

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, 2008 AND 2007

# HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2008

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Marlene Thompson, Chairperson	Humboldt, Iowa	2010
Vivien Hansen, Vice-Chairperson	Humboldt, Iowa	2012
David Boswell, Secretary	Humboldt, Iowa	2010
Tim Anderson, Treasurer	Humboldt, Iowa	2012
Gary Moritz	Humboldt, Iowa	2008
Jody Eppley	Humboldt, Iowa	2008
Rod Harklau	Humboldt, Iowa	2012

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.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Humboldt County Memorial Hospital as of June 30, 2008 and 2007, 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, 2008 and 2007, 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 6, 2008 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 on pages 4 through 4e and the budgetary comparison schedule on page 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, 2006 (none of which are presented herein) and expressed qualified 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.

*Acronwald, Bell, Hyman + Co. P.C.*

Atlantic, Iowa  
October 6, 2008



*Committed to Serve; Compassion to Care*

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**HUMBOLDT COUNTY MEMORIAL HOSPITAL**

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

(515)332-4200

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis

Our discussion and analysis of Humboldt County Memorial Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2008, 2007, 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 \$1,254,179 or 9.3 percent from 2007 to 2008 and by \$1,600,106 or 13.5 percent from 2006 to 2007.

The Hospital reported an operating profit in both 2008 and 2007; operating profits were \$336,501 and \$813,224 respectively. The 2008 results reflect a \$476,723 or 58.6 percent decrease as compared to 2007 results. Operating profit increased in 2007 as compared to 2006 by \$177,017. This reflects a 27.8 percent increase.

Net non-operating revenues increased by \$12,505 or 1.6 percent in 2008 compared to 2007. Net non-operating revenues increased in 2007 by \$238,301 or 44.7 percent as compared to 2006.

**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. The Hospitals' net assets increased in each of the past two years by \$1,254,179 (9.3 percent) in 2008 and \$1,600,106 (13.5 percent) in 2007, as you can see from Table 1.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Assets:</b>			
Current assets	\$ 3,692,193	\$ 2,913,294	\$ 3,102,262
Capital assets, net	12,356,932	8,456,309	8,558,771
Other non-current assets	<u>4,069,997</u>	<u>7,657,517</u>	<u>5,558,942</u>
Total assets	<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>	<u>\$ 17,219,975</u>
<b>Liabilities:</b>			
Long-term debt outstanding, net	\$ 3,199,545	\$ 3,281,000	\$ 3,470,000
Other current and noncurrent liabilities	<u>2,220,207</u>	<u>2,300,929</u>	<u>1,904,890</u>
Total liabilities	<u>\$ 5,419,752</u>	<u>\$ 5,581,929</u>	<u>\$ 5,374,890</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 8,910,932	\$ 4,986,309	\$ 4,904,771
Restricted for debt service	234,939	1,202,751	1,174,026
Unrestricted	<u>5,553,499</u>	<u>7,256,131</u>	<u>5,766,288</u>
Total net assets	<u>\$ 14,699,370</u>	<u>\$ 13,445,191</u>	<u>\$ 11,845,085</u>

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

A significant component of the change in the Hospital's assets is a decrease in other non-current assets from \$7,657,517 in 2007 to \$4,069,997 (down 46.8%). Designated assets decreased by \$3,289,494 as cash reserves were invested in surgical and mechanical system projects under construction. This led to a corresponding increase in net capital assets which totaled \$12,356,932 in 2008 compared to \$8,456,309 in 2007 (up 46.1%). Operating revenues decreased in 2008 by \$307,895 (2.6%) Collections of accounts receivable remained strong.

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

In 2008, the Hospital's net assets increased by \$1,254,179 or 9.3 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2008 were \$14,699,370 and \$13,445,191 at year-end 2007.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues:			
Net patient service revenues	\$ 10,214,332	\$ 10,511,341	\$ 9,914,237
Other operating revenues	<u>1,303,902</u>	<u>1,314,788</u>	<u>1,262,834</u>
Total operating revenues	11,518,234	11,826,129	11,177,071
Operating Expenses:			
Salaries and benefits	6,264,996	6,212,006	5,967,368
Professional fees	739,853	694,430	583,879
Other operating expenses	3,279,493	3,196,096	3,120,291
Depreciation	<u>897,391</u>	<u>910,373</u>	<u>869,326</u>
Total operating expenses	<u>11,181,733</u>	<u>11,012,905</u>	<u>10,540,864</u>
Operating Income	336,501	813,224	636,207
Non-Operating Revenues and Expenses:			
Property taxes	375,032	375,333	375,206
Investment income	325,273	406,256	222,254
Non-capital grants and contributions	142,223	208,632	161,464
Other non-operating revenues and expenses, net	<u>( 58,141)</u>	<u>( 218,339)</u>	<u>( 225,343)</u>
Total non-operating revenues (expenses), net	<u>784,387</u>	<u>771,882</u>	<u>533,581</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,120,888	1,585,106	1,169,788
Capital Grants and Contributions	<u>133,291</u>	<u>15,000</u>	<u>3,505</u>
Increase in net assets	1,254,179	1,600,106	1,173,293
Net Assets Beginning of Year	<u>13,445,191</u>	<u>11,845,085</u>	<u>10,671,792</u>
Net Assets End of Year	<u>\$ 14,699,370</u>	<u>\$ 13,445,191</u>	<u>\$ 11,845,085</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 \$336,501 in 2008 and \$813,224 in 2007.

