

GUTHRIE COUNTY HOSPITAL
INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2008 AND 2007

GUTHRIE COUNTY HOSPITAL

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Guthrie County Hospital as of June 30, 2008 and 2007, 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, 2008 and 2007, 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 15, 2008 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, 2006 (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.

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

Atlantic, Iowa
September 15, 2008

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, 2008 and 2007. 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 \$2,538,000 during fiscal year 2008. Net assets, or total assets net of total liabilities, increased by approximately \$1,087,000 during fiscal 2008, an increase of approximately 17.6 percent.

The Hospital reported operating revenues for the year of \$8.9 million, an increase of approximately \$831,000 or 10.3 percent. Net revenues, or revenues after all expenditures, for 2008 were \$837,367, a decrease of \$79,586 from 2007.

The Hospital reported expenditures for the year of \$9.3 million, an increase of approximately \$780,000 or 9.2 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
	2008	2007		
Assets:				
Current assets	\$ 4,247,961	\$ 3,484,527	\$ 763,434	21.9%
Designated and restricted assets	810,990	--	810,990	100.0%
Capital assets, net	6,207,903	5,241,914	965,989	18.4%
Other noncurrent assets	<u>35,204</u>	<u>37,506</u>	<u>(2,302)</u>	-6.1%
Total assets	<u>\$ 11,302,058</u>	<u>\$ 8,763,947</u>	<u>\$ 2,538,111</u>	29.0%
Liabilities:				
Current liabilities	\$ 2,156,206	\$ 2,111,220	\$ 44,986	2.1%
Long-term debt	<u>1,880,000</u>	<u>474,242</u>	<u>1,405,758</u>	296.4%
Total liabilities	<u>4,036,206</u>	<u>2,585,462</u>	<u>1,450,744</u>	56.1%
Net Assets:				
Invested in capital assets, net of related debt	4,133,131	4,505,672	(372,541)	-8.3%
Restricted - expendable	80,110	80,000	110	0.1%
Unrestricted	<u>3,052,611</u>	<u>1,592,813</u>	<u>1,459,798</u>	91.6%
Total net assets	<u>7,265,852</u>	<u>6,178,485</u>	<u>1,087,367</u>	17.6%
Total liabilities and net assets	<u>\$ 11,302,058</u>	<u>\$ 8,763,947</u>	<u>\$ 2,538,111</u>	29.0%

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, 2008 and 2007.

Table 2
Condensed Operating Results and Changes in Net Assets

	June 30,		Dollar	Percent
	2008	2007	Change	Change
Revenue:				
Net patient service revenue	\$ 8,718,451	\$ 7,867,814	\$ 850,637	10.8%
Other revenue	<u>193,380</u>	<u>212,791</u>	<u>(19,411)</u>	-9.1%
Total revenue	<u>8,911,831</u>	<u>8,080,605</u>	<u>831,226</u>	10.3%
Expenses:				
Salaries and benefits	5,834,849	5,645,258	189,591	3.4%
Professional fees	554,016	269,287	284,729	105.7%
Supplies, contract services, equipment & other operating expenses	2,230,229	2,054,746	175,483	8.5%
Depreciation and amortization	<u>661,177</u>	<u>530,179</u>	<u>130,998</u>	24.7%
Total expenses	<u>9,280,271</u>	<u>8,499,470</u>	<u>780,801</u>	9.2%
Operating Loss	<u>(368,440)</u>	<u>(418,865)</u>	<u>50,425</u>	-12.0%
Nonoperating Revenues and Expenses:				
County taxes	1,194,367	1,283,041	(88,674)	-6.9%
Investment income	52,034	35,001	17,033	48.7%
Noncapital grants and contributions	21,927	20,603	1,324	6.4%
Interest expense	<u>(62,011)</u>	<u>(7,317)</u>	<u>(54,694)</u>	747.5%
Other nonoperating revenues and expenses, net	<u>(510)</u>	<u>4,490</u>	<u>(5,000)</u>	-111.4%
	<u>1,205,807</u>	<u>1,335,818</u>	<u>(130,011)</u>	-9.7%
Excess of Revenues Over Expenses Before Capital Grants and Contributions	837,367	916,953	(79,586)	-8.7%
Capital Grants and Contributions	<u>250,000</u>	<u>30,500</u>	<u>219,500</u>	719.7%
Increase in net assets	1,087,367	947,453	139,914	14.8%
Net Assets Beginning of Year	<u>6,178,485</u>	<u>5,231,032</u>	<u>947,453</u>	18.1%
Net Assets End of Year	<u>\$ 7,265,852</u>	<u>\$ 6,178,485</u>	<u>\$ 1,087,367</u>	17.6%

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 2008 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 2008 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 Radiology addition was capitalized in September of 2007. The new Emergency Department addition was opened in December of 2007. These additions have had a positive response from the community.

The primary components of these decreased operating losses were:

An increase in revenue of \$831,000 or 10%.

Increases in salary and benefit costs for the Hospital's employees (\$189,600 or 3.4% in 2008 and \$599,300 or 11.9 percent in 2007). Continued adjustments were made to salaries to match market conditions.

GUTHRIE COUNTY HOSPITAL
Management's Discussion and Analysis - Continued

Finally, a process of upgrading the physical plant was begun during 2004 and continued in 2008 by investing in a number of items, including the following:

- Emergency Department
- 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' Non-operating Revenues and Expenses decreased by \$130,011 comparing fiscal 2008 versus 2007. The Hospital decreased its tax asking by \$88,674. Interest expense increased by \$54,694 as a result of completing the construction projects funded by the 2006 Bond issue.

