POCAHONTAS COMMUNITY HOSPITAL

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

YEARS ENDED JUNE 30, 2005 AND 2004

POCAHONTAS COMMUNITY HOSPITAL

CONTENTS

	Page
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Consolidated Balance Sheets	5
Consolidated Statements of Revenues, Expenses and Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	18
ACCOMPANYING INFORMATION:	
Consolidating Schedules:	
Consolidating balance sheets	19
Consolidating statements of revenues, expenses and changes in net assets	21
Schedules Supporting Balance Sheets:	
Patient receivables	23
Inventory/Prepaid expense	24
Schedules Supporting Statements of Revenues and Expenses:	
Patient service revenue	25
Revenue and related adjustments	26
Schedule of expenses	27
Fiscal and administrative service expenses	28
Comparative Statistics	29
Comparative Balance Sheets	30
Comparative Statements of Revenues and Expenses	31
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	32
Schedule of Findings	34

POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2005

Name	Title	Term Expires
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	December, 2005
Rod Stoulil	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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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, 2005 and 2004, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years 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 July 21, 2005 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, contracts, and grant agreements and other matters. The purpose of that 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 4d and the budgetary comparison schedule on page 18 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.

To the Board of Trustees
Pocahontas Community Hospital

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, 2003 (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.

Gronewold, Bell, Kyhnn & Co. P.C.
Atlantic, Iowa
July 21, 2005

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, 2005 and 2004. 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 $470,914 or 7 percent increase in 2005 and a $502,132 or 9 percent increase in 2004.

The Hospital reported operating income of $340,224 in 2005 and $154,442 in 2004. Nonoperating revenues decreased by $67,846 or 53 percent in 2005 compared to 2004.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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.

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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

	2005	2004	2003
Assets:			
Current assets	$ 1,743,377	$ 2,392,796	$ 2,265,214
Capital assets, net	6,973,519	4,582,184	2,277,648
Other assets, net	399,189	909,897	2,503,236
Total assets	$ 9,116,085	$ 7,884,877	$ 7,046,098
Liabilities:			
Long-term debt, less current maturities	$ 985,092	$ 465,991	$ --
Other current and noncurrent liabilities	1,256,519	1,015,326	1,144,670
Total liabilities	$ 2,241,611	$ 1,481,317	$ 1,144,670
Net Assets:			
Invested in capital assets	$ 5,973,519	$ 4,082,184	$ 2,277,648
Restricted expendable assets	180,876	277,160	79,848
Unrestricted	720,079	2,044,216	3,543,932
Total net assets	$ 6,874,474	$ 6,403,560	$ 5,901,428

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 $670,867 or 13% in 2005.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2005, the Hospital's net assets increased by $470,914 or 7 percent, as shown in Table 2. This represents a decline of 6 percent compared with the increase in net assets of $502,132 for 2004.

Table 2: Operating Results and Changes in Net Assets

	2005	2004	2003
Operating Revenues:			
Net patient service revenues	$ 5,856,080	$ 5,185,213	$ 5,104,884
Other operating revenues	71,269	75,277	54,260
Total operating revenues	5,927,349	5,260,490	5,159,144
Operating Expenses:			
Nursing service	1,478,901	1,399,656	1,291,241
Other professional service	2,128,473	2,045,836	1,824,218
General Service	460,258	398,005	331,301
Fiscal and administrative service	1,043,054	980,961	939,994
Provision for depreciation	476,439	281,590	235,601
Total operating expenses	5,587,125	5,106,048	4,622,355
Operating income	340,224	154,442	536,789
Nonoperating Revenues and Expenses:			
Noncapital gifts, grants and bequests	24,773	56,160	17,897
Investment income	32,421	66,264	113,098
Ambulance subsidy	3,921	5,020	12,549
Clinic operations, net	(350)	(375)	(356)
Gain (loss) on disposal of equipment	(115)	1,427	--
Non-operating revenues, net	60,650	128,496	143,188
Excess of Revenues Over Expenses Before Capital Grants and Contributions	400,874	282,938	679,977
Capital Grants and Contributions	70,040	219,194	63,004
Increase in Net Assets	470,914	502,132	742,981
Net Assets Beginning of Year	6,403,560	5,901,428	5,158,447
Net Assets End of Year	$ 6,874,474	$ 6,403,560	$ 5,901,428

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 increased from $154,442 in 2004 to $340,224 in 2005.

