



Financial Statements  
June 30, 2011 and 2010

# 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

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the accompanying balance sheets of Guttenberg Municipal Hospital as of June 30, 2011 and 2010, 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, 2011 and 2010, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our reported dated September 23, 2011, on our consideration of the Hospital's internal control over financial reporting and on 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 report 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on pages 30 and 31 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 23, 2011

This discussion and analysis of the financial performance of Guttenberg Municipal Hospital (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

### **Overview of the Financial Statements**

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Highlights**

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$26,958,272, total liabilities of \$18,902,451, and net assets of \$8,055,821.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicate total operating revenues of \$9,527,684, an increase of 15.1% over the previous fiscal year, total operating expenses of \$9,257,053, an increase of 19.8% over the previous fiscal year, which results in a gain from operations of \$270,631, which represents a 51% decrease from the previous year. Net non-operating expenses of \$170,447 reduce the excess of revenues over expenses to a \$100,184 for the year ended June 30, 2011.

- The Hospital's current assets exceeded its current liabilities by \$3,426,069 at June 30, 2011, providing a 2.82 current ratio.
- The Hospital recorded operating income for the fiscal year ending June 30, 2011, amounting to \$270,631.
- Gross outpatient charges increased 1.0% during fiscal year 2011 to \$8,822,912.
- Total operating expenses increased 19.8% from the previous fiscal year due primarily to the costs associated with the construction project completion and new building equipment acquisitions.
- Net days in accounts receivable continue to be very favorable at 49 on June 30, 2011.
- Total patient days for the year
  - 1,236 Acute days - (14.2% increase)
  - 508 days Skilled Nursing Care (15% increase)
  - 20,547 Outpatient Department Visits (similar to prior year)

### **Organization Highlights**

The organization continued to make many positive changes over this last fiscal year, including:

- Completion of a \$11.3 (construction cost only) building expansion and renovation project
- IT infrastructure upgrade – (cabling, servers, switches and phone system)
- \$1.5 million in capital equipment acquisition to support the new building including all new state-of-the-art radiology and surgery suite equipment
- Joint Commission 3-year accreditation awarded post move to new building
- Recertified as Community Trauma Center - Level IV status.
- Recertified digital mammography program through the American College of Surgery
- Established plan and deployed strategy to gain “Meaningful Use Certification” of an electronic health record
- Completed a successful community capital campaign, raising over \$1.1 million in pledged support for our building project

**Condensed Financial Statements**

*Balance Sheets*

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,913,956	\$ 2,359,011	\$ 1,480,369
Investments	569,862	462,858	1,887,173
Assets limited as to use or restricted	191,859	111,604	-
Receivables			
Patient, net of estimated uncollectibles	1,058,607	884,768	795,565
Estimated third-party payor settlements	88,000	-	-
Other	59,103	18,940	30,622
Under conditional promise to give	163,159	142,591	-
Other assets	<u>263,046</u>	<u>276,320</u>	<u>238,263</u>
Total current assets	<u>5,307,592</u>	<u>4,256,092</u>	<u>4,431,992</u>
Assets Limited as to Use or Restricted	<u>2,633,269</u>	<u>12,231,260</u>	<u>-</u>
Capital Assets, Net	<u>17,562,559</u>	<u>9,229,489</u>	<u>3,882,012</u>
Other Assets	<u>1,454,852</u>	<u>1,135,221</u>	<u>220,121</u>
Total assets	<u><u>\$ 26,958,272</u></u>	<u><u>\$ 26,852,062</u></u>	<u><u>\$ 8,534,125</u></u>

**Condensed Financial Statements**

*Balance Sheets (continued)*

	June 30, 2011	June 30, 2010	June 30, 2009
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 245,880	\$ 146,853	\$ 144,731
Accounts payable			
Trade	133,387	189,478	167,417
Construction	906,240	1,411,299	-
Estimated third-party payor settlements	-	446,000	131,000
Accrued expenses	596,016	609,230	470,094
Total current liabilities	1,881,523	2,802,860	913,242
Long-term Debt, Less Current Maturities	17,020,928	16,524,618	1,474,746
Total liabilities	18,902,451	19,327,478	2,387,988
Net Assets			
Invested in capital assets, net of related debt	1,887,273	4,152,779	2,262,535
Restricted	1,577,917	1,819,890	16,682
Unrestricted	4,590,631	1,551,915	3,866,920
Total net assets	8,055,821	7,524,584	6,146,137
Total liabilities and net assets	\$ 26,958,272	\$ 26,852,062	\$ 8,534,125

Guttenberg Municipal Hospital  
Management's Discussion and Analysis  
June 30, 2011 and 2010

*Statements of Revenues, Expenses, and Changes in Net Assets*

	Year Ended June 30,		
	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 9,089,982	\$ 7,769,632	\$ 8,103,080
Other operating revenues	437,702	506,221	444,555
Total Operating Revenues	<u>9,527,684</u>	<u>8,275,853</u>	<u>8,547,635</u>
Operating Expenses			
Salaries, wages and employee benefits	4,334,117	4,096,088	4,113,713
Management fees	248,538	245,715	222,117
Supplies and other expenses	3,511,819	2,949,275	3,181,246
Depreciation, interest and amortization	1,095,723	379,883	448,460
Insurance	66,856	55,211	57,050
Total Operating Expenses	<u>9,257,053</u>	<u>7,726,172</u>	<u>8,022,586</u>
Operating Income	<u>270,631</u>	<u>549,681</u>	<u>525,049</u>
Nonoperating Revenues (Expenses)			
Investment income	54,639	34,784	(54,173)
Change in member share of 28E organization net assets	(7,080)	(8,304)	(8,500)
Noncapital grants and contributions	25,202	7,890	9,535
Build America Bond Credit	110,110	-	-
Gain (loss) on disposal of capital assets	(353,318)	7,300	1,219
Net Nonoperating Revenues (Expenses)	<u>(170,447)</u>	<u>41,670</u>	<u>(51,919)</u>
Revenues in Excess of Expenses	100,184	591,351	473,130
Capital Contributions and Grants	336,316	707,711	7,110
Change in unrealized gains and losses on investments	<u>94,737</u>	<u>79,385</u>	<u>(13,880)</u>
Increase in Net Assets	531,237	1,378,447	466,360
Net Assets Beginning of Year	<u>7,524,584</u>	<u>6,146,137</u>	<u>5,679,777</u>
Net Assets End of Year	<u><u>\$ 8,055,821</u></u>	<u><u>\$ 7,524,584</u></u>	<u><u>\$ 6,146,137</u></u>

### **Capital Assets**

Guttenberg Municipal Hospital completed a major building expansion and renovation project this year. The project entailed building approximately 57,000 square feet of new construction, 28,000 square feet of demolition to existing structure (1958 & 1974 additions) and 9,000 square feet of renovation to the first floor of the existing (1995) building. The project resulted in an expanded footprint for the facility from a former size of 54,000 square feet to the existing space of 74,127 square feet.

In addition, \$1,519,476 construction fund dollars along with \$399,600 from the operating Capital budget fund were used to purchase new equipment and furnishings for the new facility.

### **Long-Term Debt**

Guttenberg Municipal Hospital has \$17,266,808 in long-term debt for the year ended June 30, 2011 and \$16,674,471 in long-term debt for the year ended June 30, 2010.

### **Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considered many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- The promotion of "Value Based Purchasing" within the industry
- Salary and benefit costs
- Energy costs & green initiatives
- Patient safety initiatives
- Technology advances
- Physician recruitment and integration strategy
- Lower return on investments
- Leadership and staff development

### **Summary**

The Hospital's Board of Trustees and Administrative Team continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 114 employees provides to every person they serve. We would also like to thank each member of the Medical Staff for their dedication and support as together, we endeavor to achieve the best outcome for every patient every time.

### **Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Guttenberg Municipal Hospital  
Attn: Administration  
PO Box 550, 200 Main Street  
Guttenberg, IA 52052-0550

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,913,956	\$ 2,359,011
Investments - Note 4	569,862	462,858
Assets limited as to use or restricted - Note 4	191,859	111,604
Receivables		
Patient, net of estimated uncollectibles of \$504,000 in 2011 and \$435,000 in 2010	1,058,607	884,768
Estimated third-party payor settlements	88,000	-
Other	59,103	18,940
Unconditional promises to give - Note 6	163,159	142,591
Supplies	129,885	141,431
Prepaid expense	133,161	134,889
Total current assets	<u>5,307,592</u>	<u>4,256,092</u>
Assets Limited as to Use or Restricted - Note 4		
Investments		
Restricted under bond agreement	1,591,522	11,247,261
Restricted under indenture agreement	1,233,606	1,095,603
	2,825,128	12,342,864
Less amount required to meet current obligations	<u>(191,859)</u>	<u>(111,604)</u>
Total assets limited as to use or restricted, excluding current portion	<u>2,633,269</u>	<u>12,231,260</u>
Capital Assets, Net - Note 7	<u>17,562,559</u>	<u>9,229,489</u>
Other Assets		
Deferred financing costs, net of accumulated amortization of \$7,598 in 2011 and \$0 in 2010	339,852	347,450
Gift fund investments - Note 4	886,766	471,671
Unconditional promises to give - Note 6	170,243	251,029
Member share of 28E organization net assets - Note 14	57,991	65,071
Total other assets	<u>1,454,852</u>	<u>1,135,221</u>
Total assets	<u>\$ 26,958,272</u>	<u>\$ 26,852,062</u>

