

GUTHRIE COUNTY HOSPITAL
INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2006 AND 2005

GUTHRIE COUNTY HOSPITAL

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GUTHRIE COUNTY HOSPITAL
Officials
June 30, 2006

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Tim Hilgenberg, Chairperson	Guthrie Center, Iowa	2006
Christian Siebrasse, Vice-Chairperson	Stuart, Iowa	2006
Jean Densmore, Secretary	Guthrie Center, Iowa	2010
Doug Hemphill, Treasurer	Yale, Iowa	2010
Peg Shroyer	Panora, Iowa	2008
Chris Schafer	Adair, Iowa	2010
Donna Paglialunga	Guthrie Center, Iowa	2008
 <u>Administrator:</u>		
Gerald Neal	Guthrie Center, Iowa	
 <u>Chief Financial Officer:</u>		
Amy Littler (began October, 2006)	Adair, Iowa	
Nancy Spratte (resigned September, 2006)	Guthrie Center, Iowa	

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
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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, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note A, the operations of a component unit are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such an entity be blended with these financial statements.

In our opinion, except for the effects of exclusion of a component unit required to be included as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Guthrie County Hospital as of June 30, 2006 and 2005, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2006 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Guthrie County Hospital

The management's discussion and analysis and 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed qualified opinions on those financial statements (unqualified in 2002). 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.

Strombold, Bell, Kuhlman & Co. P.C.

Atlantic, Iowa
October 24, 2006

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, 2006 and 2005. We encourage readers to consider it in conjunction with the Hospital's financial statements, which follow.

FINANCIAL HIGHLIGHTS

The Hospital's total assets increased approximately \$340,000 during fiscal year 2006. Net assets, or total assets net of total liabilities, increased by almost \$463,000 during fiscal 2006, an increase of approximately 9.7 percent.

The Hospital reported operating revenues for the year of \$7.6 million, an increase of approximately \$1.3 million or 19.9 percent. Net revenues, or revenues after all expenditures, for 2006 were \$406,831, an increase of \$190,286 from 2005.

The Hospital reported expenditures for the year of \$8.1 million, an increase of approximately \$1.1 million or 15.2 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 Revenues, 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
	2006	2005		
Assets:				
Current assets	\$ 3,381,861	\$ 2,817,911	\$ 563,950	20.0%
Designated and restricted assets	235,688	1,194,726	(959,038)	(80.3%)
Capital assets, net	<u>3,833,797</u>	<u>3,098,830</u>	<u>734,967</u>	23.7%
Total assets	<u>\$ 7,451,346</u>	<u>\$ 7,111,467</u>	<u>\$ 339,879</u>	4.8%
Liabilities:				
Current liabilities	\$ 1,920,044	\$ 1,816,181	\$ 103,863	5.7%
Long-term debt	<u>300,270</u>	<u>527,185</u>	(226,915)	(43.0%)
Total liabilities	<u>2,220,314</u>	<u>2,343,366</u>	(123,052)	(5.3%)
Net Assets:				
Invested in capital assets, net of related debt	3,436,027	2,405,245	1,030,782	42.9%
Restricted - expendable	--	101,009	(101,009)	(100.0%)
Unrestricted	<u>1,795,005</u>	<u>2,261,847</u>	(466,842)	(20.6%)
Total net assets	<u>5,231,032</u>	<u>4,768,101</u>	<u>462,931</u>	9.7%
Total liabilities and net assets	<u>\$ 7,451,346</u>	<u>\$ 7,111,467</u>	<u>\$ 339,879</u>	4.8%

A significant component of the change in the Hospital's assets was the increase in succeeding year property tax receivable by \$439,400.

Another significant component of the change in the Hospital's assets is the investment in the new building and equipment. See related discussion in the CAPITAL ASSET AND DEBT ADMINISTRATION section.

The most significant component of the change in the Hospital's liabilities was the continued accelerated debt retirement. 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, 2006 and 2005.

Table 2
Condensed Operating Results and Changes in Net Assets

	June 30,		Dollar	Percent
	2006	2005	Change	Change
Revenue:				
Net patient service revenue	\$ 7,416,455	\$ 6,176,899	\$ 1,239,556	20.1%
Other revenue	<u>203,416</u>	<u>177,679</u>	<u>25,737</u>	14.5%
Total revenue	<u>7,619,871</u>	<u>6,354,578</u>	<u>1,265,293</u>	19.9%
Expenses:				
Salaries and benefits	5,045,961	4,527,022	518,939	11.5%
Professional fees	305,805	267,103	38,702	14.5%
Supplies, contract services, equipment & other operating expenses	2,271,787	1,809,589	462,198	25.5%
Depreciation and amortization	<u>450,780</u>	<u>404,216</u>	<u>46,564</u>	11.5%
Total expenses	<u>8,074,333</u>	<u>7,007,930</u>	<u>1,066,403</u>	15.2%
Operating Loss	<u>(454,462)</u>	<u>(653,352)</u>	<u>198,890</u>	(30.4%)
Nonoperating Revenues and Expenses:				
County taxes	827,863	867,289	(39,426)	(4.5%)
Investment income	44,181	43,971	210	0.5%
Noncapital grants and contributions	16,586	16,149	437	2.7%
Interest expense	(24,497)	(49,242)	24,745	(50.3%)
Other nonoperating revenues and expenses, net	<u>(2,840)</u>	<u>(8,270)</u>	<u>5,430</u>	(65.7%)
	<u>861,293</u>	<u>869,897</u>	<u>(8,604)</u>	(1.0%)
Excess of Revenues Over Expenses Before Capital Grants and Contributions	406,831	216,545	190,286	87.9%
Capital Grants and Contributions	<u>56,100</u>	<u>209,971</u>	<u>(153,871)</u>	(73.3%)
Increase in net assets	462,931	426,516	36,415	8.5%
Net Assets Beginning of Year	<u>4,768,101</u>	<u>4,341,585</u>	<u>426,516</u>	9.8%
Net Assets End of Year	<u>\$ 5,231,032</u>	<u>\$ 4,768,101</u>	<u>\$ 462,931</u>	9.7%

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. In the current fiscal year operating losses have decreased.

Management's goal in 2006 was to continue the effort to increase the volume of patients treated while positioning the hospital and clinics to capture a greater portion of the Guthrie County health care market. The addition of an emergency nurse practitioner in September of 2003, a physician in January of 2004, and a family practice nurse practitioner in May of 2004, and another physician in July of 2004 produced an increase in patient volumes and net patient service revenue in 2006.