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 2008 were \$36,137. Comparatively, for fiscal 2007, cash flows provided by operating activities were \$18,745, a net change of nearly \$55,000. This 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, staffing of the Emergency Department was changed to better serve the community. Finally, investments were continued to be made in the Hospital's physical plant.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2008 was prepared on the modified accrual basis. Actual budget basis revenues were higher than the budgeted amount of \$10,192,183 by \$237,466 or about 2.3 percent. Actual expenditures were lower than budgeted expenditures. Actual budget basis expenditures were \$9,502,282 as compared to budgeted expenditures of \$9,514,900, a difference of \$12,618 or about 0.13 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 \$2,414,979. The Hospital invested \$1,175,915 in construction in progress during 2008, but capitalized \$1,963,218 to end the year with a balance of \$254,386. The following table, Table 3, presents a list of significant capital items:

**Table 3
Capital Investments**

Capital Investments	Vendor	Department	2008 Cost
Emergency Room and Garage	Various	Emergency	\$ 1,065,256
Radiology Addition	Various	Radiology	294,555
X-Ray Machine	Siemens	Radiology	294,993
Ultrasound	Siemens	Radiology	98,000
2 Patient Rooms	Various	Nursing	97,436
Lab Information System	Orchard Software	Lab	94,240

Capital assets for the years ended June 30, 2008 and 2007 are shown in the following table, Table 4:

**Table 4
Capital Assets**

	June 30,		Dollar Change	Percent Change
	2008	2007		
Land and land improvements	\$ 357,452	\$ 301,319	\$ 56,133	18.6 %
Buildings	6,443,304	4,976,956	1,466,348	29.5%
Fixed equipment	1,546,442	1,329,509	216,933	16.3%
Major movable equipment	<u>2,829,736</u>	<u>2,582,670</u>	<u>247,066</u>	9.6%
Subtotal	11,176,934	9,190,454	1,986,480	21.6%
Less accumulated depreciation	5,223,417	4,990,229	233,188	4.7%
Construction in progress	<u>254,386</u>	<u>1,041,689</u>	<u>(787,303)</u>	-75.6%
Net capital assets	<u>\$ 6,207,903</u>	<u>\$ 5,241,914</u>	<u>\$ 965,989</u>	18.4%

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 \$2,074,772 in short-term and long-term debt. A 2006 Bond issue was created to finance future construction projects with the money being drawn as expenses were incurred. The total debt amount increased by \$1,338,530 in fiscal year 2008. 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 18.4% of the Hospital's total assets at June 30, 2008.

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 \$2,100,000. The projects include the construction of a new Operating Suite, a new Materials Management Department, a new Therapy and Education addition, purchase of 30 acres of land, and the first phase of the addition of 13th Street. The projects are mainly being funded by internally generated funds.

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

	2008	2007
Current Assets:		
Cash	\$ 749,607	\$ 463,003
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$542,000 in 2008, \$404,500 in 2007)	1,424,981	1,215,436
Other receivables	18,257	24,590
Inventory	201,612	163,866
Prepaid expense	67,738	62,795
Other current assets	22,526	22,761
Estimated third-party payor settlements	180,000	58,500
Succeeding year property tax receivable	1,241,200	1,156,100
Internally designated assets	342,040	317,476
Total current assets	4,247,961	3,484,527
Designated and Restricted Assets:		
Internally designated assets	1,072,920	237,476
Restricted assets	80,110	80,000
	1,153,030	317,476
Less amounts required to meet current liabilities	342,040	317,476
	810,990	--
Capital Assets:		
Depreciable capital assets, net	5,932,134	4,178,842
Non-depreciable capital assets	275,769	1,063,072
	6,207,903	5,241,914
Deferred Financing Costs	35,204	37,506
Total assets	\$ 11,302,058	\$ 8,763,947

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 194,772	\$ 262,000
Accounts payable	286,642	307,614
Accrued employee compensation	416,920	371,807
Payroll taxes withheld and accrued	16,554	13,264
Accrued interest	118	435
Deferred revenue for succeeding year property tax receivable	<u>1,241,200</u>	<u>1,156,100</u>
Total current liabilities	<u>2,156,206</u>	<u>2,111,220</u>
Long-Term Debt:		
Revenue bonds, less current maturities	1,880,000	440,000
Capital lease obligations, less current maturities	<u>--</u>	<u>34,242</u>
Total long-term debt	<u>1,880,000</u>	<u>474,242</u>
Total liabilities	4,036,206	2,585,462
Net Assets:		
Invested in capital assets, net of related debt	4,133,131	4,505,672
Restricted - expendable	80,110	80,000
Unrestricted	<u>3,052,611</u>	<u>1,592,813</u>
Total net assets	<u>7,265,852</u>	<u>6,178,485</u>
 Total liabilities and net assets	 <u>\$ 11,302,058</u>	 <u>\$ 8,763,947</u>

