

POCAHONTAS COMMUNITY HOSPITAL

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2013 AND 2012

POCAHONTAS COMMUNITY HOSPITAL

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POCAHONTAS COMMUNITY HOSPITAL
 Officials
 June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Richard Gruber	Mayor	December, 2013
Gus Holzmueller	Member	December, 2015
Brian Stover	Member	December, 2015
John DeWall	Member	December, 2013
Jeff Nielsen	Member	December, 2013
Rod Stoullil	Member	December, 2013
Jeffrey A. Johnson	City Treasurer	Appointed Annually

HOSPITAL BOARD OF TRUSTEES

Rick Winegarden	President	December, 2015
Bev Holzmueller	Vice-President	December, 2013
Duane Wiemers	Secretary-Treasurer	December, 2013
Don Beneke	Member	December, 2015
Kim Wood	Member	December, 2015

HOSPITAL OFFICIALS

James Roetman	Chief Executive Officer
Lynne Raveling	Chief Financial Officer
Erin Peterson	Director of Patient Care
Susie Aden	Director of Outpatient Services

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pocahontas Community Hospital
Pocahontas, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated statements of net position of Pocahontas Community Hospital as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Pocahontas Community Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note L).

Qualified Opinion

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy referred to in the previous paragraph, the financial statements referred to above present fairly in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2013 and 2012 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3d and on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pocahontas Community Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 21 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Pocahontas Community Hospital

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2013 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 important for assessing the results of our audit.

Gronewald, Bell, Kyrum + Co. P.C.
Atlantic, Iowa
August 30, 2013



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) consolidated financial activity for the fiscal years ended June 30, 2013, 2012, and 2011. Please read it in conjunction with the Hospital's financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net position increased in each of the past two years with a \$13,777 or .16% increase in 2013 and a \$310,268 or 3.8% increase in 2012.

The Hospital reported an operating loss of \$144,316 in 2013 and an operating income of \$183,816 in 2012.

Non-operating revenues, net increased by \$30,915 in 2013 as a result of a \$36,584 increase in contributions. The nonoperating revenues, net decreased by \$14,884 in 2012.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; 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 CONSOLIDATED STATEMENTS OF NET POSITION AND CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 position and changes in them. The Hospital's net position - 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 CONSOLIDATED STATEMENTS 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 POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 4 as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 3,623,918	\$ 3,153,486	\$ 2,813,817
Capital assets, net	10,813,986	7,052,261	6,115,539
Other assets, net	<u>191,104</u>	<u>412,995</u>	<u>843,229</u>
Total assets	<u>\$ 14,629,008</u>	<u>\$ 10,618,742</u>	<u>\$ 9,772,585</u>
Liabilities:			
Long-term debt, less current maturities	\$ 4,142,287	\$ 686,263	\$ 430,172
Other current and noncurrent liabilities	<u>1,929,575</u>	<u>1,389,110</u>	<u>1,109,312</u>
Total liabilities	<u>\$ 6,071,862</u>	<u>\$ 2,075,373</u>	<u>\$ 1,539,484</u>
Net Position:			
Invested in capital assets	\$ 5,403,130	\$ 5,770,185	\$ 5,320,466
Restricted expendable assets	102,026	96,302	112,242
Unrestricted	<u>3,051,990</u>	<u>2,676,882</u>	<u>2,800,393</u>
Total net position	<u>\$ 8,557,146</u>	<u>\$ 8,543,369</u>	<u>\$ 8,233,101</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2013, the Hospital's net position increased by \$13,777 or 0.16%, as shown in Table 2. This compares with the 3.8% increase in net position of \$310,268 for 2012.

Net patient service revenue decreased \$4,744 or 0.05% in 2013 compared to an increase of \$790,086 or 9.1% in 2012.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Net patient service revenues	\$ 9,456,562	\$ 9,461,306	\$ 8,671,220
Other operating revenues	130,671	109,769	107,048
Total operating revenues	<u>9,587,233</u>	<u>9,571,075</u>	<u>8,778,268</u>
Operating Expenses:			
Nursing service	1,614,649	1,592,524	1,584,201
Other professional service	4,202,245	4,353,300	3,690,022
General service	793,422	711,728	700,962
Fiscal and administrative service	2,226,000	2,065,576	1,835,542
Provision for depreciation	895,233	664,131	611,766
Total operating expenses	<u>9,731,549</u>	<u>9,387,259</u>	<u>8,422,493</u>
Operating income (loss)	(144,316)	183,816	355,775
Non-Operating Revenues and Expenses:			
Noncapital gifts, grants and bequests	180,471	143,887	156,133
Investment income	4,676	12,005	17,584
Ambulance subsidy	7,082	7,082	7,202
Interest expense	(50,039)	(29,822)	(52,125)
Clinic operations, net	5,520	(2,115)	(2,769)
Gain (loss) on disposal of equipment	--	(14,242)	5,654
Non-operating revenues, net	<u>147,710</u>	<u>116,795</u>	<u>131,679</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	3,394	300,611	487,454
Capital Grants and Contributions	<u>10,383</u>	<u>9,657</u>	<u>26,416</u>
Increase in Net Position	13,777	310,268	513,870
Net Position Beginning of Year	<u>8,543,369</u>	<u>8,233,101</u>	<u>7,719,231</u>
Net Position End of Year	<u>\$ 8,557,146</u>	<u>\$ 8,543,369</u>	<u>\$ 8,233,101</u>

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Hospital's net position is its operating income, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating income decreased from an income of \$183,816 in 2012 to an operating loss of \$144,316 in 2013.

