor of the City and Hospital employee. Mr. Tuttle is not a member of the Board of Trustees which makes Hospital operating decisions.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2004

PART II - REQUIRED STATUTORY REPORTING - Continued

04-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not. However, at several times during the year, the Hospital Board went into closed session. For each closed session, the Hospital is required to document in Board minutes, the reason for the session. Chapter 21.5 of the Iowa Code provides a list of situations for which closed sessions are allowed. For most of the closed sessions, an appropriate reason was not documented.

Recommendation: We recommend that, in the future, the Board assure that a reason (listed in Chapter 21.5 of the Iowa Code) be documented, prior to going into any closed session.

Response: We will assure that proper reasons will be documented before going into closed sessions in the future.

Conclusion: Response accepted.

04-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *