POCAHONTAS COMMUNITY HOSPITAL

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

YEARS ENDED JUNE 30, 2009 AND 2008

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2009

Name	Title	Term Expires
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 Stoulil	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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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, 2009 and 2008, 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, 2009 and 2008, 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 13, 2009 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, 2007 (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.

Stonewold, Bell, Kyhnn + Co. P.C.
Atlantic, Iowa
August 13, 2009

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, 2009, 2008, and 2007. 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 $213,878 or 3.0 percent increase in 2009 and an $42,373 or .6 percent increase in 2008.

The Hospital reported operating income of $86,166 in 2009 and an operating loss of $50,084 in 2008.

Nonoperating revenues, net increased by $46,405 in 2009 as a result of an approximate $55,154 increase in gifts and grants. The nonoperating revenues, net increased by $52,738 or 374% in 2008.

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

	2009	2008	2007
Assets:			
Current assets	$ 2,164,133	$ 1,960,855	$ 1,967,060
Capital assets, net	6,355,746	6,843,888	7,060,697
Other assets, net	736,581	591,982	336,734
Total assets	$ 9,256,460	$ 9,396,725	$ 9,364,491
Liabilities:			
Long-term debt, less current maturities	$ 1,197,903	$ 1,532,723	$ 1,491,981
Other current and noncurrent liabilities	773,647	792,970	843,851
Total liabilities	$ 1,971,550	$ 2,325,693	$ 2,335,832
Net Assets:			
Invested in capital assets	$ 4,824,022	$ 4,991,909	$ 5,310,646
Restricted expendable assets	93,336	96,276	79,952
Unrestricted	2,367,552	1,982,847	1,638,061
Total net assets	$ 7,284,910	$ 7,071,032	$ 7,028,659

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2009, the Hospital's net assets increased by $213,878 or 3.0 percent, as shown in Table 2. This compares with the .6% increase in net assets of $42,373 for 2008.

Net patient service revenue increased $673,209 or 10.3% in 2009 ($284,155 or 4.6% in 2008).

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues:			
Net patient service revenues	$ 7,194,537	$ 6,521,328	$ 6,237,173
Other operating revenues	84,079	91,171	77,680
Total operating revenues	7,278,616	6,612,499	6,314,853
Operating Expenses:			
Nursing service	1,988,971	1,754,784	1,555,975
Other professional service	2,513,170	2,342,341	2,246,355
General Service	597,687	572,877	534,474
Fiscal and administrative service	1,462,316	1,302,640	1,227,732
Provision for depreciation	630,306	689,941	703,485
Total operating expenses	7,192,450	6,662,583	6,268,021
Operating income (loss)	86,166	(50,084)	46,832
Nonoperating Revenues and Expenses:			
Noncapital gifts, grants and bequests	163,598	108,444	65,556
Investment income	31,371	52,556	32,182
Ambulance subsidy	6,274	5,600	5,333
Interest expense	(87,687)	(93,690)	(88,562)
Clinic operations, net	(300)	(420)	(396)
Loss on disposal of equipment	--	(5,639)	--
Non-operating revenues, net	113,256	66,851	14,113
Excess of Revenues Over Expenses Before Capital Grants and Contributions	199,422	16,767	60,945
Capital Grants and Contributions	14,456	25,606	12,579
Increase in Net Assets	213,878	42,373	73,524
Net Assets Beginning of Year	7,071,032	7,028,659	6,955,135
Net Assets End of Year	$ 7,284,910	$ 7,071,032	$ 7,028,659

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 operating income of $81,166. Operating income increased from a loss of $50,084 in 2008 to income of $86,166 in 2009.

The primary components of this increase in operating incomes are:

The provision for bad debts included a 31.3% ($87,870) decrease. There was an 8.2% ($147,683) decrease in the contractual adjustments, and a 8.4% ($1,847) decrease in charity care adjustments.

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 $52,556 in 2008 to $31,371 in 2009. This decrease is the result of declining interest rates received on investments over the past year.

GRANTS AND CONTRIBUTIONS

The Hospital received $47,523 in grant funds through the SHIP, FLEX and HRSA grant programs in 2009.

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, 2009 was prepared on an accrual basis. Actual expenditures were lower than the budget by $719,863 due to a change in services provided.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2008, the Hospital had $4,991,909 invested in capital assets, net of accumulated depreciation and related debt. In 2009, the Hospital purchased new equipment costing $152,739. The Hospital had $4,824,022 invested in capital assets net of accumulated depreciation and related debt at the end of 2009.

Debt:

At year-end, the Hospital had $1,531,724 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.

OTHER ECONOMIC FACTORS

Declining employment in the county related to the economic downturn has resulted in residents losing jobs or having a reduction in paid hours and as a result losing or reducing insurance coverage. Those uninsured patients are more selective in seeking healthcare and are postponing services if they are able. Many of these patients, because they are still employed, may not qualify for financial assistance. These factors have decreased both the amount of charity care and bad debts to the hospital, as people work toward paying off current medical bills and avoid incurring new ones.

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

	2009	2008
Current Assets:		
Cash	$ 728,994	$ 598,207
Patient receivables, less allowances for doubtful accounts and for contractual adjustments ($390,000 in 2009, $410,000 in 2008)	897,736	847,980
Other receivables	11,270	13,236
Inventory	102,639	98,748
Prepaid expense	89,673	72,410
Internally designated assets	333,821	330,274
Total current assets	2,164,133	1,960,855
Designated and Restricted Assets:		
Internally designated assets	884,978	825,980
Restricted assets	93,336	96,276
	978,314	922,256
Less amounts required to meet current liabilities	333,821	330,274
	644,493	591,982
Capital Assets:		
Depreciable capital assets, net	6,343,246	6,831,388
Non-depreciable capital assets	12,500	12,500
	6,355,746	6,843,888
Other Assets	92,088	--
Total assets	$ 9,256,460	$ 9,396,725

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities:		
Current maturities of long-term debt	$ 333,821	$ 319,256
Accounts payable	202,229	200,802
Accrued employee compensation	185,923	166,100
Other accrued expenses	26,044	600
Accrued interest	5,630	6,212
Estimated third-party payor settlements	20,000	100,000
Total current liabilities	773,647	792,970
Long-Term Debt, less current maturities	1,197,903	1,532,723
Total liabilities	1,971,550	2,325,693
Net Assets:		
Invested in capital assets, net of related debt	4,824,022	4,991,909
Restricted - expendable	93,336	96,276
Unrestricted	2,367,552	1,982,847
	7,284,910	7,071,032
Total liabilities and net assets	$ 9,256,460	$ 9,396,725

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

	2009	2008
Revenue:		
Net patient service revenue	$ 7,194,537	$ 6,521,328
Other revenue	84,079	91,171
Total revenue	7,278,616	6,612,499
Expenses:		
Nursing service	1,988,971	1,754,784
Other professional service	2,513,170	2,342,341
General service	597,687	572,877
Fiscal and administrative service	1,462,316	1,302,640
Provision for depreciation	630,306	689,941
Total expenses	7,192,450	6,662,583
Operating Income (Loss)	86,166	(50,084)
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	163,598	108,444
Investment income	31,371	52,556
Ambulance subsidy	6,274	5,600
Interest expense	(87,687)	(93,690)
Clinic operations, net	(300)	(420)
Loss on disposal of equipment	--	(5,639)
Non-operating revenues, net	113,256	66,851
Excess of Revenues Over Expenses Before Capital Grants and Contributions	199,422	16,767
Capital Grants and Contributions	14,456	25,606
Increase in Net Assets	213,878	42,373
Net Assets Beginning of Year	7,071,032	7,028,659
Net Assets End of Year	$ 7,284,910	$ 7,071,032

The accompanying notes are an integral part of these statements.

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

	2009	2008
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 7,066,747	$ 6,479,643
Cash paid to suppliers	(4,030,295)	(3,731,297)
Cash paid to employees	(2,481,402)	(2,351,767)
Other operating revenue	84,079	91,171
Net cash provided by operating activities	639,129	487,750
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	146,048	91,906
Ambulance subsidy	6,274	5,600
Net cash provided by non-capital financing activities	152,322	97,506
Cash flows from capital and related financing activities:		
Capital expenditures	(153,182)	(467,753)
Proceeds from long-term debt	--	360,000
Capital grants and contributions	16,203	47,159
Principal paid on long-term debt	(320,255)	(258,072)
Interest paid	(70,719)	(77,772)
Net cash used in capital and related financing activities	(527,953)	(396,438)
Cash flows from investing activities:		
Change in designated and restricted assets	(14,042)	(410,424)
Investment income	31,371	52,556
Clinic operations, net	(300)	(420)
Other asset expenditures	(105,977)	--
Net cash used in investing activities	(88,948)	(358,288)
Net increase (decrease) in cash and cash equivalents	174,550	(169,470)
Cash and cash equivalents beginning of year	702,242	871,712
Cash and cash equivalents end of year	$ 876,792	$ 702,242
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	$ 728,994	$ 598,207
Cash and cash equivalents in designated and restricted assets	147,798	104,035
Total cash and cash equivalents	$ 876,792	$ 702,242

