

GUTHRIE COUNTY HOSPITAL
INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2004 AND 2003

GUTHRIE COUNTY HOSPITAL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Guthrie County Hospital
Guthrie Center, Iowa

We have audited the accompanying balance sheets of Guthrie County Hospital as of June 30, 2004 and 2003, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 Guthrie County Hospital as of June 30, 2004 and 2003, 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.

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4g and 20 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.

To the Board of Trustees
Guthrie County Hospital

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, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 21 through 36) 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2004 on our consideration of Guthrie County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Lawrence D. Bell, CPA - W. P. C.

Atlantic, Iowa
August 27, 2004

GUTHRIE COUNTY HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Guthrie County Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2004 and 2003. We encourage readers to consider it in conjunction with the Hospital's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The Hospital's total assets increased by over \$475 thousand during fiscal 2004, an increase of approximately 7.2 percent. Net assets, or total assets net of total liabilities, remained approximately the same as at the beginning of the fiscal year.

The Hospital reported operating revenues for the year of \$5.2 million, an increase of approximately \$400 thousand or 8.2 percent. Net revenues, or revenues after all expenditures, for 2004 were \$60,754, a decrease of \$295,276 from 2003.

The Hospital reported expenditures for the year of \$6.0 million, an increase of approximately \$844 thousand or over 16.4 percent.

USING THIS ANNUAL REPORT

The basic financial statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. 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 statements offer short-term and long-term financial information about its activities.

One of the most important questions asked 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; and the Statement of Cash Flows 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. Therefore, all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

The first 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. You will need to consider other non-financial factors, however, to assess the overall health of the Hospital. Such non-financial factors could include changes in the Hospital's patient base, measures of the quality of service it provides to the community, and local economic factors, as well as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting.

The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide 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?"

These financial statements and related notes also 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.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The following table, Table 1, presents a summary of the Hospital's Balance Sheets.

**Table 1
Condensed Balance Sheets**

	June 30,		Dollar Change	Percent Change
	2004	2003		
Assets:				
Current assets	\$ 3,153,006	\$ 2,965,074	\$ 187,932	6.3%
Designated and restricted assets	1,298,559	1,302,351	(3,792)	(0.3%)
Capital assets, net	<u>2,609,011</u>	<u>2,316,243</u>	<u>292,768</u>	<u>12.6%</u>
Total assets	<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>	<u>\$ 476,908</u>	<u>7.2%</u>
Liabilities:				
Current liabilities	\$ 1,981,376	\$ 1,684,900	\$ 296,476	17.6%
Long-term debt	<u>737,615</u>	<u>617,937</u>	<u>119,678</u>	<u>19.4%</u>
Total liabilities	<u>2,718,991</u>	<u>2,302,837</u>	<u>416,154</u>	<u>18.1%</u>
Net Assets:				
Invested in capital assets, net of related debt	1,611,596	1,483,606	127,990	8.6%
Restricted - expendable	100,000	100,000	--	0.0%
Unrestricted	<u>2,629,989</u>	<u>2,697,225</u>	<u>(67,236)</u>	<u>(2.5%)</u>
Total net assets	<u>4,341,585</u>	<u>4,280,831</u>	<u>60,754</u>	<u>1.4%</u>
Total liabilities and net assets	<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>	<u>\$ 476,908</u>	<u>7.2%</u>

A significant component of the change in the Hospital's assets was the increase in patient accounts receivable. Although patient service revenues increased by only \$400 thousand (7.1 percent) in 2004, patient accounts receivable, net of estimated uncollectible amounts, increased by \$296 thousand, or nearly 40 percent. The increase in accounts receivable was primarily the result of overall slowdowns by health insurers in making payments in attempting to manage their cash flows.

The most significant component of the change in the Hospital's liabilities was the capital lease obligation related to the new CT scanner. See related discussion in the CAPITAL ASSET AND DEBT ADMINISTRATION section.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

The following table, Table 2, presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2004 and 2003.

Table 2
Condensed Operating Results and Changes in Net Assets

	June 30,		Dollar Change	Percent Change
	2004	2003		
Revenue:				
Net patient service revenue	\$ 5,029,297	\$ 4,635,846	\$ 393,451	8.5%
Other revenue	177,885	176,416	1,469	0.8%
Total revenue	<u>5,207,182</u>	<u>4,812,262</u>	<u>394,920</u>	<u>8.2%</u>
Expenses:				
Salaries and benefits	3,470,657	3,013,535	457,122	15.2%
Professional fees	491,721	275,917	215,804	78.2%
Supplies, contract services, equipment & other operating expenses	1,645,173	1,496,827	148,346	9.9%
Depreciation and amortization	382,696	359,207	23,489	6.5%
Total expenses	<u>5,990,247</u>	<u>5,145,486</u>	<u>844,761</u>	<u>16.4%</u>
Operating Loss	<u>(783,065)</u>	<u>(333,224)</u>	<u>(449,841)</u>	<u>135.0%</u>
Nonoperating Revenues and Expenses:				
County taxes	793,664	652,963	140,701	21.5%
Investment income	44,958	55,165	(10,207)	(18.5%)
Noncapital grants and contributions	19,276	18,431	845	4.6%
Interest expense	(62,468)	(70,192)	7,724	(11.0%)
Other nonoperating revenues and expenses, net	13,218	(2,695)	15,913	(590.5%)
	<u>808,648</u>	<u>653,672</u>	<u>154,976</u>	<u>23.7%</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	25,583	320,448	(294,865)	(92.0%)
Capital Grants and Contributions	<u>35,171</u>	<u>35,582</u>	<u>(411)</u>	<u>(1.2%)</u>
Increase in net assets	60,754	356,030	(295,276)	(82.9%)
Net Assets Beginning of Year	<u>4,280,831</u>	<u>3,924,801</u>	<u>356,030</u>	<u>9.1%</u>
Net Assets End of Year	<u>\$ 4,341,585</u>	<u>\$ 4,280,831</u>	<u>\$ 60,754</u>	<u>1.4%</u>

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING LOSSES

The first component of the overall change in the Hospital's net assets is its operating loss – generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. This is consistent with the Hospital's entire operating history. The Hospital's operations were begun in 1951 as a county hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the County's lower income residents. However, in the current fiscal year operating losses have increased.

