

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Financial Statements
June 30, 2005 and 2004

Together with Independent Auditor's Report

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

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GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

OFFICIALS

June 30, 2005

Board of Trustees

Title

Term Expires

Kathy Lansing	Chairperson	December 2007
Steve Staebler	Vice-Chairperson	December 2005
James Kuempel	Secretary/Treasurer	December 2005
Penny Hansel	Member	December 2007
Mary Eulberg	Member	December 2007

Hospital Officials

Title

Kim Gau	Administrator
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SEIM
JOHNSON
SESTAK &
QUIST, LLP

CONSULTANTS
& ACCOUNTANTS

Independent Auditor's Report

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Dennis K. Grindle, CPA
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Brian D. Green, CPA

To the Board of Trustees of
Guttenberg Municipal Hospital
Guttenberg, Iowa:

We have audited the accompanying basic financial statements of GUTTENBERG MUNICIPAL HOSPITAL (Hospital), as of and for the year ended June 30, 2005, and the related statements of revenue, expenses and changes in net assets and cash flows for the year 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. The financial statements of the Hospital for the year ended June 30, 2004 were audited by other auditors whose report, dated November 4, 2004, expressed an unqualified opinion on those statements.

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. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guttenberg Municipal Hospital as of June 30, 2005, and the respective changes in financial position and its cash flows for the year 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 2, 2005 on our consideration of the 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 the 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 8 and page 25 are not required parts of the basic financial statements but are supplementary information required by the Government 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 audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 6 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 the audit 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.

Omaha, Nebraska,
September 2, 2005.

Seim, Johnson, Sestak & Quist, LLP

GUTTENBERG MUNICIPAL HOSPITAL

Guttenberg, Iowa

Management's Discussion and Analysis June 30, 2005 and 2004

Our discussion and analysis of Guttenberg Municipal Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the Hospital's financial statements, which begin on page 9.

Financial Highlights

Oddly enough, we must begin our discussion of the year 2005 with an explanation of something that happened a few years ago. In 2003, as the Guttenberg Municipal Hospital filed its annual Medicare cost report with Centers for Medicare and Medicaid Services (CMS) it claimed that the Hospital is a related organization to the Finley Hospital (TFH) in Dubuque, Iowa and as such Medicare should allocate some of the costs from TFH to the Hospital for proper reimbursement. The Hospital was paid for these additional costs by CMS in the year ended 2004. This was thoroughly discussed and evaluated by experts in the field of Medicare cost reimbursement and we believed then and now that our position is correct and per the Medicare regulations.

In the spring of 2005, Centers for Medicare Services (CMS) conducted an audit of the cost report mentioned above. (This is typical and it usually takes this long for Medicare to come and audit the report filed in 2003) CMS took exception not to the fact that the Hospital and TFH are related organizations per the regulations but rather to the methodology used to calculate the amount of "relatedness". In the opinion of the CMS auditor, the Hospital used an incorrect methodology and was overpaid by Medicare for these related costs. The overpayment was a result of the technique the auditor applied when calculating allowable costs from TFH, which was fundamentally different from our calculation.

It should be noted that administration at the Hospital, after receiving input from our reimbursement specialists at the Iowa Health System, and our independent auditors, do not agree with the technique applied by the CMS auditor in the audit. We plan to appeal the decision. The appeal process could be lengthy, extending for a long period of time.

The effect of the audit determination for the 2003 cost report audit must also be taken into account "going forward" assuming that the calculation technique would remain the same for fiscal years 2004 and 2005. This report, as mentioned previously, is an annual report filed with CMS and we used a consistent filing methodology in all of the years involved. The net effect of the audit negatively impacts the Hospital by approximately \$250,000 annually for 2003 and 2004 and nearly \$1,000,000 in total for the three years. The Hospital will be responsible to pay these monies back to Medicare over the course of the next 12 months as each of the reports is reviewed and finalized. We consider this a significant event and want to represent our financial statements conservatively to the reading public. Therefore, the total 3-year impact was entered as an adjustment to the 2005 financial statements. This adjustment is a sizeable one and has significant impact on the organization and its financial results. We want to assure the reader that we knew of this possibility and have the cash ready to pay back the amounts owed to Medicare. We also know that the results of 2005 have obviously been inordinately impacted by this transaction. Later in this narrative we will discuss the results of operations disregarding this transaction. At the end of the legal appeal process, the Hospital could receive part or all of these monies back, if the appeal is decided in the hospital's favor. If the appeal is found in favor of CMS, the Hospital will not owe further monies to CMS.

