

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, 2005 AND 2004

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Officials
 June 30, 2005

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Gary Moritz, Chairperson	Humboldt, Iowa	2008
Marlene Thompson, Vice-Chairperson	Humboldt, Iowa	2010
David Boswell, Secretary	Humboldt, Iowa	2010
Dale Heider, Treasurer	Humboldt, Iowa	2006
Jodi Eppley	Humboldt, Iowa	2008
Vivien Hansen (appointed March, 2005)	Humboldt, Iowa	2006
June Olson (resigned March, 2005)	Bode, Iowa	--
Bruce Watnem (resigned December, 2004)	Humboldt, Iowa	--
 <u>Administrator:</u>		
Michael Craig, interim	Fort Dodge, Iowa	
Charles Kelch (resigned May, 2005)	Clarion, Iowa	
 <u>Assistant Administrator:</u>		
Pam Ray	Humboldt, Iowa	
 <u>Chief Financial Officer:</u>		
Betty J. Etherington	Humboldt, Iowa	

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

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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, 2005 and 2004, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2005 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Humboldt County Memorial Hospital

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.

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, 2003 (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.

Stonebold, Bell, Kuhlman - Co. P.C.

Atlantic, Iowa
July 28, 2005



Committed to Serve; Compassion to Care

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, 2004 and 2005. 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 \$940,926 or 9.7 percent from 2004 to 2005 and by \$933,832 or 10.6 from 2003 to 2004.

The Hospital reported an operating profit in both 2005 and 2004; operating profits were \$479,835 and \$388,636 respectively. The 2005 results reflect a \$91,199 or 23.5 percent increase as compared to 2004 results. Operating profit increased in 2004 as compared to 2003 by \$128,337. This reflects a 49.3 percent increase.

Net non-operating revenues decreased by \$68,974 or 13.1 percent in 2005 compared to 2004. Net non-operating revenues increased in 2004 by \$42,042 or 8.7 percent as compared to 2003.

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 \$940,926 (9.7 percent) in 2005 and \$933,832 (10.6 percent) in 2004, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 2,901,068	\$ 3,140,453	\$ 2,269,484
Capital assets, net	9,089,910	6,881,152	6,101,752
Other non-current assets	<u>4,015,142</u>	<u>5,240,447</u>	<u>5,518,138</u>
 Total assets	 <u>\$ 16,006,120</u>	 <u>\$ 15,262,052</u>	 <u>\$ 13,889,374</u>
Liabilities:			
Long-term debt outstanding, net	\$ 3,479,505	\$ 3,409,988	\$ 3,545,850
Other current and noncurrent liabilities	<u>1,854,823</u>	<u>2,121,198</u>	<u>1,546,490</u>
 Total liabilities	 <u>\$ 5,334,328</u>	 <u>\$ 5,531,186</u>	 <u>\$ 5,092,340</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 5,436,405	\$ 3,326,164	\$ 2,415,902
Restricted for debt service	1,152,414	1,306,262	1,323,584
Unrestricted	<u>4,082,973</u>	<u>5,098,440</u>	<u>5,057,548</u>
 Total net assets	 <u>\$ 10,671,792</u>	 <u>\$ 9,730,866</u>	 <u>\$ 8,797,034</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 capital assets from \$6,881,152 in 2004 to \$9,089,910 in 2005 (32.1%) This was specifically due to the construction of an assisted living complex, additional independent living units and other internal construction and remodeling. Construction also resulted in a decrease in investments to fund the projects without debt. Internally designated assets decreased by \$1,361,186 with the balance of the project paid through operations. Operating revenues increased in 2005 by \$1,123,561 (11.8 percent), and collections of accounts receivable remained strong, resulting in a stable cash position.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2005, the Hospital's net assets increased by \$940,926 or 9.7 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2005 were \$10,671,792 and \$9,730,866 at year-end 2004.

Table 2: Operating Results and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net patient service revenues	\$ 9,676,121	\$ 8,767,237	\$ 8,457,808
Other operating revenues	<u>950,335</u>	<u>735,658</u>	<u>664,756</u>
Total operating revenues	10,626,456	9,502,895	9,122,564
Operating Expenses:			
Salaries and benefits	5,792,778	5,379,417	5,059,239
Professional fees	652,083	538,819	580,261
Other operating expenses	2,994,450	2,603,843	2,637,346
Depreciation	<u>707,310</u>	<u>592,180</u>	<u>585,419</u>
Total operating expenses	<u>10,146,621</u>	<u>9,114,259</u>	<u>8,862,265</u>
Operating Income	479,835	388,636	260,299
Non-operating Revenues and Expenses:			
Property taxes	375,349	374,657	388,105
Investment income	136,559	172,857	192,184
Non-capital grants and contributions	178,980	218,780	150,238
Other non-operating revenues and expenses, net	<u>(232,191)</u>	<u>(238,623)</u>	<u>(244,898)</u>
Total non-operating revenues (expenses), net	<u>458,697</u>	<u>527,671</u>	<u>485,629</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	938,532	916,307	745,928
Capital Grants and Contributions	<u>2,394</u>	<u>17,525</u>	<u>88,245</u>
Increase in net assets	940,926	933,832	834,173
Net Assets Beginning of Year	<u>9,730,866</u>	<u>8,797,034</u>	<u>7,962,861</u>
Net Assets End of Year	<u>\$ 10,671,792</u>	<u>\$ 9,730,866</u>	<u>\$ 8,797,034</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 \$479,835 in 2005 and \$388,636 in 2004.

The primary factors for the increased operating profits are:

Large revenue increases from 2004 were noted in Operating room (\$181,908) up 18.8%, Laboratory (\$136,466) up 9.2%, Radiology (\$150,368) up 8.5%, Pharmacy (\$231,234) up 19.3% and Hospice (\$176,056) up 142.2%.

The additional senior house apartments provided increase in other operating revenue of \$212,452 in 2005, up 44.7% from 2004.

The Hospital has demonstrated ability to keep 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 (\$297,067 or 7.1 percent increase in 2005 compared to 2004). This increase does include additional staff related to the new assisted living complex.

Increases in benefit costs for the Hospital's employees (\$116,294 or 9.6 percent increase in 2005 compared to 2004).

Increases in the Hospital's provision for bad debts (\$48,480 or 27.5 percent increase in 2005 compared to 2004).

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 also continues to grow in its technology both in the area of patient diagnostics and general hospital information systems.

**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 2004, \$176,116 in accounts were written off as uncollectible. This figure increased to \$224,596 in 2005. This reflects a 27.5 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. The Hospital has maintained its tax asking at approximately \$300,000 over that past three years. Non-capital grants and contributions decreased by \$39,800 or 18.2% when compared to 2004. Investment income declined by \$36,298 or 21.0% due to continued low interest rates and the decrease in investments which were used for construction purposes. Hospital interest expense decreased \$6,150 from 2004. Overall, net non-operating revenues decreased from \$527,671 to \$458,697 from 2004 to 2005.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital's capital grants and contributions declined from \$17,525 in 2004 to \$2,394 in 2005. 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 2005, net cash used for capital and relating financing activities showed an increase of \$1,970,573. Of this amount, \$1,747,307 is related to the Springvale Assisted Living construction project and the Hospital remodeling project that was completed in 2005. The Hospital also received an interest free REC loan for this project in the amount of \$240,000. The net change in hospital cash flows is a decrease of \$130,773 in 2005 from 2004.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the amended budget by approximately \$606,068. This was in part due to the assisted living unit opening later than expected during the fiscal year. Actual revenues were higher than budgeted by \$334,858.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2005, the Hospital had approximately \$9 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2005, the Hospital purchased new major moveable equipment costing \$757,155. Of this, none was acquired through capital leases. When land improvements, buildings and fixed equipment are included, total capital asset purchases were \$3,884,671 which includes \$2,599,499 in the addition of the senior housing assets.

Debt:

At year-end, the Hospital had \$3,419,505 in revenue bonds outstanding. This compares to \$3,554,988 for year-end 2004. In December 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. This non-interest bearing loan was used for the assisted living project.

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.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important to retaining good employees and contributing to the growth of the hospital.

Physician retention and exploring new services is also vital to our market share growth. The hospital strives to provide state of the art technology and services.

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 15th Street Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash	\$ 629,601	\$ 694,963
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$496,000 in 2005, \$319,000 in 2004)	1,331,205	1,274,278
Other receivables	102,920	34,286
Inventory	211,181	214,181
Prepaid expense	36,700	44,555
Succeeding year property tax receivable	289,000	288,000
Internally designated assets	<u>300,461</u>	<u>590,190</u>
Total current assets	2,901,068	3,140,453
Designated Assets:		
Internally designated assets	3,163,189	4,524,375
Restricted assets	<u>1,152,414</u>	<u>1,306,262</u>
	4,315,603	5,830,637
Less amounts required to meet current liabilities	<u>300,461</u>	<u>590,190</u>
	4,015,142	5,240,447
Capital Assets:		
Depreciable capital assets, net	9,041,416	5,864,055
Non-depreciable capital assets	<u>48,494</u>	<u>1,017,097</u>
	<u>9,089,910</u>	<u>6,881,152</u>
Total assets	<u>\$ 16,006,120</u>	<u>\$ 15,262,052</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 174,000	\$ 145,000
Accounts payable	399,758	668,508
Accrued employee compensation	393,451	368,682
Payroll taxes withheld and accrued	46,465	29,810
Accrued interest payable	17,961	18,572
Senior housing deposits	40,188	56,626
Estimated third-party payor settlements	494,000	546,000
Deferred revenue for succeeding year property tax receivable	<u>289,000</u>	<u>288,000</u>
Total current liabilities	1,854,823	2,121,198
Long-Term Debt:		
Note payable, less current maturities	210,000	--
Revenue bonds, less deferred financing costs and current maturities	<u>3,269,505</u>	<u>3,409,988</u>
Total long-term debt	<u>3,479,505</u>	<u>3,409,988</u>
Total liabilities	5,334,328	5,531,186
Net Assets:		
Invested in capital assets, net of related debt	5,436,405	3,326,164
Restricted - expendable	1,152,414	1,306,262
Unrestricted	<u>4,082,973</u>	<u>5,098,440</u>
Total net assets	<u>10,671,792</u>	<u>9,730,866</u>
Total liabilities and net assets	<u>\$ 16,006,120</u>	<u>\$ 15,262,052</u>