(continued next page)

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

	2009	2008
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 86,166	$(50,084)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	630,306	689,941
Amortization	13,889	--
Change in assets and liabilities		
Accounts receivable	(47,790)	(41,685)
Inventory	(3,891)	3,238
Prepaid expense	(17,263)	8,805
Accounts payable - trade	12,445	(108,884)
Accrued employee compensation	19,823	1,583
Other accrued expenses	25,444	(15,164)
Estimated third-party payor settlements	(80,000)	--
Total adjustments	552,963	537,834
Net cash provided by operating activities	$ 639,129	$ 487,750

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:

	2009	2008
Interest imputed on loan and recorded as a gift	$ 17,550	$ 16,538
Net book value of asset traded	$ 10,575	$ --

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 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.

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 2009 or 2008.

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.

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, 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, 2007. The Medicaid cost reports have been finalized through June 30, 2006. 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:

	2009	2008
Capital items	$ 6,146	$ 11,508
Hospice services	27,137	19,518
Cardiac rehab	1,030	2,511
Scholarships	1,000	--
Foundation discretionary	58,023	62,739
Total restricted expendable net assets	$ 93,336	$ 96,276

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, 2009 and 2008.

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:

	2009	2008
Purpose of Restrictions Accomplished:		
Capital items	$ 14,456	$ 25,606
Hospice costs	22,767	24,276
Cardiac rehabilitation	1,481	585
Other Foundation projects	24,298	22,864
	$ 63,002	$ 73,331

NOTE E - DESIGNATED NET ASSETS

Of the $2,367,552 ($1,982,847 as of June 30, 2008) of unrestricted net assets as of June 30, 2009, $884,978 ($825,980 for 2008) 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, 2009 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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:

	2009	2008
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	$ 54,462	$ 9,506
Certificates of deposit	426,880	414,060
Interest receivable	3,636	2,414
Hospital designated endowments:		
Certificates of deposit	400,000	400,000
	$ 884,978	$ 825,980
Restricted Assets:		
Cash	$ 93,336	$ 94,529
Pledges receivable, net	--	1,747
	$ 93,336	$ 96,276

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, 2009 and 2008, was as follows:

	2009	2008
Receivable From:		
Patients	$ 418,914	$ 213,018
Medicare	496,896	565,424
Medicaid	74,887	111,419
Blue Cross	150,766	188,434
Workers Compensation	21,156	47,148
Others	125,117	132,537
	1,287,736	1,257,980
Less allowances for doubtful accounts and contractual adjustments	390,000	410,000
	$ 897,736	$ 847,980

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2009 and 2008 were as follows:

Cost	Balance 2008	Additions	Disposals	Balance 2009
Land Improvements	$ 138,960	$ 15,580	$ --	$ 154,540
Buildings	8,026,327	--	--	8,026,327
Fixed Equipment	626,476	--	--	626,476
Major Movable Equipment	2,659,842	137,159	182,512	2,614,489
	11,451,605	152,739	182,512	11,421,832
Depreciation				
Land Improvements	118,013	6,934	--	124,947
Buildings	2,275,226	346,494	--	2,621,720
Fixed Equipment	274,093	38,798	--	312,891
Major Movable Equipment	1,952,885	238,080	171,937	2,019,028
Total Depreciation	4,620,217	630,306	171,937	5,078,586
Depreciable Capital Assets, Net	$ 6,831,388	$(477,567)	$ 10,575	$ 6,343,246
Land	$ 12,500	$ --	$ --	$ 12,500