Other than this most significant issue, some of the other highlights of the year include the following:

- The Hospital's net assets increased in 2004 with a \$750,693 or 23.7% increase and decreased in 2005 with a \$105,108 or 2.7% decrease.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

- The Hospital reported operating income in 2004 of \$712,507 and an operating loss in 2005 of \$187,041. Operating income in 2004 increased by \$386,134 or 118% over the operating income reported in 2003. Operating income in 2005 decreased by \$899,548 or 126%. Note: Operating income prior to the negative CMS audit adjustment would have been positive \$232,959 for the year 2005 and would have been \$287,507 for the year 2004.
- Nonoperating revenue decreased by \$17,656 or 31.6% in 2004 compared to 2003. Nonoperating revenue increased in 2005 by \$22,849 or 59.8% compared to 2004.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Revenue, Expenses, & Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or legislation.

The Balance Sheet and Statement of Revenue, Expenses, and Changes in Net Assets

The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets (things owned by us) and all liabilities (monies owed) using the accrual basis of accounting. Another way to say that is, all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 9. The Hospital's net assets increased in 2004 by \$750,693 (23.7%) and decreased in 2005 by \$105,108 (-2.7%), as you can see from **Table 1**.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets**	\$ 3,163,546	2,316,235	1,738,181
Capital assets, net	3,569,622	3,451,172	3,558,496
Other noncurrent assets	<u>825,605</u>	<u>872,792</u>	<u>1,015,836</u>
Total assets	<u>7,558,773</u>	<u>6,640,199</u>	<u>6,312,513</u>
Liabilities:			
Long-term debt outstanding	1,977,799	2,108,933	2,275,823
Other current and noncurrent liabilities*	<u>1,772,143</u>	<u>617,327</u>	<u>873,444</u>
Total liabilities	<u>3,749,942</u>	<u>2,726,260</u>	<u>3,149,267</u>
Net assets:			
Invested in capital assets, net of related debt	1,459,593	1,181,328	1,130,684
Restricted	40	--	15,442
Unrestricted	<u>2,349,198</u>	<u>2,732,611</u>	<u>2,017,120</u>
Total net assets	<u>\$ 3,808,911</u>	<u>3,913,939</u>	<u>3,163,246</u>

* Reflects the money owed back to CMS.

** Reflects receipt of the monies from CMS

A significant component of the change in the Hospital's assets is the increase in cash and cash equivalents. The receipt of monies from CMS as previously discussed influences this. Another significant item is the recording of the liability to record the monies due back to CMS.

Operating Results and Changes in the Hospital's Net Assets

In 2005, the Hospital's net assets decreased by \$105,108 or 2.7%, as shown in **Table 2**. This decrease is made up of very different components. This contrasts with the past three years when the Hospital has experienced an increase in net assets.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Table 2: Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenue:			
Net patient service revenue	\$ 5,571,944	5,908,458	4,827,159
Other operating revenue	391,762	466,907	506,674
Total operating revenue	<u>5,963,706</u>	<u>6,375,365</u>	<u>5,333,833</u>
Operating Expenses:			
Salaries and benefits	2,943,891	2,894,210	2,593,185
Purchased services and other	2,665,915	2,224,163	1,982,538
Depreciation and amortization	445,348	419,047	431,737
Interest	95,593	125,438	140,582
Total operating expenses	<u>6,150,747</u>	<u>5,662,858</u>	<u>5,148,042</u>
Operating income (loss)	<u>(187,041)</u>	<u>712,507</u>	<u>185,791</u>
Nonoperating Revenue, Net			
Investment income	38,031	27,183	34,342
Grants and contributions	35,174	8,920	14,646
Other nonoperating revenue, net	8,728	2,083	6,854
Total nonoperating revenue, net	<u>81,933</u>	<u>38,186</u>	<u>55,842</u>
Increase (decrease) in net assets	<u>(105,108)</u>	<u>750,693</u>	<u>241,633</u>
Net assets beginning of year	<u>3,913,939</u>	<u>3,163,246</u>	<u>2,921,613</u>
Net assets end of year	<u>\$ 3,808,831</u>	<u>3,913,939</u>	<u>3,163,246</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss) — generally, the difference between net patient service revenue and the expenses incurred to perform those services. The operating loss in 2005 is due to the "deduction from revenue" that resulted from the Medicare Cost Report adjustment for 2003 (actual) plus the 2004 and 2005 cost report settlements (projected).

The primary components of the operating income (loss) are:

- Increase in patient days of 217 or 9.6% in 2005 over the 2004 number, and 149 or 6.0% increase in the 2004 patient days over the 2003 level.
- Increased outpatient revenue, \$1,060,735 or 25.9% in 2005 and \$386,082 or 10.5% in 2004. Increases in 2005 were due to increased lab and x-ray visits, outpatient treatments for injections and blood product transfusions, increase in Emergency department visits, and a higher number of outpatient surgeries performed.

