

POCAHONTAS COMMUNITY HOSPITAL

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

YEARS ENDED JUNE 30, 2008 AND 2007

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
 Officials
 June 30, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Brian Blomker	Mayor	December, 2009
Gus Holzmueller	Member	December, 2011
Brian Stover	Member	December, 2011
John DeWall	Member	December, 2009
Brooks Taylor	Member	December, 2009
Rod Stoullil	Member	December, 2009
Jeffrey A. Johnson	City Treasurer	Appointed Annually
HOSPITAL BOARD OF TRUSTEES		
Rick Winegarden	President	December, 2011
Bev Holzmueller	Vice-President	December, 2009
Duane Wiemers	Secretary-Treasurer	December, 2009
Don Beneke	Member	December, 2011
Cheryl Smith	Member	December, 2011
HOSPITAL OFFICIALS		
James Roetman	CEO	
Lynne Raveling	CFO	
Sherrie Laubenthal	DON	

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

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DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
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, 2008 and 2007, 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, 2008 and 2007, 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.

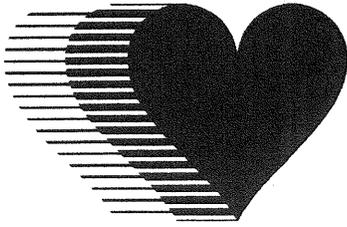
In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2008 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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, 2006 (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.

Gronwald, Bell, Kyburm & Co. P.C.
Atlantic, Iowa
August 28, 2008



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 and Pocahontas Community Healthcare Foundation's (a blended component unit) financial activity for the fiscal years ended June 30, 2008, 2007, and 2006. 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 \$42,373 or .6 percent increase in 2008 and an \$73,524 or 1.1 percent increase in 2007.

The Hospital reported an operating loss of \$50,084 in 2008 and operating income of \$46,832 in 2007.

Nonoperating revenues, net increased by \$52,738 in 2008 as a result of an approximate \$43,000 increase in gifts and grants. The nonoperating revenues decreased by \$84,294 or 85.7% in 2007.

USING THIS ANNUAL REPORT

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

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

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's 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>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 1,960,855	\$ 1,967,060	\$ 1,494,315
Capital assets, net	6,843,888	7,060,697	7,696,855
Other assets, net	<u>591,982</u>	<u>336,734</u>	<u>255,599</u>
Total assets	<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>	<u>\$ 9,446,769</u>
Liabilities:			
Long-term debt, less current maturities	\$ 1,532,723	\$ 1,491,981	\$ 1,750,051
Other current and noncurrent liabilities	<u>792,970</u>	<u>843,851</u>	<u>741,583</u>
Total liabilities	<u>\$ 2,325,693</u>	<u>\$ 2,335,832</u>	<u>\$ 2,491,634</u>
Net Assets:			
Invested in capital assets	\$ 4,991,909	\$ 5,310,646	\$ 5,696,855
Restricted expendable assets	96,276	79,952	101,476
Unrestricted	<u>1,982,847</u>	<u>1,638,061</u>	<u>1,156,804</u>
Total net assets	<u>\$ 7,071,032</u>	<u>\$ 7,028,659</u>	<u>\$ 6,955,135</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2008, the Hospital's net assets increased by \$42,373 or .6 percent, as shown in Table 2. This compares with the 1.1% increase in net assets of \$73,524 for 2007.

Net patient service revenue increased \$284,155 or 4.6% in 2008 (\$240,167 or 4.0% in 2007).

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues:			
Net patient service revenues	\$ 6,521,328	\$ 6,237,173	\$ 5,997,006
Other operating revenues	91,171	77,680	72,339
Total operating revenues	<u>6,612,499</u>	<u>6,314,853</u>	<u>6,069,345</u>
Operating Expenses:			
Nursing service	1,754,784	1,555,975	1,597,822
Other professional service	2,342,341	2,246,355	2,281,680
General Service	572,877	534,474	538,600
Fiscal and administrative service	1,302,640	1,227,732	1,124,143
Provision for depreciation	689,941	703,485	586,976
Total operating expenses	<u>6,662,583</u>	<u>6,268,021</u>	<u>6,129,221</u>
Operating income (loss)	(50,084)	46,832	(59,876)
Nonoperating Revenues and Expenses:			
Noncapital gifts, grants and bequests	108,444	65,556	79,244
Investment income	52,556	32,182	24,115
Ambulance subsidy	5,600	5,333	5,020
Interest expense	(93,690)	(88,562)	(4,164)
Clinic operations, net	(420)	(396)	(347)
Loss on disposal of equipment	(5,639)	--	(5,461)
Non-operating revenues, net	<u>66,851</u>	<u>14,113</u>	<u>98,407</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	16,767	60,945	38,531
Capital Grants and Contributions	<u>25,606</u>	<u>12,579</u>	<u>42,130</u>
Increase in Net Assets	42,373	73,524	80,661
Net Assets Beginning of Year	<u>7,028,659</u>	<u>6,955,135</u>	<u>6,874,474</u>
Net Assets End of Year	<u>\$ 7,071,032</u>	<u>\$ 7,028,659</u>	<u>\$ 6,955,135</u>

Pocahontas Community Hospital
Management's 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 the past year, the Hospital reported an operating loss of \$50,084. Operating income decreased from \$46,832 in 2007 to a loss of \$50,084 in 2008.

