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, 2006 AND 2005

HUMBOLDT COUNTY MEMORIAL HOSPITAL

CONTENTS

	Page
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 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	36
Schedule of Findings	38

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2006

Board of Trustees:	Address	Term Expires
Marlene Thompson, Chairperson	Humboldt, Iowa	2010
Vivien Hansen, Vice-Chairperson	Humboldt, Iowa	2008
David Boswell, Secretary	Humboldt, Iowa	2010
Dale Heider, Treasurer	Humboldt, Iowa	2006
Gary Moritz	Humboldt, Iowa	2008
Jody Eppley	Humboldt, Iowa	2008
Tim Anderson (appointed December, 2005)	Humboldt, Iowa	2006
Administrator:		
Steven "Rob" Colerick	Humboldt, Iowa	
Assistant Administrator:		
Pam Ray	Humboldt, Iowa	
Chief Financial Officer:		
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, 2006 and 2005, 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, 2006 and 2005, 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 October 2, 2006 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, 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, 2004 (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.

Gronewold, Bell, Kyhm · Co. P.C.

Atlantic, Iowa
October 2, 2006

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, 2005 and 2006. 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 $1,173,293 or 11.0 percent from 2005 to 2006 and by $940,926 or 9.7 percent from 2004 to 2005.

The Hospital reported an operating profit in both 2006 and 2005; operating profits were $636,207 and $479,835 respectively. The 2006 results reflect a $156,372 or 32.6 percent increase as compared to 2005 results. Operating profit increased in 2005 as compared to 2004 by $91,199. This reflects a 23.5 percent increase.

Net non-operating revenues increased by $74,884 or 16.3 percent in 2006 compared to 2005. Net non-operating revenues decreased in 2005 by $68,974 or 13.1 percent as compared to 2004.

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.

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 $1,173,293 (11.0 percent) in 2006 and $940,926 (9.7 percent) in 2005, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2006	2005	2004
Assets:			
Current assets	$ 3,102,262	$ 2,901,068	$ 3,140,453
Capital assets, net	8,558,771	9,089,910	6,881,152
Other non-current assets	5,388,342	4,015,142	5,240,447
Total assets	$ 17,049,375	$ 16,006,120	$ 15,262,052
Liabilities:			
Long-term debt outstanding, net	$ 3,299,400	$ 3,479,505	$ 3,409,988
Other current and noncurrent liabilities	1,904,890	1,854,823	2,121,198
Total liabilities	$ 5,204,290	$ 5,334,328	$ 5,531,186
Net Assets:			
Invested in capital assets, net of related debt	$ 5,075,371	$ 5,436,405	$ 3,326,164
Restricted for debt service	1,174,026	1,152,414	1,306,262
Unrestricted	5,595,688	4,082,973	5,098,440
Total net assets	$ 11,845,085	$ 10,671,792	$ 9,730,866

A significant component of the change in the Hospital's assets is an increase in other non-current assets from $4,015,142 in 2005 to $5,388,342 in 2006 (34.2%). Internally designated assets increased by $1,380,931 due to the Hospital's ability to rebuild investments that had been used the previous year for construction. Operating revenues increased in 2006 by $550,615 (5.2%), and collections of accounts receivable remained strong, resulting in a stable cash position.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2006, the Hospital's net assets increased by $1,173,293 or 11.0 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2006 were $11,845,085 and $10,671,792 at year-end 2005.

Table 2: Operating Results and Changes in Net Assets

	2006	2005	2004
Operating Revenues:			
Net patient service revenues	$ 9,914,237	$ 9,676,121	$ 8,767,237
Other operating revenues	1,262,834	950,335	735,658
Total operating revenues	11,177,071	10,626,456	9,502,895
Operating Expenses:			
Salaries and benefits	5,967,368	5,792,778	5,379,417
Professional fees	583,879	652,083	538,819
Other operating expenses	3,120,291	2,994,450	2,603,843
Depreciation	869,326	707,310	592,180
Total operating expenses	10,540,864	10,146,621	9,114,259
Operating Income	636,207	479,835	388,636
Non-Operating Revenues and Expenses:			
Property taxes	375,206	375,349	374,657
Investment income	222,254	136,559	172,857
Non-capital grants and contributions	161,464	178,980	218,780
Other non-operating revenues and expenses, net	(225,343)	(232,191)	(238,623)
Total non-operating revenues (expenses), net	533,581	458,697	527,671
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,169,788	938,532	916,307
Capital Grants and Contributions	3,505	2,394	17,525
Increase in net assets	1,173,293	940,926	933,832
Net Assets Beginning of Year	10,671,792	9,730,866	8,797,034
Net Assets End of Year	$ 11,845,085	$ 10,671,792	$ 9,730,866

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 $636,207 in 2006 and $479,835 in 2005.