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Management's Discussion and Analysis
June 30, 2005 and 2004

- Net patient service revenue decreased in 2005 primarily because of the larger than expected adjustment to deduction from revenue for the three-year projected impact of the 2003 CMS audit of the Hospital's cost report. Patient charges were increased in July 2005 by 5%. Hospital admissions and outpatient visits exceeded budget. As a Critical Access Hospital the Hospital is reimbursed based upon reasonable cost for most inpatient and outpatient services by Medicare and Medicaid. In 2005 the impact of improved volume, which helps the Hospital operate more efficiently, will actually decrease costs per day. This change coupled with the CMS audit outcome resulted in larger than anticipated deductions from revenue ultimately resulting in a decrease in net patient service revenue.
- Increases in salary and benefit costs for the hospital's employees (\$49,681 or 1.7% in 2005).
- Increases in other operating expenses of \$438,208 or 15.85% in 2005. The increase in expenses was related to the cost to purchase drugs and supplies, a newly negotiated management contract with TFH, surgeon recruitment fees, and outsourcing for support of our information technology needs. In addition, the Board changed our minor equipment limit to items whose purchase cost is \$5,000 or less.
- An increase in the level of uncompensated care provided. These are services provided for which there is no expectation of payment. During 2005, the Hospital provided \$140,740 in charity care and an additional \$16,074 was expensed as bad debt. This is in keeping with our mission to offer healthcare to all regardless of ability to pay.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses, discussed earlier, with one exception. Cash flows provided by operating activities increased slightly more than operating income in both 2005 and 2004 due to payments received from Medicare. The Hospital's cash position is adequate after accounting for our repayment of money owed back to Medicare (as discussed earlier). Cash at the end of 2005 is approximately \$2 million dollars after the repayment amounts were accounted for.

Capital Asset and Debt Administration

Capital Assets

At the end of 2005, the Hospital had \$3,569,622 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2005, the Hospital purchased new equipment costing \$553,058, mostly an investment in Information Technology. In 2004, \$314,831 was spent to acquire new equipment and to renovate the OB area.

Debt

At year-end, the Hospital had \$2,110,029 in revenue bonds and capital lease obligations outstanding. The Hospital issued no new debt in 2005 or 2004.

GUTTENBERG MUNICIPAL HOSPITAL
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Management's Discussion and Analysis
June 30, 2005 and 2004

Other Economic Factors

In 2005 the Hospital subsidized the costs of running the programs of Kids Kampus, a Daycare and Early Childhood Development Center, the Community Fitness Center, and the Family Resource Center, a center that provides support and many social services to our community in the amount of \$204,800. In addition, the hospital is required to allocate overhead costs to these programs. This allocation of costs to these programs means that Medicare will not participate in a sharing of the cost for that cost that is allocated. The impact in actual program shortfalls and lost Medicare reimburseable cost to the Hospital totals \$346,599. It is not likely that the Hospital will continue to subsidize these community programs in light of the revised reimbursement information we have received this year from the federal government. The Board will be addressing these issues in the upcoming year. Additionally, we have begun the planning phase of a major capital renovation. Conversations with a dedicated team of people to redesign the Hospital have begun.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at Guttenberg Municipal Hospital, 2nd and Main St, P.O. Box 550, Guttenberg, IA. 52052.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Balance Sheets
June 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 2,036,410	1,208,990
Investments	131,121	127,865
Assets limited as to use or restricted - Under Hospital Revenue Bonds	16,631	17,094
Receivables -		
Patient, net of allowance for doubtful accounts of \$136,284 in 2005 and \$157,000 in 2004	676,445	648,288
Other	28,602	35,699
Inventories	129,905	141,101
Prepaid expenses	144,432	72,198
Estimated third-party payor settlements - Medicare and Medicaid	<u>—</u>	<u>65,000</u>
Total current assets	3,163,546	2,316,235
Assets limited as to use or restricted -		
By board for capital improvements and debt retirement	795,524	834,750
Capital assets, net	3,569,622	3,451,172
Deferred financing costs, net	<u>30,081</u>	<u>38,042</u>
Total assets	\$ <u>7,558,773</u>	<u>6,640,199</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 132,230	160,911
Accounts payable	179,514	70,878
Accrued expenses -		
Accrued salaries, wages and vacation payable	307,623	291,317
Property taxes	68,514	63,562
Payroll taxes and other	12,539	30,659
Estimated third-party payor settlements - Medicare and Medicaid	<u>1,071,723</u>	<u>—</u>
Total current liabilities	1,772,143	617,327
Long-term debt, net of deferred loss on refunding and current maturities	<u>1,977,799</u>	<u>2,108,933</u>
Total liabilities	<u>3,749,942</u>	<u>2,726,260</u>
Net assets:		
Invested in capital assets, net of related debt	1,459,593	1,181,328
Restricted	40	—
Unrestricted	<u>2,349,198</u>	<u>2,732,611</u>
Total net assets	<u>3,808,831</u>	<u>3,913,939</u>
Total liabilities and net assets	\$ <u>7,558,773</u>	<u>6,640,199</u>