In 2006 significant time and money investments were made to continue the process of positioning the Hospital to be more competitive in the primary and secondary health care market. The new practitioners have enabled 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 continued upgrading the Hospital's physical plant.

The Healthy Living Center opened in November of 2005. Expenses for minor equipment, utilities and depreciation were incurred.

The primary components of these decreased operating losses were:

An increase in revenue of \$1,265,000 or 19.9 percent.

Increases in salary and benefit costs for the Hospital's employees (\$519,000 or 11.5 percent in 2006 and \$1,056,000 or 30.4 percent in 2005). Continued adjustments were made to salaries to match market conditions. Health expenses increased significantly. Staff education also received increased focus during fiscal 2006.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

Finally, a process of upgrading the physical plant was begun during 2004 and continued in 2006 by investing in a number of items, including the following:

- Healthy Living Center
- Chiller
- Telephone system and,
- Continued repairs and improvements to the plumbing and electrical systems

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 2006 were \$471,691. Comparatively, for fiscal 2005, cash flows used in operating activities were \$269,334, a net change of nearly \$202,400. This significant change was due to significantly increased cash receipts, and increasing expenses that were more than the increase in cash receipts. The increases in expenses were primarily in a couple areas. First, increased staffing plus salaries adjusted to improve our competitive position in the employment marketplace account for most of the expense increase. 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, 2006 was prepared on the modified accrual basis. Actual budget basis revenues were higher than the budgeted amount of \$8,276,725 by \$285,036 or about 3.4 percent. Actual expenditures were also higher than budgeted expenditures. Actual budget basis expenditures were \$7,648,050 as compared to budgeted expenditures of \$7,577,000, an excess of \$71,050 or about 0.9 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 totaling \$1,783,784. The Hospital invested \$813,216 in construction in progress, during 2006 but capitalized \$1,408,293 to end the year with a balance of \$167,823. The following table, Table 3, presents a list of significant capital items:

Table 3
Capital Investments

<u>Capital Investments</u>	<u>Vendor</u>	<u>Department</u>	<u>2006 Cost</u>
Paving	Blacktop Service Co.	Building	\$ 36,371
Healthy Living Center	Shriver Construction	PT/Congregate Meals	1,039,337
3 New Patient Rooms	Betts & Beer Construction	Nursing	130,008
Chiller	Carrier Corporation	Building	138,389
Telephone system	GC Communications	Building	51,688
Adair Clinic Building	RIADA	Physician Clinic	100,000

Capital assets for the years ended June 30, 2006 and 2005 are shown in the following table, Table 4:

Table 4
Capital Assets

	<u>June 30,</u>		<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
	<u>2006</u>	<u>2005</u>		
Land and land improvements	\$ 296,141	\$ 258,535	\$ 37,606	14.5%
Buildings	4,351,973	3,057,050	1,294,923	42.4%
Fixed equipment	1,225,047	1,003,867	221,180	22.0%
Major movable equipment	<u>2,376,697</u>	<u>2,300,310</u>	<u>76,387</u>	3.3%
Subtotal	8,249,858	6,619,762	1,630,096	24.6%
Less accumulated depreciation	4,583,884	4,283,832	300,052	7.0%
Construction in progress	<u>167,823</u>	<u>762,900</u>	<u>(595,077)</u>	(78.0%)
Net property, plant and equipment	<u>\$ 3,833,797</u>	<u>\$ 3,098,830</u>	<u>\$ 734,967</u>	23.7%

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 \$397,770 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. The 1995 Bond issue was retired in June of 2006. A 2006 Bond issue was created to finance future construction projects with the money being drawn as expenses are incurred. The total debt amount decreased by \$295,815 in fiscal year 2006. More detailed information about the Hospital's long-term liabilities is presented in the notes to the basic financial statements.

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 5.3% of the Hospital's total assets at June 30, 2006.

CURRENTLY KNOWN FACTS

At the time these financial statements were prepared and audited, the Hospital had started its next phase of construction projects projected to cost approximately \$2,200,000. The projects include the construction of a new Emergency Department, a new Pharmacy department, renovation of two patient rooms, and the construction and equipping of a new Radiology Suite. The Series 2006 Bonds of \$2,200,000 were issued to fund these additions.

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>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 555,869	\$ 551,187
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$306,000 in 2006, \$357,384 in 2005)	1,105,626	988,450
Other receivables	39,414	16,993
Inventory	171,111	155,125
Prepaid expense	65,148	68,063
Other current assets	15,156	24,529
Succeeding year property tax receivable	1,241,400	802,000
Internally designated assets	<u>188,137</u>	<u>211,564</u>
Total current assets	3,381,861	2,817,911
Designated and Restricted Assets:		
Internally designated assets	423,825	1,305,281
Restricted assets	<u>--</u>	<u>101,009</u>
	423,825	1,406,290
Less amounts required to meet current liabilities	<u>188,137</u>	<u>211,564</u>
	235,688	1,194,726
Capital Assets:		
Depreciable capital assets, net	3,644,591	2,314,547
Non-depreciable capital assets	<u>189,206</u>	<u>784,283</u>
	<u>3,833,797</u>	<u>3,098,830</u>
Total assets	<u>\$ 7,451,346</u>	<u>\$ 7,111,467</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 97,500	\$ 166,400
Accounts payable	285,159	187,637
Accrued employee compensation	283,991	380,377
Payroll taxes withheld and accrued	6,119	10,496
Estimated third-party payor settlements	1,000	267,000
Accrued interest	875	2,271
Other accrued expenses	4,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,241,400</u>	<u>802,000</u>
Total current liabilities	1,920,044	1,816,181
 Long-Term Debt:		
Revenue bonds, less unamortized discount, deferred financing costs and current maturities	164,000	293,436
Capital lease obligations, less current maturities	<u>136,270</u>	<u>233,749</u>
Total long-term debt	<u>300,270</u>	<u>527,185</u>
 Total liabilities	2,220,314	2,343,366
 Net Assets:		
Invested in capital assets, net of related debt	3,436,027	2,405,245
Restricted - expendable	--	101,009
Unrestricted	<u>1,795,005</u>	<u>2,261,847</u>
Total net assets	<u>5,231,032</u>	<u>4,768,101</u>
 Total liabilities and net assets	<u>\$ 7,451,346</u>	<u>\$ 7,111,467</u>