The primary factors for the decreased operating profits were due to instability in primary care providers in our area resulting in an overall patient revenue decline of \$237,357 or 1.7%. Departments experiencing a decline include:

Revenue decreases from 2007 to 2008 were noted in Med Surg (-\$36,635) down 7.2%, Pharmacy (-\$213,148) down 11.9%, Physical Therapy (-\$46,169) down 9.7%, Central Supply (-\$19,308) down 18.9%

The Hospital has demonstrated ability to keep operating expenses under control relative to revenue decline. The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest.

Increases in labor costs for the Hospital's employees (\$66,428 or 1.4 percent increase in 2008 compared to 2007).

Increases in the Hospital's general supplies – including medical supplies and pharmacy (\$83,397 or 2.6 percent increase in 2008 compared to 2007).

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital also continues to grow its technology in the area of clinical care and patient diagnostics enabling it to share data between providers. 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.

**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 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 2007, \$178,079 in accounts were written off as uncollectible. This figure increased to \$197,052 in 2008. This reflects a 10.7 percent increase over this two year period showing a decline in patients' ability to pay for services. This figure does not include the \$32,298 in approved Charity Care applications which has also increased as patients are unable to pay for services.

**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 \$66,409 or 31.8% when compared to 2007. Investment income decreased by \$80,983 or 19.9% as investments were used for capital projects. Hospital interest expense decreased \$159,319 from 2007. Overall, net non-operating revenues increased from \$771,882 to \$784,387 from 2007 to 2008.

**GRANTS, CONTRIBUTIONS, AND ENDOWMENTS**

The Hospital's capital grants and contributions increased from \$15,000 in 2007 to \$133,291 in 2008. 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 2008, net cash used for capital and related financing activity showed an increase of \$3,331,719 due to payments for construction in progress and related equipment. The net change in the Hospital cash position is an increase of \$320,809 in 2008 from 2007.

**BUDGETARY HIGHLIGHTS**

Actual expenses were lower than the adopted budget by \$1,221,834. Interest expense, wages, benefits and supplies were areas with much lower than expected expenses. Actual revenues were lower than budgeted by \$735,414 due to the decline in number of primary care providers.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At the end of 2008, the Hospital had approximately \$12.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2008, the Hospital purchased new property and moveable equipment costing \$537,648. Of this, none was acquired through capital leases.

**Debt:**

At year-end 2008 and 2007, the Hospital had a \$3,290,000 revenue note (bond) outstanding. Outstanding debt was refinanced in 2008 to obtain better terms and rates without adding new debt. The Hospital also has outstanding debt of \$156,000 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**

Physician recruitment and retention continues to be a challenge for the Hospital.

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 and discounts by insurance companies and an increasing number of uninsured individuals. This in turn leads to more uncollectible balances.

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.

The Hospital strives to provide state of the art technology and services. The age of the original Hospital has necessitated investments in the infrastructure of the building and mechanical systems.

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Financial Director's Office, at Humboldt County Memorial Hospital, 1000 North 15<sup>th</sup> Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Balance Sheets  
June 30,

ASSETS

	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash	\$ 1,133,475	\$ 933,675
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$444,000 in 2008, \$377,000 in 2007)	1,219,502	1,059,930
Other receivables	72,209	38,909
Inventory	167,624	213,109
Prepaid expense	68,800	43,600
Succeeding year property tax receivable	289,000	289,000
Internally designated assets	<u>741,583</u>	<u>335,071</u>
Total current assets	3,692,193	2,913,294
Designated Assets:		
Internally designated assets	4,307,964	6,629,646
Restricted assets	<u>234,939</u>	<u>1,202,751</u>
	4,542,903	7,832,397
Less amounts required to meet current liabilities	<u>741,583</u>	<u>335,071</u>
	3,801,320	7,497,326
Capital Assets:		
Depreciable capital assets, net	7,441,353	7,801,096
Non-depreciable capital assets	<u>4,915,579</u>	<u>655,213</u>
	12,356,932	8,456,309
Deferred Financing Costs	<u>268,677</u>	<u>160,191</u>
Total assets	<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 246,455	\$ 189,000
Accounts payable	763,822	363,809
Accrued employee compensation	464,932	434,964
Payroll taxes withheld and accrued	67,764	61,640
Accrued interest payable	15,662	16,620
Senior housing deposits	76,572	77,896
Estimated third-party payor settlements	296,000	868,000
Deferred revenue for succeeding year property tax receivable	<u>289,000</u>	<u>289,000</u>
Total current liabilities	2,220,207	2,300,929
<b>Long-Term Debt:</b>		
Note payable, less current maturities	132,000	156,000
Revenue note, less current maturities	<u>3,067,545</u>	<u>3,125,000</u>
Total long-term debt	<u>3,199,545</u>	<u>3,281,000</u>
Total liabilities	5,419,752	5,581,929
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	8,910,932	4,986,309
Restricted - expendable	234,939	1,202,751
Unrestricted	<u>5,553,499</u>	<u>7,256,131</u>
Total net assets	<u>14,699,370</u>	<u>13,445,191</u>
Total liabilities and net assets	<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>