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

	2005	2004
Revenue:		
Net patient service revenue	\$ 9,676,121	\$ 8,767,237
Other revenue	950,335	735,658
Total revenue	10,626,456	9,502,895
Expenses:		
Nursing service	2,148,208	2,108,705
Other professional service	3,724,010	3,354,216
Senior housing	230,921	117,569
General service	1,229,306	1,068,781
Fiscal and administrative service	2,106,866	1,872,808
Provision for depreciation	707,310	592,180
Total expenses	10,146,621	9,114,259
Operating Income	479,835	388,636
Non-Operating Revenues (Expenses):		
County taxes	375,349	374,657
Noncapital grants and contributions	178,980	218,780
Investment income	136,559	172,857
Gain on disposal of equipment	382	100
Interest expense	(232,573)	(238,723)
Non-operating revenues, net	458,697	527,671
Excess of Revenues Over Expenses Before Capital Grants and Contributions	938,532	916,307
Capital Grants and Contributions	2,394	17,525
Increase in Net Assets	940,926	933,832
Net Assets Beginning of Year	9,730,866	8,797,034
Net Assets End of Year	\$ 10,671,792	\$ 9,730,866

The accompanying notes are an integral part of these statements.

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

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 9,482,122	\$ 8,806,211
Cash paid to suppliers	(4,864,625)	(4,342,220)
Cash paid to employees	(4,446,039)	(4,137,787)
Other revenue	<u>950,335</u>	<u>735,658</u>
Net cash provided by operating activities	1,121,793	1,061,862
Cash flows from non-capital financing activities:		
County tax revenue	375,349	374,657
Noncapital grants and contributions	<u>178,980</u>	<u>218,780</u>
Net cash provided by non-capital financing activities	554,329	593,437
Cash flows from capital and related financing activities:		
Capital grants and contributions	2,394	17,525
Principal paid on long-term debt	(151,000)	(140,000)
Proceeds from long-term debt	240,000	--
Capital expenditures	(859,081)	(415,163)
Construction in progress expenditures	(2,402,105)	(654,798)
Proceeds from disposal of equipment	382	100
Interest paid	<u>(223,667)</u>	<u>(230,168)</u>
Net cash used in capital and related financing activities	(3,393,077)	(1,422,504)
Cash flows from investing activities:		
Investment income	136,559	172,857
Change in designated assets	<u>1,449,623</u>	<u>(49,770)</u>
Net cash provided by investing activities	<u>1,586,182</u>	<u>123,087</u>
Net increase (decrease) in cash and cash equivalents	(130,773)	355,882
Cash and cash equivalents beginning of year	<u>859,879</u>	<u>503,997</u>
Cash and cash equivalents end of year	<u>\$ 729,106</u>	<u>\$ 859,879</u>

(continued next page)

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

	<u>2005</u>	<u>2004</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 629,601	\$ 694,963
Cash and cash equivalents in designated and restricted assets	<u>99,505</u>	<u>164,916</u>
	<u>\$ 729,106</u>	<u>\$ 859,879</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 479,835	\$ 388,636
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	707,310	592,180
Provision for bad debts	224,596	176,116
Change in assets and liabilities		
Accounts receivable	(350,157)	(337,382)
Inventory	3,000	(28,398)
Prepaid expense	7,855	1,038
Accounts payable, trade	76,368	32,217
Accrued employee compensation	24,769	35,954
Payroll taxes withheld and accrued	16,655	1,261
Senior housing deposits	(16,438)	(15,760)
Estimated third-party payor settlements	<u>(52,000)</u>	<u>216,000</u>
Total adjustments	<u>641,958</u>	<u>673,226</u>
Net cash provided by operating activities	<u>\$ 1,121,793</u>	<u>\$ 1,061,862</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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 \$1,672,178 (\$991,836 in 2004) and an increase in the change in net assets of \$680,342 (\$38,673 in 2004) for the year ended June 30, 2005.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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

5. Inventory Valuation

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

6. Investments

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

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in 2005 or 2004.

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, 2005 and 2004

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, 2005 and 2004

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, 2003. The Medicaid cost reports have been audited through June 30, 2002. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2005	2004
Long-term debt	<u>\$ 1,152,414</u>	<u>\$ 1,306,262</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2005 or 2004.

