



Financial Statements
June 30, 2012 and 2011

Guttenberg Municipal Hospital

| | |
|--|----|
| Board of Trustees and Hospital Officials..... | 1 |
| Independent Auditor’s Report..... | 2 |
| Management’s Discussion and Analysis..... | 4 |
| Financial Statements | |
| Balance Sheets | 10 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 11 |
| Statements of Cash Flows | 12 |
| Notes to Financial Statements..... | 14 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual (Cash Basis) | 32 |
| Notes to Required Supplementary Information – Budgetary Reporting..... | 33 |
| Independent Auditor’s Report on Supplementary Information | 34 |
| Supplementary Information | |
| Schedules of Net Patient Service Revenue | 35 |
| Schedules of Other Operating Revenues | 37 |
| Schedules of Operating Expenses..... | 38 |
| Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited) ... | 42 |
| Schedules of Supplies and Prepaid Expense..... | 43 |
| Schedules of Statistical Information (Unaudited)..... | 44 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 45 |
| Schedule of Findings and Responses | 47 |

Guttenberg Municipal Hospital
Board of Trustees and Hospital Officials

| <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 2015 |
| Bill Allyn | Secretary/Treasurer | December 2015 |
| Jim Kuempel | Member | December 2013 |
| Mary Eulberg | Member | December 2015 |
| | <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 (Hospital) as of June 30, 2012 and 2011, 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 the Hospital as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012, 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on pages 32 and 33 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Eide Bailly LLP

Dubuque, Iowa
September 14, 2012

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, 2012, 2011, and 2010. 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 statements of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, 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 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, 2012, indicates total assets of \$26,582,807, total liabilities of \$17,969,446, and net assets of \$8,613,361.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicate total operating revenues of \$11,148,866, an increase of 17.0% over the previous fiscal year, total operating expenses of \$9,980,461, an increase of 12.5% over the previous fiscal year, which results in a gain from operations of \$1,168,405, which represents a 78.6% increase from the previous year. Net non-operating expenses of \$611,029 decrease revenues in excess of expenses to \$557,376 for the year ended June 30, 2012.

- The Hospital's current assets exceeded its current liabilities by \$5,465,627 at June 30, 2012, providing a 5.00 current ratio.
- The Hospital recorded operating income for the fiscal year ended June 30, 2012, amounting to \$1,168,405.
- Gross outpatient charges increased 13.4% during fiscal year 2012 to \$10,007,783.
- Total operating expenses increased 12.5% from the previous fiscal year due primarily to the costs associated with the construction project completion.
- Net days in accounts receivable continue to be very favorable at 40 on June 30, 2012.
- Total patient days and visits for the year
 - 1,378 Acute days (11.5% increase)
 - 608 days Skilled Nursing Care (19.7% increase)
 - 21,966 Outpatient Department Visits (6.9% increase)

Organization Highlights

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

- Laboratory equipment upgrades including hematology analyzer and a blood culture incubator
- Acquired equipment to introduce Telemedicine services and video conferencing
- Purchased ASIR technology which significantly lowers radiation doses to patients receiving CT exams
- \$95,000 worth of "minor equipment" consisting of computer technology and patient care furnishings and instruments
- Purchased Surgical endoscopy equipment and sterilization processors
- Purchased C-Arm to support procedures requiring portable fluoroscopy
- Progress made toward meeting the federal government's certification requirements for "Meaningful Use" related to electronic health records; Attested at year end
- Analysis completed and the determination made to implement EPIC Electronic Health Record in conjunction with Iowa Health System
- Conducted training for all staff and physicians on Team STEPPS safety program and tools; implemented daily departmental briefings in all departments
- Achieved Joint Commission re-accreditation without deficiency for both Hospital and Laboratory
- Partnership established with NE Iowa Behavioral Health to offer weekly Behavioral Health counseling at Hospital
- Partnered with The Finley Hospital and Studer, Inc. to pursue excellence in leadership; Leadership Development Institutes held at regular intervals throughout the year
- Added Paramedics to the employee mix to support Ambulance coverage and support patient care

Condensed Financial Statements

Balance Sheets

| | 2012 | 2011 | 2010 |
|---|---------------|---------------|---------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 4,340,936 | \$ 2,913,956 | \$ 2,359,011 |
| Investments | 536,039 | 569,862 | 462,858 |
| Assets limited as to use or restricted | 192,613 | 191,859 | 111,604 |
| Receivables | | | |
| Patient, net of estimated uncollectibles | 1,236,411 | 1,058,607 | 884,768 |
| Estimated third-party payor settlements | - | 88,000 | - |
| Other | 44,341 | 59,103 | 18,940 |
| Unconditional promises to give | 113,440 | 163,159 | 142,591 |
| Supplies | 130,037 | 129,885 | 141,431 |
| Prepaid expense | 236,576 | 133,161 | 134,889 |
| Total current assets | 6,830,393 | 5,307,592 | 4,256,092 |
| Assets Limited as to Use or Restricted | 1,102,686 | 2,633,269 | 12,231,260 |
| Capital Assets | 17,060,215 | 17,562,559 | 9,229,489 |
| Other Assets | | | |
| Deferred financing costs, net of accumulated amortization | 385,032 | 339,852 | 347,450 |
| Gift fund investments | 1,052,010 | 886,766 | 471,671 |
| Unconditional promises to give | 100,534 | 170,243 | 251,029 |
| Member share of 28E organization net assets | 51,937 | 57,991 | 65,071 |
| Total other assets | 1,589,513 | 1,454,852 | 1,135,221 |
| Total assets | \$ 26,582,807 | \$ 26,958,272 | \$ 26,852,062 |

Condensed Financial Statements

Balance Sheets (continued)

| | 2012 | 2011 | 2010 |
|---|---------------|---------------|---------------|
| Liabilities and Net Assets | | | |
| Current Liabilities | | | |
| Current maturities of long-term debt | \$ 396,607 | \$ 245,880 | \$ 146,853 |
| Accounts payable | 338,241 | 1,039,627 | 2,046,777 |
| Accrued expenses | 629,918 | 596,016 | 609,230 |
| Total current liabilities | 1,364,766 | 1,881,523 | 2,802,860 |
| Long-Term Debt, Less Current Maturities | 16,604,680 | 17,020,928 | 16,524,618 |
| Total liabilities | 17,969,446 | 18,902,451 | 19,327,478 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 127,382 | 1,887,273 | 4,152,779 |
| Restricted | 1,519,643 | 1,577,917 | 1,819,890 |
| Unrestricted | 6,966,336 | 4,590,631 | 1,551,915 |
| Total net assets | 8,613,361 | 8,055,821 | 7,524,584 |
| Total liabilities and net assets | \$ 26,582,807 | \$ 26,958,272 | \$ 26,852,062 |