The primary components of this decrease in operating income are:

The decrease in net patient revenue of \$4,744. The increase in depreciation expense related to the completion of the building project and the implementation of the new electronic health record. Depreciation expense increased \$231,102 or 35% in 2013 compared to 2012.

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 \$12,005 in 2012 to \$4,676 in 2013. This decrease is the result of declining interest rates received on investments over the past year and declining investments due to the use of investment funds toward the costs of the construction project.

GRANTS AND CONTRIBUTIONS

The Hospital received \$9,812 in grant funds through the SHIP, FLEX and HPP grant programs in 2013.

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation conducts an annual campaign to raise funds for specified equipment for 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, 2013 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$1,811,986 due to lower than expected patient services costs, related supply costs and contracted services costs.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2013, the Hospital had \$12,500 invested in non-depreciable capital assets. In 2013, the Hospital purchased new equipment costing \$1,497,884 including a new electronic health record. The Hospital completed a building project resulting in an increase in capital buildings of \$4,549,889 and an increase in land improvements of \$59,297.

Debt:

At year-end, the Hospital had \$4,446,263 in debt outstanding. The debt included two non-interest bearing notes through the City of Pocahontas (who received two \$360,000 USDA grants as funding). At year end, the outstanding balances on the two loans were \$102,856 and \$360,000. In 2012 the City of Pocahontas signed a \$4,000,000 promissory note on behalf of the Hospital for the current construction project. At June 30, 2013 the Hospital had drawn all of the funds.

OTHER ECONOMIC FACTORS

The continued declining population and limited employment opportunities has resulted in a higher than normal self pay percentage of patient accounts. However, though many may qualify for financial assistance, the return rate for completed financial assistance applications is down significantly from the prior year. The Hospital granted only \$17,101 in charity care compared to \$28,300 in 2012.

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 Statements of Net Position
June 30,

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 1,089,147	\$ 675,240
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$450,000 in 2013, \$614,000 in 2012)	1,406,620	1,575,260
Other receivables	28,580	66,362
Inventory	110,426	105,536
Prepaid expense	93,973	135,253
Estimated third party payor settlements	473,000	--
Internally designated assets	<u>422,172</u>	<u>595,835</u>
Total current assets	3,623,918	3,153,486
Designated and Restricted Assets:		
Internally designated assets	422,172	813,621
Restricted assets	<u>102,026</u>	<u>96,302</u>
	524,198	909,923
Less amounts required to meet current liabilities	<u>422,172</u>	<u>595,835</u>
	102,026	314,088
Capital Assets:		
Depreciable capital assets, net	10,801,486	5,589,649
Non-depreciable capital assets	<u>12,500</u>	<u>1,462,612</u>
	10,813,986	7,052,261
Other Assets	<u>89,078</u>	<u>98,907</u>
Total assets	<u>\$ 14,629,008</u>	<u>\$ 10,618,742</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 303,976	\$ 224,709
Accounts payable	1,220,397	640,874
Accrued employee compensation	304,806	280,418
Other accrued expenses	87,948	78,087
Accrued interest	12,448	22
Estimated third-party payor settlements	--	165,000
Total current liabilities	<u>1,929,575</u>	<u>1,389,110</u>
Long-Term Debt, less current maturities	<u>4,142,287</u>	<u>686,263</u>
Total liabilities	6,071,862	2,075,373
Net Position:		
Invested in capital assets, net of related debt	5,403,130	5,770,185
Restricted - expendable	102,026	96,302
Unrestricted	<u>3,051,990</u>	<u>2,676,882</u>
	<u>8,557,146</u>	<u>8,543,369</u>
Total liabilities and net position	<u>\$ 14,629,008</u>	<u>\$ 10,618,742</u>

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

	2013	2012
Revenue:		
Net patient service revenue	\$ 9,456,562	\$ 9,461,306
Other revenue	130,671	109,769
Total revenue	9,587,233	9,571,075
Expenses:		
Nursing service	1,614,649	1,592,524
Other professional service	4,202,245	4,353,300
General service	793,422	711,728
Fiscal and administrative service	2,226,000	2,065,576
Provision for depreciation	895,233	664,131
Total expenses	9,731,549	9,387,259
Operating Income (Loss)	(144,316)	183,816
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	180,471	143,887
Investment income	4,676	12,005
Ambulance subsidy	7,082	7,082
Interest expense	(50,039)	(29,822)
Clinic operations, net	5,520	(2,115)
Loss on disposal of equipment	--	(14,242)
Non-operating revenues, net	147,710	116,795
Excess of Revenues Over Expenses Before Capital Grants and Contributions	3,394	300,611
Restricted Revenue:		
Capital grants and contributions	10,383	9,657
Increase in Net Position	13,777	310,268
Net Position Beginning of Year	8,543,369	8,233,101
Net Position End of Year	\$ 8,557,146	\$ 8,543,369

The accompanying notes are an integral part of these statements.