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

	2005	2004
Purchase of property and equipment	\$ 2,394	\$ 17,525
Long-term debt payments	<u>153,848</u>	<u>17,322</u>
	<u>\$ 156,242</u>	<u>\$ 34,847</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$4,082,973 (\$5,098,440 as of June 30, 2004) of unrestricted net assets as of June 30, 2005, \$3,163,189 (\$4,524,375 for 2004) 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.

	2005	2004
Capital acquisitions	\$ 3,063,684	\$ 4,359,459
Employee health insurance	<u>99,505</u>	<u>164,916</u>
	<u>\$ 3,163,189</u>	<u>\$ 4,524,375</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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:

	2005	2004
Internally Designated Assets:		
Cash	\$ 99,505	\$ 164,916
Certificates of deposit	3,046,241	4,339,722
Interest receivable	17,443	19,737
	\$ 3,163,189	\$ 4,524,375
Restricted Assets:		
Certificates of deposit	\$ 1,143,592	\$ 1,298,761
Interest receivable	8,822	7,501
	\$ 1,152,414	\$ 1,306,262

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, 2005 and 2004, was as follows:

	2005	2004
Receivable from:		
Patients	\$ 226,784	\$ 329,205
Medicare	829,951	691,844
Medicaid	89,331	122,924
Wellmark	311,790	167,129
Other commercial insurance carriers	360,755	266,402
Others	8,594	15,774
	1,827,205	1,593,278
Less allowances for doubtful accounts and contractual adjustments	496,000	319,000
	\$ 1,331,205	\$ 1,274,278

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Land Improvements	\$ 81,501	\$ 48,130	\$ --	\$ 129,631
Buildings and Fixed Equipment	5,472,671	479,887	--	5,952,558
Major Movable Equipment	3,805,551	757,155	--	4,562,706
Senior Housing Assets	<u>2,537,085</u>	<u>2,599,499</u>	--	<u>5,136,584</u>
	11,896,808	3,884,671	--	15,781,479
<u>Depreciation</u>				
Land Improvements	72,586	3,609	--	76,195
Buildings and Fixed Equipment	2,794,191	251,518	--	3,045,709
Major Movable Equipment	2,817,967	260,274	--	3,078,241
Senior Housing Assets	<u>348,009</u>	<u>191,909</u>	--	<u>539,918</u>
Total Depreciation	<u>6,032,753</u>	<u>707,310</u>	--	<u>6,740,063</u>
Total Depreciable Capital Assets, Net	<u>\$ 5,864,055</u>	<u>\$3,177,361</u>	<u>\$ --</u>	<u>\$ 9,041,416</u>
Construction in Progress	\$ 968,603	\$2,102,333	\$3,070,936	\$ --
Land	<u>48,494</u>	--	--	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 1,017,097</u>	<u>\$2,102,333</u>	<u>\$3,070,936</u>	<u>\$ 48,494</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE G - CAPITAL ASSETS - Continued

<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	2,537,085	--	--	2,537,085
	<u>11,451,299</u>	<u>445,509</u>	<u>--</u>	<u>11,896,808</u>
<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	221,435	126,574	--	348,009
	<u>5,440,573</u>	<u>592,180</u>	<u>--</u>	<u>6,032,753</u>
Total Depreciation				
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	48,494	--	--	48,494
	<u>91,026</u>	<u>926,071</u>	<u>--</u>	<u>1,017,097</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, 2005 and 2004

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2005 and 2004 follows:

	<u>Balance 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2005</u>	<u>Current Portion</u>
Rural Economic Development Loan	\$ --	\$ 240,000	\$ 6,000	\$ 234,000	\$ 24,000
Long-Term Debt:					
Series 2000 revenue bonds	1,920,000	--	30,000	1,890,000	30,000
Series 2001 revenue bonds	1,825,000	--	115,000	1,710,000	120,000
Less deferred financing costs	<u>190,012</u>	<u>--</u>	<u>9,517</u>	<u>180,495</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$3,554,988</u>	<u>\$ 240,000</u>	<u>\$ 141,483</u>	<u>\$3,653,505</u>	<u>\$ 174,000</u>
	<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>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan is non-interest bearing and is payable in forty equal quarterly installments commencing April 1, 2005. The loan is collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

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, 2005 and 2004

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:

