

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION  
COMMENTS AND RECOMMENDATIONS  
YEARS ENDED JUNE 30, 2004 AND 2003

# HUMBOLDT COUNTY MEMORIAL HOSPITAL

## CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	21
ACCOMPANYING INFORMATION:	
Schedules Supporting Balance Sheets:	
Patient receivables	22
Inventory/Prepaid expense	23
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets:	
Patient service revenue	24
Revenue and related adjustments	25
Nursing service expenses	26
Other professional service expenses	28
Senior housing expenses	30
General service expenses	31
Fiscal and administrative service expenses	32
Comparative Statistics	33
Comparative Balance Sheets	34
Comparative Statements of Revenues, Expenses and Changes in Net Assets	35
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting	36
Schedule of Findings	38



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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

ROGER A. BELL  
MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Humboldt County Memorial Hospital  
Humboldt, Iowa

We have audited the accompanying balance sheets of Humboldt County Memorial Hospital as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note A, the operations of a component unit are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such an entity be blended with these financial statements.

In our opinion, except for the effects of exclusion of a component unit required to be included as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Humboldt County Memorial Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4e and 21 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  
Humboldt County Memorial Hospital

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 22 through 35) 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.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2004 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Stromwald, Bell, Kuhlman & Co. P.C.*

Atlantic, Iowa  
July 28, 2004



*Committed to Serve; Compassion to Care*

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**HUMBOLDT COUNTY MEMORIAL HOSPITAL**

**1000 N. 15TH STREET**

**HUMBOLDT, IOWA 50548**

**(515)332-4200**

**HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis**

Our discussion and analysis of Humboldt County Memorial Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2003 and 2004. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

**FINANCIAL HIGHLIGHTS**

The Hospital's net assets increased in each of the past two years. Net assets increased by \$834,173 or 10.5 percent from 2002 to 2003 and by \$933,832 or 10.6 from 2003 to 2004.

The Hospital reported an operating profit in both 2003 and 2004; operating profits were \$260,299 and \$388,636 respectively. The 2004 results reflect a \$128,337 or 49.3 percent increase as compared to 2003 results. Operating profit decreased in 2003 as compared to 2002 by \$31,821. This reflects a 10.9 percent decrease.

Net non-operating revenues increased by \$42,042 or 8.7 percent in 2004 compared to 2003. Net non-operating revenues decreased in 2003 by \$144,547 or 22.9 percent as compared to 2002.

**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**

Our analysis of the Hospital finances begins on page 5 of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. 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.

**HUMBOLDT COUNTY MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis - Continued**

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists as well as local economic factors to assess 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. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

**THE HOSPITAL'S NET ASSETS**

The Hospital's net assets are the difference between its assets and liabilities as reported in the Balance Sheet on page 5 of the financial statements. Comparative Balance Sheets are included on page 34 of the report. The Hospitals' net assets increased in each of the past two years by \$834,173 (10.5 percent) in 2003 and \$933,832 (10.6 percent) in 2004, as you can see from Table 1.

**Table 1: Assets, Liabilities, and Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Current assets	\$ 3,140,453	\$ 2,269,484	\$ 2,413,920
Capital assets, net	6,881,152	6,101,752	6,273,168
Other non-current assets	<u>5,240,447</u>	<u>5,518,138</u>	<u>4,377,436</u>
Total assets	<u>\$ 15,262,052</u>	<u>\$ 13,889,374</u>	<u>\$ 13,064,524</u>
<b>Liabilities:</b>			
Long-term debt outstanding, net	\$ 3,409,988	\$ 3,545,850	\$ 3,677,226
Other current and noncurrent liabilities	<u>2,121,198</u>	<u>1,546,490</u>	<u>1,424,437</u>
Total liabilities	<u>\$ 5,531,186</u>	<u>\$ 5,092,340</u>	<u>\$ 5,101,663</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 3,326,164	\$ 2,415,902	\$ 2,465,942
Restricted for debt service	1,306,262	1,323,584	1,277,199
Unrestricted	<u>5,098,440</u>	<u>5,057,548</u>	<u>4,219,720</u>
Total net assets	<u>\$ 9,730,866</u>	<u>\$ 8,797,034</u>	<u>\$ 7,962,861</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

A significant component of the change in the Hospital's assets is an increase in current assets, particularly operating cash and internally designated assets. Operating revenues increased in 2004 by \$380,331 (4.2 percent), and collections of accounts receivable remained strong, resulting in an improved cash position. The Hospital also saw a significant increase in net capital assets. In 2004 capital assets were \$6,881,152, compared to \$6,101,752 in 2003. This increase of \$779,400 represents a 12.8 percent increase over 2003. The Hospital was able to fund this increase in capital assets with dollars generated from current operations.

**OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS**

In 2004, the Hospital's net assets increased by \$933,832 or 10.6 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2003 were \$8,797,034 and \$9,730,866 at year-end 2004.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Net patient service revenues	\$ 8,767,237	\$ 8,457,808	\$ 7,717,302
Other operating revenues	<u>735,658</u>	<u>664,756</u>	<u>561,938</u>
Total operating revenues	9,502,895	9,122,564	8,279,240
Operating Expenses:			
Salaries and benefits	5,379,417	5,059,239	4,657,548
Professional fees	538,819	580,261	480,178
Other operating expenses	2,603,843	2,637,346	2,318,028
Depreciation	<u>592,180</u>	<u>585,419</u>	<u>531,366</u>
Total operating expenses	<u>9,114,259</u>	<u>8,862,265</u>	<u>7,987,120</u>
Operating Income	388,636	260,299	292,120
Non-operating Revenues and Expenses:			
Property taxes	374,657	388,105	472,169
Investment income	172,857	192,184	219,140
Non-capital grants and contributions	218,780	150,238	154,907
Other non-operating revenues and expenses, net	<u>( 238,623)</u>	<u>( 244,898)</u>	<u>( 216,040)</u>
Total non-operating revenues (expenses), net	<u>527,671</u>	<u>485,629</u>	<u>630,176</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	916,307	745,928	922,296
Capital Grants and Contributions	<u>17,525</u>	<u>88,245</u>	<u>8,639</u>
Increase in net assets	933,832	834,173	930,935
Net Assets Beginning of Year	<u>8,797,034</u>	<u>7,962,861</u>	<u>7,031,926</u>
Net Assets End of Year	<u>\$ 9,730,866</u>	<u>\$ 8,797,034</u>	<u>\$ 7,962,861</u>

**HUMBOLDT COUNTY MEMORIAL HOSPITAL**  
Management's Discussion and Analysis - Continued

**OPERATING INCOME**

The first component of the overall change in the Hospital's net assets is its operating income - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating profit. This is consistent with the Hospital's past several years of operating history. Operating profit was \$388,636 in 2004 and \$260,299 in 2003. 2003 operating profit showed a \$31,821 decrease, or 10.9 percent when compared to 2002 results.

The primary factors for the increased operating profits are:

Large revenue increases in physical therapy (\$134,922), laboratory (\$127,725), emergency room (\$116,184), and pharmacy (\$95,377) departments. Revenue in these departments increased by 41.2, 9.5, 24.2, and 8.6 percent respectively when compared to 2003.

Other departments also had substantial revenue increases for 2004. Ambulance revenue increased by \$86,069 or 29.6%, home care revenue increased by \$42,297 or 5.5%, observation revenue increased by \$36,437 or 66.4%, and electrocardiology revenue increased by \$36,211 or 23.1%.

The Hospital has demonstrated ability to kept operating expenses under control relative to revenue growth. However, the Hospital, like many other healthcare entities, has seen cost increases in the following areas:

Increases in salary costs for the Hospital's employees (\$145,823 or 3.6 percent increase in 2004 compared to 2003).

Increases in benefit costs for the Hospital's employees (\$174,355 or 16.9 percent increase in 2004 compared to 2003).

Increases in the Hospital's provision for bad debts (\$49,511 or 39.1 percent increase in 2004 compared to 2003).

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. Large components of the Hospital's costs are expenses for employee benefits, medical supply costs, and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix. The Hospital continues to negotiate new contracts with other suppliers to maximize pharmacy and supplies savings opportunities. The Hospital underwent a health insurance plan designed during its most recent renewal period to help maintain benefit costs.

**HUMBOLDT COUNTY MEMORIAL HOSPITAL**  
Management's Discussion and Analysis - Continued

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible. In 2003, \$126,605 in accounts were written off as uncollectible, this figure increased to \$176,116 in 2004. This reflects a 39.1 percent increase over this two year period.

**NONOPERATING REVENUES AND EXPENSES**

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. County tax payment to the Hospital decreased by \$13,448 in 2004 as compared to 2003. This was a decrease in tax financing of 3.5%. A general slowdown of home sales in the County has taken place over the past year. Non-capital grants and contributions increased by \$68,542 or 45.6% when compared to 2003. Investment income declined by \$19,327 or 10.1 percent due to continued low interest rates. Hospital interest expense decreased \$6,175 from 2003. Overall, net non-operating revenues increased from \$485,629 to \$527,671 from 2003 to 2004.

**GRANTS, CONTRIBUTIONS, AND ENDOWMENTS**

The Hospital's capital grants and contributions declined from \$88,245 in 2003 to \$17,525 in 2004. The reason for the decline is due to a large individual donation that was received in 2003. The Hospital actively seeks contributions through its Foundation and continues to explore applicable grant opportunities.

