

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2011 AND 2010

# HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2011

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Tim Anderson, Chairperson	Humboldt, Iowa	2012
Rod Harklau, Vice-Chairperson	Humboldt, Iowa	2012
David Boswell, Secretary	Humboldt, Iowa	2016
Jody Eppley, Treasurer (Resigned June 30, 2011)	Humboldt, Iowa	
Marlene Thompson	Humboldt, Iowa	2016
Vivien Hansen	Humboldt, Iowa	2012
Steve Long	Humboldt, Iowa	2016

Chief Executive Officer:

Steven "Rob" Colerick Humboldt, Iowa  
(Resigned - to be effective October 31, 2011)

Assistant Administrator:

Pam Ray Humboldt, Iowa  
(Retired July 31, 2011)

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, 2011 and 2010, 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, 2011 and 2010, 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 5, 2011 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. 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 important for 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, 2009 (none of which are presented herein) and expressed qualified opinions on those financial statements. The supplementary 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.

*Gransford, Bell, Kufner & Co. P.C.*

Atlantic, Iowa  
October 5, 2011



*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, 2011, 2010, and 2009. 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 \$826,455 or 5.0 percent from 2010 to 2011 and by \$745,407 or 4.7 percent from 2009 to 2010.

The Hospital reported an operating profit in both 2011 and 2010; operating profits were \$115,424 and \$323,649 respectively. The 2011 results reflect a \$208,225 or 64.3 percent decrease as compared to 2010 results. Operating profit decreased in 2010 as compared to 2009 by \$167,397. This reflects a 34.1 percent decrease.

Net non-operating revenues decreased by \$116,165 or 27.5 percent in 2011 compared to 2010. Net non-operating revenues decreased in 2010 by \$89,895 or 17.6 percent as compared to 2009.

**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 Hospital's net assets increased in each of the past two years by \$826,455 (5.0 percent) in 2011 and \$745,407 (4.7 percent) in 2010, as you can see from Table 1.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets:</b>			
Current assets	\$ 2,941,314	\$ 3,741,125	\$ 3,334,580
Capital assets, net	12,074,861	12,421,893	12,855,858
Other non-current assets	<u>6,397,095</u>	<u>5,668,014</u>	<u>4,683,351</u>
Total assets	<u>\$ 21,413,270</u>	<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>
<b>Liabilities:</b>			
Long-term debt outstanding, net	\$ 2,424,163	\$ 2,692,387	\$ 2,950,714
Other current and noncurrent liabilities	<u>1,647,619</u>	<u>2,623,612</u>	<u>2,153,449</u>
Total liabilities	<u>\$ 4,071,782</u>	<u>\$ 5,315,999</u>	<u>\$ 5,104,163</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 9,583,493	\$ 9,643,170	\$ 9,798,090
Restricted for debt service	244,085	200,265	213,609
Unrestricted	<u>7,513,910</u>	<u>6,671,598</u>	<u>5,757,927</u>
Total net assets	<u>\$ 17,341,488</u>	<u>\$ 16,515,033</u>	<u>\$ 15,769,626</u>

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

The Hospital's total assets decreased from \$21,831,032 in 2010 to \$21,413,270 in 2011 (down 1.9%). Capital assets decreased from \$12,421,893 in 2010 to \$12,074,861 in 2011 (down 2.8%). Designated assets increased from \$5,420,288 in 2010 to \$6,184,391 in 2011 (up 14.1%) as the Hospital was able to grow its reserve funds. Operating income decreased in 2011 by \$208,225 (down 64.3%) from 2010.

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

In 2011, the Hospital's net assets increased by \$826,455 or 5.0 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2011 were \$17,341,488 and \$16,515,033 at year-end 2010.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Net patient service revenues	\$ 10,767,643	\$ 11,083,551	\$ 11,412,734
Other operating revenues	<u>1,354,415</u>	<u>1,376,698</u>	<u>1,375,328</u>
Total operating revenues	12,122,058	12,460,249	12,788,062
Operating Expenses:			
Salaries and benefits	6,300,742	6,601,950	6,686,685
Professional fees	1,289,469	1,241,240	1,198,319
Other operating expenses	3,244,623	3,199,629	3,444,245
Depreciation and amortization	<u>1,171,800</u>	<u>1,093,781</u>	<u>967,767</u>
Total operating expenses	<u>12,006,634</u>	<u>12,136,600</u>	<u>12,297,016</u>
Operating Income	115,424	323,649	491,046
Non-Operating Revenues and Expenses:			
County taxes	301,261	299,996	299,769
Investment income	93,526	110,696	151,169
Non-capital grants and contributions	23,720	71,070	60,426
Other non-operating revenues and expenses, net	<u>( 112,914)</u>	<u>( 60,004)</u>	<u>289</u>
Total non-operating revenues (expenses), net	<u>305,593</u>	<u>421,758</u>	<u>511,653</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Changes in Accounting Estimate	421,017	745,407	1,002,699
Capital Grants and Contributions	160,438	--	67,557
Change in Accounting Estimate	<u>245,000</u>	<u>--</u>	<u>--</u>
Increase in net assets	826,455	745,407	1,070,256
Net Assets Beginning of Year	<u>16,515,033</u>	<u>15,769,626</u>	<u>14,699,370</u>
Net Assets End of Year	<u>\$ 17,341,488</u>	<u>\$ 16,515,033</u>	<u>\$ 15,769,626</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 \$115,424 in 2011 and \$323,649 in 2010.

