

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, 2009 AND 2008

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2009

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Marlene Thompson, Chairperson	Humboldt, Iowa	2010
Tim Anderson, Vice-Chairperson	Humboldt, Iowa	2012
David Boswell, Secretary	Humboldt, Iowa	2010
Rod Harklau, Treasurer	Humboldt, Iowa	2012
Vivien Hansen	Humboldt, Iowa	2012
Gary Moritz	Humboldt, Iowa	2014
Jody Eppley	Humboldt, Iowa	2014

Chief Executive Officer:

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, 2009 and 2008, 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, 2009 and 2008, 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 September 24, 2009 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, 2007 (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.

Stromwell, Bell, Kyrle & Co. P.C.

Atlantic, Iowa
September 24, 2009



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

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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, 2009, 2008, and 2007. 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 \$1,070,256 or 7.3 percent from 2008 to 2009 and by \$1,254,179 or 9.3 percent from 2007 to 2008.

The Hospital reported an operating profit in both 2009 and 2008; operating profits were \$392,456 and \$336,501 respectively. The 2009 results reflect a \$55,955 or 16.6 percent increase as compared to 2008 results. Operating profit decreased in 2008 as compared to 2007 by \$476,723. This reflects a 58.6 percent decrease.

Net non-operating revenues decreased by \$174,144 or 22.2 percent in 2009 compared to 2008. Net non-operating revenues increased in 2008 by \$12,505 or 1.6 percent as compared to 2007.

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 \$1,070,256 (7.3 percent) in 2009 and \$1,254,179 (9.3 percent) in 2008, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 3,334,580	\$ 3,692,193	\$ 2,913,294
Capital assets, net	12,855,858	12,356,932	8,456,309
Other non-current assets	<u>4,683,351</u>	<u>4,069,997</u>	<u>7,657,517</u>
Total assets	<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>
Liabilities:			
Long-term debt outstanding, net	\$ 2,950,714	\$ 3,199,545	\$ 3,281,000
Other current and noncurrent liabilities	<u>2,153,449</u>	<u>2,220,207</u>	<u>2,300,929</u>
Total liabilities	<u>\$ 5,104,163</u>	<u>\$ 5,419,752</u>	<u>\$ 5,581,929</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 9,798,090	\$ 8,800,143	\$ 5,117,049
Restricted for debt service	213,609	234,939	1,202,751
Unrestricted	<u>5,757,927</u>	<u>5,664,288</u>	<u>7,125,391</u>
Total net assets	<u>\$ 15,769,626</u>	<u>\$ 14,699,370</u>	<u>\$ 13,445,191</u>

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

The Hospital's total assets increased from \$20,119,122 in 2008 to \$20,873,789 in 2009 (up 3.8%). Capital assets increased from \$12,356,932 in 2008 to \$12,855,858 in 2009 (up 4.0%) due to the near completion of the hospital mechanical project. Payments for 2009 construction were made from operations and designated assets increased resulting in an increase in other non-current assets from \$4,069,997 in 2008 to \$4,683,351 in 2009 (up 15.1%). Operating income increased in 2009 by \$55,955 (up 16.6%) from 2008.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2009, the Hospital's net assets increased by \$1,070,256 or 7.3 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2009 were \$15,769,626 and \$14,699,370 at year-end 2008.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
Net patient service revenues	\$ 11,367,312	\$ 10,214,332	\$ 10,511,341
Other operating revenues	<u>1,300,328</u>	<u>1,303,902</u>	<u>1,314,788</u>
Total operating revenues	12,667,640	11,518,234	11,826,129
Operating Expenses:			
Salaries and benefits	6,686,685	6,264,996	6,212,006
Professional fees	1,198,319	739,853	694,430
Other operating expenses	3,444,245	3,279,493	3,196,096
Depreciation	<u>945,935</u>	<u>897,391</u>	<u>910,373</u>
Total operating expenses	<u>12,275,184</u>	<u>11,181,733</u>	<u>11,012,905</u>
Operating Income	392,456	336,501	813,224
Non-Operating Revenues and Expenses:			
Property taxes	374,769	375,032	375,333
Investment income	151,169	325,273	406,256
Non-capital grants and contributions	105,848	142,223	208,632
Other non-operating revenues and expenses, net	<u>(21,543)</u>	<u>(58,141)</u>	<u>(218,339)</u>
Total non-operating revenues (expenses), net	<u>610,243</u>	<u>784,387</u>	<u>771,882</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,002,699	1,120,888	1,585,106
Capital Grants and Contributions	<u>67,557</u>	<u>133,291</u>	<u>15,000</u>
Increase in net assets	1,070,256	1,254,179	1,600,106
Net Assets Beginning of Year	<u>14,699,370</u>	<u>13,445,191</u>	<u>11,845,085</u>
Net Assets End of Year	<u>\$ 15,769,626</u>	<u>\$ 14,699,370</u>	<u>\$ 13,445,191</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 \$392,456 in 2009 and \$336,501 in 2008.