**THE HOSPITAL'S CASH FLOWS**

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses, discussed earlier, with one exception. In 2004, net cash used for capital and relating financing activities shows an increase of \$772,942. Of this amount, \$654,798 is related to the Springvale Assisted Living construction project and the Hospital remodeling project that are currently in progress. Construction in progress expenditures increased by \$643,265, reflecting the new construction projects. Both projects are scheduled to be completed early in the 2004 year.

**BUDGETARY HIGHLIGHTS**

Actual expenses were lower than the amended budget by approximately \$1,164,524 due to decisions to delay the Springvale Assisted Living Project and the purchase of several large dollar equipment items. Actual revenues were lower than budgeted by \$225,692 as a result of larger than anticipated contractual adjustments related to Medicare, Medicaid, and Blue Cross patients.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At the end of 2004, the Hospital had over \$5.9 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2004, the Hospital purchased new major moveable equipment costing \$283,044. Of this, none was acquired through capital leases. Nearly the same amount - \$298,060 - was spent to acquire similar equipment in 2003. When land improvements and buildings and fixed equipment are included, total capital asset purchases were \$371,471 and \$445,509 in 2003 and 2004 respectively. The Hospital has recently found it more economical to lease some types of equipment. This allows the Hospital to avoid some of the costs of obsolescence caused by technological changes.

**Debt:**

At year-end, the Hospital had \$3,554,988 in revenue bonds outstanding. This compares to \$3,685,850 for year-end 2003. The Hospital issued no new debt in 2004 and has no plans to issue new debt for the current construction project, which will cost approximately \$2,400,000. Financing for the project is being provided through existing hospital reserves. There have been no changes in the Hospital's debt ratings in the past two years.

**OTHER ECONOMIC FACTORS**

The Hospital continues to deal with the rising cost of health insurance for the general population. This impacts the Hospital through higher deductibles and more coverage limitations by insurance companies. This leads to more under insured patients that in turn leads to more uncollectible account balances.

In the past year the Hospital was forced to discontinue obstetrical services due to the retirement of a physician. This specialist covered emergency C-sections for the local providers. Obstetrical services are no longer available in Humboldt County.

One of the County's largest employers continues to be challenged in the current economic climate. They have reduced their workforce and forced wage concessions on the employees to maintain as a viable business.

**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 Hospital Financial Director's Office, at Humboldt County Memorial Hospital, 1000 North 15<sup>th</sup> Street Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Balance Sheets  
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
<b>Current Assets:</b>		
Cash	\$ 694,963	\$ 330,656
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$319,000 in 2004, \$275,000 in 2003)	1,274,278	1,116,348
Other receivables	34,286	30,950
Inventory	214,181	185,783
Prepaid expense	44,555	45,593
Succeeding year property tax receivable	288,000	289,000
Internally designated assets	<u>590,190</u>	<u>271,154</u>
Total current assets	3,140,453	2,269,484
<b>Designated Assets:</b>		
Internally designated assets	4,524,375	4,465,708
Restricted assets	<u>1,306,262</u>	<u>1,323,584</u>
	5,830,637	5,789,292
Less amounts required to meet current liabilities	<u>590,190</u>	<u>271,154</u>
	5,240,447	5,518,138
<b>Capital Assets:</b>		
Depreciable capital assets, net	5,864,055	6,010,726
Non-depreciable capital assets	<u>1,017,097</u>	<u>91,026</u>
	<u>6,881,152</u>	<u>6,101,752</u>
Total assets	<u>\$ 15,262,052</u>	<u>\$ 13,889,374</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 145,000	\$ 140,000
Accounts payable	668,508	334,672
Accrued employee compensation	368,682	332,728
Payroll taxes withheld and accrued	29,810	28,549
Accrued interest payable	18,572	19,155
Senior housing deposits	56,626	72,386
Estimated third-party payor settlements	546,000	330,000
Deferred revenue for succeeding year property tax receivable	<u>288,000</u>	<u>289,000</u>
Total current liabilities	2,121,198	1,546,490
Long-Term Debt:		
Revenue bonds, less current maturities	<u>3,409,988</u>	<u>3,545,850</u>
Total liabilities	5,531,186	5,092,340
Net Assets:		
Invested in capital assets, net of related debt	3,326,164	2,415,902
Restricted - expendable	1,306,262	1,323,584
Unrestricted	<u>5,098,440</u>	<u>5,057,548</u>
Total net assets	<u>9,730,866</u>	<u>8,797,034</u>
Total liabilities and net assets	<u>\$ 15,262,052</u>	<u>\$ 13,889,374</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Statements of Revenues, Expenses and Changes in Net Assets  
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Revenue:		
Net patient service revenue	\$ 8,767,237	\$ 8,457,808
Other revenue	<u>735,658</u>	<u>664,756</u>
Total revenue	9,502,895	9,122,564
Expenses:		
Nursing service	2,108,705	2,144,380
Other professional service	3,354,216	3,190,870
Senior housing	117,569	104,499
General service	1,068,781	1,057,103
Fiscal and administrative service	1,872,808	1,779,994
Provision for depreciation	<u>592,180</u>	<u>585,419</u>
Total expenses	<u>9,114,259</u>	<u>8,862,265</u>
Operating Income	388,636	260,299
Non-Operating Revenues (Expenses):		
County taxes	374,657	388,105
Noncapital grants and contributions	218,780	150,238
Investment income	172,857	192,184
Gain on disposal of equipment	100	--
Interest expense	<u>( 238,723)</u>	<u>( 244,898)</u>
Non-operating revenues, net	<u>527,671</u>	<u>485,629</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	916,307	745,928
Capital Grants and Contributions	<u>17,525</u>	<u>88,245</u>
Increase in Net Assets	933,832	834,173
Net Assets Beginning of Year	<u>8,797,034</u>	<u>7,962,861</u>
Net Assets End of Year	<u>\$ 9,730,866</u>	<u>\$ 8,797,034</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Statements of Cash Flows  
 Year ended June 30,

