

GUTHRIE COUNTY HOSPITAL

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2007 AND 2006

GUTHRIE COUNTY HOSPITAL

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GUTHRIE COUNTY HOSPITAL
Officials
June 30, 2007

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Chris Schafer, Chairperson	Adair, Iowa	2010
Doug Hemphill, Vice-Chairperson	Panora, Iowa	2010
Jean Densmore, Secretary	Guthrie Center, Iowa	2010
Peg Shroyer, Treasurer	Panora, Iowa	2008
Donna Paglialunga	Guthrie Center, Iowa	2008
Roberta Simmons	Panora, Iowa	2012
Jim Robson	Guthrie Center, Iowa	2012
 <u>Administrator:</u>		
Gerald Neal	Guthrie Center, Iowa	
 <u>Chief Financial Officer:</u>		
Melinda Alt (began September, 2007)	Audubon, Iowa	
Amy Littler (resigned August, 2007)	Adair, 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

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
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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, 2007 and 2006, 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, 2007 and 2006, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2007 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 on pages 4 through 4g and the budgetary comparison schedule on page 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, 2005 (none of which are presented herein) and expressed qualified 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.

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

Atlantic, Iowa
September 11, 2007

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, 2007 and 2006. 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 \$1,277,000 during fiscal year 2007. Net assets, or total assets net of total liabilities, increased by approximately \$947,000 during fiscal 2007, an increase of approximately 18.1 percent.

The Hospital reported operating revenues for the year of \$8.1 million, an increase of approximately \$461,000 or 6.0 percent. Net revenues, or revenues after all expenditures, for 2007 were \$916,953, an increase of \$510,122 from 2006.

The Hospital reported expenditures for the year of \$8.5 million, an increase of approximately \$425,000 or 5.3 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
	2007	2006		
Assets:				
Current assets	\$ 3,484,527	\$ 3,381,861	\$ 102,666	3.0%
Designated and restricted assets	--	235,688	(235,688)	(100.0%)
Capital assets, net	5,241,914	3,833,797	1,408,117	36.7%
Other noncurrent assets	<u>37,506</u>	<u>36,000</u>	<u>1,506</u>	4.2%
Total assets	<u>\$ 8,763,947</u>	<u>\$ 7,487,346</u>	<u>\$ 1,276,601</u>	17.1%
Liabilities:				
Current liabilities	\$ 2,111,220	\$ 1,920,044	\$ 191,176	10.0%
Long-term debt	<u>474,242</u>	<u>336,270</u>	<u>137,972</u>	41.0%
Total liabilities	<u>2,585,462</u>	<u>2,256,314</u>	<u>329,148</u>	14.6%
Net Assets:				
Invested in capital assets, net of related debt	4,505,672	3,400,027	1,105,645	32.5%
Restricted - expendable	80,000	--	80,000	100.0%
Unrestricted	<u>1,592,813</u>	<u>1,831,005</u>	<u>(238,192)</u>	(13.1%)
Total net assets	<u>6,178,485</u>	<u>5,231,032</u>	<u>947,453</u>	18.1%
Total liabilities and net assets	<u>\$ 8,763,947</u>	<u>\$ 7,487,346</u>	<u>\$ 1,276,601</u>	17.1%

A 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 ASSETS AND DEBT ADMINISTRATION section.

The most significant component of the change in the Hospital's liabilities was the increased borrowing from the 2006 Bond Issue.. See related discussion in the CAPITAL ASSETS 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, 2007 and 2006.

Table 2
Condensed Operating Results and Changes in Net Assets

	June 30,		Dollar Change	Percent Change
	2007	2006		
Revenue:				
Net patient service revenue	\$ 7,867,814	\$ 7,416,455	\$ 451,359	6.1%
Other revenue	212,791	203,416	9,375	4.6%
Total revenue	<u>8,080,605</u>	<u>7,619,871</u>	<u>460,734</u>	6.0%
Expenses:				
Salaries and benefits	5,645,258	5,045,961	599,297	11.9%
Professional fees	269,287	305,805	(36,518)	(11.9%)
Supplies, contract services, equipment & other operating expenses	2,054,746	2,271,787	(217,041)	(9.6%)
Depreciation and amortization	530,179	450,780	79,399	17.6%
Total expenses	<u>8,499,470</u>	<u>8,074,333</u>	<u>425,137</u>	5.3%
Operating Loss	<u>(418,865)</u>	<u>(454,462)</u>	<u>35,597</u>	(7.8%)
Nonoperating Revenues and Expenses:				
County taxes	1,283,041	827,863	455,178	55.0%
Investment income	35,001	44,181	(9,180)	(20.8%)
Noncapital grants and contributions	20,603	16,586	4,017	24.2%
Interest expense	(7,317)	(24,497)	17,180	(70.1%)
Other nonoperating revenues and expenses, net	4,490	(2,840)	7,330	(258.1%)
	<u>1,335,818</u>	<u>861,293</u>	<u>474,525</u>	55.1%
Excess of Revenues Over Expenses Before Capital Grants and Contributions	916,953	406,831	510,122	125.4%
Capital Grants and Contributions	<u>30,500</u>	<u>56,100</u>	<u>(25,600)</u>	(45.6%)
Increase in net assets	947,453	462,931	484,522	104.7%
Net Assets Beginning of Year	<u>5,231,032</u>	<u>4,768,101</u>	<u>462,931</u>	9.7%
Net Assets End of Year	<u>\$ 6,178,485</u>	<u>\$ 5,231,032</u>	<u>\$ 947,453</u>	18.1%

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 2007 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. Efforts continued to make the community more aware of the services provided at the Hospital.

In 2007 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. 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. The community response to this addition has been very positive.

The Pharmacy addition was capitalized in June of 2007.

The primary components of these decreased operating losses were:

An increase in revenue of \$461,000 or 6.0%.

Increases in salary and benefit costs for the Hospital's employees (\$599,300 or 11.9% in 2007 and \$519,000 or 11.5 percent in 2006. Continued adjustments were made to salaries to match market conditions. The Hospital also added several key positions that deliver patient care in 2007. Staff education also received increased focus during fiscal 2007.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

Finally, a process of upgrading the physical plant was begun during 2004 and continued in 2007 by investing in a number of items, including the following:

- Emergency Department
- Pharmacy
- Radiology and,
- Patient rooms

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 provided by operating activities for 2007 were \$18,745. Comparatively, for fiscal 2006, cash flows used in operating activities were \$471,691, a net change of nearly \$490,500. This significant change was due to significantly increased cash receipts, and increasing expenses that were less 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, 2007 was prepared on the modified accrual basis. Actual budget basis revenues were lower than the budgeted amount of \$10,191,303 by \$737,063 or about 7.2 percent. Actual expenditures were also lower than budgeted expenditures. Actual budget basis expenditures were \$7,976,608 as compared to budgeted expenditures of \$8,871,750, a difference of \$895,142 or about 10.1 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 \$1,064,430. The Hospital invested \$1,500,733 in construction in progress, during 2007 but capitalized \$626,867 to end the year with a balance of \$1,041,689. 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>2007 Cost</u>
Pharmacy Addition	Various	Building	\$ 573,750
Pyxis Medstation 3000	Cardinal	Pharmacy	70,610
Anesthesia Machine	Datex-Ohmeda, Inc	Operating Room	41,605
Surgery Table	Skytron	Operating Room	41,101
Boiler Blanket	Alliant Energy	Building	35,460

Capital assets for the years ended June 30, 2007 and 2006 are shown in the following table, Table 4:

**Table 4
Capital Assets**

	<u>June 30,</u>		<u>Dollar Change</u>	<u>Percent Change</u>
	<u>2007</u>	<u>2006</u>		
Land and land improvements	\$ 301,319	\$ 296,141	\$ 5,178	1.7%
Buildings	4,976,956	4,351,973	624,983	14.4%
Fixed equipment	1,329,509	1,225,047	104,462	8.5%
Major movable equipment	<u>2,582,670</u>	<u>2,376,697</u>	<u>205,973</u>	8.7%
Subtotal	9,190,454	8,249,858	940,596	11.4%
Less accumulated depreciation	4,990,229	4,583,884	406,345	8.9%
Construction in progress	<u>1,041,689</u>	<u>167,823</u>	<u>873,866</u>	520.7%
Net capital assets	<u>\$ 5,241,914</u>	<u>\$ 3,833,797</u>	<u>\$ 1,408,117</u>	36.7%

Net capital assets 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 \$736,242 in short-term and long-term debt. The debt amount is shown on the balance sheet net of 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 increased by \$302,472 in fiscal year 2007. 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 8.0% of the Hospital's total assets at June 30, 2007.

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>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 463,003	\$ 555,869
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$404,500 in 2007, \$306,000 in 2006)	1,215,436	1,105,626
Other receivables	24,590	39,414
Inventory	163,866	171,111
Prepaid expense	62,795	65,148
Other current assets	22,761	15,156
Estimated third-party payor settlements	58,500	--
Succeeding year property tax receivable	1,156,100	1,241,400
Internally designated assets	<u>317,476</u>	<u>188,137</u>
Total current assets	3,484,527	3,381,861
Designated and Restricted Assets:		
Internally designated assets	237,476	423,825
Restricted assets	<u>80,000</u>	<u>--</u>
	317,476	423,825
Less amounts required to meet current liabilities	<u>317,476</u>	<u>188,137</u>
	--	235,688
Capital Assets:		
Depreciable capital assets, net	4,178,842	3,644,591
Non-depreciable capital assets	<u>1,063,072</u>	<u>189,206</u>
	5,241,914	3,833,797
Deferred Financing Costs	<u>37,506</u>	<u>36,000</u>
Total assets	<u>\$ 8,763,947</u>	<u>\$ 7,487,346</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 262,000	\$ 97,500
Accounts payable	307,614	285,159
Accrued employee compensation	371,807	283,991
Payroll taxes withheld and accrued	13,264	6,119
Estimated third-party payor settlements	--	1,000
Accrued interest	435	875
Other accrued expenses	--	4,000
Deferred revenue for succeeding year property tax receivable	<u>1,156,100</u>	<u>1,241,400</u>
Total current liabilities	<u>2,111,220</u>	<u>1,920,044</u>
Long-Term Debt:		
Revenue bonds, less current maturities	440,000	200,000
Capital lease obligations, less current maturities	<u>34,242</u>	<u>136,270</u>
Total long-term debt	<u>474,242</u>	<u>336,270</u>
Total liabilities	2,585,462	2,256,314
Net Assets:		
Invested in capital assets, net of related debt	4,505,672	3,400,027
Restricted - expendable	80,000	--
Unrestricted	<u>1,592,813</u>	<u>1,831,005</u>
Total net assets	<u>6,178,485</u>	<u>5,231,032</u>
Total liabilities and net assets	<u>\$ 8,763,947</u>	<u>\$ 7,487,346</u>

