

**FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**



# GUTTENBERG MUNICIPAL HOSPITAL

## Table of Contents

---

|   | <u>Page</u> |
|---|-------------|
| <b>BOARD OF TRUSTEES AND HOSPITAL OFFICIALS</b>   | 1           |
| <b>INDEPENDENT AUDITOR'S REPORT</b>   | 2-3         |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>   | 4-6         |
| <b>BASIC FINANCIAL STATEMENTS</b>   |             |
| Balance Sheets  | 7           |
| Statements of Revenues, Expenses, and Changes in Net Assets   | 8           |
| Statements of Cash Flows  | 9-10        |
| Notes to Financial Statements   | 11-22       |
| <b>REQUIRED SUPPLEMENTARY INFORMATION</b>   |             |
| Budgetary Comparison Schedule of Revenues, Expenses, and Changes in<br>Net Assets – Budget and Actual (Cash Basis)  | 23          |
| Notes to Required Supplementary Information – Budgetary Reporting   | 24          |
| <b>INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION</b>  | 25          |
| <b>OTHER SUPPLEMENTARY INFORMATION</b>  |             |
| Schedules   |             |
| Net Patient Service Revenue   | 26          |
| Other Operating Revenues  | 27          |
| Operating Expenses  | 28-31       |
| Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics   | 32          |
| Supplies/Prepaid Expense  | 33          |
| Statistical Information (Unaudited)   | 34          |
| <b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING<br/>AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT<br/>OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH<br/>GOVERNMENT AUDITING STANDARDS</b> | 35-36       |
| <b>SCHEDULE OF FINDINGS AND RESPONSES</b>   | 37-39       |

**GUTTENBERG MUNICIPAL HOSPITAL  
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

---

| <u>Name</u>   | <u>Title</u>              | <u>Term Expires</u> |
|---------------|---------------------------|---------------------|
|               | <u>Board of Trustees</u>  |                     |
| Mary Eulberg  | Chairperson               | December 2011       |
| Penny Hansel  | Vice Chairperson          | December 2011       |
| James Kuempel | Secretary/Treasurer       | December 2009       |
| Jim Whalen    | Member                    | December 2011       |
| Doug Reimer   | Member                    | December 2009       |
|               | <u>Hospital Officials</u> |                     |
| Kim Gau       | Administrator             |                     |



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

---

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the accompanying balance sheets of Guttenberg Municipal Hospital as of June 30, 2009 and 2008, 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 our audits provide 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, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Hospital's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2009, on our consideration of Guttenberg Municipal 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 audits.

Management's Discussion and Analysis on pages 4 through 6 and the Budgetary Comparison Information on pages 23 and 24 are not required parts 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. We did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 20, 2009

**GUTTENBERG MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009**

---

This section of Guttenberg Municipal Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2009. We encourage readers to consider this information in conjunction with the financial statements in this report.

**Financial Highlights**

- The Hospital's total assets increased by \$541,627 or 6.8%. The Hospital has been engaged in construction in progress in preparation for a major construction and renovation project.
- The Hospital's current assets exceeded current liabilities by \$3,518,750 at June 30, 2009.
- Cash and cash equivalents increased \$672 (0.4%) from \$1,479,697 to \$1,480,369.
- During the year, the Hospital's total operating revenues increased slightly by 1.2% to \$8.5 million from \$8.4 million a year ago. We experienced a slightly depressed inpatient volume, but a continued strong outpatient volume sustained revenues.
- The Hospital made capital equipment purchases totaling \$128,332. Most equipment acquisitions were in support of clinical patient care. In addition, the Hospital purchased an automated time and attendance system to support the payroll process. The Hospital converted from an all paper manual time and attendance system.

**Overview of the Financial Statements**

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

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2009 reports total assets of \$8,534,125, total liabilities of \$2,387,988, and net assets of \$6,146,137. Net assets have increased 8.2% from the prior year (\$5,679,777).

The statements of revenues, expenses and changes in net assets provide information on the Hospital's revenues and expenses. These statements show total operating revenues of \$8,547,635 and total operating expenses of \$8,022,586 during fiscal year 2009. The operating income that was generated in 2009 was \$525,049 compared to operating income in 2008 of \$917,609.

**GUTTENBERG MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009**

---

The biggest difference between the 2008 and 2009 bottom line is attributable to an increase expense in salaries and professional fees associated with changes in Emergency Department medical coverage this past year. A midlevel practitioner was employed to provide evening and night first call relief for the local physicians during the week. In addition, the contract for weekend coverage with local physicians was renegotiated to reflect current market levels. Combined, these changes reflect a cost increase for emergency room professional coverage of 134%.

The statement of cash flows provides information about the Hospital's cash from operating, investing and financing activities. As reported in this statement, cash and cash equivalents increased from \$1,479,697 at June 30, 2008 to \$1,480,369 at June 30, 2009, or 0.4%.

There are notes and schedules attached to the financial statements in the audit report. All of the notes are accepted as documented by our organization. Many of the notes are similar to past years and similar to other organizations our size. The reader is encouraged to examine the notes and schedules for additional information about the financial practices of the Hospital as well as further detail about the revenues and expenses.

**Significant Budget Variances:**

Significant budget variances exist in Gross Patient Revenue reflecting a negative variance mainly related to inpatient gross patient revenue of -\$619,000.

The decrease in revenue resulted from lower volumes. Lower volumes created a favorable adjustment to the contractual allowance which the Hospital expects to receive from Medicare and Medicaid under the Critical Access Reimbursement model. The positive (\$441,983) variance in contractual allowance (total revenue deductions) coupled with operating expenses that were under budget by \$350,000 created a positive operating margin (6.2%) that exceeded the budgeted margin of positive 5.2%.

There is a fine line in definition between Charity and Bad Debt when looking at Hospital accounts receivable write-offs. The Charity and Bad Debt variance should be looked at together as below:

|                  | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>Variance</u></b> |
|------------------|----------------------|----------------------|------------------------|
| Charity          | \$270,402            | \$135,776            | (\$134,626)            |
| Bad Debt         | <u>\$ 82,205</u>     | <u>\$164,578</u>     | <u>\$ 82,373</u>       |
| Charity/Bad Debt | <u>\$352,607</u>     | <u>\$300,354</u>     | <u>(\$52,253)</u>      |

**GUTTENBERG MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009**

---

Similar to industry patterns, Guttenberg Municipal Hospital has experienced increased levels of bad debt and charity care due to higher patient deductibles related to health insurance coverage plans and increased numbers of uninsured patients.

**Long Term Debt**

At year end, Guttenberg Municipal Hospital had \$1.47 million in long term debt. The debt is in the form of revenue bonds issued in 1998. The interest rate reset this past June on the Series A bond and is favorable. The Series B bond rate will reset in December, 2009 and is anticipated to also reset at a low rate. Rates will remain fixed at the reset rate for the next 5 years. The Hospital anticipates leaving these bonds in place as new long term debt is acquired to finance the upcoming construction project.