Management's goal in 2004 was to stop the declining volume of patients treated while positioning the hospital and clinics to capture a greater portion of the Guthrie County health care market. The loss of an employee physician in June, 2003 increased management's challenge. Additional un-reimbursed expenses in our clinics were incurred to provide interim physician coverage while we recruited permanent physicians.

In 2004 significant time and money investments were made to begin the process of positioning the Hospital to be more competitive in the primary and secondary health care market. We started by rebuilding the Hospital's medical staff, recruiting two additional physicians and replacing a family nurse practitioner. These practitioners will enable the Hospital to offer new services and to expand our clinic services into northwestern Guthrie County. We have resolved a number of operating issues with the hospital and clinic buildings and have started upgrading the Hospital's physical plant.

The primary components of these increased operating losses were:

An increase in revenue of \$395 thousand or 8.2 percent. (Revenues for fiscal 2003 had increased by 12.5 percent over the previous year.) In June of 2003, the Hospital lost the services of its employee physician. This had a significant adverse effect on the revenue volume for fiscal 2004. Additionally, there was a delay in receiving approval for a diabetic education program, which had been planned to generate additional revenue.

Increases in salary and benefit costs for the Hospital's employees. (\$457 thousand or 15.2 percent in 2004 and \$363 thousand or 13.7 percent in 2003. Significant adjustments were made to nursing staff salaries to match market conditions. Additionally, an additional nurse practitioner was hired to cover the emergency room and extend the office hours of the medical staff. Staff education also received increased focus during fiscal 2004.

Increase in professional fees of \$216 thousand or 78.2 percent. Locum tenen fees were incurred in 2004 as temporary staff covered the emergency room and kept the local clinics operating in the absence of a employed physician. Additional fees were incurred to recruit and market new physicians, and to assist in preparations for the 2005 CAH (Critical Access Hospital) survey.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

Finally, a process of upgrading the physical plant was begun during 2004 by investing in a number of items, including the following:

- Additions to or replacements of minor equipment in a number of departments,
- Renovations of a local clinic to meet the Life Safety Code (and prepare it for the physical plant requirements of Provider-Based status), and
- Improvements to the overall electrical system in the Hospital building.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of property taxes levied by the Hospital and interest income reported as investment earnings.

THE HOSPITAL'S CASH FLOW

Changes in the Hospital's cash flows are consistent with changes in operating losses and non-operating revenues and expenses, as discussed earlier. Cash flows used in operating activities for 2004 were \$487,950. Comparatively, for fiscal 2003, cash flows provided by operating activities were \$252,374, a net change of over \$740 thousand. This significant change was due to relatively flat cash receipts, and increasing expenses. The increases in expenses were primarily in three areas. First, salaries were adjusted to improve our competitive position in the employment marketplace. Secondly, significant professional fees were incurred to staff the Hospital's emergency room and the clinics in the absence of employed physicians. Finally, investments were made in the Hospital's physical plant.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2004 was prepared on a modified accrual basis. Actual budget basis revenues were higher than the budgeted amount of \$6,109,536 by \$169,681 or about 2.8 percent. Actual expenditures were lower than budgeted expenditures. Actual budget basis expenditures were \$5,670,019 as compared to budgeted expenditures of \$6,084,801, a reduction of \$414,782 or about 6.8 percent.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

During the fiscal year, the Hospital made capital investments for a total of \$648,573. The following table, Table 3, presents a list of significant items:

**TABLE 3
CAPITAL INVESTMENTS**

Capital Investments	Vendor	Department	2004 Cost
CT Scanner	Toshiba America	Radiology	\$ 522,940
IBM RS/6000 Model 6E3	Dairyland	Admin	52,812
Drystar 3000 Dicom Pri	Sourceone	Radiology	24,131
Panora Clinic Remodel	Various	Clinics	15,522

Capital assets for the years ended June 30, 2004 and 2003 are shown in the following table, Table 4:

**Table 4
Capital Assets**

	June 30,		Dollar Change	Percent Change
	2004	2003		
Land and land improvements	\$ 219,730	\$ 219,730	\$ --	0.0%
Buildings	3,057,957	3,042,435	15,522	0.5%
Fixed equipment	1,090,513	1,090,513	--	0.0%
Major movable equipment	<u>2,458,868</u>	<u>1,987,926</u>	<u>470,942</u>	<u>23.7%</u>
Subtotal	6,827,068	6,340,604	486,464	7.7%
Less accumulated depreciation	4,252,285	4,028,861	223,424	5.5%
Construction in progress	<u>34,228</u>	<u>4,500</u>	<u>29,728</u>	<u>660.6%</u>
Net property, plant and equipment	<u>\$ 2,609,011</u>	<u>\$ 2,316,243</u>	<u>\$ 292,768</u>	<u>12.6%</u>

Net property, plant and equipment increased as the Hospital has upgraded existing facilities and equipment. The Hospital is also in the process of building new space to accommodate increasing outpatient services. See discussion in the section titled CURRENTLY KNOWN FACTS.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

Debt:

At year end, the Hospital had \$997,415 in short-term and long-term debt. The debt amount is shown on the balance sheet net of the unamortized discount and deferred financing costs. New debt incurred during the year on radiology equipment exceeded payments on the existing debt, therefore the total debt amount increased by \$164,778 in fiscal year 2004. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements.

New long-term debt was incurred in the current year to fund the purchase of a new CT scanner. Funding for the CT scanner was provided in the form of a 5-year lease bearing interest at a rate of 4.08 percent. All other investments were funded from current operations.

A decline in interest rates in recent years has encouraged the practice of accelerating repayment of existing long-term debt in lieu of additional investment of cash generated from operations.

Total debt outstanding represents approximately 14.1% of the Hospital's total assets at June 30, 2004.

CURRENTLY KNOWN FACTS

At the time these financial statements were prepared and audited, the Hospital's Board of Trustees had approved construction and equipping of a building to house the physical therapy and congregate meal services, at an estimated total cost of approximately \$950 thousand. Through the date of this report, purchase commitments had been entered into totaling \$423,800. Construction is scheduled for completion in the spring of 2005.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital Administration.