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

	<u>2008</u>	<u>2007</u>
Revenue:		
Net patient service revenue	\$ 10,214,332	\$ 10,511,341
Other revenue	<u>1,303,902</u>	<u>1,314,788</u>
Total revenue	11,518,234	11,826,129
Expenses:		
Nursing service	2,571,642	2,456,120
Other professional service	3,779,781	3,777,225
Senior housing	449,644	335,294
General service	1,287,162	1,366,764
Fiscal and administrative service	2,196,113	2,167,129
Provision for depreciation	897,391	910,373
Total expenses	<u>11,181,733</u>	<u>11,012,905</u>
Operating Income	336,501	813,224
Non-Operating Revenues (Expenses):		
County taxes	300,032	300,333
Home health county revenue	75,000	75,000
Noncapital grants and contributions	142,223	208,632
Investment income	325,273	406,256
Gain on disposal of equipment	879	--
Interest expense	<u>( 59,020)</u>	<u>( 218,339)</u>
Non-operating revenues, net	<u>784,387</u>	<u>771,882</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,120,888	1,585,106
Capital Grants and Contributions	<u>133,291</u>	<u>15,000</u>
Increase in Net Assets	1,254,179	1,600,106
Net Assets Beginning of Year	<u>13,445,191</u>	<u>11,845,085</u>
Net Assets End of Year	<u>\$ 14,699,370</u>	<u>\$ 13,445,191</u>

The accompanying notes are an integral part of these statements.

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

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 9,448,136	\$ 10,921,791
Cash paid to suppliers	( 5,271,140)	( 5,181,334)
Cash paid to employees	( 4,906,827)	( 4,837,309)
Other revenue	<u>1,303,902</u>	<u>1,314,788</u>
Net cash provided by operating activities	574,071	2,217,936
Cash flows from non-capital financing activities:		
County tax revenue	375,032	375,333
Noncapital grants and contributions	<u>142,223</u>	<u>208,632</u>
Net cash provided by non-capital financing activities	517,255	583,965
Cash flows from capital and related financing activities:		
Capital grants and contributions	133,291	15,000
Proceeds from revenue note	3,290,000	--
Principal paid on long-term debt	( 3,314,000)	( 184,000)
Capital expenditures	( 385,520)	( 231,564)
Construction in progress expenditures	( 3,914,720)	( 565,380)
Proceeds from disposal of equipment	879	--
Interest paid	( 196,950)	( 208,630)
Deferred financing costs paid	<u>( 119,273)</u>	<u>--</u>
Net cash used in capital and related financing activities	( 4,506,293)	( 1,174,574)
Cash flows from investing activities:		
Investment income	325,273	406,256
Change in designated assets	<u>3,410,503</u>	<u>( 1,979,629)</u>
Net cash provided by (used in) investing activities	<u>3,735,776</u>	<u>( 1,573,373)</u>
Net increase in cash and cash equivalents	320,809	53,954
Cash and cash equivalents beginning of year	<u>1,410,054</u>	<u>1,356,100</u>
Cash and cash equivalents end of year	<u>\$ 1,730,863</u>	<u>\$ 1,410,054</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,133,475	\$ 933,675
Cash and cash equivalents in designated and restricted assets	<u>597,388</u>	<u>476,379</u>
	<u>\$ 1,730,863</u>	<u>\$ 1,410,054</u>

(continued next page)

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

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 336,501	\$ 813,224
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	897,391	910,373
Change in assets and liabilities		
Accounts receivable	( 192,872)	79,844
Inventory	45,485	36,823
Prepaid expense	( 25,200)	( 3,100)
Accounts payable, trade	49,998	1,928
Accrued employee compensation	29,968	33,058
Payroll taxes withheld and accrued	6,124	15,180
Senior housing deposits	( 1,324)	9,606
Estimated third-party payor settlements	( 572,000)	321,000
Total adjustments	237,570	1,404,712
Net cash provided by operating activities	\$ 574,071	\$ 2,217,936

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

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 identified 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. The Hospital received \$120,000 in capital contributions from the Foundation during the year ended June 30, 2008 (\$- 0 - in 2007). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$1,866,000 (\$2,094,000 in 2007) and a decrease in the change in net assets of \$228,000 (\$309,000 increase in 2007) for the year ended June 30, 2008.

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, 2008 and 2007

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. The Hospital capitalized \$147,759 of interest cost in 2008 and none in 2007.

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, 2008 and 2007

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, 2008 and 2007

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

15. Net Assets

Net assets of the Hospital are classified in three 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 net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net 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 and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2006. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2005. 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.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Long-term debt	\$ 200,494	\$ 1,187,751
Purchase of property and equipment	<u>34,445</u>	<u>15,000</u>
	<u>\$ 234,939</u>	<u>\$ 1,202,751</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2008 or 2007.

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

	<u>2008</u>	<u>2007</u>
Payment of long-term debt	\$ 987,257	\$ --
Purchase of property and equipment	<u>113,846</u>	<u>--</u>
	<u>\$ 1,101,103</u>	<u>\$ --</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$5,553,499 (\$7,256,131 as of June 30, 2007) of unrestricted net assets as of June 30, 2008, \$4,307,964 (\$6,629,646 for 2007) 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.