The primary components of this decrease in operating incomes are:

The provision for bad debts included a 90.2% (\$133,141) increase. There was a 21.0% (\$311,553) increase in the contractual adjustments, and a 77.9% (\$9,683) increase in charity care adjustments. These increases reflect a growing trend of un-insured and under-insured patients.

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 increased from \$32,182 in 2007 to \$52,556 in 2008. The Hospital has increased cash on hand since the completion of the building project in 2006, resulting in an increase in interest income for 2008.

GRANTS AND CONTRIBUTIONS

The Hospital received \$23,498 in grants funds through the SHIP, FLEX and HRSA grant programs in 2008.

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation completed 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, 2008 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$493,727 due to a change in services provided.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2007, the Hospital had \$5,310,646 invested in capital assets, net of accumulated depreciation and related debt. In 2008, the Hospital purchased new equipment costing \$478,711. The Hospital had \$4,991,909 invested in capital assets net of accumulated depreciation and related debt at the end of 2008.

Debt:

At year-end, the Hospital had \$1,851,979 in debt outstanding. The original debt included a \$2,000,000 promissory note signed by the City of Pocahontas on behalf of the Hospital for financing the current building project, and a \$360,000 non-interest bearing note with the City of Pocahontas for distribution of the proceeds of a city awarded USDA Grant. The proceeds of this note were used for the purchase of several pieces of equipment by the hospital.

OTHER ECONOMIC FACTORS

MidAmerican Energy Company is currently constructing a wind farm in Pocahontas County. Employees from the various construction companies are utilizing Pocahontas Community Hospital for pre-employment testing as well as care to injured workers. The Company engaged to operate the wind farm, Enxco, has made arrangements to utilize the Hospital as well.

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>2008</u>	<u>2007</u>
Current Assets:		
Cash	\$ 598,207	\$ 706,258
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$410,000 in 2008, \$430,750 in 2007)	847,980	806,180
Other receivables	13,236	13,351
Inventory	98,748	101,986
Prepaid expense	72,410	81,215
Internally designated assets	<u>330,274</u>	<u>258,070</u>
Total current assets	1,960,855	1,967,060
Designated and Restricted Assets:		
Internally designated assets	825,980	514,852
Restricted assets	<u>96,276</u>	<u>79,952</u>
	922,256	594,804
Less amounts required to meet current liabilities	<u>330,274</u>	<u>258,070</u>
	591,982	336,734
Capital Assets:		
Depreciable capital assets, net	6,831,388	7,048,197
Non-depreciable capital assets	<u>12,500</u>	<u>12,500</u>
	6,843,888	7,060,697
Total assets	<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 319,256	\$ 258,070
Accounts payable	200,802	298,668
Accrued employee compensation	166,100	164,517
Other accrued expenses	600	15,764
Accrued interest	6,212	6,832
Estimated third-party payor settlements	100,000	100,000
Total current liabilities	<u>792,970</u>	<u>843,851</u>
Long-Term Debt, less current maturities	<u>1,532,723</u>	<u>1,491,981</u>
Total liabilities	<u>2,325,693</u>	<u>2,335,832</u>
Net Assets:		
Invested in capital assets, net of related debt	4,991,909	5,310,646
Restricted - expendable	96,276	79,952
Unrestricted	<u>1,982,847</u>	<u>1,638,061</u>
	<u>7,071,032</u>	<u>7,028,659</u>
Total liabilities and net assets	<u>\$ 9,396,725</u>	<u>\$ 9,364,491</u>

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

	2008	2007
Revenue:		
Net patient service revenue	\$ 6,521,328	\$ 6,237,173
Other revenue	91,171	77,680
Total revenue	6,612,499	6,314,853
Expenses:		
Nursing service	1,754,784	1,555,975
Other professional service	2,342,341	2,246,355
General service	572,877	534,474
Fiscal and administrative service	1,302,640	1,227,732
Provision for depreciation	689,941	703,485
Total expenses	6,662,583	6,268,021
Operating Income (Loss)	(50,084)	46,832
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	108,444	65,556
Investment income	52,556	32,182
Ambulance subsidy	5,600	5,333
Interest expense	(93,690)	(88,562)
Clinic operations, net	(420)	(396)
Loss on disposal of equipment	(5,639)	--
Non-operating revenues, net	66,851	14,113
Excess of Revenues Over Expenses Before Capital Grants and Contributions	16,767	60,945
Capital Grants and Contributions	25,606	12,579
Increase in Net Assets	42,373	73,524
Net Assets Beginning of Year	7,028,659	6,955,135
Net Assets End of Year	\$ 7,071,032	\$ 7,028,659

The accompanying notes are an integral part of these statements.