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

	2013	2012
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 9,024,984	\$ 9,014,379
Cash paid to suppliers	(5,529,145)	(5,403,052)
Cash paid to employees	(3,233,818)	(3,131,224)
Other operating revenue	130,671	109,769
Net cash provided by operating activities	392,692	589,872
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	160,221	134,437
Ambulance subsidy	7,082	7,082
Net cash provided by non-capital financing activities	167,303	141,519
Cash flows from capital and related financing activities:		
Capital expenditures	(4,063,469)	(1,246,939)
Proceeds from disposal of assets	--	2,948
Capital grants and contributions	10,383	9,657
Debt proceeds	3,760,000	600,000
Principal paid on long-term debt	(224,709)	(484,101)
Interest paid	(17,363)	(22,890)
Net cash used in capital and related financing activities	(535,158)	(1,141,325)
Cash flows from investing activities:		
Change in designated and restricted assets	392,875	142,055
Investment income	4,676	12,005
Clinic operations, net	5,520	(2,115)
Other asset changes	(6,851)	(82,852)
Net cash provided by investing activities	396,220	69,093
Net increase (decrease) in cash and cash equivalents	421,057	(340,841)
Cash and cash equivalents beginning of year	758,619	1,099,460
Cash and cash equivalents end of year	\$ 1,179,676	\$ 758,619
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,089,147	\$ 675,240
Cash and cash equivalents in designated and restricted assets	90,529	83,379
Total cash and cash equivalents	\$ 1,179,676	\$ 758,619

(continued next page)

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

	2013	2012
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(144,316)	\$ 183,816
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	895,233	664,131
Amortization	16,680	33,672
Change in assets and liabilities		
Accounts receivable	206,422	(340,927)
Inventory	(4,890)	22,455
Prepaid expense	41,280	(31,738)
Accounts payable - trade	(13,966)	84,390
Accrued employee compensation	24,388	38,516
Other accrued expenses	9,861	41,557
Estimated third-party payor settlements	(638,000)	(106,000)
Total adjustments	537,008	406,056
Net cash provided by operating activities	\$ 392,692	\$ 589,872

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:

	2013	2012
Interest imputed on loans and recorded as a gift	\$ 20,250	\$ 9,450

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

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.

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, 2013 and 2012

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 three 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 three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$71,990 in 2013 (\$ - 0 - in 2012).

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 position 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, 2013 and 2012

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 Position

Net position of the Hospital is reported in the following three categories. *Invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose, or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does 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, 2013 and 2012

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

16. Accounting Changes

In June, 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*" This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Hospital for 2012-2013. The Hospital has assessed the financial statement impact of adopting this statement and its impact is not material.

The GASB has issued GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" and GASB Statement No. 66 "*Technical Corrections - 2012.*" No. 65 specifies proper accounting treatment for certain items and helps clarify the items that should be included under the categories established under Statement No. 63. No. 66 resolves conflicting guidance that resulted from previously issued Statements No. 54 and No. 62. The Hospital has elected to early implement these Statements, which are required to be implemented in the 2013-14 year. The Hospital has assessed the financial statement impact of adopting these statements and concluded their impact is not material.

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, 2011. The Medicaid cost reports have been finalized through June 30, 2010. 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 and discounts from established charges.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Capital items	\$ 17,159	\$ 15,528
Hospice services	38,951	22,713
Cardiac rehab	--	1,030
Scholarships	4,850	2,500
Foundation discretionary	<u>41,066</u>	<u>54,531</u>
Total restricted expendable net position	<u>\$ 102,026</u>	<u>\$ 96,302</u>

Restricted nonexpendable net position represents the principal amounts of permanent endowments, restricted to investment in perpetuity. The Hospital had no permanent endowments as of June 30, 2013 and 2012.

NOTE D - DONOR RESTRICTIONS RELEASED

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

	<u>2013</u>	<u>2012</u>
Purpose of Restrictions Accomplished:		
Capital items	\$ 21,036	\$ 28,496
Hospice costs	32,573	37,790
Ambulance	8,752	3,590
Other Foundation projects	<u>76,863</u>	<u>70,241</u>
	<u>\$ 139,224</u>	<u>\$ 140,117</u>

NOTE E - DESIGNATED ASSETS

Of the \$3,051,990 (\$2,676,882 as of June 30, 2012) of unrestricted net position as of June 30, 2013, \$422,172 (\$813,621 for 2012) has been designated by the Hospital's Board of Trustees for capital acquisitions, debt principal payments, and endowments. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE F - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2013 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.

The composition of designated and restricted assets is as follows:

	2013	2012
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 35,330	\$ 33,723
Certificates of deposit	--	392,191
Interest receivable	339	1,195
Due to City	(13,497)	(13,488)
Hospital designated endowments:		
Certificates of deposit	400,000	400,000
	\$ 422,172	\$ 813,621
Restricted Assets:		
Cash	\$ 55,199	\$ 49,656
Certificate of deposit	46,827	46,646
	\$ 102,026	\$ 96,302

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.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

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, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Receivable From:		
Patients	\$ 868,788	\$ 342,110
Medicare	385,440	851,543
Medicaid	65,604	186,023
Blue Cross	277,270	397,902
Workers Compensation	21,863	28,126
Others	<u>237,655</u>	<u>383,556</u>
	1,856,620	2,189,260
Less allowances for doubtful accounts and contractual adjustments	<u>450,000</u>	<u>614,000</u>
	<u>\$ 1,406,620</u>	<u>\$ 1,575,260</u>

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2013 and 2012 were as follows:

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 154,540	\$ 59,297	\$ --	\$ 213,837
Buildings	8,058,165	4,549,889	--	12,608,054
Fixed Equipment	657,721	33,400	4,241	686,880
Major Movable Equipment	<u>3,150,797</u>	<u>1,464,484</u>	<u>42,289</u>	<u>4,572,992</u>
	12,021,223	6,107,070	46,530	18,081,763
<u>Depreciation</u>				
Land Improvements	138,702	5,330	--	144,032
Buildings	3,551,996	423,145	--	3,975,141
Fixed Equipment	361,342	43,098	4,241	400,199
Major Movable Equipment	<u>2,379,534</u>	<u>423,660</u>	<u>42,289</u>	<u>2,760,905</u>
Total Depreciation	<u>6,431,574</u>	<u>895,233</u>	<u>46,530</u>	<u>7,280,277</u>
Depreciable Capital Assets, Net	<u>\$ 5,589,649</u>	<u>\$5,211,837</u>	<u>\$ --</u>	<u>\$ 10,801,486</u>
Non-Depreciable Capital Assets:				
Land	\$ 12,500	\$ --	\$ --	\$ 12,500
Construction in Progress	<u>1,450,112</u>	<u>3,414,167</u>	<u>4,864,279</u>	<u>--</u>
	<u>\$ 1,462,612</u>	<u>\$3,414,167</u>	<u>\$4,864,279</u>	<u>\$ 12,500</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 154,540	\$ --	\$ --	\$ 154,540
Buildings	8,037,080	21,085	--	8,058,165
Fixed Equipment	703,021	--	45,300	657,721
Major Movable Equipment	<u>3,049,015</u>	<u>146,846</u>	<u>45,064</u>	<u>3,150,797</u>
	11,943,656	167,931	90,364	12,021,223
<u>Depreciation</u>				
Land Improvements	136,646	2,056	--	138,702
Buildings	3,228,203	323,793	--	3,551,996
Fixed Equipment	345,777	44,114	28,549	361,342
Major Movable Equipment	<u>2,129,991</u>	<u>294,168</u>	<u>44,625</u>	<u>2,379,534</u>
Total Depreciation	<u>5,840,617</u>	<u>664,131</u>	<u>73,174</u>	<u>6,431,574</u>
Depreciable Capital Assets, Net	<u>\$ 6,103,039</u>	<u>\$ (496,200)</u>	<u>\$ 17,190</u>	<u>\$ 5,589,649</u>
Non-Depreciable Capital Assets:				
Land	\$ 12,500	\$ --	\$ --	\$ 12,500
Construction in Progress	<u>--</u>	<u>1,450,112</u>	<u>--</u>	<u>1,450,112</u>
	<u>\$ 12,500</u>	<u>\$1,450,112</u>	<u>\$ --</u>	<u>\$ 1,462,612</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE I - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Note A	\$ 156,687	\$ --	\$ 156,687	\$ --	\$ --
Note B	154,285	--	51,429	102,856	51,429
Note C	600,000	3,400,000	16,593	3,983,407	201,118
Note D	<u>--</u>	<u>360,000</u>	<u>--</u>	<u>360,000</u>	<u>51,429</u>
	<u>\$ 910,972</u>	<u>\$3,760,000</u>	<u>\$ 224,709</u>	<u>\$4,446,263</u>	<u>\$ 303,976</u>
	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Note A	\$ 589,359	\$ --	\$ 432,672	\$ 156,687	\$ 156,687
Note B	205,714	--	51,429	154,285	51,429
Note C	<u>--</u>	<u>600,000</u>	<u>--</u>	<u>600,000</u>	<u>16,593</u>
	<u>\$ 795,073</u>	<u>\$ 600,000</u>	<u>\$ 484,101</u>	<u>\$ 910,972</u>	<u>\$ 224,709</u>

Note A - The note was in the name of the City of Pocahontas through Citizens State Bank, Pocahontas Office. However, the Hospital was responsible for all loan principal and interest payments, therefore, the note payable had been recorded as a liability of the Hospital. Combined monthly principal and interest payments, required in the loan agreement, were \$28,323 and the interest rate was 5.25%. The final payment was scheduled to be paid in June, 2013, however, the Hospital had voluntarily begun to pay \$35,000 monthly, which resulted in an earlier completion date. The Hospital had 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 \$113,474).

Note C - In April of 2012, the City of Pocahontas incurred a promissory note payable to a local bank, for up to \$4,000,000. The note was issued to pay for a renovation and expansion project. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments, therefore, as the funds were drawn, the note was being recorded as a liability on the Hospital's financial statements. As of June 30, 2013, all of the note proceeds had been drawn by the Hospital. Under terms of the note, monthly interest payments were due through May, 2013. Combined principal and interest payments are being made beginning in June, 2013 and ending in May, 2028. The interest rate on the note is 3.75%, with an adjustment based on the Wall Street Journal prime rate plus .50% after 5 years and 10 years. The note is collateralized by all assets and revenues of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE I - NON-CURRENT LIABILITIES - Continued

Note D - 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 renovation and expansion costs. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 3.75%, 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, 2020. The note is collateralized by the Hospital revenues.

The annual debt service on the notes is expected to require less than 32% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$313,000 and \$965,000 respectively.

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>
2014	\$ 303,976	\$ 147,998	\$ 451,974
2015	311,758	140,216	451,974
2016	268,051	132,495	400,546
2017	276,793	123,753	400,546
2018	285,512	115,034	400,546
2019 - 2023	1,416,048	432,394	1,848,442
2024 - 2028	<u>1,584,125</u>	<u>157,727</u>	<u>1,741,852</u>
	<u>\$ 4,446,263</u>	<u>\$ 1,249,617</u>	<u>\$ 5,695,880</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Regular plan members are required to contribute 5.78% (5.95% July 1, 2013) of their annual salary and the Hospital is required to contribute 8.67% (8.93% July 1, 2013) 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, 2013, 2012, and 2011, were approximately \$280,400, \$254,500, and \$202,500, respectively, equal to the required contributions for each year.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE K - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2013 and 2012:

	2013	2012
Fees to Trinity for personnel and services	\$ <u>266,007</u>	\$ <u>231,815</u>

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

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 retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 68 active employees and 1 retiree currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

NOTE M - 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.