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

	2008	2007
Revenue:		
Net patient service revenue	\$ 8,718,451	\$ 7,867,814
Other revenue	193,380	212,791
Total revenue	8,911,831	8,080,605
Expenses:		
Nursing service	2,344,060	2,002,153
Other professional service	2,801,717	2,649,721
Physician clinic service	613,047	718,322
General service	1,102,068	1,025,053
Fiscal and administrative service	1,758,202	1,574,042
Provision for depreciation	661,177	530,179
Total expenses	9,280,271	8,499,470
Operating Loss	(368,440)	(418,865)
Non-Operating Revenues (Expenses):		
County taxes	1,194,367	1,283,041
Investment income	52,034	35,001
Noncapital grants and contributions	21,927	20,603
Gain (loss) on disposal of property and equipment	(510)	4,490
Interest expense	(62,011)	(7,317)
Non-operating revenues, net	1,205,807	1,335,818
Excess of Revenues Over Expenses Before Capital Grants and Contributions	837,367	916,953
Capital Grants and Contributions	250,000	30,500
Increase in Net Assets	1,087,367	947,453
Net Assets Beginning of Year	6,178,485	5,231,032
Net Assets End of Year	\$ 7,265,852	\$ 6,178,485

The accompanying notes are an integral part of these statements.

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

	2008	2007
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 8,393,739	\$ 7,713,328
Cash paid to suppliers	(4,178,888)	(3,585,186)
Cash paid to employees	(4,444,368)	(4,322,188)
Other revenue	193,380	212,791
Net cash provided by (used in) operating activities	(36,137)	18,745
Cash flows from non-capital financing activities:		
County tax revenue	1,194,367	1,283,041
Noncapital grants and contributions	21,927	20,603
Net cash provided by non-capital financing activities	1,216,294	1,303,644
Cash flows from capital and related financing activities:		
Capital grants and contributions	250,000	30,500
Capital expenditures	(455,951)	(462,302)
Construction in progress expenditures	(1,149,462)	(1,387,029)
Principal paid on revenue bonds	(160,000)	--
Principal paid on capital leases	(101,470)	(97,528)
Proceeds from revenue bonds	1,600,000	400,000
Proceeds from sale of property and equipment	--	4,490
Interest paid	(93,150)	(29,230)
Deferred financing costs paid	--	(15,506)
Net cash used in capital and related financing activities	(110,033)	(1,556,605)
Cash flows from investing activities:		
Investment income	52,034	35,001
Change in designated and restricted assets	(123,971)	(80,625)
Net cash used in investing activities	(71,937)	(45,624)
Net increase (decrease) in cash and cash equivalents	998,187	(279,840)
Cash and cash equivalents at beginning of year	466,640	746,480
Cash and cash equivalents at end of year	\$ 1,464,827	\$ 466,640
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 749,607	\$ 463,003
Cash and cash equivalents in designated and restricted assets	715,220	3,637
Total cash and cash equivalents	\$ 1,464,827	\$ 466,640

(continued next page)

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

	2008	2007
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(368,440)	\$(418,865)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	661,177	530,179
Change in assets and liabilities		
Accounts receivable	(203,212)	(94,986)
Inventory	(37,746)	7,245
Prepaid expense	(4,943)	2,353
Other current assets	235	(7,605)
Accounts payable, trade	(10,111)	(31,037)
Accrued employee compensation	45,113	87,816
Payroll taxes withheld and accrued	3,290	7,145
Estimated third-party payor settlements	(121,500)	(59,500)
Other accrued expenses	--	(4,000)
Total adjustments	332,303	437,610
Net cash provided by (used in) operating activities	\$(36,137)	\$ 18,745

The accompanying notes are an integral part of these statements.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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 \$250,000 in capital contributions from the Foundation during the year ended June 30, 2008 (\$30,500 in 2007). Blending of the Foundation with the Hospital would result in an increase in total net assets of approximately \$283,000 (\$412,000 in 2007) and a decrease in the change in net assets of approximately \$129,000 (\$235,000 increase in 2007) for the year ended June 30, 2008.

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, 2008 and 2007

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 \$33,124 of interest cost in 2008 and \$21,473 in 2007.

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, 2008 and 2007

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 three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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, 2006. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2005. 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:

	2008	2007
Long-term debt	\$ 80,110	\$ 80,000

The Hospital has no restricted non-expendable net assets or endowments at June 30, 2008 or 2007.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE C - RESTRICTED NET ASSETS - Continued

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

	2008	2007
Purchase of property and equipment	\$ 250,000	\$ 30,500

NOTE D - DESIGNATED NET ASSETS

Of the \$3,052,611 (\$1,592,813 as of June 30, 2007) of unrestricted net assets as of June 30, 2008, \$1,072,920 (\$237,476 for 2007) 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, 2008 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:

	2008	2007
Internally Designated Assets:		
Cash and cash equivalents	\$ 715,220	\$ 3,637
Certificates of deposit	354,884	230,000
GNMA pool	698	755
Interest receivable	2,118	3,084
	\$ 1,072,920	\$ 237,476
Restricted Assets:		
Certificates of deposit	\$ 80,110	\$ 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, 2008 and 2007

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, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Receivable from:		
Patients	\$ 548,663	\$ 363,628
Medicare	573,534	621,029
Medicaid	117,442	75,465
Blue Cross	305,933	229,698
Other commercial insurance carriers	420,803	329,510
Others	606	606
	<u>1,966,981</u>	<u>1,619,936</u>
Less allowances for doubtful accounts and contractual adjustments	<u>542,000</u>	<u>404,500</u>
	<u>\$ 1,424,981</u>	<u>\$ 1,215,436</u>