	<u>2008</u>	<u>2007</u>
Capital acquisitions	\$ 3,745,021	\$ 6,168,267
Employee health insurance	<u>562,943</u>	<u>461,379</u>
	<u>\$ 4,307,964</u>	<u>\$ 6,629,646</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2008	2007
Internally Designated Assets:		
Cash	\$ 562,943	\$ 461,379
Certificates of deposit	3,732,895	6,089,614
Interest receivable	12,126	78,653
	\$ 4,307,964	\$ 6,629,646
Restricted Assets:		
Cash	\$ 34,445	\$ 15,000
Certificates of deposit	200,000	1,173,727
Interest receivable	494	14,024
	\$ 234,939	\$ 1,202,751

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE 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, 2008 and 2007, was as follows:

	2008	2007
Receivable from:		
Patients	\$ 194,785	\$ 156,357
Medicare	669,219	614,577
Medicaid	136,774	106,693
Wellmark	330,001	230,481
Other commercial insurance carriers	309,969	319,989
Others	22,754	8,833
	1,663,502	1,436,930
Less allowances for doubtful accounts and contractual adjustments	444,000	377,000
	\$ 1,219,502	\$ 1,059,930

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

<u>Cost</u>	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
Land Improvements	\$ 134,806	\$ 14,982	\$ --	\$ 149,788
Buildings and Fixed Equipment	5,961,564	160,815	--	6,122,379
Major Movable Equipment	5,087,904	361,851	--	5,449,755
Senior Housing Assets	<u>5,136,584</u>	<u>--</u>	<u>--</u>	<u>5,136,584</u>
	16,320,858	537,648	--	16,858,506
<u>Depreciation</u>				
Land Improvements	85,133	5,067	--	90,200
Buildings and Fixed Equipment	3,538,965	226,623	--	3,765,588
Major Movable Equipment	3,844,713	413,065	--	4,257,778
Senior Housing Assets	<u>1,050,951</u>	<u>252,636</u>	<u>--</u>	<u>1,303,587</u>
Total Depreciation	<u>8,519,762</u>	<u>897,391</u>	<u>--</u>	<u>9,417,153</u>
Total Depreciable Capital Assets, Net	<u>\$ 7,801,096</u>	<u>\$( 359,743)</u>	<u>\$ --</u>	<u>\$ 7,441,353</u>
Construction in Progress	\$ 606,719	\$4,345,369	\$ 85,003	\$ 4,867,085
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 655,213</u>	<u>\$4,345,369</u>	<u>\$ 85,003</u>	<u>\$ 4,915,579</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
Land Improvements	\$ 134,806	\$ --	\$ --	\$ 134,806
Buildings and Fixed Equipment	5,961,564	--	--	5,961,564
Major Movable Equipment	4,859,429	228,475	--	5,087,904
Senior Housing Assets	5,136,584	--	--	5,136,584
	<u>16,092,383</u>	<u>228,475</u>	<u>--</u>	<u>16,320,858</u>
<u>Depreciation</u>				
Land Improvements	80,619	4,514	--	85,133
Buildings and Fixed Equipment	3,294,151	244,814	--	3,538,965
Major Movable Equipment	3,437,457	407,256	--	3,844,713
Senior Housing Assets	797,162	253,789	--	1,050,951
	<u>7,609,389</u>	<u>910,373</u>	<u>--</u>	<u>8,519,762</u>
Total Depreciation				
Total Depreciable Capital Assets, Net	<u>\$ 8,482,994</u>	<u>\$( 681,898)</u>	<u>\$ --</u>	<u>\$ 7,801,096</u>
Construction in Progress	\$ 27,283	\$ 579,436	\$ --	\$ 606,719
Land	48,494	--	--	48,494
	<u>75,777</u>	<u>579,436</u>	<u>--</u>	<u>655,213</u>
Total Non-Depreciable Capital Assets				

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2008 and 2007 follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2008</u>	<u>Current Portion</u>
Rural Economic Development Loan	\$ 180,000	\$ --	\$ 24,000	\$ 156,000	\$ 24,000
Long-Term Debt:					
Series 2000 revenue bonds	1,825,000	--	1,825,000	--	--
Series 2001 revenue bonds	1,465,000	--	1,465,000	--	--
Series 2008 revenue note	<u>--</u>	<u>3,290,000</u>	<u>--</u>	<u>3,290,000</u>	<u>222,455</u>
Total Non-Current Liabilities	<u>\$3,470,000</u>	<u>\$3,290,000</u>	<u>\$3,314,000</u>	<u>\$3,446,000</u>	<u>\$ 246,455</u>
	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>	<u>Current Portion</u>
Rural Economic Development Loan	\$ 204,000	\$ --	\$ 24,000	\$ 180,000	\$ 24,000
Long-Term Debt:					
Series 2000 revenue bonds	1,860,000	--	35,000	1,825,000	35,000
Series 2001 revenue bonds	<u>1,590,000</u>	<u>--</u>	<u>125,000</u>	<u>1,465,000</u>	<u>130,000</u>
Total Non-Current Liabilities	<u>\$3,654,000</u>	<u>\$ --</u>	<u>\$ 184,000</u>	<u>\$3,470,000</u>	<u>\$ 189,000</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 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18 per annum, through May, 2020.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

NOTE H - NON-CURRENT LIABILITIES - Continued

The combined annual debt service on the loan and note is expected to require less than 20% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$221,000 and \$2,210,000 respectively.