GUTHRIE COUNTY HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 743,378	\$ 953,038
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$125,343 in 2004, \$150,130 in 2003)	1,039,540	743,347
Other receivables	13,609	38,759
Inventory	152,836	139,002
Prepaid expense	84,282	68,711
Other current assets	13,918	15,717
Succeeding year property tax receivable	835,000	770,000
Internally designated assets	<u>270,443</u>	<u>236,500</u>
Total current assets	3,153,006	2,965,074
Designated and Restricted Assets:		
Internally designated assets	1,469,002	1,438,851
Restricted assets	<u>100,000</u>	<u>100,000</u>
	1,569,002	1,538,851
Less amounts required to meet current liabilities	<u>270,443</u>	<u>236,500</u>
	1,298,559	1,302,351
Capital Assets:		
Depreciable capital assets, net	2,553,400	2,290,360
Non-depreciable capital assets	<u>55,611</u>	<u>25,883</u>
	<u>2,609,011</u>	<u>2,316,243</u>
Total assets	<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 259,800	\$ 214,700
Accounts payable	159,345	163,312
Accrued employee compensation	289,511	214,350
Payroll taxes withheld and accrued	12,356	14,389
Estimated third-party payor settlements	421,000	304,000
Accrued interest	4,364	4,149
Deferred revenue for succeeding year property tax receivable	<u>835,000</u>	<u>770,000</u>
Total current liabilities	1,981,376	1,684,900
Long-Term Debt:		
Revenue bonds, less unamortized discount, deferred financing costs and current maturities	410,224	611,605
Capital lease obligations, less current maturities	<u>327,391</u>	<u>6,332</u>
Total long-term debt	<u>737,615</u>	<u>617,937</u>
Total liabilities	2,718,991	2,302,837
Net Assets:		
Invested in capital assets, net of related debt	1,611,596	1,483,606
Restricted - expendable	100,000	100,000
Unrestricted	<u>2,629,989</u>	<u>2,697,225</u>
Total net assets	<u>4,341,585</u>	<u>4,280,831</u>
Total liabilities and net assets	<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>

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

	<u>2004</u>	<u>2003</u>
Revenue:		
Net patient service revenue	\$ 5,029,297	\$ 4,635,846
Other revenue	<u>177,885</u>	<u>176,416</u>
Total revenue	5,207,182	4,812,262
Expenses:		
Nursing service	1,356,299	1,078,376
Other professional service	1,834,100	1,718,430
Physician clinic service	684,091	501,648
General service	696,964	684,369
Fiscal and administrative service	1,036,097	803,456
Provision for depreciation	<u>382,696</u>	<u>359,207</u>
Total expenses	<u>5,990,247</u>	<u>5,145,486</u>
Operating Loss	(783,065)	(333,224)
Non-Operating Revenues (Expenses):		
County taxes	793,664	652,963
Investment income	44,958	55,165
Noncapital grants and contributions	19,276	18,431
Rental income	13,750	15,000
Loss on disposal of property and equipment	(532)	(17,695)
Interest expense	<u>(62,468)</u>	<u>(70,192)</u>
Non-operating revenues, net	<u>808,648</u>	<u>653,672</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	25,583	320,448
Capital Grants and Contributions	<u>35,171</u>	<u>35,582</u>
Increase in Net Assets	60,754	356,030
Net Assets Beginning of Year	<u>4,280,831</u>	<u>3,924,801</u>
Net Assets End of Year	<u>\$ 4,341,585</u>	<u>\$ 4,280,831</u>

The accompanying notes are an integral part of these statements.

GUTHRIE COUNTY HOSPITAL
Statements of Cash Flows
Year ended June 30,

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 4,875,254	\$ 4,838,481
Cash paid to suppliers	(2,852,668)	(2,403,050)
Cash paid to employees	(2,702,171)	(2,374,473)
Rental income	13,750	15,000
Other revenue	177,885	176,416
Net cash provided by (used in) operating activities	(487,950)	252,374
Cash flows from non-capital financing activities:		
County tax revenue	793,664	652,963
Noncapital grants and contributions	19,276	18,431
Net cash provided by non-capital financing activities	812,940	671,394
Cash flows from capital and related financing activities:		
Capital grants and contributions	35,171	35,582
Capital expenditures	(184,349)	(195,849)
Construction in progress expenditures	(49,750)	(16,835)
Principal paid on long-term debt	(197,619)	(186,194)
Principal paid on capital leases	(99,690)	(60,043)
Proceeds from sale of property and equipment	495	1,500
Interest paid	(53,715)	(60,219)
Net cash used in capital and related financing activities	(549,457)	(482,058)
Cash flows from investing activities:		
Investment income	44,958	55,165
Change in designated and restricted assets	151,477	11,212
Net cash provided by investing activities	196,435	66,377
Net increase (decrease) in cash and cash equivalents	(28,032)	508,087
Cash and cash equivalents at beginning of year	2,007,930	1,499,843
Cash and cash equivalents at end of year	\$ 1,979,898	\$ 2,007,930
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 743,378	\$ 953,038
Cash and cash equivalents in designated and restricted assets	1,236,520	1,054,892
Total cash and cash equivalents	\$ 1,979,898	\$ 2,007,930

(continued next page)

GUTHRIE COUNTY HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	2004	2003
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(783,065)	\$(333,224)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	382,696	359,207
Provision for bad debts	165,748	156,819
Components of operating revenue reclassified for purposes of reporting cash flows		
Rental income	13,750	15,000
Change in assets and liabilities		
Accounts receivable	(436,791)	(161,184)
Inventory	(13,834)	(11,465)
Prepaid expense	(15,571)	(19,714)
Other current assets	1,799	(286)
Accounts payable, trade	7,190	31,333
Accrued employee compensation	75,161	6,937
Payroll taxes withheld and accrued	(2,033)	1,951
Estimated third-party payor settlements	117,000	207,000
Total adjustments	295,115	585,598
Net cash provided by (used in) operating activities	\$(487,950)	\$ 252,374

The accompanying notes are an integral part of these statements.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Guthrie County Hospital (the Hospital) is a critical access county hospital with related healthcare ancillary and outpatient 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 identified one component unit: Guthrie County Hospital Foundation (the Foundation). Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital. Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$324,000 (\$231,000 in 2003) and an increase in the change in net assets of approximately \$93,000 (\$25,000 in 2003) for the year ended June 30, 2004.

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.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

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. All 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.

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2004 or 2003.

9. Compensated Absences

Hospital employees earn vacation days at varying rates depending on years of service. Vacation time accumulates to a maximum of 150% of an employee's annual vacation time earned (maximum of 300 hours). Any excess accumulated over the maximum is to be used within 90 days. The computed amount of vacation benefits 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.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

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.

15. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note H. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

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

16. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services, most outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2002. The Medicaid cost reports have been audited through June 30, 2001. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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

NOTE C - DONOR RESTRICTIONS RELEASED

Restricted expendable net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Long-term debt	\$ <u>100,000</u>	\$ <u>100,000</u>

The Hospital has no restricted non-expendable net assets or endowments at June 30, 2004 or 2003.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE C - DONOR RESTRICTIONS RELEASED - Continued

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

	2004	2003
Purchase of property and equipment	\$ 35,171	\$ 35,582

NOTE D - DESIGNATED NET ASSETS

Of the \$2,629,989 (\$2,697,225 as of June 30, 2003) of unrestricted net assets as of June 30, 2004, \$1,469,002 (\$1,438,851 for 2003) has been designated by the Hospital's Board of Trustees for capital acquisitions. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2004 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. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. 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.

The composition of designated and restricted assets is as follows:

	2004	2003
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,236,520	\$ 1,054,892
Certificates of deposit	230,000	380,000
GNMA pool	895	932
Interest receivable	1,587	3,027
	\$ 1,469,002	\$ 1,438,851
Restricted Assets:		
Certificates of deposit	\$ 100,000	\$ 100,000

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

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, 2004 and 2003, was as follows:

	2004	2003
Receivable from:		
Patients	\$ 275,039	\$ 260,321
Medicare	471,787	247,383
Medicaid	44,996	66,190
Blue Cross	167,669	157,513
Other commercial insurance carriers	202,032	158,268
Others	3,360	3,802
	1,164,883	893,477
Less allowances for doubtful accounts and contractual adjustments	125,343	150,130
	\$ 1,039,540	\$ 743,347

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2004 and 2003 were as follows:

<u>Cost</u>	<u>Balance</u> 2003	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 2004
Land Improvements	\$ 198,347	\$ --	\$ --	\$ 198,347
Buildings	3,042,435	15,522	--	3,057,957
Fixed Equipment	1,090,513	--	--	1,090,513
Major Movable Equipment	1,987,926	695,619	224,677	2,458,868
	6,319,221	711,141	224,677	6,805,685
<u>Depreciation</u>				
Land Improvements	134,739	9,038	--	143,777
Buildings	1,684,297	127,738	--	1,812,035
Fixed Equipment	732,376	29,399	--	761,775
Major Movable Equipment	1,477,449	216,521	159,272	1,534,698
Total Depreciation	4,028,861	382,696	159,272	4,252,285
Total Depreciable Capital Assets, Net	\$ 2,290,360	\$ 328,445	\$ 65,405	\$ 2,553,400
Construction in Progress	\$ 4,500	\$ 49,750	\$ 20,022	\$ 34,228
Land	21,383	--	--	21,383
Total Non-Depreciable Capital Assets	\$ 25,883	\$ 49,750	\$ 20,022	\$ 55,611

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance</u> <u>2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2003</u>
Land Improvements	\$ 198,347	\$ --	\$ --	\$ 198,347
Buildings	2,921,849	120,586	--	3,042,435
Fixed Equipment	1,090,513	--	--	1,090,513
Major Movable Equipment	<u>1,974,581</u>	<u>109,398</u>	<u>96,053</u>	<u>1,987,926</u>
	6,185,290	229,984	96,053	6,319,221
<u>Depreciation</u>				
Land Improvements	123,980	10,759	--	134,739
Buildings	1,547,355	136,942	--	1,684,297
Fixed Equipment	698,764	33,612	--	732,376
Major Movable Equipment	<u>1,376,413</u>	<u>177,894</u>	<u>76,858</u>	<u>1,477,449</u>
Total Depreciation	<u>3,746,512</u>	<u>359,207</u>	<u>76,858</u>	<u>4,028,861</u>
Total Depreciable Capital Assets, Net	<u>\$ 2,438,778</u>	<u>\$(129,223)</u>	<u>\$ 19,195</u>	<u>\$ 2,290,360</u>
Construction in Progress	\$ 1,880	\$ 14,955	\$ 12,335	\$ 4,500
Land	<u>21,383</u>	<u>--</u>	<u>--</u>	<u>21,383</u>
Total Non-Depreciable Capital Assets	<u>\$ 23,263</u>	<u>\$ 14,955</u>	<u>\$ 12,335</u>	<u>\$ 25,883</u>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2004 and 2003 follows:

	<u>Balance</u> <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>2004</u>	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Revenue bonds	\$ 788,819	\$ --	\$ 197,619	\$ 591,200	\$ 170,000
Less unamortized discount and deferred financing costs	<u>19,514</u>	<u>--</u>	<u>8,538</u>	<u>10,976</u>	<u>--</u>
Total Long-Term Debt	769,305	--	189,081	580,224	170,000
Capital Lease Obligations	<u>63,332</u>	<u>453,549</u>	<u>99,690</u>	<u>417,191</u>	<u>89,800</u>
Total Non-Current Liabilities	<u>\$ 832,637</u>	<u>\$ 453,549</u>	<u>\$ 288,771</u>	<u>\$ 997,415</u>	<u>\$ 259,800</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance</u> <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>2003</u>	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Revenue bonds	\$ 975,013	\$ --	\$ 186,194	\$ 788,819	\$ 157,700
Less unamortized discount and deferred financing costs	<u>30,557</u>	<u>--</u>	<u>11,043</u>	<u>19,514</u>	<u>--</u>
Total Long-Term Debt	944,456	--	175,151	769,305	157,700
Capital Lease Obligations	<u>123,375</u>	<u>--</u>	<u>60,043</u>	<u>63,332</u>	<u>57,000</u>
Total Non-Current Liabilities	<u>\$1,067,831</u>	<u>\$ --</u>	<u>\$ 235,194</u>	<u>\$ 832,637</u>	<u>\$ 214,700</u>

The 1995 Series Revenue Capital Improvement Refunding bonds were issued in March, 1995, and carry a current interest rate of 6.06%. The bonds mature in monthly installments through March, 2008 and are collateralized by the Hospital's net revenues.

Under the terms of the bond resolution, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bond resolution also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding.