**Summary & Financial Future**

The Hospital's financial position remains positive for the third consecutive year. The Hospital staff did a good job controlling expense during a difficult economic period. The positive financial performance positions the organization favorably to proceed with the building expansion and renovation plan.

**Requests for Information**

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the Office of Administration at the following address:

Guttenberg Municipal Hospital  
200 Main St.  
P.O. Box 550  
Guttenberg, IA 52052

**GUTTENBERG MUNICIPAL HOSPITAL**  
**BALANCE SHEETS**  
**JUNE 30, 2009 AND 2008**

|   | <u>2009</u>             | <u>2008</u>             |
|---|-------------------------|-------------------------|
| <b>ASSETS</b>   |                         |                         |
| <b>CURRENT ASSETS</b>   |                         |                         |
| Cash and cash equivalents   | \$ 1,480,369            | \$ 1,479,697            |
| Investments - Note 4  | 1,887,173               | 1,978,695               |
| Receivables   |                         |                         |
| Patient, net of estimated uncollectibles of \$443,000<br>in 2009 and \$514,000 in 2008                | 795,565                 | 1,061,220               |
| Other   | 30,622                  | 30,436                  |
| Supplies  | 146,877                 | 140,504                 |
| Prepaid expense   | <u>91,386</u>           | <u>97,935</u>           |
| <br>Total current assets  | <br><u>4,431,992</u>    | <br><u>4,788,487</u>    |
| <br>LAND, BUILDINGS, AND EQUIPMENT, net - Note 6  | <br><u>3,882,012</u>    | <br><u>2,970,307</u>    |
| <br>OTHER ASSETS  |                         |                         |
| Deferred financing costs, net of accumulated amortization<br>of \$54,311 in 2009 and \$48,255 in 2008 | 719                     | 6,775                   |
| Gift fund investments - Note 4  | 146,027                 | 145,054                 |
| Member share of 28E organization net assets   | <u>73,375</u>           | <u>81,875</u>           |
| <br>Total other assets  | <br><u>220,121</u>      | <br><u>233,704</u>      |
| <br>Total assets  | <br><u>\$ 8,534,125</u> | <br><u>\$ 7,992,498</u> |

See notes to financial statements.

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| <b>LIABILITIES AND NET ASSETS</b>  |                     |                     |
| <b>CURRENT LIABILITIES</b>   |                     |                     |
| Current maturities of long-term debt - Note 8                                      | \$ 144,731          | \$ 128,083          |
| Accounts payable   |                     |                     |
| Trade  | 167,417             | 70,606              |
| Estimated third-party payor settlements  | 131,000             | 47,000              |
| Accrued expenses   |                     |                     |
| Salaries and wages   | 148,488             | 142,377             |
| Paid time off  | 272,192             | 257,074             |
| Property taxes   | 36,164              | 34,000              |
| Payroll taxes and other  | 13,250              | 11,834              |
|  | <u>913,242</u>      | <u>690,974</u>      |
|  |                     |                     |
| LONG-TERM DEBT, less deferred loss on refunding<br>and current maturities - Note 8 | <u>1,474,746</u>    | <u>1,621,747</u>    |
|  |                     |                     |
| Total liabilities  | <u>2,387,988</u>    | <u>2,312,721</u>    |
|  |                     |                     |
| <b>NET ASSETS</b>  |                     |                     |
| Invested in capital assets, net of related debt                                    | 2,262,535           | 1,220,477           |
| Restricted   |                     |                     |
| Expendable for capital acquisitions  | 6,682               | 870                 |
| Nonexpendable contribution to Community Foundation                                 | 10,000              | 10,000              |
| Unrestricted   | <u>3,866,920</u>    | <u>4,448,430</u>    |
|  |                     |                     |
| Total net assets   | <u>6,146,137</u>    | <u>5,679,777</u>    |
|  |                     |                     |
| Total liabilities and net assets   | <u>\$ 8,534,125</u> | <u>\$ 7,992,498</u> |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

|   | <u>2009</u>                | <u>2008</u>         |
|---|----------------------------|---------------------|
| OPERATING REVENUES  |                            |                     |
| Net patient service revenue (net of provision for bad debts of \$82,205 in 2009 and \$178,363 in 2008) - Notes 2 and 3                | <b>\$ 8,103,080</b>        | \$ 8,031,216        |
| Other operating revenues  | <u>444,555</u>             | <u>415,900</u>      |
| <b>TOTAL OPERATING REVENUES</b>   | <b><u>8,547,635</u></b>    | <u>8,447,116</u>    |
| OPERATING EXPENSES  |                            |                     |
| Salaries and wages  | <b>3,256,636</b>           | 3,061,119           |
| Employee benefits   | <b>857,077</b>             | 788,167             |
| Management fees   | <b>222,117</b>             | 225,290             |
| Supplies and other expenses   | <b>3,181,246</b>           | 2,921,809           |
| Depreciation and amortization   | <b>383,716</b>             | 403,983             |
| Interest expense  | <b>64,744</b>              | 73,872              |
| Insurance   | <b><u>57,050</u></b>       | <u>55,267</u>       |
| <b>TOTAL OPERATING EXPENSES</b>   | <b><u>8,022,586</u></b>    | <u>7,529,507</u>    |
| <b>OPERATING INCOME</b>   | <b><u>525,049</u></b>      | <u>917,609</u>      |
| NONOPERATING REVENUES (EXPENSES)  |                            |                     |
| Noncapital grants and contributions   | <b>9,535</b>               | 8,757               |
| Investment income (loss)  | <b>(54,173)</b>            | 96,796              |
| Change in member share of 28E organization net assets   | <b>(8,500)</b>             | (8,971)             |
| Gain on disposal of equipment   | <b><u>1,219</u></b>        | <u>861</u>          |
| <b>NET NONOPERATING REVENUES (EXPENSES)</b>   | <b><u>(51,919)</u></b>     | <u>97,443</u>       |
| REVENUES IN EXCESS OF EXPENSES BEFORE<br>CAPITAL GRANTS AND CONTRIBUTIONS AND CHANGE<br>IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS | <b>473,130</b>             | 1,015,052           |
| CAPITAL GRANTS AND CONTRIBUTIONS  | <b>7,110</b>               | 500                 |
| CHANGE IN UNREALIZED GAINS AND LOSSES ON<br>INVESTMENTS   | <b><u>(13,880)</u></b>     | <u>(95,392)</u>     |
| <b>INCREASE IN NET ASSETS</b>   | <b>466,360</b>             | 920,160             |
| <b>NET ASSETS BEGINNING OF YEAR</b>   | <b><u>5,679,777</u></b>    | <u>4,759,617</u>    |
| <b>NET ASSETS END OF YEAR</b>   | <b><u>\$ 6,146,137</u></b> | <u>\$ 5,679,777</u> |