Under the terms of the revenue note 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 note is outstanding.

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

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2009	\$ 246,455	\$ 128,275	\$ 374,730
2010	248,831	125,899	374,730
2011	258,327	116,403	374,730
2012	268,225	106,505	374,730
2013	278,540	96,190	374,730
2014-2018	1,479,337	310,309	1,789,646
2019-2020	666,285	35,170	701,455
	<u>\$ 3,446,000</u>	<u>\$ 918,751</u>	<u>\$ 4,364,751</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 3.90% (4.10% beginning July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% beginning July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were approximately \$295,000, \$286,000, and \$266,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

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, 2008 was approximately \$99,000 (\$127,000 at June 30, 2007). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

During the year ended June 30, 2007, the Hospital began a construction project encompassing the remodeling, renovation and expansion of several areas within the Hospital. The project has a total cost of approximately \$5,300,000. At June 30, 2008, costs incurred on the project totaled \$4,867,085. Financing for the project is expected to be provided by funds generated internally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2008 and 2007

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, 2008, the Hospital has designated funds in excess of actual claims paid of \$562,943 (\$461,379 at June 30, 2007). 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, 2008 is \$100,000 (\$100,000 at June 30, 2007) and is included in accounts payable.

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2008

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	\$ 300,032	\$ --	\$ 300,032	
Other revenues	12,002,589	133,291	12,135,880	
Transfers in (out)	<u>1,101,103</u>	<u>( 1,101,103)</u>	<u>--</u>	
	13,403,724	( 967,812)	12,435,912	
Expenses	<u>11,181,733</u>	<u>--</u>	<u>11,181,733</u>	
Net	2,221,991	( 967,812)	1,254,179	
Balance beginning of year	<u>12,242,440</u>	<u>1,202,751</u>	<u>13,445,191</u>	
Balance end of year	<u>\$ 14,464,431</u>	<u>\$ 234,939</u>	<u>\$ 14,699,370</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 300,032	\$ --	\$ 300,032	\$ 295,465
Other revenues	<u>12,135,880</u>	<u>59,020</u>	<u>12,194,900</u>	<u>12,934,881</u>
	12,435,912	59,020	12,494,932	13,230,346
Expenses	<u>11,181,733</u>	<u>206,779</u>	<u>11,388,512</u>	<u>12,610,346</u>
Net	1,254,179	( 147,759)	1,106,420	620,000
Balance beginning of year	<u>13,445,191</u>	<u>( 80,106)</u>	<u>13,365,085</u>	<u>13,365,085</u>
Balance end of year	<u>\$ 14,699,370</u>	<u>\$( 227,865)</u>	<u>\$ 14,471,505</u>	<u>\$ 13,985,085</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>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,029,381	61.9%	\$ 991,612	69.0%
31 - 90	383,220	23.0	287,334	20.0
91 - 120	77,995	4.7	52,199	3.6
121 and over	<u>172,906</u>	<u>10.4</u>	<u>105,785</u>	<u>7.4</u>
	<u>1,663,502</u>	<u>100.0%</u>	<u>1,436,930</u>	<u>100.0%</u>
Allowance for doubtful accounts	200,000		175,000	
Allowance for contractual adjustments	<u>244,000</u>		<u>202,000</u>	
	<u>\$ 1,219,502</u>		<u>\$ 1,059,930</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance, beginning	\$ 175,000	\$ 225,000
Provision for bad debts	197,052	178,079
Recoveries of accounts previously written off	<u>295,165</u>	<u>242,293</u>
	<u>667,217</u>	<u>645,372</u>
Accounts written off	<u>467,217</u>	<u>470,372</u>
Balance, ending	<u>\$ 200,000</u>	<u>\$ 175,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Inventory/Prepaid Expense  
 June 30,

	2008	2007
<u>Inventory</u>		
Central supply	\$ 64,794	\$ 87,488
Pharmacy	74,544	103,413
Dietary	28,286	22,208
	\$ 167,624	\$ 213,109
 <u>Prepaid Expense</u>		
Insurance	\$ 68,800	\$ 43,600

See Independent Auditor's Report.