Operations have maintained at a steady level from 2008 to 2009 after a substantial decrease from 2007 to 2008. A new emergency room physician contract has resulted in the retention of more patients and increased admissions. The completion of the new surgical addition returned that department to full use with new providers performing more procedures.

Revenue increases were noted in Med Surg (\$56,320 / up 12.0%), Surgery (\$308,036 / up 19.8%), ER/ER Physician (\$627,890 / up 91.2%), Pharmacy (\$458,003 / up 29.0%)

The Hospital has demonstrated ability to keep operating expenses in line with revenue to maintain a positive bottom line. 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 (\$421,689 or 6.7 percent increase in 2009 compared to 2008).

Increases in the Hospital's general supplies – including medical supplies and pharmacy (\$164,752 or 5.0 percent increase in 2009 compared to 2008).

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care and patient diagnostics. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

**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 2008, \$197,052 in accounts were written off as uncollectible. This figure increased to \$351,478 in 2009. This reflects a 78.4 percent increase over this two year period showing a decline in patients' ability to pay for services. This figure does not include the \$38,562 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 from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past three years. Non-capital grants and contributions decreased by \$36,375 or 25.6% when compared to 2008. Investment income decreased by \$174,104 or 53.5% as interest rates remain low. Hospital interest expense, net of interest capitalized, decreased \$37,188 from 2008. Overall, net non-operating revenues decreased from \$784,387 to \$610,243 from 2008 to 2009.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital's capital grants and contributions decreased from \$133,291 in 2008 to \$67,557 in 2009. 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. The net change in the Hospital cash position is a decrease of \$370,811 in 2009 from 2008.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the adopted amended budget by \$847,374. Interest expense, wages, depreciation and supplies were areas with lower than expected expenses. Actual revenues were lower than budgeted by \$125,101 due to the shortage 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 2009, the Hospital had approximately \$12.9 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2009, the Hospital purchased new property and moveable equipment costing \$2,084,271. Of this, none was acquired through capital leases.

Debt:

At year-end 2009, the Hospital had a \$3,067,545 revenue note (bond) outstanding. The Hospital also has outstanding debt of \$132,000 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 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	2009	2008
Current Assets:		
Cash	\$ 831,204	\$ 1,133,475
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$432,000 in 2009, \$444,000 in 2008)	1,426,892	1,219,502
Other receivables	24,988	72,209
Inventory	216,126	167,624
Prepaid expense	71,200	68,800
Succeeding year property tax receivable	289,000	289,000
Internally designated assets	475,170	741,583
Total current assets	3,334,580	3,692,193
Designated Assets:		
Internally designated assets	4,675,585	4,307,964
Restricted assets	213,609	234,939
	4,889,194	4,542,903
Less amounts required to meet current liabilities	475,170	741,583
	4,414,024	3,801,320
Capital Assets:		
Depreciable capital assets, net	8,579,689	7,441,353
Non-depreciable capital assets	4,276,169	4,915,579
	12,855,858	12,356,932
Deferred Financing Costs	246,745	268,677
Notes Receivable	22,582	--
Total assets	\$ 20,873,789	\$ 20,119,122

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 248,831	\$ 246,455
Accounts payable	489,081	763,822
Accrued employee compensation	495,676	464,932
Payroll taxes withheld and accrued	35,797	67,764
Accrued interest payable	21,371	15,662
Senior housing deposits	80,693	76,572
Estimated third-party payor settlements	493,000	296,000
Deferred revenue for succeeding year property tax receivable	<u>289,000</u>	<u>289,000</u>
Total current liabilities	2,153,449	2,220,207
Long-Term Debt:		
Note payable, less current maturities	108,000	132,000
Revenue note, less current maturities	<u>2,842,714</u>	<u>3,067,545</u>
Total long-term debt	<u>2,950,714</u>	<u>3,199,545</u>
Total liabilities	5,104,163	5,419,752
Net Assets:		
Invested in capital assets, net of related debt	9,798,090	8,800,143
Restricted - expendable	213,609	234,939
Unrestricted	<u>5,757,927</u>	<u>5,664,288</u>
Total net assets	<u>15,769,626</u>	<u>14,699,370</u>
Total liabilities and net assets	<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>