Statements of Revenues, Expenses, and Changes in Net Assets

| | Years Ended June 30, | | |
|---|----------------------|---------------------|---------------------|
| | 2012 | 2011 | 2010 |
| Operating Revenues | | | |
| Net patient service revenue (net of provision for bad debts) | \$ 10,573,018 | \$ 9,089,982 | \$ 7,769,632 |
| Medicaid electronic health records incentive payment | 208,955 | - | - |
| Other operating revenues | 366,893 | 437,702 | 506,221 |
| Total Operating Revenues | <u>11,148,866</u> | <u>9,527,684</u> | <u>8,275,853</u> |
| Operating Expenses | | | |
| Salaries and wages | 3,767,375 | 3,444,443 | 3,242,366 |
| Employee benefits | 1,021,210 | 889,674 | 853,722 |
| Management fees | 258,013 | 248,538 | 245,715 |
| Supplies and other expenses | 3,564,352 | 3,511,819 | 2,949,275 |
| Depreciation | 1,303,569 | 712,270 | 337,735 |
| Insurance | 65,942 | 66,856 | 55,211 |
| Total Operating Expenses | <u>9,980,461</u> | <u>8,873,600</u> | <u>7,684,024</u> |
| Operating Income | <u>1,168,405</u> | <u>654,084</u> | <u>591,829</u> |
| Nonoperating Revenues (Expenses) | | | |
| Noncapital grants and contributions | 7,337 | 25,202 | 7,890 |
| Investment income | 52,348 | 54,639 | 34,784 |
| Change in member share of 28E organization net assets | (6,054) | (7,080) | (8,304) |
| Interest and amortization expense | (998,191) | (383,453) | (42,148) |
| Build America Bond Credit | 330,327 | 110,110 | - |
| Gain (loss) on disposal of capital assets | 3,204 | (353,318) | 7,300 |
| Net Nonoperating Expenses | <u>(611,029)</u> | <u>(553,900)</u> | <u>(478)</u> |
| Revenues in Excess of Expenses | 557,376 | 100,184 | 591,351 |
| Capital Grants and Contributions | 38,004 | 336,316 | 707,711 |
| Change in Unrealized Gains and Losses on Investments | <u>(37,840)</u> | <u>94,737</u> | <u>79,385</u> |
| Increase in Net Assets | 557,540 | 531,237 | 1,378,447 |
| Net Assets Beginning of Year | <u>8,055,821</u> | <u>7,524,584</u> | <u>6,146,137</u> |
| Net Assets End of Year | <u>\$ 8,613,361</u> | <u>\$ 8,055,821</u> | <u>\$ 7,524,584</u> |

Capital Assets

Capital assets reflect the completion of the Hospital construction and upgrade of much of the technology that supports patient care. Fiscal year 2012 was the final year associated with the project with final spend down of the construction fund.

Long-Term Debt

Guttenberg Municipal Hospital has \$17,001,287 in long-term debt for the year ended June 30, 2012, and \$17,266,808 in long-term debt for the year ended June 30, 2011.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considers many factors when preparing the fiscal year 2013 budget. Of primary consideration in the 2013 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
- Third party payor contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Salary and benefit costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances, especially related to the electronic health record
- Medical staff issues
- Lower return on investments
- Staff training and development

Summary

The Hospital's Board of Trustees and Management 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 Hospital's Medical Staff for their dedication and support provided.

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: Chief Executive Officer
PO Box 550, 200 Main Street
Guttenberg, IA 52052-0550

| | 2012 | 2011 |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 4,340,936 | \$ 2,913,956 |
| Investments - Note 3 | 536,039 | 569,862 |
| Assets limited as to use or restricted - Note 3 | 192,613 | 191,859 |
| Receivables | | |
| Patient, net of estimated uncollectibles of \$235,000 in 2012 and \$261,000 in 2011 | 1,236,411 | 1,058,607 |
| Estimated third-party payor settlements | - | 88,000 |
| Other | 44,341 | 59,103 |
| Unconditional promises to give - Note 5 | 113,440 | 163,159 |
| Supplies | 130,037 | 129,885 |
| Prepaid expense | 236,576 | 133,161 |
| Total current assets | <u>6,830,393</u> | <u>5,307,592</u> |
| Assets Limited as to Use or Restricted - Note 3 | | |
| Investments | | |
| Restricted under bond agreement | - | 1,591,522 |
| Restricted under indenture agreement | 1,295,299 | 1,233,606 |
| | <u>1,295,299</u> | <u>2,825,128</u> |
| Less amount required to meet current obligations | <u>(192,613)</u> | <u>(191,859)</u> |
| Total assets limited as to use or restricted, excluding current portion | <u>1,102,686</u> | <u>2,633,269</u> |
| Capital Assets - Note 6 | | |
| Capital assets not being depreciated | 408,277 | 407,677 |
| Depreciable capital assets, net of accumulated depreciation | 16,651,938 | 17,154,882 |
| Total capital assets, net | <u>17,060,215</u> | <u>17,562,559</u> |
| Other Assets | | |
| Deferred financing costs, net of accumulated amortization of \$30,872 in 2012 and \$7,598 in 2011 | 385,032 | 339,852 |
| Gift fund investments - Note 3 | 1,052,010 | 886,766 |
| Unconditional promises to give - Note 5 | 100,534 | 170,243 |
| Member share of 28E organization net assets - Note 13 | 51,937 | 57,991 |
| Total other assets | <u>1,589,513</u> | <u>1,454,852</u> |
| Total assets | <u>\$ 26,582,807</u> | <u>\$ 26,958,272</u> |