See notes to financial statements.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

|   | <u>2009</u>                | <u>2008</u>         |
|---|----------------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |                            |                     |
| Receipts of patient service revenue                               | \$ 8,452,735               | \$ 7,809,993        |
| Other receipts  | 444,369                    | 406,097             |
| Payments of salaries and wages                                    | (3,233,991)                | (3,006,438)         |
| Payments of employee benefits                                     | (857,077)                  | (788,167)           |
| Payments of supplies and other expenses                           | <u>(3,361,262)</u>         | <u>(3,281,823)</u>  |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                  | <u><b>1,444,774</b></u>    | <u>1,139,662</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>            |                            |                     |
| Noncapital grants and contributions received                      | <u>9,535</u>               | <u>8,757</u>        |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                            |                     |
| Purchase of property and equipment                                | (1,285,737)                | (416,741)           |
| Restricted contributions received                                 | 7,110                      | 500                 |
| Proceeds from sale of equipment                                   | 1,219                      | 13,174              |
| Payment of interest on debt                                       | (64,744)                   | (73,872)            |
| Payment of principal on debt                                      | <u>(133,981)</u>           | <u>(123,852)</u>    |
| <b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b> | <u><b>(1,476,133)</b></u>  | <u>(600,791)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |                            |                     |
| Increase in gift fund investments                                 | (973)                      | (4,921)             |
| (Increase) decrease in other investments                          | 77,642                     | (194,110)           |
| Net investment income received and realized gains/losses          | <u>(54,173)</u>            | <u>96,796</u>       |
| <b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>       | <u><b>22,496</b></u>       | <u>(102,235)</u>    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                  | <b>672</b>                 | 445,393             |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>             | <u><b>1,479,697</b></u>    | <u>1,034,304</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                   | <u><b>\$ 1,480,369</b></u> | <u>\$ 1,479,697</u> |

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET  |                     |                     |
| CASH PROVIDED BY OPERATING ACTIVITIES  |                     |                     |
| Operating income   | \$ 525,049          | \$ 917,609          |
| Adjustments to reconcile operating income to net cash provided by operating activities |                     |                     |
| Depreciation and amortization  | 383,716             | 403,983             |
| Interest expense considered capital and related financing activity                     | 64,744              | 73,872              |
| Provision for bad debts  | 82,205              | 178,363             |
| Changes in assets and liabilities  |                     |                     |
| Receivables  | 183,264             | (300,504)           |
| Supplies   | (6,373)             | (9,531)             |
| Prepaid expense  | 6,549               | 9,502               |
| Accounts payable - trade   | 96,811              | (41,848)            |
| Estimated third-party payor settlements  | 84,000              | (108,885)           |
| Accrued expenses   | 24,809              | 17,101              |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | <u>\$ 1,444,774</u> | <u>\$ 1,139,662</u> |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

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 alternating terms of four years. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Guttenberg, Iowa, and the surrounding area.

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

*Reporting Entity*

For financial reporting purposes, the Hospital has included all 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.

*Basis of Presentation*

The balance sheet displays the Hospital's assets and liabilities, with the difference 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 preceding 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.

*Measurement Focus and Basis of Accounting*

Basis of accounting refers to when revenues 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.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are 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.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding gift fund investments.

*Patient Receivables*

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims 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 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. Management also reviews accounts to determine if classification as charity care is appropriate.

*Supplies*

Supplies are stated at lower of cost (first-in, first-out) or market.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

*Assets Limited as to Use or Restricted*

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and debt retirement, over which the Board retains control and may, at its discretion, subsequently use for other purposes; and assets set aside under a bond indenture agreement.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Land, buildings, and equipment donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized. The estimated useful lives of property and equipment are as follows:

|                            |              |
|----------------------------|--------------|
| Land improvements          | 8 – 20 years |
| Buildings and improvements | 5 – 40 years |
| Equipment                  | 3 – 15 years |

*Advertising Costs*

The Hospital expenses advertising costs as incurred.

*Deferred Financing Costs*

Deferred financing costs are amortized over the period the related obligation is outstanding using the effective interest method.

*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. The cost of paid time off is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009.

*Operating Revenues and Expenses*

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

*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, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

*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 the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

*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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Investment income*

Interest on cash and deposits is included in nonoperating revenues and expenses.

*Investments in Securities*

The Hospital's investments in securities are classified and accounted for as securities "available-for-sale." Securities classified as "available-for-sale" are carried in the financial statements at fair value. Realized gains and losses, determined using the specific-identification method, are included in earnings; unrealized holding gains and losses are reported as other changes in net assets.

*Reclassification*

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

*Other Significant Accounting Policies*

Other significant accounting policies are set forth in the financial statements and the notes thereto.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

**NOTE 2 – CHARITY CARE AND COMMUNITY BENEFITS**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$270,402 and \$119,887 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$178,000 and \$76,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**NOTE 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:** The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2007.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program 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 Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2006.

**Other Payors:** 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.

Laws and regulations governing the Medicare, Medicaid, and other 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009, and 56% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2008.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

A summary of patient service revenue, deductions from patient service revenue, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

|  | <u>2009</u>          | <u>2008</u>          |
|--|----------------------|----------------------|
| Total patient service revenue                                | <u>\$ 11,254,369</u> | <u>\$ 11,127,003</u> |
| Contractual adjustments                                      |                      |                      |
| Medicare   | (1,927,460)          | (2,037,707)          |
| Medicaid   | (191,496)            | (100,112)            |
| Other  | (884,810)            | (715,570)            |
| Administrative adjustments/policy discounts                  | <u>(65,318)</u>      | <u>(64,035)</u>      |
| Total deductions from patient service revenue                | <u>(3,069,084)</u>   | <u>(2,917,424)</u>   |
| Net patient service revenue                                  | <u>8,185,285</u>     | 8,209,579            |
| Provision for bad debts                                      | <u>(82,205)</u>      | <u>(178,363)</u>     |
| Net patient service revenue (net of provision for bad debts) | <u>\$ 8,103,080</u>  | <u>\$ 8,031,216</u>  |

**NOTE 4 – CASH AND DEPOSITS**

The Hospital's deposits in banks at June 30, 2009 and 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 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; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district, and common stocks.

Credit risk: 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 Governmental Accounting Standards Board Statement 3 at June 30, 2009 and 2008.

At June 30, 2009 and 2008, the Hospital's carrying amounts of cash and deposits are as follows:

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Checking and savings accounts                             | \$ 1,496,652        | \$ 1,490,353        |
| Certificates of deposit                                   | 1,595,380           | 1,543,152           |
| Equity securities – common stock                          | 401,383             | 543,867             |
| Beneficial interest in net assets of Community Foundation | 9,578               | 11,147              |
| Interest receivable                                       | <u>10,576</u>       | <u>14,927</u>       |
|   | <u>\$ 3,513,569</u> | <u>\$ 3,603,446</u> |
| Included in the following balance sheet captions:         |                     |                     |
| Cash and cash equivalents                                 | \$ 1,480,369        | \$ 1,479,697        |
| Investments   | 1,887,173           | 1,978,695           |
| Gift fund investments                                     | <u>146,027</u>      | <u>145,054</u>      |
|   | <u>\$ 3,513,569</u> | <u>\$ 3,603,446</u> |

(continued on next page)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

Cost and fair value of marketable equity securities at June 30, 2009, is as follows:

|   | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|---|---------------------------|---------------------------------------|--|-----------------------|
| Available-for-sale<br>Equity securities | \$ 491,029                | \$ 19,626                             | \$ (109,272)                           | \$ 401,383            |

Net realized losses of \$124,440 on the sale of securities available-for-sale were included in investment income (loss) on the statement of revenues, expenses and changes in net assets for the year ended June 30, 2009.

