



Financial Statements  
June 30, 2010 and 2009

# Guttenberg Municipal Hospital

# GUTTENBERG MUNICIPAL HOSPITAL

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

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Doug Reimer	Chairperson	December 2013
Penny Hansel	Vice Chairperson	December 2011
James Kuempel	Secretary/Treasurer	December 2013
Jim Whalen	Member	December 2011
Mary Eulberg	Member	December 2011
	<u>Hospital Officials</u>	
Kim Gau	Chief Executive Officer	



## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the accompanying balance sheets of Guttenberg Municipal Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010, 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 25 and 26 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.

*Eide Bailly LLP*

Dubuque, Iowa  
September 21, 2010

**GUTTENBERG MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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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, 2010. We encourage readers to read this analysis in conjunction with the financial statements in this report.

**Financial Highlights**

- The Hospital's total assets increased by \$18,267,937 due to the hospital's engagement in a major construction and renovation project which is being funded through debt acquisition via federal direct and guaranteed USDA loans.
- The Hospital's current assets exceeded current liabilities by \$1,453,232 at June 30, 2010.
- Cash and cash equivalents increased \$878,642 (59%) from \$1,480,369 to \$2,359,011.
- During the year, the Hospital's total operating revenues decreased slightly by 0.3% to \$8.275 million from \$8.5 million a year ago. We experienced slightly depressed inpatient volumes plus a decrease in the volume of elective surgeries, but sustained continued strong outpatient volume.
- The Hospital made capital equipment and property purchases totaling \$3,960,182. The hospital expended \$3,817,632 to support the construction in progress. In addition, the hospital acquired \$142,550 in clinical capital equipment and upgrades to the hospital's information technology 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 organization'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, 2010 reports total assets of \$26,802,062, total liabilities of \$19,277,478, and total net assets of \$7,524,584. Net assets have increased 22% from the prior year net asset balance of \$6,146,137.

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 \$8,275,853 and total operating expenses of \$7,726,172 during fiscal year 2010. The operating income that was generated in 2010 was \$549,681 compared to operating income in 2009 of \$525,049. The biggest difference between the 2009 and 2010 bottom line is attributable to conservative operations which limited expense.

**GUTTENBERG MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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The statements of cash flows provide information about the Hospital's cash from operating, investing and financing activities. As reported, cash and cash equivalents increased 59% from \$1,480,369 at June 30, 2009 to \$2,359,011 at June 30, 2010. Cash balance reflects a change in investment strategy such that we have elected to not purchase certificates of deposit when cash accumulates. Rather, we are keeping cash levels higher in order to remain liquid during the construction phase of our building project. In light of this strategy the statements reflect a decrease in certificates of deposit from approximately \$1.6 million to \$127,860. Several certificates of deposit were cashed to finance the building project so investments decreased. The cash statement reflects the acquisition of debt (\$12,342,864) to begin construction as well as cash resulting from the initiation of a major capital campaign to support the building project.

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:**

A budget variance exists in Gross Patient Revenue reflecting a negative variance mainly related to inpatient gross patient revenue of (\$360,677).

Consistent with a slight downturn in volume, the contractual allowance resulting from Medicare and Medicaid under the Critical Access Hospital reimbursement payment model were also slightly less than the previous year. In addition, total operating expenses, including charity and bad debt, were lower than the previous year by \$296,414 collectively. The described variances created a positive operating margin of 7.9%. However, this margin did not meet the margin of 9.0% which was budgeted.

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

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Charity	\$144,690	\$233,289	(\$ 88,599)
Bad Debt	<u>\$ 51,897</u>	<u>\$ 73,670</u>	<u>(\$ 21,773)</u>
Charity/Bad Debt	<u>\$196,587</u>	<u>\$306,959</u>	<u>(\$110,372)</u>

Charity expense was lower in 2010 due to some high use consumers leaving the area. Bad Debt remains fairly consistent when adjusted for lower than anticipated volumes.

**GUTTENBERG MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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**Long Term Debt**

At year end, Guttenberg Municipal Hospital had \$16,524,618 in long term debt. The debt consists of three different components to finance the construction project; Taxable Hospital Revenue Bonds Series 2009A and Series 2009B along with a construction note, Series 2009C. All combined, the long term debt incurred to finance the construction project currently totals, \$15,206,000. In addition there exists a current obligation for 1998 revenue bonds (Series A & B) which total an additional \$1.46 million.

**Summary & Financial Future**

The Hospital's financial position remains positive. We have been able to meet the financial performance measures suggested in the *Forecasted Financial Statement* published in July of 2009. The hospital staff did a good job controlling expenses this past year which contributed greatly to our ability to meet our financial goals.