See Notes to Financial Statements

Guttenberg Municipal Hospital
Balance Sheets
June 30, 2012 and 2011

| | 2012 | 2011 |
|--|---------------|---------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt - Note 8 | \$ 396,607 | \$ 245,880 |
| Accounts payable | | |
| Trade | 167,241 | 133,387 |
| Construction | - | 906,240 |
| Estimated third-party payor settlements | 171,000 | - |
| Accrued expenses | | |
| Salaries and wages | 72,993 | 46,761 |
| Paid time off | 317,228 | 285,867 |
| Interest | 192,613 | 191,859 |
| Property taxes | 35,940 | 36,126 |
| Payroll taxes and other | 11,144 | 35,403 |
| Total current liabilities | 1,364,766 | 1,881,523 |
| Long-Term Debt, Less Current Maturities - Note 8 | 16,604,680 | 17,020,928 |
| Total liabilities | 17,969,446 | 18,902,451 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 127,382 | 1,887,273 |
| Restricted | | |
| Expendable for capital acquisitions | 214,344 | 334,311 |
| Expendable for debt service | 1,295,299 | 1,233,606 |
| Nonexpendable contribution to Community Foundation | 10,000 | 10,000 |
| Unrestricted | 6,966,336 | 4,590,631 |
| Total net assets | 8,613,361 | 8,055,821 |
| Total liabilities and net assets | \$ 26,582,807 | \$ 26,958,272 |

Guttenberg Municipal Hospital
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---------------|--------------|
| Operating Revenues | | |
| Net patient service revenue (net of provision for bad debts of \$63,002 in 2012 and \$113,360 in 2011) - Note 2 | \$ 10,573,018 | \$ 9,089,982 |
| Medicaid Electronic Health Records incentive payment - Note 14 | 208,955 | - |
| Other operating revenues | 366,893 | 437,702 |
| Total Operating Revenues | 11,148,866 | 9,527,684 |
| Operating Expenses | | |
| Salaries and wages | 3,767,375 | 3,444,443 |
| Employee benefits | 1,021,210 | 889,674 |
| Management fees | 258,013 | 248,538 |
| Supplies and other expenses | 3,564,352 | 3,511,819 |
| Depreciation | 1,303,569 | 712,270 |
| Insurance | 65,942 | 66,856 |
| Total Operating Expenses | 9,980,461 | 8,873,600 |
| Operating Income | 1,168,405 | 654,084 |
| Nonoperating Revenues (Expenses) | | |
| Noncapital grants and contributions | 7,337 | 25,202 |
| Investment income | 52,348 | 54,639 |
| Change in member share of 28E organization net assets | (6,054) | (7,080) |
| Interest and amortization expense | (998,191) | (383,453) |
| Build America Bond Credit - Note 8 | 330,327 | 110,110 |
| Gain (loss) on disposal of capital assets | 3,204 | (353,318) |
| Net Nonoperating Expenses | (611,029) | (553,900) |
| Revenues in Excess of Expenses | 557,376 | 100,184 |
| Capital Grants and Contributions | 38,004 | 336,316 |
| Change in Unrealized Gains and Losses on Investments | (37,840) | 94,737 |
| Increase in Net Assets | 557,540 | 531,237 |
| Net Assets Beginning of Year | 8,055,821 | 7,524,584 |
| Net Assets End of Year | \$ 8,613,361 | \$ 8,055,821 |

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Receipts of patient service revenue | \$ 10,654,214 | \$ 8,382,143 |
| Medicaid Electronic Health Records incentive payment | 208,955 | - |
| Other receipts | 381,336 | 430,654 |
| Payments of salaries and wages | (3,709,782) | (3,558,924) |
| Payments of employee benefits | (1,045,469) | (868,622) |
| Payments of supplies and other expenses | (3,958,206) | (3,870,070) |
| | <u>2,531,048</u> | <u>515,181</u> |
| Net Cash provided by Operating Activities | | |
| Cash Flows from Noncapital Financing Activities | | |
| Noncapital grants and contributions received | 7,337 | 25,202 |
| | <u>7,337</u> | <u>25,202</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of capital assets | (1,719,438) | (9,600,328) |
| Restricted contributions received | 157,432 | 396,534 |
| Proceeds from sale of capital assets | 15,177 | 20,600 |
| Payment of deferred financing costs | (68,454) | - |
| Payment of interest on debt | (974,163) | (868,914) |
| Build America Bond Credit | 330,646 | 326,320 |
| Proceeds from the issuance of debt | - | 8,455,000 |
| Payment of principal on debt | (265,521) | (7,859,663) |
| | <u>(2,524,321)</u> | <u>(9,130,451)</u> |
| Net Cash used for Capital and Related Financing Activities | | |
| Cash Flows from Investing Activities | | |
| Increase in gift fund investments | (165,244) | (415,095) |
| Sale of assets limited as to use or restricted | 252,913 | 428,633 |
| Purchase of assets limited as to use or restricted | (34,753) | (22,368) |
| Purchase of other investments | 21,445 | (12,267) |
| Net investment income received | 52,348 | 54,639 |
| | <u>126,709</u> | <u>33,542</u> |
| Net Cash provided by Investing Activities | | |
| Net Increase in Cash and Cash Equivalents | 140,773 | (8,556,526) |
| Cash and Cash Equivalents at Beginning of Year | 5,890,802 | 14,447,328 |
| | <u>5,890,802</u> | <u>14,447,328</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 6,031,575</u> | <u>\$ 5,890,802</u> |

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|--|--------------|--------------|
| Reconciliation of Cash and Cash Equivalents to the Balance Sheets | | |
| Cash and cash equivalents in current assets | \$ 4,340,936 | \$ 2,913,956 |
| Cash and cash equivalents in noncurrent assets | 1,690,639 | 2,976,846 |
| | \$ 6,031,575 | \$ 5,890,802 |
| Reconciliation of Operating Income to Net Cash provided by Operating Activities | | |
| Operating income | \$ 1,168,405 | \$ 654,084 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 1,303,569 | 712,270 |
| Provision for bad debts | 63,002 | 113,360 |
| Changes in assets and liabilities | | |
| Receivables | (226,363) | (294,247) |
| Supplies | (152) | 11,546 |
| Prepaid expense | (103,415) | 1,728 |
| Accounts payable - trade | 33,854 | (56,091) |
| Estimated third-party payor settlements | 259,000 | (534,000) |
| Accrued expenses | 33,148 | (93,469) |
| Net Cash provided by Operating Activities | \$ 2,531,048 | \$ 515,181 |

Note 1 - Organization and 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.