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 8,806,211	\$ 8,496,940
Cash paid to suppliers	( 4,342,220)	( 4,179,674)
Cash paid to employees	( 4,137,787)	( 3,945,059)
Other revenue	<u>735,658</u>	<u>664,756</u>
Net cash provided by operating activities	1,061,862	1,036,963
Cash flows from non-capital financing activities:		
County tax revenue	374,657	388,105
Noncapital grants and contributions	<u>218,780</u>	<u>150,238</u>
Net cash provided by non-capital financing activities	593,437	538,343
Cash flows from capital and related financing activities:		
Capital grants and contributions	17,525	88,245
Principal paid on long-term debt	( 140,000)	( 130,000)
Capital expenditures	( 415,163)	( 359,471)
Construction in progress expenditures	( 654,798)	( 11,533)
Proceeds from disposal of equipment	100	--
Interest paid	<u>( 230,168)</u>	<u>( 236,803)</u>
Net cash used in capital and related financing activities	( 1,422,504)	( 649,562)
Cash flows from investing activities:		
Investment income	172,857	192,184
Increase in designated assets	<u>( 49,770)</u>	<u>( 1,170,407)</u>
Net cash provided by (used in) investing activities	<u>123,087</u>	<u>( 978,223)</u>
Net increase (decrease) in cash and cash equivalents	355,882	( 52,479)
Cash and cash equivalents beginning of year	<u>503,997</u>	<u>556,476</u>
Cash and cash equivalents end of year	<u>\$ 859,879</u>	<u>\$ 503,997</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Statements of Cash Flows - continued  
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 694,963	\$ 330,656
Cash and cash equivalents in designated and restricted assets	<u>164,916</u>	<u>173,341</u>
	<u>\$ 859,879</u>	<u>\$ 503,997</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 388,636	\$ 260,299
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	592,180	585,419
Amortization	--	20,000
Provision for bad debts	176,116	126,605
Change in assets and liabilities		
Accounts receivable	( 337,382)	( 44,733)
Inventory	( 28,398)	24,010
Prepaid expense	1,038	( 13,220)
Accounts payable, trade	32,217	45,644
Accrued employee compensation	35,954	82,859
Payroll taxes withheld and accrued	1,261	( 7,180)
Senior housing deposits	( 15,760)	260
Estimated third-party payor settlements	<u>216,000</u>	<u>( 43,000)</u>
Total adjustments	<u>673,226</u>	<u>776,664</u>
Net cash provided by operating activities	<u>\$ 1,061,862</u>	<u>\$ 1,036,963</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Humboldt County Memorial Hospital (the Hospital) is a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital 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 Hospital has one component unit: Humboldt County Memorial Hospital Foundation (the Foundation). Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital. Blending of the Foundation with the Hospital would result in an increase in total net assets of \$991,836 (\$953,163 in 2003) and an increase in the change in net assets of \$38,673 (\$10,089 in 2003) for the year ended June 30, 2004.

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 a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

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

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

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

6. Investments

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

7. Capital Assets

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

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in 2004 or 2003.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off accumulates to a maximum of 240 hours. Any excess over 240 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off earned by year end is recorded as part of accrued employee compensation.

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.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

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

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. 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.

14. 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.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

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

15. 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, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note H. *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*.