**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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,359,011	\$ 1,480,369
Investments - Note 4	462,858	1,887,173
Assets limited as to use or restricted - Note 4	111,604	-
Receivables		
Patient, net of estimated uncollectibles of \$435,000 in 2010 and \$443,000 in 2009	884,768	795,565
Other	18,940	30,622
Unconditional promises to give - Note 6	142,591	-
Supplies	141,431	146,877
Prepaid expense	84,889	91,386
	<u>4,206,092</u>	<u>4,431,992</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
Restricted under bond agreement	11,247,261	-
Restricted under indenture agreement	1,095,603	-
	<u>12,342,864</u>	<u>-</u>
Less amount required to meet current obligations	<u>(111,604)</u>	<u>-</u>
Total assets limited as to use or restricted, excluding current portion	<u>12,231,260</u>	<u>-</u>
CAPITAL ASSETS, net - Note 7	<u>9,229,489</u>	<u>3,882,012</u>
<b>OTHER ASSETS</b>		
Deferred financing costs, net of accumulated amortization of \$0 in 2010 and \$54,311 in 2009	347,450	719
Gift fund investments - Note 4	471,671	146,027
Unconditional promises to give - Note 6	251,029	-
Member share of 28E organization net assets	65,071	73,375
	<u>1,135,221</u>	<u>220,121</u>
Total other assets	<u>1,135,221</u>	<u>220,121</u>
Total assets	<u>\$ 26,802,062</u>	<u>\$ 8,534,125</u>

See notes to financial statements.



**GUTTENBERG MUNICIPAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$51,897 in 2010 and \$82,205 in 2009) - Notes 2 and 3	<b>\$ 7,769,632</b>	\$ 8,103,080
Other operating revenues	<b>506,221</b>	444,555
<b>TOTAL OPERATING REVENUES</b>	<b><u>8,275,853</u></b>	<u>8,547,635</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	<b>3,242,366</b>	3,256,636
Employee benefits	<b>853,722</b>	857,077
Management fees	<b>245,715</b>	222,117
Supplies and other expenses	<b>2,949,275</b>	3,181,246
Depreciation and amortization	<b>338,454</b>	383,716
Interest	<b>41,429</b>	64,744
Insurance	<b>55,211</b>	57,050
<b>TOTAL OPERATING EXPENSES</b>	<b><u>7,726,172</u></b>	<u>8,022,586</u>
<b>OPERATING INCOME</b>	<b><u>549,681</u></b>	<u>525,049</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Noncapital grants and contributions	<b>7,890</b>	9,535
Investment income (loss)	<b>34,784</b>	(54,173)
Change in member share of 28E organization net assets	<b>(8,304)</b>	(8,500)
Gain on disposal of equipment	<b>7,300</b>	1,219
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b><u>41,670</u></b>	<u>(51,919)</u>
<b>REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS AND CHANGE IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS</b>		
	<b>591,351</b>	473,130
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>		
	<b>707,711</b>	7,110
<b>CHANGE IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS</b>		
	<b><u>79,385</u></b>	<u>(13,880)</u>
<b>INCREASE IN NET ASSETS</b>	<b>1,378,447</b>	466,360
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>6,146,137</u></b>	<u>5,679,777</u>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 7,524,584</u></b>	<u>\$ 6,146,137</u>

See notes to financial statements.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 7,995,429	\$ 8,452,735
Other receipts	517,903	444,369
Payments of salaries and wages	(3,214,836)	(3,233,991)
Payments of employee benefits	(853,722)	(857,077)
Payments of supplies and other expenses	<u>(3,266,195)</u>	<u>(3,361,262)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>1,178,579</b></u>	<u>1,444,774</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions received	<u>7,890</u>	<u>9,535</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(3,960,182)	(1,285,737)
Restricted contributions received	314,091	7,110
Proceeds from sale of equipment	1,800	1,219
Debt issuance costs	(347,500)	-
Payment of interest on debt	(238,006)	(64,744)
Proceeds from the issuance of debt	15,206,000	-
Payment of principal on debt	<u>(154,006)</u>	<u>(133,981)</u>
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>10,822,197</b></u>	<u>(1,476,133)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in gift fund investments	(325,644)	(973)
Increase in assets limited as to use or restricted	(12,342,864)	-
Decrease in other investments	1,503,700	77,642
Net investment income received and realized gains/losses	<u>34,784</u>	<u>(54,173)</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u><b>(11,130,024)</b></u>	<u>22,496</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>878,642</b>	672
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>1,480,369</b></u>	<u>1,479,697</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u><b>\$ 2,359,011</b></u></u>	<u><u>\$ 1,480,369</u></u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 549,681	\$ 525,049
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	338,454	383,716
Interest expense considered capital and related financing activity	41,429	64,744
Provision for bad debts	51,897	82,205
Changes in assets and liabilities		
Receivables	(129,418)	183,264
Supplies	5,446	(6,373)
Prepaid expense	6,497	6,549
Accounts payable - trade	(27,939)	96,811
Estimated third-party payor settlements	315,000	84,000
Accrued expenses	27,532	24,809
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,178,579</u>	<u>\$ 1,444,774</u>

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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 Code of Iowa 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 sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

- *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:*
  - *Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
  - *Expendable* – Expendable 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*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.