See Notes to Financial Statements

Guttenberg Municipal Hospital  
Balance Sheets  
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 9	\$ 245,880	\$ 146,853
Accounts payable		
Trade	133,387	189,478
Construction	906,240	1,411,299
Estimated third-party payor settlements	-	446,000
Accrued expenses		
Salaries and wages	46,761	156,769
Paid time off	285,867	290,340
Interest	191,859	111,604
Property taxes	36,126	36,166
Payroll taxes and other	35,403	14,351
Total current liabilities	1,881,523	2,802,860
Long-Term Debt, Less Current Maturities - Note 9	17,020,928	16,524,618
Total liabilities	18,902,451	19,327,478
Net Assets		
Invested in capital assets, net of related debt	1,887,273	4,152,779
Restricted		
Expendable for capital acquisitions	334,311	714,287
Expendable for debt service	1,233,606	1,095,603
Nonexpendable contribution to Community Foundation	10,000	10,000
Unrestricted	4,590,631	1,551,915
Total net assets	8,055,821	7,524,584
Total liabilities and net assets	\$ 26,958,272	\$ 26,852,062

Guttenberg Municipal Hospital  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$113,360 in 2011 and \$51,897 in 2010) - Notes 2 and 3	\$ 9,089,982	\$ 7,769,632
Other operating revenues	437,702	506,221
Total Operating Revenues	9,527,684	8,275,853
Operating Expenses		
Salaries and wages	3,444,443	3,242,366
Employee benefits	889,674	853,722
Management fees	248,538	245,715
Supplies and other expenses	3,511,819	2,949,275
Depreciation and amortization	719,868	338,454
Interest	375,855	41,429
Insurance	66,856	55,211
Total Operating Expenses	9,257,053	7,726,172
Operating Income	270,631	549,681
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	25,202	7,890
Investment income	54,639	34,784
Change in member share of 28E organization net assets	(7,080)	(8,304)
Build America Bond Credit	110,110	-
Gain (loss) on disposal of capital assets	(353,318)	7,300
Net Nonoperating Revenues (Expenses)	(170,447)	41,670
Revenues in Excess of Expenses	100,184	591,351
Capital Grants and Contributions	336,316	707,711
Change in Unrealized Gains and Losses on Investments	94,737	79,385
Increase in Net Assets	531,237	1,378,447
Net Assets Beginning of Year	7,524,584	6,146,137
Net Assets End of Year	\$ 8,055,821	\$ 7,524,584

Guttenberg Municipal Hospital  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 8,382,143	\$ 7,995,429
Other receipts	430,654	517,903
Payments of salaries and wages	(3,537,872)	(3,214,836)
Payments of employee benefits	(889,674)	(853,722)
Payments of supplies and other expenses	<u>(3,870,070)</u>	<u>(3,266,195)</u>
Net Cash Provided by Operating Activities	<u>515,181</u>	<u>1,178,579</u>
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	<u>25,202</u>	<u>7,890</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(9,600,328)	(3,960,182)
Restricted contributions received	396,534	314,091
Proceeds from sale of capital assets	20,600	1,800
Debt issuance costs	-	(347,500)
Payment of interest on debt	(868,914)	(270,635)
Build America Bond Credit	326,320	32,629
Proceeds from the issuance of debt	8,455,000	15,206,000
Payment of principal on debt	<u>(7,859,663)</u>	<u>(154,006)</u>
Net Cash Provided by (used for) Capital and Related Financing Activities	<u>(9,130,451)</u>	<u>10,822,197</u>
Cash Flows from Investing Activities		
Increase in gift fund investments	(415,095)	(325,644)
Change in assets limited as to use or restricted	9,517,736	(12,342,864)
Proceeds from the sale of other investments	-	1,503,700
Purchase of other investments	(12,267)	-
Net investment income received and realized gains/losses	<u>54,639</u>	<u>34,784</u>
Net Cash Provided by (used for) Investing Activities	<u>9,145,013</u>	<u>(11,130,024)</u>
Net Increase in Cash and Cash Equivalents	554,945	878,642
Cash and Cash Equivalents at Beginning of Year	<u>2,359,011</u>	<u>1,480,369</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,913,956</u>	<u>\$ 2,359,011</u>

Guttenberg Municipal Hospital  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 270,631	\$ 549,681
Adjustments to reconcile operating income to		
net cash provided by operating activities		
Depreciation and amortization	719,868	338,454
Interest expense considered capital and related		
financing activity	375,855	41,429
Provision for bad debts	113,360	51,897
Changes in assets and liabilities		
Receivables	(294,247)	(129,418)
Supplies	11,546	5,446
Prepaid expense	1,728	(43,503)
Accounts payable - trade	(56,091)	22,061
Estimated third-party payor settlements	(534,000)	315,000
Accrued expenses	(93,469)	27,532
	\$ 515,181	\$ 1,178,579

## **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:*
  - *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.
  - *Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- *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.

### **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'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 (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.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply the provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

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

### **Patient Receivables**

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

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

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

### Supplies

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

### 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 bond and indenture agreements.

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 cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

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

### Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$38,788 and \$58,680 for advertising costs for the years ended June 30, 2011 and 2010, respectively.

### 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 projected paid time off payouts is recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2011.

## **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 transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including interest income 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.

### **Subsequent Events**

The Hospital has evaluated subsequent events through September 23, 2011, the date which the financial statements were available to be issued.

### **Reclassifications**

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on revenues in excess of expenses.

### **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 \$192,279 and \$144,690 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, were \$138,000 and \$95,000, 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, 2010.