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

	<u>2007</u>	<u>2006</u>
Revenue:		
Net patient service revenue	\$ 7,867,814	\$ 7,416,455
Other revenue	<u>212,791</u>	<u>203,416</u>
Total revenue	8,080,605	7,619,871
Expenses:		
Nursing service	2,002,153	1,833,979
Other professional service	2,649,721	2,476,517
Physician clinic service	718,322	725,772
General service	1,025,053	1,067,342
Fiscal and administrative service	1,574,042	1,519,943
Provision for depreciation	<u>530,179</u>	<u>450,780</u>
Total expenses	<u>8,499,470</u>	<u>8,074,333</u>
Operating Loss	(418,865)	(454,462)
Non-Operating Revenues (Expenses):		
County taxes	1,283,041	827,863
Investment income	35,001	44,181
Noncapital grants and contributions	20,603	16,586
Gain (loss) on disposal of property and equipment	4,490	(2,840)
Interest expense	<u>(7,317)</u>	<u>(24,497)</u>
Non-operating revenues, net	<u>1,335,818</u>	<u>861,293</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	916,953	406,831
Capital Grants and Contributions	<u>30,500</u>	<u>56,100</u>
Increase in Net Assets	947,453	462,931
Net Assets Beginning of Year	<u>5,231,032</u>	<u>4,768,101</u>
Net Assets End of Year	<u>\$ 6,178,485</u>	<u>\$ 5,231,032</u>

The accompanying notes are an integral part of these statements.

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

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 7,713,328	\$ 7,010,858
Cash paid to suppliers	(3,585,186)	(3,675,740)
Cash paid to employees	(4,322,188)	(4,010,225)
Other revenue	<u>212,791</u>	<u>203,416</u>
Net cash provided by (used in) operating activities	18,745	(471,691)
Cash flows from non-capital financing activities:		
County tax revenue	1,283,041	827,863
Noncapital grants and contributions	<u>20,603</u>	<u>16,586</u>
Net cash provided by non-capital financing activities	1,303,644	844,449
Cash flows from capital and related financing activities:		
Capital grants and contributions	30,500	56,100
Capital expenditures	(462,302)	(345,446)
Construction in progress expenditures	(1,408,502)	(797,788)
Principal paid on long-term debt	--	(370,447)
Principal paid on capital leases	(97,528)	(93,579)
Proceeds from revenue bonds	400,000	178,000
Proceeds from sale of property and equipment	4,490	120
Interest paid	(7,757)	(21,682)
Deferred financing costs paid	<u>(15,506)</u>	<u>--</u>
Net cash used in capital and related financing activities	(1,556,605)	(1,394,722)
Cash flows from investing activities:		
Investment income	35,001	44,181
Change in designated and restricted assets	<u>(80,625)</u>	<u>101,051</u>
Net cash provided by (used in) investing activities	(45,624)	145,232
Net decrease in cash and cash equivalents	(279,840)	(876,732)
Cash and cash equivalents at beginning of year	<u>746,480</u>	<u>1,623,212</u>
Cash and cash equivalents at end of year	<u>\$ 466,640</u>	<u>\$ 746,480</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 463,003	\$ 555,869
Cash and cash equivalents in designated and restricted assets	<u>3,637</u>	<u>190,611</u>
Total cash and cash equivalents	<u>\$ 466,640</u>	<u>\$ 746,480</u>

(continued next page)

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

	2007	2006
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(418,865)	\$(454,462)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	530,179	450,780
Provision for bad debts	275,599	234,465
Change in assets and liabilities		
Accounts receivable	(370,585)	(374,062)
Inventory	7,245	(15,986)
Prepaid expense	2,353	2,915
Other current assets	(7,605)	9,373
Accounts payable, trade	(31,037)	38,049
Accrued employee compensation	87,816	(96,386)
Payroll taxes withheld and accrued	7,145	(4,377)
Estimated third-party payor settlements	(59,500)	(266,000)
Other accrued expenses	(4,000)	4,000
Total adjustments	437,610	(17,229)
Net cash provided by (used in) operating activities	\$ 18,745	\$(471,691)

The accompanying notes are an integral part of these statements.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

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 \$30,500 in capital contributions from the Foundation during the year ended June 30, 2007 (\$56,100 in 2006). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$377,000 (\$177,000 in 2006) and an increase in the change in net assets of approximately \$200,000 (\$19,000 decrease in 2006) for the year ended June 30, 2007.

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, 2007 and 2006

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. The Hospital capitalized \$21,473 of interest cost in 2007 and none in 2006.

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, 2007 and 2006

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, 2007 and 2006

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 and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2005. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary 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>2007</u>	<u>2006</u>
Long-term debt	<u>\$ 80,000</u>	<u>\$ --</u>

The Hospital has no restricted non-expendable net assets or endowments at June 30, 2007 or 2006.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE C - RESTRICTED NET ASSETS - Continued

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

	2007	2006
Purchase of property and equipment	\$ 30,500	\$ 56,100

NOTE D - DESIGNATED NET ASSETS

Of the \$1,592,813 (\$1,831,005 as of June 30, 2006) of unrestricted net assets as of June 30, 2007, \$237,476 (\$423,825 for 2006) 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, 2007 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:

	2007	2006
Internally Designated Assets:		
Cash and cash equivalents	\$ 3,637	\$ 190,611
Certificates of deposit	230,000	230,000
GNMA pool	755	806
Interest receivable	3,084	2,408
	\$ 237,476	\$ 423,825
Restricted Assets:		
Certificates of deposit	\$ 80,000	\$ --