Interest rate risk. The Hospital's investment policy states that the Hospital's investment portfolio will remain sufficiently liquid to enable the Hospital to meet operating requirements that cash management procedures anticipate. The investment policy also states that for the general savings account, designating funds, and investable funds shall have maturities that do not exceed one year.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the code of Iowa.

**NOTE 5 – BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION**

The Hospital is a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held in perpetuity. The Hospital expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The funds which have been invested directly by Guttenberg Municipal Hospital are recognized in the financial statements as a beneficial interest in net assets of the Community Foundation at the fair market value of the Hospital's interest in the Foundation. These funds amount to \$9,578 and \$11,147 at June 30, 2009 and 2008, respectively.

**NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT**

Land, buildings, and equipment activity for the years ended June 30, 2009 and 2008, was as follows:

|                          | June 30, 2008    |                     |                   |                  | June 30, 2009    |
|--------------------------|------------------|---------------------|-------------------|------------------|------------------|
|                          | <u>Balance</u>   | <u>Additions</u>    | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u>   |
| Cost                     |                  |                     |                   |                  |                  |
| Land                     | \$ 363,608       | \$ -                | \$ -              | \$ -             | \$ 363,608       |
| Land improvements        | 346,237          | -                   | -                 | -                | 346,237          |
| Buildings                | 4,506,581        | 11,392              | -                 | -                | 4,517,973        |
| Equipment                | 2,993,282        | 128,332             | 192,480           | -                | 2,929,134        |
| Construction in progress | 93,786           | 1,146,013           | -                 | -                | 1,239,799        |
|                          | <u>8,303,494</u> | <u>\$ 1,285,737</u> | <u>\$ 192,480</u> | <u>\$ -</u>      | <u>9,396,751</u> |

(continued on next page)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

|   | June 30, 2008       |                   |                   |                  | June 30, 2009       |
|---|---------------------|-------------------|-------------------|------------------|---------------------|
|   | <u>Balance</u>      | <u>Additions</u>  | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u>      |
| Accumulated depreciation                  |                     |                   |                   |                  |                     |
| Land improvements                         | \$ 264,451          | \$ 202,909        | \$ 192,480        | \$ -             | \$ 274,880          |
| Buildings                                 | 2,715,620           | 161,799           | -                 | -                | 2,877,419           |
| Equipment                                 | 2,353,116           | 9,324             | -                 | -                | 2,362,440           |
|   | <u>5,333,187</u>    | <u>\$ 374,032</u> | <u>\$ 192,480</u> | <u>\$ -</u>      | <u>\$ 5,514,739</u> |
| Total land, buildings, and equipment, net | <u>\$ 2,970,307</u> |                   |                   |                  | <u>\$ 3,882,012</u> |
|   |                     |                   |                   |                  |                     |
|   | June 30, 2007       |                   |                   |                  | June 30, 2008       |
|   | <u>Balance</u>      | <u>Additions</u>  | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u>      |
| Cost                                      |                     |                   |                   |                  |                     |
| Land                                      | \$ 156,564          | \$ 137,606        | \$ -              | \$ 69,438        | \$ 363,608          |
| Land improvements                         | 350,355             | -                 | -                 | (4,118)          | 346,237             |
| Buildings                                 | 4,760,576           | -                 | 188,675           | (65,320)         | 4,506,581           |
| Equipment                                 | 2,992,968           | 185,349           | 185,035           | -                | 2,993,282           |
| Construction in progress                  | -                   | 93,786            | -                 | -                | 93,786              |
|   | <u>8,260,463</u>    | <u>\$ 416,741</u> | <u>\$ 373,710</u> | <u>\$ -</u>      | <u>8,303,494</u>    |
| Accumulated depreciation                  |                     |                   |                   |                  |                     |
| Land improvements                         | 256,025             | \$ 11,207         | \$ 2,781          | \$ -             | 264,451             |
| Buildings                                 | 2,737,329           | 164,183           | 185,892           | -                | 2,715,620           |
| Equipment                                 | 2,309,190           | 219,049           | 175,123           | -                | 2,353,116           |
|   | <u>5,302,544</u>    | <u>\$ 394,439</u> | <u>\$ 363,796</u> | <u>\$ -</u>      | <u>5,333,187</u>    |
| Total land, buildings, and equipment, net | <u>\$ 2,957,919</u> |                   |                   |                  | <u>\$ 2,970,307</u> |

Construction in progress at June 30, 2009, represents preliminary costs incurred for planned renovation and expansion of the Hospital on its current site. The total expected cost of the project (new construction, new equipment, cost of issuance and financing) is \$18,993,000, which the Hospital plans to finance with the issuance of revenue bonds in the amount of \$16,900,000 and Hospital funds. Construction of the new facility and renovation of other existing space is expected to begin in November 2009 and be completed in April 2011.

**NOTE 7- LEASES**

The Hospital leases certain equipment under non-cancellable long-term lease agreements. The leases have been recorded as operating leases. Total equipment rental expense for the operating leases for the years ended June 30, 2009 and 2008, was \$187,752 and 186,762, respectively.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

Minimum future lease payments for operating leases are as follows:

| <u>Year Ending June 30,</u>  |                   |
|------------------------------|-------------------|
| 2010                         | \$ 187,752        |
| 2011                         | 179,304           |
| 2012                         | 11,880            |
| 2013                         | <u>990</u>        |
| Total minimum lease payments | <u>\$ 379,926</u> |

**NOTE 8 – LONG-TERM DEBT**

A schedule of changes in the Hospital's long-term debt for 2009 and 2008 follows:

|  | <u>June 30<br/>2008<br/>Balance</u> | <u>Additions</u>   | <u>Payments</u>          | <u>June 30<br/>2009<br/>Balance</u> | <u>Amounts<br/>Due Within<br/>One Year</u> |
|--|-------------------------------------|--------------------|--------------------------|-------------------------------------|--|
| Revenue bonds payable, variable rate currently 2.23%, due in varying monthly installments currently \$9,704, including interest to April 2019, collateralized by a pledge of the Hospital's net revenues   | \$ 1,114,234                        | \$ -               | \$ 88,484                | <b>\$ 1,025,750</b>                 | <b>\$ 94,496</b>                           |
| Revenue bonds payable, variable rate currently 4.02%, due in varying monthly installments currently \$5,862, including interest to October 2019, collateralized by a pledge of the Hospital's net revenues | <u>639,224</u>                      | <u>-</u>           | <u>45,497</u>            | <u><b>593,727</b></u>               | <u><b>50,235</b></u>                       |
|  | <u><b>\$ 1,753,458</b></u>          | <u><b>\$ -</b></u> | <u><b>\$ 133,981</b></u> | <u><b>1,619,477</b></u>             | <u><b>\$ 144,731</b></u>                   |
| Less current maturities  |                                     |                    |                          | <u><b>(144,731)</b></u>             |  |
| Long-term debt, less current maturities  |                                     |                    |                          | <u><b>\$ 1,474,746</b></u>          |  |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