**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, 2008.

**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 54% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011, and 48% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010. The net patient service revenue for the year ended June 30, 2011, increased approximately \$121,000 due to prior-year retroactive adjustments in excess of amounts previously estimated. The net patient service revenue for the year ended June 30, 2010, decreased approximately \$35,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

A summary of patient service revenue, contractual and administrative adjustments, and provision for bad debts for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	\$ 11,975,070	\$ 10,884,692
Contractual Adjustments		
Medicare	(1,442,168)	(1,794,248)
Medicaid	(241,742)	(338,600)
Other	(1,001,598)	(855,897)
Administrative Adjustments/Policy Discounts	(86,220)	(74,418)
Total deductions from patient service revenue	(2,771,728)	(3,063,163)
Net Patient Service Revenue	9,203,342	7,821,529
Provision for Bad Debts	(113,360)	(51,897)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 9,089,982	\$ 7,769,632

**Note 4 - Cash and Deposits**

The Hospital's deposits in banks at June 30, 2011 and 2010, 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, 2011 and 2010.

At June 30, 2011 and 2010, the Hospital's carrying amounts of cash and deposits are as follows:

	2011	2010
Checking and Savings Accounts	\$ 5,890,802	\$ 14,447,328
Certificates of Deposit	128,967	127,860
U.S. Government Obligations	608,195	605,159
Fixed Income Securities	22,434	49,956
Equity Securities - Common Stock	532,318	394,852
Beneficial Interest in Net Assets of Community Foundation	12,505	10,599
Interest Receivable	491	650
	\$ 7,195,712	\$ 15,636,404
 Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	\$ 2,913,956	\$ 2,359,011
Investments	569,862	462,858
Assets limited as to use or restricted	2,825,128	12,342,864
Gift fund investments	886,766	471,671
	\$ 7,195,712	\$ 15,636,404

Cost and fair value of marketable equity securities at June 30, 2011, is as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses</u>	<u>Fair Value</u>
Available-for-Sale Equity securities	<u>\$ 475,595</u>	<u>\$ 165,995</u>	<u>\$ (109,272)</u>	<u>\$ 532,318</u>

Net realized gains of \$20,962 on the sale of securities available-for-sale were included in investment income on the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2011.

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 \$12,505 and \$10,599 at June 30, 2011 and 2010, respectively.

The Community Foundation also holds funds that are contributed by individual donors for the benefit of Guttenberg Municipal Hospital. It should be noted, however, that the Community Foundation has variance power, which allows the Community Foundation to modify the donor's stipulations under certain circumstances as the Community Foundation monitors the changing needs of the community. These funds are not recorded as an asset on the financial statements of Guttenberg Municipal Hospital. These funds that are held by the Community Foundation and are permanently endowed for the support of Guttenberg Municipal Hospital were \$1,542 and \$949 at June 30, 2011 and 2010, 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, 2011, the amount to be received in future years from these promises to give consists of the following:

Amounts Due in:	
Less than one year	\$ 186,159
One to five years	173,617
More than five years	20,626
	380,402
Less:	
Discount (5%)	(25,683)
Allowance for uncollectible amounts	(21,317)
	\$ 333,402

**Note 7 - Capital Assets**

Capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2010				June 30, 2011
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being					
Depreciated					
Land	\$ 407,677	\$ -	\$ -	\$ -	\$ 407,677
Construction in progress	6,777,461	7,782,072	-	(14,559,533)	-
Total capital assets not					
being depreciated	7,185,138	7,782,072	-	(14,559,533)	407,677
Capital Assets Being Depreciated					
Land improvements	346,237	-	-	724,695	1,070,932
Buildings	4,456,767	-	1,940,594	13,834,838	16,351,011
Equipment	2,915,922	1,637,185	790,228	-	3,762,879
Total capital assets					
being depreciated	7,718,926	1,637,185	2,730,822	14,559,533	21,184,822
Less Accumulated Depreciation					
For:					
Land improvements	285,261	33,434	-	-	318,695
Buildings	3,013,719	426,364	1,630,602	-	1,809,481
Equipment	2,375,595	252,472	726,303	-	1,901,764
Total accumulated					
depreciation	5,674,575	712,270	2,356,905	-	4,029,940
Total Capital Assets Being					
Depreciated, Net	2,044,351	924,915	373,917	14,559,533	17,154,882
Total Capital Assets, Net	\$ 9,229,489	\$ 8,706,987	\$ 373,917	\$ -	\$ 17,562,559

Guttenberg Municipal Hospital  
Notes to Financial Statements  
June 30, 2011 and 2010