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, 2007 and 2006

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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Receivable from:		
Patients	\$ 363,628	\$ 413,097
Medicare	621,029	444,173
Medicaid	75,465	45,099
Blue Cross	229,698	229,771
Other commercial insurance carriers	329,510	277,623
Others	606	1,863
	<u>1,619,936</u>	<u>1,411,626</u>
Less allowances for doubtful accounts and contractual adjustments	<u>404,500</u>	<u>306,000</u>
	<u>\$ 1,215,436</u>	<u>\$ 1,105,626</u>

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2007 and 2006 were as follows:

<u>Cost</u>	<u>Balance</u> <u>2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2007</u>
Land Improvements	\$ 274,758	\$ 5,178	\$ --	\$ 279,936
Buildings	4,351,973	624,983	--	4,976,956
Fixed Equipment	1,225,047	104,462	--	1,329,509
Major Movable Equipment	<u>2,376,697</u>	<u>329,807</u>	<u>123,834</u>	<u>2,582,670</u>
	8,228,475	1,064,430	123,834	9,169,071
<u>Depreciation</u>				
Land Improvements	169,185	15,433	--	184,618
Buildings	2,084,721	188,440	--	2,273,161
Fixed Equipment	701,400	48,724	--	750,124
Major Movable Equipment	<u>1,628,578</u>	<u>277,582</u>	<u>123,834</u>	<u>1,782,326</u>
Total Depreciation	<u>4,583,884</u>	<u>530,179</u>	<u>123,834</u>	<u>4,990,229</u>
Total Depreciable Capital Assets, Net	<u>\$ 3,644,591</u>	<u>\$ 534,251</u>	<u>\$ --</u>	<u>\$ 4,178,842</u>
Construction in Progress	\$ 167,823	\$1,500,733	\$ 626,867	\$ 1,041,689
Land	<u>21,383</u>	<u>--</u>	<u>--</u>	<u>21,383</u>
Total Non-Depreciable Capital Assets	<u>\$ 189,206</u>	<u>\$1,500,733</u>	<u>\$ 626,867</u>	<u>\$ 1,063,072</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE G - CAPITAL ASSETS - Continued

<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>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2007 and 2006 follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2006 revenue bonds	\$ 200,000	\$ 400,000	\$ --	\$ 600,000	\$ 160,000
Capital Lease Obligations	<u>233,770</u>	<u>--</u>	<u>97,528</u>	<u>136,242</u>	<u>102,000</u>
Total Non-Current Liabilities	<u>\$ 433,770</u>	<u>\$ 400,000</u>	<u>\$ 97,528</u>	<u>\$ 736,242</u>	<u>\$ 262,000</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance</u> <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>2006</u>	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Series 2006 revenue bonds	\$ --	\$ 200,000	\$ --	\$ 200,000	\$ --
Series 1995 revenue bonds	370,447	--	370,447	--	--
Less unamortized discount	<u>2,606</u>	<u>--</u>	<u>2,606</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>367,841</u>	<u>200,000</u>	<u>367,841</u>	<u>200,000</u>	<u>--</u>
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>\$ 695,190</u>	<u>\$ 200,000</u>	<u>\$ 461,420</u>	<u>\$ 433,770</u>	<u>\$ 97,500</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 J) develops. Through June 30, 2007, the Hospital had drawn \$600,000 on these bonds to pay for issuance costs of the bonds and construction costs incurred through June 30, 2007. 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 was payable quarterly through June 30, 2007. Commencing September 30, 2007, the bonds mature in quarterly installments of principal in the amount of \$40,000 plus interest. The bonds are payable from and secured by a lien on net revenues of the Hospital.

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. 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, 2007 and 2006

NOTE H - NON-CURRENT LIABILITIES - Continued

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

	2007	2006
Cost	\$ 522,940	\$ 522,940
Less: Accumulated Amortization	374,773	270,185
Net Book Value	\$ 148,167	\$ 252,755

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
2008	\$ 160,000	\$ 26,431	\$ 102,000	\$ 3,700
2009	160,000	18,554	34,242	308
2010	160,000	10,748	--	--
2011	120,000	2,941	--	--
	\$ 600,000	\$ 58,674	\$ 136,242	\$ 4,008

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

Year ending June 30,	Minimum Lease Payments
2008	\$ 16,691
2009	16,691
2010	12,519
	\$ 45,901

Expense recorded under these leases was \$19,195 in 2007 (\$12,335 in 2006).

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2007 and 2006

NOTE I - 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% (3.90% beginning July 1, 2007) of their annual salary and the Hospital is required to contribute 5.75% (6.05% beginning July 1, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were approximately \$249,200, \$224,300, and \$201,600, respectively, equal to the required contributions for each year.