Cost	Balance 2007	Additions	Disposals	Balance 2008
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	2,668,087	402,789	411,034	2,659,842
	11,383,868	478,771	411,034	11,451,605
Depreciation				
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	2,063,576	294,704	405,395	1,952,885
Total Depreciation	4,335,671	689,941	405,395	4,620,217
Depreciable Capital Assets, Net	$ 7,048,197	$(211,170)	$(5,639)	$ 6,831,388
Land	$ 12,500	$ --	$ --	$ 12,500

NOTE I - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2009 and 2008 follows:

	Balance 2008	Additions	Reductions	Balance 2009	Current Portion
Note A	$1,491,979	$ --	$ 268,826	$1,223,153	$ 282,392
Note B	360,000	--	51,429	308,571	51,429
	$1,851,979	$ --	$ 320,255	$1,531,724	$ 333,821

	Balance 2007	Additions	Reductions	Balance 2008	Current Portion
Note A	$1,750,051	$ --	$ 258,072	$1,491,979	$ 267,827
Note B	--	360,000	--	360,000	51,429
	$1,750,051	$ 360,000	$ 258,072	$1,851,979	$ 319,256

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.

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 5.25%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of $4,286 are being made to the City through July, 2015. The note is collateralized by the equipment purchased (with a net book value of $236,154).

The annual debt service on the notes 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 $391,000 and $915,000 respectively.

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

	Long-Term Debt		
Year Ending June 30,	Principal	Interest	Total
2010	$ 333,821	$ 57,487	$ 391,308
2011	349,008	42,300	391,308
2012	365,013	26,295	391,308
2013	381,878	9,430	391,308
2014	51,429	--	51,429
2015	50,575	--	50,575
	$ 1,531,724	$ 135,512	$ 1,667,236

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.

Regular plan members are required to contributee 4.10% (4.30% July 1, 2009) of their annual salary and the Hospital is required to contribute 6.35% (6.65% July 1, 2009) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were approximately $157,400, $143,800, and $131,000, 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.

Other Post Employment Benefits (OPEB)
The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2009

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, 2009 (Hospital only, excluding Foundation).

	Total Per Hospital Statements	Budget	Amount Under Budget
Expenses	$ 7,280,137	$ 8,000,000	$ 719,863

* * *

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2009

ASSETS

	Hospital	Foundation	Total
Current Assets:			
Cash	$ 728,994	$ --	$ 728,994
Patient receivables, net	897,736	--	897,736
Other receivables	11,270	--	11,270
Inventory	102,639	--	102,639
Prepaid expense	89,673	--	89,673
Internally designated assets	333,821	--	333,821
Total current assets	2,164,133	--	2,164,133
Designated and Restricted Assets:			
Internally designated assets	884,978	--	884,978
Restricted assets	--	93,336	93,336
Current portion	(333,821)	--	(333,821)
	551,157	93,336	644,493
Depreciable Capital Assets, Net	6,343,246	--	6,343,246
Non-depreciable Capital Assets	12,500	--	12,500
Other Assets	92,088	--	92,088
Total assets	$ 9,163,124	$ 93,336	$ 9,256,460

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	$ 333,821	$ --	$ 333,821
Accounts payable	202,229	--	202,229
Accrued employee compensation	185,923	--	185,923
Other accrued expenses	26,044	--	26,044
Accrued interest	5,630	--	5,630
Estimated third-party payor settlement	20,000	--	20,000
Total current liabilities	773,647	--	773,647
Long-Term Debt, less current maturities	1,197,903	--	1,197,903
Net Assets:			
Invested in capital assets, net	4,824,022	--	4,824,022
Restricted - expendable	--	93,336	93,336
Unrestricted	2,367,552	--	2,367,552
Total liabilities and net assets	$ 9,163,124	$ 93,336	$ 9,256,460

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Balance Sheets
June 30, 2008

ASSETS

	Hospital	Foundation	Total
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 Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2009