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2006	\$ 174,000	\$ 215,525
2007	184,000	207,830
2008	189,000	199,440
2009	204,000	190,678
2010	209,000	180,948
2011-2015	1,214,000	737,905
2016-2020	<u>1,660,000</u>	<u>453,858</u>
	<u>\$ 3,834,000</u>	<u>\$ 2,186,184</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, 2005, 2004, and 2003 were approximately \$241,600, \$235,300, and \$220,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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, 2005 was approximately \$100,000 (\$107,700 at June 30, 2004). 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.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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, 2005, the Hospital has designated funds in excess of actual claims paid of \$99,505 (\$164,916 at June 30, 2004). 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, 2005 is \$106,000 (\$79,000 at June 30, 2004) and is included in accounts payable.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year Ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 375,349	\$ --	\$ 375,349	
Other revenues	10,709,804	2,394	10,712,198	
Transfers in (out)	<u>156,242</u>	<u>(156,242)</u>	<u>--</u>	
	11,241,395	(153,848)	11,087,547	
Expenses	<u>10,146,621</u>	<u>--</u>	<u>10,146,621</u>	
Net	1,094,774	(153,848)	940,926	
Balance beginning of year	<u>8,424,604</u>	<u>1,306,262</u>	<u>9,730,866</u>	
Balance end of year	<u>\$ 9,519,378</u>	<u>\$ 1,152,414</u>	<u>\$ 10,671,792</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Amended Budget</u>
Amount raised by taxation	\$ 375,349	\$ --	\$ 375,349	\$ 295,391
Other revenues	<u>10,712,198</u>	<u>232,573</u>	<u>10,944,771</u>	<u>10,689,871</u>
	11,087,547	232,573	11,320,120	10,985,262
Expenses	<u>10,146,621</u>	<u>232,573</u>	<u>10,379,194</u>	<u>10,985,262</u>
Net	940,926	--	940,926	--
Balance beginning of year	<u>9,730,866</u>	<u>(365,557)</u>	<u>9,365,309</u>	<u>9,365,309</u>
Balance end of year	<u>\$ 10,671,792</u>	<u>\$(365,557)</u>	<u>\$ 10,306,235</u>	<u>\$ 9,365,309</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,011,367	55.3%	\$ 1,047,903	65.8%
31 - 90	476,369	26.1	415,093	26.1
91 - 120	102,661	5.6	99,252	6.2
121 and over	236,808	13.0	31,030	1.9
	<u>1,827,205</u>	<u>100.0%</u>	<u>1,593,278</u>	<u>100.0%</u>
Allowance for doubtful accounts	240,000		95,000	
Allowance for contractual adjustments	<u>256,000</u>		<u>224,000</u>	
	<u>\$ 1,331,205</u>		<u>\$ 1,274,278</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Balance, beginning	\$ 95,000	\$ 95,000
Provision for bad debts	224,596	176,116
Recoveries of accounts previously written off	<u>207,036</u>	<u>195,901</u>
	<u>526,632</u>	<u>467,017</u>
Accounts written off	<u>286,632</u>	<u>372,017</u>
Balance, ending	<u>\$ 240,000</u>	<u>\$ 95,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	2005	2004
<u>Inventory</u>		
Central supply	\$ 99,229	\$ 113,600
Pharmacy	93,469	90,290
Dietary	18,483	10,291
	\$ 211,181	\$ 214,181
 <u>Prepaid Expense</u>		
Insurance	\$ 27,800	\$ 36,080
Maintenance	8,900	8,475
	\$ 36,700	\$ 44,555

See Independent Auditor's Report.

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

	2005		
	Inpatient	Outpatient	Swing Bed
Daily Patient Services:			
Medical and surgical	\$ 538,005	\$ --	\$ --
Swing bed - SNF	--	--	206,250
NF care	--	--	--
Telemetry	44,850	--	--
	<u>582,855</u>	<u>--</u>	<u>206,250</u>
Other Nursing Services:			
Observation	16,444	85,716	--
Operating and recovery rooms	74,723	1,076,038	--
Delivery and labor rooms	--	--	--
Central services and supply	28,037	32,413	25,662
Emergency services	73,856	594,495	--
Cardiac rehabilitation	--	73,440	--
	<u>193,060</u>	<u>1,862,102</u>	<u>25,662</u>
Other Professional Services:			
Laboratory and blood bank	236,641	1,356,236	20,528
Electrocardiology	30,025	153,290	1,035
Cardiovascular diagnostics	20,437	223,672	720
Radiology	157,587	1,743,251	8,476
Pharmacy	530,160	685,636	133,904
Anesthesiology	26,914	115,362	540
Respiratory therapy	193,556	139,793	75,170
Physical therapy	14,097	467,769	52,351
Occupational therapy	3,869	62,855	43,657
Speech therapy	711	12,710	4,005
Massage therapy	9,610	--	--
Ambulance	--	315,705	--
Home health	--	794,842	--
Hospice	--	299,832	--
	<u>1,223,607</u>	<u>6,370,953</u>	<u>340,386</u>
	<u>\$ 1,999,522</u>	<u>\$ 8,233,055</u>	<u>\$ 572,298</u>

See Independent Auditor's Report.