Long-term debt maturities are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|-----------------------------|---------------------|-------------------|---------------------|
| 2010                        | \$ 144,731          | \$ 38,253         | \$ 182,984          |
| 2011                        | 149,669             | 31,414            | 181,083             |
| 2012                        | 153,041             | 28,042            | 181,083             |
| 2013                        | 156,489             | 24,594            | 181,083             |
| 2014                        | 160,015             | 21,069            | 181,084             |
| 2015-2019                   | 834,801             | 49,635            | 884,436             |
| 2020                        | <u>20,731</u>       | <u>100</u>        | <u>20,831</u>       |
|                             | <u>\$ 1,619,477</u> | <u>\$ 193,107</u> | <u>\$ 1,812,584</u> |

  

|  | <u>June 30<br/>2007<br/>Balance</u> | <u>Additions</u> | <u>Payments</u>   | <u>June 30<br/>2008<br/>Balance</u> | <u>Amounts<br/>Due Within<br/>One Year</u> |
|--|-------------------------------------|------------------|-------------------|-------------------------------------|--|
| Revenue bonds payable, variable rate currently 4.07%, due in varying monthly installments currently \$10,615, including interest to April 2019, collateralized by a pledge of the Hospital's net revenues  | \$ 1,194,354                        | \$ -             | \$ 80,120         | \$ 1,114,234                        | \$ 82,959                                  |
| Revenue bonds payable, variable rate currently 4.02%, due in varying monthly installments currently \$5,862, including interest to October 2019, collateralized by a pledge of the Hospital's net revenues | <u>682,956</u>                      | <u>-</u>         | <u>43,732</u>     | <u>639,224</u>                      | <u>45,124</u>                              |
|  | <u>\$ 1,877,310</u>                 | <u>\$ -</u>      | <u>\$ 123,852</u> | 1,753,458                           | <u>\$ 128,083</u>                          |
| Less deferred loss on refunding  |                                     |                  |                   | (3,628)                             |  |
| Less current maturities  |                                     |                  |                   | <u>(128,083)</u>                    |  |
| Long-term debt, less deferred loss on refunding and current maturities   |                                     |                  |                   | <u>\$ 1,621,747</u>                 |  |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

**NOTE 9 – 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 4.10% of their annual covered salary, and the Hospital is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Hospital was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$205,178, \$182,664, and \$142,250, respectively, equal to the required contributions for each year.

**NOTE 10 – CONTINGENCIES**

*Malpractice Insurance*

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

*Health Care Legislation and Regulation*

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, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation 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 substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009 AND 2008**

---

**NOTE 11 – RISK MANAGEMENT**

Guttenberg Municipal 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. This coverage has not changed significantly from the previous year. 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.

**NOTE 12 – CONCENTRATION OF CREDIT RISK**

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2009 and 2008, was as follows:

|                                       | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-------------|-------------|
| Medicare                              | 36 %        | 36 %        |
| Medicaid                              | 4           | 9           |
| Commercial and other insurance        | 31          | 33          |
| Other third-party payors and patients | <u>29</u>   | <u>22</u>   |
|                                       | <u>100%</u> | <u>100%</u> |

**NOTE 13 – MEMBER SHARE OF 28E ORGANIZATION NET ASSETS**

The Hospital entered into a 28E agreement with the City of Guttenberg (City) to form Kids Kampus Community Childcare (Kids Kampus). Kids Kampus was formed to provide a full service child day care center for the benefit of all of the members of the community served by the Hospital and the City. The effective date of the agreement was June 1, 2006. The agreement called for the transfer of the building used by Kids Kampus from the Hospital at a transfer cost of \$1. The Hospital owns the land on which the building resides. In the event Kids Kampus no longer has need of the building for the purpose of providing childcare services, the Hospital maintains the right of first refusal and will regain the building for the same transfer price of \$1.

**NOTE 14 – SUBSEQUENT EVENT**

The Hospital currently plans a renovation and expansion on its current site located in Guttenberg, Iowa. In August 2009, the Hospital will submit its application for financing to USDA. The total cost of construction is anticipated to be \$18,993,000, with \$16,900,000 to be financed with proceeds from the issuance of revenue bonds. The bond closing, with the receipt of debt proceeds and the start of the construction period, are assumed to occur in November 2009.

The Hospital has evaluated subsequent events through August 20, 2009, the date which the financial statements were available to be issued.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)**  
**YEAR ENDED JUNE 30, 2009**

---

|                                 | Actual<br>Accrual<br>Basis | Accrual<br>Adjustments | Actual<br>Cash Basis | Amended<br>Budget   | Variance<br>Favorable<br>(Unfavorable) |
|---------------------------------|----------------------------|------------------------|----------------------|---------------------|--|
| Estimated revenues/<br>receipts | \$ 8,497,446               | \$ 349,469             | \$ 8,846,915         | \$ 8,742,000        | \$ 104,915                             |
| Expenses/disbursements          | <u>8,031,086</u>           | <u>905,706</u>         | <u>8,936,792</u>     | <u>9,332,000</u>    | <u>395,208</u>                         |
| Net                             | 466,360                    | (556,237)              | (89,877)             | (590,000)           | <u>\$ 500,123</u>                      |
| Balance beginning of year       | <u>5,679,777</u>           | <u>(2,076,331)</u>     | <u>3,603,446</u>     | <u>3,970,414</u>    |  |
| Balance end of year             | <u>\$ 6,146,137</u>        | <u>\$ (2,632,568)</u>  | <u>\$ 3,513,569</u>  | <u>\$ 3,380,414</u> |  |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2009**

---

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

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. The budget was amended during the year ended June 30, 2009.

For the year ended June 30, 2009, the Hospital's expenditures did not exceed the amount budgeted per the amended budget.