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

	2008		
	Inpatient	Outpatient	Swing Bed
<b>Daily Patient Services:</b>			
Medical and surgical	\$ 470,580	\$ --	\$ --
Swing bed - SNF	--	--	187,110
NF care	--	--	--
Telemetry	67,200	--	--
	<u>537,780</u>	<u>--</u>	<u>187,110</u>
<b>Other Nursing Services:</b>			
Observation	344	148,869	--
Operating and recovery rooms	58,791	1,497,583	--
Central services and supply	17,494	34,476	10,839
Emergency services	3,605	685,216	--
Cardiac rehabilitation	--	64,120	--
	<u>80,234</u>	<u>2,430,264</u>	<u>10,839</u>
<b>Other Professional Services:</b>			
Laboratory and blood bank	197,595	1,942,104	18,574
Electrocardiology	19,360	194,525	1,280
Cardiovascular diagnostics	20,112	217,496	1,915
Radiology	104,779	1,950,027	18,133
Pharmacy	465,229	834,582	104,668
Anesthesiology	14,525	229,782	220
Respiratory therapy	178,518	328,737	57,632
Physical therapy	9,764	385,385	32,272
Occupational therapy	5,015	76,018	39,130
Speech therapy	1,560	17,710	3,050
Massage therapy	14,955	--	--
Ambulance	--	513,135	--
Home health	--	926,984	--
Hospice	--	132,168	--
	<u>1,031,412</u>	<u>7,748,653</u>	<u>276,874</u>
	<u>\$ 1,649,426</u>	<u>\$ 10,178,917</u>	<u>\$ 474,823</u>

See Independent Auditor's Report.

2008		2007
LTC	Total	Total
\$ --	\$ 470,580	\$ 507,215
--	187,110	235,290
1,205,750	1,205,750	1,163,566
--	67,200	54,400
<u>1,205,750</u>	<u>1,930,640</u>	<u>1,960,471</u>
--	149,213	125,822
--	1,556,374	1,568,229
20,038	82,847	102,155
--	688,821	647,685
--	64,120	84,035
<u>20,038</u>	<u>2,541,375</u>	<u>2,527,926</u>
--	2,158,273	2,111,274
--	215,165	219,779
--	239,523	249,940
--	2,072,939	2,030,428
173,720	1,578,199	1,791,347
--	244,527	260,663
--	564,887	583,309
--	427,421	473,590
--	120,163	142,448
--	22,320	10,315
--	14,955	13,140
--	513,135	501,048
--	926,984	871,493
--	132,168	192,860
<u>173,720</u>	<u>9,230,659</u>	<u>9,451,634</u>
<u>\$ 1,399,508</u>	<u>\$ 13,702,674</u>	<u>\$ 13,940,031</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
June 30,

	2008	2007
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 13,702,674	\$ 13,940,031
Contractual adjustments	( 3,253,004)	( 3,226,657)
Discounts and allowances	( 5,988)	( 5,616)
Provision for bad debts	( 197,052)	( 178,079)
Charity care	( 32,298)	( 18,338)
	<u>\$ 10,214,332</u>	<u>\$ 10,511,341</u>
 <u>Other Revenue</u>		
Senior housing revenue - independent living	\$ 577,747	\$ 567,277
Senior housing revenue - assisted living	432,828	419,293
Cafeteria	69,938	67,734
Congregate meals	75,389	80,041
Employee prescriptions	117,851	146,675
Purchase discounts	443	1,969
Medical records transcript fees	2,309	1,870
Medical examiner	1,137	1,654
Rental income	26,250	28,250
Vending machine commissions	10	25
	<u>\$ 1,303,902</u>	<u>\$ 1,314,788</u>

See Independent Auditor's Report.

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

	<u>2008</u>	<u>2007</u>
Administrative:		
Salaries and wages	\$ 114,903	\$ 106,325
Supplies and other expense	<u>1,525</u>	<u>2,805</u>
	116,428	109,130
Medical and Surgical:		
Salaries and wages	590,756	564,923
Supplies and other expense	<u>55,847</u>	<u>45,099</u>
	646,603	610,022
Long-Term Care:		
Salaries and wages	606,489	582,651
Supplies and other expense	<u>30,729</u>	<u>31,706</u>
	637,218	614,357
Operating and Recovery Rooms:		
Salaries and wages	160,306	166,757
Supplies and other expense	<u>340,985</u>	<u>257,797</u>
	501,291	424,554
Central Services and Supply:		
Salaries and wages	80,491	76,236
Supplies and other expense	<u>56,669</u>	<u>100,199</u>
	137,160	176,435
Emergency Services:		
Salaries and wages	193,778	219,694
Professional fees	294,505	268,585
Supplies and other expense	<u>28,792</u>	<u>22,546</u>
	517,075	510,825

(continued next page)

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

	2008	2007
Cardiac Rehabilitation:		
Salaries and wages	\$ 14,097	\$ 8,965
Supplies and other expense	1,770	1,832
	15,867	10,797
	\$ 2,571,642	\$ 2,456,120

SUMMARY

Salaries and wages	\$ 1,760,820	\$ 1,725,551
Professional fees	294,505	268,585
Supplies and other expense	516,317	461,984
	\$ 2,571,642	\$ 2,456,120

See Independent Auditor's Report.