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

	2008	2007
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 6,479,643	\$ 6,250,816
Cash paid to suppliers	(3,731,297)	(3,214,808)
Cash paid to employees	(2,351,767)	(2,275,512)
Other operating revenue	91,171	77,680
Net cash provided by operating activities	487,750	838,176
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	91,906	65,556
Ambulance subsidy	5,600	5,333
Net cash provided by non-capital financing activities	97,506	70,889
Cash flows from capital and related financing activities:		
Capital expenditures	(467,753)	(169,651)
Proceeds from long-term debt	360,000	--
Capital grants and contributions	47,159	31,279
Principal paid on long-term debt	(258,072)	(249,949)
Interest paid	(77,772)	(85,894)
Net cash used in capital and related financing activities	(396,438)	(474,215)
Cash flows from investing activities:		
Change in designated and restricted assets	(410,424)	(5,825)
Investment income	52,556	32,182
Clinic operations, net	(420)	(396)
Net cash provided by (used in) investing activities	(358,288)	25,961
Net increase (decrease) in cash and cash equivalents	(169,470)	460,811
Cash and cash equivalents beginning of year	871,712	410,901
Cash and cash equivalents end of year	\$ 702,242	\$ 871,712
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 598,207	\$ 706,258
Cash and cash equivalents in designated and restricted assets	104,035	165,454
Total cash and cash equivalents	\$ 702,242	\$ 871,712

(continued next page)

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

	2008	2007
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(50,084)	\$ 46,832
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	689,941	703,485
Change in assets and liabilities		
Accounts receivable	(41,685)	(126,357)
Inventory	3,238	(6,163)
Prepaid expense	8,805	(13,424)
Accounts payable - trade	(108,884)	75,080
Accrued employee compensation	1,583	18,444
Other accrued expenses	(15,164)	279
Estimated third-party payor settlements	--	140,000
Total adjustments	537,834	791,344
Net cash provided by operating activities	\$ 487,750	\$ 838,176

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income (loss) to net cash provided by operating activities:

	2008	2007
Interest imputed on loan and recorded as a gift	\$ 16,538	\$ --

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

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 Healthcare 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, 2008 and 2007

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 did not capitalize any interest costs in 2008 or 2007.

9. Compensated Absences

Hospital employees earn vacation days at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 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, 2008 and 2007

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, 2008 and 2007

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, and most outpatient services 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 cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2006. The Medicaid cost reports have been finalized through June 30, 2005. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. 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:

	<u>2008</u>	<u>2007</u>
Capital items	\$ 11,508	\$ 35,084
Hospice services	19,518	18,935
Cardiac rehab	2,511	3,096
Foundation discretionary	<u>62,739</u>	<u>22,837</u>
Total restricted expendable net assets	<u>\$ 96,276</u>	<u>\$ 79,952</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, 2008 and 2007.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

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:

	2008	2007
Purpose of Restrictions Accomplished:		
Capital items	\$ 25,606	\$ 12,579
Hospice uncompensated care	24,276	29,309
Cardiac rehabilitation	585	495
Other Foundation projects	22,864	--
	\$ 73,331	\$ 42,383

NOTE E - DESIGNATED NET ASSETS

Of the \$1,982,847 (\$1,638,061 as of June 30, 2007) of unrestricted net assets as of June 30, 2008, \$825,980 (\$514,852 for 2007) has been designated by the Hospital's Board of Trustees for capital acquisitions and debt principal payments. 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, 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

NOTE F - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2008	2007
Internally Designated Assets:		
Capital Improvements:		
Cash and cash equivalents	\$ 9,506	\$ 108,802
Hospital designated endowments:		
Certificates of deposit	814,060	401,359
Interest receivable	2,414	4,691
	\$ 825,980	\$ 514,852
Restricted Assets:		
Cash	\$ 94,529	\$ 56,652
Pledges receivable, net	1,747	23,300
	\$ 96,276	\$ 79,952

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, 2008 and 2007, was as follows:

	2008	2007
Receivable From:		
Patients	\$ 213,018	\$ 335,011
Medicare	565,424	535,684
Medicaid	111,419	68,889
Blue Cross	188,434	200,843
Workers Compensation	47,148	24,395
Others	132,537	72,108
	1,257,980	1,236,930
Less allowances for doubtful accounts and contractual adjustments	410,000	430,750
	\$ 847,980	\$ 806,180