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.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*Supplies*

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

*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.

*Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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 land, buildings, and equipment are as follows:

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

*Advertising Costs*

Costs for producing and distributing advertising are expensed 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, 2010.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*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. Non-exchange revenues, including interest income (loss) and noncapital 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.

*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 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.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*Subsequent Events*

The Hospital has evaluated subsequent events through September 21, 2010, the date which the financial statements were available to be issued.

*Reclassifications*

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on revenues in excess of expenses.

*Other Significant Accounting Policies*

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

**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 \$144,690 and \$270,402 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, were \$95,000 and \$178,000, 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, 2008.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**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, 2007.

**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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts, or additions from underpayment amounts, determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010, and 49% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2009.

A summary of patient service revenue, deductions from patient service revenue, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 10,884,692</u>	<u>\$ 11,254,369</u>
Contractual adjustments		
Medicare	(1,794,248)	(1,927,460)
Medicaid	(338,600)	(191,496)
Other	(855,897)	(884,810)
Administrative adjustments/policy discounts	<u>(74,418)</u>	<u>(65,318)</u>
Total deductions from patient service revenue	<u>(3,063,163)</u>	<u>(3,069,084)</u>
Net patient service revenue	7,821,529	8,185,285
Provision for bad debts	<u>(51,897)</u>	<u>(82,205)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 7,769,632</u>	<u>\$ 8,103,080</u>

(continued on next page)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 4 – CASH AND DEPOSITS**

The Hospital's deposits in banks at June 30, 2010 and 2009, 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, 2010 and 2009.

At June 30, 2010 and 2009, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	\$ 14,447,328	\$ 1,510,404
Certificates of deposit	127,860	1,595,380
U.S. Government obligations	605,159	-
Fixed income securities	49,956	75,652
Equity securities – common stock	394,852	311,979
Beneficial interest in net assets of Community Foundation	10,599	9,578
Interest receivable	<u>650</u>	<u>10,576</u>
	<u>\$ 15,636,404</u>	<u>\$ 3,513,569</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,359,011	\$ 1,480,369
Investments	462,858	1,887,173
Assets limited as to use or restricted	12,342,864	-
Gift fund investments	<u>471,671</u>	<u>146,027</u>
	<u>\$ 15,636,404</u>	<u>\$ 3,513,569</u>

Cost and fair value of marketable equity securities at June 30, 2010, is as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale				
Equity securities	\$ 496,606	\$ 75,246	\$ (109,272)	\$ 462,580

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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Net realized gains of \$10,589 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, 2010.

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 non-operating revenue. 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 \$10,599 and \$9,578 at June 30, 2010 and 2009, respectively.

**NOTE 6 – UNCONDITIONAL PROMISES TO GIVE**

The Hospital has received unconditional promises to give from numerous donors for the renovation and expansion of the Hospital. As of June 30, 2010, the amount to be received in future years from these promises to give consists of the following:

	<u>2010</u>
Amounts due in:	
Less than one year	\$ 162,318
One to five years	283,095
More than five years	<u>11,207</u>
	456,620
Less: Discount (5%)	(37,145)
Allowance for uncollectible amounts	<u>(25,855)</u>
	<u>\$ 393,620</u>

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 7 – CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2009				June 30, 2010
	Balance	Additions	Deductions	Transfers	Balance
<b>Cost</b>					
Land	\$ 363,608	\$ 44,069	\$ -	\$ -	\$ 407,677
Land improvements	346,237	-	-	-	346,237
Buildings	4,517,973	-	61,206	-	4,456,767
Equipment	2,929,134	142,550	155,762	-	2,915,922
Construction in progress	1,239,799	5,537,662	-	-	6,777,461
	<u>9,396,751</u>	<u>\$ 5,724,281</u>	<u>\$ 216,968</u>	<u>\$ -</u>	<u>14,904,064</u>
<b>Accumulated depreciation</b>					
Land improvements	274,880	\$ 10,380	\$ -	\$ -	285,261
Buildings	2,877,419	153,478	19,382	-	3,013,719
Equipment	2,362,440	173,917	155,317	-	2,375,595
	<u>5,514,739</u>	<u>\$ 337,775</u>	<u>\$ 174,699</u>	<u>\$ -</u>	<u>5,674,575</u>
<b>Total capital assets, net</b>	<u>\$ 3,882,012</u>				<u>\$ 9,229,489</u>
	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
<b>Cost</b>					
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>
<b>Accumulated depreciation</b>					
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>
<b>Total capital assets, net</b>	<u>\$ 2,970,307</u>				<u>\$ 3,882,012</u>