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

<u>Cost</u>	<u>Balance</u> <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2008</u>
Land Improvements	\$ 279,936	\$ 56,133	\$ --	\$ 336,069
Buildings	4,976,956	1,466,348	--	6,443,304
Fixed Equipment	1,329,509	369,333	152,400	1,546,442
Major Movable Equipment	<u>2,582,670</u>	<u>523,165</u>	<u>276,099</u>	<u>2,829,736</u>
	9,169,071	2,414,979	428,499	11,155,551
<u>Depreciation</u>				
Land Improvements	184,618	17,867	--	202,485
Buildings	2,273,161	240,732	--	2,513,893
Fixed Equipment	750,124	103,713	152,400	701,437
Major Movable Equipment	<u>1,782,326</u>	<u>298,865</u>	<u>275,589</u>	<u>1,805,602</u>
Total Depreciation	<u>4,990,229</u>	<u>661,177</u>	<u>427,989</u>	<u>5,223,417</u>
Total Depreciable Capital Assets, Net	<u>\$ 4,178,842</u>	<u>\$1,753,802</u>	<u>\$ (510)</u>	<u>\$ 5,932,134</u>
Construction in Progress	\$ 1,041,689	\$1,175,915	\$1,963,218	\$ 254,386
Land	<u>21,383</u>	<u>--</u>	<u>--</u>	<u>21,383</u>
Total Non-Depreciable Capital Assets	<u>\$ 1,063,072</u>	<u>\$1,175,915</u>	<u>\$1,963,218</u>	<u>\$ 275,769</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 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>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2008 and 2007 follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2008</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2006 revenue bonds	\$ 600,000	\$1,600,000	\$(160,000)	\$2,040,000	\$ 160,000
Capital Lease Obligations	<u>136,242</u>	<u>--</u>	<u>(101,470)</u>	<u>34,772</u>	<u>34,772</u>
Total Non-Current Liabilities	<u>\$ 736,242</u>	<u>\$1,600,000</u>	<u>\$(261,470)</u>	<u>\$2,074,772</u>	<u>\$ 194,772</u>

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE H - NON-CURRENT LIABILITIES - Continued

	<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>

The Series 2006 Hospital Revenue Bonds were issued in May, 2006 in a principal amount up to \$2,200,000. Through June 30, 2008, the Hospital had drawn the full \$2,200,000 on the bonds to pay for construction costs incurred on the remodeling and renovation project (Note J). 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. 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. The annual debt service on the bonds is expected to require less than 20% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$249,000 and \$1,807,000, respectively.

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.

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE H - NON-CURRENT LIABILITIES - Continued

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

	2008	2007
Cost	\$ 522,940	\$ 522,940
Less: Accumulated Amortization	479,361	374,773
Net Book Value	\$ 43,579	\$ 148,167

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		Grand Total
	Principal	Interest	Principal	Interest	
2009	\$ 160,000	\$ 96,030	\$ 34,772	\$ 296	\$ 291,098
2010	160,000	88,270	--	--	248,270
2011	160,000	80,510	--	--	240,510
2012	160,000	72,750	--	--	232,750
2013	160,000	64,990	--	--	224,990
2014-2018	800,000	208,550	--	--	1,008,550
2019-2021	440,000	32,010	--	--	472,010
	\$2,040,000	\$ 643,110	\$ 34,772	\$ 296	\$2,718,178

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
2009	\$ 18,000
2010	13,657
2011	629
	\$ 32,286

Expense recorded under these leases was \$20,571 in 2008 (\$19,195 in 2007).

GUTHRIE COUNTY HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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 3.90% (4.10% beginning July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% beginning July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were approximately \$270,200, \$249,200, and \$224,300, 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 \$91,525 at June 30, 2008 (\$108,304 at June 30, 2007) 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, 2008 and 2007

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

During the year ended June 30, 2006, the Hospital began a construction project encompassing the remodeling and renovation of several areas within the Hospital. By June 30, 2008, the first phase of the project was completed and placed into service. At June 30, 2008, costs incurred on the remaining phases totaled \$254,386. The remaining phases have a combined estimated cost of approximately \$1,855,000. Financing for the project is being provided through the issuance of Hospital Revenue Bonds and by funds generated internally.

Real Estate Purchase

Subsequent to June 30, 2008, the Hospital entered into a contract to purchase land adjacent to the Hospital's existing facilities at a total cost of \$75,000. The Hospital entered into a second contract to have extensive dirt work totaling approximately \$170,000 done to the property. Financing for the land purchase and dirt work is being provided by funds generated internally.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

GUTHRIE COUNTY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2008

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 bond payments, interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 1,194,367	\$ --	\$ 1,194,367	
Other revenues	8,923,271	250,000	9,173,271	
Transfers in (out)	<u>250,000</u>	<u>(250,000)</u>	<u>--</u>	
	10,367,638	--	10,367,638	
Expenses	<u>9,280,271</u>	<u>--</u>	<u>9,280,271</u>	
Net	1,087,367	--	1,087,367	
Balance beginning of year	<u>6,178,485</u>	<u>--</u>	<u>6,178,485</u>	
Balance end of year	<u>\$ 7,265,852</u>	<u>\$ --</u>	<u>\$ 7,265,852</u>	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,194,367	\$ --	\$ 1,194,367	\$ 1,156,105
Other revenues	<u>9,173,271</u>	<u>62,011</u>	<u>9,235,282</u>	<u>9,036,078</u>
	10,367,638	62,011	10,429,649	10,192,183
Expenses	<u>9,280,271</u>	<u>222,011</u>	<u>9,502,282</u>	<u>9,514,900</u>
Net	1,087,367	(160,000)	927,367	677,283
Balance beginning of year	<u>6,178,485</u>	<u>(604,487)</u>	<u>5,573,998</u>	<u>5,573,998</u>
Balance end of year	<u>\$ 7,265,852</u>	<u>\$(764,487)</u>	<u>\$ 6,501,365</u>	<u>\$ 6,251,281</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