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

<u>Cost</u>	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
Land Improvements	\$ 138,960	\$ --	\$ --	\$ 138,960
Buildings	8,014,501	11,826	--	8,026,327
Fixed Equipment	562,320	64,156	--	626,476
Major Movable Equipment	<u>2,668,087</u>	<u>402,789</u>	<u>411,034</u>	<u>2,659,842</u>
	11,383,868	478,771	411,034	11,451,605
<u>Depreciation</u>				
Land Improvements	108,292	9,721	--	118,013
Buildings	1,926,934	348,292	--	2,275,226
Fixed Equipment	236,869	37,224	--	274,093
Major Movable Equipment	<u>2,063,576</u>	<u>294,704</u>	<u>405,395</u>	<u>1,952,885</u>
Total Depreciation	<u>4,335,671</u>	<u>689,941</u>	<u>405,395</u>	<u>4,620,217</u>
Depreciable Capital Assets, Net	<u>\$ 7,048,197</u>	<u>\$ (211,170)</u>	<u>\$ (5,639)</u>	<u>\$ 6,831,388</u>
Land	<u>\$ 12,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,500</u>
<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
Land Improvements	\$ 138,960	\$ --	\$ --	\$ 138,960
Buildings	8,019,847	1,698	7,044	8,014,501
Fixed Equipment	571,767	13,000	22,447	562,320
Major Movable Equipment	<u>2,625,991</u>	<u>52,629</u>	<u>10,533</u>	<u>2,668,087</u>
	11,356,565	67,327	40,024	11,383,868
<u>Depreciation</u>				
Land Improvements	97,537	10,755	--	108,292
Buildings	1,596,391	337,587	7,044	1,926,934
Fixed Equipment	226,196	33,120	22,447	236,869
Major Movable Equipment	<u>1,752,086</u>	<u>322,023</u>	<u>10,533</u>	<u>2,063,576</u>
Total Depreciation	<u>3,672,210</u>	<u>703,485</u>	<u>40,024</u>	<u>4,335,671</u>
Depreciable Capital Assets, Net	<u>\$ 7,684,355</u>	<u>\$ (636,158)</u>	<u>\$ --</u>	<u>\$ 7,048,197</u>
Land	<u>\$ 12,500</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,500</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

NOTE I - LONG-TERM DEBT

A schedule of long-term debt for the years ended June 30, 2008 and 2007 follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2008</u>	<u>Current Portion</u>
Note A	\$1,750,051	\$ --	\$ 258,072	\$1,491,979	\$ 267,827
Note B	<u>--</u>	<u>360,000</u>	<u>--</u>	<u>360,000</u>	<u>51,429</u>
	<u>\$1,750,051</u>	<u>\$ 360,000</u>	<u>\$ 258,072</u>	<u>\$1,851,979</u>	<u>\$ 319,256</u>
	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>	<u>Current Portion</u>
Note A	<u>\$2,000,000</u>	<u>\$ --</u>	<u>\$ 249,949</u>	<u>\$1,750,051</u>	<u>\$ 258,070</u>

Note A - The note is in the name of the City of Pocahontas through Citizens State Bank, Pocahontas Office. However, the Hospital is responsible for all loan principal and interest payments, therefore, the note payable has been recorded as a liability of the Hospital. Under terms of Note A, combined principal and interest payments of \$27,987 were paid from July, 2006 through June, 2008 with an interest rate of 4.75%. Terms of the note were renegotiated as of July 1, 2008. At that time, the interest rate was adjusted to 5.25% and the combined monthly principal and interest payment was adjusted to \$28,323. The final payment is due in June, 2013. The Hospital has pledged all of its assets and future revenues (net of certain expenses) to repay the note. The annual debt service on the note is expected to require less than 43% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$352,000 and \$832,000 respectively.

Note B - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified equipment items. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 5%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 will be made to the City beginning in July, 2008 through July, 2015. The note is collateralized by the equipment purchased (with a net book value of \$313,234).

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>	<u>Total</u>
2009	\$ 319,256	\$ 71,716	\$ 390,972
2010	334,180	57,531	391,711
2011	348,962	42,346	391,308
2012	364,900	26,408	391,308
2013	381,823	9,485	391,308
2014-2015	<u>102,858</u>	<u>--</u>	<u>102,858</u>
	<u>\$ 1,851,979</u>	<u>\$ 207,486</u>	<u>\$ 2,059,465</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2008 and 2007

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 3.90% (4.10% July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006, were approximately \$143,800, \$131,000, and \$124,700, respectively, equal to the required contributions for each year.

NOTE K - COMMITMENTS AND CONTINGENCIES

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, 2008

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, 2008 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	<u>\$ 6,756,273</u>	<u>\$ 7,250,000</u>	<u>\$ 493,727</u>

* * *

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2008

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 598,207	\$ --	\$ 598,207
Patient receivables, net	847,980	--	847,980
Other receivables	13,236	--	13,236
Inventory	98,748	--	98,748
Prepaid expense	72,410	--	72,410
Internally designated assets	330,274	--	330,274
Total current assets	1,960,855	--	1,960,855
Designated and Restricted Assets:			
Internally designated assets	825,980	--	825,980
Restricted assets	--	96,276	96,276
Current portion	(330,274)	--	(330,274)
	495,706	96,276	591,982
Depreciable Capital Assets, Net	6,831,388	--	6,831,388
Non-depreciable Capital Assets	12,500	--	12,500
Total assets	\$ 9,300,449	\$ 96,276	\$ 9,396,725