Other Assets

The other assets represent funds advanced under agreements with healthcare professionals now practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

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.

Subsequent Events

The Hospital has evaluated all subsequent events through August 30, 2013, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
 Budgetary Comparison Schedule
 Year Ended June 30, 2013

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, 2013 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	\$ 9,688,014	\$ 11,500,000	\$ 1,811,986

* * *

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Net Position
June 30, 2013

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 1,089,147	\$ --	\$ 1,089,147
Patient receivables, net	1,406,620	--	1,406,620
Other receivables	28,580	--	28,580
Inventory	110,426	--	110,426
Prepaid expense	93,973	--	93,973
Estimated third party payor settlements	473,000	--	473,000
Internally designated assets	<u>422,172</u>	<u>--</u>	<u>422,172</u>
Total current assets	3,623,918	--	3,623,918
Designated and Restricted Assets:			
Internally designated assets	422,172	--	422,172
Restricted assets	--	102,026	102,026
Current portion	<u>(422,172)</u>	<u>--</u>	<u>(422,172)</u>
	--	102,026	102,026
Depreciable Capital Assets, Net	10,801,486	--	10,801,486
Non-depreciable Capital Assets	12,500	--	12,500
Other Assets	<u>89,078</u>	<u>--</u>	<u>89,078</u>
Total assets	<u>\$ 14,526,982</u>	<u>\$ 102,026</u>	<u>\$ 14,629,008</u>

LIABILITIES AND NET POSITION

Current Liabilities:			
Current maturities of long-term debt	\$ 303,976	\$ --	\$ 303,976
Accounts payable	1,220,397	--	1,220,397
Accrued employee compensation	304,806	--	304,806
Other accrued expenses	87,948	--	87,948
Accrued interest	<u>12,448</u>	<u>--</u>	<u>12,448</u>
Total current liabilities	1,929,575	--	1,929,575
Long-Term Debt, less current maturities	4,142,287	--	4,142,287
Net Position:			
Invested in capital assets, net	5,403,130	--	5,403,130
Restricted - expendable	--	102,026	102,026
Unrestricted	<u>3,051,990</u>	<u>--</u>	<u>3,051,990</u>
Total liabilities and net position	<u>\$ 14,526,982</u>	<u>\$ 102,026</u>	<u>\$ 14,629,008</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Net Position
June 30, 2012

ASSETS

	Hospital	Foundation	Total
Current Assets:			
Cash	\$ 675,240	\$ --	\$ 675,240
Patient receivables, net	1,575,260	--	1,575,260
Other receivables	66,362	--	66,362
Inventory	105,536	--	105,536
Prepaid expense	135,253	--	135,253
Internally designated assets	595,835	--	595,835
Total current assets	3,153,486	--	3,153,486
Designated and Restricted Assets:			
Internally designated assets	813,621	--	813,621
Restricted assets	--	96,302	96,302
Current portion	(595,835)	--	(595,835)
	217,786	96,302	314,088
Depreciable Capital Assets, Net	5,589,649	--	5,589,649
Non-depreciable Capital Assets	1,462,612	--	1,462,612
Other Assets	98,907	--	98,907
Total assets	\$ 10,522,440	\$ 96,302	\$ 10,618,742

LIABILITIES AND NET POSITION

Current Liabilities:			
Current maturities of long-term debt	\$ 224,709	\$ --	\$ 224,709
Accounts payable	640,874	--	640,874
Accrued employee compensation	280,418	--	280,418
Other accrued expenses	78,087	--	78,087
Accrued interest	22	--	22
Estimated third-party payor settlement	165,000	--	165,000
Total current liabilities	1,389,110	--	1,389,110
Long-Term Debt, less current maturities	686,263	--	686,263
Net Position:			
Invested in capital assets, net	5,770,185	--	5,770,185
Restricted - expendable	--	96,302	96,302
Unrestricted	2,676,882	--	2,676,882
Total liabilities and net position	\$ 10,522,440	\$ 96,302	\$ 10,618,742

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2013

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 9,456,562	\$ --	\$ --	\$ 9,456,562
Other revenue	<u>130,671</u>	<u>--</u>	<u>--</u>	<u>130,671</u>
Total revenue	9,587,233	--	--	9,587,233
Expenses:				
Nursing service	1,614,649	--	--	1,614,649
Other professional service	4,202,245	--	--	4,202,245
General service	793,422	--	--	793,422
Fiscal and administrative service	2,132,426	139,224	(45,650)	2,226,000
Provision for depreciation	895,233	--	--	895,233
Total expenses	<u>9,637,975</u>	<u>139,224</u>	<u>(45,650)</u>	<u>9,731,549</u>
Operating Income (Loss)	(50,742)	(139,224)	45,650	(144,316)
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	70,766	134,319	(24,614)	180,471
Investment income	4,430	246	--	4,676
Ambulance subsidy	7,082	--	--	7,082
Interest expense	(50,039)	--	--	(50,039)
Clinic operations, net	<u>5,520</u>	<u>--</u>	<u>--</u>	<u>5,520</u>
Non-operating revenues, net	<u>37,759</u>	<u>134,565</u>	<u>(24,614)</u>	<u>147,710</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions				
	(12,983)	(4,659)	21,036	3,394
Restricted Revenue:				
Capital grants and contributions	<u>21,036</u>	<u>10,383</u>	<u>(21,036)</u>	<u>10,383</u>
Increase in Net Position	8,053	5,724	--	13,777
Net Position Beginning of Year	<u>8,447,067</u>	<u>96,302</u>	<u>--</u>	<u>8,543,369</u>
Net Position End of Year	<u>\$ 8,455,120</u>	<u>\$ 102,026</u>	<u>\$ --</u>	<u>\$ 8,557,146</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2012