Assets recorded under capital leases consist of major movable equipment items with totals as follows:

	<u>2004</u>	<u>2003</u>
Cost	\$ 657,798	\$ 298,727
Less: Accumulated Amortization	<u>141,282</u>	<u>148,794</u>
Net Book Value	<u>\$ 516,516</u>	<u>\$ 149,933</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE H - NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Long-Term Debt		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 170,000	\$ 31,200	\$ 89,800	\$ 15,400
2006	180,500	20,600	93,600	11,600
2007	191,800	9,300	97,500	7,700
2008	48,900	158	101,500	3,700
2009	--	--	34,791	297
	<u>\$ 591,200</u>	<u>\$ 61,258</u>	<u>\$ 417,191</u>	<u>\$ 38,697</u>

The Hospital has entered into several operating leases for lease of space, for office equipment and for a chemistry analyzer. Future minimum lease commitments are as follows:

<u>Year ending June 30,</u>	<u>Minimum Lease Payments</u>
2005	\$ 78,426
2006	73,626
2007	60,248
2008	<u>29,625</u>
	<u>\$ 241,925</u>

Expenses recorded under these leases was \$83,226 in 2004 (\$53,896 in 2003).

NOTE I - DEFEASANCE OF DEBT

In 1995, the Hospital defeased certain revenue bonds by placing the proceeds from the revenue notes and the debt service reserve fund of the old bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Hospital's financial statements. At June 30, 2004, \$1,040,000 of bonds outstanding are considered defeased.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE J - EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were approximately \$156,400, \$135,100, and \$119,500, respectively, equal to the required contributions for each year.

NOTE K - COMMITMENTS AND CONTINGENCIES

Note Payable

The Hospital has entered into an agreement with the Guthrie County Rural Electric Cooperative Association (the cooperative) under the Rural Economic Development Loan and Grant Program. Under the terms of the agreement, \$183,050 was advanced to the Hospital through a non-interest bearing note, payable in 40 equal quarterly installments through June, 2013. Through a separate agreement, the Hospital subsequently loaned the \$183,050 to Little Panther Daycare (the daycare) to be used for the construction of a daycare facility in Panora, Iowa. This note receivable from the daycare is also non-interest bearing. It is payable in 120 equal monthly installments through June, 2013 and is secured by a mortgage agreement on the daycare's assets. The note receivable from the daycare is further guaranteed by three area businesses who each separately entered into agreements with the Hospital guaranteeing 25% of the total amount owed by the daycare to the Hospital after the sale of collateral. The offsetting note receivable and note payable of \$164,745 at June 30, 2004 (\$183,050 at June 30, 2003) have not been recorded on the Hospital's balance sheet.

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. Guthrie County 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 fiscal years.

Construction in Progress

During the year ended June 30, 2004, the Hospital entered into a construction project for a physical therapy/congregate meals building. The estimated cost of the project is approximately \$950,000. Through the date of this report, purchase commitments for the project had been entered into totaling \$423,800. At June 30, 2004, costs incurred on this project totaled approximately \$34,200. Financing for the project is being provided by funds generated internally.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE L - ACCOUNTING CHANGE

During the year ended June 30, 2004, the Hospital completed the implementation of Government Accounting Standards Board Statements No. 34, 37, and 38 by inclusion of Management's Discussion and Analysis with these financial statements.

NOTE M - NON-CASH TRANSACTIONS

The cash transactions of the Hospital are presented on the statements of cash flows. The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by (used in) operating activities.

	2004	2003
Capital leases were entered into for the purchase of equipment	<u>\$ 453,549</u>	<u>\$ --</u>
Net book value of asset traded	<u>\$ 64,378</u>	<u>\$ --</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

GUTHRIE COUNTY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2004

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 modified accrual basis used to prepare the budget. The adjustments result from accounting for bad debts, depreciation, interest, and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 793,664	\$ --	\$ 793,664	
Other revenues	5,222,166	35,171	5,257,337	
Transfers in (out)	<u>35,171</u>	<u>(35,171)</u>	<u>--</u>	
	6,051,001	--	6,051,001	
Expenses	<u>5,990,247</u>	<u>--</u>	<u>5,990,247</u>	
Net	60,754	--	60,754	
Balance beginning of year	<u>4,280,831</u>	<u>--</u>	<u>4,280,831</u>	
Balance end of year	<u>\$ 4,341,585</u>	<u>\$ --</u>	<u>\$ 4,341,585</u>	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 793,664	\$ --	\$ 793,664	\$ 773,135
Other revenues	<u>5,257,337</u>	<u>228,216</u>	<u>5,485,553</u>	<u>5,336,401</u>
	6,051,001	228,216	6,279,217	6,109,536
Expenses	<u>5,990,247</u>	<u>(320,228)</u>	<u>5,670,019</u>	<u>6,084,801</u>
Net	60,754	548,444	609,198	24,735
Balance beginning of year	<u>4,280,831</u>	<u>(169,275)</u>	<u>4,111,556</u>	<u>4,111,556</u>
Balance end of year	<u>\$ 4,341,585</u>	<u>\$ 379,169</u>	<u>\$ 4,720,754</u>	<u>\$ 4,136,291</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

GUTHRIE COUNTY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
In hospital - 30	\$ 642,266	55%	\$ 490,864	55%
31 - 60	212,890	18	141,355	16
61 - 90	79,653	7	55,818	6
91 - 150	101,186	9	63,375	7
151 - 180	21,071	2	14,488	2
181 and over	<u>107,817</u>	<u>9</u>	<u>127,577</u>	<u>14</u>
	1,164,883	<u>100%</u>	893,477	<u>100%</u>
Allowance for doubtful accounts	86,343		77,130	
Allowance for contractual adjustments	<u>39,000</u>		<u>73,000</u>	
	<u>\$ 1,039,540</u>		<u>\$ 743,347</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 77,130	\$ 91,635
Provision for bad debts	165,748	156,819
Recoveries of accounts previously written off	<u>185,023</u>	<u>75,738</u>
	427,901	324,192
Accounts written off	<u>341,558</u>	<u>247,062</u>
Balance, ending	<u>\$ 86,343</u>	<u>\$ 77,130</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2004</u>	<u>2003</u>
<u>Inventory</u>		
Medical and surgical supplies	\$ 31,540	\$ 30,835
Laboratory	29,933	21,607
Pharmacy	63,171	57,526
Business office	4,992	5,922
Other	<u>23,200</u>	<u>23,112</u>
	<u>\$ 152,836</u>	<u>\$ 139,002</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 40,749	\$ 34,539
Service contracts and dues	<u>43,533</u>	<u>34,172</u>
	<u>\$ 84,282</u>	<u>\$ 68,711</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2004	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 477,250	\$ --
Special care	15,850	--
Swing bed	--	--
	493,100	--
Other Nursing Services:		
Cardiac rehabilitation	--	63,048
Operating and recovery rooms	20,104	224,404
Emergency room	16,997	323,985
Central services and supply	16,457	72,884
Intravenous therapy	28,030	32,138
Observation	4,789	207,358
Telemetry	18,564	12,674
	104,941	936,491
Other Professional Services:		
Laboratory	110,475	972,425
Blood	6,504	10,886
Electrocardiology	9,135	51,618
Radiology	17,171	267,481
CT scan	50,582	358,634
Ultrasound	7,040	149,322
Mammography	--	81,882
Nuclear imaging	--	6,854
MRI	4,373	211,512
Pharmacy	133,460	413,464
Anesthesia	12,285	69,085
Respiratory therapy	59,876	66,685
Speech therapy	1,404	59,031
Physical therapy	14,091	311,148
Occupational therapy	525	128,149
Massage therapy	--	83
Outpatient clinics	164	34,959
Diabetic education	--	1,584
Clinic professional fees	--	--
	427,085	3,194,802
	\$ 1,025,126	\$ 4,131,293