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

	<u>2009</u>	<u>2008</u>
Revenue:		
Net patient service revenue	\$ 11,367,312	\$ 10,214,332
Other revenue	<u>1,300,328</u>	<u>1,303,902</u>
Total revenue	12,667,640	11,518,234
Expenses:		
Nursing service	2,376,793	2,277,137
Other professional service	4,688,348	4,074,286
Senior housing	442,700	449,644
General service	1,268,465	1,287,162
Fiscal and administrative service	2,552,943	2,196,113
Provision for depreciation	<u>945,935</u>	<u>897,391</u>
Total expenses	<u>12,275,184</u>	<u>11,181,733</u>
Operating Income	392,456	336,501
Non-Operating Revenues (Expenses):		
County taxes	299,769	300,032
Home health county revenue	75,000	75,000
Noncapital grants and contributions	105,848	142,223
Investment income	151,169	325,273
Gain on disposal of equipment	289	879
Interest expense	<u>(21,832)</u>	<u>(59,020)</u>
Non-operating revenues, net	<u>610,243</u>	<u>784,387</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,002,699	1,120,888
Capital Grants and Contributions	<u>67,557</u>	<u>133,291</u>
Increase in Net Assets	1,070,256	1,254,179
Net Assets Beginning of Year	<u>14,699,370</u>	<u>13,445,191</u>
Net Assets End of Year	<u>\$ 15,769,626</u>	<u>\$ 14,699,370</u>

The accompanying notes are an integral part of these statements.

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

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 11,408,264	\$ 9,448,136
Cash paid to suppliers	(6,311,824)	(5,271,140)
Cash paid to employees	(5,110,773)	(4,906,827)
Other revenue	<u>1,300,328</u>	<u>1,303,902</u>
Net cash provided by operating activities	1,285,995	574,071
Cash flows from non-capital financing activities:		
County tax revenue	374,769	375,032
Noncapital grants and contributions	<u>105,848</u>	<u>142,223</u>
Net cash provided by non-capital financing activities	480,617	517,255
Cash flows from capital and related financing activities:		
Capital grants and contributions	67,557	133,291
Proceeds from revenue note	--	3,290,000
Principal paid on long-term debt	(246,455)	(3,314,000)
Capital expenditures	(487,803)	(385,520)
Construction in progress expenditures	(1,056,593)	(3,914,720)
Proceeds from disposal of equipment	289	879
Interest paid	(128,174)	(196,950)
Deferred financing costs paid	<u>--</u>	<u>(119,273)</u>
Net cash used in capital and related financing activities	(1,851,179)	(4,506,293)
Cash flows from investing activities:		
Investment income	151,169	325,273
Change in designated assets	(414,831)	3,410,503
Increase in notes receivable	<u>(22,582)</u>	<u>--</u>
Net cash provided by (used in) investing activities	<u>(286,244)</u>	<u>3,735,776</u>
Net increase (decrease) in cash and cash equivalents	(370,811)	320,809
Cash and cash equivalents beginning of year	<u>1,730,863</u>	<u>1,410,054</u>
Cash and cash equivalents end of year	<u>\$ 1,360,052</u>	<u>\$ 1,730,863</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 831,204	\$ 1,133,475
Cash and cash equivalents in designated and restricted assets	<u>528,848</u>	<u>597,388</u>
	<u>\$ 1,360,052</u>	<u>\$ 1,730,863</u>

(continued next page)

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

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 392,456	\$ 336,501
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	945,935	897,391
Salaries and wages capitalized	(40,980)	--
Change in assets and liabilities		
Accounts receivable	(160,169)	(192,872)
Inventory	(48,502)	45,485
Prepaid expense	(2,400)	(25,200)
Accounts payable, trade	(243)	49,998
Accrued employee compensation	30,744	29,968
Payroll taxes withheld and accrued	(31,967)	6,124
Senior housing deposits	4,121	(1,324)
Estimated third-party payor settlements	197,000	(572,000)
Total adjustments	893,539	237,570
Net cash provided by operating activities	\$ 1,285,995	\$ 574,071

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

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 approximately \$68,000 in capital contributions from the Foundation during the year ended June 30, 2009 (\$120,000 in 2008). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$2,029,000 (\$1,866,000 in 2008) and an increase in the change in net assets of \$163,000 (\$228,000 decrease in 2008) for the year ended June 30, 2009.

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, 2009 and 2008

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 \$133,983 of interest cost in 2009 and \$147,759 in 2008.

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, 2009 and 2008

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, 2009 and 2008

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, 2007. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2006. 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, 2009 and 2008

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2009	2008
Long-term debt	\$ 200,318	\$ 200,494
Purchase of property and equipment	13,291	34,445
	\$ 213,609	\$ 234,939

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2009 or 2008.

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

	2009	2008
Payment of long-term debt	\$ 176	\$ 987,257
Purchase of property and equipment	88,711	113,846
	\$ 88,887	\$ 1,101,103

NOTE D - DESIGNATED NET ASSETS

Of the \$5,757,927 (\$5,664,288 as of June 30, 2008) of unrestricted net assets as of June 30, 2009, \$4,675,585 (\$4,307,964 for 2008) 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.