The primary factors for the increased operating profits are:

Large revenue increases from 2005 to 2006 were noted in Surgery ($212,319) up 18.5%, Pharmacy ($275,704) up 19.3%, Respiratory Therapy ($107,502) up 26.3% and Ambulance ($77,343) up 24.5%.

The first full year of the assisted living apartments along with existing independent living apartments provided increase in other operating revenue of $244,922 in 2006, up 35.6% from 2005.

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 ($218,645 or 4.9 percent increase in 2006 compared to 2005). This increase does include additional staff related to the first full year of the assisted living complex and associated general support services for that area.

Increases in the Hospital's provision for Depreciation ($162,016 or 22.9 percent increase in 2006 compared to 2005) This increase includes a full year of the assisted living building and medical equipment additions to Surgery, Radiology and Inpatient Care.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A large component of the Hospital's costs are labor related expenses which includes wages and benefits. Rising costs for medical supplies and prescription drugs are also a large factor. The Hospital also continues to grow its technology in the area of clinical care, patient diagnostics and general hospital information systems. Investments in the facility and technology improve the efficiency of the Hospital and prepare us to provide affordable healthcare to the community in the future.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of payment. 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 2005, $224,596 in accounts were written off as uncollectible. This figure increased to $249,482 in 2006. This reflects an 11.1 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. The Hospital has maintained its tax asking at approximately $300,000 over that past three years. Non-capital grants and contributions decreased by $17,516 or 9.8% when compared to 2005. Investment income increased by $85,695 or 62.8% due to the improved interest rates and the increase in investments. Hospital interest expense decreased $6,994 from 2005. Overall, net non-operating revenues increased from $458,697 to $533,581 from 2005 to 2006.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital's capital grants and contributions increased from $2,394 in 2005 to $3,505 in 2006. 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. In 2006, net cash used for capital and related financing activity showed a decrease of $2,678,290 due to the prior year construction project completion in 2005. The net change in the Hospital cash flows is an increase of $626,994 in 2006 from 2005. This enabled the Hospital to rebuild some of its reserves previously used for construction.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the adopted budget by $600,273. Health claim expenses and repair and maintenance costs were two areas with much lower than anticipated expenses. There was also a 5 month period of interim administration costs at a reduced rate. Actual revenues were higher than budgeted by $573,020.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2006, the Hospital had approximately $8.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2006, the Hospital purchased new major moveable equipment costing $296,723. Of this, none was acquired through capital leases. When land improvements, buildings and fixed equipment are included, total capital asset purchases were $310,904.

Debt:

At year-end, the Hospital had $3,279,400 in revenue bonds outstanding. This compares to $3,419,505 for year-end 2005. The Hospital also has outstanding debt of $204,000 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, more coverage limitations by insurance companies and an increasing number of uninsured individuals. This in turn leads to more uncollectible balances and more charity care.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in 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

	2006	2005
Current Assets:		
Cash	$ 1,014,343	$ 629,601
Patient receivables, less allowances for doubtful accounts and for contractual adjustments ($443,000 in 2006, $496,000 in 2005)	1,120,070	1,331,205
Other receivables	58,613	102,920
Inventory	249,932	211,181
Prepaid expense	40,500	36,700
Succeeding year property tax receivable	289,000	289,000
Internally designated assets	329,804	300,461
Total current assets	3,102,262	2,901,068
Designated Assets:		
Internally designated assets	4,544,120	3,163,189
Restricted assets	1,174,026	1,152,414
	5,718,146	4,315,603
Less amounts required to meet current liabilities	329,804	300,461
	5,388,342	4,015,142
Capital Assets:		
Depreciable capital assets, net	8,482,994	9,041,416
Non-depreciable capital assets	75,777	48,494
	8,558,771	9,089,910
Total assets	$ 17,049,375	$ 16,006,120