See Independent Auditor's Report.

Swing Bed	2004		2003	
	Clinic	Total	Total	
\$ --	\$ --	\$ 477,250	\$ 311,740	
--	--	15,850	31,727	
<u>215,375</u>	--	<u>215,375</u>	<u>179,558</u>	
215,375	--	708,475	523,025	
--	--	63,048	47,178	
--	--	244,508	292,523	
215	--	341,197	254,463	
4,926	--	94,267	132,529	
8,524	--	68,692	40,150	
--	--	212,147	187,912	
<u>179</u>	--	<u>31,417</u>	<u>55,872</u>	
13,844	--	1,055,276	1,010,627	
30,580	--	1,113,480	1,116,140	
593	--	17,983	12,092	
851	--	61,604	70,813	
6,236	--	290,888	296,844	
5,105	--	414,321	313,044	
6,057	--	162,419	194,748	
--	--	81,882	87,108	
665	--	7,519	18,830	
--	--	215,885	218,831	
109,550	--	656,474	551,910	
--	--	81,370	118,872	
33,380	--	159,941	115,097	
6,501	--	66,936	92,292	
64,933	--	390,172	337,175	
12,067	--	140,741	92,692	
--	--	83	2,473	
--	--	35,123	38,584	
--	--	1,584	--	
--	<u>370,804</u>	<u>370,804</u>	<u>421,878</u>	
<u>276,518</u>	<u>370,804</u>	<u>4,269,209</u>	<u>4,099,423</u>	
<u>\$ 505,737</u>	<u>\$ 370,804</u>	<u>\$ 6,032,960</u>	<u>\$ 5,633,075</u>	

GUTHRIE COUNTY HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	2004	2003
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 6,032,960	\$ 5,633,075
Contractual adjustments	(834,238)	(828,037)
Provision for bad debts	(165,748)	(156,819)
Charity care	(3,677)	(12,373)
	<u>\$ 5,029,297</u>	<u>\$ 4,635,846</u>
 <u>Other Revenue</u>		
Dietary revenue	\$ 48,920	\$ 35,947
Congregate meals	37,391	35,986
Ancillary service coverage revenue	47,713	51,020
Outpatient clinic rental	27,730	30,111
Fitness center	10,899	10,420
Laundry revenue	140	--
Wellness revenue	1,208	2,590
Pharmacy student income	2,400	4,000
Miscellaneous income	1,484	6,342
	<u>\$ 177,885</u>	<u>\$ 176,416</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Administrative:		
Salaries and wages	\$ 57,086	\$ 52,403
Employee benefits	11,269	10,616
Supplies and other expense	<u>2,813</u>	<u>2,519</u>
	71,168	65,538
Medical, Surgical and Obstetric:		
Salaries and wages	553,188	483,454
Employee benefits	121,984	108,313
Supplies and other expense	<u>26,767</u>	<u>24,159</u>
	701,939	615,926
Cardiac Rehabilitation:		
Salaries and wages	34,643	26,315
Employee benefits	4,243	3,339
Supplies and other expense	<u>3,859</u>	<u>1,780</u>
	42,745	31,434
Operating and Recovery Rooms:		
Salaries and wages	23,869	26,040
Employee benefits	5,808	5,884
Supplies and other expense	<u>36,102</u>	<u>44,308</u>
	65,779	76,232
Emergency Room:		
Salaries and wages	293,890	145,053
Employee benefits	42,283	21,672
Professional fees	60,148	21,280
Supplies and other expense	<u>10,933</u>	<u>1,511</u>
	407,254	189,516
Central Services and Supply:		
Salaries and wages	32,999	38,373
Employee benefits	11,061	11,456
Supplies and other expense	<u>21,310</u>	<u>37,084</u>
	65,370	86,913

(continued next page)

GUTHRIE COUNTY HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	2004	2003
Intravenous Therapy:		
Salaries and wages	\$ --	\$ 4,418
Employee benefits	--	798
Solutions and supplies	2,044	2,220
	2,044	7,436
Telemetry:		
Salaries and wages	--	4,601
Employee benefits	--	780
	--	5,381
	\$ 1,356,299	\$ 1,078,376

SUMMARY

Salaries and wages	\$ 995,675	\$ 780,657
Employee benefits	196,648	162,858
Professional fees	60,148	21,280
Other expense	103,828	113,581
	\$ 1,356,299	\$ 1,078,376

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Laboratory:		
Salaries and wages	\$ 146,443	\$ 141,197
Employee benefits	45,448	42,156
Professional fees	1,200	1,200
Supplies and other expense	<u>156,132</u>	<u>177,019</u>
	349,223	361,572
Blood:		
Blood	12,727	11,171
Supplies and other expense	<u>--</u>	<u>2,535</u>
	12,727	13,706
Electrocardiology:		
Salaries and wages	2,978	3,165
Employee benefits	893	1,031
Supplies and other expense	<u>4,219</u>	<u>4,625</u>
	8,090	8,821
Radiology:		
Salaries and wages	113,811	105,520
Employee benefits	18,480	21,712
Supplies and other expense	<u>40,129</u>	<u>39,036</u>
	172,420	166,268
CT Scan:		
Salaries and wages	7,053	5,576
Employee benefits	1,239	1,110
Supplies and other expense	<u>25,231</u>	<u>43,405</u>
	33,523	50,091
Ultrasound:		
Salaries and wages	4,323	4,739
Employee benefits	551	1,275
Supplies and other expense	<u>26,127</u>	<u>28,714</u>
	31,001	34,728
Mammography:		
Salaries and wages	5,062	5,446
Employee benefits	813	1,180
Supplies and other expense	<u>9,314</u>	<u>5,855</u>
	15,189	12,481
Nuclear Imaging:		
Supplies and other expense	4,708	12,830