	Hospital	Foundation	Eliminations	Total
Revenue:				
Net patient service revenue	$ 7,194,537	$ --	$ --	$ 7,194,537
Other revenue	84,079	--	--	84,079
Total revenue	7,278,616	--	--	7,278,616
Expenses:				
Nursing service	1,988,971	--	--	1,988,971
Other professional service	2,513,170	--	--	2,513,170
General service	597,687	--	--	597,687
Fiscal and administrative service	1,410,868	114,722	(63,274)	1,462,316
Provision for depreciation	630,306	--	--	630,306
Total expenses	7,141,002	114,722	(63,274)	7,192,450
Operating Income (Loss)	137,614	(114,722)	63,274	86,166
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	108,994	96,022	(41,418)	163,598
Investment income	30,067	1,304	--	31,371
Ambulance subsidy	6,274	--	--	6,274
Interest expense	(87,687)	--	--	(87,687)
Clinic operations, net	(300)	--	--	(300)
Loss on disposal of equipment	--	--	--	--
Non-operating revenues, net	57,348	97,326	(41,418)	113,256
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	194,962	(17,396)	21,856	199,422
Capital Grants and Contributions	21,856	14,456	(21,856)	14,456
Increase (Decrease) in Net Assets	216,818	(2,940)	--	213,878
Net Assets Beginning of Year	6,974,756	96,276	--	7,071,032
Net Assets End of Year	$ 7,191,574	$ 93,336	$ --	$ 7,284,910

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
Patient Receivables
June 30,

Analysis of Aging:

Days Since Discharge	2009 Amount	2009 Percent to Total	2008 Amount	2008 Percent to Total
0 - 30	$ 808,795	62.8%	$ 775,093	61.6%
31 - 90	210,560	16.4	276,078	21.9
91 - 180	136,556	10.6	87,374	7.0
181 - 360	101,978	7.9	68,285	5.4
361 and over	29,847	2.3	51,150	4.1
	1,287,736	100.0%	1,257,980	100.0%
Allowance for doubtful accounts	130,000		110,000	
Allowance for contractual adjustments	260,000		300,000	
	$ 897,736		$ 847,980	

Allowance for Doubtful Accounts:

	Year ended June 30, 2009	Year ended June 30, 2008
Balance, beginning	$ 110,000	$ 145,750
Provision for bad debts	192,959	280,829
Recoveries of accounts previously written off	228,394	146,902
	531,353	573,481
Accounts written off	401,353	463,481
Balance, ending	$ 130,000	$ 110,000

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2009	2008
Inventory		
Medical and surgical	$ 22,351	$ 26,886
Pharmacy	50,385	44,430
Laboratory and radiology	29,903	27,432
	$ 102,639	$ 98,748
Prepaid Expense		
Insurance	$ 39,142	$ 29,163
Service contracts	50,531	43,247
	$ 89,673	$ 72,410

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2009		
	Inpatient	Outpatient	Swing Bed
Daily Patient Services:			
Medical and surgical	$ 313,524	$ --	$ --
Swing bed	--	--	203,186
	313,524	--	203,186
Other Nursing Services:			
Operating and recovery rooms	19,475	845,085	385
Emergency service	2,625	372,155	40
Central services and supply	129,856	279,446	57,844
Intravenous therapy	25,688	32,618	9,950
Observation	--	76,834	--
	177,644	1,606,138	68,219
Other Professional Services:			
Emergency room physician	--	376,995	--
Anesthesiology	3,920	153,430	--
Laboratory	161,368	1,918,491	38,997
Radiology	53,537	1,439,566	7,418
Blood administration	22,970	40,335	4,980
Pharmacy	143,494	375,450	101,236
Chemotherapy	112	96,606	10
Electrocardiology	10,094	198,241	135
Physical therapy	7,345	288,814	42,182
Speech therapy	181	9,928	3,235
Occupational therapy	4,526	80,859	26,240
Cardiac rehabilitation	--	109,464	--
Ambulance services	384	259,191	--
Industrial Health	58,237	--	--
Home Health Care	--	126,648	--
Hospice	11,667	483,755	--
Clinic services	--	35,510	--
	477,835	5,993,283	224,433
	$ 969,003	$ 7,599,421	$ 495,838

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2009 Total	2008 Total
$ 313,524	$ 334,127
203,186	154,050
516,710	488,177
864,945	862,915
374,820	287,160
467,146	457,923
68,256	90,593
76,834	79,358
1,852,001	1,777,949
376,995	190,209
157,350	196,000
2,118,856	2,010,955
1,500,521	1,652,614
68,285	77,026
620,180	580,485
96,728	129,703
208,470	226,445
338,341	312,590
13,344	13,462
111,625	61,250
109,464	107,075
259,575	196,287
58,237	63,621
126,648	180,418
495,422	338,596
35,510	26,470
6,695,551	6,363,206
$ 9,064,262	$ 8,629,332