The primary components of this increase in operating incomes are:

An increase in net patient service revenue of 13 percent in 2005 compared to a 2 percent revenue increase in 2004. This increase included an adjustment to Medicare contractual adjustments to reflect the settlement of a prior year cost report.

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 $66,264 in 2004 to $32,421 in 2005. The Hospital used its reserves to fund the current building project, which reduced revenue from investments in 2005. Cuts in the county budget reduced the ambulance subsidy from $5,020 in 2004 to $3,921 in 2005.

GRANTS AND CONTRIBUTIONS

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, 2005 was prepared on a modified accrual basis. Actual expenditures were lower than the budget by approximately $1,421,159 due to a delay in the timing of certain expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2004, the Hospital had $4,082,184 invested in capital assets, net of accumulated depreciation and related debt. In 2005, the Hospital purchased new equipment costing $477,315, completed phase II of the current building project and began phase III, incurring costs of $2,390,574. The Hospital had $5,973,519 invested in capital assets net of accumulated depreciation and related debt at the end of 2005.

Debt:

At year-end, the Hospital had $1,000,000 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 $1,000,000 in fiscal year 2006.

OTHER ECONOMIC FACTORS

Brand FX, a manufacturing company began operations in the former Hydraulic Technologies building in July 2004 with full production at the Pocahontas plant in the fall of 2004.

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

	2005	2004
Current Assets:		
Cash	$ 641,647	$ 1,627,693
Patient receivables, less allowances for doubtful accounts and for contractual adjustments ($648,000 in 2005, $533,000 in 2004)	688,565	521,843
Other receivables	5,303	4,640
Inventory	86,538	108,741
Prepaid expense	49,115	64,309
Internally designated assets	272,209	65,570
Total current assets	1,743,377	2,392,796
Designated and Restricted Assets:		
Internally designated assets	490,522	698,307
Restricted assets	180,876	277,160
	671,398	975,467
Less amounts required to meet current liabilities	272,209	65,570
	399,189	909,897
Capital Assets:		
Depreciable capital assets, net	4,886,882	3,438,319
Non-depreciable capital assets	2,086,637	1,143,865
	6,973,519	4,582,184
Total assets	$ 9,116,085	$ 7,884,877

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2005	2004
Current Liabilities:		
Current maturities of long-term debt	$ 14,908	$ 34,009
Accounts payable	509,090	238,765
Accrued employee compensation	180,458	162,459
Other accrued expenses	32,063	42,093
Estimated third-party payor settlements	520,000	538,000
Total current liabilities	1,256,519	1,015,326
Long-Term Debt, less current maturities	985,092	465,991
Total liabilities	2,241,611	1,481,317
Net Assets:		
Invested in capital assets	5,973,519	4,082,184
Restricted - expendable	180,876	277,160
Unrestricted	720,079	2,044,216
	6,874,474	6,403,560
Total liabilities and net assets	$ 9,116,085	$ 7,884,877

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

	2005	2004
Revenue:		
Net patient service revenue	$ 5,856,080	$ 5,185,213
Other revenue	71,269	75,277
Total revenue	5,927,349	5,260,490
Expenses:		
Nursing service	1,478,901	1,399,656
Other professional service	2,128,473	2,045,836
General service	460,258	398,005
Fiscal and administrative service	1,043,054	980,961
Provision for depreciation	476,439	281,590
Total expenses	5,587,125	5,106,048
Operating Income	340,224	154,442
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	24,773	56,160
Investment income	32,421	66,264
Ambulance subsidy	3,921	5,020
Clinic operations, net	(350)	(375)
Gain (loss) on disposal of equipment	(115)	1,427
Non-operating revenues, net	60,650	128,496
Excess of Revenues Over Expenses Before Capital Grants and Contributions	400,874	282,938
Capital Grants and Contributions	70,040	219,194
Increase in Net Assets	470,914	502,132
Net Assets Beginning of Year	6,403,560	5,901,428
Net Assets End of Year	$ 6,874,474	$ 6,403,560