(continued next page)

GUTHRIE COUNTY HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
MRI:		
Supplies and other expense	\$ 47,083	\$ 56,617
Pharmacy:		
Salaries and wages	99,560	80,440
Employee benefits	23,056	18,742
Professional fees	458	350
Drugs	241,716	167,278
Supplies and other expense	<u>7,663</u>	<u>5,429</u>
	372,453	272,239
Anesthesia:		
Professional fees	59,338	68,797
Supplies and other expense	<u>2,404</u>	<u>2,158</u>
	61,742	70,955
Respiratory Therapy:		
Salaries and wages	31,572	31,072
Employee benefits	8,606	8,106
Oxygen, supplies and other expense	<u>28,603</u>	<u>30,742</u>
	68,781	69,920
Speech Therapy:		
Professional fees	39,620	65,220
Supplies and other expense	<u>98</u>	<u>98</u>
	39,718	65,318
Physical Therapy:		
Salaries and wages	159,806	149,849
Employee benefits	36,360	33,454
Supplies and other expense	<u>57,160</u>	<u>54,838</u>
	253,326	238,141
Occupational Therapy:		
Professional fees	62,040	43,400
Supplies and other expense	<u>271</u>	<u>122</u>
	62,311	43,522
Massage Therapy:		
Supplies and other expense	38	2,092
Medical Records:		
Salaries and wages	116,614	94,628
Employee benefits	25,812	22,641
Supplies and other expense	<u>50,268</u>	<u>33,203</u>
	192,694	150,472

(continued next page)

GUTHRIE COUNTY HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	2004	2003
Social Services:		
Salaries and wages	\$ 25,901	\$ 27,205
Employee benefits	6,118	9,791
Supplies and other expense	1,524	2,591
	33,543	39,587
 Outpatient Clinics:		
Salaries and wages	33,162	31,158
Employee benefits	5,994	6,053
Supplies and other expense	2,267	1,047
	41,423	38,258
 Fitness Center:		
Salaries and wages	9,238	8,753
Employee benefits	696	664
Supplies and other expense	1,527	1,395
	11,461	10,812
 Diabetic Education:		
Salaries and wages	17,362	--
Employee benefits	2,335	--
Supplies and other expense	2,949	--
	22,646	--
	<u>\$ 1,834,100</u>	<u>\$ 1,718,430</u>

SUMMARY

Salaries and wages	\$ 772,885	\$ 688,748
Employee benefits	176,401	167,915
Professional fees	162,656	178,967
Other expense	722,158	682,800
	<u>\$ 1,834,100</u>	<u>\$ 1,718,430</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Physician Clinic Service Expenses
Year ended June 30,

	2004	2003
Physician Service:		
Salaries and wages	\$ 125,407	\$ 158,591
Employee benefits	28,134	34,869
Professional fees	136,975	12,885
Supplies and other expense	15,640	9,221
	306,156	215,566
 Nursing Service:		
Salaries and wages	63,479	57,805
Employee benefits	11,106	7,812
Medical supplies	30,060	58,315
Supplies and other expense	3,829	3,312
	108,474	127,244
 Business Office:		
Salaries and wages	85,770	69,208
Employee benefits	23,252	21,318
Supplies and other expense	133,963	34,452
	242,985	124,978
 Occupancy Costs:		
Rent	12,996	19,673
Utilities	13,480	14,187
	26,476	33,860
	<u>\$ 684,091</u>	<u>\$ 501,648</u>

SUMMARY

Salaries and wages	\$ 274,656	\$ 285,604
Employee benefits	62,492	63,999
Professional fees	136,975	12,885
Other expense	209,968	139,160
	<u>\$ 684,091</u>	<u>\$ 501,648</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
General Service Expenses
Year ended June 30,

	2004	2003
Dietary:		
Salaries and wages	\$ 132,924	\$ 123,806
Employee benefits	38,023	38,602
Professional fees	11,268	8,506
Food	77,575	61,151
Supplies and other expense	21,989	20,827
	281,779	252,892
Operation of Plant:		
Salaries and wages	89,578	101,285
Employee benefits	16,031	16,813
Electricity	70,188	68,468
Gas	60,042	49,505
Supplies and other expense	75,339	67,866
	311,178	303,937
Housekeeping:		
Salaries and wages	53,943	47,380
Employee benefits	11,092	15,034
Supplies and other expense	14,085	14,552
	79,120	76,966
Laundry and Linen:		
Salaries and wages	--	753
Employee benefits	--	292
Purchased services	23,629	43,879
Supplies and other expense	1,258	5,650
	24,887	50,574
	\$ 696,964	\$ 684,369

SUMMARY

Salaries and wages	\$ 276,445	\$ 273,224
Employee benefits	65,146	70,741
Professional fees	11,268	8,506
Other expense	344,105	331,898
	\$ 696,964	\$ 684,369

See Independent Auditor's Report.

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

	2004	2003
Fiscal and Administrative:		
Salaries and wages	\$ 409,345	\$ 334,900
Employee benefits	96,949	77,801
Advertising	10,158	8,738
Telephone	12,621	12,244
Supplies and minor equipment	48,754	44,270
Collection expense	18,303	16,195
Computer maintenance	25,086	20,626
Education and meetings	11,360	8,696
Professional fees	120,674	54,279
Printing and postage	19,838	19,714
Purchased services	25,501	15,662
Dues and subscriptions	9,870	8,586
Miscellaneous	38,926	33,256
	847,385	654,967
 Information Systems:		
Salaries and wages	10,441	--
Employee benefits	1,001	--
Supplies and other expense	2,213	--
	13,655	--
 Employee Welfare:		
Salaries and wages	37,885	18,277
Employee benefits	6,321	2,382
Group health and life benefit	42,206	36,437
Workers' compensation insurance	24,998	20,445
Unemployment expense	2,233	7,394
Supplies and other expense	18,930	22,153
	132,573	107,088
 Insurance:		
Liability and property insurance	42,484	41,401
	42,484	41,401
	\$ 1,036,097	\$ 803,456