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital Assets Not Being Depreciated					
Land	\$ 363,608	\$ 44,069	\$ -	\$ -	\$ 407,677
Construction in progress	1,239,799	5,537,662	-	-	6,777,461
Total capital assets not being depreciated	<u>1,603,407</u>	<u>5,581,731</u>	<u>-</u>	<u>-</u>	<u>7,185,138</u>
Capital Assets Being Depreciated					
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
Total capital assets being depreciated	<u>7,793,344</u>	<u>142,550</u>	<u>216,968</u>	<u>-</u>	<u>7,718,926</u>
Less Accumulated Depreciation For:					
Land improvements	274,880	10,381	-	-	285,261
Buildings	2,877,419	153,478	17,178	-	3,013,719
Equipment	2,362,440	173,917	160,762	-	2,375,595
Total accumulated depreciation	<u>5,514,739</u>	<u>337,776</u>	<u>177,940</u>	<u>-</u>	<u>5,674,575</u>
Total Capital Assets Being Depreciated, Net	<u>2,278,605</u>	<u>(195,226)</u>	<u>39,028</u>	<u>-</u>	<u>2,044,351</u>
Total Capital Assets, Net	<u>\$ 3,882,012</u>	<u>\$ 5,386,505</u>	<u>\$ 39,028</u>	<u>\$ -</u>	<u>\$ 9,229,489</u>

**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, 2011 and 2010, was \$263,312 and \$179,304, respectively.

Minimum future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 262,708
2013	251,818
2014	250,828
2015	250,828
2016	<u>104,512</u>
Total minimum future lease payments	<u>\$ 1,120,694</u>

**Note 9 - Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for 2011 and 2010 follows:

	June 30, 2010 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2011 <u>Balance</u>	<u>Amounts Due Within 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	\$ 920,190	\$ -	\$ 107,427	\$ 812,763	\$ 96,032
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	543,001	-	56,179	486,822	52,607
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 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.)	761,000	-	-	761,000	-

Guttenberg Municipal Hospital  
Notes to Financial Statements  
June 30, 2011 and 2010

	June 30, 2010 Balance	Additions	Payments	June 30, 2011 Balance	Amounts Due Within One Year
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	\$ -	\$ -
USDA Direct Loan Revenue Bonds Payable (Series 2010), Rate 3.75% Due April 1 and October 1, Varying Principal Amounts Due Annually Beginning April 1, 2011, with Final Maturity April 1, 2050. (See Additional Notes on Following Page.)	-	8,455,000	93,777	8,361,223	97,241
	<u>\$ 16,671,471</u>	<u>\$ 8,455,000</u>	<u>\$ 7,859,663</u>	17,266,808	<u>\$ 245,880</u>
Less current maturities				(245,880)	
Long-term debt, less current maturities				\$ 17,020,928	
	June 30, 2009 Balance	Additions	Payments	June 30, 2010 Balance	Amounts Due Within One Year
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	\$ 1,025,750	\$ -	\$ 105,560	\$ 920,190	\$ 95,316
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	593,727	-	50,726	543,001	51,537

Guttenberg Municipal Hospital  
Notes to Financial Statements  
June 30, 2011 and 2010

	June 30, 2009 Balance	Additions	Payments	June 30, 2010 Balance	Amounts Due Within One Year
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 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.)	-	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>	16,671,471	<u>\$ 146,853</u>
Less current maturities				(146,853)	
Long-term debt, less current maturities				<u>\$ 16,524,618</u>	

Long-term debt maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 245,880	\$ 803,305	\$ 1,049,185
2013	399,234	791,557	1,190,791
2014	416,801	774,848	1,191,649
2015	434,606	757,283	1,191,889
2016	452,657	738,865	1,191,522
2017-2021	2,234,500	3,392,057	5,626,557
2022-2026	2,292,523	2,848,039	5,140,562
2027-2031	2,999,775	2,150,040	5,149,815
2032-2036	3,365,529	1,197,001	4,562,530
2037-2041	1,327,826	721,674	2,049,500
2042-2046	1,598,885	450,615	2,049,500
2047-2050	1,498,592	128,507	1,627,099
	<u>\$ 17,266,808</u>	<u>\$ 14,753,791</u>	<u>\$ 32,020,599</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 the USDA. The Series A Bonds have a par value of \$6,845,000. The interest rate during construction was 8.53%. A USDA guarantee went into effect on the Series A Bonds once construction was completed. The Series A Bonds are guaranteed by the USDA and the interest rate on the bonds is currently 5.78%.

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

On December 1, 2010, the Series C Revenue Bond Anticipation Notes were replaced with a USDA Direct Loan. The interest rate on this direct loan is 3.75% and has a 40-year term.

In relation to the above financing, the Hospital has qualified for the Build America Bonds credit, which is a federal rebate of 35% of interest paid. The Series A Bonds were eligible for the rebate during the construction phase up until the time the USDA's guarantee on the bonds went into effect. The Series B Bonds are eligible for the rebate for the entire term of the bonds. The Series C Anticipation Bonds were not eligible for the interest rebate. The Series 2010 USDA Direct Loan Revenue Bonds are also eligible for the rebate for the entire term of the bonds.

A summary of interest cost on borrowed funds during the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Interest Cost:		
Capitalized as part of construction project	\$ 533,556	\$ 441,444
Recognized as interest expense	375,855	41,429
Total	<u>\$ 909,411</u>	<u>\$ 482,873</u>

	2011	2010
Build America Bond Credit		
Capitalized as part of construction project	\$ 189,231	\$ 92,723
Recognized as nonoperating revenue	110,110	-
Total	\$ 299,341	\$ 92,723

**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 4.50% of their annual covered salary, and the Hospital is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Hospital was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute.