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2006	2005
Current Liabilities:		
Current maturities of long-term debt	$ 184,000	$ 174,000
Accounts payable	350,914	399,758
Accrued employee compensation	401,906	393,451
Payroll taxes withheld and accrued	46,460	46,465
Accrued interest payable	17,320	17,961
Senior housing deposits	68,290	40,188
Estimated third-party payor settlements	547,000	494,000
Deferred revenue for succeeding year property tax receivable	289,000	289,000
Total current liabilities	1,904,890	1,854,823
Long-Term Debt:		
Note payable, less current maturities	180,000	210,000
Revenue bonds, less deferred financing costs and current maturities	3,119,400	3,269,505
Total long-term debt	3,299,400	3,479,505
Total liabilities	5,204,290	5,334,328
Net Assets:		
Invested in capital assets, net of related debt	5,075,371	5,436,405
Restricted - expendable	1,174,026	1,152,414
Unrestricted	5,595,688	4,082,973
Total net assets	11,845,085	10,671,792
Total liabilities and net assets	$ 17,049,375	$ 16,006,120

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

	2006	2005
Revenue:		
Net patient service revenue	$ 9,914,237	$ 9,676,121
Other revenue	1,262,834	950,335
Total revenue	11,177,071	10,626,456
Expenses:		
Nursing service	2,182,348	2,148,208
Other professional service	3,719,026	3,724,010
Senior housing	333,273	230,921
General service	1,368,808	1,229,306
Fiscal and administrative service	2,068,083	2,106,866
Provision for depreciation	869,326	707,310
Total expenses	10,540,864	10,146,621
Operating Income	636,207	479,835
Non-Operating Revenues (Expenses):		
County taxes	375,206	375,349
Noncapital grants and contributions	161,464	178,980
Investment income	222,254	136,559
Gain on disposal of equipment	236	382
Interest expense	(225,579)	(232,573)
Non-operating revenues, net	533,581	458,697
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,169,788	938,532
Capital Grants and Contributions	3,505	2,394
Increase in Net Assets	1,173,293	940,926
Net Assets Beginning of Year	10,671,792	9,730,866
Net Assets End of Year	$ 11,845,085	$ 10,671,792

The accompanying notes are an integral part of these statements.

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

	2006	2005
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 10,250,781	$ 9,482,122
Cash paid to suppliers	(5,089,469)	(4,864,625)
Cash paid to employees	(4,680,998)	(4,446,039)
Other revenue	1,262,834	950,335
Net cash provided by operating activities	1,743,148	1,121,793
Cash flows from non-capital financing activities:		
County tax revenue	375,206	375,349
Noncapital grants and contributions	161,464	178,980
Net cash provided by non-capital financing activities	536,670	554,329
Cash flows from capital and related financing activities:		
Capital grants and contributions	3,505	2,394
Principal paid on long-term debt	(180,000)	(151,000)
Proceeds from long-term debt	--	240,000
Capital expenditures	(301,898)	(859,081)
Construction in progress expenditures	(20,305)	(2,402,105)
Proceeds from disposal of equipment	236	382
Interest paid	(216,325)	(223,667)
Net cash used in capital and related financing activities	(714,787)	(3,393,077)
Cash flows from investing activities:		
Investment income	222,254	136,559
Change in designated assets	(1,160,291)	1,449,623
Net cash provided by (used in) investing activities	(938,037)	1,586,182
Net increase (decrease) in cash and cash equivalents	626,994	(130,773)
Cash and cash equivalents beginning of year	729,106	859,879
Cash and cash equivalents end of year	$ 1,356,100	$ 729,106

(continued next page)

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

	2006	2005
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	$ 1,014,343	$ 629,601
Cash and cash equivalents in designated and restricted assets	341,757	99,505
	$ 1,356,100	$ 729,106
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 636,207	$ 479,835
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	869,326	707,310
Provision for bad debts	249,482	224,596
Change in assets and liabilities		
Accounts receivable	5,960	(350,157)
Inventory	(38,751)	3,000
Prepaid expense	(3,800)	7,855
Accounts payable, trade	(64,828)	76,368
Accrued employee compensation	8,455	24,769
Payroll taxes withheld and accrued	(5)	16,655
Senior housing deposits	28,102	(16,438)
Estimated third-party payor settlements	53,000	(52,000)
Total adjustments	1,106,941	641,958
Net cash provided by operating activities	$ 1,743,148	$ 1,121,793

The accompanying notes are an integral part of these statements.

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 $1,785,020 ($1,672,178 in 2005) and an increase in the change in net assets of $112,842 ($680,342 in 2005) for the year ended June 30, 2006.

2. Enterprise Fund Accounting

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

3. Use of Estimates

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

4. Cash and Cash Equivalents

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

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

5. Inventory Valuation

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

6. Investments

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

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of $5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to 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 2006 or 2005.

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.

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.

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 and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2004. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2006	2005
Long-term debt	$ 1,174,026	$ 1,152,414

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2006 or 2005.