(continued on next page)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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Construction in progress at June 30, 2010, represents costs incurred for 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. The remainder of the project will be financed with revenue bond proceeds received during the year ended June 30, 2010 and Hospital funds. Construction of the new facility and renovation of other existing space is expected to be completed by April 2011.

**NOTE 8 – LEASES**

The Hospital leases certain equipment under noncancellable 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, 2010 and 2009, was \$179,304 and \$187,752, respectively.

Minimum future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 179,304
2012	11,880
2013	<u>990</u>
Total minimum lease payments	<u>\$ 192,174</u>

**NOTE 9 – LONG-TERM DEBT**

A schedule of changes in the Hospital's long-term debt for 2010 and 2009 follows:

	<u>June 30,</u> <u>2009</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30,</u> <u>2010</u> <u>Balance</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>One Year</u>
Revenue bonds payable, variable rate currently 2.23%, due in varying monthly installments currently \$9,572, including interest to April 2019, collateralized by a pledge of the Hospital's net revenues	\$ 1,025,750	\$ -	\$ 105,560	\$ 920,190	\$ 95,316
Revenue bonds payable, variable rate currently 2.80%, due in varying monthly installments currently \$5,505, including interest to October 2019, collateralized by a pledge of the Hospital's net revenues	593,727	-	50,726	543,001	51,537

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	<u>June 30, 2009 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2010 Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds payable, (Series 2009A) rate currently 8.53% due April 1 and October 1, varying principal amounts due annually beginning October 1, 2012, with final maturity due October 1, 2033. (See additional notes on following page.)	\$ -	\$ 6,845,000	\$ -	\$ 6,845,000	\$ -
Revenue bonds payable, (Series 2009B) rate of 8.53% due April 1 and October 1, varying principal amounts due annually beginning October 1, 2012, with final maturity due October 1, 2033. (See additional notes on following page.)	-	761,000	-	761,000	-
Revenue bond anticipation notes (Series 2009C), rate of 1.5% due June 1 and December 1, 2010, principal amount due at maturity on December 1, 2010. (See additional notes on following page.)	-	7,602,280	-	7,602,280	-
	<u>\$ 1,619,477</u>	<u>\$ 15,208,280</u>	<u>\$ 156,286</u>	<u>16,671,471</u>	<u>\$ 146,853</u>
Less current maturities				<u>(146,853)</u>	
Long-term debt, less current maturities				<u>\$16,524,618</u>	

(continued on next page)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	June 30, 2008 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2009 <u>Balance</u>	Amounts Due Within <u>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	\$ 1,025,750	\$ 94,496
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>593,727</u>	<u>50,235</u>
	<u>\$ 1,753,458</u>	<u>\$ -</u>	<u>\$ 133,981</u>	1,619,477	<u>\$ 144,731</u>
Less current maturities				<u>(144,731)</u>	
Long-term debt, less current maturities				<u>\$ 1,474,746</u>	

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 146,853	\$ 796,893	\$ 943,746
2012	150,462	793,284	943,746
2013	364,631	729,169	1,093,800
2014	400,108	795,671	1,195,779
2015	417,840	778,029	1,195,869
2016-2020	2,211,908	3,594,638	5,806,546
2021-2025	2,080,407	3,058,957	5,139,364
2026-2030	2,754,440	2,384,617	5,139,057
2031-2035	3,721,547	1,443,728	5,165,275
2036-2040	1,231,020	840,085	2,071,105
2041-2045	1,531,419	539,686	2,071,105
2046-2050	<u>1,660,836</u>	<u>168,640</u>	<u>1,829,476</u>
	<u>\$ 16,671,471</u>	<u>\$ 15,923,397</u>	<u>\$ 32,594,868</u>

During the year ended June 30, 2010, the Hospital, for its building project, issued Series A and Series B Taxable Hospital Revenue Bonds, for a total issuance of \$7,606,000 with a 90% guarantee from USDA. The Series A Bonds have a par value of \$6,845,000, with an interest rate of 8.53% during construction. A USDA guarantee will not be in effect on the Series A Bonds during the construction period. However, once construction is completed, the Series A Bonds will be guaranteed by USDA and the interest rate on the bonds will convert to 5.78%.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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The Series B Bonds have a par value of \$761,000, with an interest rate of 8.53%. These bonds are not guaranteed by USDA.