Operations have shown a slight decline from 2010 to 2011. Changes in the local medical staff and specialty physicians resulted in fewer acute admissions and outpatient occasions of service/procedures. Home health and hospice services were discontinued as of July 1, 2010.

Revenue decreases were noted in Surgery (down \$190,851 / 12.4%), Cardiovascular diagnostics (down \$86,059 / 38.1%) and Home Health /hospice change to public health only (down \$615,159 / 57.8%)

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. With the decline in revenue, the Hospital was able to reduce labor costs to maintain a positive bottom line.

Decrease in labor costs \$301,208 (down 4.6%)

Decrease in total home health / hospice direct costs \$511,978 (down 59.9%)

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, patient diagnostics and electronic health records. 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 2010, \$390,434 in accounts were written off as uncollectible. This figure decreased to \$298,876 in 2011. This reflects a 23.5% percent decrease over this two year period. The decrease reflects a more proactive approach to collections and settlements. This figure does not include the \$49,815 in approved Charity Care applications which has 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 \$47,350 or 66.6%% when compared to 2010. Investment income decreased by \$17,170 or 15.5% as interest rates remain low. Hospital interest expense increased \$54,110 from 2010. Overall, net non-operating revenues decreased from \$421,758 to \$305,593 from 2010 to 2011.

### **GRANTS, CONTRIBUTIONS, AND ENDOWMENTS**

The Hospital actively seeks contributions through its Foundation and continues to explore applicable grant opportunities. Funds totaling \$160,438 were received in 2011 compared to no funds being received in 2010.

### **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 \$588,803 in 2011 from 2010.

### **BUDGETARY HIGHLIGHTS**

Actual expenses were lower than the adopted budget by \$1,509,882. Interest expense, wages, supplies and bad debt were areas with lower than expected expenses. Actual revenues were lower than budgeted by \$928,427 due to the shortage in number of primary care providers and discontinuation of home care services.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At the end of 2011, the Hospital had approximately \$12.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2011, the Hospital purchased new property and moveable equipment costing \$801,432. Of this, none was acquired through capital leases.

**Debt:**

At year-end 2011, the Hospital had a \$2,608,387 revenue note (bond) outstanding. The Hospital also has outstanding debt of \$84,000 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 goal 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 contracted discount requirements by insurance companies and an increasing number of uninsured individuals.

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 Hospital also continues to invest in the current facility by completing many updates to its general appearance.

**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

	2011	2010
<b>Current Assets:</b>		
Cash	\$ 864,385	\$ 1,547,971
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$286,000 in 2011, \$378,000 in 2010)	1,089,996	1,114,832
Other receivables	67,909	50,680
Inventory	150,293	225,017
Prepaid expense	91,335	81,130
Succeeding year property tax receivable	291,000	291,000
Internally designated assets	386,396	430,495
Total current assets	2,941,314	3,741,125
<b>Designated Assets:</b>		
Internally designated assets	6,326,702	5,650,518
Restricted assets	244,085	200,265
	6,570,787	5,850,783
Less amounts required to meet current liabilities	386,396	430,495
	6,184,391	5,420,288
<b>Capital Assets:</b>		
Depreciable capital assets, net	11,994,870	12,285,121
Non-depreciable capital assets	79,991	136,772
	12,074,861	12,421,893
Deferred Financing Costs	201,019	224,355
Notes Receivable	11,685	23,371
Total assets	\$ 21,413,270	\$ 21,831,032

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 268,224	\$ 258,327
Accounts payable	356,709	514,458
Accrued employee compensation	316,408	487,695
Payroll taxes withheld and accrued	76,457	74,022
Accrued interest payable	18,172	19,804
Senior housing deposits	81,649	86,306
Estimated third-party payor settlements	239,000	892,000
Deferred revenue for succeeding year property tax receivable	<u>291,000</u>	<u>291,000</u>
Total current liabilities	1,647,619	2,623,612
Long-Term Debt:		
Note payable, less current maturities	60,000	84,000
Revenue note, less current maturities	<u>2,364,163</u>	<u>2,608,387</u>
Total long-term debt	<u>2,424,163</u>	<u>2,692,387</u>
Total liabilities	4,071,782	5,315,999
Net Assets:		
Invested in capital assets, net of related debt	9,583,493	9,643,170
Restricted - expendable	244,085	200,265
Unrestricted	<u>7,513,910</u>	<u>6,671,598</u>
Total net assets	<u>17,341,488</u>	<u>16,515,033</u>
Total liabilities and net assets	<u>\$ 21,413,270</u>	<u>\$ 21,831,032</u>

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

	<u>2011</u>	<u>2010</u>
Revenue:		
Net patient service revenue	\$ 10,767,643	\$ 11,083,551
Other revenue	<u>1,354,415</u>	<u>1,376,698</u>
Total revenue	12,122,058	12,460,249
Expenses:		
Nursing service	2,316,549	2,230,521
Other professional service	3,860,000	4,383,009
Senior housing	427,567	427,979
General service	1,488,591	1,394,260
Fiscal and administrative service	2,742,127	2,607,050
Provision for depreciation	1,148,464	1,071,391
Amortization	<u>23,336</u>	<u>22,390</u>
Total expenses	<u>12,006,634</u>	<u>12,136,600</u>
Operating Income	115,424	323,649
Non-Operating Revenues (Expenses):		
County taxes	301,261	299,996
Noncapital grants and contributions	23,720	71,070
Investment income	93,526	110,696
Gain on disposal of equipment	2,305	1,105
Interest expense	<u>( 115,219)</u>	<u>( 61,109)</u>
Non-operating revenues, net	<u>305,593</u>	<u>421,758</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	421,017	745,407
Capital Grants and Contributions	160,438	--
Change in Accounting Estimate (Note M)	<u>245,000</u>	<u>--</u>
Increase in Net Assets	826,455	745,407
Net Assets Beginning of Year	<u>16,515,033</u>	<u>15,769,626</u>
Net Assets End of Year	<u>\$ 17,341,488</u>	<u>\$ 16,515,033</u>

The accompanying notes are an integral part of these statements.

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

	2011	2010
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 10,362,593	\$ 11,774,532
Cash paid to suppliers	( 6,150,852)	( 5,962,189)
Cash paid to employees	( 4,945,098)	( 4,994,838)
Other revenue	1,354,415	1,376,698
Net cash provided by operating activities	621,058	2,194,203
Cash flows from non-capital financing activities:		
County tax revenue	301,261	299,996
Noncapital grants and contributions	23,720	71,070
Net cash provided by non-capital financing activities	324,981	371,066
Cash flows from capital and related financing activities:		
Capital grants and contributions	160,438	--
Principal paid on long-term debt	( 258,327)	( 248,831)
Capital expenditures	( 487,193)	( 407,070)
Construction in progress expenditures	( 303,519)	( 204,040)
Proceeds from disposal of equipment	2,305	1,105
Interest paid	( 116,851)	( 126,299)
Net cash used in capital and related financing activities	( 1,003,147)	( 985,135)
Cash flows from investing activities:		
Investment income	93,526	110,696
Change in designated assets	( 625,221)	( 1,036,867)
Notes receivable advances	--	( 12,474)
Net cash used in investing activities	( 531,695)	( 938,645)
Net increase (decrease) in cash and cash equivalents	( 588,803)	641,489
Cash and cash equivalents beginning of year	2,001,541	1,360,052
Cash and cash equivalents end of year	\$ 1,412,738	\$ 2,001,541
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 864,385	\$ 1,547,971
Cash and cash equivalents in designated and restricted assets	548,353	453,570
	\$ 1,412,738	\$ 2,001,541

(continued next page)

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

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 115,424	\$ 323,649
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,148,464	1,071,391
Amortization	35,022	34,075
Salaries and wages capitalized	( 63,084)	( 15,297)
Change in accounting estimate	245,000	--
Change in assets and liabilities		
Accounts receivable	7,607	286,368
Inventory	74,724	( 8,891)
Prepaid expense	( 10,205)	( 9,930)
Accounts payable, trade	( 105,385)	77,981
Accrued employee compensation	( 171,287)	( 7,981)
Payroll taxes withheld and accrued	2,435	38,225
Senior housing deposits	( 4,657)	5,613
Estimated third-party payor settlements	( 653,000)	399,000
Total adjustments	505,634	1,870,554
Net cash provided by operating activities	\$ 621,058	\$ 2,194,203

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2011 and 2010

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 \$160,000 in capital contributions from the Foundation during the year ended June 30, 2011 (\$ - 0 - in 2010). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$2,387,000 (\$2,205,000 in 2010) and an increase in the change in net assets of \$182,000 (\$176,000 increase in 2010) for the year ended June 30, 2011.

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, 2011 and 2010

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 no interest cost in 2011 and \$63,623 in 2010.

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 360 hours for management level employees and 240 hours for all other staff. Any excess over those limits 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, 2011 and 2010

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, 2011 and 2010

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, 2010. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2009. 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, 2011 and 2010

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Long-term debt	\$ 200,195	\$ 200,265
Purchase of property and equipment	<u>43,890</u>	<u>--</u>
	<u>\$ 244,085</u>	<u>\$ 200,265</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2011 or 2010.

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

	<u>2011</u>	<u>2010</u>
Payment of long-term debt	\$ 70	\$ 53
Purchase of property and equipment	<u>116,548</u>	<u>13,291</u>
	<u>\$ 116,618</u>	<u>\$ 13,344</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$7,513,910 (\$6,671,598 as of June 30, 2010) of unrestricted net assets as of June 30, 2011, \$6,326,702 (\$5,650,518 for 2010) 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>2011</u>	<u>2010</u>
Capital acquisitions	\$ 5,822,239	\$ 5,196,948
Employee health insurance	<u>504,463</u>	<u>453,570</u>
	<u>\$ 6,326,702</u>	<u>\$ 5,650,518</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2011 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, 2011 and 2010

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2011	2010
Internally Designated Assets:		
Cash	\$ 504,463	\$ 453,570
Certificates of deposit	5,811,799	5,185,430
Interest receivable	10,440	11,518
	\$ 6,326,702	\$ 5,650,518
Restricted Assets:		
Cash	\$ 43,890	\$ --
Certificates of deposit	200,000	200,000
Interest receivable	195	265
	\$ 244,085	\$ 200,265