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION**

---

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedule of Statistical Information on page 34 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

Dubuque, Iowa  
August 20, 2009

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2009 AND 2008**

|   | <u>2009</u>                | <u>2008</u>                |
|---|----------------------------|----------------------------|
| <b>PATIENT SERVICE REVENUE</b>                                      |                            |                            |
| Adults and pediatrics   | \$ 1,244,652               | \$ 1,395,836               |
| Nursery   | 39,301                     | 30,185                     |
| Swing-bed   | 230,154                    | 234,240                    |
| Operating and recovery rooms  | 1,107,367                  | 1,186,586                  |
| Delivery and labor rooms  | 50,382                     | 53,011                     |
| Central services and supply   | 496,050                    | 502,746                    |
| Emergency services  | 544,511                    | 356,441                    |
| Ambulance services  | 225,198                    | 166,629                    |
| Laboratory  | 2,151,759                  | 1,994,910                  |
| Electrocardiology   | 272,918                    | 254,667                    |
| Radiology   | 1,934,224                  | 1,830,566                  |
| Pharmacy  | 921,132                    | 957,948                    |
| Anesthesiology  | 608,388                    | 705,804                    |
| Respiratory therapy   | 157,511                    | 152,597                    |
| Sleep studies   | 34,200                     | -                          |
| Physical therapy  | 478,117                    | 347,733                    |
| Occupational and speech therapy                                     | 97,825                     | 74,508                     |
| Cardiac rehab   | 57,332                     | 48,780                     |
| Anticoagulation services  | 69,010                     | 64,576                     |
| Surgery clinic  | 784,985                    | 870,603                    |
| Nutritional services  | 1,119                      | 1,644                      |
| Diabetes management   | 18,636                     | 16,880                     |
|   | <u>11,524,771</u>          | <u>11,246,890</u>          |
| Charity care  | <u>(270,402)</u>           | <u>(119,887)</u>           |
|   | <u>\$ 11,254,369</u>       | <u>\$ 11,127,003</u>       |
| <b>*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED</b>                |                            |                            |
| Inpatient revenue   | \$ 3,569,848               | \$ 3,896,276               |
| Outpatient revenue  | 7,954,923                  | 7,350,614                  |
| Charity care  | <u>(270,402)</u>           | <u>(119,887)</u>           |
| Total patient service revenue                                       | <u>11,254,369</u>          | <u>11,127,003</u>          |
| <b>DEDUCTIONS FROM PATIENT SERVICE REVENUE</b>                      |                            |                            |
| Contractual adjustments   |                            |                            |
| Medicare  | (1,927,460)                | (2,037,707)                |
| Medicaid  | (191,496)                  | (100,112)                  |
| Other   | (884,810)                  | (715,570)                  |
| Administrative adjustments/policy discounts                         | <u>(65,318)</u>            | <u>(64,035)</u>            |
| Total deductions from patient service revenue                       | <u>(3,069,084)</u>         | <u>(2,917,424)</u>         |
| <b>NET PATIENT SERVICE REVENUE</b>                                  | <b>8,185,285</b>           | <b>8,209,579</b>           |
| <b>PROVISION FOR BAD DEBTS</b>                                      | <b><u>(82,205)</u></b>     | <b><u>(178,363)</u></b>    |
| <b>NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)</b> | <b><u>\$ 8,103,080</u></b> | <b><u>\$ 8,031,216</u></b> |

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2009 AND 2008**

|   | <u>2009</u>           | <u>2008</u>           |
|---|-----------------------|-----------------------|
| OTHER OPERATING REVENUES                |                       |                       |
| Therapy services                        | \$ 143,480            | \$ 85,733             |
| Office rent                             | 96,575                | 94,207                |
| Lab reference services                  | 53,287                | 52,476                |
| Contracted services                     | 44,224                | 54,681                |
| Cafeteria                               | 30,231                | 30,059                |
| Fitness center memberships              | 24,227                | 20,354                |
| Grants                                  | 20,166                | 40,575                |
| Drugs and supplies sold to non-patients | 6,986                 | 2,297                 |
| Business health                         | 6,590                 | 7,788                 |
| Housekeeping services                   | 1,974                 | 2,127                 |
| Medical records fees                    | 1,726                 | 1,058                 |
| Dietary services                        | 1,134                 | 1,536                 |
| Family resource                         | 340                   | 199                   |
| Other                                   | <u>13,615</u>         | <u>22,810</u>         |
| <br>TOTAL OTHER OPERATING REVENUES      | <br><u>\$ 444,555</u> | <br><u>\$ 415,900</u> |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

|                                     | <u>2009</u>    | <u>2008</u>    |
|-------------------------------------|----------------|----------------|
| <b>ROUTINE NURSING SERVICES</b>     |                |                |
| Salaries and wages                  | \$ 782,635     | \$ 795,698     |
| Supplies and other expenses         | 93,146         | 89,220         |
|                                     | <u>875,781</u> | <u>884,918</u> |
| <b>NURSERY</b>                      |                |                |
| Salaries and wages                  | 10,729         | 8,747          |
| Supplies and other expenses         | 5,059          | 580            |
|                                     | <u>15,788</u>  | <u>9,327</u>   |
| <b>OPERATING AND RECOVERY ROOMS</b> |                |                |
| Salaries and wages                  | 119,756        | 100,560        |
| Supplies and other expenses         | 101,507        | 102,019        |
|                                     | <u>221,263</u> | <u>202,579</u> |
| <b>DELIVERY AND LABOR ROOMS</b>     |                |                |
| Salaries and wages                  | 13,220         | 11,772         |
| Supplies and other expenses         | 5,108          | 3,621          |
|                                     | <u>18,328</u>  | <u>15,393</u>  |
| <b>CENTRAL SERVICES AND SUPPLY</b>  |                |                |
| Salaries and wages                  | 50,818         | 41,328         |
| Supplies and other expenses         | 112,376        | 123,102        |
|                                     | <u>163,194</u> | <u>164,430</u> |
| <b>EMERGENCY SERVICES</b>           |                |                |
| Salaries and wages                  | 171,251        | 73,099         |
| Supplies and other expenses         | 246,147        | 189,062        |
|                                     | <u>417,398</u> | <u>262,161</u> |
| <b>AMBULANCE SERVICES</b>           |                |                |
| Salaries and wages                  | 64,617         | 60,127         |
| Supplies and other expenses         | 20,378         | 20,685         |
|                                     | <u>84,995</u>  | <u>80,812</u>  |
| <b>LABORATORY</b>                   |                |                |
| Salaries and wages                  | 306,607        | 300,137        |
| Supplies and other expenses         | 415,074        | 355,419        |
|                                     | <u>721,681</u> | <u>655,556</u> |
| <b>ELECTROCARDIOLOGY</b>            |                |                |
| Salaries and wages                  | 15,077         | 9,393          |
| Supplies and other expenses         | 2,851          | 8,805          |
|                                     | <u>17,928</u>  | <u>18,198</u>  |
| <b>RADIOLOGY</b>                    |                |                |
| Salaries and wages                  | 269,695        | 235,677        |
| Supplies and other expenses         | 365,833        | 367,027        |
|                                     | <u>635,528</u> | <u>602,704</u> |