GUTHRIE COUNTY HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
In hospital - 30	\$ 1,061,987	54%	\$ 896,204	55%
31 - 60	355,594	18	356,519	22
61 - 90	142,525	7	103,123	6
91 - 150	227,315	12	120,543	8
151 - 180	46,561	2	31,803	2
181 and over	132,999	7	111,744	7
	<u>1,966,981</u>	<u>100%</u>	<u>1,619,936</u>	<u>100%</u>
Allowance for doubtful accounts	255,000		196,000	
Allowance for contractual adjustments	<u>287,000</u>		<u>208,500</u>	
	<u>\$ 1,424,981</u>		<u>\$ 1,215,436</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance, beginning	\$ 196,000	\$ 197,000
Provision for bad debts	366,461	275,599
Recoveries of accounts previously written off	<u>583,927</u>	<u>458,405</u>
	1,146,388	931,004
Accounts written off	<u>891,388</u>	<u>735,004</u>
Balance, ending	<u>\$ 255,000</u>	<u>\$ 196,000</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Inventory/Prepaid Expense
June 30,

	2008	2007
<u>Inventory</u>		
Medical and surgical supplies	\$ 59,438	\$ 41,693
Laboratory	28,226	24,472
Pharmacy	94,729	78,482
Other	19,219	19,219
	\$ 201,612	\$ 163,866
 <u>Prepaid Expense</u>		
Insurance	\$ 11,090	\$ 15,316
Service contracts and dues	56,648	47,479
	\$ 67,738	\$ 62,795

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Patient Service Revenue
Year ended June 30,

	2008	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 724,920	\$ --
Special care	--	--
Swing bed	--	--
	<u>724,920</u>	<u>--</u>
Other Nursing Services:		
Cardiac rehabilitation	--	119,354
Operating and recovery rooms	51,431	613,958
Emergency room	67,412	831,451
Central services and supply	41,216	108,410
Intravenous therapy	33,618	42,269
Observation	74,140	364,240
	<u>267,817</u>	<u>2,079,682</u>
Other Professional Services:		
Laboratory	243,915	1,923,513
Blood	12,716	22,255
Electrocardiology	20,170	93,428
Radiology	35,525	413,508
CT scan	137,156	1,137,382
Ultrasound	9,871	246,312
Mammography	--	121,982
Nuclear imaging	--	15,492
MRI	9,908	551,379
Pharmacy	203,445	773,529
Anesthesia	15,584	217,031
Respiratory therapy	208,289	237,406
Speech therapy	2,268	30,010
Physical therapy	18,725	575,496
Occupational therapy	989	108,219
Neurology	--	12,168
Outpatient clinics	727	51,713
Diabetic education	--	26,645
Hospice	--	--
Clinic professional fees	--	--
	<u>919,288</u>	<u>6,557,468</u>
	<u>\$ 1,912,025</u>	<u>\$ 8,637,150</u>

See Independent Auditor's Report.

	2008		2007	
Swing Bed	Clinic	Total	Total	
\$ --	\$ --	\$ 724,920	\$ 741,155	
--	--	--	11,754	
<u>229,145</u>	<u>--</u>	<u>229,145</u>	<u>232,909</u>	
229,145	--	954,065	985,818	
--	--	119,354	146,637	
2,096	--	667,485	576,242	
298	--	899,161	617,595	
10,140	--	159,766	101,138	
11,576	--	87,463	69,390	
--	--	438,380	380,863	
<u>24,110</u>	<u>--</u>	<u>2,371,609</u>	<u>1,891,865</u>	
45,184	19,976	2,232,588	1,864,604	
1,070	--	36,041	68,537	
920	--	114,518	87,448	
6,262	--	455,295	393,311	
16,229	--	1,290,767	923,719	
4,566	--	260,749	249,556	
--	--	121,982	118,358	
832	--	16,324	17,127	
8,174	--	569,461	580,578	
183,317	79,015	1,239,306	1,171,424	
960	--	233,575	221,882	
157,324	--	603,019	428,900	
10,123	--	42,401	10,698	
75,385	--	669,606	633,446	
17,675	--	126,883	123,159	
--	--	12,168	34,621	
--	--	52,440	49,532	
--	--	26,645	20,894	
33,631	--	33,631	43,222	
--	415,767	415,767	518,167	
<u>561,652</u>	<u>514,758</u>	<u>8,553,166</u>	<u>7,559,183</u>	
\$ 814,907	\$ 514,758	\$ 11,878,840	\$ 10,436,866	