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 5,670,695	$ 5,187,616
Cash paid to suppliers	(2,996,337)	(2,923,479)
Cash paid to employees	(2,024,398)	(1,979,400)
Other operating revenue	71,269	75,277
Net cash provided by operating activities	721,229	360,014
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	24,773	56,160
Ambulance subsidy	3,921	5,020
Net cash provided by non-capital financing activities	28,694	61,180
Cash flows from capital and related financing activities:		
Capital expenditures	(2,642,149)	(2,728,898)
Proceeds from long-term debt	500,000	500,000
Capital grants and contributions	70,040	154,194
Proceeds from disposal of equipment	--	5,600
Net cash used in capital and related financing activities	(2,072,109)	(2,069,104)
Cash flows from investing activities:		
Decrease in designated and restricted assets	209,286	1,896,895
Investment income	32,421	66,264
Clinic operations, net	(350)	(375)
Net cash provided by investing activities	241,357	1,962,784
Net increase (decrease) in cash and cash equivalents	(1,080,829)	314,874
Cash and cash equivalents beginning of year	1,942,558	1,627,684
Cash and cash equivalents end of year	$ 861,729	$ 1,942,558
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	$ 641,647	$ 1,627,693
Cash and cash equivalents in designated and restricted assets	220,082	314,865
Total cash and cash equivalents	$ 861,729	$ 1,942,558

(continued next page)

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

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 340,224	$ 154,442
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	476,439	281,590
Provision for bad debts	140,988	182,944
Change in assets and liabilities		
Accounts receivable	(308,373)	(288,541)
Inventory	22,203	45,747
Prepaid expense	15,194	8,586
Accounts payable - trade	44,585	(148,013)
Accrued employee compensation	17,999	2,374
Other accrued expenses	(10,030)	12,885
Estimated third-party payor settlements	(18,000)	108,000
Total adjustments	381,005	205,572
Net cash provided by operating activities	$ 721,229	$ 360,014

Non-Cash Transactions:

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:

	2005	2004
Book value of assets traded	$ --	$ 9,876

The accompanying notes are an integral part of these statements.

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.

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. Capital assets with lives in excess of four years and cost in excess of $5,000 are capitalized. These 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 (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

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 $20,757 of interest costs in 2005 ($4,099 in 2004).

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.

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.

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's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2002. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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:

	2005	2004
Building	$ 90,069	$ 207,026
Cardiac rehabilitation	3,898	10,300
Hospice services	88,597	57,924
Foundation discretionary	(1,688)	1,910
Total restricted expendable net assets	$ 180,876	$ 277,160

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, 2005 and 2004.

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:

	2005	2004
Purpose of Restrictions Accomplished:		
Construction program	$ 150,000	$ --
Ambulance	--	500
Hospice uncompensated care	6,324	2,575
Cardiac rehabilitation	6,402	4,700
	$ 162,726	$ 7,775

NOTE E - DESIGNATED NET ASSETS

Of the $720,079 ($2,044,217 as of June 30, 2004) of unrestricted net assets as of June 30, 2005, $490,522 ($698,307 for 2004) 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, 2005 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. 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; 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.

NOTE F - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2005	2004
Internally Designated Assets:		
Capital Improvements:		
Cash and cash equivalents	$ 104,206	$ 102,705
Certificates of deposit	--	320,303
Interest receivable	--	1,220
Endowments:		
Certificates of deposit	385,220	273,051
Interest receivable	1,096	1,028
	$ 490,522	$ 698,307
Restricted Assets:		
Cash	$ 115,876	$ 212,160
Pledges receivable, net	65,000	65,000
	$ 180,876	$ 277,160

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

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, 2005 and 2004, was as follows:

	2005	2004
Receivable From:		
Patients	$ 245,485	$ 206,945
Medicare	662,663	514,013
Medicaid	88,343	79,831
Blue Cross	161,828	126,400
Workers Compensation	58,265	21,996
Others	119,981	105,658
	1,336,565	1,054,843
Less allowances for doubtful accounts and contractual adjustments	648,000	533,000
	$ 688,565	$ 521,843