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2009 AND 2008**

|                             | <u>2009</u>    | <u>2008</u>    |
|-----------------------------|----------------|----------------|
| <b>PHARMACY</b>             |                |                |
| Salaries and wages          | \$ 22,216      | \$ 19,352      |
| Supplies and other expenses | <u>372,267</u> | <u>370,494</u> |
|                             | <u>394,483</u> | <u>389,846</u> |
| <b>ANESTHESIOLOGY</b>       |                |                |
| Salaries and wages          | 280,779        | 141,544        |
| Supplies and other expenses | <u>27,144</u>  | <u>124,741</u> |
|                             | <u>307,923</u> | <u>266,285</u> |
| <b>RESPIRATORY THERAPY</b>  |                |                |
| Salaries and wages          | 24,234         | 24,977         |
| Supplies and other expenses | <u>3,834</u>   | <u>6,346</u>   |
|                             | <u>28,068</u>  | <u>31,323</u>  |
| <b>SLEEP STUDIES</b>        |                |                |
| Supplies and other expenses | <u>13,248</u>  | <u>900</u>     |
| <b>PHYSICAL THERAPY</b>     |                |                |
| Salaries and wages          | 179,141        | 193,539        |
| Supplies and other expenses | <u>160,349</u> | <u>35,363</u>  |
|                             | <u>339,490</u> | <u>228,902</u> |
| <b>FITNESS CENTER</b>       |                |                |
| Supplies and other expenses | <u>5,474</u>   | <u>1,456</u>   |
| <b>BUSINESS HEALTH</b>      |                |                |
| Salaries and wages          | 2,294          | 6,153          |
| Supplies and other expenses | <u>2,245</u>   | <u>3,140</u>   |
|                             | <u>4,539</u>   | <u>9,293</u>   |
| <b>FAMILY RESOURCES</b>     |                |                |
| Salaries and wages          | 14,877         | 13,703         |
| Supplies and other expenses | <u>10,900</u>  | <u>7,773</u>   |
|                             | <u>25,777</u>  | <u>21,476</u>  |
| <b>CARDIAC REHAB</b>        |                |                |
| Salaries and wages          | 10,739         | 8,636          |
| Supplies and other expenses | <u>586</u>     | <u>4,640</u>   |
|                             | <u>11,325</u>  | <u>13,276</u>  |
| <b>SURGERY CLINIC</b>       |                |                |
| Salaries and wages          | 63,839         | 66,342         |
| Supplies and other expenses | <u>335,520</u> | <u>353,287</u> |
|                             | <u>399,359</u> | <u>419,629</u> |
| <b>MEDICAL RECORDS</b>      |                |                |
| Salaries and wages          | 124,471        | 117,851        |
| Supplies and other expenses | <u>39,764</u>  | <u>38,024</u>  |
|                             | <u>164,235</u> | <u>155,875</u> |

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2009 AND 2008**

|  | <u>2009</u>    | <u>2008</u>    |
|--|----------------|----------------|
| <b>DIETARY</b>                         |                |                |
| Salaries and wages                     | \$ 86,569      | \$ 102,225     |
| Supplies and other expenses            | <u>69,547</u>  | <u>65,849</u>  |
|  | <u>156,116</u> | <u>168,074</u> |
| <b>PLANT OPERATION AND MAINTENANCE</b> |                |                |
| Salaries and wages                     | 67,017         | 52,703         |
| Supplies and other expenses            | <u>219,191</u> | <u>215,855</u> |
|  | <u>286,208</u> | <u>268,558</u> |
| <b>HOUSEKEEPING</b>                    |                |                |
| Salaries and wages                     | 41,113         | 43,919         |
| Supplies and other expenses            | <u>12,596</u>  | <u>13,045</u>  |
|  | <u>53,709</u>  | <u>56,964</u>  |
| <b>LAUNDRY AND LINEN</b>               |                |                |
| Salaries and wages                     | 17,549         | 17,584         |
| Supplies and other expenses            | <u>4,926</u>   | <u>5,220</u>   |
|  | <u>22,475</u>  | <u>22,804</u>  |
| <b>COMMUNICATIONS</b>                  |                |                |
| Salaries and wages                     | 2,418          | 5,597          |
| Supplies and other expenses            | <u>169,302</u> | <u>127,007</u> |
|  | <u>171,720</u> | <u>132,604</u> |
| <b>FISCAL SERVICES</b>                 |                |                |
| Salaries and wages                     | 224,866        | 212,424        |
| Supplies and other expenses            | <u>98,885</u>  | <u>63,470</u>  |
|  | <u>323,751</u> | <u>275,894</u> |
| <b>ADMINISTRATION</b>                  |                |                |
| Salaries and wages                     | 262,794        | 369,036        |
| Management fees                        | 222,117        | 225,290        |
| Supplies and other expenses            | <u>212,608</u> | <u>177,012</u> |
|  | <u>697,519</u> | <u>771,338</u> |
| <b>PURCHASING</b>                      |                |                |
| Salaries and wages                     | 22,785         | 23,336         |
| Supplies and other expenses            | <u>2,374</u>   | <u>2,500</u>   |
|  | <u>25,159</u>  | <u>25,836</u>  |
| <b>SPECIALTY CLINIC</b>                |                |                |
| Salaries and wages                     | 4,530          | 5,660          |
| Supplies and other expenses            | <u>599</u>     | <u>866</u>     |
|  | <u>5,129</u>   | <u>6,526</u>   |
| <b>MEDICAL OFFICE BUILDING</b>         |                |                |
| Supplies and other expenses            | <u>39,471</u>  | <u>34,140</u>  |

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2009 AND 2008**

---

|                               | <u>2009</u>         | <u>2008</u>         |
|-------------------------------|---------------------|---------------------|
| DIABETES MANAGEMENT           |                     |                     |
| Supplies and other expenses   | \$ <u>12,937</u>    | \$ <u>11,141</u>    |
| UNASSIGNED EXPENSES           |                     |                     |
| Employee benefits             | 857,077             | 788,167             |
| Depreciation and amortization | 383,716             | 403,983             |
| Insurance                     | 57,050              | 55,267              |
| Interest                      | <u>64,744</u>       | <u>73,872</u>       |
|                               | <u>1,362,587</u>    | <u>1,321,289</u>    |
| TOTAL OPERATING EXPENSES      | <u>\$ 8,022,586</u> | <u>\$ 7,529,507</u> |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,**  
**AND COLLECTION STATISTICS**  
**JUNE 30, 2009 AND 2008**

**ANALYSIS OF AGING**

| <u>Days Since Discharge</u>           | <u>June 30, 2009</u> |                         | <u>June 30, 2008</u> |                         |
|---------------------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                                       | <u>Amount</u>        | <u>Percent to Total</u> | <u>Amount</u>        | <u>Percent to Total</u> |
| 0-30                                  | \$ 764,557           | 62%                     | \$ 819,744           | 52%                     |
| 31-60                                 | 136,093              | 11                      | 228,704              | 15                      |
| 61-90                                 | 67,643               | 5                       | 131,584              | 8                       |
| 91-180                                | 81,345               | 7                       | 192,967              | 12                      |
| 181 and over                          | 188,686              | 15                      | 201,984              | 13                      |
|                                       | <u>1,238,324</u>     | <u>100%</u>             | <u>1,574,983</u>     | <u>100%</u>             |
| Less: Allowance for doubtful accounts | (252,015)            |                         | (250,349)            |                         |
| Allowance for contractual adjustments | <u>(190,744)</u>     |                         | <u>(263,414)</u>     |                         |
| Net                                   | <u>\$ 795,565</u>    |                         | <u>\$ 1,061,220</u>  |                         |

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

|                                    | <u>2009</u>       | <u>2008</u>       |
|------------------------------------|-------------------|-------------------|
| Balance, beginning of year         | \$ 250,349        | \$ 191,038        |
| Add: Provision for bad debts       | 82,205            | 178,363           |
| Recoveries of accounts written off | 29,917            | 17,612            |
| Less: Accounts written off         | <u>(110,456)</u>  | <u>(136,664)</u>  |
| Balance, end of year               | <u>\$ 252,015</u> | <u>\$ 250,349</u> |

**COLLECTION STATISTICS**

|   |            |              |
|---|------------|--------------|
| Net accounts receivable – patients                    | \$ 795,565 | \$ 1,061,220 |
| Number of days charges outstanding (1)                | 39         | 52           |
| Uncollectible accounts (2)                            | \$ 360,803 | \$ 303,914   |
| Percentage of uncollectible accounts to total charges | 3%         | 3%           |

- (1) Based on average daily net patient service revenue for April, May, and June.  
(2) Includes provision for bad debts, charity care, and collection expense.