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

	2008	2007
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 11,878,840	\$ 10,436,866
Contractual adjustments	(2,765,968)	(2,266,498)
Provision for bad debts	(366,461)	(275,599)
Charity care	(27,960)	(26,955)
	<u>\$ 8,718,451</u>	<u>\$ 7,867,814</u>
 <u>Other Revenue</u>		
Dietary revenue	\$ 19,270	\$ 51,140
Congregate meals	56,840	52,839
Ancillary service coverage revenue	22,397	25,334
Outpatient clinic rental	32,694	28,000
Fitness center	49,165	45,596
Wellness revenue	3,468	1,736
Pharmacy student income	6,000	4,000
Miscellaneous income	3,546	4,146
	<u>\$ 193,380</u>	<u>\$ 212,791</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2008</u>	<u>2007</u>
Administrative:		
Salaries and wages	\$ 74,452	\$ 71,792
Employee benefits	14,112	12,810
Supplies and other expense	<u>2,987</u>	<u>3,487</u>
	91,551	88,089
Medical, Surgical and Obstetric:		
Salaries and wages	760,349	747,995
Employee benefits	207,311	195,209
Supplies and other expense	<u>86,226</u>	<u>55,076</u>
	1,053,886	998,280
Cardiac Rehabilitation:		
Salaries and wages	53,802	60,210
Employee benefits	7,585	7,589
Supplies and other expense	<u>2,802</u>	<u>3,784</u>
	64,189	71,583
Operating and Recovery Rooms:		
Salaries and wages	53,094	35,108
Employee benefits	15,543	8,688
Supplies and other expense	<u>102,207</u>	<u>65,320</u>
	170,844	109,116
Emergency Room:		
Salaries and wages	119,996	89,155
Employee benefits	29,667	21,385
Supplies and other expense	<u>55,865</u>	<u>13,131</u>
	205,528	123,671
Emergency Room Professional:		
Salaries and wages	347,706	395,457
Employee benefits	59,025	62,497
Professional fees	<u>248,863</u>	<u>43,043</u>
	655,594	500,997

(continued next page)

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

	2008	2007
Central Services and Supply:		
Salaries and wages	\$ 65,514	\$ 65,638
Employee benefits	23,388	21,404
Supplies and other expense	10,660	21,141
	99,562	108,183
 Intravenous Therapy:		
Supplies and other expense	2,906	2,234
	\$ 2,344,060	\$ 2,002,153

SUMMARY

Salaries and wages	\$ 1,474,913	\$ 1,465,355
Employee benefits	356,631	329,582
Professional fees	248,863	43,043
Other expense	263,653	164,173
	\$ 2,344,060	\$ 2,002,153

See Independent Auditor's Report.

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

	<u>2008</u>	<u>2007</u>
Laboratory:		
Salaries and wages	\$ 246,002	\$ 232,651
Employee benefits	78,509	66,119
Professional fees	3,763	3,125
Supplies and other expense	<u>274,454</u>	<u>230,067</u>
	602,728	531,962
 Blood:		
Blood	19,473	39,899
Supplies and other expense	<u>232</u>	<u>--</u>
	19,705	39,899
 Electrocardiology:		
Salaries and wages	4,586	3,810
Employee benefits	1,237	1,181
Supplies and other expense	<u>444</u>	<u>79</u>
	6,267	5,070
 Radiology:		
Salaries and wages	194,341	186,356
Employee benefits	44,894	40,702
Supplies and other expense	<u>37,587</u>	<u>40,801</u>
	276,822	267,859
 CT Scan:		
Salaries and wages	17,964	14,633
Employee benefits	3,927	2,949
Supplies and other expense	<u>99,483</u>	<u>97,792</u>
	121,374	115,374
 Ultrasound:		
Salaries and wages	6,679	4,359
Employee benefits	2,157	1,024
Supplies and other expense	<u>22,747</u>	<u>32,570</u>
	31,583	37,953
 Mammography:		
Salaries and wages	6,966	7,009
Employee benefits	1,594	1,558
Supplies and other expense	<u>9,771</u>	<u>5,884</u>
	18,331	14,451

(continued next page)

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

	2008	2007
Nuclear Imaging:		
Supplies and other expense	\$ 7,967	\$ 8,633
MRI:		
Supplies and other expense	83,109	93,154
Pharmacy:		
Salaries and wages	266,099	232,541
Employee benefits	63,946	51,382
Professional fees	1,854	3,229
Drugs	254,446	250,361
Supplies and other expense	26,907	20,406
	613,252	557,919
Anesthesia:		
Professional fees	109,340	88,715
Supplies and other expense	3,729	2,385
	113,069	91,100
Respiratory Therapy:		
Salaries and wages	94,874	68,658
Employee benefits	16,385	12,480
Oxygen, supplies and other expense	78,162	67,705
	189,421	148,843
Speech Therapy:		
Professional fees	20,087	4,560
Supplies and other expense	152	176
	20,239	4,736
Physical Therapy:		
Salaries and wages	203,520	197,073
Employee benefits	52,360	43,555
Supplies and other expense	21,631	21,710
	277,511	262,338
Occupational Therapy:		
Professional fees	46,660	48,600
Supplies and other expense	176	--
	46,836	48,600

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

	2008	2007
Neurology:		
Salaries and wages	\$ 7,007	\$ 21,618
Employee benefits	961	2,896
	7,968	24,514
Medical Records:		
Salaries and wages	153,766	173,121
Employee benefits	37,541	41,324
Supplies and other expense	35,535	40,379
	226,842	254,824
Social Services:		
Salaries and wages	29,046	31,549
Employee benefits	5,408	4,222
Supplies and other expense	663	1,415
	35,117	37,186
Outpatient Clinics:		
Salaries and wages	28,194	28,051
Employee benefits	6,720	5,396
Supplies and other expense	6,112	5,157
	41,026	38,604
Fitness Center:		
Salaries and wages	30,843	28,184
Employee benefits	7,843	6,501
Supplies and other expense	4,542	12,819
	43,228	47,504
Diabetic Education:		
Salaries and wages	16,335	14,403
Employee benefits	2,253	1,976
Supplies and other expense	734	2,819
	19,322	19,198
	\$ 2,801,717	\$ 2,649,721

SUMMARY

Salaries and wages	\$ 1,306,222	\$ 1,244,016
Employee benefits	325,735	283,265
Professional fees	181,704	148,229
Other expense	988,056	974,211
	\$ 2,801,717	\$ 2,649,721

See Independent Auditor's Report.