The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$235,956, \$213,685, and \$205,178, 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.

**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, and 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.

**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, 2011 and 2010, was as follows:

	2011	2010
Medicare	35%	34%
Medicaid	3%	5%
Commercial and Other Insurance	39%	34%
Other Third-Party Payors and Patients	23%	27%
	100%	100%

**Note 14 - Member Share of 28E Organization Net Assets**

The Hospital has a 28E agreement with the City of Guttenberg (City) forming 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, 2011

# 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, 2011**

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	<u>Actual Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Actual Cash Basis</u>	<u>Amended Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Estimated Revenues/ Receipts	\$ 10,148,688	\$ (417,859)	\$ 9,730,829	\$ 9,677,000	\$ 53,829
Expenses/Disbursements	<u>9,617,451</u>	<u>8,554,070</u>	<u>18,171,521</u>	<u>20,592,000</u>	<u>2,420,479</u>
Net	531,237	(8,971,929)	(8,440,692)	(10,915,000)	<u>\$ 2,474,308</u>
Balance Beginning of Year	<u>7,524,584</u>	<u>8,111,820</u>	<u>15,636,404</u>	<u>15,636,404</u>	
Balance End of Year	<u>\$ 8,055,821</u>	<u>\$ (860,109)</u>	<u>\$ 7,195,712</u>	<u>\$ 4,721,404</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary 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, 2011.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amount budgeted per the amended budget.



Other Supplementary Information  
June 30, 2011 and 2010

## Guttenberg Municipal Hospital



## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses, patient receivables, allowance for doubtful accounts, collection statistics, supplies and prepaid expense, and statistical information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenues, operating expenses, and supplies and prepaid expense are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, collection statistics, and statistical information have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Eide Bailly LLP*

Dubuque, Iowa  
September 23, 2011

Guttenberg Municipal Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2011 and 2010

	2011	2010
Patient Service Revenue		
Adults and pediatrics	\$ 1,472,921	\$ 1,190,695
Nursery	37,986	54,204
Swing-bed	254,368	214,387
Operating and recovery rooms	1,002,672	1,026,628
Delivery and labor rooms	49,569	80,010
Central services and supply	489,246	503,229
Emergency services	721,304	601,659
Ambulance services	297,997	211,033
Laboratory	2,334,918	2,152,862
Electrocardiology	472,119	340,860
Radiology	2,221,372	1,887,324
Pharmacy	969,123	911,233
Anesthesiology	524,870	558,204
Respiratory therapy	64,559	45,670
Sleep studies	75,108	66,394
Physical therapy	379,416	466,710
Occupational and speech therapy	113,763	73,354
Cardiac rehab	61,608	53,215
Anticoagulation services	127,970	69,881
Surgery clinic	485,836	509,101
Nutritional services	420	598
Diabetes management	10,204	12,131
	12,167,349	11,029,382
Charity care	(192,279)	(144,690)
	11,975,070	10,884,692
Total patient service revenue*		
 *Total Patient Service Revenue - Reclassified		
Inpatient revenue	3,344,437	2,987,165
Outpatient revenue	8,822,912	8,042,217
Charity care	(192,279)	(144,690)
Total patient service revenue	11,975,070	10,884,692

Guttenberg Municipal Hospital  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2011 and 2010

	2011	2010
Deductions from Patient Service Revenue		
Contractual adjustments		
Medicare	\$ (1,442,168)	\$ (1,794,248)
Medicaid	(241,742)	(338,600)
Other	(1,001,598)	(855,897)
Administrative adjustments/policy discounts	(86,220)	(74,418)
Total deductions from patient service revenue	(2,771,728)	(3,063,163)
Net Patient Service Revenue	9,203,342	7,821,529
Provision for Bad Debts	(113,360)	(51,897)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 9,089,982	\$ 7,769,632

Guttenberg Municipal Hospital  
Schedules of Other Operating Revenues  
Years Ended June 30, 2011 and 2010

	2011	2010
Other Operating Revenues		
Contracted services	\$ 145,935	\$ 154,920
Office rent	95,062	93,562
Therapy services	44,910	98,460
Lab reference services	41,735	45,132
Cafeteria	38,832	32,424
Fitness center memberships	18,696	19,175
Grants	15,972	8,432
Business health	4,597	7,673
Drugs and supplies sold to non-patients	3,304	1,887
Dietary services	3,112	1,252
Medical records fees	1,393	2,240
Housekeeping services	637	887
Family resources	-	266
Other	23,517	39,911
	\$ 437,702	\$ 506,221
Total other operating revenues		