Cash and Cash Equivalents

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

Unconditional Promises to Give

Unconditional promises to give, less an allowance for estimated uncollectible amounts, are recorded as a receivable and temporarily restricted support in the year the promise is made, unless the donor explicitly states that the gift is to support current activities. Unconditional promises to give are presented at their discounted value.

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 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 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 depreciable asset and is computed using the straight-line method. 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 |

Deferred Financing Costs

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

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.

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, 2012.

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 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, other than financing costs.

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors 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 and Community Benefits

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.

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 \$126,598 and \$192,279 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, were \$92,000 and \$138,000, 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.

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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$42,234 and \$38,788 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

Medicare

These incentive payments are available for the next four years. To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated Medicare EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the Medicare EHR reporting period. This attestation is subject to audit by the federal government or its designee. The Medicare EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire Medicare EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

As the entire Medicare EHR incentive payment is received in a lump sum for critical access hospitals and the hospital must annually attest to increasingly stringent meaningful use criteria, the Medicare EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over a specified period of time.

Medicaid

The Medicaid EHR incentive payments are available for the next five years and are paid out based on state specific legislation, not to exceed 50% in any one year, 90% in any 2-year period, and paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year.

EHR incentive payments are included as other operating revenue in the accompanying financial statements. The Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. The amounts of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change, with such changes impacting the period in which they occur.

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

Reclassifications

Reclassifications have been made to the June 30, 2011, financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - 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 plus one percent 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 audited 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, 2009.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2012, and 54% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011. 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 net patient service revenue for the year ended June 30, 2012, decreased approximately \$49,000 due to prior-year retroactive adjustments in excess of amounts previously estimated. 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 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.

A summary of patient service revenue, contractual and administrative adjustments, and provision for bad debts for the years ended June 30, 2012 and 2011, is as follows:

| | <u>2012</u> | <u>2011</u> |
|---|-----------------------------|----------------------------|
| Total Patient Service Revenue | <u>\$ 13,771,683</u> | <u>\$ 11,975,070</u> |
| Contractual Adjustments | | |
| Medicare | (1,577,205) | (1,442,168) |
| Medicaid | (222,625) | (241,742) |
| Other | (1,220,424) | (1,001,598) |
| Administrative Adjustments/Policy Discounts | <u>(115,409)</u> | <u>(86,220)</u> |
| Total deductions from patient service revenue | <u>(3,135,663)</u> | <u>(2,771,728)</u> |
| Net Patient Service Revenue | 10,636,020 | 9,203,342 |
| Provision for Bad Debts | <u>(63,002)</u> | <u>(113,360)</u> |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | <u><u>\$ 10,573,018</u></u> | <u><u>\$ 9,089,982</u></u> |

Note 3 - Cash and Deposits

The Hospital's deposits in banks at June 30, 2012 and 2011, 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 No. 3 at June 30, 2012 and 2011.

At June 30, 2012 and 2011, the Hospital's carrying amounts of cash and deposits are as follows:

| | 2011 | 2010 |
|---|--------------|--------------|
| Cash and cash equivalents | \$ 6,031,575 | \$ 5,890,802 |
| Certificates of Deposit | 129,630 | 128,967 |
| U.S. Government Obligations | 555,158 | 608,195 |
| Fixed Income Securities | 49,549 | 22,434 |
| Equity Securities - Common Stock | 444,165 | 532,318 |
| Beneficial Interest in Net Assets of Community Foundation | 12,043 | 12,505 |
| Interest Receivable | 2,164 | 491 |
| | \$ 7,224,284 | \$ 7,195,712 |

Included in the Following Balance Sheet Captions:

| | | |
|--|--------------|--------------|
| Cash and cash equivalents | \$ 4,340,936 | \$ 2,913,956 |
| Investments | 536,039 | 569,862 |
| Assets limited as to use or restricted | 1,295,299 | 2,825,128 |
| Gift fund investments | 1,052,010 | 886,766 |
| | \$ 7,224,284 | \$ 7,195,712 |

Net realized gains of \$22,158 and \$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 years ended June 30, 2012 and 2011, respectively.

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 4 - 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 \$12,043 and \$12,505 at June 30, 2012 and 2011, respectively, and are included as gift fund investments on the balance sheets.

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 \$1,479 and \$1,542 at June 30, 2012 and 2011, respectively.

Note 5 - 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, 2012, the amount to be received in future years from these promises to give consists of the following:

| | | |
|-------------------------------------|----|------------|
| Amounts Due in: | | |
| Less than one year | \$ | 129,344 |
| One to five years | | 107,130 |
| More than five years | | 7,500 |
| | | 243,974 |
| Less: | | |
| Discount (5%) | | (16,339) |
| Allowance for uncollectible amounts | | (13,661) |
| | | \$ 213,974 |

Note 6 - Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011, was as follows:

| | June 30, 2011 Balance | Additions | Deductions | Transfers | June 30, 2012 Balance |
|---|--------------------------|--------------|------------|-----------|--------------------------|
| Capital Assets Not Being Depreciated | | | | | |
| Land | \$ 407,677 | \$ 600 | \$ - | \$ - | \$ 408,277 |
| Capital Assets Being Depreciated | | | | | |
| Land improvements | 1,070,932 | - | - | - | 1,070,932 |
| Buildings | 16,351,011 | 304,233 | - | - | 16,655,244 |
| Equipment | 3,762,879 | 508,366 | 187,326 | - | 4,083,919 |
| Total capital assets being depreciated | 21,184,822 | 812,599 | 187,326 | - | 21,810,095 |
| Less Accumulated Depreciation | | | | | |
| For: | | | | | |
| Land improvements | 318,695 | 56,694 | - | - | 375,389 |
| Buildings | 1,809,481 | 850,016 | - | - | 2,659,497 |
| Equipment | 1,901,764 | 397,158 | 175,651 | - | 2,123,271 |
| Total accumulated depreciation | 4,029,940 | 1,303,868 | 175,651 | - | 5,158,157 |
| Total Capital Assets Being Depreciated, Net | 17,154,882 | (491,269) | 11,675 | - | 16,651,938 |
| Total Capital Assets, Net | \$ 17,562,559 | \$ (490,669) | \$ 11,675 | \$ - | \$ 17,060,215 |