NOTE J - 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 \$108,304 at June 30, 2007 (\$128,135 at June 30, 2006) 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, 2007 and 2006

NOTE J - 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. By June 30, 2007, the first phase of the project was completed and placed into service. During the year ended June 30, 2007, construction began on the remaining phases of the project, which have an estimated cost of approximately \$2,200,000. At June 30, 2007, costs incurred on these remaining phases totaled \$1,041,689. 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, 2007

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	\$ 1,283,041	\$ --	\$ 1,283,041	
Other revenues	8,133,382	30,500	8,163,882	
Transfers in (out)	<u>30,500</u>	<u>(30,500)</u>	<u>--</u>	
	9,446,923	--	9,446,923	
Expenses	<u>8,499,470</u>	<u>--</u>	<u>8,499,470</u>	
Net	947,453	--	947,453	
Balance beginning of year	<u>5,231,032</u>	<u>--</u>	<u>5,231,032</u>	
Balance end of year	<u>\$ 6,178,485</u>	<u>\$ --</u>	<u>\$ 6,178,485</u>	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,283,041	\$ --	\$ 1,283,041	\$ 1,241,356
Other revenues	<u>8,163,882</u>	<u>7,317</u>	<u>8,171,199</u>	<u>8,949,947</u>
	9,446,923	7,317	9,454,240	10,191,303
Expenses	<u>8,499,470</u>	<u>(522,862)</u>	<u>7,976,608</u>	<u>8,871,750</u>
Net	947,453	530,179	1,477,632	1,319,553
Balance beginning of year	<u>5,231,032</u>	<u>(74,436)</u>	<u>5,156,596</u>	<u>5,156,596</u>
Balance end of year	<u>\$ 6,178,485</u>	<u>\$ 455,743</u>	<u>\$ 6,634,228</u>	<u>\$ 6,476,149</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

GUTHRIE COUNTY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
In hospital - 30	\$ 896,204	55%	\$ 771,836	55%
31 - 60	356,519	22	203,759	14
61 - 90	103,123	6	155,240	11
91 - 150	120,543	8	129,730	9
151 - 180	31,803	2	28,312	2
181 and over	111,744	7	122,749	9
	<u>1,619,936</u>	<u>100%</u>	<u>1,411,626</u>	<u>100%</u>
Allowance for doubtful accounts	196,000		197,000	
Allowance for contractual adjustments	<u>208,500</u>		<u>109,000</u>	
	<u>\$ 1,215,436</u>		<u>\$ 1,105,626</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Balance, beginning	\$ 197,000	\$ 189,384
Provision for bad debts	275,599	234,465
Recoveries of accounts previously written off	<u>458,405</u>	<u>168,968</u>
	931,004	592,817
Accounts written off	<u>735,004</u>	<u>395,817</u>
Balance, ending	<u>\$ 196,000</u>	<u>\$ 197,000</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2007	2006
<u>Inventory</u>		
Medical and surgical supplies	\$ 41,693	\$ 45,064
Laboratory	24,472	24,023
Pharmacy	78,482	78,118
Business office	--	4,106
Other	19,219	19,800
	\$ 163,866	\$ 171,111
 <u>Prepaid Expense</u>		
Insurance	\$ 15,316	\$ 7,270
Service contracts and dues	47,479	57,878
	\$ 62,795	\$ 65,148

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Patient Service Revenue
Year ended June 30,

	<u>2007</u>	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 741,155	\$ --
Special care	11,754	--
Swing bed	--	--
	<u>752,909</u>	<u>--</u>
Other Nursing Services:		
Cardiac rehabilitation	--	146,637
Operating and recovery rooms	35,482	536,052
Emergency room	58,361	559,190
Central services and supply	28,948	66,392
Intravenous therapy	31,245	33,116
Observation	66,665	314,198
	<u>220,701</u>	<u>1,655,585</u>
Other Professional Services:		
Laboratory	226,876	1,586,198
Blood	9,265	58,049
Electrocardiology	15,528	71,314
Radiology	38,603	348,565
CT scan	118,871	792,200
Ultrasound	17,408	223,511
Mammography	--	118,358
Nuclear imaging	877	15,466
MRI	18,086	555,821
Pharmacy	205,566	745,877
Anesthesia	23,063	197,720
Respiratory therapy	127,858	223,201
Speech therapy	868	5,857
Physical therapy	33,566	515,528
Occupational therapy	1,650	99,668
Neurology	123	34,498
Outpatient clinics	285	47,108
Diabetic education	--	20,894
Hospice	--	--
Clinic professional fees	--	--
	<u>838,493</u>	<u>5,659,833</u>
	<u>\$ 1,812,103</u>	<u>\$ 7,315,418</u>

See Independent Auditor's Report.

	2007		2006	
Swing Bed	Clinic	Total	Total	
\$ --	\$ --	\$ 741,155	\$ 633,724	
--	--	11,754	18,822	
<u>232,909</u>	<u>--</u>	<u>232,909</u>	<u>186,680</u>	
232,909	--	985,818	839,226	
--	--	146,637	102,381	
4,708	--	576,242	640,712	
44	--	617,595	529,930	
5,798	--	101,138	127,881	
5,029	--	69,390	70,875	
<u>--</u>	<u>--</u>	<u>380,863</u>	<u>369,694</u>	
15,579	--	1,891,865	1,841,473	
41,378	10,152	1,864,604	1,502,370	
1,223	--	68,537	66,435	
606	--	87,448	76,673	
6,143	--	393,311	324,001	
12,648	--	923,719	740,724	
8,637	--	249,556	204,801	
--	--	118,358	111,516	
784	--	17,127	16,923	
6,671	--	580,578	560,991	
130,056	89,925	1,171,424	1,290,623	
1,099	--	221,882	164,919	
77,841	--	428,900	378,546	
3,973	--	10,698	6,851	
84,352	--	633,446	439,730	
21,841	--	123,159	104,880	
--	--	34,621	32,616	
2,139	--	49,532	43,401	
--	--	20,894	23,247	
43,222	--	43,222	28,391	
<u>--</u>	<u>518,167</u>	<u>518,167</u>	<u>483,923</u>	
<u>442,613</u>	<u>618,244</u>	<u>7,559,183</u>	<u>6,601,561</u>	
<u>\$ 691,101</u>	<u>\$ 618,244</u>	<u>\$ 10,436,866</u>	<u>\$ 9,282,260</u>	