See notes to financial statements

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 5,588,018	6,025,183
Provision for bad debt	<u>(16,074)</u>	<u>(116,725)</u>
Net patient and service revenue	5,571,944	5,908,458
Other operating revenue	<u>391,762</u>	<u>466,907</u>
Total operating revenue	<u>5,963,706</u>	<u>6,375,365</u>
OPERATING EXPENSES:		
Salaries	2,328,153	2,289,599
Employee benefits	615,738	604,611
Purchased services and professional fees	1,278,429	988,446
Utilities	118,325	113,173
Supplies and other expenses	1,217,964	1,078,294
Depreciation and amortization	445,348	419,047
Insurance	51,197	44,253
Interest	<u>95,593</u>	<u>125,435</u>
Total operating expenses	<u>6,150,747</u>	<u>5,662,858</u>
OPERATING INCOME (LOSS)	<u>(187,041)</u>	<u>712,507</u>
NONOPERATING REVENUE, NET:		
Investment income	38,031	27,183
Noncapital grants and contributions	14,276	8,920
Gain on disposal of capital assets	<u>8,728</u>	<u>2,083</u>
Nonoperating revenue, net	<u>61,035</u>	<u>38,186</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(126,006)	750,693
CAPITAL GRANTS AND CONTRIBUTIONS	<u>20,898</u>	<u>--</u>
INCREASE (DECREASE) IN NET ASSETS	(105,108)	750,693
NET ASSETS, beginning of year	<u>3,913,939</u>	<u>3,163,246</u>
NET ASSETS, end of year	<u>\$ 3,808,831</u>	<u>3,913,939</u>

See notes to financial statements

GUTTENBERG MUNICIPAL HOSPITAL
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Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 6,680,510	5,596,675
Cash paid to employees for salaries and benefits	(2,945,705)	(2,852,939)
Cash paid to suppliers and contractors	(2,636,504)	(2,344,793)
Other receipts and payments, net	<u>398,859</u>	<u>458,978</u>
Net cash provided by operating activities	<u>1,497,160</u>	<u>857,921</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	<u>14,276</u>	<u>8,920</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	20,898	--
Purchase of capital assets, net	(517,933)	(305,785)
Principal paid on long-term debt	(165,852)	(157,968)
Interest paid on long-term debt	<u>(95,593)</u>	<u>(125,435)</u>
Net cash used in capital and related financing activities	<u>(758,480)</u>	<u>(589,188)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in notes receivable	--	415
Sale (purchase) of investments	(3,256)	(3,441)
Withdrawals from assets limited as to use or restricted	39,689	15,328
Investment income	<u>38,031</u>	<u>27,183</u>
Net cash provided by investing activities	<u>74,464</u>	<u>39,485</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	827,420	317,138
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,208,990</u>	<u>891,852</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u>2,036,410</u>	<u>1,208,990</u>

See notes to financial statements

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2005 and 2004

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	<u>2005</u>	<u>2004</u>
Operating income	\$ (187,041)	712,507
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -		
Depreciation and amortization	445,348	419,047
Interest expense included in operating expenses	95,593	125,435
(Increase) decrease in current assets -		
Receivables -		
Patients	(28,157)	(51,783)
Other	7,097	(7,929)
Inventories	11,196	7,908
Prepaid expenses	(72,234)	(17,225)
Estimated third-party payor settlements - Medicare and Medicaid	65,000	(65,000)
Increase (decrease) in current liabilities -		
Accounts payable	85,497	(111,310)
Accrued salaries, wages and vacation payable	16,306	39,169
Accrued property taxes	4,952	(1,438)
Accrued payroll taxes and other	(18,120)	3,540
Estimated third-party payor settlements - Medicare and Medicaid	<u>1,071,723</u>	<u>(195,000)</u>
Net cash provided by operating activities	<u>\$ 1,497,160</u>	<u>857,921</u>

See notes to financial statements

GUTTENBERG MUNICIPAL HOSPITAL

Guttenberg, Iowa

Notes to Financial Statements

June 30, 2005 and 2004

(1) Organization and Summary of Significant Accounting Policies

Guttenberg Municipal Hospital (Hospital) is a 25-bed public hospital located in Guttenberg Iowa. It is organized under Chapter 392 of the Iowa Code and governed by a five member Board of Trustees elected for terms of four years. The Hospital has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The following is a summary of significant accounting policies of the Hospital. These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, the Hospital has included all the funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also 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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two precede categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

G. *Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Assets Limited as to Use or Restricted*

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and debt retirement. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Under Hospital Revenue Bonds – In connection with the issuance of Guttenberg Municipal Hospital, Hospital Revenue Bonds, Series 1999, the Hospital is required to maintain the following funds:

Sinking Fund – These funds are used for the payment of principal and interest on the bonds.

I. *Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Capital assets donated for Hospital operations are recorded at their estimated fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	8 to 20 years
Buildings and improvements	5 to 40 years
Equipment	5 to 15 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

J. *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 these assets. None of the Hospital's interest cost was capitalized in the years ended June 30, 2005 and 2004.