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, 2011 and 2010, was as follows:

	2011	2010
Receivable from:		
Patients	\$ 195,835	\$ 249,776
Medicare	606,756	541,382
Medicaid	58,610	84,773
Wellmark	251,958	329,627
Other commercial insurance carriers	247,495	270,822
Others	15,342	16,452
	1,375,996	1,492,832
Less allowances for doubtful accounts and contractual adjustments	286,000	378,000
	\$ 1,089,996	\$ 1,114,832

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2011 and 2010

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2011 and 2010 were as follows:

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 149,788	\$ --	\$ --	\$ 149,788
Buildings and Fixed Equipment	12,122,520	395,208	--	12,517,728
Major Movable Equipment	6,276,368	463,005	165,506	6,573,867
Senior Housing Assets	<u>5,136,584</u>	<u>--</u>	<u>--</u>	<u>5,136,584</u>
	23,685,260	858,213	165,506	24,377,967
<u>Depreciation</u>				
Land Improvements	100,328	5,063	--	105,391
Buildings and Fixed Equipment	4,443,892	493,558	--	4,937,450
Major Movable Equipment	5,047,814	398,446	165,506	5,280,754
Senior Housing Assets	<u>1,808,105</u>	<u>251,397</u>	<u>--</u>	<u>2,059,502</u>
Total Depreciation	<u>11,400,139</u>	<u>1,148,464</u>	<u>165,506</u>	<u>12,383,097</u>
Total Depreciable Capital Assets, Net	<u>\$ 12,285,121</u>	<u>\$( 290,251)</u>	<u>\$ --</u>	<u>\$ 11,994,870</u>
Construction in Progress	\$ 88,278	\$ 360,785	\$ 417,566	\$ 31,497
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 136,772</u>	<u>\$ 360,785</u>	<u>\$ 417,566</u>	<u>\$ 79,991</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2011 and 2010

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 149,788	\$ --	\$ --	\$ 149,788
Buildings and Fixed Equipment	7,743,616	4,378,904	--	12,122,520
Major Movable Equipment	5,912,789	397,919	34,340	6,276,368
Senior Housing Assets	5,136,584	--	--	5,136,584
	<u>18,942,777</u>	<u>4,776,823</u>	<u>34,340</u>	<u>23,685,260</u>
<u>Depreciation</u>				
Land Improvements	95,264	5,064	--	100,328
Buildings and Fixed Equipment	4,049,042	394,850	--	4,443,892
Major Movable Equipment	4,662,558	419,596	34,340	5,047,814
Senior Housing Assets	1,556,224	251,881	--	1,808,105
	<u>10,363,088</u>	<u>1,071,391</u>	<u>34,340</u>	<u>11,400,139</u>
Total Depreciation				
Total Depreciable Capital Assets, Net	<u>\$ 8,579,689</u>	<u>\$3,705,432</u>	<u>\$ --</u>	<u>\$ 12,285,121</u>
Construction in Progress	\$ 4,227,675	\$ 194,273	\$4,333,670	\$ 88,278
Land	48,494	--	--	48,494
	<u>4,276,169</u>	<u>194,273</u>	<u>\$4,333,670</u>	<u>\$ 136,772</u>
Total Non-Depreciable Capital Assets				

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2011 and 2010

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2011 and 2010 follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 108,000	\$ --	\$ 24,000	\$ 84,000	\$ 24,000
Series 2008 Revenue					
Note	<u>2,842,714</u>	<u>--</u>	<u>234,327</u>	<u>2,608,387</u>	<u>244,224</u>
Total Non-Current					
Liabilities	<u>\$2,950,714</u>	<u>\$ --</u>	<u>\$ 258,327</u>	<u>\$2,692,387</u>	<u>\$ 268,224</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 132,000	\$ --	\$ 24,000	\$ 108,000	\$ 24,000
Series 2008 Revenue					
Note	<u>3,067,545</u>	<u>--</u>	<u>224,831</u>	<u>2,842,714</u>	<u>234,327</u>
Total Non-Current					
Liabilities	<u>\$3,199,545</u>	<u>\$ --</u>	<u>\$ 248,831</u>	<u>\$2,950,714</u>	<u>\$ 258,327</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, 2011 and 2010

NOTE H - NON-CURRENT LIABILITIES - Continued

The combined annual debt service on the loan and note is expected to require less than 25% 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 \$1,870,000 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
2012	\$ 268,224	\$ 106,505	\$ 374,729
2013	278,540	96,189	374,729
2014	289,291	85,438	374,729
2015	288,496	74,233	362,729
2016	288,174	62,555	350,729
2017-2020	<u>1,279,662</u>	<u>123,257</u>	<u>1,402,919</u>
	<u>\$ 2,692,387</u>	<u>\$ 548,177</u>	<u>\$ 3,240,564</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 4.50% (5.38% beginning July 1, 2011) of their annual salary and the Hospital is required to contribute 6.95% (8.07% beginning July 1, 2011) 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, 2011, 2010, and 2009 were approximately \$329,000, \$330,000, and \$322,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2011 and 2010

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, 2011 was approximately \$136,000 (\$98,000 at June 30, 2010). 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 - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management and laundry services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2011 and 2010:

	2011	2010
Fees to Trinity for personnel and services	\$ <u>243,009</u>	\$ <u>193,539</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

Risk Management

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

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2011 and 2010

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

As of June 30, 2011, the Hospital has entered into an agreement to purchase various radiology equipment items. The total estimated cost of the equipment is \$315,000. At June 30, 2011, costs incurred on the equipment totaled \$31,497, and is included in construction in progress on the Hospital's financial statements. Funding for the equipment is being provided by funds generated internally.