16. 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

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services, most outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2002. The Medicaid cost reports have been audited through June 30, 2001. 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.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2004	2003
Long-term debt	<u>\$ 1,306,262</u>	<u>\$ 1,323,584</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2004 or 2003.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	2004	2003
Purchase of property and equipment	<u>\$ 17,525</u>	<u>\$ 93,595</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$5,098,440 (\$5,057,548 as of June 30, 2003) of unrestricted net assets as of June 30, 2004, \$4,524,375 (\$4,465,708 for 2003) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	2004	2003
Capital acquisitions	\$ 4,359,459	\$ 4,292,367
Employee health insurance	<u>164,916</u>	<u>173,341</u>
	<u>\$ 4,524,375</u>	<u>\$ 4,465,708</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE E - DEPOSITS AND INVESTMENTS - Continued

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:

	2004	2003
Internally Designated Assets:		
Cash	\$ 164,916	\$ 173,341
Certificates of deposit	4,339,722	4,269,304
Interest receivable	19,737	23,063
	\$ 4,524,375	\$ 4,465,708
Restricted Assets:		
Certificates of deposit	\$ 1,298,761	\$ 1,314,662
Interest receivable	7,501	8,922
	\$ 1,306,262	\$ 1,323,584

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

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

	2004	2003
Receivable from:		
Patients	\$ 329,205	\$ 255,397
Medicare	691,844	472,821
Medicaid	122,924	151,322
Wellmark	167,129	242,325
Other commercial insurance carriers	266,402	239,252
Others	15,774	30,231
	1,593,278	1,391,348
Less allowances for doubtful accounts and contractual adjustments	319,000	275,000
	\$ 1,274,278	\$ 1,116,348

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Land Improvements	\$ 75,526	\$ 5,975	\$ --	\$ 81,501
Buildings and Fixed Equipment	5,316,181	156,490	--	5,472,671
Major Movable Equipment	3,522,507	283,044	--	3,805,551
Senior Housing Assets	<u>2,537,085</u>	<u>--</u>	<u>--</u>	<u>2,537,085</u>
	11,451,299	445,509	--	11,896,808
<u>Depreciation</u>				
Land Improvements	71,304	1,282	--	72,586
Buildings and Fixed Equipment	2,567,282	226,909	--	2,794,191
Major Movable Equipment	2,580,552	237,415	--	2,817,967
Senior Housing Assets	<u>221,435</u>	<u>126,574</u>	<u>--</u>	<u>348,009</u>
Total Depreciation	<u>5,440,573</u>	<u>592,180</u>	<u>--</u>	<u>6,032,753</u>
Total Depreciable Capital Assets, Net	<u>\$ 6,010,726</u>	<u>\$( 146,671)</u>	<u>\$ --</u>	<u>\$ 5,864,055</u>
Construction in Progress	\$ 42,532	\$ 926,071	\$ --	\$ 968,603
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 91,026</u>	<u>\$ 926,071</u>	<u>\$ --</u>	<u>\$ 1,017,097</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Land Improvements	\$ 75,526	\$ --	\$ --	\$ 75,526
Buildings and Fixed Equipment	5,242,770	73,411	--	5,316,181
Major Movable Equipment	3,276,558	298,060	52,111	3,522,507
Senior Housing Assets	<u>2,537,085</u>	<u>--</u>	<u>--</u>	<u>2,537,085</u>
	11,131,939	371,471	52,111	11,451,299
<u>Depreciation</u>				
Land Improvements	70,244	1,060	--	71,304
Buildings and Fixed Equipment	2,340,803	226,479	--	2,567,282
Major Movable Equipment	2,401,357	231,306	52,111	2,580,552
Senior Housing Assets	<u>94,861</u>	<u>126,574</u>	<u>--</u>	<u>221,435</u>
Total Depreciation	<u>4,907,265</u>	<u>585,419</u>	<u>52,111</u>	<u>5,440,573</u>
Total Depreciable Capital Assets, Net	<u>\$ 6,224,674</u>	<u>\$( 213,948)</u>	<u>\$ --</u>	<u>\$ 6,010,726</u>
Construction in Progress	\$ --	\$ 42,532	\$ --	\$ 42,532
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 48,494</u>	<u>\$ 42,532</u>	<u>\$ --</u>	<u>\$ 91,026</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2004 and 2003 follows:

	<u>Balance 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2004</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2000 revenue bonds	\$1,950,000	\$ --	\$ 30,000	\$1,920,000	\$ 30,000
Series 2001 revenue bonds	1,935,000	--	110,000	1,825,000	115,000
Less deferred financing costs	<u>199,150</u>	<u>--</u>	<u>9,138</u>	<u>190,012</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$3,685,850</u>	<u>\$ --</u>	<u>\$ 130,862</u>	<u>\$3,554,988</u>	<u>\$ 145,000</u>
	<u>Balance 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2003</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2000 revenue bonds	\$1,975,000	\$ --	\$ 25,000	\$1,950,000	\$ 30,000
Series 2001 revenue bonds	2,040,000	--	105,000	1,935,000	110,000
Less deferred financing costs	<u>207,774</u>	<u>--</u>	<u>8,624</u>	<u>199,150</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$3,807,226</u>	<u>\$ --</u>	<u>\$ 121,376</u>	<u>\$3,685,850</u>	<u>\$ 140,000</u>