K. *Deferred Financing Costs*

Deferred bond issuance costs are being amortized over the life of the related bonds using the effective interest method. Amortization expense applicable to these bonds amounted to \$13,999 and \$6,043 for the years ended June 30, 2005 and 2004, respectively. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

L. *Compensated Absences*

Hospital employees accumulate a limited amount of earned but unused paid time off hours for subsequent use or for payment upon termination, death, or retirement, and may be carried forward by an employee at a maximum amount of 480 hours. The cost of paid time off is accrued as an expense and a liability as it is earned. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005 and 2004.

M. *Statements of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating revenue and expenses.

N. *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, reimbursed costs and discounted charges. 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.

O. *Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue 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 nonoperating revenue. Amounts restricted to capital acquisitions or that are restricted to a specific operating purpose are reported after nonoperating revenue and expenses.

P. *Charity Care*

To fulfill its mission of community service, 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 these amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

Q. *Investment Income*

Investment income consists entirely of interest on deposits and investments and is included in nonoperating revenue, net.

R. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Finley Hospital in Dubuque, Iowa. The Hospital has had this agreement with Finley Hospital since November 1998.

S. *Reclassifications*

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 reporting format.

(2) Deposits and Investments

The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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 or other short-term corporate debt; perfected repurchase agreements; certain registered open-end management investment companies; and common stocks.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement 3 at June 30, 2005 and 2004.

(3) 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. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2002.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2004.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 3,018,723	3,266,701
Outpatient	5,142,836	4,082,101
Swingbed	<u>258,830</u>	<u>223,236</u>
	<u>8,420,389</u>	<u>7,572,038</u>
Contractual adjustments:		
Medicare	2,081,101	1,057,313
Medicaid	156,295	121,333
Other	454,235	307,317
Charity care services	<u>140,740</u>	<u>60,892</u>
Total contractual adjustments	<u>2,832,371</u>	<u>1,546,855</u>
Net patient service revenue before provision for bad debt	<u>\$ 5,588,018</u>	<u>6,025,183</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 63% and 4%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2005., and 62% and 3%, respectively, for the year ended June 30, 2004. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The 2004 net patient service revenue increased approximately \$425,000 due to removal of allowances previously estimated that were no longer necessary as a result of final settlements and audits. The 2005 net patient service revenue decreased approximately \$420,000 due to prior years' audit adjustments in excess of amounts previously estimated.

(4) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Patient accounts	\$ 1,025,177	974,288
Less estimated third-party contractual adjustments	(212,448)	(169,000)
Less allowance for doubtful accounts	<u>(136,284)</u>	<u>(157,000)</u>
	<u>\$ 676,445</u>	<u>648,288</u>

The Hospital grants credits without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2005</u>	<u>2004</u>
Medicare	41%	42%
Medicaid	6	4
Commercial insurance	34	30
Private pay	<u>19</u>	<u>24</u>
	<u>100%</u>	<u>100%</u>

(5) Assets Limited as to Use

By Board

Cash deposits and certificates of deposit designated by the Board for future capital improvements and debt retirement as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Capital improvements and debt retirement -		
Cash	\$ 22,691	139,015
Certificates of deposit	769,523	693,787
Interest receivable	<u>3,310</u>	<u>1,948</u>
	<u>\$ 795,524</u>	<u>834,750</u>

Hospital Revenue Bonds -

In connection with the issuance of Guttenberg Municipal Hospital, Hospital Revenue Bonds, Series 1998 A and B, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment.

	<u>2005</u>	<u>2004</u>
Sinking Fund, cash	\$ <u>16,631</u>	<u>17,094</u>

(6) Capital Assets

Capital assets and the related accumulated depreciation is summarized as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 156,564	--	--	156,564
Construction in progress	--	--	--	--
	<u>156,564</u>	<u>--</u>	<u>--</u>	<u>156,564</u>
Capital assets, being depreciated:				
Land improvements	350,355	--	--	350,355
Buildings	4,911,983	--	--	4,911,983
Equipment	2,314,970	553,058	(90,070)	2,777,958
Total capital assets, being depreciated	<u>7,577,308</u>	<u>553,058</u>	<u>(90,070)</u>	<u>8,040,296</u>
Less accumulated depreciation:				
Land improvements	(219,469)	(12,387)	--	(231,856)
Buildings	(2,318,555)	(178,015)	--	(2,496,570)
Equipment	(1,744,676)	(240,947)	86,811	(1,898,812)
Total accumulated depreciation	<u>(4,282,700)</u>	<u>(431,349)</u>	<u>86,811</u>	<u>(4,627,238)</u>
Total capital assets, being depreciated, net	<u>3,294,608</u>	<u>121,709</u>	<u>(3,259)</u>	<u>3,413,058</u>
Total capital assets, net	<u>\$ 3,451,172</u>	<u>121,709</u>	<u>(3,259)</u>	<u>3,569,622</u>
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 156,564	--	--	156,564
Construction in progress	75,732	303,081	(378,813)	--
	<u>232,296</u>	<u>303,081</u>	<u>(378,813)</u>	<u>156,564</u>
Capital assets, being depreciated:				
Land improvements	350,355	--	--	350,355
Buildings	4,563,629	--	348,354	4,911,983
Equipment	2,309,983	11,750	(6,763)	2,314,970
Total capital assets, being depreciated	<u>7,223,967</u>	<u>11,750</u>	<u>341,591</u>	<u>7,577,308</u>
Less accumulated depreciation:				
Land improvements	(201,085)	(18,384)	--	(219,469)
Buildings	(2,147,231)	(171,324)	--	(2,318,555)
Equipment	(1,549,451)	(223,296)	28,071	(1,744,676)
Total accumulated depreciation	<u>(3,897,767)</u>	<u>(413,004)</u>	<u>28,071</u>	<u>(4,282,700)</u>
Total capital assets, being depreciated, net	<u>3,326,200</u>	<u>(401,254)</u>	<u>369,662</u>	<u>3,294,608</u>
Total capital assets, net	<u>\$ 3,558,496</u>	<u>(98,173)</u>	<u>(9,151)</u>	<u>3,451,172</u>