	2009	2008
Capital acquisitions	\$ 4,160,028	\$ 3,745,021
Employee health insurance	515,557	562,943
	\$ 4,675,585	\$ 4,307,964

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2009 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, 2009 and 2008

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2009	2008
Internally Designated Assets:		
Cash	\$ 515,557	\$ 562,943
Certificates of deposit	4,150,481	3,732,895
Interest receivable	9,547	12,126
	\$ 4,675,585	\$ 4,307,964
Restricted Assets:		
Cash	\$ 13,291	\$ 34,445
Certificates of deposit	200,000	200,000
Interest receivable	318	494
	\$ 213,609	\$ 234,939

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, 2009 and 2008, was as follows:

	2009	2008
Receivable from:		
Patients	\$ 244,946	\$ 194,785
Medicare	704,698	669,219
Medicaid	170,878	136,774
Wellmark	357,377	330,001
Other commercial insurance carriers	371,341	309,969
Others	9,652	22,754
	1,858,892	1,663,502
Less allowances for doubtful accounts and contractual adjustments	432,000	444,000
	\$ 1,426,892	\$ 1,219,502

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2009 and 2008 were as follows:

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 149,788	\$ --	\$ --	\$ 149,788
Buildings and Fixed Equipment	6,122,379	1,621,237	--	7,743,616
Major Movable Equipment	5,449,755	463,034	--	5,912,789
Senior Housing Assets	<u>5,136,584</u>	<u>--</u>	<u>--</u>	<u>5,136,584</u>
	16,858,506	2,084,271	--	18,942,777
<u>Depreciation</u>				
Land Improvements	90,200	5,064	--	95,264
Buildings and Fixed Equipment	3,765,588	283,454	--	4,049,042
Major Movable Equipment	4,257,778	404,780	--	4,662,558
Senior Housing Assets	<u>1,303,587</u>	<u>252,637</u>	<u>--</u>	<u>1,556,224</u>
Total Depreciation	<u>9,417,153</u>	<u>945,935</u>	<u>--</u>	<u>10,363,088</u>
Total Depreciable Capital Assets, Net	<u>\$ 7,441,353</u>	<u>\$1,138,336</u>	<u>\$ --</u>	<u>\$ 8,579,689</u>
Construction in Progress	\$ 4,867,085	\$1,019,637	\$1,659,047	\$ 4,227,675
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 4,915,579</u>	<u>\$1,019,637</u>	<u>\$1,659,047</u>	<u>\$ 4,276,169</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

NOTE G - CAPITAL ASSETS - Continued

<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, 2009 and 2008

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2009 and 2008 follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 156,000	\$ --	\$ 24,000	\$ 132,000	\$ 24,000
Series 2008 Revenue					
Note	<u>3,290,000</u>	<u>--</u>	<u>222,455</u>	<u>3,067,545</u>	<u>224,831</u>
 Total Non-Current					
Liabilities	<u>\$3,446,000</u>	<u>\$ --</u>	<u>\$ 246,455</u>	<u>\$3,199,545</u>	<u>\$ 248,831</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>2007</u>			<u>2008</u>	<u>Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 180,000	\$ --	\$ 24,000	\$ 156,000	\$ 24,000
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>

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, 2009 and 2008

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 \$375,000 and \$2,038,000 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
2010	\$ 248,831	\$ 125,898	\$ 374,729
2011	258,327	116,402	374,729
2012	268,225	106,504	374,729
2013	278,540	96,189	374,729
2014	289,291	85,438	374,729
2015-2019	1,516,299	249,348	1,765,647
2020	340,032	10,697	350,729
	<u>\$ 3,199,545</u>	<u>\$ 790,476</u>	<u>\$ 3,990,021</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 4.10% (4.30% beginning July 1, 2009) of their annual salary and the Hospital is required to contribute 6.35% (6.65% beginning July 1, 2009) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were approximately \$322,000, \$295,000, and \$286,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 was approximately \$84,000 (\$99,000 at June 30, 2008). 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. By June 30, 2009, a portion of the project was completed and placed into service. The remainder of the project has a total estimated cost of \$4,350,000, of which \$4,227,675 was incurred by June 30, 2009. Financing for the project is expected to be provided by funds generated internally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009, the Hospital has designated funds in excess of actual claims paid of \$515,557 (\$562,943 at June 30, 2008). 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, 2009 and June 30, 2008 is \$100,000 and is included in accounts payable.