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF SUPPLIES/PREPAID EXPENSE  
JUNE 30, 2009 AND 2008**

---

|                 | <u>2009</u>       | <u>2008</u>       |
|-----------------|-------------------|-------------------|
| SUPPLIES        |                   |                   |
| Pharmacy        | \$ 55,537         | \$ 55,633         |
| Storerooms      | 86,629            | 81,235            |
| Dietary         | <u>4,711</u>      | <u>3,636</u>      |
|                 | <u>\$ 146,877</u> | <u>\$ 140,504</u> |
| <br>            |                   |                   |
| PREPAID EXPENSE |                   |                   |
| Insurance       | \$ 27,964         | \$ 31,035         |
| Other           | <u>63,422</u>     | <u>66,900</u>     |
|                 | <u>\$ 91,386</u>  | <u>\$ 97,935</u>  |

**GUTTENBERG MUNICIPAL HOSPITAL**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

|   | <u>2009</u>      | <u>2008</u> |
|---|------------------|-------------|
| <b>PATIENT DAYS</b>                               |                  |             |
| Acute   |                  |             |
| Adults and pediatrics                             | <b>1,419</b>     | 1,738       |
| Newborn   | <b>73</b>        | 58          |
| Swing-bed   | <b>559</b>       | 601         |
| <b>NUMBER OF BEDS</b>                             | <b>25</b>        | 25          |
| <b>PERCENT OF OCCUPANCY (excluding newborn)</b>   | <b>22%</b>       | 26%         |
| <b>DISCHARGES</b>                                 |                  |             |
| Acute   | <b>424</b>       | 523         |
| Swing-bed   | <b>78</b>        | 88          |
| <b>AVERAGE LENGTH OF STAY</b>                     |                  |             |
| Acute (excluding newborn)                         | <b>3.35</b>      | 3.32        |
| Swing-bed   | <b>7.17</b>      | 6.83        |
| <b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b> |                  |             |
| Acute   |                  |             |
| Private rooms                                     | <b>\$ 784.00</b> | \$ 747.00   |
| 2-bed rooms                                       | <b>659.00</b>    | 628.00      |
| Nursery   | <b>505.00</b>    | 481.00      |
| Skilled care                                      | <b>483.00</b>    | 460.00      |



CPAs & BUSINESS ADVISORS

**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**

---

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the accompanying balance sheets of Guttenberg Municipal Hospital as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated August 20, 2009. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Guttenberg Municipal Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Guttenberg Municipal Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Guttenberg Municipal 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 Guttenberg Municipal 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 that a misstatement of Guttenberg Municipal Hospital's financial statements that is more than inconsequential will not be prevented or detected by Guttenberg Municipal Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

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 Guttenberg Municipal 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of Guttenberg Municipal Hospital 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. 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.

Guttenberg Municipal Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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.

We also noted certain additional matters that we reported to management in a separate letter dated August 20, 2009.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Guttenberg Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 20, 2009

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

---

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES**

I-A-09      Segregation of Duties

Criteria – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Guttenberg Municipal Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-09      Preparation of Annual Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

---

**Part I: Findings Related to the Financial Statements: (continued)**

Condition – Guttenberg Municipal Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted per the amended budget.
- II-B-09 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.
- II-C-09 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-09 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2009**

---

**Part II: Other Findings Related to Required Statutory Reporting: (continued)**

- II-E-09     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-09     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.



CPAs & BUSINESS ADVISORS

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the financial statements of Guttenberg Municipal Hospital for the year ended June 30, 2009, and have issued our report thereon dated August 20, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2009. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Guttenberg Municipal Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Hospital during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We discussed all adjustments to the financial statements with the Hospital’s staff during the audit. The following adjustments were made during the fiscal year 2009 audit:

|   |                       |
|---|-----------------------|
| Increase in net assets prior to audit adjustments                       | \$ 428,717            |
| To adjust construction in progress for project costs initially expensed | 42,568                |
| To record a miscellaneous accounts receivable                           | 10,019                |
| To record change in unrealized gains and losses on investments          | (13,880)              |
| Other adjustments   | <u>(1,064)</u>        |
| <br>Increase in net assets as reported                                  | <br><u>\$ 466,360</u> |

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 20, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Hospital’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hospital’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

**Other Comments**

We have included additional comments regarding the Hospital’s operations. These comments are not a result of an in-depth study of any specific areas but are based on observations made during the course of our audit.

This information is intended solely for the use of the Board of Trustees and management of Guttenberg Municipal Hospital and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Guttenberg Municipal Hospital.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 20, 2009

xc: Ms. Kim Gau, CEO

**GUTTENBERG MUNICIPAL HOSPITAL**  
**YEAR ENDED JUNE 30, 2009**  
**OTHER COMMENTS**

---

**Billing for Non-Patient Charges**

It is our understanding that some departments complete their own billing for services provided to a third-party facility. One example of this is physical therapy services provided to the local nursing home. Although it is necessary to have the physical therapy department assist in determining the amounts to be charged, the actual billing should be completed in the business office. Business office personnel can then enter the billing in the non-patient accounts receivable system. This would allow business office personnel to record the revenue in the proper period, track the billing, and monitor future collection.

We recommend that management determine if there are any additional areas where separate billing is being completed and have business office personnel monitor these billings as well. These procedures will help to improve internal control over the revenue cycle.

**Collection of Cash within the Organization**

During conversation with management, we determined that actual cash is collected in areas such as the cafeteria, Port of Fitness, and Business Health. Whenever cash is collected, it is essential that proper controls are in place to ensure that all cash is accounted for and properly recorded.

Through our discussion with the Business Office Manager, revenue for the Port of Fitness area is recorded when payments are forwarded to the business office. No receipt book is currently used when payments are received in the Rehab area. We recommend that a receipt book be utilized in the Rehab area to provide documentation of amounts collected. We then recommend that amounts received at the business office be reconciled with the receipt book on a regular basis. This will help to strengthen internal control over cash receipts.

Management should continually review collection and safeguarding procedures in all areas where cash is collected to ensure that the highest level of internal controls are implemented and that the procedures are being followed.