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 319,256	\$ --	\$ 319,256
Accounts payable	200,802	--	200,802
Accrued employee compensation	166,100	--	166,100
Other accrued expenses	600	--	600
Accrued interest	6,212	--	6,212
Estimated third-party payor settlement	100,000	--	100,000
Total current liabilities	792,970	--	792,970
Long-Term Debt, less current maturities	1,532,723	--	1,532,723
Net Assets:			
Invested in capital assets, net	4,991,909	--	4,991,909
Restricted - expendable	--	96,276	96,276
Unrestricted	1,982,847	--	1,982,847
Total liabilities and net assets	\$ 9,300,449	\$ 96,276	\$ 9,396,725

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2007

ASSETS

	Hospital	Foundation	Total
Current Assets:			
Cash	\$ 706,258	\$ --	\$ 706,258
Patient receivables, net	806,180	--	806,180
Other receivables	13,351	--	13,351
Inventory	101,986	--	101,986
Prepaid expense	81,215	--	81,215
Internally designated assets	258,070	--	258,070
Total current assets	1,967,060	--	1,967,060
Designated and Restricted Assets:			
Internally designated assets	514,852	--	514,852
Restricted assets	--	79,952	79,952
Current portion	(258,070)	--	(258,070)
	256,782	79,952	336,734
Depreciable Capital Assets, Net	7,048,197	--	7,048,197
Non-depreciable Capital Assets	12,500	--	12,500
Total assets	\$ 9,284,539	\$ 79,952	\$ 9,364,491

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 258,070	\$ --	\$ 258,070
Accounts payable	298,668	--	298,668
Accrued employee compensation	164,517	--	164,517
Other accrued expenses	15,764	--	15,764
Accrued interest	6,832	--	6,832
Estimated third-party payor settlement	100,000	--	100,000
Total current liabilities	843,851	--	843,851
Long-Term Debt, less current maturities	1,491,981	--	1,491,981
Net Assets:			
Invested in capital assets, net	5,310,646	--	5,310,646
Restricted - expendable	--	79,952	79,952
Unrestricted	1,638,061	--	1,638,061
Total liabilities and net assets	\$ 9,284,539	\$ 79,952	\$ 9,364,491

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2008

	Hospital	Foundation	Eliminations	Total
Revenue:				
Net patient service revenue	\$ 6,521,328	\$ --	\$ --	\$ 6,521,328
Other revenue	91,171	--	--	91,171
Total revenue	6,612,499	--	--	6,612,499
Expenses:				
Nursing service	1,754,784	--	--	1,754,784
Other professional service	2,342,341	--	--	2,342,341
General service	572,877	--	--	572,877
Fiscal and administrative service	1,278,332	82,716	(58,408)	1,302,640
Provision for depreciation	689,941	--	--	689,941
Total expenses	6,638,275	82,716	(58,408)	6,662,583
Operating Income (Loss)	(25,776)	(82,716)	58,408	(50,084)
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	56,054	72,447	(20,057)	108,444
Investment income	51,069	1,487	--	52,556
Ambulance subsidy	5,600	--	--	5,600
Interest expense	(93,690)	--	--	(93,690)
Clinic operations, net	(420)	--	--	(420)
Loss on disposal of equipment	(5,639)	--	--	(5,639)
Non-operating revenues, net	12,974	73,934	(20,057)	66,851
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions				
	(12,802)	(8,782)	38,351	16,767
Capital Grants and Contributions	38,851	25,106	(38,351)	25,606
Increase in Net Assets	26,049	16,324	--	42,373
Net Assets Beginning of Year	6,948,707	79,952	--	7,028,659
Net Assets End of Year	\$ 6,974,756	\$ 96,276	\$ --	\$ 7,071,032