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 9,461,306	\$ --	\$ --	\$ 9,461,306
Other revenue	<u>109,769</u>	<u>--</u>	<u>--</u>	<u>109,769</u>
Total revenue	9,571,075	--	--	9,571,075
Expenses:				
Nursing service	1,592,524	--	--	1,592,524
Other professional service	4,353,300	--	--	4,353,300
General service	711,728	--	--	711,728
Fiscal and administrative service	1,984,032	140,117	(58,573)	2,065,576
Provision for depreciation	<u>664,131</u>	<u>--</u>	<u>--</u>	<u>664,131</u>
Total expenses	<u>9,305,715</u>	<u>140,117</u>	<u>(58,573)</u>	<u>9,387,259</u>
Operating Income (Loss)	265,360	(140,117)	58,573	183,816
Non-Operating Revenues (Expenses):				
Noncapital gifts, grants, and bequests	59,853	114,111	(30,077)	143,887
Investment income	11,596	409	--	12,005
Ambulance subsidy	7,082	--	--	7,082
Interest expense	(29,822)	--	--	(29,822)
Clinic operations, net	(2,115)	--	--	(2,115)
(Loss) on disposal of equipment	(14,242)	--	--	(14,242)
Non-operating revenues, net	<u>32,352</u>	<u>114,520</u>	<u>(30,077)</u>	<u>116,795</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	297,712	(25,597)	28,496	300,611
Restricted Revenue:				
Capital grants and contributions	<u>28,496</u>	<u>9,657</u>	<u>(28,496)</u>	<u>9,657</u>
Increase (Decrease) in Net Position	326,208	(15,940)	--	310,268
Net Position Beginning of Year	<u>8,120,859</u>	<u>112,242</u>	<u>--</u>	<u>8,233,101</u>
Net Position End of Year	<u>\$ 8,447,067</u>	<u>\$ 96,302</u>	<u>\$ --</u>	<u>\$ 8,543,369</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 875,071	47.2%	\$ 1,089,655	49.8%
31 - 90	390,163	21.0	488,331	22.3
91 - 180	298,897	16.1	431,261	19.7
181 - 360	204,629	11.0	167,675	7.7
361 and over	87,860	4.7	12,338	0.5
	<u>1,856,620</u>	<u>100.0%</u>	<u>2,189,260</u>	<u>100.0%</u>
Allowance for doubtful accounts	260,000		220,000	
Allowance for contractual adjustments	<u>190,000</u>		<u>394,000</u>	
	<u>\$ 1,406,620</u>		<u>\$ 1,575,260</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Balance, beginning	\$ 220,000	\$ 200,000
Provision for bad debts	301,613	503,425
Recoveries of accounts previously written off	<u>178,312</u>	<u>219,218</u>
	699,925	922,643
Accounts written off	<u>439,925</u>	<u>702,643</u>
Balance, ending	<u>\$ 260,000</u>	<u>\$ 220,000</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2013	2012
<u>Inventory</u>		
Medical and surgical	\$ 20,965	\$ 25,661
Pharmacy	58,976	50,342
Laboratory and radiology	30,485	29,533
	\$ 110,426	\$ 105,536
 <u>Prepaid Expense</u>		
Insurance	\$ 13,329	\$ 48,527
Service contracts	80,644	86,726
	\$ 93,973	\$ 135,253

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2013		
	Inpatient	Outpatient	Swing Bed
Daily Patient Services:			
Medical and surgical	\$ 287,406	\$ --	\$ --
Swing bed	--	--	165,152
	<u>287,406</u>	<u>--</u>	<u>165,152</u>
Other Nursing Services:			
Operating and recovery rooms	4,652	970,760	3,000
Emergency service	3,706	822,691	--
Central services and supply	82,678	88,233	17,439
Intravenous therapy	1,450	1,162	128
Observation	--	97,295	--
	<u>92,486</u>	<u>1,980,141</u>	<u>20,567</u>
Other Professional Services:			
Emergency room physician	--	429,876	--
Anesthesiology	1,360	182,004	640
Laboratory	129,723	2,489,459	40,540
Blood administration	14,555	64,312	2,190
Radiology	31,122	1,587,497	11,776
Pharmacy	156,601	865,832	96,103
Chemotherapy	60	109,483	80
Electrocardiology	6,380	193,966	2,278
Sleep studies	--	--	--
Physical therapy	8,361	335,134	38,634
Speech therapy	--	1,170	--
Respiratory therapy	136,834	268,126	72,762
Occupational therapy	1,421	63,212	15,554
Cardiac rehabilitation	--	80,950	--
Pulmonary rehab	--	25,469	--
Ambulance services	14,030	388,482	5,933
Industrial Health	23,995	--	--
Home Health Care	--	115,559	--
Hospice	21,525	685,692	--
Clinic services	560	82,761	--
	<u>546,527</u>	<u>7,968,984</u>	<u>286,490</u>
	<u>\$ 926,419</u>	<u>\$ 9,949,125</u>	<u>\$ 472,209</u>

See Independent Auditor's Report.