Guttenberg Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2011	2010
Routine Nursing Services		
Salaries and wages	\$ 830,657	\$ 749,716
Supplies and other expenses	182,866	88,420
	<u>1,013,523</u>	<u>838,136</u>
Nursery		
Salaries and wages	4,475	15,196
Supplies and other expenses	1,665	1,664
	<u>6,140</u>	<u>16,860</u>
Operating and Recovery Rooms		
Salaries and wages	129,500	129,094
Supplies and other expenses	94,596	141,027
	<u>224,096</u>	<u>270,121</u>
Delivery and Labor Rooms		
Salaries and wages	8,060	13,325
Supplies and other expenses	5,151	5,492
	<u>13,211</u>	<u>18,817</u>
Central Services and Supply		
Salaries and wages	52,685	50,549
Supplies and other expenses	120,486	110,367
	<u>173,171</u>	<u>160,916</u>
Emergency Services		
Salaries and wages	172,380	160,941
Supplies and other expenses	272,874	246,951
	<u>445,254</u>	<u>407,892</u>
Ambulance Services		
Salaries and wages	70,432	62,999
Supplies and other expenses	26,267	17,875
	<u>96,699</u>	<u>80,874</u>
Laboratory		
Salaries and wages	300,784	309,620
Supplies and other expenses	437,782	401,320
	<u>738,566</u>	<u>710,940</u>
Electrocardiology		
Salaries and wages	13,447	13,864
Supplies and other expenses	25,425	13,508
	<u>38,872</u>	<u>27,372</u>
Radiology		
Salaries and wages	305,077	283,583
Supplies and other expenses	408,305	343,437
	<u>713,382</u>	<u>627,020</u>

Guttenberg Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Pharmacy		
Salaries and wages	\$ 25,929	\$ 23,357
Supplies and other expenses	407,844	346,131
	<u>433,773</u>	<u>369,488</u>
Anesthesiology		
Salaries and wages	291,023	283,840
Supplies and other expenses	17,710	15,214
	<u>308,733</u>	<u>299,054</u>
Respiratory Therapy		
Salaries and wages	30,226	29,613
Supplies and other expenses	2,483	1,627
	<u>32,709</u>	<u>31,240</u>
Sleep Studies		
Supplies and other expenses	20,835	19,305
	<u>20,835</u>	<u>19,305</u>
Physical Therapy		
Salaries and wages	145,215	150,586
Supplies and other expenses	106,692	88,245
	<u>251,907</u>	<u>238,831</u>
Fitness Center		
Supplies and other expenses	898	833
	<u>898</u>	<u>833</u>
Business Health		
Salaries and wages	2,085	2,120
Supplies and other expenses	2,811	1,414
	<u>4,896</u>	<u>3,534</u>
Family Resources		
Salaries and wages	15,108	14,852
Supplies and other expenses	11,710	11,574
	<u>26,818</u>	<u>26,426</u>
Cardiac Rehab		
Salaries and wages	21,886	24,927
Supplies and other expenses	921	1,473
	<u>22,807</u>	<u>26,400</u>
Surgery Clinic		
Salaries and wages	65,406	62,231
Supplies and other expenses	313,422	294,526
	<u>378,828</u>	<u>356,757</u>

Guttenberg Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Medical Records		
Salaries and wages	\$ 127,696	\$ 125,250
Supplies and other expenses	47,653	44,390
	<u>175,349</u>	<u>169,640</u>
Dietary		
Salaries and wages	82,069	76,242
Supplies and other expenses	98,285	60,169
	<u>180,354</u>	<u>136,411</u>
Plant Operation and Maintenance		
Salaries and wages	79,022	70,131
Supplies and other expenses	292,508	202,227
	<u>371,530</u>	<u>272,358</u>
Housekeeping		
Salaries and wages	46,436	40,863
Supplies and other expenses	19,579	11,217
	<u>66,015</u>	<u>52,080</u>
Laundry and Linen		
Salaries and wages	13,931	12,379
Supplies and other expenses	14,177	6,213
	<u>28,108</u>	<u>18,592</u>
Communications		
Salaries and wages	74,197	2,958
Supplies and other expenses	129,166	159,707
	<u>203,363</u>	<u>162,665</u>
Fiscal Services		
Salaries and wages	237,288	231,174
Supplies and other expenses	127,558	94,260
	<u>364,846</u>	<u>325,434</u>
Administration		
Salaries and wages	272,534	276,477
Management fees	248,538	245,715
Supplies and other expenses	270,171	171,946
	<u>791,243</u>	<u>694,138</u>
Purchasing		
Salaries and wages	23,159	21,502
Supplies and other expenses	2,648	2,770
	<u>25,807</u>	<u>24,272</u>
Specialty Clinic		
Salaries and wages	3,736	4,977
Supplies and other expenses	902	464
	<u>4,638</u>	<u>5,441</u>

Guttenberg Municipal Hospital  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Medical Office Building		
Supplies and other expenses	<u>\$ 39,963</u>	<u>\$ 36,399</u>
Diabetes Management		
Supplies and other expenses	<u>8,466</u>	<u>9,110</u>
Unassigned Expenses		
Employee benefits	889,674	853,722
Depreciation and amortization	719,868	338,454
Insurance	66,856	55,211
Interest	<u>375,855</u>	<u>41,429</u>
	<u>2,052,253</u>	<u>1,288,816</u>
Total operating expenses	<u><u>\$ 9,257,053</u></u>	<u><u>\$ 7,726,172</u></u>