Notes Receivable

The notes receivable represent funds advanced under an agreement with a healthcare professional now practicing in the community. The agreement includes commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

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REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year Ended June 30, 2009

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	\$ 299,769	\$ --	\$ 299,769	
Other revenues	12,978,114	67,557	13,045,671	
Transfers in (out)	<u>88,887</u>	<u>(88,887)</u>	<u>--</u>	
	13,366,770	(21,330)	13,345,440	
Expenses	<u>12,275,184</u>	<u>--</u>	<u>12,275,184</u>	
Net	1,091,586	(21,330)	1,070,256	
Balance beginning of year	<u>14,464,431</u>	<u>234,939</u>	<u>14,699,370</u>	
Balance end of year	<u>\$ 15,556,017</u>	<u>\$ 213,609</u>	<u>\$ 15,769,626</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Amended Budget</u>
Amount raised by taxation	\$ 299,769	\$ --	\$ 299,769	\$ 295,578
Other revenues	<u>13,045,671</u>	<u>21,832</u>	<u>13,067,503</u>	<u>13,196,795</u>
	13,345,440	21,832	13,367,272	13,492,373
Expenses	<u>12,275,184</u>	<u>155,815</u>	<u>12,430,999</u>	<u>13,278,373</u>
Net	1,070,256	(133,983)	936,273	214,000
Balance beginning of year	<u>14,699,370</u>	<u>(454,369)</u>	<u>14,245,001</u>	<u>14,245,001</u>
Balance end of year	<u>\$ 15,769,626</u>	<u>\$ (588,352)</u>	<u>\$ 15,181,274</u>	<u>\$ 14,459,001</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>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,139,699	61.3%	\$ 1,029,381	61.9%
31 - 90	451,843	24.3	383,220	23.0
91 - 120	123,588	6.7	77,995	4.7
121 and over	143,762	7.7	172,906	10.4
	<u>1,858,892</u>	<u>100.0%</u>	<u>1,663,502</u>	<u>100.0%</u>
Allowance for doubtful accounts	210,000		200,000	
Allowance for contractual adjustments	<u>222,000</u>		<u>244,000</u>	
	<u>\$ 1,426,892</u>		<u>\$ 1,219,502</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Balance, beginning	\$ 200,000	\$ 175,000
Provision for bad debts	351,478	197,052
Recoveries of accounts previously written off	<u>234,950</u>	<u>295,165</u>
	786,428	667,217
Accounts written off	<u>576,428</u>	<u>467,217</u>
Balance, ending	<u>\$ 210,000</u>	<u>\$ 200,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	2009	2008
<u>Inventory</u>		
Central supply	\$ 111,556	\$ 64,794
Pharmacy	76,447	74,544
Dietary	28,123	28,286
	\$ 216,126	\$ 167,624
 <u>Prepaid Expense</u>		
Insurance	\$ 71,200	\$ 68,800

See Independent Auditor's Report.

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

	2009		
	Inpatient	Outpatient	Swing Bed
Daily Patient Services:			
Medical and surgical	\$ 526,900	\$ --	\$ --
Swing bed - SNF	--	--	193,710
NF care	--	--	--
Telemetry	60,800	--	--
	<u>587,700</u>	<u>--</u>	<u>193,710</u>
Other Nursing Services:			
Observation	--	118,216	--
Operating and recovery rooms	60,996	1,803,414	--
Central services and supply	21,120	40,488	11,076
Emergency services	15,254	824,853	--
Cardiac rehabilitation	--	41,743	--
	<u>97,370</u>	<u>2,828,714</u>	<u>11,076</u>
Other Professional Services:			
Emergency room physicians	60,665	415,159	780
Laboratory and blood bank	225,872	1,918,382	20,263
Electrocardiology	12,182	177,434	800
Cardiovascular diagnostics	22,030	176,061	525
Radiology	111,059	1,918,704	5,450
Pharmacy	608,012	993,200	241,489
Anesthesiology	8,720	260,442	2,090
Respiratory therapy	235,835	255,955	38,144
Physical therapy	11,981	407,123	22,901
Occupational therapy	6,478	39,427	30,641
Speech therapy	1,750	6,270	3,310
Massage therapy	14,450	--	--
Ambulance	--	508,807	--
Home health	--	906,180	--
Hospice	--	176,689	--
	<u>1,319,034</u>	<u>8,159,833</u>	<u>366,393</u>
	<u>\$ 2,004,104</u>	<u>\$ 10,988,547</u>	<u>\$ 571,179</u>

See Independent Auditor's Report.