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, 2011, the Hospital has designated funds in excess of actual claims paid of \$504,463 (\$453,570 at June 30, 2010). 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, 2011 and June 30, 2010 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)

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 retirees must pay a health insurance premium equal to that charged for current employees. There are 102 active employees and 2 retirees currently covered by the plan.

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.

Subsequent Events

The Hospital has evaluated all subsequent events through October 5, 2011, the date the financial statements were available to be issued.

NOTE M - CHANGE IN ACCOUNTING ESTIMATE

The Medicare fiscal intermediary has completed its audits and settled all claims related to home office and other costs on open year cost reports through 2010. As a result, the Hospital has revised its estimate of potential liabilities owed to third party payors. The result of this change in estimate (a \$245,000 decrease in the liabilities and increase in net assets) has been reported as a separate item, below the excess of revenues over expenses, on the statement of revenues, expenses and changes in net assets.

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REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2011

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 change in accounting estimate, interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 301,261	\$ --	\$ 301,261	
Other revenues	12,371,390	160,438	12,531,828	
Transfers in (out)	<u>116,618</u>	<u>( 116,618)</u>	<u>--</u>	
	12,789,269	43,820	12,833,089	
Expenses	<u>12,006,634</u>	<u>--</u>	<u>12,006,634</u>	
Net	782,635	43,820	826,455	
Balance beginning of year	<u>16,314,768</u>	<u>200,265</u>	<u>16,515,033</u>	
Balance end of year	<u>\$ 17,097,403</u>	<u>\$ 244,085</u>	<u>\$ 17,341,488</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 301,261	\$ --	\$ 301,261	\$ 295,698
Other revenues	<u>12,531,828</u>	<u>( 129,781)</u>	<u>12,402,047</u>	<u>13,336,037</u>
	12,833,089	( 129,781)	12,703,308	13,631,735
Expenses	<u>12,006,634</u>	<u>115,219</u>	<u>12,121,853</u>	<u>13,631,735</u>
Net	826,455	( 245,000)	581,455	--
Balance beginning of year	<u>16,515,033</u>	<u>( 341,587)</u>	<u>16,173,446</u>	<u>16,173,446</u>
Balance end of year	<u>\$ 17,341,488</u>	<u>\$ ( 586,587)</u>	<u>\$ 16,754,901</u>	<u>\$ 16,173,446</u>

See Independent Auditor's Report.

**SUPPLEMENTARY INFORMATION**

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,059,815	77.0%	\$ 931,316	62.4%
31 - 90	259,127	18.8	379,434	25.4
91 - 120	47,699	3.5	90,452	6.1
121 and over	9,355	0.7	91,630	6.1
	<u>1,375,996</u>	<u>100.0%</u>	<u>1,492,832</u>	<u>100.0%</u>
Allowance for doubtful accounts	125,000		200,000	
Allowance for contractual adjustments	<u>161,000</u>		<u>178,000</u>	
	<u>\$ 1,089,996</u>		<u>\$ 1,114,832</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning	\$ 200,000	\$ 210,000
Provision for bad debts	298,876	390,434
Recoveries of accounts previously written off	<u>285,434</u>	<u>235,273</u>
	784,310	835,707
Accounts written off	<u>659,310</u>	<u>635,707</u>
Balance, ending	<u>\$ 125,000</u>	<u>\$ 200,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	2011	2010
<u>Inventory</u>		
Central supply	\$ 47,263	\$ 124,228
Pharmacy	80,826	80,249
Dietary	22,204	20,540
	\$ 150,293	\$ 225,017
 <u>Prepaid Expense</u>		
Insurance	\$ 75,410	\$ 69,710
Contracts	15,925	11,420
	\$ 91,335	\$ 81,130

See Independent Auditor's Report.

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

	2011		
	Inpatient	Outpatient	Swing Bed
<b>Daily Patient Services:</b>			
Medical and surgical	\$ 332,150	\$ --	\$ --
Swing bed - SNF	--	--	190,225
NF care	--	--	--
Telemetry	27,600	--	--
	<u>359,750</u>	<u>--</u>	<u>190,225</u>
<b>Other Nursing Services:</b>			
Observation	--	119,313	--
Operating and recovery rooms	9,665	1,336,080	--
Central services and supply	14,509	121,043	9,576
Emergency services	9,360	900,087	--
Cardiac rehabilitation	--	65,795	--
	<u>33,534</u>	<u>2,542,318</u>	<u>9,576</u>
<b>Other Professional Services:</b>			
Emergency room physicians	44,007	450,187	2,855
Laboratory and blood bank	159,218	2,018,073	15,340
Electrocardiology	7,245	155,091	170
Cardiovascular diagnostics	14,217	123,200	2,320
Radiology	90,181	1,866,377	3,785
Pharmacy	415,652	1,060,786	124,419
Anesthesiology	2,545	230,946	--
Respiratory therapy	176,667	258,284	52,777
Physical therapy	8,290	358,005	29,370
Occupational therapy	4,565	52,920	29,320
Speech therapy	3,240	25,765	6,420
Massage therapy	15,826	--	--
Ambulance	--	522,910	--
Home health/public health	--	449,224	--
Hospice	--	--	--
	<u>941,653</u>	<u>7,571,768</u>	<u>266,776</u>
	<u>\$ 1,334,937</u>	<u>\$ 10,114,086</u>	<u>\$ 466,577</u>