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

	<u>2006</u>	<u>2005</u>
Revenue:		
Net patient service revenue	\$ 7,416,455	\$ 6,176,899
Other revenue	<u>203,416</u>	<u>177,679</u>
Total revenue	7,619,871	6,354,578
Expenses:		
Nursing service	1,833,979	1,685,847
Other professional service	2,476,517	2,129,527
Physician clinic service	725,772	753,928
General service	1,067,342	808,341
Fiscal and administrative service	1,519,943	1,226,071
Provision for depreciation	<u>450,780</u>	<u>404,216</u>
Total expenses	<u>8,074,333</u>	<u>7,007,930</u>
Operating Loss	(454,462)	(653,352)
Non-Operating Revenues (Expenses):		
County taxes	827,863	867,289
Investment income	44,181	43,971
Noncapital grants and contributions	16,586	16,149
Loss on disposal of property and equipment	(2,840)	(8,270)
Interest expense	<u>(24,497)</u>	<u>(49,242)</u>
Non-operating revenues, net	<u>861,293</u>	<u>869,897</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	406,831	216,545
Capital Grants and Contributions	<u>56,100</u>	<u>209,971</u>
Increase in Net Assets	462,931	426,516
Net Assets Beginning of Year	<u>4,768,101</u>	<u>4,341,585</u>
Net Assets End of Year	<u>\$ 5,231,032</u>	<u>\$ 4,768,101</u>

The accompanying notes are an integral part of these statements.

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

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 7,010,858	\$ 6,070,605
Cash paid to suppliers	(3,675,740)	(3,002,297)
Cash paid to employees	(4,010,225)	(3,515,321)
Other revenue	<u>203,416</u>	<u>177,679</u>
Net cash used in operating activities	(471,691)	(269,334)
Cash flows from non-capital financing activities:		
County tax revenue	827,863	867,289
Noncapital grants and contributions	<u>16,586</u>	<u>16,149</u>
Net cash provided by non-capital financing activities	844,449	883,438
Cash flows from capital and related financing activities:		
Capital grants and contributions	56,100	209,971
Capital expenditures	(345,446)	(177,267)
Construction in progress expenditures	(797,788)	(690,517)
Principal paid on long-term debt	(370,447)	(220,753)
Principal paid on capital leases	(93,579)	(89,842)
Proceeds from revenue bonds	178,000	--
Proceeds from sale of property and equipment	120	--
Interest paid	<u>(21,682)</u>	<u>(44,570)</u>
Net cash used in capital and related financing activities	(1,394,722)	(1,012,978)
Cash flows from investing activities:		
Investment income	44,181	43,971
Change in designated and restricted assets	<u>101,051</u>	<u>(1,783)</u>
Net cash provided by investing activities	<u>145,232</u>	<u>42,188</u>
Net decrease in cash and cash equivalents	(876,732)	(356,686)
Cash and cash equivalents at beginning of year	<u>1,623,212</u>	<u>1,979,898</u>
Cash and cash equivalents at end of year	<u>\$ 746,480</u>	<u>\$ 1,623,212</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 555,869	\$ 551,187
Cash and cash equivalents in designated and restricted assets	<u>190,611</u>	<u>1,072,025</u>
Total cash and cash equivalents	<u>\$ 746,480</u>	<u>\$ 1,623,212</u>

(continued next page)

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

	2006	2005
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(454,462)	\$(653,352)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	450,780	404,216
Provision for bad debts	234,465	253,687
Change in assets and liabilities		
Accounts receivable	(374,062)	(205,981)
Inventory	(15,986)	(2,289)
Prepaid expense	2,915	16,219
Other current assets	9,373	(10,611)
Accounts payable, trade	38,049	(6,229)
Accrued employee compensation	(96,386)	90,866
Payroll taxes withheld and accrued	(4,377)	(1,860)
Estimated third-party payor settlements	(266,000)	(154,000)
Other accrued expenses	4,000	--
Total adjustments	(17,229)	384,018
Net cash used in operating activities	\$(471,691)	\$(269,334)

The accompanying notes are an integral part of these statements.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

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. The Hospital received \$56,100 in capital contributions from the Foundation during the year ended June 30, 2006 (\$202,064 in 2005). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$177,000 (\$196,000 in 2005) and a decrease in the change in net assets of approximately \$19,000 (\$116,000 in 2005) for the year ended June 30, 2006.

2. Enterprise Fund Accounting

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

3. Use of Estimates

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

4. Cash and Cash Equivalents

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

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

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 two 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 three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2006 or 2005.

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. Certain employees have been allowed to accrue more than the maximum allowed vacation because these employees are unable to use their vacation due to their departments being understaffed. 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, 2006 and 2005

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, 2006 and 2005

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

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

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Long-term debt	\$ <u> --</u>	\$ <u>101,009</u>

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

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

NOTE C - RESTRICTED NET ASSETS - Continued

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

	2006	2005
Purchase of property and equipment	\$ 56,100	\$ 209,971

NOTE D - DESIGNATED NET ASSETS

Of the \$1,795,005 (\$2,261,847 as of June 30, 2005) of unrestricted net assets as of June 30, 2006, \$423,825 (\$1,305,281 for 2005) 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, 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

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

The composition of designated and restricted assets is as follows:

	2006	2005
Internally Designated Assets:		
Cash and cash equivalents	\$ 190,611	\$ 1,072,025
Certificates of deposit	230,000	230,000
GNMA pool	806	853
Interest receivable	2,408	2,403
	\$ 423,825	\$ 1,305,281
Restricted Assets:		
Certificates of deposit	\$ --	\$ 101,009

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.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Receivable from:		
Patients	\$ 413,097	\$ 339,418
Medicare	444,173	486,839
Medicaid	45,099	107,284
Blue Cross	229,771	188,925
Other commercial insurance carriers	277,623	221,358
Others	<u>1,863</u>	<u>2,010</u>
	1,411,626	1,345,834
Less allowances for doubtful accounts and contractual adjustments	<u>306,000</u>	<u>357,384</u>
	<u>\$ 1,105,626</u>	<u>\$ 988,450</u>