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2005 and 2004 were as follows:

Cost	Balance 2004	Additions	Disposals	Balance 2005
Land Improvements	$ 131,244	$ --	$ --	$ 131,244
Buildings	3,379,087	1,447,802	--	4,826,889
Fixed Equipment	506,285	29,532	--	535,817
Major Movable Equipment	2,252,126	447,783	136,304	2,563,605
	6,268,742	1,925,117	136,304	8,057,555
Depreciation				
Land Improvements	74,890	12,323	--	87,213
Buildings	1,225,642	161,731	--	1,387,373
Fixed Equipment	164,819	30,077	--	194,896
Major Movable Equipment	1,365,072	272,308	136,189	1,501,191
Total Depreciation	2,830,423	476,439	136,189	3,170,673
Depreciable Capital Assets, Net	$ 3,438,319	$1,448,678	$ 115	$ 4,886,882
Construction in Progress	$ 1,131,365	$2,390,574	$1,447,802	$ 2,074,137
Land	12,500	--	--	12,500
	$ 1,143,865	$2,390,574	$1,447,802	$ 2,086,637

Cost	Balance 2003	Additions	Disposals	Balance 2004
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
	4,453,097	1,992,721	177,076	6,268,742
Depreciation				
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
Depreciable Capital Assets, Net	$ 1,741,237	$1,711,131	$ 14,049	$ 3,438,319
Construction in Progress	$ 523,911	$2,238,334	$1,630,880	$ 1,131,365
Land	12,500	--	--	12,500
	$ 536,411	$2,238,334	$1,630,880	$ 1,143,865

NOTE I - LONG-TERM DEBT

A schedule of long-term debt for the year ended June 30, 2005 follows:

	Balance 2004	Additions	Reductions	Balance 2005	Current Portion
Long-Term Debt:					
Note Payable	$ 500,000	$ 500,000	$ --	$1,000,000	$ 14,908

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 on the Hospital's financial statements. The Hospital drew $500,000 of the available funds in 2004 and $500,000 in 2005. Under current terms of the note, monthly interest payments are due through April, 2006. Combined principal and interest payments will be made beginning in May, 2006 and ending in April, 2015. 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.

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

Year Ending June 30,	Long-Term Debt Principal	Long-Term Debt Interest
2006	$ 14,908	$ 7,887
2007	91,962	44,807
2008	96,427	40,342
2009	101,108	35,661
2010	106,017	30,752
2011-2015	589,578	71,422
	$ 1,000,000	$ 230,871

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.

NOTE J - PENSION AND RETIREMENT BENEFITS - Continued

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, 2005, 2004, and 2003, were approximately $116,700, $113,700, and $105,600, 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 was completed in late 2004, included costs of approximately $1,450,000. Phase III, with an estimated cost of approximately $3,000,000, is expected to be completed in March, 2006. By year end, approximately $2,075,000 had been expended on 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.

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.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. 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, 2005 (Hospital only, excluding Foundation).

	Total Per Hospital Statements	Budget	Amount Under Budget
Expenses	$ 5,578,841	$ 7,000,000	$ 1,421,159

* * *

ACCOMPANYING INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2005

ASSETS

	Hospital	Foundation	Eliminations	Total
Current Assets:				
Cash	$ 641,647	$ --	$ --	$ 641,647
Patient receivables, net	688,565	--	--	688,565
Other receivables	5,303	--	--	5,303
Inventory	86,538	--	--	86,538
Prepaid expense	49,115	--	--	49,115
Internally designated assets	272,209	--	--	272,209
Total Current Assets	1,743,377	--	--	1,743,377
Designated and Restricted Assets:				
Internally designated assets	490,522	--	--	490,522
Restricted assets	15,346	180,876	(15,346)	180,876
Current portion	(272,209)	--	--	(272,209)
	233,659	180,876	(15,346)	399,189
Depreciable Capital Assets, Net	4,886,882	--	--	4,886,882
Non-depreciable Capital Assets	2,086,637	--	--	2,086,637
Total Assets	$ 8,950,555	$ 180,876	$(15,346)	$ 9,116,085