See Independent Auditor's Report.

	2011		2010
	<u>LTC</u>	<u>Total</u>	<u>Total</u>
\$	--	\$ 332,150	\$ 401,005
	--	190,225	161,370
	1,265,726	1,265,726	1,158,009
	--	27,600	59,000
	<u>1,265,726</u>	<u>1,815,701</u>	<u>1,779,384</u>
	--	119,313	111,618
	--	1,345,745	1,536,596
	16,309	161,437	250,406
	--	909,447	795,228
	--	65,795	62,933
	<u>16,309</u>	<u>2,601,737</u>	<u>2,756,781</u>
	--	497,049	486,927
	--	2,192,631	2,101,195
	--	162,506	177,335
	--	139,737	225,796
	--	1,960,343	1,979,540
	213,032	1,813,889	1,838,187
	--	233,491	265,640
	--	487,728	477,000
	--	395,665	428,237
	--	86,805	79,905
	--	35,425	12,328
	--	15,826	12,333
	--	522,910	494,688
	--	449,224	929,035
	--	--	135,348
	<u>213,032</u>	<u>8,993,229</u>	<u>9,643,494</u>
\$	<u>1,495,067</u>	<u>\$ 13,410,667</u>	<u>\$ 14,179,659</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
June 30,

	2011	2010
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 13,410,667	\$ 14,179,659
Contractual adjustments	( 2,293,914)	( 2,659,325)
Discounts and allowances	( 419)	( 4,485)
Provision for bad debts	( 298,876)	( 390,434)
Charity care	( 49,815)	( 41,864)
	<u>\$ 10,767,643</u>	<u>\$ 11,083,551</u>
 <u>Other Revenue</u>		
Senior housing revenue - independent living	\$ 586,890	\$ 599,205
Senior housing revenue - assisted living	452,721	468,947
Cafeteria	53,201	47,675
Congregate meals	75,868	73,176
Employee prescriptions	68,781	83,646
Public health county support	75,000	75,000
Rental of personnel	9,900	--
Purchase discounts	287	289
Medical records transcript fees	2,853	2,970
Rental income	28,914	25,783
Vending machine commissions	--	7
	<u>\$ 1,354,415</u>	<u>\$ 1,376,698</u>

See Independent Auditor's Report.

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

	2011	2010
Administrative:		
Salaries and wages	\$ 98,668	\$ 115,281
Supplies and other expense	1,080	5,590
	99,748	120,871
Medical and Surgical:		
Salaries and wages	639,068	586,321
Supplies and other expense	59,781	40,910
	698,849	627,231
Long-Term Care:		
Salaries and wages	668,419	637,095
Supplies and other expense	56,455	44,999
	724,874	682,094
Operating and Recovery Rooms:		
Salaries and wages	188,622	176,494
Supplies and other expense	159,387	160,120
	348,009	336,614
Central Services and Supply:		
Salaries and wages	81,779	78,117
Supplies and other expense	126,472	149,621
	208,251	227,738
Emergency Services:		
Salaries and wages	206,172	203,036
Supplies and other expense	16,802	25,003
	222,974	228,039

(continued next page)

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

	2011	2010
Cardiac Rehabilitation:		
Salaries and wages	\$ 10,654	\$ 6,874
Supplies and other expense	3,190	1,060
	13,844	7,934
	\$ 2,316,549	\$ 2,230,521

SUMMARY

Salaries and wages	\$ 1,893,382	\$ 1,803,218
Supplies and other expense	423,167	427,303
	\$ 2,316,549	\$ 2,230,521

See Independent Auditor's Report.

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

	<u>2011</u>	<u>2010</u>
Emergency Room Physicians: Professional fees	\$ 772,473	\$ 754,333
Laboratory and Blood Bank:		
Salaries and wages	344,928	340,902
Professional fees	32,416	30,801
Supplies and other expense	<u>242,661</u>	<u>233,324</u>
	620,005	605,027
Electrocardiology:		
Professional fees	12,536	8,113
Supplies and other expense	<u>415</u>	<u>286</u>
	12,951	8,399
Cardiovascular Diagnostics:		
Salaries and wages	903	2,405
Supplies and other expense	<u>21,170</u>	<u>23,140</u>
	22,073	25,545
Radiology:		
Salaries and wages	258,033	274,897
Supplies and other expense	<u>383,775</u>	<u>361,790</u>
	641,808	636,687
Pharmacy:		
Salaries and wages	157,995	146,820
Supplies and other expense	<u>448,432</u>	<u>460,740</u>
	606,427	607,560
Anesthesiology:		
Professional fees	96,575	110,440
Supplies and other expense	<u>6,605</u>	<u>13,131</u>
	103,180	123,571
Respiratory Therapy:		
Salaries and wages	23,505	26,610
Supplies and other expense	<u>71,009</u>	<u>76,449</u>
	94,514	103,059
Physical Therapy:		
Salaries and wages	168,666	159,650
Professional fees	5,657	2,751
Supplies and other expense	<u>10,064</u>	<u>12,485</u>
	184,387	174,886