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2012 and 2011

| | June 30, 2010 | | | | June 30, 2011 |
|---|---------------------|---------------------|-------------------|---------------------|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Transfers</u> | <u>Balance</u> |
| 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 | <u>7,185,138</u> | <u>7,782,072</u> | <u>-</u> | <u>(14,559,533)</u> | <u>407,677</u> |
| 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 | <u>7,718,926</u> | <u>1,637,185</u> | <u>2,730,822</u> | <u>14,559,533</u> | <u>21,184,822</u> |
| 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 | <u>5,674,575</u> | <u>712,270</u> | <u>2,356,905</u> | <u>-</u> | <u>4,029,940</u> |
| Total Capital Assets Being Depreciated, Net | <u>2,044,351</u> | <u>924,915</u> | <u>373,917</u> | <u>14,559,533</u> | <u>17,154,882</u> |
| Total Capital Assets, Net | <u>\$ 9,229,489</u> | <u>\$ 8,706,987</u> | <u>\$ 373,917</u> | <u>\$ -</u> | <u>\$ 17,562,559</u> |

Note 7 - 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, 2012 and 2011, was \$262,708 and \$263,312, respectively.

Minimum future lease payments for operating leases are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2013 | \$ 251,818 |
| 2014 | 250,828 |
| 2015 | 250,828 |
| 2016 | <u>104,512</u> |
| Total minimum future lease payments | <u>\$ 857,986</u> |

Note 8 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2012 and 2011 follows:

| | June 30, 2011 <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | June 30, 2012 <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 | \$ 812,763 | \$ - | \$ 110,454 | \$ 702,309 | \$ 96,220 |
| 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 | 486,822 | - | 57,826 | 428,996 | 53,449 |
| Revenue Bonds Payable, (Series 2009A) Rate Currently 5.78%, 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 Pages 28 and 29.) | 6,845,000 | - | - | 6,845,000 | 132,000 |
| 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 Pages 28 and 29.) | 761,000 | - | - | 761,000 | 14,000 |

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2012 and 2011

| | June 30, 2011 <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | June 30, 2012 <u>Balance</u> | Amounts Due Within One Year |
|---|------------------------------------|------------------|-------------------|------------------------------------|--------------------------------------|
| 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 Pages 28 and 29.) | \$ 8,361,223 | \$ - | \$ 97,241 | \$ 8,263,982 | \$ 100,938 |
| | <u>\$ 17,266,808</u> | <u>\$ -</u> | <u>\$ 265,521</u> | 17,001,287 | <u>\$ 396,607</u> |
| Less current maturities | | | | (396,607) | |
| Long-term debt, less current maturities | | | | <u>\$ 16,604,680</u> | |
| | June 30, 2010 <u>Balance</u> | <u>Additions</u> | <u>Payments</u> | June 30, 2011 <u>Balance</u> | Amounts Due Within One Year |
| 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 Pages 28 and 29.) | 6,845,000 | - | - | 6,845,000 | - |

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2012 and 2011

| | <u>June 30, 2010 Balance</u> | <u>Additions</u> | <u>Payments</u> | <u>June 30, 2011 Balance</u> | <u>Amounts Due Within One Year</u> |
|---|--------------------------------------|---------------------|---------------------|--------------------------------------|--|
| 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 Pages 28 and 29.) | \$ 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 Pages 28 and 29.) | 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 Pages 28 and 29.) | <u>-</u> | <u>8,455,000</u> | <u>93,777</u> | <u>8,361,223</u> | <u>97,241</u> |
| | <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 | | | | <u>(245,880)</u> | |
| Long-term debt, less current maturities | | | | <u>\$ 17,020,928</u> | |

Long-term debt maturities are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 396,607 | \$ 791,117 | \$ 1,187,724 |
| 2014 | 414,112 | 774,471 | 1,188,583 |
| 2015 | 431,852 | 756,972 | 1,188,824 |
| 2016 | 449,838 | 738,619 | 1,188,457 |
| 2017 | 469,075 | 719,395 | 1,188,470 |
| 2018-2022 | 2,167,691 | 3,288,961 | 5,456,652 |
| 2023-2027 | 2,418,310 | 2,723,568 | 5,141,878 |
| 2028-2032 | 3,167,438 | 1,985,317 | 5,152,755 |
| 2033-2037 | 2,907,269 | 1,033,261 | 3,940,530 |
| 2038-2042 | 1,378,086 | 671,414 | 2,049,500 |
| 2043-2047 | 1,659,406 | 390,094 | 2,049,500 |
| 2048-2050 | 1,141,603 | 75,595 | 1,217,198 |
| | <u>\$ 17,001,287</u> | <u>\$ 13,948,784</u> | <u>\$ 30,950,071</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, 2012 and 2011, is as follows:

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Interest Cost: | | |
| Capitalized as part of construction project | \$ - | \$ 533,556 |
| Recognized as interest expense | 974,917 | 375,855 |
| Total | <u>\$ 974,917</u> | <u>\$ 909,411</u> |

| | 2012 | 2011 |
|---|------------|------------|
| Build America Bond Credit | | |
| Capitalized as part of construction project | \$ - | \$ 189,231 |
| Recognized as nonoperating revenue | 330,327 | 110,110 |
| Total | \$ 330,327 | \$ 299,341 |

Note 9 - Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary, and the Hospital is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. For the year ended June 30, 2011, plan members were required to contribute 4.50% of their annual covered salary, and the Hospital was required to contribute 6.95% of annual covered payroll. For the year ended June 30, 2010, plan members were required to contribute 4.30% of their annual covered salary, and the Hospital was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute.

The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$298,090, \$235,956, and \$213,685, respectively, equal to the required contributions for each year.

Note 10 - Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. 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 11 - 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, 2012 and 2011, was as follows:

| | 2012 | 2011 |
|---------------------------------------|------|------|
| Medicare | 35% | 35% |
| Medicaid | 6% | 3% |
| Commercial and Other Insurance | 39% | 39% |
| Other Third-Party Payors and Patients | 20% | 23% |
| | 100% | 100% |

Note 12 - 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 Disputes

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 13 - 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.