LIABILITIES AND NET ASSETS

Current Liabilities:				
Current maturities of long-term debt	$ 14,908	$ --	$ --	$ 14,908
Accounts payable	509,090	15,346	(15,346)	509,090
Accrued employee compensation	180,458	--	--	180,458
Other accrued expenses	32,063	--	--	32,063
Estimated third-party payor settlement	520,000	--	--	520,000
Total Current Liabilities	1,256,519	15,346	(15,346)	1,256,519
Long-Term Debt, less current maturities	985,092	--	--	985,092
Net Assets:				
Invested in capital assets	5,973,519	--	--	5,973,519
Restricted - expendable	15,346	165,530	--	180,876
Unrestricted	720,079	--	--	720,079
Total Liabilities and Net Assets	$ 8,950,555	$ 180,876	$(15,346)	$ 9,116,085

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2004

ASSETS

	Hospital	Foundation	Eliminations	Total
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	65,570	--	--	65,570
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	(65,570)	--	--	(65,570)
	658,037	277,160	(25,300)	909,897
Depreciable Capital Assets, Net	3,438,319	--	--	3,438,319
Non-depreciable Capital Assets	1,143,865	--	--	1,143,865
Total Assets	$ 7,633,017	$ 277,160	$(25,300)	$ 7,884,877

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	538,000	--	--	538,000
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	4,082,184	--	--	4,082,184
Restricted - expendable	25,300	251,860	--	277,160
Unrestricted	2,044,216	--	--	2,044,216
Total Liabilities and Net Assets	$ 7,633,017	$ 277,160	$(25,300)	$ 7,884,877

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2005

	Hospital	Foundation	Eliminations	Total
Revenue:				
Net patient service revenue	$ 5,856,080	$ --	$ --	$ 5,856,080
Other revenue	71,269	--	--	71,269
Total revenue	5,927,349	--	--	5,927,349
Expenses:				
Nursing service	1,478,901	--	--	1,478,901
Other professional service	2,128,473	--	--	2,128,473
General service	460,258	--	--	460,258
Fiscal and administrative service	1,034,770	158,284	(150,000)	1,043,054
Provision for depreciation	476,439	--	--	476,439
Total expenses	5,578,841	158,284	(150,000)	5,587,125
Operating Income (Loss)	348,508	(158,284)	150,000	340,224
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	24,773	--	--	24,773
Investment income	30,507	1,914	--	32,421
Ambulance subsidy	3,921	--	--	3,921
Clinic operations, net	(350)	--	--	(350)
Loss on disposal of equipment	(115)	--	--	(115)
Non-operating revenues, net	58,736	1,914	--	60,650
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	407,244	(156,370)	150,000	400,874
Capital Grants and Contributions	150,000	70,040	(150,000)	70,040
Increase (Decrease) in Net Assets	557,244	(86,330)	--	470,914
Net Assets Beginning of Year	6,151,700	251,860	--	6,403,560
Net Assets End of Year	$ 6,708,944	$ 165,530	$ --	$ 6,874,474

See Independent Auditor's Report.

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

	Hospital	Foundation	Total
Revenue:			
Net patient service revenue	$ 5,185,213	$ --	$ 5,185,213
Other revenue	75,277	--	75,277
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	281,590	--	281,590
Total expenses	5,102,658	3,390	5,106,048
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	1,427	--	1,427
Non-operating revenues, net	126,205	2,291	128,496
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	284,037	(1,099)	282,938
Capital Grants and Contributions	16,083	203,111	219,194
Increase in Net Assets	300,120	202,012	502,132
Net Assets Beginning of Year	5,851,580	49,848	5,901,428
Net Assets End of Year	$ 6,151,700	$ 251,860	$ 6,403,560

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

Days Since Discharge	2005 Amount	2005 Percent to Total	2004 Amount	2004 Percent to Total
0 - 30	$ 717,360	53.7%	$ 544,750	51.6%
31 - 90	297,760	22.3	260,314	24.7
91 - 150	117,426	8.8	94,704	9.0
151 - 180	32,737	2.4	40,761	3.9
181 and over	171,282	12.8	114,314	10.8
	1,336,565	100.0%	1,054,843	100.0%
Allowance for doubtful accounts	128,000		98,000	
Allowance for contractual adjustments	520,000		435,000	
	$ 688,565		$ 521,843	