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

	2009	2008
Net Patient Service Revenue		
Patient service revenue	$ 9,064,262	$ 8,629,332
Contractual adjustments	(1,647,709)	(1,795,392)
Provision for bad debts	(192,959)	(280,829)
Charity care	(20,264)	(22,111)
Employee discounts	(8,793)	(9,672)
	$ 7,194,537	$ 6,521,328
Other Revenue		
Meals sold	$ 14,904	$ 14,220
Histories	1,783	3,535
Lifeline	15,317	16,234
Ambulance support	16,000	18,000
Rent income	11,000	14,590
Miscellaneous	25,075	24,592
	$ 84,079	$ 91,171

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2009		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
Daily Patient Services			
Nursing administration	$ 71,349	$ 55	$ 2,281
Medical and surgical	630,447	--	100,514
	701,796	55	102,795
Other Nursing Services			
Operating and recovery rooms	106,577	--	47,538
Central services and supply	33,926	--	172,817
Emergency service	88,251	--	3,657
	228,754	--	224,012
Other Professional Services			
Laboratory	210,840	--	234,069
Blood administration	--	--	22,119
Electrocardiology	--	--	1,809
Radiology	189,744	--	297,204
Cardiac rehabilitation	98,051	--	2,090
Pharmacy	24	--	201,081
Chemotherapy	6,858	--	29,476
Anesthesiology	--	--	454
Ambulance services	101,183	--	19,576
Physical therapy	23,829	--	2,869
Speech therapy	--	--	--
Occupational therapy	--	--	140
Industrial Health	50,972	--	5,048
Home Health Care	154,127	--	31,829
Medical records	78,466	--	33,354
Hospice	131,804		147,361
	1,045,898	--	1,028,479
General Services			
Dietary	116,176	--	62,911
Plant operations	114,861	--	181,032
Housekeeping	73,071	--	15,940
Laundry and linen	--	--	20,984
	304,108	--	280,867
Fiscal and Administrative Services	220,669	687,462	351,682
Provision for Depreciation	--	--	630,306
Total all departments	$ 2,501,225	$ 687,517	$ 2,618,141

See Independent Auditor's Report.

2009		
Professional Fees	Total	2008 Total
$ --	$ 73,685	$ 70,520
--	730,961	634,414
--	804,646	704,934
--	154,115	193,576
--	206,743	200,980
731,559	823,467	655,294
731,559	1,184,325	1,049,850
14,301	459,210	467,462
--	22,119	22,468
14,495	16,304	26,118
29,151	516,099	480,410
--	100,141	100,128
51,734	252,839	214,754
--	36,334	52,636
81,525	81,979	106,232
--	120,759	106,133
171,667	198,365	184,842
8,132	8,132	6,324
67,788	67,928	38,545
--	56,020	47,849
--	185,956	201,335
--	111,820	99,003
--	279,165	188,102
438,793	2,513,170	2,342,341
12,712	191,799	184,240
--	295,893	286,076
--	89,011	82,759
--	20,984	19,802
12,712	597,687	572,877
202,503	1,462,316	1,302,640
--	630,306	689,941
$ 1,385,567	$ 7,192,450	$ 6,662,583

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

	2009	2008
Fiscal and Administrative:		
Salaries and wages	$ 220,669	$ 225,987
Professional fees	202,503	183,861
Recruitment fees	43,897	--
Dues	17,180	8,650
Telephone	14,086	14,743
Supplies and other expense	163,830	176,095
	662,165	609,336
Employee Welfare:		
Payroll taxes	343,158	321,680
Group health insurance	304,010	261,050
Other employee benefits	40,294	23,913
	687,462	606,643
Insurance:		
Liability and property insurance	61,241	62,353
Foundation Expenditures:		
Supplies and other expense	51,448	24,308
	$ 1,462,316	$ 1,302,640

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	2009	2008	2007	2006	2005
Acute Care:					
Admissions	185	196	204	166	213
Discharges	185	203	203	167	212
Patient Days	548	644	598	535	648
Average Length of Stay	3.0	3.2	2.9	3.2	3.1
Average Occupied Beds	1.5	1.8	1.6	1.5	1.8
Swing Bed:					
Admissions	77	77	73	52	74
Discharges	77	83	67	55	70
SNF Days	543	522	528	339	525
ICF Days	162	43	76	29	61
Combined Average Occupied Beds	3.4	3.3	3.3	2.5	3.4
Outpatient Occasions of Service	31,572	33,651	32,302	33,287	24,588
Home Healthcare Visits	2,281	2,595	2,705	2,599	2,335