2009		2008
LTC	Total	Total
\$ --	\$ 526,900	\$ 470,580
--	193,710	187,110
1,145,229	1,145,229	1,205,750
--	60,800	67,200
<u>1,145,229</u>	<u>1,926,639</u>	<u>1,930,640</u>
--	118,216	149,213
--	1,864,410	1,556,374
22,916	95,600	82,847
--	840,107	688,821
--	41,743	64,120
<u>22,916</u>	<u>2,960,076</u>	<u>2,541,375</u>
--	476,604	--
--	2,164,517	2,158,273
--	190,416	215,165
--	198,616	239,523
--	2,035,213	2,072,939
193,501	2,036,202	1,578,199
--	271,252	244,527
--	529,934	564,887
--	442,005	427,421
--	76,546	120,163
--	11,330	22,320
--	14,450	14,955
--	508,807	513,135
--	906,180	926,984
--	176,689	132,168
<u>193,501</u>	<u>10,038,761</u>	<u>9,230,659</u>
<u>\$ 1,361,646</u>	<u>\$ 14,925,476</u>	<u>\$ 13,702,674</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
June 30,

	2009	2008
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 14,925,476	\$ 13,702,674
Contractual adjustments	(3,164,408)	(3,253,004)
Discounts and allowances	(3,716)	(5,988)
Provision for bad debts	(351,478)	(197,052)
Charity care	(38,562)	(32,298)
	<u>\$ 11,367,312</u>	<u>\$ 10,214,332</u>
 <u>Other Revenue</u>		
Senior housing revenue - independent living	\$ 587,242	\$ 577,747
Senior housing revenue - assisted living	429,153	432,828
Cafeteria	47,967	69,938
Congregate meals	81,399	75,389
Employee prescriptions	125,614	117,851
Purchase discounts	373	443
Medical records transcript fees	2,538	2,309
Medical examiner	--	1,137
Rental income	26,042	26,250
Vending machine commissions	--	10
	<u>\$ 1,300,328</u>	<u>\$ 1,303,902</u>

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Administrative:		
Salaries and wages	\$ 113,321	\$ 114,903
Supplies and other expense	805	1,525
	<u>114,126</u>	<u>116,428</u>
Medical and Surgical:		
Salaries and wages	623,130	590,756
Supplies and other expense	55,191	55,847
	<u>678,321</u>	<u>646,603</u>
Long-Term Care:		
Salaries and wages	618,236	606,489
Supplies and other expense	39,103	30,729
	<u>657,339</u>	<u>637,218</u>
Operating and Recovery Rooms:		
Salaries and wages	184,843	160,306
Supplies and other expense	397,413	340,985
	<u>582,256</u>	<u>501,291</u>
Central Services and Supply:		
Salaries and wages	76,169	80,491
Supplies and other expense	31,535	56,669
	<u>107,704</u>	<u>137,160</u>
Emergency Services:		
Salaries and wages	199,380	193,778
Supplies and other expense	23,611	28,792
	<u>222,991</u>	<u>222,570</u>

(continued next page)

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

	2009	2008
Cardiac Rehabilitation:		
Salaries and wages	\$ 8,808	\$ 14,097
Supplies and other expense	5,248	1,770
	14,056	15,867
	\$ 2,376,793	\$ 2,277,137

SUMMARY

Salaries and wages	\$ 1,823,887	\$ 1,760,820
Supplies and other expense	552,906	516,317
	\$ 2,376,793	\$ 2,277,137

See Independent Auditor's Report.

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

	2009	2008
Emergency Room Physicians: Professional fees	\$ 716,410	\$ 294,505
Laboratory and Blood Bank: Salaries and wages	361,848	329,304
Professional fees	61,349	51,671
Supplies and other expense	264,303	251,623
	687,500	632,598
Electrocardiology: Professional fees	13,314	12,275
Cardiovascular Diagnostics: Salaries and wages	1,618	2,544
Supplies and other expense	20,820	30,548
	22,438	33,092
Radiology: Salaries and wages	273,461	255,939
Professional fees	--	1,095
Supplies and other expense	408,088	431,736
	681,549	688,770
Pharmacy: Salaries and wages	212,593	206,557
Supplies and other expense	544,162	442,069
	756,755	648,626
Anesthesiology: Professional fees	113,758	92,770
Supplies and other expense	7,572	4,098
	121,330	96,868
Respiratory Therapy: Salaries and wages	19,174	19,444
Professional fees	--	1,610
Supplies and other expense	73,280	76,766
	92,454	97,820
Physical Therapy: Salaries and wages	157,212	150,373
Professional fees	2,688	3,891
Supplies and other expense	11,970	12,464
	171,870	166,728

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

	2009	2008
Occupational Therapy:		
Professional fees	\$ 61,679	\$ 54,391
Supplies and other expense	--	1,326
	61,679	55,717
Speech Therapy:		
Professional fees	10,090	15,318
Massage Therapy:		
Supplies and other expense	11,861	12,707
Ambulance:		
Salaries and wages	81,285	74,783
Supplies and other expense	40,133	46,693
	121,418	121,476
Outpatient Clinics:		
Salaries and wages	18,751	18,851
Supplies and other expense	1,751	3,179
	20,502	22,030
Home Health:		
Salaries and wages	705,687	646,482
Supplies and other expense	179,056	172,562
	884,743	819,044
Hospice:		
Salaries and wages	46,840	52,253
Supplies and other expense	27,018	33,157
	73,858	85,410
Medical Records:		
Salaries and wages	206,555	239,751
Supplies and other expense	34,022	31,551
	240,577	271,302
	\$ 4,688,348	\$ 4,074,286