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

	2006	2005
Purchase of property and equipment	$ 3,505	$ 2,394
Long-term debt payments	--	153,848
	$ 3,505	$ 156,242

NOTE D - DESIGNATED NET ASSETS

Of the $5,595,688 ($4,082,973 as of June 30, 2005) of unrestricted net assets as of June 30, 2006, $4,544,120 ($3,163,189 for 2005) 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.

	2006	2005
Capital acquisitions	$ 4,202,363	$ 3,063,684
Employee health insurance	341,757	99,505
	$ 4,544,120	$ 3,163,189

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2006 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.

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:

	2006	2005
Internally Designated Assets:		
Cash	$ 341,757	$ 99,505
Certificates of deposit	4,155,850	3,046,241
Interest receivable	46,513	17,443
	$ 4,544,120	$ 3,163,189
Restricted Assets:		
Certificates of deposit	$ 1,160,219	$ 1,143,592
Interest receivable	13,807	8,822
	$ 1,174,026	$ 1,152,414

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, 2006 and 2005, was as follows:

	2006	2005
Receivable from:		
Patients	$ 214,470	$ 226,784
Medicare	669,088	829,951
Medicaid	73,462	89,331
Wellmark	280,725	311,790
Other commercial insurance carriers	319,678	360,755
Others	5,647	8,594
	1,563,070	1,827,205
Less allowances for doubtful accounts and contractual adjustments	443,000	496,000
	$ 1,120,070	$ 1,331,205

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2006 and 2005 were as follows:

Cost	Balance 2005	Additions	Disposals	Balance 2006
Land Improvements	$ 129,631	$ 5,175	$ --	$ 134,806
Buildings and Fixed Equipment	5,952,558	9,006	--	5,961,564
Major Movable Equipment	4,562,706	296,723	--	4,859,429
Senior Housing Assets	5,136,584	--	--	5,136,584
	15,781,479	310,904	--	16,092,383
Depreciation				
Land Improvements	76,195	4,424	--	80,619
Buildings and Fixed Equipment	3,045,709	248,442	--	3,294,151
Major Movable Equipment	3,078,241	359,216	--	3,437,457
Senior Housing Assets	539,918	257,244	--	797,162
Total Depreciation	6,740,063	869,326	--	7,609,389
Total Depreciable Capital Assets, Net	$ 9,041,416	$(558,422)	$ --	$ 8,482,994
Construction in Progress	$ --	$ 27,283	$ --	$ 27,283
Land	48,494	--	--	48,494
Total Non-Depreciable Capital Assets	$ 48,494	$ 27,283	$ --	$ 75,777

NOTE G - CAPITAL ASSETS - Continued

Cost	Balance 2004	Additions	Disposals	Balance 2005
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	2,537,085	2,599,499	--	5,136,584
	11,896,808	3,884,671	--	15,781,479
Depreciation				
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	348,009	191,909	--	539,918
Total Depreciation	6,032,753	707,310	--	6,740,063
Total Depreciable Capital Assets, Net	$ 5,864,055	$3,177,361	$ --	$ 9,041,416
Construction in Progress	$ 968,603	$2,102,333	$3,070,936	$ --
Land	48,494	--	--	48,494
Total Non-Depreciable Capital Assets	$ 1,017,097	$2,102,333	$3,070,936	$ 48,494

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2006 and 2005 follows:

	Balance 2005	Additions	Reductions	Balance 2006	Current Portion
Rural Economic Development Loan	$ 234,000	$ --	$ 30,000	$ 204,000	$ 24,000
Long-Term Debt:					
Series 2000 revenue bonds	1,890,000	--	30,000	1,860,000	35,000
Series 2001 revenue bonds	1,710,000	--	120,000	1,590,000	125,000
Less deferred financing costs	180,495	--	9,895	170,600	--
Total Non-Current Liabilities	$3,653,505	$ --	$ 170,105	$3,483,400	$ 184,000

	Balance 2004	Additions	Reductions	Balance 2005	Current Portion
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	190,012	--	9,517	180,495	--
Total Non-Current Liabilities	$3,554,988	$ 240,000	$ 141,483	$3,653,505	$ 174,000

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.

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 indentures, 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 require 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	Long-Term Debt Interest
2007	$ 184,000	$ 207,830
2008	189,000	199,440
2009	204,000	190,678
2010	209,000	180,948
2011	219,000	170,820
2012-2016	1,249,000	675,475
2017-2020	1,400,000	345,467
	$ 3,654,000	$ 1,970,658

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, 2006, 2005, and 2004 were approximately $266,000, $241,600, and $235,300, respectively, equal to the required contributions for each year.