The Series 2000 Hospital Revenue Bonds were issued in November, 2000 and are collateralized by the Hospital's net revenues. The bonds mature in annual amounts ranging up to \$70,000 on June 1, 2019 with a balloon payment of \$1,195,000 due June 1, 2020. The bonds carry an interest rate of 6.65% per annum through June 1, 2010 at which time the rate will adjust to a rate equal to 69% (64% if the Hospital meets certain financial thresholds) of the Lender's Prime Rate then in effect.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE H - NON-CURRENT LIABILITIES - Continued

The Series 2001 Hospital Revenue Refunding Bonds were issued in June, 2001 and are collateralized by the Hospital's net revenues. The bonds were issued for the purpose of refunding the Series 1996 Hospital Revenue Bonds. The Bonds mature in annual amounts ranging up to \$200,000 on June 1, 2016 with interest rates ranging from 4.55% to 5.65%.

Under the terms of the revenue bond indenture, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding.

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

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 145,000	\$ 222,868
2006	150,000	215,525
2007	160,000	207,830
2008	165,000	199,440
2009	180,000	190,678
2010-14	1,040,000	796,260
2015-19	710,000	496,983
2020	<u>1,195,000</u>	<u>79,468</u>
	<u>\$ 3,745,000</u>	<u>\$ 2,409,052</u>

NOTE I - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$235,300, \$220,000, and \$204,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2004 was approximately \$107,700 (\$86,300 at June 30, 2003). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - COMMITMENTS AND CONTINGENCIES

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. Humboldt County Memorial 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.

Construction in Progress

During the year ended June 30, 2004, the Hospital entered into a building project to remodel and expand a portion of the Hospital and to construct an assisted living housing complex. The total estimated cost of the project is approximately \$2,900,000. At June 30, 2004, costs incurred on this project totaled approximately \$968,600. Financing for the project is being provided by funds generated internally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2004, the Hospital has designated funds in excess of actual claims paid of \$164,916 (\$173,341 at June 30, 2003). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2004 is \$79,000 (\$66,000 at June 30, 2003) and is included in accounts payable.

NOTE L - ACCOUNTING CHANGE

During the year ended June 30, 2004, the Hospital completed the implementation of Government Accounting Standards Board Statements No. 34, 37, and 38 by inclusion of Management's Discussion and Analysis with these financial statements.

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2004

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for bad debts, interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 374,657	\$ --	\$ 374,657	
Other revenues	9,655,909	17,525	9,673,434	
Transfers in (out)	34,847	( 34,847)	--	
	10,065,413	( 17,322)	10,048,091	
Expenses	9,114,259	--	9,114,259	
Net	951,154	( 17,322)	933,832	
Balance beginning of year	7,473,450	1,323,584	8,797,034	
Balance end of year	\$ 8,424,604	\$ 1,306,262	\$ 9,730,866	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 374,657	\$ --	\$ 374,657	\$ 295,148
Other revenues	9,673,434	414,839	10,088,273	10,393,474
	10,048,091	414,839	10,462,930	10,688,622
Expenses	9,114,259	414,839	9,529,098	10,693,622
Net	933,832	--	933,832	( 5,000)
Balance beginning of year	8,797,034	( 175,914)	8,621,120	8,621,120
Balance end of year	\$ 9,730,866	\$( 175,914)	\$ 9,554,952	\$ 8,616,120

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,047,903	65.8%	\$ 886,820	63.7%
31 - 90	415,093	26.1	327,501	23.5
91 - 180	99,252	6.2	129,103	9.3
181 - 364	22,654	1.4	35,405	2.6
365 and over	8,376	.5	12,519	.9
	<u>1,593,278</u>	<u>100.0%</u>	<u>1,391,348</u>	<u>100.0%</u>
Allowance for doubtful accounts	95,000		95,000	
Allowance for contractual adjustments	<u>224,000</u>		<u>180,000</u>	
	<u>\$ 1,274,278</u>		<u>\$ 1,116,348</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 95,000	\$ 95,000
Provision for bad debts	176,116	126,605
Recoveries of accounts previously written off	<u>195,901</u>	<u>205,668</u>
	467,017	427,273
Accounts written off	<u>372,017</u>	<u>332,273</u>
Balance, ending	<u>\$ 95,000</u>	<u>\$ 95,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	2004	2003
<u>Inventory</u>		
Central supply	\$ 113,600	\$ 93,468
Pharmacy	90,290	82,289
Dietary	10,291	10,026
	\$ 214,181	\$ 185,783
 <u>Prepaid Expense</u>		
Insurance	\$ 36,080	\$ 37,518
Maintenance	8,475	8,075
	\$ 44,555	\$ 45,593