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

	2008	2007
Physician Service:		
Salaries and wages	\$ 170,178	\$ 263,399
Employee benefits	27,519	43,059
Professional fees	47,700	--
Supplies and other expense	7,511	14,685
	252,908	321,143
Nursing Service:		
Salaries and wages	69,696	94,745
Employee benefits	24,221	34,724
Medical supplies	39,420	49,384
Supplies and other expense	11,529	16,141
	144,866	194,994
Business Office:		
Salaries and wages	107,807	99,590
Employee benefits	25,812	20,656
Supplies and other expense	52,335	46,395
	185,954	166,641
Occupancy Costs:		
Rent	4,226	7,995
Utilities	25,093	27,549
	29,319	35,544
	\$ 613,047	\$ 718,322

SUMMARY

Salaries and wages	\$ 347,681	\$ 457,734
Employee benefits	77,552	98,439
Professional fees	47,700	--
Other expense	140,114	162,149
	\$ 613,047	\$ 718,322

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
General Service Expenses
Year ended June 30,

	2008	2007
Dietary:		
Salaries and wages	\$ 180,085	\$ 198,109
Employee benefits	66,538	71,667
Professional fees	--	96
Food	105,590	103,868
Supplies and other expense	25,275	28,818
	377,488	402,558
Operation of Plant:		
Salaries and wages	181,234	164,915
Employee benefits	40,630	35,813
Electricity	93,142	90,761
Gas	98,122	84,564
Supplies and other expense	113,219	76,256
	526,347	452,309
Housekeeping:		
Salaries and wages	116,526	92,621
Employee benefits	52,854	43,716
Supplies and other expense	22,691	18,121
	192,071	154,458
Laundry and Linen:		
Purchased services	5,022	13,849
Supplies and other expense	1,140	1,879
	6,162	15,728
	\$ 1,102,068	\$ 1,025,053

SUMMARY

Salaries and wages	\$ 477,845	\$ 455,645
Employee benefits	160,022	151,196
Professional fees	--	96
Other expense	464,201	418,116
	\$ 1,102,068	\$ 1,025,053

See Independent Auditor's Report.

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

	2008	2007
Fiscal and Administrative:		
Salaries and wages	\$ 580,949	\$ 532,592
Employee benefits	159,592	147,561
Advertising	42,969	32,646
Telephone	24,567	20,051
Supplies and minor equipment	38,939	36,448
Collection expense	38,541	34,497
Computer maintenance	33,034	39,182
Education and meetings	6,568	13,762
Professional fees	75,749	77,919
Printing and postage	5,196	18,187
Purchased services	19,262	16,975
Dues and subscriptions	15,577	12,932
Miscellaneous	2,396	3,730
	1,043,339	986,482
Admissions Office:		
Salaries and wages	113,077	98,883
Employee benefits	39,651	38,084
Supplies and other expense	24,671	18,529
	177,399	155,496
Information Systems:		
Salaries and wages	71,400	44,871
Employee benefits	22,569	12,710
Supplies and other expense	30,984	11,427
	124,953	69,008
Employee Welfare:		
Salaries and wages	117,394	110,908
Employee benefits	19,331	20,192
Group health and life benefit	58,985	56,481
Workers' compensation insurance	49,583	46,626
Unemployment expense	10,800	8,333
Supplies and other expense	64,917	42,785
	321,010	285,325
Insurance:		
Liability and property insurance	91,501	77,731
	\$ 1,758,202	\$ 1,574,042

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

	<u>2008</u>	<u>2007</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 882,820	\$ 787,254
Employee benefits	425,428	372,772
Professional fees	75,749	77,919
Other expense	<u>374,205</u>	<u>336,097</u>
	<u>\$ 1,758,202</u>	<u>\$ 1,574,042</u>

<u>SUMMARY OF EXPENSES</u>		
Salaries and wages	\$ 4,489,481	\$ 4,410,004
Employee benefits	1,345,368	1,235,254
Professional fees	554,016	269,287
Other expense	<u>2,230,229</u>	<u>2,054,746</u>
	<u>\$ 8,619,094</u>	<u>\$ 7,969,291</u>

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acute Care:					
Admissions	280	316	302	322	292
Discharges	283	317	304	316	293
Patient days	810	919	896	904	880
Average length of stay	2.86	2.90	2.95	2.86	3.00
Average occupied beds	2.2	2.5	2.5	2.5	2.4
Swing Bed Program:					
Admissions	120	127	118	134	132
Discharges	117	128	115	135	135
Patient days	737	799	718	887	835
Combined Average Occupied Beds	4.2	4.7	4.4	4.9	4.7
Outpatient Occasions of Service	29,492	26,402	25,285	24,880	23,444

See Independent Auditor's Report.