2005		2004
LTC	Total	Total
\$ --	\$ 538,005	\$ 568,925
--	206,250	229,250
1,055,136	1,055,136	1,001,000
--	44,850	52,800
<u>1,055,136</u>	<u>1,844,241</u>	<u>1,851,975</u>
--	102,160	91,285
--	1,150,761	968,853
--	--	375
17,233	103,345	79,213
--	668,351	595,900
--	73,440	60,390
<u>17,233</u>	<u>2,098,057</u>	<u>1,796,016</u>
--	1,613,405	1,476,939
--	184,350	193,072
--	244,829	220,105
--	1,909,314	1,758,946
80,471	1,430,171	1,198,937
--	142,816	131,355
441	408,960	436,253
--	534,217	462,607
--	110,381	98,598
--	17,426	17,867
--	9,610	8,110
--	315,705	376,615
--	794,842	806,629
--	299,832	123,776
<u>80,912</u>	<u>8,015,858</u>	<u>7,309,809</u>
<u>\$ 1,153,281</u>	<u>\$ 11,958,156</u>	<u>\$ 10,957,800</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
June 30,

	2005	2004
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 11,958,156	\$ 10,957,800
Contractual adjustments	(2,053,023)	(2,009,706)
Discounts and allowances	(4,416)	(4,741)
Provision for bad debts	(224,596)	(176,116)
	<u>\$ 9,676,121</u>	<u>\$ 8,767,237</u>
 <u>Other Revenue</u>		
Senior housing revenue	\$ 688,200	\$ 475,748
Cafeteria	65,160	65,112
Congregate meals	45,007	39,482
Employee prescriptions	118,374	115,782
Purchase discounts	566	938
Medical records transcript fees	2,430	2,693
Medical examiner	--	3,816
Ancillary service coverage revenue	--	1,024
Rental income	30,576	30,853
Vending machine commissions	22	210
	<u>\$ 950,335</u>	<u>\$ 735,658</u>

See Independent Auditor's Report.

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

	2005	2004
Administrative:		
Salaries and wages	\$ 58,744	\$ 56,866
Supplies and other expense	3,887	3,262
	62,631	60,128
Medical and Surgical:		
Salaries and wages	599,656	567,133
Supplies and other expense	52,154	33,653
	651,810	600,786
Long-Term Care:		
Salaries and wages	541,089	531,318
Supplies and other expense	28,379	26,292
	569,468	557,610
Operating and Recovery Rooms:		
Salaries and wages	163,309	152,483
Supplies and other expense	140,702	198,103
	304,011	350,586
Central Services and Supply:		
Salaries and wages	59,578	50,687
Supplies and other expense	62,070	31,016
	121,648	81,703
Emergency Services:		
Salaries and wages	180,099	183,995
Professional fees	216,958	218,920
Supplies and other expense	21,594	27,265
	418,651	430,180

(continued next page)

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

	2005	2004
Cardiac Rehabilitation:		
Salaries and wages	\$ 18,627	\$ 25,082
Supplies and other expense	1,362	2,630
	19,989	27,712
	\$ 2,148,208	\$ 2,108,705

SUMMARY

Salaries and wages	\$ 1,621,102	\$ 1,567,564
Professional fees	216,958	218,920
Supplies and other expense	310,148	322,221
	\$ 2,148,208	\$ 2,108,705

See Independent Auditor's Report.

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

	2005	2004
Laboratory and Blood Bank:		
Salaries and wages	\$ 293,464	\$ 273,971
Professional fees	41,700	45,632
Supplies and other expense	267,799	228,658
	602,963	548,261
 Electrocardiology:		
Professional fees	14,649	13,514
 Cardiovascular Diagnostics:		
Salaries and wages	3,270	4,285
Supplies and other expense	100,854	98,627
	104,124	102,912
 Radiology:		
Salaries and wages	224,671	219,598
Professional fees	32,850	16,903
Supplies and other expense	433,334	380,089
	690,855	616,590
 Pharmacy:		
Salaries and wages	174,171	140,488
Professional fees	--	158
Supplies and other expense	453,131	458,827
	627,302	599,473
 Anesthesiology:		
Professional fees	77,458	68,790
Supplies and other expense	4,381	5,444
	81,839	74,234
 Respiratory Therapy:		
Salaries and wages	45,708	40,154
Supplies and other expense	28,354	23,556
	74,062	63,710
 Physical Therapy:		
Salaries and wages	152,582	107,868
Professional fees	13,909	16,716
Supplies and other expense	15,537	17,612
	182,028	142,196
 Occupational Therapy:		
Salaries and wages	801	1,119
Professional fees	59,229	46,686
Supplies and other expense	4	523
	60,034	48,328

(continued next page)

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

	2005	2004
Speech Therapy:		
Salaries and wages	\$ 8,728	\$ 379
Professional fees	4,106	17,483
Supplies and other expense	188	--
	13,022	17,862
Massage Therapy:		
Supplies and other expense	7,805	7,384
Ambulance:		
Salaries and wages	63,907	72,073
Supplies and other expense	26,020	20,978
	89,927	93,051
Outpatient Clinics:		
Salaries and wages	23,469	24,168
Supplies and other expense	1,928	2,776
	25,397	26,944
Home Health:		
Salaries and wages	587,269	597,856
Supplies and other expense	121,020	134,350
	708,289	732,206
Hospice:		
Salaries and wages	53,436	33,871
Supplies and other expense	146,119	36,082
	199,555	69,953
Medical Records:		
Salaries and wages	216,916	187,684
Supplies and other expense	25,243	9,914
	242,159	197,598
	\$ 3,724,010	\$ 3,354,216

SUMMARY

Salaries and wages	\$ 1,848,392	\$ 1,703,514
Professional fees	243,901	225,882
Supplies and other expense	1,631,717	1,424,820
	\$ 3,724,010	\$ 3,354,216

See Independent Auditor's Report.