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	2004		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 568,925	\$ --	\$ --
Swing bed - SNF	--	--	229,250
NF care	--	--	--
Telemetry	52,800	--	--
Nursery	--	--	--
	<u>621,725</u>	<u>--</u>	<u>229,250</u>
Other Nursing Services:			
Observation	14,156	77,129	--
Operating and recovery rooms	56,796	912,057	--
Delivery and labor rooms	--	375	--
Central services and supply	17,535	30,050	14,271
Emergency services	73,315	522,585	--
Cardiac rehabilitation	--	60,390	--
	<u>161,802</u>	<u>1,602,586</u>	<u>14,271</u>
Other Professional Services:			
Laboratory and blood bank	234,660	1,214,495	27,784
Electrocardiology	34,175	158,027	870
Cardiovascular diagnostics	29,985	182,410	7,710
Radiology	180,268	1,556,200	22,478
Pharmacy	426,419	548,897	156,118
Anesthesiology	22,553	108,634	168
Respiratory therapy	220,254	152,062	63,398
Physical therapy	12,975	402,417	47,215
Occupational therapy	5,647	56,745	36,206
Speech therapy	2,784	9,695	5,388
Massage therapy	8,110	--	--
Ambulance	--	376,615	--
Outpatient clinics	--	--	--
Home health	--	806,629	--
Hospice	--	123,776	--
	<u>1,177,830</u>	<u>5,696,602</u>	<u>367,335</u>
	<u>\$ 1,961,357</u>	<u>\$ 7,299,188</u>	<u>\$ 610,856</u>

See Independent Auditor's Report.

<u>2004</u>		<u>2003</u>
<u>LTC</u>	<u>Total</u>	<u>Total</u>
\$ --	\$ 568,925	\$ 652,049
--	229,250	199,660
1,001,000	1,001,000	972,321
--	52,800	36,900
--	--	17,225
<u>1,001,000</u>	<u>1,851,975</u>	<u>1,878,155</u>
--	91,285	54,848
--	968,853	971,307
--	375	40,431
17,357	79,213	132,998
--	595,900	479,716
--	60,390	72,835
<u>17,357</u>	<u>1,796,016</u>	<u>1,752,135</u>
--	1,476,939	1,349,214
--	193,072	156,861
--	220,105	220,578
--	1,758,946	1,748,332
67,503	1,198,937	1,103,560
--	131,355	134,133
539	436,253	409,470
--	462,607	327,685
--	98,598	89,100
--	17,867	29,138
--	8,110	9,365
--	376,615	290,546
--	--	823
--	806,629	764,332
--	123,776	170,600
<u>68,042</u>	<u>7,309,809</u>	<u>6,803,737</u>
<u>\$ 1,086,399</u>	<u>\$ 10,957,800</u>	<u>\$ 10,434,027</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
June 30,

	<u>2004</u>	<u>2003</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 10,957,800	\$ 10,434,027
Contractual adjustments	( 2,009,706)	( 1,846,808)
Discounts and allowances	( 4,741)	( 2,806)
Provision for bad debts	( 176,116)	( 126,605)
	<u>\$ 8,767,237</u>	<u>\$ 8,457,808</u>
 <u>Other Revenue</u>		
Senior housing revenue	\$ 475,748	\$ 474,095
Cafeteria	65,112	58,872
Congregate meals	39,482	42,375
Employee prescriptions	115,782	50,198
Purchase discounts	938	1,034
Medical records transcript fees	2,693	2,944
Medical examiner	3,816	1,034
Ancillary service coverage revenue	1,024	1,409
Rental income	30,853	32,670
Vending machine commissions	210	125
	<u>\$ 735,658</u>	<u>\$ 664,756</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Administrative:		
Salaries and wages	\$ 56,866	\$ 57,408
Supplies and other expense	<u>3,262</u>	<u>2,663</u>
	60,128	60,071
Medical and Surgical:		
Salaries and wages	567,133	541,789
Supplies and other expense	<u>33,653</u>	<u>43,851</u>
	600,786	585,640
Long-Term Care:		
Salaries and wages	531,318	508,358
Supplies and other expense	<u>26,292</u>	<u>24,692</u>
	557,610	533,050
Nursery:		
Salaries and wages	--	7,408
Supplies and other expense	<u>--</u>	<u>3,668</u>
	--	11,076
Operating and Recovery Rooms:		
Salaries and wages	152,483	159,474
Supplies and other expense	<u>198,103</u>	<u>207,495</u>
	350,586	366,969
Delivery and Labor Rooms:		
Salaries and wages	--	6,902
Supplies and other expense	<u>--</u>	<u>9,889</u>
	--	16,791
Central Services and Supply:		
Salaries and wages	50,687	48,954
Supplies and other expense	<u>31,016</u>	<u>92,376</u>
	81,703	141,330