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

	2007	2006
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 10,436,866	\$ 9,282,260
Contractual adjustments	(2,266,498)	(1,606,421)
Provision for bad debts	(275,599)	(234,465)
Charity care	(26,955)	(24,919)
	<u>\$ 7,867,814</u>	<u>\$ 7,416,455</u>
<u>Other Revenue</u>		
Dietary revenue	\$ 51,140	\$ 50,271
Congregate meals	52,839	57,220
Ancillary service coverage revenue	25,334	14,647
Outpatient clinic rental	28,000	28,119
Fitness center	45,596	42,106
Wellness revenue	1,736	1,857
Pharmacy student income	4,000	1,500
Miscellaneous income	4,146	7,696
	<u>\$ 212,791</u>	<u>\$ 203,416</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Nursing Service Expenses
Year ended June 30,

	2007	2006
Administrative:		
Salaries and wages	\$ 71,792	\$ 68,706
Employee benefits	12,810	11,974
Supplies and other expense	3,487	1,780
	88,089	82,460
Medical, Surgical and Obstetric:		
Salaries and wages	747,995	690,057
Employee benefits	195,209	173,653
Supplies and other expense	55,076	39,171
	998,280	902,881
Cardiac Rehabilitation:		
Salaries and wages	60,210	49,437
Employee benefits	7,589	6,524
Supplies and other expense	3,784	4,031
	71,583	59,992
Operating and Recovery Rooms:		
Salaries and wages	35,108	34,320
Employee benefits	8,688	8,560
Supplies and other expense	65,320	62,013
	109,116	104,893
Emergency Room:		
Salaries and wages	89,155	74,698
Employee benefits	21,385	17,494
Supplies and other expense	13,131	27,145
	123,671	119,337
Emergency Room Professional:		
Salaries and wages	395,457	368,456
Employee benefits	62,497	59,340
Professional fees	43,043	22,090
	500,997	449,886

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Central Services and Supply:		
Salaries and wages	\$ 65,638	\$ 59,789
Employee benefits	21,404	24,737
Supplies and other expense	<u>21,141</u>	<u>27,147</u>
	108,183	111,673
 Intravenous Therapy:		
Solutions and supplies	<u>2,234</u>	<u>2,857</u>
	<u>\$ 2,002,153</u>	<u>\$ 1,833,979</u>

SUMMARY

Salaries and wages	\$ 1,465,355	\$ 1,345,463
Employee benefits	329,582	302,282
Professional fees	43,043	22,090
Other expense	<u>164,173</u>	<u>164,144</u>
	<u>\$ 2,002,153</u>	<u>\$ 1,833,979</u>

See Independent Auditor's Report.

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

	2007	2006
Laboratory:		
Salaries and wages	\$ 232,651	\$ 203,501
Employee benefits	66,119	59,120
Professional fees	3,125	2,750
Supplies and other expense	230,067	229,998
	531,962	495,369
Blood:		
Blood	39,899	45,258
Supplies and other expense	--	165
	39,899	45,423
Electrocardiology:		
Salaries and wages	3,810	3,535
Employee benefits	1,181	1,033
Supplies and other expense	79	122
	5,070	4,690
Radiology:		
Salaries and wages	186,356	129,611
Employee benefits	40,702	22,984
Supplies and other expense	40,801	26,892
	267,859	179,487
CT Scan:		
Salaries and wages	14,633	10,902
Employee benefits	2,949	2,047
Supplies and other expense	97,792	101,355
	115,374	114,304
Ultrasound:		
Salaries and wages	4,359	4,702
Employee benefits	1,024	606
Supplies and other expense	32,570	25,756
	37,953	31,064
Mammography:		
Salaries and wages	7,009	6,831
Employee benefits	1,558	1,158
Supplies and other expense	5,884	3,339
	14,451	11,328

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Nuclear Imaging:		
Supplies and other expense	\$ 8,633	\$ 8,567
MRI:		
Supplies and other expense	93,154	102,967
Pharmacy:		
Salaries and wages	232,541	128,368
Employee benefits	51,382	31,207
Professional fees	3,229	25,372
Drugs	250,361	349,018
Supplies and other expense	<u>20,406</u>	<u>11,644</u>
	557,919	545,609
Anesthesia:		
Professional fees	88,715	108,955
Supplies and other expense	<u>2,385</u>	<u>2,886</u>
	91,100	111,841
Respiratory Therapy:		
Salaries and wages	68,658	48,489
Employee benefits	12,480	9,256
Oxygen, supplies and other expense	<u>67,705</u>	<u>63,428</u>
	148,843	121,173
Speech Therapy:		
Professional fees	4,560	2,900
Supplies and other expense	<u>176</u>	<u>4</u>
	4,736	2,904
Physical Therapy:		
Salaries and wages	197,073	157,541
Employee benefits	43,555	32,584
Supplies and other expense	<u>21,710</u>	<u>29,823</u>
	262,338	219,948
Occupational Therapy:		
Professional fees	48,600	46,200
Supplies and other expense	<u>--</u>	<u>1,375</u>
	48,600	47,575