Note 14 - Electronic Health Record Incentive Payments

The Hospital recognized revenue of \$208,955 for the year ended June 30, 2012, related to the initial Medicaid EHR incentive payment received. The incentive payment is included in other operating revenue in the accompanying financial statements. The \$208,955 represents 40% of the potential benefit to be received from the State of Iowa Medicaid program. Since the remaining payments are contingent upon the Hospital meeting future EHR objectives, there are no amounts accrued as receivable from the State of Iowa Medicaid program.

The Hospital did not receive any Medicare EHR funding during the year ended June 30, 2012.

Note 15 - Subsequent Events

The Hospital has evaluated subsequent events through September 14, 2012, the date which the financial statements were available to be issued.



Required Supplementary Information
June 30, 2012

Guttenberg Municipal Hospital

Guttenberg Municipal Hospital
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in
Net Assets – Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2012

| | <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 | \$ 11,539,042 | \$ 230,563 | \$ 11,769,605 | \$ 11,441,000 | \$ 328,605 |
| Expenses/Disbursements | <u>10,981,502</u> | <u>759,531</u> | <u>11,741,033</u> | <u>11,149,000</u> | <u>(592,033)</u> |
| Net | 557,540 | (528,968) | 28,572 | 292,000 | <u>\$ (263,428)</u> |
| Balance Beginning of Year | <u>8,055,821</u> | <u>(860,109)</u> | <u>7,195,712</u> | <u>7,195,712</u> | |
| Balance End of Year | <u>\$ 8,613,361</u> | <u>\$ (1,389,077)</u> | <u>\$ 7,224,284</u> | <u>\$ 7,487,712</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, 2012.

For the year ended June 30, 2012, the Hospital's expenditures exceeded the amount budgeted per the amended budget. The variance was reported to the City Manager.



Supplementary Information
June 30, 2012 and 2011

Guttenberg Municipal Hospital

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the financial statements of Guttenberg Municipal Hospital (Hospital) as of and for the years ended June 30, 2012 and 2011, and our report thereon dated September 14, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the 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 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 supplementary information is fairly stated in all material respects in relation to the 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 financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Dubuque, Iowa
September 14, 2012

Guttenberg Municipal Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|--------------|--------------|
| Patient Service Revenue | | |
| Adults and pediatrics | \$ 1,701,823 | \$ 1,472,921 |
| Nursery | 48,848 | 37,986 |
| Swing-bed | 322,682 | 254,368 |
| Operating and recovery rooms | 1,192,017 | 1,002,672 |
| Delivery and labor rooms | 69,456 | 49,569 |
| Central services and supply | 566,638 | 489,246 |
| Emergency services | 840,370 | 721,304 |
| Ambulance services | 355,620 | 297,997 |
| Laboratory | 2,443,348 | 2,334,918 |
| Electrocardiology | 463,047 | 472,119 |
| Radiology | 2,349,637 | 2,221,372 |
| Pharmacy | 1,228,562 | 969,123 |
| Anesthesiology | 626,225 | 524,870 |
| Respiratory therapy | 108,244 | 64,559 |
| Sleep studies | 109,686 | 75,108 |
| Physical therapy | 484,291 | 379,416 |
| Occupational and speech therapy | 125,098 | 113,763 |
| Cardiac rehab | 76,314 | 61,608 |
| Anticoagulation services | 134,232 | 127,970 |
| Surgery clinic | 640,958 | 485,836 |
| Nutritional services | 1,476 | 420 |
| Diabetes management | 9,709 | 10,204 |
| | 13,898,281 | 12,167,349 |
| Charity care (charges foregone) | (126,598) | (192,279) |
| Total patient service revenue* | 13,771,683 | 11,975,070 |
| *Total Patient Service Revenue - Reclassified | | |
| Inpatient revenue | 3,890,498 | 3,344,437 |
| Outpatient revenue | 10,007,783 | 8,822,912 |
| Charity care (charges foregone) | (126,598) | (192,279) |
| Total patient service revenue | 13,771,683 | 11,975,070 |

Guttenberg Municipal Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|----------------|----------------|
| Deductions from Patient Service Revenue | | |
| Contractual adjustments | | |
| Medicare | \$ (1,577,205) | \$ (1,442,168) |
| Medicaid | (222,625) | (241,742) |
| Other | (1,220,424) | (1,001,598) |
| Administrative adjustments/policy discounts | (115,409) | (86,220) |
| Total deductions from patient service revenue | (3,135,663) | (2,771,728) |
| Net Patient Service Revenue | 10,636,020 | 9,203,342 |
| Provision for Bad Debts | (63,002) | (113,360) |
| Net Patient Service Revenue (Net of Provision for Bad Debts) | \$ 10,573,018 | \$ 9,089,982 |

Guttenberg Municipal Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|------------|------------|
| Other Operating Revenues | | |
| Office rent | \$ 107,507 | \$ 95,062 |
| Contracted services | 99,308 | 145,935 |
| Lab reference services | 40,903 | 41,735 |
| Cafeteria | 38,531 | 38,832 |
| Fitness center memberships | 17,389 | 18,696 |
| Business health | 7,797 | 4,597 |
| Dietary services | 2,626 | 3,112 |
| Drugs and supplies sold to non-patients | 2,279 | 3,304 |
| Medical records fees | 1,498 | 1,393 |
| Therapy services | 271 | 44,910 |
| Other | 48,784 | 40,126 |
| Total other operating revenues | \$ 366,893 | \$ 437,702 |