Annual debt service requirements related to long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 132,230	84,057	216,287
2007	119,015	78,709	197,724
2008	123,725	73,999	197,724
2009	1,159,702	61,604	1,221,306
2010	593,883	7,967	601,850
	<u>\$ 2,128,555</u>	<u>306,336</u>	<u>2,434,891</u>

Under the terms of the Hospital Revenue Bonds, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005 and 2004. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2005 and 2004, were \$134,055 and \$129,766, respectively, equal to the required contributions for each year.

(9) Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)

Required Supplementary Information

June 30, 2005 and 2004

	Actual		Actual Cash Basis	Budgeted Amounts		Variance Favorable (Unfavorable)
	Accrual Basis	Accrual Adjustments		Original	Amended	
Estimated other revenue / receipts	\$ 6,045,639	1,106,935	7,152,574	6,182,000	5,934,732	1,217,842
Expenses / Disbursements	<u>6,150,747</u>	<u>210,840</u>	<u>6,361,587</u>	<u>6,182,000</u>	<u>5,951,297</u>	<u>(410,290)</u>
Net	(105,108)	896,095	790,987	--	(16,565)	\$ <u>807,552</u>
Balance beginning of year	<u>3,913,939</u>	<u>(1,725,240)</u>	<u>2,188,699</u>	<u>2,188,699</u>	<u>2,188,699</u>	
Balance end of year	\$ <u>3,808,831</u>	<u>(829,145)</u>	<u>2,979,686</u>	<u>2,188,699</u>	<u>2,172,134</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 392 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

**Schedules of Net Patient Service Revenue
For the Years Ended June 30, 2005 and 2004**

	2005				2004			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Adult and pediatric	\$ 1,065,475	116,257	--	1,181,732	964,092	114,271	--	1,078,363
Nursery	39,930	--	--	39,930	31,146	--	--	31,146
Swing bed	--	--	258,830	258,830	--	--	223,236	223,236
	<u>1,105,405</u>	<u>116,257</u>	<u>258,830</u>	<u>1,480,492</u>	<u>995,238</u>	<u>114,271</u>	<u>223,236</u>	<u>1,332,745</u>
OTHER PROFESSIONAL SERVICES:								
Ambulance	3,079	171,461	--	174,540	9,679	128,053	--	137,732
Anesthesiology	89,030	256,868	--	345,898	94,194	206,987	--	301,181
Cardiac rehab	--	48,894	--	48,894	--	47,556	--	47,556
Central services and supply	154,306	121,694	--	276,000	190,201	121,637	--	311,838
Delivery and labor rooms	39,269	7,453	--	46,722	38,619	6,340	--	44,959
Diabetes management	--	14,729	--	14,729	--	9,688	--	9,688
Electrocardiology	70,461	170,413	--	240,874	82,255	128,791	--	211,046
Emergency services	1,456	252,208	--	253,664	61,146	165,106	--	226,252
Laboratory	376,277	1,216,056	--	1,592,333	499,949	921,426	--	1,421,375
Mental health	--	1,259	--	1,259	--	5,078	--	5,078
Nutritional services	--	495	--	495	--	1,302	--	1,302
Operating and recovery rooms	140,542	418,761	--	559,303	148,607	345,445	--	494,052
Pharmacy	467,185	490,408	--	957,593	524,971	379,820	--	904,791
Physical therapy	101,553	391,677	--	493,230	82,349	406,550	--	488,899
Radiology	226,228	1,303,943	--	1,530,171	278,828	1,018,313	--	1,297,141
Respiratory therapy	125,525	34,117	--	159,642	126,594	32,015	--	158,609
Specialty clinic	--	1,719	--	1,719	--	5,550	--	5,550
Speech/occupational therapy	53,891	32,599	--	86,490	38,744	38,173	--	76,917
Surgery clinic	64,516	91,825	--	156,341	--	95,327	--	95,327
	<u>1,913,318</u>	<u>5,026,579</u>	<u>258,830</u>	<u>6,939,897</u>	<u>2,176,136</u>	<u>4,063,157</u>	<u>223,236</u>	<u>6,239,293</u>
GROSS PATIENT SERVICE REVENUE	<u>\$ 3,018,723</u>	<u>5,142,836</u>	<u>258,830</u>	<u>8,420,389</u>	<u>3,171,374</u>	<u>4,177,428</u>	<u>223,236</u>	<u>7,572,038</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,691,631)				(1,485,963)
Charity care services				(140,740)				(60,892)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				5,588,018				6,025,183
PROVISION FOR BAD DEBT				(16,074)				(116,725)
NET PATIENT SERVICE REVENUE				\$ 5,571,944				5,908,458