GUTHRIE COUNTY HOSPITAL
Comparative Balance Sheets
June 30,

	2008	2007
Current Assets:		
Cash	\$ 749,607	\$ 463,003
Patient receivables, net	1,424,981	1,215,436
Other receivables	18,257	24,590
Inventory	201,612	163,866
Prepaid expense	67,738	62,795
Other current assets	22,526	22,761
Estimated third-party payor settlements	180,000	58,500
Succeeding year property tax receivable	1,241,200	1,156,100
Internally designated assets	342,040	317,476
Total current assets	4,247,961	3,484,527
Other Assets:		
Designated and restricted assets, net	810,990	--
Capital assets, net	6,207,903	5,241,914
Deferred financing costs	35,204	37,506
Total other assets	7,054,097	5,279,420
Total assets	\$ 11,302,058	\$ 8,763,947
Current Liabilities:		
Current maturities of long-term debt	\$ 194,772	\$ 262,000
Accounts payable	286,642	307,614
Accrued expenses	433,474	385,071
Estimated third-party payor settlements	--	--
Accrued interest	118	435
Deferred revenue for succeeding year property tax receivable	1,241,200	1,156,100
Total current liabilities	2,156,206	2,111,220
Long-Term Debt, Net	1,880,000	474,242
Total liabilities	4,036,206	2,585,462
Net Assets	7,265,852	6,178,485
Total liabilities and net assets	\$ 11,302,058	\$ 8,763,947

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 555,869	\$ 551,187	\$ 743,378
1,105,626	988,450	1,039,540
39,414	16,993	13,609
171,111	155,125	152,836
65,148	68,063	84,282
15,156	24,529	13,918
--	--	--
1,241,400	802,000	835,000
188,137	211,564	270,443
<u>3,381,861</u>	<u>2,817,911</u>	<u>3,153,006</u>
235,688	1,194,726	1,298,559
3,833,797	3,098,830	2,609,011
36,000	1,605	4,183
<u>4,105,485</u>	<u>4,295,161</u>	<u>3,911,753</u>
<u>\$ 7,487,346</u>	<u>\$ 7,113,072</u>	<u>\$ 7,064,759</u>
\$ 97,500	\$ 166,400	\$ 259,800
285,159	187,637	159,345
294,110	390,873	301,867
1,000	267,000	421,000
875	2,271	4,364
<u>1,241,400</u>	<u>802,000</u>	<u>835,000</u>
<u>1,920,044</u>	<u>1,816,181</u>	<u>1,981,376</u>
<u>336,270</u>	<u>528,790</u>	<u>741,798</u>
2,256,314	2,344,971	2,723,174
<u>5,231,032</u>	<u>4,768,101</u>	<u>4,341,585</u>
<u>\$ 7,487,346</u>	<u>\$ 7,113,072</u>	<u>\$ 7,064,759</u>

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

	<u>2008</u>	<u>2007</u>
Patient Service Revenue	\$ 11,878,840	\$ 10,436,866
Adjustments to Patient Service Revenue	<u>(3,160,389)</u>	<u>(2,569,052)</u>
Net Patient Service Revenue	8,718,451	7,867,814
Other Revenue	<u>193,380</u>	<u>212,791</u>
Total Revenue	8,911,831	8,080,605
Expenses	<u>9,280,271</u>	<u>8,499,470</u>
Operating Loss	(368,440)	(418,865)
Non-Operating Revenues, Net	<u>1,205,807</u>	<u>1,335,818</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	837,367	916,953
Capital Grants and Contributions	<u>250,000</u>	<u>30,500</u>
Increase in Net Assets	<u>\$ 1,087,367</u>	<u>\$ 947,453</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 9,282,260	\$ 7,750,823	\$ 6,032,960
<u>(1,865,805)</u>	<u>(1,573,924)</u>	<u>(1,003,663)</u>
7,416,455	6,176,899	5,029,297
<u>203,416</u>	<u>177,679</u>	<u>177,885</u>
7,619,871	6,354,578	5,207,182
<u>8,074,333</u>	<u>7,007,930</u>	<u>5,990,247</u>
(454,462)	(653,352)	(783,065)
<u>861,293</u>	<u>869,897</u>	<u>808,648</u>
406,831	216,545	25,583
<u>56,100</u>	<u>209,971</u>	<u>35,171</u>
<u>\$ 462,931</u>	<u>\$ 426,516</u>	<u>\$ 60,754</u>

COMMENTS AND RECOMMENDATIONS

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

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
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, 2008, and have issued our report thereon dated September 15, 2008. 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.

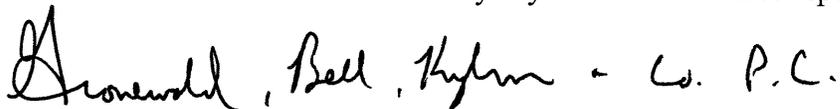
Compliance and Other Matters

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, 2008 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.

A handwritten signature in black ink that reads "Donald Bell, CPA". The signature is written in a cursive style.

Atlantic, Iowa
September 15, 2008

GUTHRIE COUNTY HOSPITAL
Schedule of Findings
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-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

08-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2008 did not exceed the amount budgeted.

08-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	\$ 2,265

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.

08-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, 2008

PART II - REQUIRED STATUTORY REPORTING - Continued

08-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>
Michelle Benner, Billing Office employee, wife of owner of Adam Benner Trucking & Dozing	Skid loader work	\$ 890

The transactions with Adam Benner Trucking & Dozing do not appear to represent conflicts of interest since the purchases are less than \$1,500.

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

08-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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