SUMMARY

Salaries and wages	\$ 2,085,024	\$ 1,996,281
Professional fees	979,288	527,526
Supplies and other expense	1,624,036	1,550,479
	\$ 4,688,348	\$ 4,074,286

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Springvale - Independent Living:		
Salaries and wages	\$ 102,225	\$ 97,610
Utilities	36,088	39,146
Repairs and maintenance	1,729	310
Supplies and other expense	<u>84,705</u>	<u>90,608</u>
	224,747	227,674
Springvale - Assisted Living:		
Salaries and wages	183,313	188,071
Utilities	26,596	28,518
Repairs and maintenance	1,629	20
Supplies and other expense	<u>6,415</u>	<u>5,361</u>
	<u>217,953</u>	<u>221,970</u>
	<u>\$ 442,700</u>	<u>\$ 449,644</u>

SUMMARY

Salaries and wages	\$ 285,538	\$ 285,681
Supplies and other expense	<u>157,162</u>	<u>163,963</u>
	<u>\$ 442,700</u>	<u>\$ 449,644</u>

See Independent Auditor's Report.

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

	<u>2009</u>	<u>2008</u>
Dietary:		
Salaries and wages	\$ 317,476	\$ 323,153
Food, supplies and other expense	<u>333,137</u>	<u>321,421</u>
	650,613	644,574
Plant Operation and Maintenance:		
Salaries and wages	173,933	151,893
Utilities	140,080	133,473
Supplies and other expense	<u>58,405</u>	<u>134,683</u>
	372,418	420,049
Housekeeping:		
Salaries and wages	128,128	123,418
Supplies and other expense	<u>52,770</u>	<u>39,059</u>
	180,898	162,477
Laundry and Linen:		
Salaries and wages	471	98
Supplies and other expense	<u>64,065</u>	<u>59,964</u>
	64,536	60,062
	<u>\$ 1,268,465</u>	<u>\$ 1,287,162</u>

SUMMARY

Salaries and wages	\$ 620,008	\$ 598,562
Supplies and other expense	<u>648,457</u>	<u>688,600</u>
	<u>\$ 1,268,465</u>	<u>\$ 1,287,162</u>

See Independent Auditor's Report.

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

	2009	2008
Fiscal and Administrative Service:		
Salaries and wages	\$ 286,080	\$ 295,451
Professional fees	219,031	212,327
Supplies and other expense	261,179	169,566
	766,290	677,344
Information Systems:		
Supplies and other expense	134,306	129,655
Employee Welfare:		
Social Security tax	369,336	356,140
Iowa Public Employees' Retirement System	322,460	295,309
Group health insurance	788,772	571,483
Workers' compensation insurance	62,392	64,449
Unemployment expense	4,308	--
Other employee benefits	38,880	40,820
	1,586,148	1,328,201
Insurance:		
Liability and property	66,199	60,913
	\$ 2,552,943	\$ 2,196,113

SUMMARY

Salaries and wages	\$ 286,080	\$ 295,451
Employee benefits	1,586,148	1,328,201
Professional fees	219,031	212,327
Supplies and other expense	461,684	360,134
	\$ 2,552,943	\$ 2,196,113

SUMMARY OF EXPENSES

Salaries and wages	\$ 5,100,537	\$ 4,936,795
Employee benefits	1,586,148	1,328,201
Professional fees	1,198,319	739,853
Supplies and other expense	3,444,245	3,279,493
	\$ 11,329,249	\$ 10,284,342

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Acute Care:					
Admissions	310	285	289	306	390
Discharges	308	283	291	304	396
Patient Days	923	828	898	935	1,149
Average Length of Stay	3.00	2.93	3.09	3.08	2.90
Average Occupied Beds	2.5	2.3	2.5	2.6	3.1
Swing Bed:					
Admissions	70	80	97	104	117
Discharges	73	79	98	103	120
SNF Days	587	567	713	597	834
ICF Days	42	40	25	69	93
Long-Term Care Patient Days	9,243	9,890	9,914	9,883	9,805
Combined Average Occupied Beds	29.6	30.9	31.6	31.5	32.6
Outpatient Occasions of Service	48,679	52,844	51,475	46,479	44,927
Home Health Visits	10,163	10,585	10,130	10,407	9,649