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2006</u>
Land Improvements	\$ 237,152	\$ 37,606	\$ --	\$ 274,758
Buildings	3,057,050	1,294,923	--	4,351,973
Fixed Equipment	1,003,867	236,448	15,268	1,225,047
Major Movable Equipment	<u>2,300,310</u>	<u>214,807</u>	<u>138,420</u>	<u>2,376,697</u>
	6,598,379	1,783,784	153,688	8,228,475
<u>Depreciation</u>				
Land Improvements	154,754	14,431	--	169,185
Buildings	1,931,183	153,538	--	2,084,721
Fixed Equipment	681,468	34,753	14,821	701,400
Major Movable Equipment	<u>1,516,427</u>	<u>248,058</u>	<u>135,907</u>	<u>1,628,578</u>
Total Depreciation	<u>4,283,832</u>	<u>450,780</u>	<u>150,728</u>	<u>4,583,884</u>
Total Depreciable Capital Assets, Net	<u>\$ 2,314,547</u>	<u>\$ 1,333,004</u>	<u>\$ 2,960</u>	<u>\$ 3,644,591</u>
Construction in Progress	\$ 762,900	\$ 813,216	\$ 1,408,293	\$ 167,823
Land	<u>21,383</u>	<u>--</u>	<u>--</u>	<u>21,383</u>
Total Non-Depreciable Capital Assets	<u>\$ 784,283</u>	<u>\$ 813,216</u>	<u>\$ 1,408,293</u>	<u>\$ 189,206</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Land Improvements	\$ 198,347	\$ 38,805	\$ --	\$ 237,152
Buildings	3,057,957	--	907	3,057,050
Fixed Equipment	1,090,513	25,144	111,790	1,003,867
Major Movable Equipment	<u>2,458,868</u>	<u>109,684</u>	<u>268,242</u>	<u>2,300,310</u>
	6,805,685	173,633	380,939	6,598,379
<u>Depreciation</u>				
Land Improvements	143,777	10,977	--	154,754
Buildings	1,812,035	120,035	887	1,931,183
Fixed Equipment	761,775	28,241	108,548	681,468
Major Movable Equipment	<u>1,534,698</u>	<u>244,963</u>	<u>263,234</u>	<u>1,516,427</u>
Total Depreciation	<u>4,252,285</u>	<u>404,216</u>	<u>372,669</u>	<u>4,283,832</u>
Total Depreciable Capital Assets, Net	<u>\$ 2,553,400</u>	<u>\$(230,583)</u>	<u>\$ 8,270</u>	<u>\$ 2,314,547</u>
Construction in Progress	\$ 34,228	\$ 728,672	\$ --	\$ 762,900
Land	<u>21,383</u>	<u>--</u>	<u>--</u>	<u>21,383</u>
Total Non-Depreciable Capital Assets	<u>\$ 55,611</u>	<u>\$ 728,672</u>	<u>\$ --</u>	<u>\$ 784,283</u>

NOTE H - NON-CURRENT LIABILITIES

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

	<u>Balance 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2006</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2006 revenue bonds	\$ --	\$ 200,000	\$ --	\$ 200,000	\$ --
Series 1995 revenue bonds	370,447	--	370,447	--	--
Less unamortized discount and deferred financing costs	<u>4,211</u>	<u>36,000</u>	<u>4,211</u>	<u>36,000</u>	<u>--</u>
Total Long-Term Debt	366,236	164,000	366,236	164,000	--
Capital Lease Obligations	<u>327,349</u>	<u>--</u>	<u>93,579</u>	<u>233,770</u>	<u>97,500</u>
Total Non-Current Liabilities	<u>\$ 693,585</u>	<u>\$ 164,000</u>	<u>\$ 459,815</u>	<u>\$ 397,770</u>	<u>\$ 97,500</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2005</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 1995 revenue bonds	\$ 591,200	\$ --	\$ 220,753	\$ 370,447	\$ 72,800
Less unamortized discount and deferred financing costs	<u>10,976</u>	<u>--</u>	<u>6,765</u>	<u>4,211</u>	<u>--</u>
Total Long-Term Debt	580,224	--	213,988	366,236	72,800
Capital Lease Obligations	<u>417,191</u>	<u>--</u>	<u>89,842</u>	<u>327,349</u>	<u>93,600</u>
Total Non-Current Liabilities	<u>\$ 997,415</u>	<u>\$ --</u>	<u>\$ 303,830</u>	<u>\$ 693,585</u>	<u>\$ 166,400</u>

The Series 2006 Hospital Revenue Bonds were issued in May, 2006 in a principal amount up to \$2,200,000. Under the bond agreement, the Hospital has the option to draw up to the full \$2,200,000 as their phased construction project (described in Note K) develops. Through June 30, 2006, the Hospital had drawn \$200,000 on these bonds to pay for issuance costs of the bonds and construction costs incurred through June 30, 2006 on the building and renovation project (Note K). The bonds carry an interest rate of 4.85% per annum through September 30, 2009. On September 30, 2009 and again on September 30, 2012, 2015, and 2018, the rate will be adjusted to 0.50% over the "constant maturity" index of the three year U.S. Treasury Note rate in effect on those dates, provided however, that no adjusted interest rate shall be 2% higher or lower than the immediately preceding adjusted interest rate and no adjusted interest rate shall exceed 8% per annum or be less than 4% per annum. Interest only on outstanding principal is payable quarterly through June 30, 2007. Commencing September 30, 2007, the bonds mature in 55 equal quarterly installments of principal plus interest.

The bonds are payable from and secured by a lien on net revenues of the Hospital. Under the terms of the bonds, the Hospital is required to satisfy certain measures of financial performance as long as the bonds are outstanding. The bond indenture also places limits on the incurrence of additional borrowings. The Hospital is subject to a prepayment penalty of 3% of the unpaid principal balance if such prepayment is on or before the first interest rate adjustment date.

The Series 1995 Revenue Capital Improvement Refunding Bonds were issued in March, 1995 and carried an interest rate of 3.8%. The bonds were collateralized by the Hospital's net revenues and were paid in full in April, 2006.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

NOTE H - NON-CURRENT LIABILITIES - Continued

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

	2006	2005
Cost	\$ 522,940	\$ 522,940
Less: Accumulated Amortization	270,185	165,598
Net Book Value	\$ 252,755	\$ 357,342

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
2007	\$ --	\$ 9,700	\$ 97,500	\$ 7,700
2008	160,000	6,800	101,500	3,700
2009	40,000	500	34,770	308
	\$ 200,000	\$ 17,000	\$ 233,770	\$ 11,708

The Hospital has entered into an operating lease for lease of office equipment. Future minimum lease commitments are as follows:

Year ending June 30,	Minimum Lease Payments
2007	\$ 12,948
2008	12,948
2009	12,948
2010	9,711
	\$ 48,555

Expense recorded under these leases was \$12,335 in 2006 (\$13,776 in 2005).