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Consolidated Balance Sheets
June 30,

	2009	2008
Current Assets:		
Cash	$ 728,994	$ 598,207
Receivables	909,006	861,216
Inventory	102,639	98,748
Prepaid expense	89,673	72,410
Estimated third-party payor settlement	--	--
Internally designated assets	333,821	330,274
Total current assets	2,164,133	1,960,855
Other Assets:		
Designated and restricted assets	644,493	591,982
Capital assets, net	6,355,746	6,843,888
Other assets	92,088	--
	7,092,327	7,435,870
Total assets	$ 9,256,460	$ 9,396,725
Current Liabilities:		
Current maturities	$ 333,821	$ 319,256
Accounts payable	202,229	200,802
Accrued expenses	211,967	166,700
Accrued interest	5,630	6,212
Estimated third party payor settlements	20,000	100,000
Total current liabilities	773,647	792,970
Long-Term Debt, Net	1,197,903	1,532,723
Total liabilities	1,971,550	2,325,693
Net Assets	7,284,910	7,071,032
Total liabilities and net assets	$ 9,256,460	$ 9,396,725

See Independent Auditor's Report.

2007	2006	2005
$ 706,258	$ 245,254	$ 641,647
819,531	693,174	693,868
101,986	95,823	86,538
81,215	67,791	49,115
--	40,000	--
258,070	352,273	272,209
1,967,060	1,494,315	1,743,377
336,734	255,599	399,189
7,060,697	7,696,855	6,973,519
--	--	--
7,397,431	7,952,454	7,372,708
$ 9,364,491	$ 9,446,769	$ 9,116,085
$ 258,070	$ 249,949	$ 14,908
298,668	325,912	509,090
180,281	161,558	212,521
6,832	4,164	--
100,000	--	520,000
843,851	741,583	1,256,519
1,491,981	1,750,051	985,092
2,335,832	2,491,634	2,241,611
7,028,659	6,955,135	6,874,474
$ 9,364,491	$ 9,446,769	$ 9,116,085

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

	2009	2008
Patient Service Revenue	$ 9,064,262	$ 8,629,332
Adjustments to Patient Service Revenue	(1,869,725)	(2,108,004)
Net Patient Service Revenue	7,194,537	6,521,328
Other Revenue	84,079	91,171
Total Revenue	7,278,616	6,612,499
Expenses	7,192,450	6,662,583
Operating Income (Loss)	86,166	(50,084)
Non-Operating Revenues, Net	113,256	66,851
Excess of Revenues Over Expenses Before Capital Grants and Contributions	199,422	16,767
Capital Grants and Contributions	14,456	25,606
Increase in Net Assets	$ 213,878	$ 42,373

See Independent Auditor's Report.

2007	2006	2005
$ 7,891,776	$ 7,829,759	$ 7,552,207
(1,654,603)	(1,832,753)	(1,696,127)
6,237,173	5,997,006	5,856,080
77,680	72,339	71,269
6,314,853	6,069,345	5,927,349
6,268,021	6,129,221	5,587,125
46,832	(59,876)	340,224
14,113	98,407	60,650
60,945	38,531	400,874
12,579	42,130	70,040
$ 73,524	$ 80,661	$ 470,914

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, 2009, and have issued our report thereon dated August 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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, 2009 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.

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

Atlantic, Iowa
August 13, 2009

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2009

PART I - SIGNIFICANT DEFICIENCIES

09-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 - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

09-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, 2009.

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.

09-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:

Paid to	Purpose	Amount
Halderwood Farms	Employee Recognition Dinner	$ 2,117
Toby Kidd	Speaker - Recognition Dinner	1,500

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.

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

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

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

Name, Title and Business Connection	Description	Amount
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	$ 452
Sale Barn Realty Rick Winegarden is the owner of Sale Barn Realty and a Hospital Board member	Trucking	$ 240
Record Democrat Brooks Taylor, owner of the Record Democrat, is a City Council member	Newspaper publishing	$ 5,095

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.

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

09-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.

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

09-II-G Economic Development: During the year ended June 30, 2009, 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.

* * *