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	2009	2008
Current Assets:		
Cash	\$ 831,204	\$ 1,133,475
Patient receivables, net	1,426,892	1,219,502
Other receivables	24,988	72,209
Inventory	216,126	167,624
Prepaid expense	71,200	68,800
Succeeding year property tax receivable	289,000	289,000
Internally designated assets	475,170	741,583
Total current assets	3,334,580	3,692,193
Other Assets:		
Designated and restricted assets	4,414,024	3,801,320
Capital assets, net	12,855,858	12,356,932
Deferred financing costs	246,745	268,677
Notes receivable	22,582	--
Total other assets	17,539,209	16,426,929
Total assets	\$ 20,873,789	\$ 20,119,122
Current Liabilities:		
Current maturities of long-term debt	\$ 248,831	\$ 246,455
Accounts payable	489,081	763,822
Accrued expenses	531,473	532,696
Accrued interest payable	21,371	15,662
Senior housing deposits	80,693	76,572
Estimated third-party payor settlements	493,000	296,000
Deferred revenue for succeeding year property tax receivable	289,000	289,000
Total current liabilities	2,153,449	2,220,207
Long-Term Debt, Net	2,950,714	3,199,545
Total liabilities	5,104,163	5,419,752
Net Assets	15,769,626	14,699,370
Total liabilities and net assets	\$ 20,873,789	\$ 20,119,122

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 933,675	\$ 1,014,343	\$ 629,601
1,059,930	1,120,070	1,331,205
38,909	58,613	102,920
213,109	249,932	211,181
43,600	40,500	36,700
289,000	289,000	289,000
335,071	329,804	300,461
<u>2,913,294</u>	<u>3,102,262</u>	<u>2,901,068</u>
7,497,326	5,388,342	4,015,142
8,456,309	8,558,771	9,089,910
160,191	170,600	180,495
--	--	--
<u>16,113,826</u>	<u>14,117,713</u>	<u>13,285,547</u>
<u>\$ 19,027,120</u>	<u>\$ 17,219,975</u>	<u>\$ 16,186,615</u>
\$ 189,000	\$ 184,000	\$ 174,000
363,809	350,914	399,758
496,604	448,366	439,916
16,620	17,320	17,961
77,896	68,290	40,188
868,000	547,000	494,000
<u>289,000</u>	<u>289,000</u>	<u>289,000</u>
2,300,929	1,904,890	1,854,823
<u>3,281,000</u>	<u>3,470,000</u>	<u>3,660,000</u>
5,581,929	5,374,890	5,514,823
<u>13,445,191</u>	<u>11,845,085</u>	<u>10,671,792</u>
<u>\$ 19,027,120</u>	<u>\$ 17,219,975</u>	<u>\$ 16,186,615</u>

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

	<u>2009</u>	<u>2008</u>
Patient Service Revenue	\$ 14,925,476	\$ 13,702,674
Adjustments to Patient Service Revenue	<u>(3,558,164)</u>	<u>(3,488,342)</u>
Net Patient Service Revenue	11,367,312	10,214,332
Other Revenue	<u>1,300,328</u>	<u>1,303,902</u>
Total Revenue	12,667,640	11,518,234
Expenses	<u>12,275,184</u>	<u>11,181,733</u>
Operating Income	392,456	336,501
Non-Operating Revenues, Net	<u>610,243</u>	<u>784,387</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,002,699	1,120,888
Capital Grants and Contributions	<u>67,557</u>	<u>133,291</u>
Increase in Net Assets	<u>\$ 1,070,256</u>	<u>\$ 1,254,179</u>

See Independent Auditor's Report.

<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 13,940,031	\$ 12,540,420	\$ 11,958,156
<u>(3,428,690)</u>	<u>(2,626,183)</u>	<u>(2,282,035)</u>
10,511,341	9,914,237	9,676,121
<u>1,314,788</u>	<u>1,262,834</u>	<u>950,335</u>
11,826,129	11,177,071	10,626,456
<u>11,012,905</u>	<u>10,540,864</u>	<u>10,146,621</u>
813,224	636,207	479,835
<u>771,882</u>	<u>533,581</u>	<u>458,697</u>
1,585,106	1,169,788	938,532
<u>15,000</u>	<u>3,505</u>	<u>2,394</u>
<u>\$ 1,600,106</u>	<u>\$ 1,173,293</u>	<u>\$ 940,926</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, 2009, and have issued our report thereon dated September 24, 2009. 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, 2009 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.

Arnold, Bell, Kyles & Co. P.C.

Atlantic, Iowa
September 24, 2009

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2009

PART I - SIGNIFICANT DEFICIENCIES

09-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. This deficiency is common among most small rural Hospitals.

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

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

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

09-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2009 did not exceed amounts budgeted.

09-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	\$ 4,057

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, 2009

PART II - REQUIRED STATUTORY REPORTING - Continued

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

09-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	\$ 2,637

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.

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

09-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.

* * *