Allowance for Doubtful Accounts:

	Year ended June 30, 2005	Year ended June 30, 2004
Balance, beginning	$ 98,000	$ 92,000
Provision for bad debts	140,988	182,944
Recoveries of accounts previously written off	58,781	42,097
	297,769	317,041
Accounts written off	169,769	219,041
Balance, ending	$ 128,000	$ 98,000

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2005	2004
Inventory		
Medical and surgical	$ 18,526	$ 38,565
Pharmacy	40,125	49,093
Laboratory and radiology	27,887	21,083
	$ 86,538	$ 108,741
Prepaid Expense		
Insurance	$ 25,102	$ 39,852
Service contracts	24,013	24,457
	$ 49,115	$ 64,309

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2005		
	Inpatient	Outpatient	Swing Bed
Daily Patient Services:			
Medical and surgical	$ 291,300	$ --	$ --
Swing bed	--	--	131,670
	291,300	--	131,670
Other Nursing Services:			
Operating and recovery rooms	32,155	696,460	3,520
Emergency service	13,296	181,732	66
Central services and supply	110,303	238,296	43,625
Intravenous therapy	14,634	21,477	3,529
Observation	--	68,735	--
	170,388	1,206,700	50,740
Other Professional Services:			
Emergency room physician	--	113,543	--
Anesthesiology	11,251	245,771	2,550
Laboratory	176,104	1,536,327	26,437
Radiology	77,099	1,302,584	10,169
Blood administration	7,740	19,029	--
Pharmacy	172,850	262,997	72,963
Chemotherapy	1,491	167,449	960
Electrocardiology	18,314	184,000	1,010
Physical therapy	9,895	187,842	18,285
Speech therapy	1,640	4,580	240
Occupational therapy	5,430	27,686	13,795
Cardiac rehabilitation	--	120,745	--
Ambulance services	846	134,164	--
Industrial Health	59,859	--	--
Home Health Care	--	137,515	--
Hospice	10,373	510,845	--
Clinic services	66	46,965	--
	552,958	5,002,042	146,409
	$ 1,014,646	$ 6,208,742	$ 328,819

See Independent Auditor's Report.

2005 Total	2004 Total
$ 291,300	$ 301,825
131,670	138,820
422,970	440,645
732,135	581,690
195,094	164,263
392,224	335,752
39,640	26,037
68,735	53,476
1,427,828	1,161,218
113,543	95,707
259,572	200,356
1,738,868	1,510,813
1,389,852	1,239,710
26,769	37,968
508,810	383,744
169,900	219,642
203,324	182,696
216,022	239,922
6,460	5,000
46,911	55,202
120,745	88,395
135,010	135,742
59,859	30,625
137,515	146,776
521,218	415,568
47,031	43,779
5,701,409	5,031,645
$ 7,552,207	$ 6,633,508

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

	2005	2004
Net Patient Service Revenue		
Patient service revenue	$ 7,552,207	$ 6,633,508
Contractual adjustments	(1,554,638)	(1,265,351)
Provision for bad debts	(140,988)	(182,944)
Charity care	(501)	--
	$ 5,856,080	$ 5,185,213
Other Revenue		
Meals sold	$ 21,643	$ 23,559
Histories	15,631	13,876
Lifeline	4,033	6,868
Sale of x-ray film	10	20
Rebates and refunds	178	533
Rent income	25,502	28,874
Miscellaneous	4,272	1,547
	$ 71,269	$ 75,277