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|------------------------------|------------------|------------------|
| Routine Nursing Services | | |
| Salaries and wages | \$ 1,000,711 | \$ 830,657 |
| Supplies and other expenses | <u>131,683</u> | <u>182,866</u> |
| | <u>1,132,394</u> | <u>1,013,523</u> |
| Nursery | | |
| Salaries and wages | 5,295 | 4,475 |
| Supplies and other expenses | <u>4,232</u> | <u>1,665</u> |
| | <u>9,527</u> | <u>6,140</u> |
| Operating and Recovery Rooms | | |
| Salaries and wages | 140,989 | 129,500 |
| Supplies and other expenses | <u>115,925</u> | <u>94,596</u> |
| | <u>256,914</u> | <u>224,096</u> |
| Delivery and Labor Rooms | | |
| Salaries and wages | 11,061 | 8,060 |
| Supplies and other expenses | <u>6,267</u> | <u>5,151</u> |
| | <u>17,328</u> | <u>13,211</u> |
| Central Services and Supply | | |
| Salaries and wages | 45,851 | 52,685 |
| Supplies and other expenses | <u>108,059</u> | <u>120,486</u> |
| | <u>153,910</u> | <u>173,171</u> |
| Emergency Services | | |
| Salaries and wages | 170,022 | 172,380 |
| Supplies and other expenses | <u>260,721</u> | <u>272,874</u> |
| | <u>430,743</u> | <u>445,254</u> |
| Ambulance Services | | |
| Salaries and wages | 70,074 | 70,432 |
| Supplies and other expenses | <u>30,158</u> | <u>26,267</u> |
| | <u>100,232</u> | <u>96,699</u> |
| Laboratory | | |
| Salaries and wages | 300,651 | 300,784 |
| Supplies and other expenses | <u>410,140</u> | <u>437,782</u> |
| | <u>710,791</u> | <u>738,566</u> |
| Electrocardiology | | |
| Salaries and wages | 11,816 | 13,447 |
| Supplies and other expenses | <u>21,410</u> | <u>25,425</u> |
| | <u>33,226</u> | <u>38,872</u> |
| Radiology | | |
| Salaries and wages | 316,562 | 305,077 |
| Supplies and other expenses | <u>514,114</u> | <u>408,305</u> |
| | <u>830,676</u> | <u>713,382</u> |

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|-----------------------------|----------------|----------------|
| Pharmacy | | |
| Salaries and wages | \$ 64,792 | \$ 25,929 |
| Supplies and other expenses | 469,910 | 407,844 |
| | <u>534,702</u> | <u>433,773</u> |
| Anesthesiology | | |
| Salaries and wages | 300,768 | 291,023 |
| Supplies and other expenses | 15,697 | 17,710 |
| | <u>316,465</u> | <u>308,733</u> |
| Respiratory Therapy | | |
| Salaries and wages | 35,802 | 30,226 |
| Supplies and other expenses | 4,928 | 2,483 |
| | <u>40,730</u> | <u>32,709</u> |
| Sleep Studies | | |
| Supplies and other expenses | 29,491 | 20,835 |
| Physical Therapy | | |
| Salaries and wages | 200,630 | 145,215 |
| Supplies and other expenses | 110,208 | 106,692 |
| | <u>310,838</u> | <u>251,907</u> |
| Fitness Center | | |
| Supplies and other expenses | 709 | 898 |
| Business Health | | |
| Salaries and wages | 4,065 | 2,085 |
| Supplies and other expenses | 2,865 | 2,811 |
| | <u>6,930</u> | <u>4,896</u> |
| Family Resources | | |
| Salaries and wages | 17,986 | 15,108 |
| Supplies and other expenses | 11,636 | 11,710 |
| | <u>29,622</u> | <u>26,818</u> |
| Cardiac Rehab | | |
| Salaries and wages | 11,975 | 21,886 |
| Supplies and other expenses | 5,563 | 921 |
| | <u>17,538</u> | <u>22,807</u> |
| Surgery Clinic | | |
| Salaries and wages | 63,972 | 65,406 |
| Supplies and other expenses | 335,044 | 313,422 |
| | <u>399,016</u> | <u>378,828</u> |

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|----------------|----------------|
| Medical Records | | |
| Salaries and wages | \$ 138,581 | \$ 127,696 |
| Supplies and other expenses | <u>48,271</u> | <u>47,653</u> |
| | <u>186,852</u> | <u>175,349</u> |
| Dietary | | |
| Salaries and wages | 87,377 | 82,069 |
| Supplies and other expenses | <u>81,909</u> | <u>98,285</u> |
| | <u>169,286</u> | <u>180,354</u> |
| Plant Operation and Maintenance | | |
| Salaries and wages | 75,810 | 79,022 |
| Supplies and other expenses | <u>345,186</u> | <u>292,508</u> |
| | <u>420,996</u> | <u>371,530</u> |
| Housekeeping | | |
| Salaries and wages | 48,851 | 46,436 |
| Supplies and other expenses | <u>14,988</u> | <u>19,579</u> |
| | <u>63,839</u> | <u>66,015</u> |
| Laundry and Linen | | |
| Salaries and wages | 15,772 | 13,931 |
| Supplies and other expenses | <u>4,594</u> | <u>14,177</u> |
| | <u>20,366</u> | <u>28,108</u> |
| Communications | | |
| Salaries and wages | 74,092 | 74,197 |
| Supplies and other expenses | <u>85,300</u> | <u>129,166</u> |
| | <u>159,392</u> | <u>203,363</u> |
| Fiscal Services | | |
| Salaries and wages | 253,837 | 237,288 |
| Supplies and other expenses | <u>114,395</u> | <u>127,558</u> |
| | <u>368,232</u> | <u>364,846</u> |
| Administration | | |
| Salaries and wages | 273,750 | 272,534 |
| Management fees | 258,013 | 248,538 |
| Supplies and other expenses | <u>220,384</u> | <u>270,171</u> |
| | <u>752,147</u> | <u>791,243</u> |
| Purchasing | | |
| Salaries and wages | 23,011 | 23,159 |
| Supplies and other expenses | <u>2,493</u> | <u>2,648</u> |
| | <u>25,504</u> | <u>25,807</u> |
| Specialty Clinic | | |
| Salaries and wages | 3,272 | 3,736 |
| Supplies and other expenses | <u>6,467</u> | <u>902</u> |
| | <u>9,739</u> | <u>4,638</u> |

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|-----------------------------|----------------------------|----------------------------|
| Medical Office Building | | |
| Supplies and other expenses | <u>\$ 41,260</u> | <u>\$ 39,963</u> |
| Diabetes Management | | |
| Supplies and other expenses | <u>10,345</u> | <u>8,466</u> |
| Unassigned Expenses | | |
| Employee benefits | 1,021,210 | 889,674 |
| Depreciation | 1,303,569 | 712,270 |
| Insurance | <u>65,942</u> | <u>66,856</u> |
| | <u>2,390,721</u> | <u>1,668,800</u> |
| Total operating expenses | <u><u>\$ 9,980,461</u></u> | <u><u>\$ 8,873,600</u></u> |