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. In June of 2006, the remaining amount of these bonds was paid in full.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

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, 2006, 2005, and 2004, were approximately \$224,300, \$201,600, and \$156,400, 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 \$128,135 at June 30, 2006 (\$146,440 at June 30, 2005) 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.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2006 and 2005

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

During the year ended June 30, 2006, the Hospital began the planning stages of a construction project encompassing the remodeling and renovation of several areas within the Hospital. The total estimated cost of the project is \$2,200,000. Subsequent to June 30, 2006, the Hospital entered into construction contracts totaling approximately \$1,500,000 for the first phase of the project. At June 30, 2006, costs incurred on this project totaled \$167,823. Financing for the project is being provided through the issuance of Hospital Revenue Bonds (Note H).

* * *

REQUIRED SUPPLEMENTARY INFORMATION

GUTHRIE COUNTY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2006

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

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 827,863	\$ --	\$ 827,863	
Other revenues	7,653,301	56,100	7,709,401	
Transfers in (out)	<u>56,100</u>	<u>(56,100)</u>	<u>--</u>	
	8,537,264	--	8,537,264	
Expenses	<u>8,074,333</u>	<u>--</u>	<u>8,074,333</u>	
Net	462,931	--	462,931	
Balance beginning of year	<u>4,768,101</u>	<u>--</u>	<u>4,768,101</u>	
Balance end of year	<u>\$ 5,231,032</u>	<u>\$ --</u>	<u>\$ 5,231,032</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 827,863	\$ --	\$ 827,863	\$ 798,260
Other revenues	<u>7,709,401</u>	<u>24,497</u>	<u>7,733,898</u>	<u>7,478,465</u>
	8,537,264	24,497	8,561,761	8,276,725
Expenses	<u>8,074,333</u>	<u>(426,283)</u>	<u>7,648,050</u>	<u>7,577,000</u>
Net	462,931	450,780	913,711	699,725
Balance beginning of year	<u>4,768,101</u>	<u>(314,092)</u>	<u>4,454,009</u>	<u>4,454,009</u>
Balance end of year	<u>\$ 5,231,032</u>	<u>\$ 136,688</u>	<u>\$ 5,367,720</u>	<u>\$ 5,153,734</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

GUTHRIE COUNTY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
In hospital - 30	\$ 771,836	55%	\$ 679,886	51%
31 - 60	203,759	14	216,984	16
61 - 90	155,240	11	137,152	10
91 - 150	129,730	9	128,043	9
151 - 180	28,312	2	40,450	3
181 and over	<u>122,749</u>	<u>9</u>	<u>143,319</u>	<u>11</u>
	<u>1,411,626</u>	<u>100%</u>	<u>1,345,834</u>	<u>100%</u>
Allowance for doubtful accounts	197,000		189,384	
Allowance for contractual adjustments	<u>109,000</u>		<u>168,000</u>	
	<u>\$ 1,105,626</u>		<u>\$ 988,450</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning	\$ 189,384	\$ 86,343
Provision for bad debts	234,465	253,687
Recoveries of accounts previously written off	<u>168,968</u>	<u>155,132</u>
	<u>592,817</u>	<u>495,162</u>
Accounts written off	<u>395,817</u>	<u>305,778</u>
Balance, ending	<u>\$ 197,000</u>	<u>\$ 189,384</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2006	2005
<u>Inventory</u>		
Medical and surgical supplies	\$ 45,064	\$ 40,385
Laboratory	24,023	28,831
Pharmacy	78,118	60,504
Business office	4,106	5,237
Other	19,800	20,168
	\$ 171,111	\$ 155,125
 <u>Prepaid Expense</u>		
Insurance	\$ 7,270	\$ 10,884
Service contracts and dues	57,878	57,179
	\$ 65,148	\$ 68,063

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2006	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 633,724	\$ --
Special care	18,822	--
Swing bed	--	--
	652,546	--
 Other Nursing Services:		
Cardiac rehabilitation	--	102,381
Operating and recovery rooms	39,775	598,523
Emergency room	9,689	520,241
Central services and supply	27,327	95,232
Intravenous therapy	24,597	39,861
Observation	13,598	356,096
	114,986	1,712,334
 Other Professional Services:		
Laboratory	121,562	1,345,527
Blood	11,634	53,308
Electrocardiology	8,778	67,125
Radiology	16,864	300,799
CT scan	61,548	674,006
Ultrasound	10,764	190,295
Mammography	--	111,516
Nuclear imaging	1,329	15,594
MRI	17,257	539,896
Pharmacy	188,412	890,523
Anesthesia	15,803	147,571
Respiratory therapy	111,305	183,636
Speech therapy	2,655	1,503
Physical therapy	16,576	374,299
Occupational therapy	1,223	89,581
Neurology	--	32,616
Outpatient clinics	353	43,048
Diabetic education	--	23,247
Hospice	--	--
Clinic professional fees	--	--
	586,063	5,084,090
	\$ 1,353,595	\$ 6,796,424

See Independent Auditor's Report.

	2006		2005	
Swing Bed	Clinic	Total	Total	
\$ --	\$ --	\$ 633,724	\$ 638,025	
--	--	18,822	26,550	
<u>186,680</u>	<u>--</u>	<u>186,680</u>	<u>214,200</u>	
186,680	--	839,226	878,775	
--	--	102,381	105,784	
2,414	--	640,712	460,764	
--	--	529,930	460,351	
5,322	--	127,881	99,745	
6,417	--	70,875	90,873	
<u>--</u>	<u>--</u>	<u>369,694</u>	<u>329,355</u>	
14,153	--	1,841,473	1,546,872	
26,330	8,951	1,502,370	1,333,235	
1,493	--	66,435	31,403	
770	--	76,673	72,915	
6,338	--	324,001	307,455	
5,170	--	740,724	576,612	
3,742	--	204,801	202,198	
--	--	111,516	91,296	
--	--	16,923	10,627	
3,838	--	560,991	406,137	
121,468	90,220	1,290,623	891,389	
1,545	--	164,919	127,305	
83,605	--	378,546	212,370	
2,693	--	6,851	14,501	
48,855	--	439,730	420,667	
14,076	--	104,880	111,730	
--	--	32,616	25,087	
--	--	43,401	38,431	
--	--	23,247	27,321	
28,391	--	28,391	12,600	
<u>--</u>	<u>483,923</u>	<u>483,923</u>	<u>411,897</u>	
<u>348,314</u>	<u>583,094</u>	<u>6,601,561</u>	<u>5,325,176</u>	
<u>\$ 549,147</u>	<u>\$ 583,094</u>	<u>\$ 9,282,260</u>	<u>\$ 7,750,823</u>	