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Other Operating Revenue
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Office rent	\$ 95,551	98,573
Child care	75,168	89,705
Lab reference services	49,442	44,667
Physical therapy services	42,607	34,797
Cafeteria	27,184	25,631
Contracted services	23,748	31,319
Fitness center memberships	23,044	22,033
Grants	10,875	93,352
Business health	5,880	10,581
Drugs and supplies sold to non-patients	3,330	3,208
Medical records fees	1,926	2,173
Dietary services	1,262	1,073
Houskeeping services	1,114	1,245
Health education reimbursement and fees	770	285
Other	29,861	8,265
	<u>\$ 391,762</u>	<u>466,907</u>

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Departmental Expenses
For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Adult and pediatric	647,860	10,731	43,061	701,652	608,866	23,465	44,405	676,737
Nursery	17,710	--	2,263	19,973	13,288	--	3,280	16,568
	<u>665,570</u>	<u>10,731</u>	<u>45,324</u>	<u>721,625</u>	<u>622,154</u>	<u>23,465</u>	<u>47,686</u>	<u>693,305</u>
OTHER PROFESSIONAL SERVICES:								
Ambulance	56,553	124	19,140	75,817	52,276	162	19,592	72,030
Anesthesiology	--	155,951	8,072	164,023	--	132,145	10,364	142,509
Cardiac rehab	8,962	--	988	9,950	8,190	--	760	8,950
Central services and supply	27,581	--	77,030	104,611	26,664	--	67,037	93,701
Delivery and labor rooms	9,055	--	2,676	11,731	8,073	216	6,499	14,788
Diabetes management	--	9,949	--	9,949	--	7,466	--	7,466
Electrocardiology	7,678	--	5,220	12,898	6,698	--	1,091	7,789
Emergency services	35,030	123,679	12,031	170,740	28,236	107,500	9,658	145,394
Laboratory	219,252	61,405	271,908	552,565	222,889	57,115	205,352	485,356
Medical records	111,878	3,470	11,360	126,708	108,837	1,423	9,441	119,701
Mental health	--	1,694	--	1,694	--	4,296	--	4,296
Operating and recovery rooms	45,137	120,037	41,639	206,813	41,547	86,059	37,602	165,208
Pharmacy	7,544	77,902	276,746	361,192	7,411	68,341	268,375	344,127
Physical therapy	139,904	87,903	15,265	243,072	135,580	65,893	9,729	211,202
Radiology	189,823	205,489	66,305	461,617	162,351	196,647	67,484	426,482
Respiratory therapy	15,279	--	2,865	18,144	20,933	--	2,274	23,207
Specialty clinic	6,745	2,137	660	9,542	5,201	3,119	1,227	9,547
Speech/occupational therapy	--	--	--	--	--	27,025	283	27,308
	<u>880,421</u>	<u>849,740</u>	<u>813,905</u>	<u>2,544,066</u>	<u>834,886</u>	<u>757,407</u>	<u>716,768</u>	<u>2,309,061</u>
GENERAL SERVICES:								
Business health	15,404	234	2,078	17,716	13,587	360	4,178	18,125
Child care	92,352	37	20,310	112,699	103,517	329	22,822	126,668
Dietary	79,938	18,657	42,280	140,875	77,274	18,690	33,878	129,842
Family resources	41,600	472	6,054	48,126	39,403	632	5,744	45,779
Fitness center	--	--	1,572	1,572	--	--	457	457
Grants	6,353	--	939	7,292	66,769	865	10,040	77,674
Housekeeping	44,532	--	8,814	53,346	42,758	--	7,005	49,763
Laundry and linen	13,645	--	3,567	17,212	11,157	--	3,321	14,478
Medical office building	--	240	73,562	73,802	--	290	63,037	63,327
Plant operation and maintenance	43,444	13,779	154,686	211,909	42,357	16,544	144,101	203,002
Purchasing	19,874	--	671	20,545	18,237	--	714	18,951
	<u>357,142</u>	<u>33,419</u>	<u>314,533</u>	<u>705,094</u>	<u>415,059</u>	<u>37,710</u>	<u>295,297</u>	<u>748,066</u>
	<u>425,020</u>	<u>384,539</u>	<u>182,527</u>	<u>972,086</u>	<u>417,500</u>	<u>169,864</u>	<u>131,716</u>	<u>719,080</u>
ADMINISTRATIVE SERVICES								
NONDEPARTMENTAL								
Depreciation and amortization	--	--	445,348	445,348	--	--	419,047	419,047
Employee benefits	--	--	615,738	615,738	--	--	604,611	604,611
Insurance	--	--	51,197	51,197	--	--	44,253	44,253
Interest	--	--	95,593	95,593	--	--	125,435	125,435
	--	--	<u>1,207,876</u>	<u>1,207,876</u>	--	--	<u>1,193,346</u>	<u>1,193,346</u>
	<u>2,328,153</u>	<u>1,278,429</u>	<u>2,544,165</u>	<u>6,150,747</u>	<u>2,289,599</u>	<u>988,446</u>	<u>2,384,813</u>	<u>5,662,858</u>
TOTAL EXPENSES								