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2007

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 6,237,173	\$ --	\$ --	\$ 6,237,173
Other revenue	<u>77,680</u>	<u>--</u>	<u>--</u>	<u>77,680</u>
Total revenue	6,314,853	--	--	6,314,853
Expenses:				
Nursing service	1,555,975	--	--	1,555,975
Other professional service	2,246,355	--	--	2,246,355
General service	534,474	--	--	534,474
Fiscal and administrative service	1,218,373	72,444	(63,085)	1,227,732
Provision for depreciation	<u>703,485</u>	<u>--</u>	<u>--</u>	<u>703,485</u>
Total expenses	<u>6,258,662</u>	<u>72,444</u>	<u>(63,085)</u>	<u>6,268,021</u>
Operating Income (Loss)	56,191	(72,444)	63,085	46,832
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	59,390	38,491	(32,325)	65,556
Investment income	30,832	1,350	--	32,182
Ambulance subsidy	5,333	--	--	5,333
Interest expense	(88,562)	--	--	(88,562)
Clinic operations, net	<u>(396)</u>	<u>--</u>	<u>--</u>	<u>(396)</u>
Non-operating revenues, net	<u>6,597</u>	<u>39,841</u>	<u>(32,325)</u>	<u>14,113</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	62,788	(32,603)	30,760	60,945
Capital Grants and Contributions	<u>32,260</u>	<u>11,079</u>	<u>(30,760)</u>	<u>12,579</u>
Increase (Decrease) in Net Assets	95,048	(21,524)	--	73,524
Net Assets Beginning of Year	<u>6,853,659</u>	<u>101,476</u>	<u>--</u>	<u>6,955,135</u>
Net Assets End of Year	<u>\$ 6,948,707</u>	<u>\$ 79,952</u>	<u>\$ --</u>	<u>\$ 7,028,659</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 775,093	61.6%	\$ 736,147	59.5%
31 - 90	276,078	21.9	238,893	19.3
91 - 150	72,388	5.8	76,580	6.2
151 - 180	14,985	1.2	32,153	2.6
181 and over	<u>119,436</u>	<u>9.5</u>	<u>153,157</u>	<u>12.4</u>
	<u>1,257,980</u>	<u>100.0%</u>	<u>1,236,930</u>	<u>100.0%</u>
Allowance for doubtful accounts	110,000		145,750	
Allowance for contractual adjustments	<u>300,000</u>		<u>285,000</u>	
	<u>\$ 847,980</u>		<u>\$ 806,180</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance, beginning	\$ 145,750	\$ 145,000
Provision for bad debts	280,829	147,688
Recoveries of accounts previously written off	<u>146,902</u>	<u>144,780</u>
	573,481	437,468
Accounts written off	<u>463,481</u>	<u>291,718</u>
Balance, ending	<u>\$ 110,000</u>	<u>\$ 145,750</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2008	2007
<u>Inventory</u>		
Medical and surgical	\$ 26,886	\$ 19,993
Pharmacy	44,430	45,605
Laboratory and radiology	27,432	36,388
	\$ 98,748	\$ 101,986
 <u>Prepaid Expense</u>		
Insurance	\$ 29,163	\$ 42,364
Service contracts	43,247	38,851
	\$ 72,410	\$ 81,215

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2008		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 334,127	\$ --	\$ --
Swing bed	--	--	154,050
	<u>334,127</u>	<u>--</u>	<u>154,050</u>
Other Nursing Services:			
Operating and recovery rooms	30,925	828,840	3,150
Emergency service	12,677	274,450	33
Central services and supply	127,545	287,270	43,108
Intravenous therapy	40,700	41,068	8,825
Observation	--	79,358	--
	<u>211,847</u>	<u>1,510,986</u>	<u>55,116</u>
Other Professional Services:			
Emergency room physician	--	190,209	--
Anesthesiology	7,270	187,680	1,050
Laboratory	219,430	1,756,516	35,009
Radiology	92,298	1,551,001	9,315
Blood administration	16,958	58,966	1,102
Pharmacy	178,504	302,764	99,217
Chemotherapy	--	129,703	--
Electrocardiology	13,404	211,237	1,804
Physical therapy	4,323	266,374	41,893
Speech therapy	638	6,915	5,909
Occupational therapy	1,394	33,217	26,639
Cardiac rehabilitation	--	107,075	--
Ambulance services	--	196,287	--
Industrial Health	63,621	--	--
Home Health Care	--	180,418	--
Hospice	9,156	329,440	--
Clinic services	--	26,470	--
	<u>606,996</u>	<u>5,534,272</u>	<u>221,938</u>
	<u>\$ 1,152,970</u>	<u>\$ 7,045,258</u>	<u>\$ 431,104</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>
<u>Total</u>	<u>Total</u>
\$ 334,127	\$ 321,039
<u>154,050</u>	<u>156,600</u>
488,177	477,639
862,915	892,425
287,160	247,313
457,923	372,579
90,593	89,283
<u>79,358</u>	<u>74,133</u>
1,777,949	1,675,733
190,209	137,281
196,000	178,415
2,010,955	1,865,135
1,652,614	1,317,055
77,026	89,750
580,485	520,342
129,703	247,225
226,445	210,059
312,590	253,615
13,462	4,405
61,250	49,010
107,075	98,610
196,287	164,954
63,621	61,262
180,418	166,954
338,596	343,600
<u>26,470</u>	<u>30,732</u>
<u>6,363,206</u>	<u>5,738,404</u>
<u>\$ 8,629,332</u>	<u>\$ 7,891,776</u>