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

	2006	2005
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 9,282,260	\$ 7,750,823
Contractual adjustments	(1,606,421)	(1,286,118)
Provision for bad debts	(234,465)	(253,687)
Charity care	(24,919)	(34,119)
	<u>\$ 7,416,455</u>	<u>\$ 6,176,899</u>
<u>Other Revenue</u>		
Dietary revenue	\$ 50,271	\$ 62,921
Congregate meals	57,220	41,667
Ancillary service coverage revenue	14,647	25,796
Outpatient clinic rental	28,119	28,106
Fitness center	42,106	11,747
Wellness revenue	1,857	3,465
Pharmacy student income	1,500	2,000
Miscellaneous income	7,696	1,977
	<u>\$ 203,416</u>	<u>\$ 177,679</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Nursing Service Expenses
Year ended June 30,

	2006	2005
Administrative:		
Salaries and wages	\$ 68,706	\$ 62,991
Employee benefits	11,974	10,067
Supplies and other expense	1,780	1,243
	82,460	74,301
Medical, Surgical and Obstetric:		
Salaries and wages	690,057	649,774
Employee benefits	173,653	143,411
Supplies and other expense	39,171	36,709
	902,881	829,894
Cardiac Rehabilitation:		
Salaries and wages	49,437	46,402
Employee benefits	6,524	6,342
Supplies and other expense	4,031	9,466
	59,992	62,210
Operating and Recovery Rooms:		
Salaries and wages	34,320	31,734
Employee benefits	8,560	7,508
Supplies and other expense	62,013	54,008
	104,893	93,250
Emergency Room:		
Salaries and wages	74,698	56,129
Employee benefits	17,494	10,822
Supplies and other expense	27,145	23,728
	119,337	90,679
Emergency Room Professional:		
Salaries and wages	368,456	363,820
Employee benefits	59,340	54,767
Professional fees	22,090	21,900
	449,886	440,487

(continued next page)

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

	2006	2005
Central Services and Supply:		
Salaries and wages	\$ 59,789	\$ 49,812
Employee benefits	24,737	16,795
Supplies and other expense	27,147	25,229
	111,673	91,836
 Intravenous Therapy:		
Solutions and supplies	2,857	3,190
	\$ 1,833,979	\$ 1,685,847

SUMMARY

Salaries and wages	\$ 1,345,463	\$ 1,260,662
Employee benefits	302,282	249,712
Professional fees	22,090	21,900
Other expense	164,144	153,573
	\$ 1,833,979	\$ 1,685,847

See Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>
Laboratory:		
Salaries and wages	\$ 203,501	\$ 177,322
Employee benefits	59,120	52,755
Professional fees	2,750	1,344
Supplies and other expense	<u>229,998</u>	<u>196,886</u>
	495,369	428,307
Blood:		
Blood	45,258	21,871
Supplies and other expense	<u>165</u>	<u>51</u>
	45,423	21,922
Electrocardiology:		
Salaries and wages	3,535	2,937
Employee benefits	1,033	879
Supplies and other expense	<u>122</u>	<u>3,816</u>
	4,690	7,632
Radiology:		
Salaries and wages	129,611	115,370
Employee benefits	22,984	18,962
Supplies and other expense	<u>26,892</u>	<u>31,051</u>
	179,487	165,383
CT Scan:		
Salaries and wages	10,902	8,651
Employee benefits	2,047	1,542
Supplies and other expense	<u>101,355</u>	<u>55,102</u>
	114,304	65,295
Ultrasound:		
Salaries and wages	4,702	4,559
Employee benefits	606	584
Supplies and other expense	<u>25,756</u>	<u>34,674</u>
	31,064	39,817
Mammography:		
Salaries and wages	6,831	5,843
Employee benefits	1,158	982
Supplies and other expense	<u>3,339</u>	<u>6,555</u>
	11,328	13,380

(continued next page)

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

	<u>2006</u>	<u>2005</u>
Nuclear Imaging:		
Supplies and other expense	\$ 8,567	\$ 6,324
MRI:		
Supplies and other expense	102,967	82,792
Pharmacy:		
Salaries and wages	128,368	165,379
Employee benefits	31,207	33,116
Professional fees	25,372	991
Drugs	349,018	255,379
Supplies and other expense	<u>11,644</u>	<u>13,939</u>
	545,609	468,804
Anesthesia:		
Professional fees	108,955	96,855
Supplies and other expense	<u>2,886</u>	<u>2,671</u>
	111,841	99,526
Respiratory Therapy:		
Salaries and wages	48,489	31,262
Employee benefits	9,256	6,043
Oxygen, supplies and other expense	<u>63,428</u>	<u>32,770</u>
	121,173	70,075
Speech Therapy:		
Professional fees	2,900	6,560
Supplies and other expense	<u>4</u>	<u>98</u>
	2,904	6,658
Physical Therapy:		
Salaries and wages	157,541	164,456
Employee benefits	32,584	35,809
Supplies and other expense	<u>29,823</u>	<u>13,059</u>
	219,948	213,324
Occupational Therapy:		
Professional fees	46,200	51,680
Supplies and other expense	<u>1,375</u>	<u>445</u>
	47,575	52,125

(continued next page)

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

	<u>2006</u>	<u>2005</u>
Neurology:		
Salaries and wages	\$ 30,294	\$ 44,169
Employee benefits	<u>4,059</u>	<u>5,918</u>
	34,353	50,087
Medical Records:		
Salaries and wages	155,153	142,680
Employee benefits	38,493	31,948
Supplies and other expense	<u>30,206</u>	<u>33,923</u>
	223,852	208,551
Social Services:		
Salaries and wages	30,633	31,293
Employee benefits	4,093	4,217
Supplies and other expense	<u>1,520</u>	<u>3,958</u>
	36,246	39,468
Outpatient Clinics:		
Salaries and wages	32,363	39,927
Employee benefits	6,474	7,201
Supplies and other expense	<u>5,432</u>	<u>8,190</u>
	44,269	55,318
Fitness Center:		
Salaries and wages	21,249	8,244
Employee benefits	6,556	705
Supplies and other expense	<u>51,296</u>	<u>2,134</u>
	79,101	11,083
Diabetic Education:		
Salaries and wages	13,347	17,857
Employee benefits	1,728	2,500
Supplies and other expense	<u>1,372</u>	<u>3,299</u>
	<u>16,447</u>	<u>23,656</u>
	<u>\$ 2,476,517</u>	<u>\$ 2,129,527</u>

SUMMARY

Salaries and wages	\$ 976,519	\$ 959,949
Employee benefits	221,398	203,161
Professional fees	186,177	157,430
Other expense	<u>1,092,423</u>	<u>808,987</u>
	<u>\$ 2,476,517</u>	<u>\$ 2,129,527</u>

See Independent Auditor's Report.