<u>2013</u>	<u>2012</u>
<u>Total</u>	<u>Total</u>
\$ 287,406	\$ 317,330
165,152	270,080
<u>452,558</u>	<u>587,410</u>
978,412	1,184,737
826,397	633,239
188,350	268,463
2,740	5,113
97,295	104,750
<u>2,093,194</u>	<u>2,196,302</u>
429,876	462,645
184,004	273,880
2,659,722	2,873,495
81,057	141,440
1,630,395	1,840,346
1,118,536	1,276,206
109,623	69,551
202,624	250,507
--	196,055
382,129	439,230
1,170	2,045
477,722	426,029
80,187	102,588
80,950	92,086
25,469	35,375
408,445	447,441
23,995	25,975
115,559	151,495
707,217	618,554
83,321	33,540
<u>8,802,001</u>	<u>9,758,483</u>
<u>\$ 11,347,753</u>	<u>\$ 12,542,195</u>

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

	2013	2012
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 11,347,753	\$ 12,542,195
Contractual adjustments	(1,563,365)	(2,544,889)
Provision for bad debts	(301,613)	(503,425)
Charity care	(17,101)	(28,300)
Employee discounts	(9,112)	(4,275)
	<u>\$ 9,456,562</u>	<u>\$ 9,461,306</u>
 <u>Other Revenue</u>		
Meals sold	\$ 30,177	\$ 24,357
Histories	1,393	1,294
Lifeline	20,385	14,074
Ambulance support	18,000	18,000
Rent income	13,734	13,975
Miscellaneous	46,982	38,069
	<u>\$ 130,671</u>	<u>\$ 109,769</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Expenses
Year ended June 30,

	2013		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing administration	\$ 62,167	\$ --	\$ 953
Medical and surgical	858,419	--	122,258
	<u>920,586</u>	<u>--</u>	<u>123,211</u>
<u>Other Nursing Services</u>			
Operating and recovery rooms	201,257	--	83,397
Emergency service	113,940	--	37,956
Central services and supply	28,478	--	66,821
	<u>343,675</u>	<u>--</u>	<u>188,174</u>
<u>Other Professional Services</u>			
Emergency room physicians	--	--	--
Anesthesiology	--	--	--
Laboratory	286,586	--	281,378
Blood administration	--	--	62,097
Radiology	217,102	--	324,516
Pharmacy	--	--	331,457
Chemotherapy	8,976	--	21,602
Electrocardiology	--	--	235
Sleep studies	--	--	--
Physical therapy	28,495	--	2,597
Speech therapy	--	--	--
Respiratory therapy	--	--	5,459
Occupational therapy	--	--	47
Cardiac rehabilitation	81,881	--	13,566
Pulmonary rehab	1,797	--	69
Ambulance services	89,253	--	32,581
Industrial Health	40,905	--	6,838
Home Health Care	190,654	--	51,638
Hospice	183,778	--	206,396
Medical records	95,626	--	39,158
	<u>1,225,053</u>	<u>--</u>	<u>1,379,634</u>
<u>General Services</u>			
Dietary	137,889	--	85,061
Plant operations	141,532	--	280,624
Housekeeping	74,613	--	17,274
Laundry and linen	--	--	44,092
	<u>354,034</u>	<u>--</u>	<u>427,051</u>
<u>Fiscal and Administrative Services</u>	414,858	1,002,418	424,029
<u>Provision for Depreciation</u>	<u>--</u>	<u>--</u>	<u>895,233</u>
Total all departments	<u>\$ 3,258,206</u>	<u>\$ 1,002,418</u>	<u>\$ 3,437,332</u>

See Independent Auditor's Report.

2013			2012		
Professional Fees	Total		Total		Total
\$ --	\$ 63,120		\$ 46,201		
--	980,677		929,075		
--	1,043,797		975,276		
39,003	323,657		366,041		
--	151,896		164,432		
--	95,299		86,775		
39,003	570,852		617,248		
853,359	853,359		816,527		
99,060	99,060		122,825		
23,667	591,631		570,701		
--	62,097		48,030		
38,654	580,272		649,084		
74,584	406,041		512,312		
--	30,578		29,527		
18,540	18,775		20,700		
79,821	79,821		100,835		
197,440	228,532		252,674		
478	478		1,365		
167,964	173,423		193,660		
43,991	44,038		61,004		
--	95,447		94,235		
--	1,866		4,299		
--	121,834		162,691		
--	47,743		38,295		
--	242,292		236,453		
--	390,174		303,349		
--	134,784		134,734		
1,597,558	4,202,245		4,353,300		
12,337	235,287		227,784		
--	422,156		359,771		
--	91,887		85,237		
--	44,092		38,936		
12,337	793,422		711,728		
291,121	2,132,426		1,984,032		
--	895,233		664,131		
\$ 1,940,019	\$ 9,637,975		\$ 9,305,715		

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

	2013	2012
Fiscal and Administrative:		
Salaries and wages	\$ 414,858	\$ 358,120
Professional fees	291,121	254,183
Recruitment fees	20,829	33,672
Dues	21,662	20,051
Telephone	14,463	13,598
Supplies and other expense	271,134	227,350
	1,034,067	906,974
Employee Welfare:		
Payroll taxes	540,007	508,476
Group health insurance	437,517	456,069
Other employee benefits	24,894	28,614
	1,002,418	993,159
Insurance:		
Liability and property insurance	95,941	83,899
	\$ 2,132,426	\$ 1,984,032

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Acute Care:					
Admissions	163	191	220	219	185
Discharges	161	192	220	219	185
Patient Days	461	514	631	659	548
Average Length of Stay	2.9	2.7	2.9	3.0	3.0
Average Occupied Beds	1.3	1.4	1.7	1.8	1.5
Swing Bed:					
Admissions	61	103	87	105	77
Discharges	61	105	89	105	77
SNF Days	441	811	601	658	543
ICF Days	77	83	129	67	162
Combined Average Occupied Beds	2.7	3.9	3.7	3.8	3.4
Outpatient Occasions of Service	27,745	32,904	32,064	30,296	31,572
Home Healthcare Visits	1,807	1,768	2,058	2,153	2,281