(continued next page)

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

	2011	2010
Occupational Therapy:		
Salaries and wages	\$ 796	\$ --
Professional fees	51,530	69,699
	52,326	69,699
Speech Therapy:		
Professional fees	21,555	12,867
Massage Therapy:		
Supplies and other expense	12,847	10,448
Ambulance:		
Salaries and wages	92,539	86,411
Supplies and other expense	38,705	39,853
	131,244	126,264
Outpatient Clinics:		
Salaries and wages	24,994	23,627
Supplies and other expense	1,992	9,630
	26,986	33,257
Home Health/Public Health:		
Salaries and wages	264,792	641,225
Supplies and other expense	77,303	149,644
	342,095	790,869
Hospice:		
Salaries and wages	--	26,882
Supplies and other expense	--	36,322
	--	63,204
Medical Records:		
Salaries and wages	183,651	201,626
Supplies and other expense	31,478	35,708
	215,129	237,334
	\$ 3,860,000	\$ 4,383,009

SUMMARY

Salaries and wages	\$ 1,520,802	\$ 1,931,055
Professional fees	992,742	989,004
Supplies and other expense	1,346,456	1,462,950
	\$ 3,860,000	\$ 4,383,009

See Independent Auditor's Report.

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

	2011	2010
Springvale - Independent Living:		
Salaries and wages	\$ 86,355	\$ 103,704
Utilities	36,547	35,386
Repairs and maintenance	50	278
Supplies and other expense	80,510	78,701
	203,462	218,069
Springvale - Assisted Living:		
Salaries and wages	191,368	182,008
Utilities	25,544	22,594
Supplies and other expense	7,193	5,308
	224,105	209,910
	\$ 427,567	\$ 427,979

SUMMARY

Salaries and wages	\$ 277,723	\$ 285,712
Supplies and other expense	149,844	142,267
	\$ 427,567	\$ 427,979

See Independent Auditor's Report.

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

	2011	2010
Dietary:		
Salaries and wages	\$ 328,531	\$ 323,265
Food, supplies and other expense	290,589	302,435
	619,120	625,700
Plant Operation and Maintenance:		
Salaries and wages	181,722	192,376
Utilities	155,268	155,599
Supplies and other expense	246,390	160,577
	583,380	508,552
Housekeeping:		
Salaries and wages	140,271	134,699
Supplies and other expense	57,237	47,800
	197,508	182,499
Laundry and Linen:		
Salaries and wages	1,556	852
Supplies and other expense	87,027	76,657
	88,583	77,509
	<u>\$ 1,488,591</u>	<u>\$ 1,394,260</u>

SUMMARY

Salaries and wages	\$ 652,080	\$ 651,192
Supplies and other expense	836,511	743,068
	<u>\$ 1,488,591</u>	<u>\$ 1,394,260</u>

See Independent Auditor's Report.

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

	<u>2011</u>	<u>2010</u>
Fiscal and Administrative Service:		
Salaries and wages	\$ 319,630	\$ 294,248
Professional fees	296,727	252,236
Recruiting	77,686	38,186
Supplies and other expense	<u>149,687</u>	<u>150,259</u>
	843,730	734,929
Information Systems:		
Supplies and other expense	174,634	171,231
Employee Welfare:		
Social Security tax	344,783	358,990
Iowa Public Employees' Retirement System	328,660	330,135
Group health insurance	801,698	826,549
Workers' compensation insurance	58,506	65,513
Unemployment expense	15,128	5,038
Other employee benefits	<u>41,240</u>	<u>44,165</u>
	1,590,015	1,630,390
Community Development:		
Salaries and wages	47,110	6,135
Supplies and other expense	<u>27,817</u>	<u>1,419</u>
	74,927	7,554
Insurance:		
Liability and property	<u>58,821</u>	<u>62,946</u>
	<u>\$ 2,742,127</u>	<u>\$ 2,607,050</u>

SUMMARY

Salaries and wages	\$ 366,740	\$ 300,383
Employee benefits	1,590,015	1,630,390
Professional fees	296,727	252,236
Supplies and other expense	<u>488,645</u>	<u>424,041</u>
	<u>\$ 2,742,127</u>	<u>\$ 2,607,050</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 4,710,727	\$ 4,971,560
Employee benefits	1,590,015	1,630,390
Professional fees	1,289,469	1,241,240
Supplies and other expense	<u>3,244,623</u>	<u>3,199,629</u>
	<u>\$ 10,834,834</u>	<u>\$ 11,042,819</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Acute Care:					
Admissions	204	271	310	285	289
Discharges	203	273	308	283	291
Patient Days	562	715	923	828	898
Average Length of Stay	2.77	2.62	3.00	2.93	3.09
Average Occupied Beds	1.5	2.0	2.5	2.3	2.5
Swing Bed:					
Admissions	73	55	70	80	97
Discharges	72	55	73	79	98
SNF Days	512	489	587	567	713
NF Days	63	39	42	40	25
Long-Term Care Patient Days	9,958	9,392	9,243	9,890	9,914
Combined Average Occupied Beds	30.4	29.1	29.6	30.9	31.6
Outpatient Occasions of Service	38,401	36,924	38,516	42,259	41,345
Home Health Visits	--	9,959	10,163	10,585	10,130