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, 2006 was approximately $114,000 ($100,000 at June 30, 2005). 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.

Litigation
The Hospital has been named as a defendant in a lawsuit. Legal counsel is unable to evaluate the eventual outcome of the lawsuit. Management believes that, should any liability eventually result, the Hospital's insurance coverage is adequate to cover any potential settlement. Therefore, no related liability has been accrued.

Construction in Progress
The Hospital is in the planning stages of a remodeling and new construction project with a total cost of approximately $3,000,000. As of the date of this report, plans have not been finalized, therefore none of the project has been let for bids to contractors. The Hospital's commitment is limited to architect fees of approximately $150,000. At June 30, 2006, costs incurred on the project totaled $27,283. Financing for the project is expected to be provided by funds generated internally.

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, 2006, the Hospital has designated funds in excess of actual claims paid of $341,757 ($99,505 at June 30, 2005). 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, 2006 is $110,000 ($106,000 at June 30, 2005) and is included in accounts payable.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2006

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	$ 375,206	$ --	$ 375,206
Other revenues	11,335,446	3,505	11,338,951
Transfers in (out)	(18,107)	18,107	--
	11,692,545	21,612	11,714,157
Expenses	10,540,864	--	10,540,864
Net	1,151,681	21,612	1,173,293
Balance beginning of year	9,519,378	1,152,414	10,671,792
Balance end of year	$ 10,671,059	$ 1,174,026	$ 11,845,085

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	$ 375,206	$ --	$ 375,206	$ 295,524
Other revenues	11,338,951	225,579	11,564,530	11,071,192
	11,714,157	225,579	11,939,736	11,366,716
Expenses	10,540,864	225,579	10,766,443	11,366,716
Net	1,173,293	--	1,173,293	--
Balance beginning of year	10,671,792	(509,941)	10,161,851	10,161,851
Balance end of year	$ 11,845,085	$(509,941)	$ 11,335,144	$ 10,161,851

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

Days Since Discharge	2006 Amount	2006 Percent to Total	2005 Amount	2005 Percent to Total
0 - 30	$ 887,901	56.8%	$ 1,011,367	55.3%
31 - 90	417,834	26.7	476,369	26.1
91 - 120	86,142	5.5	102,661	5.6
121 and over	171,193	11.0	236,808	13.0
	1,563,070	100.0%	1,827,205	100.0%
Allowance for doubtful accounts	225,000		240,000	
Allowance for contractual adjustments	218,000		256,000	
	$ 1,120,070		$ 1,331,205	

Allowance for Doubtful Accounts:

	Year ended June 30, 2006	2005
Balance, beginning	$ 240,000	$ 95,000
Provision for bad debts	249,482	224,596
Recoveries of accounts previously written off	181,732	207,036
	671,214	526,632
Accounts written off	446,214	286,632
Balance, ending	$ 225,000	$ 240,000

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	2006	2005
Inventory		
Central supply	$ 142,130	$ 99,229
Pharmacy	90,023	93,469
Dietary	17,779	18,483
	$ 249,932	$ 211,181
Prepaid Expense		
Insurance	$ 40,500	$ 27,800
Maintenance	--	8,900
	$ 40,500	$ 36,700

See Independent Auditor's Report.

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

	2006		
	Inpatient	Outpatient	Swing Bed
Daily Patient Services:			
Medical and surgical	$ 466,085	$ --	$ --
Swing bed - SNF	--	--	149,250
NF care	--	--	--
Telemetry	47,700	--	--
	513,785	--	149,250
Other Nursing Services:			
Observation	6,499	99,661	--
Operating and recovery rooms	49,626	1,313,454	--
Central services and supply	17,310	50,412	18,340
Emergency services	22,817	685,126	--
Cardiac rehabilitation	--	70,254	--
	96,252	2,218,907	18,340
Other Professional Services:			
Laboratory and blood bank	169,663	1,513,346	15,067
Electrocardiology	19,162	148,944	477
Cardiovascular diagnostics	19,090	247,869	5,596
Radiology	101,794	1,666,261	11,431
Pharmacy	589,550	839,049	159,345
Anesthesiology	10,415	142,450	880
Respiratory therapy	196,461	248,151	71,850
Physical therapy	13,543	393,910	45,775
Occupational therapy	5,271	92,389	33,247
Speech therapy	1,681	16,021	3,420
Massage therapy	10,865	--	--
Ambulance	--	393,048	--
Home health	--	865,090	--
Hospice	--	245,200	--
	1,137,495	6,811,728	347,088
	$ 1,747,532	$ 9,030,635	$ 514,678

See Independent Auditor's Report.