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2005		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
Daily Patient Services			
Nursing administration	$ 56,907	$ --	$ --
Medical and surgical	571,171	--	54,061
	628,078	--	54,061
Other Nursing Services			
Operating and recovery rooms	93,317	--	73,673
Central services and supply	12,053	--	160,758
Emergency service	62,835	--	6,690
	168,205	--	241,121
Other Professional Services			
Laboratory	161,760	--	142,255
Blood administration	--	--	9,540
Electrocardiology	--	--	792
Radiology	136,990	--	85,750
Cardiac rehabilitation	80,044	--	11,026
Pharmacy	980	--	228,651
Chemotherapy	10,518	--	79,901
Anesthesiology	--	--	1,467
Ambulance services	58,630	--	9,739
Physical therapy	21,837	--	1,819
Speech therapy	--	--	--
Occupational therapy	--	--	452
Industrial Health	25,453	--	4,121
Home Health Care	150,430	--	20,290
Medical records	76,204	--	18,415
Hospice	98,538	--	135,289
	821,384	--	749,507
General Services			
Dietary	92,561	--	59,670
Plant operations	80,700	--	131,109
Housekeeping	55,416	--	14,642
Laundry and linen	--	--	17,603
	228,677	--	223,024
Fiscal and Administrative Services	196,053	465,545	243,957
Provision for Depreciation	--	--	476,439
Total all departments	$ 2,042,397	$ 465,545	$ 1,988,109

See Independent Auditor's Report.

2005		
Professional Fees	Total	2004 Total
$ --	$ 56,907	$ 56,283
--	625,232	595,842
--	682,139	652,125
--	166,990	120,236
--	172,811	159,201
387,436	456,961	468,094
387,436	796,762	747,531
66,768	370,783	391,318
--	9,540	12,525
12,336	13,128	13,510
173,082	395,822	427,751
--	91,070	84,296
32,499	262,130	185,582
--	90,419	86,924
131,965	133,432	110,348
--	68,369	72,162
109,472	133,128	149,322
3,816	3,816	2,790
27,644	28,096	34,016
--	29,574	26,797
--	170,720	167,007
--	94,619	83,427
--	233,827	198,061
557,582	2,128,473	2,045,836
8,557	160,788	146,787
--	211,809	183,974
--	70,058	49,394
--	17,603	17,850
8,557	460,258	398,005
137,499	1,043,054	980,961
--	476,439	281,590
$ 1,091,074	$ 5,587,125	$ 5,106,048

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

	2005	2004
Fiscal and Administrative:		
Salaries and wages	$ 196,053	$ 235,498
Employee benefits	--	1,067
Professional fees	137,499	80,049
Dues	3,752	6,189
Telephone	12,364	12,632
Supplies and other expense	153,344	118,189
	503,012	453,624
Employee Welfare:		
Payroll taxes	268,558	259,298
Group health insurance	196,987	214,382
	465,545	473,680
Insurance:		
Liability and property insurance	66,213	50,267
Foundation Expenditures:		
Supplies and other expense	8,284	3,390
	$ 1,043,054	$ 980,961

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	2005	2004	2003	2002	2001
Acute Care:					
Admissions	213	242	241	197	162
Discharges	212	247	237	195	164
Patient Days	648	760	781	586	512
Average Length of Stay	3.1	3.1	3.3	3.0	3.1
Average Occupied Beds	1.8	2.1	2.1	1.6	1.4
Swing Bed:					
Admissions	74	81	84	89	93
Discharges	70	83	85	87	95
SNF Days	525	589	535	560	536
ICF Days	61	47	216	452	515
Combined Average Occupied Beds	3.4	3.8	4.2	4.4	4.3
Outpatient Occasions of Service	24,588	23,299	25,304	26,887	26,326
Home Healthcare Visits	2,335	2,224	2,288	2,137	2,596

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Balance Sheets
June 30,

	2005	2004
Current Assets:		
Cash	$ 641,647	$ 1,627,693
Receivables	693,868	526,483
Inventory	86,538	108,741
Prepaid expense	49,115	64,309
Internally designated assets	272,209	65,570
Total current assets	1,743,377	2,392,796
Other Assets:		
Designated and restricted assets	399,189	909,897
Capital assets, net	6,973,519	4,582,184
	7,372,708	5,492,081
Total assets	$ 9,116,085	$ 7,884,877
Current Liabilities:		
Current maturities	$ 14,908	$ 34,009
Accounts payable	509,090	238,765
Accrued expenses	212,521	204,552
Estimated third party payor settlements	520,000	538,000
Total current liabilities	1,256,519	1,015,326
Long-Term Debt, Net	985,092	465,991
Total liabilities	2,241,611	1,481,317
Net Assets	6,874,474	6,403,560
Total liabilities and net assets	$ 9,116,085	$ 7,884,877

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

See Independent Auditor's Report.