On December 1, 2010, the Series C Revenue Bond Anticipation Notes will be replaced with a USDA Direct Loan. The interest rate on this direct loan will be 4.375% and will have a 40-year term.

In relation to the above financing, the Hospital has qualified for the Build America Bonds credit. The Series A Bonds are eligible for the rebate during the construction phase up until the time USDA's guarantee on the bonds goes into effect. The Series B Bonds are eligible for the rebate for the entire term of the bonds. The Series C Bonds are not eligible for the interest rebate.

**NOTE 10 – 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 4.30% of their annual covered salary, and the Hospital is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Hospital was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$213,685, \$205,178, and \$182,664, respectively, equal to the required contributions for each year.

**NOTE 11 – 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.

*Litigations, Claims, and Other Disputes*

The Hospital is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Hospital.

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*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.

**NOTE 12 – 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 13 – 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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	34 %	36 %
Medicaid	5	4
Commercial and other insurance	34	31
Other third-party payors and patients	<u>27</u>	<u>29</u>
	<u><b>100%</b></u>	<u>100%</u>

**NOTE 14 – 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.



Required Supplementary Information  
June 30, 2010 and 2009

# Guttenberg Municipal Hospital

**GUTTENBERG MUNICIPAL HOSPITAL**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)**  
**YEAR ENDED JUNE 30, 2010**

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	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated revenues/ receipts	\$9,112,923	\$ 15,044,359	\$24,157,282	\$23,640,000	\$ 517,282
Expenses/disbursements	<u>7,734,476</u>	<u>4,299,971</u>	<u>12,034,447</u>	<u>13,061,000</u>	<u>1,026,553</u>
Net	1,378,447	10,744,388	12,122,835	10,579,000	<u>\$ 1,543,835</u>
Balance beginning of year	<u>6,146,137</u>	<u>(2,632,568)</u>	<u>3,513,569</u>	<u>3,513,569</u>	
Balance end of year	<u>\$7,524,584</u>	<u>\$ 8,111,820</u>	<u>\$15,636,404</u>	<u>\$14,092,569</u>	

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2010**

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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, 2010.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted per the amended budget.



Supplementary Information  
June 30, 2010 and 2009

# Guttenberg Municipal Hospital



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

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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 36 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  
September 21, 2010

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF NET PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
PATIENT SERVICE REVENUE		
Adults and pediatrics	\$ 1,190,695	\$ 1,244,652
Nursery	54,204	39,301
Swing-bed	214,387	230,154
Operating and recovery rooms	1,026,628	1,107,367
Delivery and labor rooms	80,010	50,382
Central services and supply	503,229	496,050
Emergency services	601,659	544,511
Ambulance services	211,033	225,198
Laboratory	2,152,862	2,151,759
Electrocardiology	340,860	272,918
Radiology	1,887,324	1,934,224
Pharmacy	911,233	921,132
Anesthesiology	558,204	608,388
Respiratory therapy	45,670	157,511
Sleep studies	66,394	34,200
Physical therapy	466,710	478,117
Occupational and speech therapy	73,354	97,825
Cardiac rehab	53,215	57,332
Anticoagulation services	69,881	69,010
Surgery clinic	509,101	784,985
Nutritional services	598	1,119
Diabetes management	12,131	18,636
	<u>11,029,382</u>	<u>11,524,771</u>
Charity care	<u>(144,690)</u>	<u>(270,402)</u>
	<u>10,884,692</u>	<u>11,254,369</u>
Total patient service revenue*		
	<u>10,884,692</u>	<u>11,254,369</u>
 *TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	2,987,165	3,569,848
Outpatient revenue	8,042,217	7,954,923
Charity care	<u>(144,690)</u>	<u>(270,402)</u>
Total patient service revenue	<u>10,884,692</u>	<u>11,254,369</u>
 DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual adjustments		
Medicare	(1,794,248)	(1,927,460)
Medicaid	(338,600)	(191,496)
Other	(855,897)	(884,810)
Administrative adjustments/policy discounts	<u>(74,418)</u>	<u>(65,318)</u>
Total deductions from patient service revenue	<u>(3,063,163)</u>	<u>(3,069,084)</u>
 NET PATIENT SERVICE REVENUE	<u>7,821,529</u>	8,185,285
PROVISION FOR BAD DEBTS	<u>(51,897)</u>	<u>(82,205)</u>
 NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 7,769,632</u>	<u>\$ 8,103,080</u>