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

	2006	2005
Physician Service:		
Salaries and wages	\$ 251,094	\$ 293,325
Employee benefits	38,692	44,319
Supplies and other expense	11,507	25,281
	301,293	362,925
Nursing Service:		
Salaries and wages	94,298	82,466
Employee benefits	29,740	18,000
Medical supplies	57,757	41,094
Supplies and other expense	9,032	7,332
	190,827	148,892
Business Office:		
Salaries and wages	120,317	115,915
Employee benefits	40,877	37,022
Supplies and other expense	37,268	57,117
	198,462	210,054
Occupancy Costs:		
Rent	15,987	13,538
Utilities	19,203	18,519
	35,190	32,057
	\$ 725,772	\$ 753,928

SUMMARY

Salaries and wages	\$ 465,709	\$ 491,706
Employee benefits	109,309	99,341
Other expense	150,754	162,881
	\$ 725,772	\$ 753,928

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
General Service Expenses
Year ended June 30,

	2006	2005
Dietary:		
Salaries and wages	\$ 222,304	\$ 153,519
Employee benefits	52,171	40,295
Professional fees	105	7,176
Food	100,928	87,534
Supplies and other expense	78,550	31,621
	454,058	320,145
Operation of Plant:		
Salaries and wages	113,336	89,059
Employee benefits	29,250	19,652
Electricity	86,528	76,454
Gas	77,983	65,514
Supplies and other expense	110,710	90,182
	417,807	340,861
Housekeeping:		
Salaries and wages	89,865	76,247
Employee benefits	45,326	25,270
Supplies and other expense	16,908	14,703
	152,099	116,220
Laundry and Linen:		
Salaries and wages	--	53
Employee benefits	--	93
Purchased services	41,151	27,313
Supplies and other expense	2,227	3,656
	43,378	31,115
	\$ 1,067,342	\$ 808,341

SUMMARY

Salaries and wages	\$ 425,505	\$ 318,878
Employee benefits	126,747	85,310
Professional fees	105	7,176
Other expense	514,985	396,977
	\$ 1,067,342	\$ 808,341

See Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>
Fiscal and Administrative:		
Salaries and wages	\$ 500,875	\$ 520,984
Employee benefits	126,200	127,254
Advertising	51,021	40,499
Telephone	14,214	11,606
Supplies and minor equipment	64,143	39,609
Collection expense	34,046	30,251
Computer maintenance	28,482	32,740
Education and meetings	14,358	6,341
Professional fees	97,433	80,597
Printing and postage	18,943	20,489
Purchased services	16,354	16,605
Dues and subscriptions	10,495	14,546
Miscellaneous	6,714	11,318
	<u>983,278</u>	<u>952,839</u>
 Admissions Office:		
Salaries and wages	96,400	--
Employee benefits	32,850	--
Supplies and other expense	19,358	--
	<u>148,608</u>	<u>--</u>
 Information Systems:		
Salaries and wages	21,430	17,966
Employee benefits	6,127	4,255
Supplies and other expense	7,368	5,068
	<u>34,925</u>	<u>27,289</u>
 Employee Welfare:		
Salaries and wages	81,938	36,042
Employee benefits	14,169	6,086
Group health and life benefit	57,978	65,703
Workers' compensation insurance	59,219	41,929
Unemployment expense	286	--
Supplies and other expense	75,557	38,084
	<u>289,147</u>	<u>187,844</u>
 Insurance:		
Liability and property insurance	<u>63,985</u>	<u>58,099</u>
	<u>\$ 1,519,943</u>	<u>\$ 1,226,071</u>

(continued next page)

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

	<u>2006</u>	<u>2005</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 700,643	\$ 574,992
Employee benefits	372,386	283,311
Professional fees	97,433	80,597
Other expense	<u>349,481</u>	<u>287,171</u>
	<u>\$ 1,519,943</u>	<u>\$ 1,226,071</u>

<u>SUMMARY OF EXPENSES</u>		
Salaries and wages	\$ 3,913,839	\$ 3,606,187
Employee benefits	1,132,122	920,835
Professional fees	305,805	267,103
Other expense	<u>2,271,787</u>	<u>1,809,589</u>
	<u>\$ 7,623,553</u>	<u>\$ 6,603,714</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Acute Care:					
Admissions	302	322	292	290	397
Discharges	304	316	293	291	399
Patient days	896	904	880	871	1,133
Average length of stay	2.95	2.86	3.00	2.99	2.84
Average occupied beds	2.5	2.5	2.4	2.4	3.1
Swing Bed Program:					
Admissions	118	134	132	121	120
Discharges	115	135	135	117	120
Patient days	718	887	835	822	741
Combined Average Occupied Beds	4.4	4.9	4.7	4.6	5.1
Outpatient Occasions of Service	25,285	24,880	23,444	23,323	22,044

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Balance Sheets
June 30,

	2006	2005
Current Assets:		
Cash	\$ 555,869	\$ 551,187
Patient receivables, net	1,105,626	988,450
Other receivables	39,414	16,993
Inventory	171,111	155,125
Prepaid expense	65,148	68,063
Other current assets	15,156	24,529
Succeeding year property tax receivable	1,241,400	802,000
Internally designated assets	188,137	211,564
Total current assets	3,381,861	2,817,911
Other Assets:		
Designated and restricted assets, net	235,688	1,194,726
Capital assets, net	3,833,797	3,098,830
Total other assets	4,069,485	4,293,556
Total assets	\$ 7,451,346	\$ 7,111,467
Current Liabilities:		
Current maturities of long-term debt	\$ 97,500	\$ 166,400
Accounts payable	285,159	187,637
Accrued expenses	294,110	390,873
Estimated third-party payor settlements	1,000	267,000
Accrued interest	875	2,271
Deferred revenue for succeeding year property tax receivable	1,241,400	802,000
Total current liabilities	1,920,044	1,816,181
Long-Term Debt, Net	300,270	527,185
Total liabilities	2,220,314	2,343,366
Net Assets	5,231,032	4,768,101
Total liabilities and net assets	\$ 7,451,346	\$ 7,111,467