(continued next page)

GUTHRIE COUNTY HOSPITAL
 Fiscal and Administrative Service Expenses - Continued
 Year ended June 30,

	2004	2003
<u>SUMMARY</u>		
Salaries and wages	\$ 457,671	\$ 353,177
Employee benefits	192,638	166,612
Professional fees	120,674	54,279
Other expense	265,114	229,388
	\$ 1,036,097	\$ 803,456

<u>SUMMARY OF EXPENSES</u>		
Salaries and wages	\$ 2,777,332	\$ 2,381,410
Employee benefits	693,325	632,125
Professional fees	491,721	275,917
Other expense	1,645,173	1,496,827
	\$ 5,607,551	\$ 4,786,279

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Acute Care:					
Admissions	292	290	397	426	351
Discharges	293	291	399	425	354
Patient days	880	871	1,133	1,162	1,149
Average length of stay	3.00	2.99	2.84	2.73	3.25
Average occupied beds	2.4	2.4	3.1	3.2	3.1
Swing Bed Program:					
Admissions	132	121	120	127	123
Discharges	135	117	120	127	121
Patient days	835	822	741	788	728
Combined Average Occupied Beds	4.7	4.6	5.1	5.3	5.1
Outpatient Occasions of Service	23,444	23,323	22,044	20,418	16,931

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 743,378	\$ 953,038
Patient receivables, net	1,039,540	743,347
Other receivables	13,609	38,759
Inventory	152,836	139,002
Prepaid expense	84,282	68,711
Other current assets	13,918	15,717
Succeeding year property tax receivable	835,000	770,000
Internally designated assets	<u>270,443</u>	<u>236,500</u>
Total current assets	3,153,006	2,965,074
Other Assets:		
Internally designated assets, net	1,298,559	1,302,351
Capital assets, net	2,609,011	2,316,243
Notes receivable	--	--
Total other assets	<u>3,907,570</u>	<u>3,618,594</u>
Total assets	<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 259,800	\$ 214,700
Accounts payable	159,345	163,312
Accrued expenses	301,867	228,739
Estimated third-party payor settlements	421,000	304,000
Accrued interest	4,364	4,149
Deferred revenue for succeeding year property tax receivable	<u>835,000</u>	<u>770,000</u>
Total current liabilities	1,981,376	1,684,900
Long-Term Debt, Net	<u>737,615</u>	<u>617,937</u>
Total liabilities	2,718,991	2,302,837
Net Assets	<u>4,341,585</u>	<u>4,280,831</u>
Total liabilities and net assets	<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 789,288	\$ 371,621	\$ 323,221
762,722	820,179	588,538
15,019	43,447	13,065
127,537	121,760	104,571
48,997	63,621	53,761
15,431	10,188	9,884
630,000	623,000	446,900
<u>207,980</u>	<u>198,113</u>	<u>184,100</u>
2,596,974	2,251,929	1,724,040
997,746	957,411	1,000,236
2,462,041	2,767,642	2,951,418
--	--	30,454
<u>3,459,787</u>	<u>3,725,053</u>	<u>3,982,108</u>
<u>\$ 6,056,761</u>	<u>\$ 5,976,982</u>	<u>\$ 5,706,148</u>
\$ 206,100	\$ 191,700	\$ 184,100
112,059	108,619	77,287
219,851	201,201	164,697
97,000	212,000	185,000
5,219	6,918	7,852
<u>630,000</u>	<u>623,000</u>	<u>446,900</u>
1,270,229	1,343,438	1,065,836
<u>861,731</u>	<u>1,093,894</u>	<u>1,310,786</u>
2,131,960	2,437,332	2,376,622
<u>3,924,801</u>	<u>3,539,650</u>	<u>3,329,526</u>
<u>\$ 6,056,761</u>	<u>\$ 5,976,982</u>	<u>\$ 5,706,148</u>

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

	<u>2004</u>	<u>2003</u>
Patient Service Revenue	\$ 6,032,960	\$ 5,633,075
Adjustments to Patient Service Revenue	<u>(1,003,663)</u>	<u>(997,229)</u>
Net Patient Service Revenue	5,029,297	4,635,846
Other Revenue	<u>177,885</u>	<u>176,416</u>
Total Revenue	5,207,182	4,812,262
Expenses	<u>5,990,247</u>	<u>5,145,486</u>
Operating Loss	(783,065)	(333,224)
Non-Operating Revenues, Net	<u>808,648</u>	<u>653,672</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	25,583	320,448
Capital Grants and Contributions	<u>35,171</u>	<u>35,582</u>
Increase in Net Assets	<u>\$ 60,754</u>	<u>\$ 356,030</u>

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 4,936,272	\$ 4,554,971	\$ 4,021,601
<u>(819,271)</u>	<u>(954,616)</u>	<u>(885,101)</u>
4,117,001	3,600,355	3,136,500
<u>160,580</u>	<u>159,279</u>	<u>130,398</u>
4,277,581	3,759,634	3,266,898
<u>4,559,462</u>	<u>4,063,610</u>	<u>3,634,366</u>
(281,881)	(303,976)	(367,468)
<u>636,732</u>	<u>495,305</u>	<u>387,887</u>
354,851	191,329	20,419
<u>30,300</u>	<u>18,795</u>	<u>110,529</u>
<u>\$ 385,151</u>	<u>\$ 210,124</u>	<u>\$ 130,948</u>

COMMENTS AND RECOMMENDATIONS

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Guthrie County Hospital
Guthrie Center, Iowa

We have audited the financial statements of Guthrie County Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Guthrie County Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item 04-II-C.

Internal Control Over Financial Reporting

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

To the Board of Trustees
Guthrie County Hospital

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

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

Stonebold, Bell, Kogler & Co. P.C.

Atlantic, Iowa
August 27, 2004

GUTHRIE COUNTY HOSPITAL
Schedule of Findings
Year ended June 30, 2004

PART I - REPORTABLE CONDITIONS

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

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

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

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

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

04-II-B Certified Budget: Hospital expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

04-II-C Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated March 12, 1975. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee Recognition Dinner	\$ 6,545

Recommendation: We recommend that the Board continue to authorize and 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 they meet the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

GUTHRIE COUNTY HOSPITAL
Schedule of Findings
Year ended June 30, 2004

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

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

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

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