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Contracted services	\$ 154,920	\$ 44,224
Therapy services	98,460	143,480
Office rent	93,562	96,575
Lab reference services	45,132	53,287
Cafeteria	32,424	30,231
Fitness center memberships	19,175	24,227
Grants	8,432	20,166
Business health	7,673	6,590
Medical records fees	2,240	1,726
Drugs and supplies sold to non-patients	1,887	6,986
Dietary services	1,252	1,134
Housekeeping services	887	1,974
Family resources	266	340
Other	<u>39,911</u>	<u>13,615</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 506,221</u>	<u>\$ 444,555</u>

**GUTTENBERG MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ROUTINE NURSING SERVICES</b>		
Salaries and wages	\$ 749,716	\$ 782,635
Supplies and other expenses	<u>88,420</u>	<u>93,146</u>
	<u>838,136</u>	<u>875,781</u>
<b>NURSERY</b>		
Salaries and wages	15,196	10,729
Supplies and other expenses	<u>1,664</u>	<u>5,059</u>
	<u>16,860</u>	<u>15,788</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	129,094	119,756
Supplies and other expenses	<u>141,027</u>	<u>101,507</u>
	<u>270,121</u>	<u>221,263</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	13,325	13,220
Supplies and other expenses	<u>5,492</u>	<u>5,108</u>
	<u>18,817</u>	<u>18,328</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	50,549	50,818
Supplies and other expenses	<u>110,367</u>	<u>112,376</u>
	<u>160,916</u>	<u>163,194</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	160,941	171,251
Supplies and other expenses	<u>246,951</u>	<u>246,147</u>
	<u>407,892</u>	<u>417,398</u>
<b>AMBULANCE SERVICES</b>		
Salaries and wages	62,999	64,617
Supplies and other expenses	<u>17,875</u>	<u>20,378</u>
	<u>80,874</u>	<u>84,995</u>
<b>LABORATORY</b>		
Salaries and wages	309,620	306,607
Supplies and other expenses	<u>401,320</u>	<u>415,074</u>
	<u>710,940</u>	<u>721,681</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	13,864	15,077
Supplies and other expenses	<u>13,508</u>	<u>2,851</u>
	<u>27,372</u>	<u>17,928</u>
<b>RADIOLOGY</b>		
Salaries and wages	283,583	269,695
Supplies and other expenses	<u>343,437</u>	<u>365,833</u>
	<u>627,020</u>	<u>635,528</u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PHARMACY</b>		
Salaries and wages	\$ 23,357	\$ 2,551
Supplies and other expenses	<u>346,131</u>	<u>372,267</u>
	<u>369,488</u>	<u>374,818</u>
<b>ANESTHESIOLOGY</b>		
Salaries and wages	283,840	300,444
Supplies and other expenses	<u>15,214</u>	<u>27,144</u>
	<u>299,054</u>	<u>327,588</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	29,613	24,234
Supplies and other expenses	<u>1,627</u>	<u>3,834</u>
	<u>31,240</u>	<u>28,068</u>
<b>SLEEP STUDIES</b>		
Supplies and other expenses	<u>19,305</u>	<u>13,248</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	150,586	179,141
Supplies and other expenses	<u>88,245</u>	<u>160,349</u>
	<u>238,831</u>	<u>339,490</u>
<b>FITNESS CENTER</b>		
Supplies and other expenses	<u>833</u>	<u>5,474</u>
<b>BUSINESS HEALTH</b>		
Salaries and wages	2,120	2,294
Supplies and other expenses	<u>1,414</u>	<u>2,245</u>
	<u>3,534</u>	<u>4,539</u>
<b>FAMILY RESOURCES</b>		
Salaries and wages	14,852	14,877
Supplies and other expenses	<u>11,574</u>	<u>10,900</u>
	<u>26,426</u>	<u>25,777</u>
<b>CARDIAC REHAB</b>		
Salaries and wages	24,927	10,739
Supplies and other expenses	<u>1,473</u>	<u>586</u>
	<u>26,400</u>	<u>11,325</u>
<b>SURGERY CLINIC</b>		
Salaries and wages	62,231	63,839
Supplies and other expenses	<u>294,526</u>	<u>335,520</u>
	<u>356,757</u>	<u>399,359</u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	\$ 125,250	\$ 124,471
Supplies and other expenses	44,390	39,764
	<u>169,640</u>	<u>164,235</u>
<b>DIETARY</b>		
Salaries and wages	76,242	86,569
Supplies and other expenses	60,169	69,547
	<u>136,411</u>	<u>156,116</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	70,131	67,017
Supplies and other expenses	202,227	219,191
	<u>272,358</u>	<u>286,208</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	40,863	41,113
Supplies and other expenses	11,217	12,596
	<u>52,080</u>	<u>53,709</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	12,379	17,549
Supplies and other expenses	6,213	4,926
	<u>18,592</u>	<u>22,475</u>
<b>COMMUNICATIONS</b>		
Salaries and wages	2,958	2,418
Supplies and other expenses	159,707	169,302
	<u>162,665</u>	<u>171,720</u>
<b>FISCAL SERVICES</b>		
Salaries and wages	231,174	224,866
Supplies and other expenses	94,260	98,885
	<u>325,434</u>	<u>323,751</u>
<b>ADMINISTRATION</b>		
Salaries and wages	276,477	262,794
Management fees	245,715	222,117
Supplies and other expenses	171,946	212,608
	<u>694,138</u>	<u>697,519</u>
<b>PURCHASING</b>		
Salaries and wages	21,502	22,785
Supplies and other expenses	2,770	2,374
	<u>24,272</u>	<u>25,159</u>
<b>SPECIALTY CLINIC</b>		
Salaries and wages	4,977	4,530
Supplies and other expenses	464	599
	<u>5,441</u>	<u>5,129</u>