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

	2008	2007
Laboratory and Blood Bank:		
Salaries and wages	\$ 329,304	\$ 320,567
Professional fees	51,671	48,974
Supplies and other expense	251,623	249,682
	632,598	619,223
Electrocardiology:		
Professional fees	12,275	10,812
Cardiovascular Diagnostics:		
Salaries and wages	2,544	5,227
Supplies and other expense	30,548	74,335
	33,092	79,562
Radiology:		
Salaries and wages	255,939	242,380
Professional fees	1,095	2,278
Supplies and other expense	431,736	420,286
	688,770	664,944
Pharmacy:		
Salaries and wages	206,557	195,059
Supplies and other expense	442,069	453,588
	648,626	648,647
Anesthesiology:		
Professional fees	92,770	103,435
Supplies and other expense	4,098	23
	96,868	103,458
Respiratory Therapy:		
Salaries and wages	19,444	30,464
Professional fees	1,610	--
Supplies and other expense	76,766	58,448
	97,820	88,912
Physical Therapy:		
Salaries and wages	150,373	147,212
Professional fees	3,891	250
Supplies and other expense	12,464	16,037
	166,728	163,499
Occupational Therapy:		
Professional fees	54,391	66,775
Supplies and other expense	1,326	1,606
	55,717	68,381

(continued next page)

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

	2008	2007
Speech Therapy:		
Salaries and wages	\$ --	\$ 4,213
Professional fees	15,318	4,059
Supplies and other expense	--	129
	15,318	8,401
Massage Therapy:		
Supplies and other expense	12,707	10,981
Ambulance:		
Salaries and wages	74,783	68,476
Supplies and other expense	46,693	35,684
	121,476	104,160
Outpatient Clinics:		
Salaries and wages	18,851	18,444
Supplies and other expense	3,179	1,328
	22,030	19,772
Home Health:		
Salaries and wages	646,482	621,819
Supplies and other expense	172,562	168,186
	819,044	790,005
Hospice:		
Salaries and wages	52,253	68,749
Supplies and other expense	33,157	75,532
	85,410	144,281
Medical Records:		
Salaries and wages	239,751	221,584
Supplies and other expense	31,551	30,603
	271,302	252,187
	\$ 3,779,781	\$ 3,777,225

SUMMARY

Salaries and wages	\$ 1,996,281	\$ 1,944,194
Professional fees	233,021	236,583
Supplies and other expense	1,550,479	1,596,448
	\$ 3,779,781	\$ 3,777,225

See Independent Auditor's Report.

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

	2008	2007
Springvale - Independent Living:		
Salaries and wages	\$ 97,610	\$ 42,525
Utilities	39,146	37,256
Repairs and maintenance	310	1,428
Supplies and other expense	90,608	13,818
	227,674	95,027
Springvale - Assisted Living:		
Salaries and wages	188,071	206,072
Utilities	28,518	26,754
Repairs and maintenance	20	1,488
Supplies and other expense	5,361	5,953
	221,970	240,267
	\$ 449,644	\$ 335,294

SUMMARY

Salaries and wages	\$ 285,681	\$ 248,597
Supplies and other expense	163,963	86,697
	\$ 449,644	\$ 335,294

See Independent Auditor's Report.

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

	<u>2008</u>	<u>2007</u>
Dietary:		
Salaries and wages	\$ 323,153	\$ 369,234
Food, supplies and other expense	<u>321,421</u>	<u>355,783</u>
	644,574	725,017
Plant Operation and Maintenance:		
Salaries and wages	151,893	168,206
Utilities	133,473	126,547
Supplies and other expense	<u>134,683</u>	<u>106,900</u>
	420,049	401,653
Housekeeping:		
Salaries and wages	123,418	135,356
Supplies and other expense	<u>39,059</u>	<u>38,679</u>
	162,477	174,035
Laundry and Linen:		
Salaries and wages	98	1,997
Supplies and other expense	<u>59,964</u>	<u>64,062</u>
	60,062	66,059
	<u>\$ 1,287,162</u>	<u>\$ 1,366,764</u>

SUMMARY

Salaries and wages	\$ 598,562	\$ 674,793
Supplies and other expense	<u>688,600</u>	<u>691,971</u>
	<u>\$ 1,287,162</u>	<u>\$ 1,366,764</u>

See Independent Auditor's Report.

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

	2008	2007
Fiscal and Administrative Service:		
Salaries and wages	\$ 295,451	\$ 277,232
Professional fees	212,327	189,262
Supplies and other expense	169,566	166,465
	677,344	632,959
Information Systems:		
Supplies and other expense	129,655	127,410
Employee Welfare:		
Social Security tax	356,140	347,896
Iowa Public Employees' Retirement System	295,309	285,889
Group health insurance	571,483	607,258
Workers' compensation insurance	64,449	70,308
Unemployment expense	--	2
Other employee benefits	40,820	30,286
	1,328,201	1,341,639
Insurance:		
Liability and property	60,913	65,121
	\$ 2,196,113	\$ 2,167,129

SUMMARY

Salaries and wages	\$ 295,451	\$ 277,232
Employee benefits	1,328,201	1,341,639
Professional fees	212,327	189,262
Supplies and other expense	360,134	358,996
	\$ 2,196,113	\$ 2,167,129

SUMMARY OF EXPENSES

Salaries and wages	\$ 4,936,795	\$ 4,870,367
Employee benefits	1,328,201	1,341,639
Professional fees	739,853	694,430
Supplies and other expense	3,279,493	3,196,096
	\$ 10,284,342	\$ 10,102,532