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	2011	2010
<b>Current Assets:</b>		
Cash	\$ 864,385	\$ 1,547,971
Patient receivables, net	1,089,996	1,114,832
Other receivables	67,909	50,680
Inventory	150,293	225,017
Prepaid expense	91,335	81,130
Succeeding year property tax receivable	291,000	291,000
Internally designated assets	386,396	430,495
Total current assets	2,941,314	3,741,125
<b>Other Assets:</b>		
Designated and restricted assets	6,184,391	5,420,288
Capital assets, net	12,074,861	12,421,893
Deferred financing costs	201,019	224,355
Notes receivable	11,685	23,371
Total other assets	18,471,956	18,089,907
Total assets	\$ 21,413,270	\$ 21,831,032
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 268,224	\$ 258,327
Accounts payable	356,709	514,458
Accrued expenses	392,865	561,717
Accrued interest payable	18,172	19,804
Senior housing deposits	81,649	86,306
Estimated third-party payor settlements	239,000	892,000
Deferred revenue for succeeding year property tax receivable	291,000	291,000
Total current liabilities	1,647,619	2,623,612
Long-Term Debt, Net	2,424,163	2,692,387
Total liabilities	4,071,782	5,315,999
Net Assets	17,341,488	16,515,033
Total liabilities and net assets	\$ 21,413,270	\$ 21,831,032

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 831,204	\$ 1,133,475	\$ 933,675
1,426,892	1,219,502	1,059,930
24,988	72,209	38,909
216,126	167,624	213,109
71,200	68,800	43,600
289,000	289,000	289,000
475,170	741,583	335,071
<u>3,334,580</u>	<u>3,692,193</u>	<u>2,913,294</u>
4,414,024	3,801,320	7,497,326
12,855,858	12,356,932	8,456,309
246,745	268,677	160,191
22,582	--	--
<u>17,539,209</u>	<u>16,426,929</u>	<u>16,113,826</u>
<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>
\$ 248,831	\$ 246,455	\$ 189,000
489,081	763,822	363,809
531,473	532,696	496,604
21,371	15,662	16,620
80,693	76,572	77,896
493,000	296,000	868,000
289,000	289,000	289,000
<u>2,153,449</u>	<u>2,220,207</u>	<u>2,300,929</u>
<u>2,950,714</u>	<u>3,199,545</u>	<u>3,281,000</u>
5,104,163	5,419,752	5,581,929
<u>15,769,626</u>	<u>14,699,370</u>	<u>13,445,191</u>
<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>	<u>\$ 19,027,120</u>

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

	<u>2011</u>	<u>2010</u>
Patient Service Revenue	\$ 13,410,667	\$ 14,179,659
Adjustments to Patient Service Revenue	<u>( 2,643,024)</u>	<u>( 3,096,108)</u>
Net Patient Service Revenue	10,767,643	11,083,551
Other Revenue	<u>1,354,415</u>	<u>1,376,698</u>
Total Revenue	12,122,058	12,460,249
Expenses	<u>12,006,634</u>	<u>12,136,600</u>
Operating Income	115,424	323,649
Non-Operating Revenues, Net	<u>305,593</u>	<u>421,758</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	421,017	745,407
Capital Grants and Contributions	160,438	--
Change in Accounting Estimate	<u>245,000</u>	<u>--</u>
Increase in Net Assets	<u>\$ 826,455</u>	<u>\$ 745,407</u>

See Independent Auditor's Report.

<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 14,970,898	\$ 13,755,478	\$ 14,019,496
( 3,558,164)	( 3,488,342)	( 3,428,690)
11,412,734	10,267,136	10,590,806
<u>1,375,328</u>	<u>1,378,902</u>	<u>1,389,788</u>
12,788,062	11,646,038	11,980,594
<u>12,297,016</u>	<u>11,192,520</u>	<u>11,023,314</u>
491,046	453,518	957,280
<u>511,653</u>	<u>667,370</u>	<u>627,826</u>
1,002,699	1,120,888	1,585,106
67,557	133,291	15,000
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 1,070,256</u>	<u>\$ 1,254,179</u>	<u>\$ 1,600,106</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, 2011, and have issued our report thereon dated October 5, 2011. 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, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees  
Humboldt County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

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, 2011 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.

*Arnewold, Bill, Kyler + W. P. C*

Atlantic, Iowa  
October 5, 2011

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2011

PART I - SIGNIFICANT DEFICIENCIES

11-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

11-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2011 did not exceed amounts budgeted.

11-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	\$ 3,425

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, 2011

PART II - REQUIRED STATUTORY REPORTING - Continued

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

11-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

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

11-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.

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