(continued)

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
MEDICAL OFFICE BUILDING		
Supplies and other expenses	<u>\$ 36,399</u>	<u>\$ 39,471</u>
DIABETES MANAGEMENT		
Supplies and other expenses	<u>9,110</u>	<u>12,937</u>
UNASSIGNED EXPENSES		
Employee benefits	853,722	857,077
Depreciation and amortization	338,454	383,716
Insurance	55,211	57,050
Interest	<u>41,429</u>	<u>64,744</u>
	<u>1,288,816</u>	<u>1,362,587</u>
TOTAL OPERATING EXPENSES	<u>\$ 7,726,172</u>	<u>\$ 8,022,586</u>

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,  
AND COLLECTION STATISTICS  
JUNE 30, 2010 AND 2009**

**ANALYSIS OF AGING**

<u>Days Since Discharge</u>	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0-30	\$ 900,094	68%	\$ 764,557	62%
31-60	93,217	7	136,093	11
61-90	66,535	5	67,643	5
91-180	60,076	5	81,345	7
181 and over	200,127	15	188,686	15
	<u>1,320,049</u>	<u>100%</u>	<u>1,238,324</u>	<u>100%</u>
Less: Allowance for doubtful accounts	(246,068)		(252,015)	
Allowance for contractual adjustments	<u>(189,213)</u>		<u>(190,744)</u>	
Net	<u>\$ 884,768</u>		<u>\$ 795,565</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 252,015	\$ 250,349
Add: Provision for bad debts	51,897	82,205
Recoveries of accounts written off	28,616	29,917
Less: Accounts written off	<u>(86,460)</u>	<u>(110,456)</u>
Balance, end of year	<u>\$ 246,068</u>	<u>\$ 252,015</u>

**COLLECTION STATISTICS**

Net accounts receivable – patients	\$ 884,768	\$ 795,565
Number of days charges outstanding (1)	43	39
Uncollectible accounts (2)	\$ 205,497	\$ 360,803
Percentage of uncollectible accounts to total charges	2%	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, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
<b>SUPPLIES</b>		
Pharmacy	\$ 58,368	\$ 55,537
Storerooms	78,682	86,629
Dietary	<u>4,381</u>	<u>4,711</u>
	<u>\$ 141,431</u>	<u>\$ 146,877</u>
 <b>PREPAID EXPENSE</b>		
Insurance	\$ 20,048	\$ 27,964
Other	<u>64,841</u>	<u>63,422</u>
	<u>\$ 84,889</u>	<u>\$ 91,386</u>

**GUTTENBERG MUNICIPAL HOSPITAL**  
**SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PATIENT DAYS</b>		
Acute		
Adults and pediatrics	<b>1,082</b>	1,419
Newborn	<b>96</b>	73
Swing-bed	<b>441</b>	559
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENT OF OCCUPANCY (excluding newborn)</b>	<b>17%</b>	22%
<b>DISCHARGES</b>		
Acute	<b>365</b>	424
Swing-bed	<b>84</b>	78
<b>AVERAGE LENGTH OF STAY</b>		
Acute (excluding newborn)	<b>2.96</b>	3.35
Swing-bed	<b>5.25</b>	7.17
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Acute		
Private rooms	<b>\$ 885</b>	\$ 784
2-bed rooms	<b>735</b>	659
Nursery	<b>525</b>	505
Skilled care		
Private rooms	<b>617</b>	483
2-bed rooms	<b>467</b>	401



**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**

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The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the accompanying financial statements of Guttenberg Municipal Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated September 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered 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 an 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and correct on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting listed as findings II-A-10 and II-B-10. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 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, noncompliance 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 noncompliance 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, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part III of the accompanying schedule of findings and questioned costs. 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 questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of 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  
September 21, 2010



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

Compliance

We have audited Guttenberg Municipal Hospital's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on Guttenberg Municipal Hospital's major federal program for the year ended June 30, 2010. Guttenberg Municipal Hospital's major federal program is identified in the summary of the independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Guttenberg Municipal Hospital's management. Our responsibility is to express an opinion on Guttenberg Municipal Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Guttenberg Municipal Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Guttenberg Municipal Hospital's compliance with those requirements.