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 743,378	\$ 953,038	\$ 789,288
1,039,540	743,347	762,722
13,609	38,759	15,019
152,836	139,002	127,537
84,282	68,711	48,997
13,918	15,717	15,431
835,000	770,000	630,000
<u>270,443</u>	<u>236,500</u>	<u>207,980</u>
<u>3,153,006</u>	<u>2,965,074</u>	<u>2,596,974</u>
1,298,559	1,302,351	997,746
<u>2,609,011</u>	<u>2,316,243</u>	<u>2,462,041</u>
<u>3,907,570</u>	<u>3,618,594</u>	<u>3,459,787</u>
<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>	<u>\$ 6,056,761</u>
\$ 259,800	\$ 214,700	\$ 206,100
159,345	163,312	112,059
301,867	228,739	219,851
421,000	304,000	97,000
4,364	4,149	5,219
<u>835,000</u>	<u>770,000</u>	<u>630,000</u>
<u>1,981,376</u>	<u>1,684,900</u>	<u>1,270,229</u>
<u>737,615</u>	<u>617,937</u>	<u>861,731</u>
2,718,991	2,302,837	2,131,960
<u>4,341,585</u>	<u>4,280,831</u>	<u>3,924,801</u>
<u>\$ 7,060,576</u>	<u>\$ 6,583,668</u>	<u>\$ 6,056,761</u>

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

	<u>2006</u>	<u>2005</u>
Patient Service Revenue	\$ 9,282,260	\$ 7,750,823
Adjustments to Patient Service Revenue	<u>(1,865,805)</u>	<u>(1,573,924)</u>
Net Patient Service Revenue	7,416,455	6,176,899
Other Revenue	<u>203,416</u>	<u>177,679</u>
Total Revenue	7,619,871	6,354,578
Expenses	<u>8,074,333</u>	<u>7,007,930</u>
Operating Loss	(454,462)	(653,352)
Non-Operating Revenues, Net	<u>861,293</u>	<u>869,897</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	406,831	216,545
Capital Grants and Contributions	<u>56,100</u>	<u>209,971</u>
Increase in Net Assets	<u>\$ 462,931</u>	<u>\$ 426,516</u>

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 6,032,960	\$ 5,633,075	\$ 4,936,272
(1,003,663)	(997,229)	(819,271)
5,029,297	4,635,846	4,117,001
<u>177,885</u>	<u>176,416</u>	<u>160,580</u>
5,207,182	4,812,262	4,277,581
<u>5,990,247</u>	<u>5,145,486</u>	<u>4,559,462</u>
(783,065)	(333,224)	(281,881)
<u>808,648</u>	<u>653,672</u>	<u>636,732</u>
25,583	320,448	354,851
<u>35,171</u>	<u>35,582</u>	<u>30,300</u>
<u>\$ 60,754</u>	<u>\$ 356,030</u>	<u>\$ 385,151</u>

COMMENTS AND RECOMMENDATIONS

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

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
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, 2006, and have issued our report thereon dated October 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 06-I-A is a material weakness.

To the Board of Trustees
Guthrie County Hospital

Compliance and Other Matters

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, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items 06-II-B.

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.

Granewold, Bell, Kuhlman & Co. P.C.

Atlantic, Iowa
October 24, 2006

GUTHRIE COUNTY HOSPITAL
Schedule of Findings
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

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

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

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

Conclusion: Response accepted.

06-I-B Credit Cards: For convenience, the Hospital maintains two credit cards. No formal written policy has been established regarding credit card use.

Recommendation: The Hospital should adopt a formal written policy regarding credit card use. At a minimum the policy should address: who is authorized to use them, who maintains them, purposes they can be used for, and the retention and filing of invoices or receipts to document appropriateness of purchases.

Response: We will adopt a written policy governing credit card use and documentation requirements.

Conclusion: Response accepted.

06-I-C Purchasing Policy: The current Hospital purchasing policy requires purchase orders for all items, and allows payment of bills prior to Board approval. During our audit, we noted that various items were purchased without the use of purchase orders.

Recommendation: We recommend that management re-evaluate the current Purchasing Policy and consider the following potential revisions:

- a. Set a minimum dollar value for which purchase orders are required. (Continue to require documentation i.e. invoices or receipts for all purchases.) The policy should define the process to follow if an expenditure is made and the required purchase order was not obtained.
- b. Set a maximum level for purchases to be made without prior Board approval. Different levels should be set for capital items, service contracts, and regular repair and supply items. The policy should allow for emergency situations.

GUTHRIE COUNTY HOSPITAL
Schedule of Findings
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS - Continued

Response: We are currently in the process of re-writing this policy and will consider those revisions. We will continue to educate employees on the required use of purchase orders and monitor adherence to the policy.

Conclusion: Response accepted.

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PART II - REQUIRED STATUTORY REPORTING

06-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2006 exceeded amounts budgeted therefore by approximately \$71,000.

Recommendation: We recommend the Hospital periodically compare the budgeted expenditures to actual during the year, so an amended budget can be filed timely if it appears expenditures will exceed the amounts budgeted.

Response: We will periodically review the actual expenditures in the future and file an amended budget if necessary.

Conclusion: Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee Recognition Dinner	\$ 2,481

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 April 25, 1979.

Conclusion: Response accepted.

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

GUTHRIE COUNTY HOSPITAL
 Schedule of Findings
 Year ended June 30, 2006

PART II - REQUIRED STATUTORY REPORTING - Continued

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Linda Dorr, Lab employee wife of owner of M & L Service	Service	\$ 48

The transactions with M & L Service do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest.

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

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

The Hospital's written investment policy does not reflect the proper references to Chapters 12B and 12C of the Code of Iowa.

Recommendation: The Hospital should revise the written investment policy to reflect the proper references to Chapters 12B and 12C of the Code of Iowa.

Response: We are in the process of updating our written investment policy to reflect the proper references to Chapters 12B and 12C of the Code of Iowa.

Conclusion: Response accepted.

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