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2005 and 2004

ANALYSIS OF AGING:

Days Since Discharge	2005		2004	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 690,631	67.37 %	569,392	58.44
31 - 60	120,903	11.79	155,462	15.96
61 - 90	46,053	4.49	73,080	7.50
91 - 180	66,194	6.46	72,239	7.41
181 - 360	49,543	4.83	45,200	4.64
361 and Over	51,853	5.06	58,915	6.05
	<u>1,025,177</u>	100.00 %	<u>974,288</u>	100.00

Less:

Allowance for doubtful accounts	(136,284)	(157,000)
Allowance for contractual adjustments	<u>(212,448)</u>	<u>(169,000)</u>
	<u>\$ 676,445</u>	<u>\$ 648,288</u>

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 157,000	\$ 125,700
Provision of uncollectible accounts	16,074	116,725
Recoveries of accounts previously written off	11,992	22,536
Accounts written off	<u>(48,782)</u>	<u>(107,961)</u>
Balance, end of year	<u>\$ 136,284</u>	<u>\$ 157,000</u>

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
INVENTORY:		
Pharmacy	\$ 67,601	40,562
Central supply	58,896	96,990
Dietary	<u>3,408</u>	<u>3,549</u>
	<u>\$ 129,905</u>	<u>141,101</u>
 PREPAID EXPENSES:		
Insurance	\$ 64,594	24,194
Maintenance/service contracts	59,838	48,004
Other	<u>20,000</u>	<u>--</u>
	<u>\$ 144,432</u>	<u>72,198</u>

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Financial Statistical Highlights
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	1,354	1,179
All other	297	416
	<u>1,651</u>	<u>1,595</u>
Swing bed - skilled	570	602
Swing bed - intermediate	173	46
Nursery	83	68
	<u>2,477</u>	<u>2,311</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	370	333
All other	169	149
	<u>539</u>	<u>482</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	3.66 days	3.54 days
All other	1.76 days	2.79 days
Observation equivalent days	79	76
Surgical procedures	426	338
Emergency Room visits	1,211	1,088
Full-time equivalents personnel	70.36	71.32

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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 of
Guttenberg Municipal Hospital
Guttenberg, Iowa:

We have audited the accompanying balance sheet of GUTTENBERG MUNICIPAL HOSPITAL as of June 30, 2005, and the related statement of revenue, expenses, changes in net assets, and cash flows for the year then ended and have issued our report thereon, dated September 2, 2005. 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 the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II in the accompanying schedule of findings and questioned costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe Item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we note certain immaterial instances of non-compliance or other matters that are described in Part III in the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment, Item II-A-04 has not been resolved.

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

SPIM, Johnson, Seftel & Quist, LLP

Omaha, Nebraska,
September 2, 2005.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The reportable condition is considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-05 Segregation of Duties – One important aspect of adequate internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of administrative personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of administrative personnel, segregation of duties is difficult. However, the Hospital should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-05 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

III-B-05 Certified Budget – Hospital disbursements during the year ended June 30, 2005, exceeded amounts budgeted.

Recommendation: We recommend that management monitor expenditures and other disbursements to ensure amounts do not exceed those included in the legally adopted budget. Budget estimates adopted may be amended and increased as the need arises to cover necessary expenditures.

Response: We will ensure that the budgeted receipts and disbursements are sufficient when preparing the budget in accordance with Chapter 24 and 392 of the Code of Iowa.

Conclusion: Response accepted.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

- III-C-05 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-D-05 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-05 Business Transactions – Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Employee’s spouse – owner, River Valley Communications	Supplies/Repairs	\$ 3,222

- III-F-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.

GUTTENBERG MUNICIPAL HOSPITAL
Guttenberg, Iowa

Audit Staff

For the Year Ended June 30, 2005

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Jeremy J. Behrens, CPA, Senior Auditor

Joseph F. Balus, Staff Auditor