2003	2002*	2001*
$ 1,446,785	$ 1,133,529	$ 350,509
420,886	522,501	599,136
154,488	105,298	94,443
72,895	40,500	37,317
170,160	14,519	--
2,265,214	1,816,347	1,081,405
2,503,236	2,457,545	1,872,906
2,277,648	1,627,495	1,462,946
4,780,884	4,085,040	3,335,852
$ 7,046,098	$ 5,901,387	$ 4,417,257
$ --	$ --	$ --
525,377	344,287	251,360
189,293	141,153	140,190
430,000	260,000	64,000
1,144,670	745,440	455,550
--	--	--
1,144,670	745,440	455,550
5,901,428	5,155,947	3,961,707
$ 7,046,098	$ 5,901,387	$ 4,417,257

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

	2005	2004
Patient Service Revenue	$ 7,552,207	$ 6,633,508
Adjustments to Patient Service Revenue	(1,696,127)	(1,448,295)
Net Patient Service Revenue	5,856,080	5,185,213
Other Revenue	71,269	75,277
Total Revenue	5,927,349	5,260,490
Expenses	5,587,125	5,106,048
Operating Income	340,224	154,442
Non-Operating Revenues, Net	60,650	128,496
Excess of Revenues Over Expenses Before Capital Grants and Contributions	400,874	282,938
Capital Grants and Contributions	70,040	219,194
Increase in Net Assets	$ 470,914	$ 502,132

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

See Independent Auditor's Report.

2003	2002*	2001*
$ 6,497,621	$ 5,818,931	$ 5,119,223
(1,392,737)	(1,344,644)	(1,186,234)
5,104,884	4,474,287	3,932,989
54,260	62,145	57,021
5,159,144	4,536,432	3,990,010
4,622,355	4,129,096	3,604,058
536,789	407,336	385,952
143,188	751,404	210,788
679,977	1,158,740	596,740
63,004	35,500	24,382
$ 742,981	$ 1,194,240	$ 621,122

COMMENTS AND RECOMMENDATIONS

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

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

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, 2005, and have issued our report thereon dated July 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Community Hospital's 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 caused by error or fraud 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 05-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 05-I-A.

To the Board of Trustees of
Pocahontas Community Hospital

Compliance and Other Matters

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, contracts and grants, 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. However, we noted certain immaterial instances of non-compliance or other matters 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, 2005 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 05-II-B.

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.

Gronewold, Bell, Kyhnn + Co. P.C.
Atlantic, Iowa
July 21, 2005

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2005

PART I - REPORTABLE CONDITIONS

05-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

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

05-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 Hospital complied with its requirement and provided a copy of its budget to the City by February, 2005.

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.

PART II - REQUIRED STATUTORY REPORTING - Continued

05-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:

Paid to	Purpose	Amount
Palmer House	Employee recognition dinner	$ 1,973

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.

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

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

Name, Title and Business Connection	Description	Amount
Gustave Holzmueller, City Council Member, Owner of Pocahontas Ford and wife, Bev Holzmueller, Board Member	Miscellaneous	$ 1,464
	Pick-up Truck	21,902
		23,366
George Tuttle - Mayor of City and Information Technology employee of Hospital	Wages	2,057

The miscellaneous transactions with Pocahontas Ford do not appear to represent conflicts of interest since the total does not exceed $2,500. However, because the pick-up cost exceeded $2,500, a bid process should have been used to prevent the appearance of a conflict of interest in that transaction.

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.

Recommendation: We recommend that in the future, the Hospital obtain bids before purchasing a vehicle from a close relative of a board member.

PART II - REQUIRED STATUTORY REPORTING - Continued

Response: Pocahontas Ford is the only dealer selling new vehicles in Pocahontas County. After reviewing the price, and using knowledge of the price of similar vehicles, the board determined that the cost of this vehicle was appropriate, and decided to make the purchase. Bev Holzmueller abstained from voting on the issue.

Conclusion: Response accepted.

05-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 all of the closed sessions except one, an appropriate reason was 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.

05-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.

* * *