2006		2005
LTC	Total	Total
$ --	$ 466,085	$ 538,005
--	149,250	206,250
1,110,253	1,110,253	1,055,136
--	47,700	44,850
1,110,253	1,773,288	1,844,241
--	106,160	102,160
--	1,363,080	1,150,761
19,391	105,453	103,345
--	707,943	668,351
--	70,254	73,440
19,391	2,352,890	2,098,057
--	1,698,076	1,613,405
--	168,583	184,350
--	272,555	244,829
--	1,779,486	1,909,314
117,931	1,705,875	1,430,171
--	153,745	142,816
--	516,462	408,960
--	453,228	534,217
--	130,907	110,381
--	21,122	17,426
--	10,865	9,610
--	393,048	315,705
--	865,090	794,842
--	245,200	299,832
117,931	8,414,242	8,015,858
$ 1,247,575	$ 12,540,420	$ 11,958,156

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
June 30,

	2006	2005
Net Patient Service Revenue		
Patient service revenue	$ 12,540,420	$ 11,958,156
Contractual adjustments	(2,365,346)	(2,053,023)
Discounts and allowances	(11,355)	(4,416)
Provision for bad debts	(249,482)	(224,596)
	$ 9,914,237	$ 9,676,121
Other Revenue		
Senior housing revenue - independent living	$ 532,887	$ 502,440
Senior housing revenue - assisted living	400,235	185,760
Cafeteria	69,933	65,160
Congregate meals	54,447	45,007
Employee prescriptions	172,937	118,374
Purchase discounts	249	566
Medical records transcript fees	2,881	2,430
Medical examiner	1,631	--
Ancillary service coverage revenue	1,116	--
Rental income	26,478	30,576
Vending machine commissions	40	22
	$ 1,262,834	$ 950,335

See Independent Auditor's Report.

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

	2006	2005
Administrative:		
Salaries and wages	$ 64,130	$ 58,744
Supplies and other expense	1,610	3,887
	65,740	62,631
Medical and Surgical:		
Salaries and wages	561,700	599,656
Supplies and other expense	37,400	52,154
	599,100	651,810
Long-Term Care:		
Salaries and wages	536,840	541,089
Supplies and other expense	33,794	28,379
	570,634	569,468
Operating and Recovery Rooms:		
Salaries and wages	172,428	163,309
Supplies and other expense	200,888	140,702
	373,316	304,011
Central Services and Supply:		
Salaries and wages	70,298	59,578
Supplies and other expense	19,052	62,070
	89,350	121,648
Emergency Services:		
Salaries and wages	213,227	180,099
Professional fees	216,338	216,958
Supplies and other expense	26,383	21,594
	455,948	418,651

(continued next page)

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

	2006	2005
Cardiac Rehabilitation:		
Salaries and wages	$ 25,487	$ 18,627
Supplies and other expense	2,773	1,362
	28,260	19,989
	$ 2,182,348	$ 2,148,208

SUMMARY

Salaries and wages	$ 1,644,110	$ 1,621,102
Professional fees	216,338	216,958
Supplies and other expense	321,900	310,148
	$ 2,182,348	$ 2,148,208

See Independent Auditor's Report.

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

	2006	2005
Laboratory and Blood Bank:		
Salaries and wages	$ 304,209	$ 293,464
Professional fees	47,969	41,700
Supplies and other expense	244,725	267,799
	596,903	602,963
Electrocardiology:		
Professional fees	13,567	14,649
Cardiovascular Diagnostics:		
Salaries and wages	3,181	3,270
Supplies and other expense	97,682	100,854
	100,863	104,124
Radiology:		
Salaries and wages	234,134	224,671
Professional fees	6,237	32,850
Supplies and other expense	400,790	433,334
	641,161	690,855
Pharmacy:		
Salaries and wages	189,988	174,171
Professional fees	150	--
Supplies and other expense	472,527	453,131
	662,665	627,302
Anesthesiology:		
Professional fees	82,861	77,458
Supplies and other expense	1,884	4,381
	84,745	81,839
Respiratory Therapy:		
Salaries and wages	34,926	45,708
Supplies and other expense	58,259	28,354
	93,185	74,062
Physical Therapy:		
Salaries and wages	156,868	152,582
Professional fees	2,501	13,909
Supplies and other expense	23,367	15,537
	182,736	182,028
Occupational Therapy:		
Salaries and wages	--	801
Professional fees	68,984	59,229
Supplies and other expense	38	4
	69,022	60,034