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Neurology:		
Salaries and wages	\$ 21,618	\$ 30,294
Employee benefits	<u>2,896</u>	<u>4,059</u>
	24,514	34,353
Medical Records:		
Salaries and wages	173,121	155,153
Employee benefits	41,324	38,493
Supplies and other expense	<u>40,379</u>	<u>30,206</u>
	254,824	223,852
Social Services:		
Salaries and wages	31,549	30,633
Employee benefits	4,222	4,093
Supplies and other expense	<u>1,415</u>	<u>1,520</u>
	37,186	36,246
Outpatient Clinics:		
Salaries and wages	28,051	32,363
Employee benefits	5,396	6,474
Supplies and other expense	<u>5,157</u>	<u>5,432</u>
	38,604	44,269
Fitness Center:		
Salaries and wages	28,184	21,249
Employee benefits	6,501	6,556
Supplies and other expense	<u>12,819</u>	<u>51,296</u>
	47,504	79,101
Diabetic Education:		
Salaries and wages	14,403	13,347
Employee benefits	1,976	1,728
Supplies and other expense	<u>2,819</u>	<u>1,372</u>
	<u>19,198</u>	<u>16,447</u>
	<u>\$ 2,649,721</u>	<u>\$ 2,476,517</u>

SUMMARY

Salaries and wages	\$ 1,244,016	\$ 976,519
Employee benefits	283,265	221,398
Professional fees	148,229	186,177
Other expense	<u>974,211</u>	<u>1,092,423</u>
	<u>\$ 2,649,721</u>	<u>\$ 2,476,517</u>

See Independent Auditor's Report.

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

	2007	2006
Physician Service:		
Salaries and wages	\$ 263,399	\$ 251,094
Employee benefits	43,059	38,692
Supplies and other expense	14,685	11,507
	321,143	301,293
Nursing Service:		
Salaries and wages	94,745	94,298
Employee benefits	34,724	29,740
Medical supplies	49,384	57,757
Supplies and other expense	16,141	9,032
	194,994	190,827
Business Office:		
Salaries and wages	99,590	120,317
Employee benefits	20,656	40,877
Supplies and other expense	46,395	37,268
	166,641	198,462
Occupancy Costs:		
Rent	7,995	15,987
Utilities	27,549	19,203
	35,544	35,190
	\$ 718,322	\$ 725,772

SUMMARY

Salaries and wages	\$ 457,734	\$ 465,709
Employee benefits	98,439	109,309
Other expense	162,149	150,754
	\$ 718,322	\$ 725,772

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
General Service Expenses
Year ended June 30,

	2007	2006
Dietary:		
Salaries and wages	\$ 198,109	\$ 222,304
Employee benefits	71,667	52,171
Professional fees	96	105
Food	103,868	100,928
Supplies and other expense	28,818	78,550
	402,558	454,058
Operation of Plant:		
Salaries and wages	164,915	113,336
Employee benefits	35,813	29,250
Electricity	90,761	86,528
Gas	84,564	77,983
Supplies and other expense	76,256	110,710
	452,309	417,807
Housekeeping:		
Salaries and wages	92,621	89,865
Employee benefits	43,716	45,326
Supplies and other expense	18,121	16,908
	154,458	152,099
Laundry and Linen:		
Purchased services	13,849	41,151
Supplies and other expense	1,879	2,227
	15,728	43,378
	\$ 1,025,053	\$ 1,067,342

SUMMARY

Salaries and wages	\$ 455,645	\$ 425,505
Employee benefits	151,196	126,747
Professional fees	96	105
Other expense	418,116	514,985
	\$ 1,025,053	\$ 1,067,342

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Fiscal and Administrative:		
Salaries and wages	\$ 532,592	\$ 500,875
Employee benefits	147,561	126,200
Advertising	32,646	51,021
Telephone	20,051	14,214
Supplies and minor equipment	36,448	64,143
Collection expense	34,497	34,046
Computer maintenance	39,182	28,482
Education and meetings	13,762	14,358
Professional fees	77,919	97,433
Printing and postage	18,187	18,943
Purchased services	16,975	16,354
Dues and subscriptions	12,932	10,495
Miscellaneous	3,730	6,714
	<u>986,482</u>	<u>983,278</u>
Admissions Office:		
Salaries and wages	98,883	96,400
Employee benefits	38,084	32,850
Supplies and other expense	18,529	19,358
	<u>155,496</u>	<u>148,608</u>
Information Systems:		
Salaries and wages	44,871	21,430
Employee benefits	12,710	6,127
Supplies and other expense	11,427	7,368
	<u>69,008</u>	<u>34,925</u>
Employee Welfare:		
Salaries and wages	110,908	81,938
Employee benefits	20,192	14,169
Group health and life benefit	56,481	57,978
Workers' compensation insurance	46,626	59,219
Unemployment expense	8,333	286
Supplies and other expense	42,785	75,557
	<u>285,325</u>	<u>289,147</u>
Insurance:		
Liability and property insurance	<u>77,731</u>	<u>63,985</u>
	<u>\$ 1,574,042</u>	<u>\$ 1,519,943</u>

(continued next page)

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

	2007	2006
<u>SUMMARY</u>		
Salaries and wages	\$ 787,254	\$ 700,643
Employee benefits	372,772	372,386
Professional fees	77,919	97,433
Other expense	336,097	349,481
	\$ 1,574,042	\$ 1,519,943

<u>SUMMARY OF EXPENSES</u>		
Salaries and wages	\$ 4,410,004	\$ 3,913,839
Employee benefits	1,235,254	1,132,122
Professional fees	269,287	305,805
Other expense	2,054,746	2,271,787
	\$ 7,969,291	\$ 7,623,553