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acute Care:					
Admissions	285	289	306	390	406
Discharges	283	291	304	396	409
Patient Days	828	898	935	1,149	1,232
Average Length of Stay	2.93	3.09	3.08	2.90	3.01
Average Occupied Beds	2.3	2.5	2.6	3.1	3.4
Swing Bed:					
Admissions	80	97	104	117	132
Discharges	79	98	103	120	133
SNF Days	567	713	597	834	916
ICF Days	40	25	69	93	50
Long-Term Care Patient Days	9,890	9,914	9,883	9,805	9,778
Combined Average Occupied Beds	30.9	31.6	31.5	32.6	32.7
Outpatient Occasions of Service	52,844	51,475	46,479	44,927	47,556
Home Health Visits	10,585	10,130	10,407	9,649	9,175

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	2008	2007
<b>Current Assets:</b>		
Cash	\$ 1,133,475	\$ 933,675
Patient receivables, net	1,219,502	1,059,930
Other receivables	72,209	38,909
Inventory	167,624	213,109
Prepaid expense	68,800	43,600
Succeeding year property tax receivable	289,000	289,000
Internally designated assets	741,583	335,071
Total current assets	3,692,193	2,913,294
<b>Other Assets:</b>		
Designated and restricted assets	3,801,320	7,497,326
Capital assets, net	12,356,932	8,456,309
Deferred financing costs	268,677	160,191
Total other assets	16,426,929	16,113,826
Total assets	\$ 20,119,122	\$ 19,027,120
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 246,455	\$ 189,000
Accounts payable	763,822	363,809
Accrued expenses	532,696	496,604
Accrued interest payable	15,662	16,620
Senior housing deposits	76,572	77,896
Estimated third-party payor settlements	296,000	868,000
Deferred revenue for succeeding year property tax receivable	289,000	289,000
Total current liabilities	2,220,207	2,300,929
Long-Term Debt, Net	3,199,545	3,281,000
Total liabilities	5,419,752	5,581,929
Net Assets	14,699,370	13,445,191
Total liabilities and net assets	\$ 20,119,122	\$ 19,027,120

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 1,014,343	\$ 629,601	\$ 694,963
1,120,070	1,331,205	1,274,278
58,613	102,920	34,286
249,932	211,181	214,181
40,500	36,700	44,555
289,000	289,000	288,000
329,804	300,461	590,190
<u>3,102,262</u>	<u>2,901,068</u>	<u>3,140,453</u>
5,388,342	4,015,142	5,240,447
8,558,771	9,089,910	6,881,152
170,600	180,495	190,012
<u>14,117,713</u>	<u>13,285,547</u>	<u>12,311,611</u>
<u>\$ 17,219,975</u>	<u>\$ 16,186,615</u>	<u>\$ 15,452,064</u>
\$ 184,000	\$ 174,000	\$ 145,000
350,914	399,758	668,508
448,366	439,916	398,492
17,320	17,961	18,572
68,290	40,188	56,626
547,000	494,000	546,000
289,000	289,000	288,000
<u>1,904,890</u>	<u>1,854,823</u>	<u>2,121,198</u>
<u>3,470,000</u>	<u>3,660,000</u>	<u>3,600,000</u>
5,374,890	5,514,823	5,721,198
<u>11,845,085</u>	<u>10,671,792</u>	<u>9,730,866</u>
<u>\$ 17,219,975</u>	<u>\$ 16,186,615</u>	<u>\$ 15,452,064</u>

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

	<u>2008</u>	<u>2007</u>
Patient Service Revenue	\$ 13,702,674	\$ 13,940,031
Adjustments to Patient Service Revenue	<u>( 3,488,342)</u>	<u>( 3,428,690)</u>
Net Patient Service Revenue	10,214,332	10,511,341
Other Revenue	<u>1,303,902</u>	<u>1,314,788</u>
Total Revenue	11,518,234	11,826,129
Expenses	<u>11,181,733</u>	<u>11,012,905</u>
Operating Income	336,501	813,224
Non-Operating Revenues, Net	<u>784,387</u>	<u>771,882</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,120,888	1,585,106
Capital Grants and Contributions	<u>133,291</u>	<u>15,000</u>
Increase in Net Assets	<u>\$ 1,254,179</u>	<u>\$ 1,600,106</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 12,540,420	\$ 11,958,156	\$ 10,957,800
<u>( 2,626,183)</u>	<u>( 2,282,035)</u>	<u>( 2,190,563)</u>
9,914,237	9,676,121	8,767,237
<u>1,262,834</u>	<u>950,335</u>	<u>735,658</u>
11,177,071	10,626,456	9,502,895
<u>10,540,864</u>	<u>10,146,621</u>	<u>9,114,259</u>
636,207	479,835	388,636
<u>533,581</u>	<u>458,697</u>	<u>527,671</u>
1,169,788	938,532	916,307
<u>3,505</u>	<u>2,394</u>	<u>17,525</u>
<u>\$ 1,173,293</u>	<u>\$ 940,926</u>	<u>\$ 933,832</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, 2008, and have issued our report thereon dated October 6, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Humboldt County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Hospital's financial statements, that is more than inconsequential, will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees  
Humboldt County Memorial Hospital

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2008 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.

Humboldt County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Humboldt County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*G. Ansell, Bell, Kyles - Co. P.C.*

Atlantic, Iowa  
October 6, 2008

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-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

08-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2008 did not exceed amounts budgeted.

08-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 3,931

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, 1979.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Schedule of Findings  
 Year ended June 30, 2008

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 1,247

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 and another department director approves the purchases.

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

08-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.

\* \* \*