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

	2008	2007
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 8,629,332	\$ 7,891,776
Contractual adjustments	(1,795,392)	(1,483,839)
Provision for bad debts	(280,829)	(147,688)
Charity care	(22,111)	(12,428)
Employee discounts	(9,672)	(10,648)
	<u>\$ 6,521,328</u>	<u>\$ 6,237,173</u>
 <u>Other Revenue</u>		
Meals sold	\$ 14,220	\$ 14,344
Histories	3,535	19,740
Lifeline	16,234	16,010
Sale of x-ray film	--	20
Ambulance support	18,000	--
Rent income	14,590	14,255
Miscellaneous	24,592	13,311
	<u>\$ 91,171</u>	<u>\$ 77,680</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2008		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing administration	\$ 69,023	\$ --	\$ 1,497
Medical and surgical	563,959	--	70,455
	<u>632,982</u>	--	<u>71,952</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	132,769	--	57,888
Central services and supply	27,671	--	173,309
Emergency service	81,478	--	16,929
	<u>241,918</u>	--	<u>248,126</u>
<u>Other Professional Services</u>			
Laboratory	199,261	--	255,857
Blood administration	--	--	22,468
Electrocardiology	--	--	4,915
Radiology	182,351	82	265,492
Cardiac rehabilitation	96,825	--	3,303
Pharmacy	105	--	184,025
Chemotherapy	7,618	--	45,018
Anesthesiology	--	--	556
Ambulance services	88,861	--	17,272
Physical therapy	24,175	--	2,652
Speech therapy	--	--	--
Occupational therapy	--	--	1,201
Industrial Health	41,564	--	6,285
Home Health Care	166,167	--	35,168
Medical records	71,617	--	27,386
Hospice	103,411	--	84,691
	<u>981,955</u>	<u>82</u>	<u>956,289</u>
<u>General Services</u>			
Dietary	109,613	--	62,420
Plant operations	92,546	--	193,530
Housekeeping	68,349	--	14,410
Laundry and linen	--	--	19,802
	<u>270,508</u>	--	<u>290,162</u>
<u>Fiscal and Administrative Services</u>	225,987	606,643	286,149
<u>Provision for Depreciation</u>	--	--	689,941
Total all departments	<u>\$ 2,353,350</u>	<u>\$ 606,725</u>	<u>\$ 2,542,619</u>

See Independent Auditor's Report.

<u>2008</u>			
<u>Professional Fees</u>	<u>Total</u>		<u>2007 Total</u>
\$ --	\$ 70,520	\$	62,024
--	<u>634,414</u>		<u>669,155</u>
--	704,934		731,179
2,919	193,576		186,974
--	200,980		128,991
<u>556,887</u>	<u>655,294</u>		<u>508,831</u>
559,806	1,049,850		824,796
12,344	467,462		396,521
--	22,468		28,827
21,203	26,118		52,652
32,485	480,410		391,176
--	100,128		94,850
30,624	214,754		247,108
--	52,636		77,328
105,676	106,232		108,634
--	106,133		86,055
158,015	184,842		166,577
6,324	6,324		2,643
37,344	38,545		33,555
--	47,849		37,715
--	201,335		214,080
--	99,003		111,100
--	<u>188,102</u>		<u>197,534</u>
404,015	2,342,341		2,246,355
12,207	184,240		180,563
--	286,076		263,495
--	82,759		72,142
--	<u>19,802</u>		<u>18,274</u>
12,207	572,877		534,474
183,861	1,302,640		1,227,732
--	<u>689,941</u>		<u>703,485</u>
<u>\$ 1,159,889</u>	<u>\$ 6,662,583</u>	<u>\$</u>	<u>6,268,021</u>

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

	2008	2007
Fiscal and Administrative:		
Salaries and wages	\$ 225,987	\$ 221,112
Professional fees	183,861	166,273
Dues	8,650	10,339
Telephone	14,743	13,601
Supplies and other expense	176,095	147,347
	609,336	558,672
Employee Welfare:		
Payroll taxes	321,680	301,585
Group health insurance	261,050	275,079
Other employee benefits	23,913	15,749
	606,643	592,413
Insurance:		
Liability and property insurance	62,353	67,288
Foundation Expenditures:		
Supplies and other expense	24,308	9,359
	\$ 1,302,640	\$ 1,227,732

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acute Care:					
Admissions	196	204	166	213	242
Discharges	203	203	167	212	247
Patient Days	644	598	535	648	760
Average Length of Stay	3.2	2.9	3.2	3.1	3.1
Average Occupied Beds	1.8	1.6	1.5	1.8	2.1
Swing Bed:					
Admissions	77	73	52	74	81
Discharges	83	67	55	70	83
SNF Days	522	528	339	525	589
ICF Days	43	76	29	61	47
Combined Average Occupied Beds	3.3	3.3	2.5	3.4	3.8
Outpatient Occasions of Service	33,651	32,302	33,287	24,588	23,299
Home Healthcare Visits	2,595	2,705	2,599	2,335	2,224

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Consolidated Balance Sheets
June 30,

	2008	2007
Current Assets:		
Cash	\$ 598,207	\$ 706,258
Receivables	861,216	819,531
Inventory	98,748	101,986
Prepaid expense	72,410	81,215
Estimated third-party payor settlement	--	--
Internally designated assets	330,274	258,070
Total current assets	1,960,855	1,967,060
Other Assets:		
Designated and restricted assets	591,982	336,734
Capital assets, net	6,843,888	7,060,697
	7,435,870	7,397,431
 Total assets	 \$ 9,396,725	 \$ 9,364,491
Current Liabilities:		
Current maturities	\$ 319,256	\$ 258,070
Accounts payable	200,802	298,668
Accrued expenses	166,700	180,281
Accrued interest	6,212	6,832
Estimated third party payor settlements	100,000	100,000
Total current liabilities	792,970	843,851
 Long-Term Debt, Net	1,532,723	1,491,981
Total liabilities	2,325,693	2,335,832
 Net Assets	7,071,032	7,028,659
 Total liabilities and net assets	 \$ 9,396,725	 \$ 9,364,491