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

	2006	2005
Speech Therapy:		
Salaries and wages	$ 7,703	$ 8,728
Professional fees	1,615	4,106
Supplies and other expense	233	188
	9,551	13,022
Massage Therapy:		
Supplies and other expense	8,996	7,805
Ambulance:		
Salaries and wages	65,382	63,907
Supplies and other expense	33,467	26,020
	98,849	89,927
Outpatient Clinics:		
Salaries and wages	19,758	23,469
Supplies and other expense	2,551	1,928
	22,309	25,397
Home Health:		
Salaries and wages	592,417	587,269
Supplies and other expense	152,369	121,020
	744,786	708,289
Hospice:		
Salaries and wages	56,154	53,436
Supplies and other expense	102,444	146,119
	158,598	199,555
Medical Records:		
Salaries and wages	202,667	216,916
Supplies and other expense	28,423	25,243
	231,090	242,159
	$ 3,719,026	$ 3,724,010

SUMMARY

Salaries and wages	$ 1,867,387	$ 1,848,392
Professional fees	223,884	243,901
Supplies and other expense	1,627,755	1,631,717
	$ 3,719,026	$ 3,724,010

See Independent Auditor's Report.

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

	2006	2005
Springvale - Independent Living:		
Salaries and wages	$ 50,737	$ 51,594
Utilities	35,662	35,095
Repairs and maintenance	2,309	5,357
Supplies and other expense	13,048	13,762
	101,756	105,808
Springvale - Assisted Living:		
Salaries and wages	197,401	96,652
Utilities	27,021	18,171
Repairs and maintenance	1,189	--
Supplies and other expense	5,906	10,290
	231,517	125,113
	$ 333,273	$ 230,921

SUMMARY

Salaries and wages	$ 248,138	$ 148,246
Supplies and other expense	85,135	82,675
	$ 333,273	$ 230,921

See Independent Auditor's Report.

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

	2006	2005
Dietary:		
Salaries and wages	$ 372,747	$ 341,745
Food, supplies and other expense	338,102	298,381
	710,849	640,126
Plant Operation and Maintenance:		
Salaries and wages	170,231	147,774
Utilities	147,155	125,033
Supplies and other expense	117,480	114,495
	434,866	387,302
Housekeeping:		
Salaries and wages	130,106	118,515
Supplies and other expense	32,553	27,012
	162,659	145,527
Laundry and Linen:		
Salaries and wages	3,947	2,027
Supplies and other expense	56,487	54,324
	60,434	56,351
	$ 1,368,808	$ 1,229,306

SUMMARY

Salaries and wages	$ 677,031	$ 610,061
Supplies and other expense	691,777	619,245
	$ 1,368,808	$ 1,229,306

See Independent Auditor's Report.

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

	2006	2005
Fiscal and Administrative Service:		
Salaries and wages	$ 252,787	$ 243,007
Professional fees	143,657	191,224
Supplies and other expense	215,865	208,755
	612,309	642,986
Information Systems:		
Supplies and other expense	107,641	74,337
Employee Welfare:		
Social Security tax	332,987	317,547
Iowa Public Employees' Retirement System	265,984	241,571
Group health insurance	575,761	676,696
Workers' compensation insurance	75,001	64,995
Unemployment expense	--	974
Other employee benefits	28,182	20,187
	1,277,915	1,321,970
Insurance:		
Liability and property	70,218	67,573
	$ 2,068,083	$ 2,106,866

SUMMARY

Salaries and wages	$ 252,787	$ 243,007
Employee benefits	1,277,915	1,321,970
Professional fees	143,657	191,224
Supplies and other expense	393,724	350,665
	$ 2,068,083	$ 2,106,866

SUMMARY OF EXPENSES

Salaries and wages	$ 4,689,453	$ 4,470,808
Employee benefits	1,277,915	1,321,970
Professional fees	583,879	652,083
Supplies and other expense	3,120,291	2,994,450
	$ 9,671,538	$ 9,439,311

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	2006	2005	2004	2003	2002
Acute Care:					
Admissions	306	390	406	457	404
Discharges	304	396	409	451	403
Patient Days	935	1,149	1,232	1,394	1,181
Average Length of Stay	3.08	2.90	3.01	3.09	2.93
Average Occupied Beds	2.6	3.1	3.4	3.8	3.2
Swing Bed:					
Admissions	104	117	132	133	139
Discharges	103	120	133	131	140
SNF Days	597	834	916	811	917
ICF Days	69	93	50	59	*5,921
Long-Term Care Patient Days	9,883	9,805	9,778	9,969	*3,966
Combined Average Occupied Beds	31.5	32.6	32.7	33.5	32.8
Nursery Days	--	--	--	53	81
Outpatient Occasions of Service	46,479	44,927	47,556	44,799	45,303
Home Health Visits	10,407	9,649	9,175	8,631	8,731