Guttenberg Municipal Hospital

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)
June 30, 2012 and 2011

Analysis of Aging

| <u>Days Since Discharge</u> | <u>2012</u> | | <u>2011</u> | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Amount | Percent to Total | Amount | Percent to Total |
| 30 Days or Less | \$ 1,087,021 | 64% | \$ 992,000 | 63% |
| 31 to 60 Days | 195,072 | 12% | 197,535 | 13% |
| 61 to 90 Days | 88,095 | 5% | 41,474 | 3% |
| 91 to 180 Days | 100,654 | 6% | 114,445 | 7% |
| 181 Days and Over | 224,789 | 13% | 216,885 | 14% |
| | <u>1,695,631</u> | <u>100%</u> | <u>1,562,339</u> | <u>100%</u> |
| Less: | | | | |
| Allowance for doubtful accounts | (234,684) | | (261,379) | |
| Allowance for contractual adjustments | (224,536) | | (242,353) | |
| Net | <u>\$ 1,236,411</u> | | <u>\$ 1,058,607</u> | |

Allowance for Doubtful Accounts

| | <u>Years Ended June 30,</u> | |
|------------------------------------|-----------------------------|-------------------|
| | <u>2012</u> | <u>2011</u> |
| Balance, Beginning of Year | \$ 261,379 | \$ 246,068 |
| Add: | | |
| Provision for bad debts | 63,002 | 113,360 |
| Recoveries of accounts written off | 19,681 | 45,113 |
| Less: | | |
| Accounts written off | <u>(109,378)</u> | <u>(143,162)</u> |
| Balance, End of Year | <u>\$ 234,684</u> | <u>\$ 261,379</u> |

Collection Statistics

| | | |
|---|--------------|--------------|
| Net Accounts Receivable - Patients | \$ 1,236,411 | \$ 1,058,607 |
| Number of Days Charges Outstanding (1) | 40 | 40 |
| Uncollectible Accounts (2) | \$ 197,591 | \$ 310,440 |
| Percentage of Uncollectible Accounts to Total Charges | 1% | 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 fees.

Guttenberg Municipal Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---------------------|------------|------------|
| Supplies | | |
| Pharmacy | \$ 74,870 | \$ 61,078 |
| Storerooms | 49,765 | 63,329 |
| Dietary | 5,402 | 5,478 |
| | \$ 130,037 | \$ 129,885 |
| Prepaid Expense | | |
| Insurance | \$ 34,106 | \$ 16,143 |
| Other | 202,470 | 117,018 |
| | \$ 236,576 | \$ 133,161 |

Guttenberg Municipal Hospital
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|--|--------|--------|
| Patient Days | | |
| Acute | | |
| Adults and pediatrics | 1,378 | 1,236 |
| Newborn | 81 | 54 |
| Swing-bed | 608 | 508 |
| Number of Beds | 25 | 25 |
| Percent of Occupancy (Excluding Newborn) | 22% | 19% |
| Discharges | | |
| Acute | 384 | 400 |
| Swing-bed | 91 | 90 |
| Average Length of Stay | | |
| Acute (excluding newborn) | 3.59 | 3.09 |
| Swing-bed | 6.68 | 5.64 |
| Most Recent Year End Routine Service Rates | | |
| Acute | | |
| Private rooms | \$ 962 | \$ 920 |
| Semi-private rooms | 799 | 764 |
| Nursery | 571 | 546 |
| Skilled care | | |
| Private rooms | 671 | 671 |
| Semi-private rooms | 508 | 508 |

**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 (Hospital) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 14, 2012. 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

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items I-A-12 and I-B-12 to be significant deficiencies. 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 Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*. However, we noted a certain immaterial instance of noncompliance or other matter which is described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Guttenberg Municipal Hospital's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response, and accordingly, we express no opinion on it.

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 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 Sallie LLP".

Dubuque, Iowa
September 14, 2012

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-12 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 I: Findings Related to the Financial Statements: (continued)

I-B-12 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 II: Other Findings Related to Required Statutory Reporting:

- II-A-12** **Certified Budget** – Hospital disbursements during the year ended June 30, 2012, exceeded the amount budgeted per the amended budget by \$592,033.
- Recommendation** – While the budget was amended during the year, disbursements still exceeded expenditures per the amended budget. The main difference involves the construction payables recorded at June 30, 2011, that were paid during fiscal year 2012. The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa to include these disbursements before total disbursements were allowed to exceed the budget.
- Response** – The budget will be amended in the future, as necessary.
- Conclusion** – Response accepted
- II-B-12** **Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-12** **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-12** **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-12** **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-12** **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.



September 14, 2012

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the financial statements of Guttenberg Municipal Hospital (Hospital) for the year ended June 30, 2012, and have issued our report thereon dated September 14, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 12, 2012. 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, 2012. 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 the 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.

The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments were made during the audit, with significant adjustments listed separately:

| | | |
|---|----|-----------|
| To adjust estimated third-party payor settlements | \$ | 85,000 |
| To adjust unconditional promises to give | | (119,000) |
| Other adjustments | | (5,000) |

The net effect of the adjustments was to decrease net assets by \$39,000.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 14, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matter

Following is an additional comment for informational purposes only:

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued Proposed Accounting Standards Update 1850-100, Leases. The joint committee received many comments regarding this proposal, and has made several revisions. Due to the changes made, the joint committee has made the decision to re-expose the proposal. The re-exposure draft was announced July 21, 2011, with an estimated release date in the 4th quarter of 2012. While changes have been made, the underlying fundamentals of the change to lease accounting remain unchanged. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be brought onto the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

After the announcement of the new exposure draft, the timeline for an effective date of the final standard is unknown, but speculation is an effective date in 2015 or 2016.

We recommend that you review the proposed guidance and consider its impact on future financial reporting for the Hospital.

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.

Sincerely,

EIDE BAILLY LLP



xc: Ms. Kim Gau, CEO