**Guttenberg Municipal Hospital**  
Schedules of Patient Receivables, Allowance for Doubtful Accounts,  
and Collection Statistics (Unaudited)  
Years Ended June 30, 2011 and 2010

Days Since Discharge	June 30, 2011		June 30, 2010	
	Amount	Percent to Total	Amount	Percent to Total
0-30	\$ 992,000	63%	\$ 900,094	68%
31-60	197,535	13%	93,217	7%
61-90	41,474	3%	66,535	5%
91-180	114,445	7%	60,076	5%
181 and over	216,885	14%	200,127	15%
	<u>1,562,339</u>	<u>100%</u>	<u>1,320,049</u>	<u>100%</u>
Less:				
Allowance for doubtful accounts	(261,379)		(246,068)	
Allowance for contractual adjustments	<u>(242,353)</u>		<u>(189,213)</u>	
Net	<u>\$ 1,058,607</u>		<u>\$ 884,768</u>	

**Allowance for Doubtful Accounts**  
**Years Ended June 30, 2011 and 2010**

	2011	2010
Balance, Beginning of Year	\$ 246,068	\$ 252,015
Add:		
Provision for bad debts	113,360	51,897
Recoveries of accounts written off	45,113	28,616
Less:		
Accounts written off	<u>(143,162)</u>	<u>(86,460)</u>
Balance, End of Year	<u>\$ 261,379</u>	<u>\$ 246,068</u>

**Collection Statistics**

Net Accounts Receivable - Patients	\$ 1,058,607	\$ 884,768
Number of Days Charges Outstanding (1)	49	43
Uncollectible Accounts (2)	\$ 310,440	\$ 205,497
Percentage of Uncollectible Accounts to Total Charges	3%	2%

(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 and Prepaid Expense  
Years Ended June 30, 2011 and 2010

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	2011	2010
Supplies		
Storerooms	\$ 63,329	\$ 78,682
Pharmacy	61,078	58,368
Dietary	5,478	4,381
	\$ 129,885	\$ 141,431
 Prepaid Expense		
Insurance	\$ 16,143	\$ 20,048
Other	117,018	114,841
	\$ 133,161	\$ 134,889

Guttenberg Municipal Hospital  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2011 and 2010

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	2011	2010
Patient Days		
Acute		
Adults and pediatrics	1,236	1,082
Newborn	54	96
Swing-bed	508	441
Number of Beds	25	25
Percent of Occupancy (Excluding Newborn)	19%	17%
Discharges		
Acute	400	365
Swing-bed	90	84
Average Length of Stay		
Acute (excluding newborn)	3.09	2.96
Swing-bed	5.64	5.25
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 920	\$ 885
2-bed rooms	764	735
Nursery	546	525
Skilled care		
Private rooms	671	617
2-bed rooms	508	467



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

The Board of Trustees  
Guttenberg Municipal Hospital  
Guttenberg, Iowa

We have audited the accompanying financial statements of Guttenberg Municipal Hospital as of and for the year ended June 30, 2011, and have issued our report thereon dated September 23, 2011. 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-11 and II-B-11. 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, 2011, 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.

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

Dubuque, Iowa  
September 23, 2011



**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on its Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

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, 2011. 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 the 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, 2011.

## 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 the requirements that could have a direct and material effect on the major federal program 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, non-compliance 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 non-compliance 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, 2011, and have issued our report thereon dated September 23, 2011. Our audit was performed for the purpose of forming our opinion on the financial statements as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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.



Dubuque, Iowa  
September 23, 2011

Guttenberg Municipal Hospital  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2011

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>\$ 9,902,285</u>
United States Department of Health and Human Services Pass-through program from: St. Luke's Hospital - Cedar Rapids, Iowa National Bioterrorism Hospital Preparedness Program	93.889	5880BHP102	<u>12,712</u> <u>\$ 9,914,997</u>

**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 four different components. Those components are as follows:

Taxable Hospital Revenue Bonds, Series 2009A	\$ 6,845,000
Taxable Hospital Revenue Bonds, Series 2009B	761,000
USDA Direct Loan Revenue Bonds Payable (Series 2010)	8,455,000
(Previously Hospital Revenue Bond Anticipation Notes, Series 2009C)	
Investment Income on Project Funds	68,964
	\$ 16,129,964
Federal Expenditures reported on the 2010 Schedule of Expenditures of Federal Awards	\$ 6,227,679
Federal Expenditures reported on the 2011 Schedule of Expenditures of Federal Awards	9,902,285
	\$ 16,129,964

The hospital revenue bond anticipation notes were refinanced with a United States Department of Agriculture (USDA) direct loan. The Taxable Hospital Revenue Bonds, Series 2009A, are also guaranteed by the USDA.

**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)

Non-compliance 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-11 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.

**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.

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

**II-B-11 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.

**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-11**      **Certified Budget** – Disbursements during the year ended June 30, 2011, did not exceed the amount budgeted per the amended budget.
- III-B-11**      **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-11**      **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-D-11**      **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- III-E-11**      **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-F-11**      **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.