* 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,

	2006	2005
Current Assets:		
Cash	$ 1,014,343	$ 629,601
Patient receivables, net	1,120,070	1,331,205
Other receivables	58,613	102,920
Inventory	249,932	211,181
Prepaid expense	40,500	36,700
Succeeding year property tax receivable	289,000	289,000
Internally designated assets	329,804	300,461
Total current assets	3,102,262	2,901,068
Other Assets:		
Designated and restricted assets	5,388,342	4,015,142
Capital assets, net	8,558,771	9,089,910
Notes receivable	--	--
Total other assets	13,947,113	13,105,052
Total assets	$ 17,049,375	$ 16,006,120
Current Liabilities:		
Current maturities of long-term debt	$ 184,000	$ 174,000
Accounts payable	350,914	399,758
Accrued expenses	448,366	439,916
Accrued interest payable	17,320	17,961
Senior housing deposits	68,290	40,188
Estimated third-party payor settlements	547,000	494,000
Deferred revenue for succeeding year property tax receivable	289,000	289,000
Total current liabilities	1,904,890	1,854,823
Long-Term Debt, Net	3,299,400	3,479,505
Total liabilities	5,204,290	5,334,328
Net Assets	11,845,085	10,671,792
Total liabilities and net assets	$ 17,049,375	$ 16,006,120

See Independent Auditor's Report.

2004	2003	2002
$ 694,963	$ 330,656	$ 440,900
1,274,278	1,116,348	1,190,330
34,286	30,950	38,840
214,181	185,783	209,793
44,555	45,593	32,373
288,000	289,000	298,000
590,190	271,154	203,684
3,140,453	2,269,484	2,413,920
5,240,447	5,518,138	4,357,436
6,881,152	6,101,752	6,273,168
--	--	20,000
12,121,599	11,619,890	10,650,604
$ 15,262,052	$ 13,889,374	$ 13,064,524
$ 145,000	$ 140,000	$ 130,000
668,508	334,672	246,029
398,492	361,277	285,598
18,572	19,155	19,684
56,626	72,386	72,126
546,000	330,000	373,000
288,000	289,000	298,000
2,121,198	1,546,490	1,424,437
3,409,988	3,545,850	3,677,226
5,531,186	5,092,340	5,101,663
9,730,866	8,797,034	7,962,861
$ 15,262,052	$ 13,889,374	$ 13,064,524

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

	2006	2005
Patient Service Revenue	$ 12,540,420	$ 11,958,156
Adjustments to Patient Service Revenue	(2,626,183)	(2,282,035)
Net Patient Service Revenue	9,914,237	9,676,121
Other Revenue	1,262,834	950,335
Total Revenue	11,177,071	10,626,456
Expenses	10,540,864	10,146,621
Operating Income	636,207	479,835
Non-Operating Revenues, Net	533,581	458,697
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,169,788	938,532
Capital Grants and Contributions	3,505	2,394
Increase in Net Assets	$ 1,173,293	$ 940,926

See Independent Auditor's Report.

2004	2003	2002
$ 10,957,800	$ 10,434,027	$ 9,480,591
(2,190,563)	(1,976,219)	(1,763,289)
8,767,237	8,457,808	7,717,302
735,658	664,756	561,938
9,502,895	9,122,564	8,279,240
9,114,259	8,862,265	7,987,120
388,636	260,299	292,120
527,671	485,629	630,176
916,307	745,928	922,296
17,525	88,245	8,639
$ 933,832	$ 834,173	$ 930,935

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, 2006, and have issued our report thereon dated October 2, 2006. 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 06-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, 2006 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 06-II-B and 06-II-D.

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.

Gronewold, Bell, Kyhm + Co. P.C.

Atlantic, Iowa
October 2, 2006

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

06-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

06-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2006 did not exceed amounts budgeted.

06-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1975. The expense was as follows:

Paid to	Purpose	Amount
Various Organizations	Employee recognition banquet	$ 2,807

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 April 25, 1975.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

Name, Title and Business Connection	Description	Amount
Gary Mortiz, Trustee, Owner of Gary's Men Wear	Purchase of employee shirts	$ 85
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	792

The transaction with Gary's Men Wear does not appear to represent a conflict of interest since it is less than $1,500.

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.

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

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

* * *