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POCAHONTAS COMMUNITY HOSPITAL
Comparative Consolidated Statements of Net Position
June 30,

	2013	2012
Current Assets:		
Cash	\$ 1,089,147	\$ 675,240
Receivables	1,435,200	1,641,622
Inventory	110,426	105,536
Prepaid expense	93,973	135,253
Estimated third party payor settlements	473,000	--
Internally designated assets	422,172	595,835
Total current assets	3,623,918	3,153,486
Other Assets:		
Designated and restricted assets, net	102,026	314,088
Capital assets, net	10,813,986	7,052,261
Other assets	89,078	98,907
	11,005,090	7,465,256
Total assets	\$ 14,629,008	\$ 10,618,742
Current Liabilities:		
Current maturities	\$ 303,976	\$ 224,709
Accounts payable	1,220,397	640,874
Accrued expenses	392,754	358,505
Accrued interest	12,448	22
Estimated third party payor settlements	--	165,000
Total current liabilities	1,929,575	1,389,110
Long-Term Debt, Net	4,142,287	686,263
Total liabilities	6,071,862	2,075,373
Net Position	8,557,146	8,543,369
Total liabilities and net position	\$ 14,629,008	\$ 10,618,742

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 914,175	\$ 1,500,591	\$ 728,994
1,300,695	1,195,705	909,006
127,991	109,034	102,639
103,515	84,506	89,673
--	--	--
<u>367,441</u>	<u>586,663</u>	<u>333,821</u>
<u>2,813,817</u>	<u>3,476,499</u>	<u>2,164,133</u>
786,443	483,513	644,493
6,115,539	6,236,041	6,355,746
<u>56,786</u>	<u>84,395</u>	<u>92,088</u>
<u>6,958,768</u>	<u>6,803,949</u>	<u>7,092,327</u>
<u>\$ 9,772,585</u>	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>
\$ 364,901	\$ 348,963	\$ 333,821
192,439	449,798	202,229
278,432	248,907	211,967
2,540	4,060	5,630
<u>271,000</u>	<u>660,000</u>	<u>20,000</u>
<u>1,109,312</u>	<u>1,711,728</u>	<u>773,647</u>
<u>430,172</u>	<u>849,489</u>	<u>1,197,903</u>
<u>1,539,484</u>	<u>2,561,217</u>	<u>1,971,550</u>
<u>8,233,101</u>	<u>7,719,231</u>	<u>7,284,910</u>
<u>\$ 9,772,585</u>	<u>\$ 10,280,448</u>	<u>\$ 9,256,460</u>

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

	<u>2013</u>	<u>2012</u>
Patient Service Revenue	\$ 11,347,753	\$ 12,542,195
Adjustments to Patient Service Revenue	<u>(1,891,191)</u>	<u>(3,080,889)</u>
Net Patient Service Revenue	9,456,562	9,461,306
Other Revenue	<u>130,671</u>	<u>109,769</u>
Total Revenue	9,587,233	9,571,075
Expenses	<u>9,731,549</u>	<u>9,387,259</u>
Operating Income (Loss)	(144,316)	183,816
Non-Operating Revenues, Net	<u>147,710</u>	<u>116,795</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	3,394	300,611
Capital Grants and Contributions	<u>10,383</u>	<u>9,657</u>
Increase in Net Position	<u>\$ 13,777</u>	<u>\$ 310,268</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 11,441,105	\$ 10,017,431	\$ 9,064,262
<u>(2,769,885)</u>	<u>(2,238,290)</u>	<u>(1,869,725)</u>
8,671,220	7,779,141	7,194,537
<u>107,048</u>	<u>95,066</u>	<u>84,079</u>
8,778,268	7,874,207	7,278,616
<u>8,422,493</u>	<u>7,630,302</u>	<u>7,192,450</u>
355,775	243,905	86,166
<u>131,679</u>	<u>95,584</u>	<u>113,256</u>
487,454	339,489	199,422
<u>26,416</u>	<u>94,832</u>	<u>14,456</u>
<u>\$ 513,870</u>	<u>\$ 434,321</u>	<u>\$ 213,878</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, 2013, and have issued our report thereon dated August 30, 2013. 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

The management of Pocahontas Community Hospital is responsible for establishing and maintaining effective 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, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees of
Pocahontas Community Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

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, 2013 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.

Responses to Findings

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.

Purpose of this Report

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.

Groenewold, Bell, Kyburz + Co. P. C.
Atlantic, Iowa
August 30, 2013

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2013

PART I - SIGNIFICANT DEFICIENCIES

13-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. However, this situation is common in rural hospitals.

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.

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POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2013

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

13-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, 2013.

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.

13-II-B Questionable Expenditures: During the audit, we noted a certain expenditure 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 expenditure was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Wild Rose	Employee Recognition Dinner	\$ 2,560

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

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 expenditure is 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.

13-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, 2013

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

13-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>6,625</u>
Wood's Supermarket Kim Wood is a Board member and a part owner of the store	Grocery items	\$ <u>12,485</u>

The transactions with Pocahontas Ford and Wood's Supermarket both equal or exceed \$2,500, however, purchases from local businesses are necessary for the operation of the Hospital in Pocahontas, Iowa. The Board considered and approved the purchase of services, equipment, and supplies from these local merchants.

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 and approval of such transactions should be documented.

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

Conclusion: Response accepted.

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

13-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, 2013

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

13-II-G Economic Development: During the year ended June 30, 2013, 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.

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