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

	2005	2004
Springvale - Independent Living:		
Salaries and wages	\$ 51,594	\$ 59,470
Utilities	35,095	38,367
Repairs and maintenance	5,357	8,423
Supplies and other expense	13,762	11,309
	105,808	117,569
Springvale - Assisted Living:		
Salaries and wages	96,652	--
Utilities	18,171	--
Supplies and other expense	10,290	--
	125,113	--
	\$ 230,921	\$ 117,569

SUMMARY

Salaries and wages	\$ 148,246	\$ 59,470
Supplies and other expense	82,675	58,099
	\$ 230,921	\$ 117,569

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Dietary:		
Salaries and wages	\$ 341,745	\$ 306,806
Food, supplies and other expense	<u>298,381</u>	<u>236,559</u>
	640,126	543,365
 Plant Operation and Maintenance:		
Salaries and wages	147,774	123,958
Utilities	125,033	121,437
Supplies and other expense	<u>114,495</u>	<u>86,805</u>
	387,302	332,200
 Housekeeping:		
Salaries and wages	118,515	120,085
Supplies and other expense	<u>27,012</u>	<u>15,011</u>
	145,527	135,096
 Laundry and Linen:		
Salaries and wages	2,027	1,952
Supplies and other expense	<u>54,324</u>	<u>56,168</u>
	<u>56,351</u>	<u>58,120</u>
	<u>\$ 1,229,306</u>	<u>\$ 1,068,781</u>

SUMMARY

Salaries and wages	\$ 610,061	\$ 552,801
Supplies and other expense	<u>619,245</u>	<u>515,980</u>
	<u>\$ 1,229,306</u>	<u>\$ 1,068,781</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	2005	2004
Fiscal and Administrative Service:		
Salaries and wages	\$ 243,007	\$ 290,392
Professional fees	191,224	94,017
Supplies and other expense	208,755	225,846
	642,986	610,255
Information Systems:		
Supplies and other expense	74,337	--
Employee Welfare:		
Social Security tax	317,547	294,949
Iowa Public Employees' Retirement System	241,571	235,276
Group health insurance	676,696	589,765
Workers' compensation insurance	64,995	66,751
Unemployment expense	974	--
Other employee benefits	20,187	18,935
	1,321,970	1,205,676
Insurance:		
Liability and property	67,573	56,877
	\$ 2,106,866	\$ 1,872,808

SUMMARY

Salaries and wages	\$ 243,007	\$ 290,392
Employee benefits	1,321,970	1,205,676
Professional fees	191,224	94,017
Supplies and other expense	350,665	282,723
	\$ 2,106,866	\$ 1,872,808

SUMMARY OF EXPENSES

Salaries and wages	\$ 4,470,808	\$ 4,173,741
Employee benefits	1,321,970	1,205,676
Professional fees	652,083	538,819
Supplies and other expense	2,994,450	2,603,843
	\$ 9,439,311	\$ 8,522,079

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Acute Care:					
Admissions	390	406	457	404	435
Discharges	396	409	451	403	438
Patient Days	1,149	1,232	1,394	1,181	1,209
Average Length of Stay	2.90	3.01	3.09	2.93	2.76
Average Occupied Beds	3.1	3.4	3.8	3.2	3.3
Swing Bed:					
Admissions	117	132	133	139	137
Discharges	120	133	131	140	132
SNF Days	834	916	811	917	825
ICF Days	93	50	59	*5,921	9,694
Long-Term Care Patient Days	9,805	9,778	9,969	*3,966	--
Combined Average Occupied Beds	32.6	32.7	33.5	32.8	32.1
Nursery Days	--	--	53	81	72
Outpatient Occasions of Service	44,927	47,556	44,799	45,303	46,024
Home Health Visits	9,649	9,175	8,631	8,731	7,785

* 27 ICF beds were converted to LTC beds beginning February 1, 2002.

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash	\$ 629,601	\$ 694,963
Patient receivables, net	1,331,205	1,274,278
Other receivables	102,920	34,286
Inventory	211,181	214,181
Prepaid expense	36,700	44,555
Succeeding year property tax receivable	289,000	288,000
Internally designated assets	<u>300,461</u>	<u>590,190</u>
Total current assets	2,901,068	3,140,453
Other Assets:		
Designated and restricted assets	4,015,142	5,240,447
Capital assets, net	9,089,910	6,881,152
Notes receivable	--	--
Total other assets	<u>13,105,052</u>	<u>12,121,599</u>
Total assets	<u>\$ 16,006,120</u>	<u>\$ 15,262,052</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 174,000	\$ 145,000
Accounts payable	399,758	668,508
Accrued expenses	439,916	398,492
Accrued interest payable	17,961	18,572
Senior housing deposits	40,188	56,626
Estimated third-party payor settlements	494,000	546,000
Deferred revenue for succeeding year property tax receivable	<u>289,000</u>	<u>288,000</u>
Total current liabilities	1,854,823	2,121,198
Long-Term Debt, Net	<u>3,479,505</u>	<u>3,409,988</u>
Total liabilities	5,334,328	5,531,186
Net Assets	<u>10,671,792</u>	<u>9,730,866</u>
Total liabilities and net assets	<u>\$ 16,006,120</u>	<u>\$ 15,262,052</u>