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Acute Care:					
Admissions	316	302	322	292	290
Discharges	317	304	316	293	291
Patient days	919	896	904	880	871
Average length of stay	2.90	2.95	2.86	3.00	2.99
Average occupied beds	2.5	2.5	2.5	2.4	2.4
Swing Bed Program:					
Admissions	127	118	134	132	121
Discharges	128	115	135	135	117
Patient days	799	718	887	835	822
Combined Average Occupied Beds	4.7	4.4	4.9	4.7	4.6
Outpatient Occasions of Service	26,402	25,285	24,880	23,444	23,323

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 463,003	\$ 555,869
Patient receivables, net	1,215,436	1,105,626
Other receivables	24,590	39,414
Inventory	163,866	171,111
Prepaid expense	62,795	65,148
Other current assets	22,761	15,156
Estimated third-party payor settlements	58,500	--
Succeeding year property tax receivable	1,156,100	1,241,400
Internally designated assets	317,476	188,137
Total current assets	<u>3,484,527</u>	<u>3,381,861</u>
Other Assets:		
Designated and restricted assets, net	--	235,688
Capital assets, net	5,241,914	3,833,797
Deferred financing costs	37,506	36,000
Total other assets	<u>5,279,420</u>	<u>4,105,485</u>
Total assets	<u>\$ 8,763,947</u>	<u>\$ 7,487,346</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 262,000	\$ 97,500
Accounts payable	307,614	285,159
Accrued expenses	385,071	294,110
Estimated third-party payor settlements	--	1,000
Accrued interest	435	875
Deferred revenue for succeeding year property tax receivable	1,156,100	1,241,400
Total current liabilities	<u>2,111,220</u>	<u>1,920,044</u>
Long-Term Debt, Net	<u>474,242</u>	<u>336,270</u>
Total liabilities	2,585,462	2,256,314
Net Assets	<u>6,178,485</u>	<u>5,231,032</u>
Total liabilities and net assets	<u>\$ 8,763,947</u>	<u>\$ 7,487,346</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 551,187	\$ 743,378	\$ 953,038
988,450	1,039,540	743,347
16,993	13,609	38,759
155,125	152,836	139,002
68,063	84,282	68,711
24,529	13,918	15,717
--	--	--
802,000	835,000	770,000
211,564	270,443	236,500
<u>2,817,911</u>	<u>3,153,006</u>	<u>2,965,074</u>
1,194,726	1,298,559	1,302,351
3,098,830	2,609,011	2,316,243
1,605	4,183	7,437
<u>4,295,161</u>	<u>3,911,753</u>	<u>3,626,031</u>
<u>\$ 7,113,072</u>	<u>\$ 7,064,759</u>	<u>\$ 6,591,105</u>
\$ 166,400	\$ 259,800	\$ 214,700
187,637	159,345	163,312
390,873	301,867	228,739
267,000	421,000	304,000
2,271	4,364	4,149
802,000	835,000	770,000
<u>1,816,181</u>	<u>1,981,376</u>	<u>1,684,900</u>
<u>528,790</u>	<u>741,798</u>	<u>625,374</u>
2,344,971	2,723,174	2,310,274
<u>4,768,101</u>	<u>4,341,585</u>	<u>4,280,831</u>
<u>\$ 7,113,072</u>	<u>\$ 7,064,759</u>	<u>\$ 6,591,105</u>

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

	<u>2007</u>	<u>2006</u>
Patient Service Revenue	\$ 10,436,866	\$ 9,282,260
Adjustments to Patient Service Revenue	<u>(2,569,052)</u>	<u>(1,865,805)</u>
Net Patient Service Revenue	7,867,814	7,416,455
Other Revenue	<u>212,791</u>	<u>203,416</u>
Total Revenue	8,080,605	7,619,871
Expenses	<u>8,499,470</u>	<u>8,074,333</u>
Operating Loss	(418,865)	(454,462)
Non-Operating Revenues, Net	<u>1,335,818</u>	<u>861,293</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	916,953	406,831
Capital Grants and Contributions	<u>30,500</u>	<u>56,100</u>
Increase in Net Assets	<u>\$ 947,453</u>	<u>\$ 462,931</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 7,750,823	\$ 6,032,960	\$ 5,633,075
(1,573,924)	(1,003,663)	(997,229)
6,176,899	5,029,297	4,635,846
<u>177,679</u>	<u>177,885</u>	<u>176,416</u>
6,354,578	5,207,182	4,812,262
<u>7,007,930</u>	<u>5,990,247</u>	<u>5,145,486</u>
(653,352)	(783,065)	(333,224)
<u>869,897</u>	<u>808,648</u>	<u>653,672</u>
216,545	25,583	320,448
<u>209,971</u>	<u>35,171</u>	<u>35,582</u>
<u>\$ 426,516</u>	<u>\$ 60,754</u>	<u>\$ 356,030</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

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, 2007, and have issued our report thereon dated September 11, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Guthrie County Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

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

To the Board of Trustees
Guthrie County Hospital

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007 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.

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

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

G. A. B. C. Bell, Kylem + W. P. C.

Atlantic, Iowa
September 11, 2007

GUTHRIE COUNTY HOSPITAL
Schedule of Findings
Year ended June 30, 2007

PART I - SIGNIFICANT DEFICIENCIES

07-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.

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PART II - REQUIRED STATUTORY REPORTING

07-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2007 did not exceed the amount budgeted.

07-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	\$ 2,392

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.

07-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, 2007

PART II - REQUIRED STATUTORY REPORTING - Continued

07-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	\$ 107

The transactions with M & L Service do not appear to represent conflicts of interest since the purchases are less than \$1,500.

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

07-II-F Deposits and Investments: We noted 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.

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