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - continued  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Emergency Services:		
Salaries and wages	\$ 183,995	\$ 163,450
Professional fees	218,920	207,168
Supplies and other expense	<u>27,265</u>	<u>23,957</u>
	430,180	394,575
 Cardiac Rehabilitation:		
Salaries and wages	25,082	29,184
Supplies and other expense	<u>2,630</u>	<u>5,694</u>
	<u>27,712</u>	<u>34,878</u>
	<u>\$ 2,108,705</u>	<u>\$ 2,144,380</u>

SUMMARY

Salaries and wages	\$ 1,567,564	\$ 1,522,927
Professional fees	218,920	207,168
Supplies and other expense	<u>322,221</u>	<u>414,285</u>
	<u>\$ 2,108,705</u>	<u>\$ 2,144,380</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Laboratory and Blood Bank:		
Salaries and wages	\$ 273,971	\$ 267,977
Professional fees	45,632	47,058
Supplies and other expense	<u>228,658</u>	<u>200,779</u>
	548,261	515,814
Electrocardiology:		
Professional fees	13,514	13,187
Supplies and other expense	<u>--</u>	<u>240</u>
	13,514	13,427
Cardiovascular Diagnostics:		
Salaries and wages	4,285	390
Supplies and other expense	<u>98,627</u>	<u>103,186</u>
	102,912	103,576
Radiology:		
Salaries and wages	219,598	214,636
Professional fees	16,903	28,508
Supplies and other expense	<u>380,089</u>	<u>396,404</u>
	616,590	639,548
Pharmacy:		
Salaries and wages	140,488	130,856
Professional fees	158	3,274
Supplies and other expense	<u>458,827</u>	<u>371,473</u>
	599,473	505,603
Anesthesiology:		
Professional fees	68,790	70,350
Supplies and other expense	<u>5,444</u>	<u>3,817</u>
	74,234	74,167
Respiratory Therapy:		
Salaries and wages	40,154	33,108
Professional fees	--	2,003
Supplies and other expense	<u>23,556</u>	<u>23,188</u>
	63,710	58,299
Physical Therapy:		
Salaries and wages	107,868	103,911
Professional fees	16,716	7,098
Supplies and other expense	<u>17,612</u>	<u>11,007</u>
	142,196	122,016
Occupational Therapy:		
Salaries and wages	1,119	15,031
Professional fees	46,686	11,308
Supplies and other expense	<u>523</u>	<u>378</u>
	48,328	26,717

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HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - continued  
Year ended June 30,

	2004	2003
Speech Therapy:		
Salaries and wages	\$ 379	\$ 692
Professional fees	<u>17,483</u>	<u>14,445</u>
	17,862	15,137
Massage Therapy:		
Supplies and other expense	7,384	8,418
Ambulance:		
Salaries and wages	72,073	70,502
Supplies and other expense	<u>20,978</u>	<u>38,190</u>
	93,051	108,692
Outpatient Clinics:		
Salaries and wages	24,168	23,888
Supplies and other expense	<u>2,776</u>	<u>3,464</u>
	26,944	27,352
Home Health:		
Salaries and wages	597,856	602,138
Supplies and other expense	<u>134,350</u>	<u>124,125</u>
	732,206	726,263
Hospice:		
Salaries and wages	33,871	21,216
Supplies and other expense	<u>36,082</u>	<u>31,216</u>
	69,953	52,432
Medical Records:		
Salaries and wages	187,684	178,938
Supplies and other expense	<u>9,914</u>	<u>14,471</u>
	<u>197,598</u>	<u>193,409</u>
	<u>\$ 3,354,216</u>	<u>\$ 3,190,870</u>

SUMMARY

Salaries and wages	\$ 1,703,514	\$ 1,663,283
Professional fees	225,882	197,231
Supplies and other expense	<u>1,424,820</u>	<u>1,330,356</u>
	<u>\$ 3,354,216</u>	<u>\$ 3,190,870</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Senior Housing Expenses  
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 59,470	\$ 49,033
Utilities	38,367	36,746
Repairs and maintenance	8,423	5,088
Supplies and other expense	<u>11,309</u>	<u>13,632</u>
	<u>\$ 117,569</u>	<u>\$ 104,499</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	2004	2003
Dietary:		
Salaries and wages	\$ 306,806	\$ 307,161
Food, supplies and other expense	236,559	218,384
	543,365	525,545
Plant Operation and Maintenance:		
Salaries and wages	123,958	116,371
Utilities	121,437	113,649
Supplies and other expense	86,805	96,769
	332,200	326,789
Housekeeping:		
Salaries and wages	120,085	122,373
Supplies and other expense	15,011	24,671
	135,096	147,044
Laundry and Linen:		
Salaries and wages	1,952	2,867
Supplies and other expense	56,168	54,858
	58,120	57,725
	\$ 1,068,781	\$ 1,057,103

SUMMARY

Salaries and wages	\$ 552,801	\$ 548,772
Supplies and other expense	515,980	508,331
	\$ 1,068,781	\$ 1,057,103

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