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 245,254	\$ 641,647	\$ 1,627,693
693,174	693,868	526,483
95,823	86,538	108,741
67,791	49,115	64,309
40,000	--	--
<u>352,273</u>	<u>272,209</u>	<u>65,570</u>
1,494,315	1,743,377	2,392,796
255,599	399,189	909,897
<u>7,696,855</u>	<u>6,973,519</u>	<u>4,582,184</u>
<u>7,952,454</u>	<u>7,372,708</u>	<u>5,492,081</u>
<u>\$ 9,446,769</u>	<u>\$ 9,116,085</u>	<u>\$ 7,884,877</u>
\$ 249,949	\$ 14,908	\$ 34,009
325,912	509,090	238,765
161,558	212,521	204,552
4,164	--	--
--	<u>520,000</u>	<u>538,000</u>
<u>741,583</u>	1,256,519	1,015,326
<u>1,750,051</u>	<u>985,092</u>	<u>465,991</u>
2,491,634	2,241,611	1,481,317
<u>6,955,135</u>	<u>6,874,474</u>	<u>6,403,560</u>
<u>\$ 9,446,769</u>	<u>\$ 9,116,085</u>	<u>\$ 7,884,877</u>

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

	<u>2008</u>	<u>2007</u>
Patient Service Revenue	\$ 8,629,332	\$ 7,891,776
Adjustments to Patient Service Revenue	<u>(2,108,004)</u>	<u>(1,654,603)</u>
Net Patient Service Revenue	6,521,328	6,237,173
Other Revenue	<u>91,171</u>	<u>77,680</u>
Total Revenue	6,612,499	6,314,853
Expenses	<u>6,662,583</u>	<u>6,268,021</u>
Operating Income (Loss)	(50,084)	46,832
Non-Operating Revenues, Net	<u>66,851</u>	<u>14,113</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	16,767	60,945
Capital Grants and Contributions	<u>25,606</u>	<u>12,579</u>
Increase in Net Assets	<u>\$ 42,373</u>	<u>\$ 73,524</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 7,829,759	\$ 7,552,207	\$ 6,633,508
<u>(1,832,753)</u>	<u>(1,696,127)</u>	<u>(1,448,295)</u>
5,997,006	5,856,080	5,185,213
<u>72,339</u>	<u>71,269</u>	<u>75,277</u>
6,069,345	5,927,349	5,260,490
<u>6,129,221</u>	<u>5,587,125</u>	<u>5,106,048</u>
(59,876)	340,224	154,442
<u>98,407</u>	<u>60,650</u>	<u>128,496</u>
38,531	400,874	282,938
<u>42,130</u>	<u>70,040</u>	<u>219,194</u>
<u>\$ 80,661</u>	<u>\$ 470,914</u>	<u>\$ 502,132</u>

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
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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, 2008, and have issued our report thereon dated August 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Hospital's financial statements, that is more than inconsequential, will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees of
Pocahontas Community Hospital

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the 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.

Pocahontas Community Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Pocahontas Community Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kyhmn + Co. P.C.

Atlantic, Iowa
August 28, 2008

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-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.

* * *

POCAHONTAS COMMUNITY HOSPITAL
 Schedule of Findings - Continued
 Year ended June 30, 2008

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

08-II-A 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, 2008.

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.

08-II-B 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 April 25, 1979. The expenditures were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Palmer House	Employee Recognition Dinner	\$ 1,426
Gavin Jerome Productions	Speaker - Recognition Dinner	750
Community Building	Rent - Recognition Dinner	100

Recommendation: We recommend that the Board continue to document the public purpose of expenditures for employee recognition dinners before authorization is given.

Response: The recognition dinner 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 April 25, 1979.

Conclusion: Response accepted.

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

POCAHONTAS COMMUNITY HOSPITAL
 Schedule of Findings - Continued
 Year ended June 30, 2008

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
 Continued

08-II-D 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>
Pocahontas Ford Gustave Holzmueller is the owner of the business, a City Council Member, and the husband of Bev Holzmueller, a Hospital Board member	Miscellaneous repairs	\$ <u>840</u>
Sale Barn Realty Rick Winegarden is the owner of Sale Barn Realty and a Hospital Board member	Recruitment-Advertising Pass through of costs for convenience of Hospital	\$ <u>2,299</u>
Record Democrat Brooks Taylor, owner of the Record Democrat, is a City Council member	Newspaper publishing	\$ <u>7,562</u>

The transactions with Pocahontas Ford and Sale Barn Realty do not appear to represent a conflict of interest since the total does not exceed \$2,500.

The transactions with the Record Democrat exceed \$2,500, however, transactions with this (the only) newspaper in Pocahontas, are necessary for the Hospital to carry on business.

Recommendation: The Board should continue to monitor purchases from board member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for such transactions should be documented.

Response: The Board will continue to monitor and document reasons for transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

08-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

08-II-F 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.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2008

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

08-II-G Economic Development: During the year ended June 30, 2008, the Hospital paid \$500 to the Pocahontas County Economic Development Commission. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

* * *