In our opinion, Guttenberg Municipal Hospital complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Guttenberg Municipal Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Guttenberg Municipal Hospital's internal control over compliance with requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Guttenberg Municipal Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Guttenberg Municipal Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated September 21, 2010. Our audit was performed for the purpose of forming our opinion on the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 21, 2010

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010**

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
United States Department of Agriculture Direct Program Community Facilities Loans and Grants	10.766		<u>\$ 6,227,679</u>
Department of Health and Human Services Pass-through program from: Iowa Department of Public Health State Rural Hospital Improvement Grant Program	93.301	5880SH27	7,750
Pass-through program from: University of Iowa Hospital and Clinics National Bioterrorism Hospital Preparedness Program	93.889	5880BHP102	<u>15,989</u>
Total Department of Health and Human Services			<u>23,739</u>
			<u><u>\$ 6,251,418</u></u>

**GUTTENBERG MUNICIPAL HOSPITAL**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2010**

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Guttenberg Municipal Hospital and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – COMMUNITY FACILITIES LOANS AND GRANTS (#10.766)**

The financing for this building project consists of three different components. Those components are as follows:

Taxable Hospital Revenue Bonds, Series 2009A	\$6,845,000
Taxable Hospital Revenue Bonds, Series 2009B	761,000
Hospital Revenue Bond Anticipation Notes, Series 2009C	<u>7,600,000</u>
	<u>\$15,206,000</u>

Upon completion of the building project, the hospital revenue bond anticipation notes will be refinanced with a United States Department of Agriculture (USDA) direct loan. In addition, the Taxable Hospital Revenue Bonds, Series 2009A, will also be guaranteed by USDA.

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**Part I: Summary of the Independent Auditor's Results**

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness identified No  
Significant deficiencies Yes (Part II)

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major programs:

Material weakness identified No  
Significant deficiency None reported

Type of auditor's report issued on compliance for the major program Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) No

Identification of major program:

CFDA Number

10.766

Name of Federal Program or Cluster

Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee No

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

**Significant Deficiencies:**

II-A-10 Segregation of Duties

Criteria – One important aspect of internal control 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.

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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

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.

II-B-10 Preparation of 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 control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

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 year-end 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.

**GUTTENBERG MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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

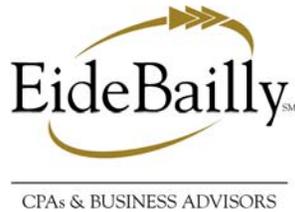
Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

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 III: Other Findings Related to Required Statutory Reporting:**

- III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted per the amended budget.
- III-B-10 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-10 Travel Expense – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-D-10 Business Transactions – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- III-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-F-10 Deposits and Investments – No instances of noncompliance 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.



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, 2010, and have issued our report thereon dated September 21, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, 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 July 12, 2010. 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, 2010. 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 – Management's 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.

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 adjustment was made during the fiscal year 2010 audit that decreased net assets as reported:

To adjust estimated third-party payor settlements	\$ <u>(141,782)</u>
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Furthermore, the following balance sheet reclassifications were detected as a result of our audit procedures and have been corrected by management.

To increase construction in progress and to increase construction payables	\$ 1,261,299
To increase construction in progress and to increase accrued interest payable	\$ 111,604

*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 September 21, 2010.

*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.

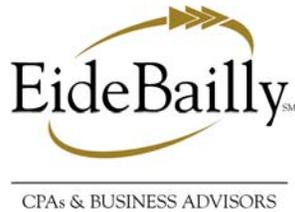
This information is intended solely for the use of the Board of Trustees and management of Guttenberg Municipal Hospital and is not intended to be and should not be used by anyone other than these specified parties.

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  
September 21, 2010

xc: Ms. Kim Gau, CEO



The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

In planning and performing our audit of the financial statements of Guttenberg Municipal Hospital as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Guttenberg Municipal Hospital's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Guttenberg Municipal Hospital's internal control to be significant deficiencies:

#### Preparation of Financial Statements

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 control 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 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. 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. The effect of this condition is that the year-end 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 the Hospital's 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.

#### Segregation of Duties

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

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

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

Dubuque, Iowa  
September 21, 2010

xc: Ms. Kim Gau, CEO