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 330,656	\$ 440,900	\$ 276,005
1,116,348	1,190,330	1,195,225
30,950	38,840	41,221
185,783	209,793	179,234
45,593	32,373	47,239
289,000	298,000	379,000
<u>271,154</u>	<u>203,684</u>	<u>281,214</u>
2,269,484	2,413,920	2,399,138
5,518,138	4,357,436	4,006,926
6,101,752	6,273,168	5,645,524
--	20,000	73,750
<u>11,619,890</u>	<u>10,650,604</u>	<u>9,726,200</u>
<u>\$ 13,889,374</u>	<u>\$ 13,064,524</u>	<u>\$ 12,125,338</u>
\$ 140,000	\$ 130,000	\$ 125,000
334,672	246,029	320,182
361,277	285,598	249,826
19,155	19,684	20,184
72,386	72,126	94,240
330,000	373,000	106,000
<u>289,000</u>	<u>298,000</u>	<u>379,000</u>
1,546,490	1,424,437	1,294,432
<u>3,545,850</u>	<u>3,677,226</u>	<u>3,798,980</u>
5,092,340	5,101,663	5,093,412
<u>8,797,034</u>	<u>7,962,861</u>	<u>7,031,926</u>
<u>\$ 13,889,374</u>	<u>\$ 13,064,524</u>	<u>\$ 12,125,338</u>

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

	<u>2005</u>	<u>2004</u>
Patient Service Revenue	\$ 11,958,156	\$ 10,957,800
Adjustments to Patient Service Revenue	<u>(2,282,035)</u>	<u>(2,190,563)</u>
Net Patient Service Revenue	9,676,121	8,767,237
Other Revenue	<u>950,335</u>	<u>735,658</u>
Total Revenue	10,626,456	9,502,895
Expenses	<u>10,146,621</u>	<u>9,114,259</u>
Operating Income	479,835	388,636
Non-Operating Revenues, net	<u>458,697</u>	<u>527,671</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Unusual Item	938,532	916,307
Capital Grants and Contributions	2,394	17,525
Unusual Item	<u> --</u>	<u> --</u>
Increase in Net Assets	<u>\$ 940,926</u>	<u>\$ 933,832</u>

* Amounts have not been reclassified to show the effects of Government Accounting Standards Board Statements No. 34, 37 and 38.

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001*</u>
\$ 10,434,027	\$ 9,480,591	\$ 8,369,994
<u>(1,976,219)</u>	<u>(1,763,289)</u>	<u>(1,483,063)</u>
8,457,808	7,717,302	6,886,931
<u>664,756</u>	<u>561,938</u>	<u>501,378</u>
9,122,564	8,279,240	7,388,309
<u>8,862,265</u>	<u>7,987,120</u>	<u>7,118,492</u>
260,299	292,120	269,817
<u>485,629</u>	<u>630,176</u>	<u>352,654</u>
745,928	922,296	622,471
88,245	8,639	54,983
<u>--</u>	<u>--</u>	<u>115,696</u>
<u>\$ 834,173</u>	<u>\$ 930,935</u>	<u>\$ 793,150</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
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the financial statements of Humboldt County Memorial Hospital as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Humboldt County Memorial Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 05-I-A is a material weakness.

To the Board of Trustees
Humboldt County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt County Memorial 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 05-II-C and 05-II-E.

This report, a public record by law, is intended solely for the information and use of Humboldt County Memorial Hospital and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Donna Bell, CPA

Atlantic, Iowa
July 28, 2005

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2005

PART I - REPORTABLE CONDITIONS

05-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

05-II-A Official Depositories: A resolution naming official depositories has been adopted by the Board. During the audit, no deposits in excess of the limits were noted.

05-II-B Certified Budget: Hospital expenditures during the year ended June 30, 2005 did not exceed amounts budgeted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Schedule of Findings
 Year ended June 30, 2005

PART II - REQUIRED STATUTORY REPORTING - Continued

05-II-C 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 March 12, 1975. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 3,306

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

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

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

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Marlene Thompson, Trustee, Insurance agent for Northwest Consultants	Purchase of insurance policy	\$ 8,612
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	1,353

The transaction with Northwest Consultants does not appear to represent a conflict of interest since the policy was competitively bid and the Hospital administrator was given the final authority over which bid to accept.

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest.

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

05-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *