Financial Statements
June 30, 2013 and 2012

Guttenberg Municipal Hospital

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Guttenberg Municipal Hospital

Board of Trustees and Hospital Officials

Name	Title	Term Expires
	Board of Trustees	
Doug Reimer	Chairperson	December 2013
Penny Hansel	Vice Chairperson	December 2015
Bill Allyn	Secretary/Treasurer	December 2015
Susan Clayton	Member	December 2013
Mary Eulberg	Member	December 2015
	Hospital Officials	
Kim Gau	Chief Executive Officer	

Independent Auditor's Report

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Guttenberg Municipal Hospital (Hospital) which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Implementation of Standards

As discussed in Note 13, Guttenberg Municipal Hospital implemented new Governmental Accounting Standards Board Statements during fiscal year 2013.

Other Matters

Required Supplementary Information

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 33 and 34 be presented to supplement the financial statements. Such information, although not a 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, 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, contacts, 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* in considering the Hospital's internal control over financial reporting and compliance.

Eide Bailly LLP

Dubuque, Iowa
September 16, 2013

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, 2013, 2012, and 2011. 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 position; 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 position. 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 position report the net position of the Hospital and the changes in them. The Hospital's net position - 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 position 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, 2013, indicates total assets of $27,770,861, total liabilities of $18,386,987, and net position of $9,383,874.
- The Statements of Revenues, Expenses, and Changes in Net position indicate total operating revenues of $12,800,108, an increase of 14.8% over the previous fiscal year, total operating expenses of $11,786,975, an increase of 18.1% over the previous fiscal year, which results in operating income of $1,013,133, which represents a 13.3% decrease from the previous year. Net non-operating expenses of $623,901 decrease revenues in excess of expenses to $389,232 for the year ended June 30, 2013.

- The Hospital's current assets exceeded its current liabilities by $5,512,150 at June 30, 2013, providing a 3.49 current ratio.
- Gross outpatient charges increased 18.6% during fiscal year 2013 to $11,865,560.
- Net days in accounts receivable continue to be very favorable at 48 on June 30, 2013.
- Total patient days and visits for the year
    - 1,044 Acute days (24.2% decrease)
    - 749 days Skilled Nursing Care (23.2% increase)
    - 22,826 Outpatient Department Visits (3.9% increase)

Organization Highlights

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

- Attested with the Federal Government as an organization meeting the requirements necessary to be recognized as a meaningful user of an electronic patient medical record
- Integrated with our physician providers through acquisition of the community's primary care clinic formerly known as Family Medicine Associates PC
- Credentialed provider based rural health clinics in three communities: Guttenberg, Edgewood and Garnavillo, d/b/a Cornerstone Family Practice
- Implemented the EPIC system; a fully integrated electronic medical record as an affiliate of UnityPoint Health Community Connect program
- Completed a parking expansion project
- Implemented in-house 24 hour emergency provider coverage
- Achieved recognition for top 100 Hospitals in the nation for HCAPS patient satisfaction scores by "Women's Certified"®
- Fully participated in the Iowa "Hospital Engagement Network" to reduce Hospital acquired conditions and reduce readmissions
- Applied to Medicaid for Medical Home recognition for primary care clinics
- Continued our journey with "Studer" service initiatives and leadership development
- Enrolled as a member of the national program, "Great Places to Work" and completed our initial employee survey
- Advanced our internal use of Team STEPPS program tools and techniques to improve team work and the culture of safety within the organization
- Maintained accreditation through The Joint Commission for the Hospital and the lab

Condensed Financial Statements

Balance Sheets

	2013	2012	2011
Assets			
Current Assets			
Cash and cash equivalents	$ 4,599,605	$ 4,340,936	$ 2,913,956
Investments	629,756	536,039	569,862
Assets limited as to use or restricted	189,456	192,613	191,859
Receivables			
Patient, net of estimated uncollectibles	1,684,338	1,236,411	1,058,607
Estimated third-party payor settlements	23,000	-	88,000
Other	38,840	44,341	59,103
Unconditional promises to give	53,996	113,440	163,159
Supplies	174,873	130,037	129,885
Prepaid expense	333,154	236,576	133,161
Total current assets	7,727,018	6,830,393	5,307,592
Assets Limited as to Use or Restricted	1,129,363	1,102,686	2,633,269
Capital Assets, Net	16,944,842	17,060,215	17,562,559
Other Assets			
Deferred financing costs, net of accumulated amortization	363,547	385,032	339,852
Gift fund investments	1,509,121	1,052,010	886,766
Unconditional promises to give	51,087	100,534	170,243
Member share of 28E organization net assets	45,883	51,937	57,991
Total other assets	1,969,638	1,589,513	1,454,852
Total assets	$ 27,770,861	$ 26,582,807	$ 26,958,272

Condensed Financial Statements

Balance Sheets (continued)

	2013	2012	2011
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	$ 410,639	$ 396,607	$ 245,880
Accounts payable			
Trade	1,094,339	167,241	1,039,627
Estimated third-party payor settlements	-	171,000	-
Accrued expenses	709,890	629,918	596,016
Total current liabilities	2,214,868	1,364,766	1,881,523
Long-Term Debt, Less Current Maturities	16,172,119	16,604,680	17,020,928
Total liabilities	18,386,987	17,969,446	18,902,451
Net Position			
Net investment in capital assets	362,084	127,382	1,887,273
Restricted	1,433,902	1,519,643	1,577,917
Unrestricted	7,587,888	6,966,336	4,590,631
Total net position	9,383,874	8,613,361	8,055,821
Total liabilities and net position	$ 27,770,861	$ 26,582,807	$ 26,958,272

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2013	2012	2011
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 12,043,168	$ 10,573,018	$ 9,089,982
Electronic health records incentive payments	462,636	208,955	-
Other operating revenues	294,304	366,893	437,702
Total Operating Revenues	12,800,108	11,148,866	9,527,684
Operating Expenses			
Salaries and wages	4,778,679	3,767,375	3,444,443
Employee benefits	1,288,237	1,021,210	889,674
Management fees	261,259	258,013	248,538
Supplies and other expenses	3,813,322	3,564,352	3,511,819
Depreciation and amortization	1,563,930	1,303,569	712,270
Insurance	81,548	65,942	66,856
Total Operating Expenses	11,786,975	9,980,461	8,873,600
Operating Income	1,013,133	1,168,405	654,084
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	9,411	7,337	25,202
Investment income	54,412	52,348	54,639
Change in member share of 28E organization net assets	(6,054)	(6,054)	(7,080)
Interest and amortization expense	(809,566)	(998,191)	(383,453)
Build America Bonds Credit	127,396	330,327	110,110
Gain on disposal of capital assets	500	3,204	(353,318)
Net Nonoperating Expenses	(623,901)	(611,029)	(553,900)
Revenues in Excess of Expenses	389,232	557,376	100,184
Capital Grants and Contributions	331,343	38,004	336,316
Change in Unrealized Gains and Losses on Investments	49,938	(37,840)	94,737
Change in Net Position	770,513	557,540	531,237
Net Position, Beginning of Year	8,613,361	8,055,821	7,524,584
Net Position, End of Year	$ 9,383,874	$ 8,613,361	$ 8,055,821

Capital Assets

Capital asset additions primarily reflect IT infrastructure, the electronic medical record and medical equipment technology that supports patient care services.

Long-Term Debt

Guttenberg Municipal Hospital has $16,582,758 in long-term debt for the year ended June 30, 2013, and $17,001,287 in long-term debt for the year ended June 30, 2012.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considers many factors when preparing the fiscal year 2014 budget. Of primary consideration in the 2014 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
- Upcoming Medicaid expansion in Iowa
- Federal budget sequestration mandates related to Meaningful Use Incentive Program, Build America Bonds and Critical Access reimbursement levels
- Third-party payor contracts
- National implementation of the Health Insurance exchanges & their impact on self-pay and receivables
- Staffing benchmarks
- Salary and benefit costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances, especially related to the integration of the electronic health record in the Hospital and ambulatory care offices and telemedicine services
- Medical staff recruitment
- Staff training and development

Summary

The Hospital’s Board of Trustees and Management Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our 144 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
200 Main Street, P.O. Box 550
Guttenberg, IA 52052-0550

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 4,599,605	$ 4,340,936
Investments - Note 3	629,756	536,039
Assets limited as to use or restricted - Note 3	189,456	192,613
Receivables		
Patient, net of estimated uncollectibles of $305,000 in 2013 and $235,000 in 2012	1,684,338	1,236,411
Estimated third-party payor settlements	23,000	-
Other	38,840	44,341
Unconditional promises to give - Note 5	53,996	113,440
Supplies	174,873	130,037
Prepaid expense	333,154	236,576
Total current assets	7,727,018	6,830,393
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted under indenture agreement	1,318,819	1,295,299
Less amount required to meet current obligations	(189,456)	(192,613)
Total assets limited as to use or restricted, excluding current portion	1,129,363	1,102,686
Capital Assets - Note 6		
Capital assets not being depreciated	491,377	408,277
Depreciable capital assets, net of accumulated depreciation	16,453,465	16,651,938
Total capital assets, net	16,944,842	17,060,215
Other Assets		
Deferred financing costs, net of accumulated amortization of $52,357 in 2013 and $30,872 in 2012	363,547	385,032
Gift fund investments - Note 3	1,509,121	1,052,010
Unconditional promises to give - Note 5	51,087	100,534
Member share of 28E organization net assets - Note 15	45,883	51,937
Total other assets	1,969,638	1,589,513
Total assets	$ 27,770,861	$ 26,582,807

See Notes to Financial Statements

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 8	$ 410,639	$ 396,607
Accounts payable		
Trade	1,094,339	167,241
Estimated third-party payor settlements	-	171,000
Accrued expenses		
Salaries and wages	115,608	72,993
Paid time off	354,321	317,228
Interest	189,456	192,613
Property taxes	34,246	35,940
Payroll taxes and other	16,259	11,144
Total current liabilities	2,214,868	1,364,766
Long-Term Debt, Less Current Maturities - Note 8	16,172,119	16,604,680
Total liabilities	18,386,987	17,969,446
Net Position		
Net investment in capital assets	362,084	127,382
Restricted		
Expendable for capital acquisitions	105,083	214,344
Expendable for debt service	1,318,819	1,295,299
Nonexpendable contribution to Community Foundation	10,000	10,000
Unrestricted	7,587,888	6,966,336
Total net position	9,383,874	8,613,361
Total liabilities and net position	$ 27,770,861	$ 26,582,807

Guttenberg Municipal Hospital

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $139,951 in 2013 and $63,002 in 2012) - Note 2	$ 12,043,168	$ 10,573,018
Electronic Health Records incentive payments - Note 12	462,636	208,955
Other operating revenues	294,304	366,893
Total Operating Revenues	12,800,108	11,148,866
Operating Expenses		
Salaries and wages	4,778,679	3,767,375
Employee benefits	1,288,237	1,021,210
Management fees	261,259	258,013
Supplies and other expenses	3,813,322	3,564,352
Depreciation and amortization	1,563,930	1,303,569
Insurance	81,548	65,942
Total Operating Expenses	11,786,975	9,980,461
Operating Income	1,013,133	1,168,405
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	9,411	7,337
Investment income	54,412	52,348
Change in member share of 28E organization net assets	(6,054)	(6,054)
Interest and amortization expense	(809,566)	(998,191)
Build America Bonds Credit - Note 8	127,396	330,327
Gain on disposal of capital assets	500	3,204
Net Nonoperating Expenses	(623,901)	(611,029)
Revenues in Excess of Expenses	389,232	557,376
Capital Grants and Contributions	331,343	38,004
Change in Unrealized Gains and Losses on Investments	49,938	(37,840)
Change in Net Position	770,513	557,540
Net Position Beginning of Year	8,613,361	8,055,821
Net Position End of Year	$ 9,383,874	$ 8,613,361

See Notes to Financial Statements

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 11,401,241	$ 10,654,214
Electronic Health Records incentive payments	462,636	208,955
Other receipts	296,554	381,336
Payments of salaries and wages	(4,698,971)	(3,709,782)
Payments of employee benefits	(1,283,122)	(1,045,469)
Payments of supplies and other expenses	(4,267,651)	(3,958,206)
Net Cash provided by Operating Activities	1,910,687	2,531,048
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions received	9,411	7,337
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(553,045)	(1,719,438)
Restricted contributions received	440,234	157,432
Proceeds from sale of capital assets	500	15,177
Payment of deferred financing costs	-	(68,454)
Payment of interest on debt	(791,238)	(974,163)
Build America Bonds Credit	130,647	330,646
Payment of principal on debt	(418,529)	(265,521)
Net Cash used for Capital and Related Financing Activities	(1,191,431)	(2,524,321)
Cash Flows from Investing Activities		
Increase in gift fund investments	(457,111)	(165,244)
Sale of assets limited as to use or restricted	523,976	252,913
Purchase of assets limited as to use or restricted	(2,133)	(34,753)
Purchase of other investments	(68,480)	21,445
Net investment income received	54,412	52,348
Net Cash provided by Investing Activities	50,664	126,709
Net Increase in Cash and Cash Equivalents	779,331	140,773
Cash and Cash Equivalents at Beginning of Year	6,031,575	5,890,802
Cash and Cash Equivalents at End of Year	$ 6,810,906	$ 6,031,575

	2013	2012
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 4,599,605	$ 4,340,936
Cash and cash equivalents in noncurrent assets	2,211,301	1,690,639
	$ 6,810,906	$ 6,031,575
Reconciliation of Operating Income to Net Cash provided by Operating Activities		
Operating income	$ 1,013,133	$ 1,168,405
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,563,930	1,303,569
Provision for bad debts	139,951	63,002
Changes in assets and liabilities		
Receivables	(585,628)	(226,363)
Supplies	(44,836)	(152)
Prepaid expense	(103,086)	(103,415)
Accounts payable - trade	38,094	33,854
Estimated third-party payor settlements	(194,000)	259,000
Accrued expenses	83,129	33,148
Net Cash provided by Operating Activities	$ 1,910,687	$ 2,531,048
Supplemental Disclosure of Non-cash Investment and Financing Activity		
Accounts payable for property and equipment	$ 889,004	$ -

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.

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 Standard Board criteria.

Basis of Presentation

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, capital lease obligations, and other debt attributable to the acquisition, construction, or improvement of those assets.

- *Restricted net position:*

  Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

  Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Measurement Focus and Basis of Accounting

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

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use or restricted and 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.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rate (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2012 to June 30, 2013. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third party-payors. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2012 or 2013.

Unconditional Promises to Give

Unconditional promises to give are recognized as contributions when the promise is received. Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Supplies

Supplies are stated at lower of average cost or market.

Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside under bond indenture agreements. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

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 position 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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense incurred on borrowed funds during the period of construction of capital assets is capitalized. 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.

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 position.

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 is recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2013 and 2012.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position 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. Nonexchange revenues, including taxes, 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.

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.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital records a provision for bad debts related to uninsured patients in the period the services are provided.

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 approximately $116,000 and $127,000 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, were $88,000 and $92,000, 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.

Investment Income

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

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred $34,060 and $42,234 for advertising costs for the years ended June 30, 2013 and 2012, 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

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.

The Hospital has recognized as revenue the entire Medicare EHR incentive payment it received during the year ended June 30, 2013.

Medicaid

The Medicaid EHR incentive payments 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 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, 2012, 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 position.

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 acute care services at cost plus one percent, less sequestration reductions, 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, 2011. Clinical services are paid on a cost basis or fixed fee schedule.

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, 2010.

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, Blue Cross, and Medicaid programs accounted for approximately 61%, 16%, and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2013, and 58%, 13%, and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2012. 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, 2013, increased approximately $208,000 due to prior-year retroactive adjustments in excess of amounts previously estimated. 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 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, 2013 and 2012, is as follows:

	2013	2012
Total Patient Service Revenue	$ 15,334,590	$ 13,771,683
Contractual Adjustments		
Medicare	(1,109,434)	(1,577,205)
Medicaid	(158,587)	(222,625)
Other	(1,788,303)	(1,220,424)
Administrative Adjustments/Policy Discounts	(95,147)	(115,409)
Total deductions from patient service revenue	(3,151,471)	(3,135,663)
Net Patient Service Revenue	12,183,119	10,636,020
Provision for Bad Debts	(139,951)	(63,002)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 12,043,168	$ 10,573,018

Note 3 - Cash, Cash Equivalents, and Investments

The Hospital's deposits in banks at June 30, 2013 and 2012, 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.

At June 30, 2013 and 2012, the Hospital's carrying amounts of cash, cash equivalents, and investments are as follows:

	2013	2012
Cash and Cash Equivalents	$ 6,810,906	$ 6,031,575
Certificates of Deposit	130,178	129,630
U.S. Government Obligations	488,373	555,158
Fixed Income Securities	40,471	49,549
Equity Securities - Common Stock	572,161	444,165
Beneficial Interest in Net Assets of Community Foundation	13,682	12,043
Interest Receivable	1,530	2,164
	$ 8,057,301	$ 7,224,284
Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	$ 4,599,605	$ 4,340,936
Investments	629,756	536,039
Assets limited as to use or restricted	1,318,819	1,295,299
Gift fund investments	1,509,121	1,052,010
	$ 8,057,301	$ 7,224,284

Net realized gains of $32,169 and $22,158 on the sale of securities available-for-sale were included in investment income on the statement of revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012, 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 $13,682 and $12,043 at June 30, 2013 and 2012, 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 $1,892 and $1,479 at June 30, 2013 and 2012, 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, 2013, the amount to be received in future years from these promises to give consists of the following:

	2013	2012
Amounts Due in:		
Less than one year	$ 61,704	$ 129,344
One to five years	53,379	107,130
More than five years	5,000	7,500
	120,083	243,974
Less:		
Discount (5%)	(8,300)	(16,339)
Allowance for uncollectible amounts	(6,700)	(13,661)
	$ 105,083	$ 213,974

Note 6 - Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012, was as follows:

	June 30, 2012 Balance	Additions	Deductions	Transfers	June 30, 2013 Balance
Capital Assets Not Being Depreciated					
Land	$ 408,277	$ 83,100	$ -	$ -	$ 491,377
Construction in progress	-	1,050,107	-	(1,050,107)	-
Total capital assets not being depreciated	408,277	1,133,207	-	(1,050,107)	491,377
Capital Assets Being Depreciated					
Land improvements	1,070,932	-	-	-	1,070,932
Buildings	16,655,244	8,460	-	-	16,663,704
Equipment	4,083,919	300,382	43,634	1,050,107	5,390,774
Total capital assets being depreciated	21,810,095	308,842	43,634	1,050,107	23,125,410
Less Accumulated Depreciation For:					
Land improvements	375,389	56,611	-	-	432,000
Buildings	2,659,497	859,274	-	-	3,518,771
Equipment	2,123,271	641,537	43,634	-	2,721,174
Total accumulated depreciation	5,158,157	1,557,422	43,634	-	6,671,945
Total Capital Assets Being Depreciated, Net	16,651,938	(1,248,580)	-	1,050,107	16,453,465
Total Capital Assets, Net	$ 17,060,215	$ (115,373)	$ -	$ -	$ 16,944,842

	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

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, 2013 and 2012, was $251,818 and $262,708, respectively.

Minimum future lease payments for operating leases are as follows:

Year Ending June 30,	Amount
2014	$ 250,828
2015	250,828
2016	104,512
Total minimum future lease payments	$ 606,168

Note 8 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2013 and 2012 follows:

	June 30, 2012 Balance	Additions	Payments	June 30, 2013 Balance	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	$ 702,309	$ -	$ 112,666	$ 589,643	$ 95,716
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	428,996	-	58,925	370,071	54,164
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 Page 28.)	6,845,000	-	132,000	6,713,000	140,000
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 Page 28.)	761,000	-	14,000	747,000	16,000

	June 30, 2012 Balance	Additions	Payments	June 30, 2013 Balance	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 Page 28.)	$ 8,263,982	$ -	$ 100,938	$ 8,163,044	$ 104,759
	$ 17,001,287	$ -	$ 418,529	16,582,758	$ 410,639
Less current maturities				(410,639)	
Long-term debt, less current maturities				$ 16,172,119	

	June 30, 2011 Balance	Additions	Payments	June 30, 2012 Balance	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	$ 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 Page 28.)	6,845,000	-	-	6,845,000	132,000

	June 30, 2011 Balance	Additions	Payments	June 30, 2012 Balance	Amounts Due Within One Year
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 Page 28.)	$ 761,000	$ -	$ -	$ 761,000	$ 14,000
USDA Direct Loan Revenue Bonds Payable (Series 2010), Rate 3.75% Due April 1 and Ocober 1, Varying Principal Amounts Due Annually Beginning April 1, 2011, with Final Maturity April 1, 2050. (See Additional Notes on Page 28.)	8,361,223	-	97,241	8,263,982	100,938
	$ 17,266,808	$ -	$ 265,521	17,001,287	$ 396,607
Less current maturities				(396,607)	
Long-term debt, less current maturities				$ 16,604,680	

Long-term debt maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	$ 410,639	$ 773,989	$ 1,184,628
2015	428,298	756,571	1,184,869
2016	446,200	738,304	1,184,504
2017	465,349	719,167	1,184,516
2018	424,422	692,570	1,116,992
2019-2023	2,095,235	3,190,623	5,285,858
2024-2028	2,536,110	2,591,979	5,128,089
2029-2033	3,326,259	1,811,005	5,137,264
2034-2038	2,397,727	899,113	3,296,840
2039-2043	1,403,925	619,251	2,023,176
2044-2048	1,690,519	327,283	2,017,802
2049-2050	958,075	36,196	994,271
	$ 16,582,758	$ 13,156,051	$ 29,738,809

The 2009 Series A Hospital Revenue Bonds have a 90% guarantee from the USDA. The Series A Bonds have a par value of $6,845,000, and the interest rate on the bonds is currently 5.78%.

The 2009 Series B Taxable Hospital Revenue Bonds have a par value of $761,000, with an interest rate of 8.53%. These bonds are not guaranteed by the USDA.

The 2010 USDA Direct Loan Revenue Bonds have an interest rate of 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 2009 Series A Bonds are not eligible for the Build America Bonds credit. The 2009 Series B Bonds and the 2010 USDA Direct Loan Revenue Bonds are eligible for the rebate for the entire term of the bonds. Beginning on April 1, 2013, an IRS sequester payment reduction of 8.7% is being applied against the Build America Bonds credit.

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 5.78% of their annual covered salary, and the Hospital is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. For the year ended June 30, 2012, plan members were required to contribute 5.38% of their annual covered salary, and the Hospital was required to contribute 8.07% of annual covered payroll. 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. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were $406,637, $298,090, and $235,956, 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. 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, 2013 and 2012, was as follows:

	2013	2012
Medicare	45%	35%
Medicaid	5%	6%
Commercial and Other Insurance	32%	39%
Other Third-Party Payors and Patients	18%	20%
	100%	100%

Note 12 - Electronic Health Record Incentive Payments

The Hospital attested as a meaningful user of Electronic Health Records (EHR) during the year ended June 30, 2013. Accordingly, the Hospital received $254,636 as a lump sum incentive payment related to Medicare EHR. The Hospital has recognized the entire incentive payment received as income in the current year as this incentive payment relates to its previous EHR software which was replaced with a new system effective June 1, 2013.

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

The Hospital recognized revenue of approximately $208,000 for the years ended June 30, 2013 and 2012, related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. The total $416,000 represents 80% 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.

Note 13 - New Accounting Pronouncements

Newly Implemented Standards

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity,* which amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments.* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. Statement No. 61 was effective for the Hospital's June 30, 2013, financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* Statement 62 was effective for the Hospital's June 30, 2013, financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. That Statement amends Statement No. 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 was effective for the Hospital's June 30, 2013, financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

Standards Not Yet Implemented

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The Hospital has elected not to implement this Statement early for the year ended June 30, 2013.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The Hospital has not elected to implement these statements early. The Hospital is currently evaluating the impact of these statements on the financial statements when implemented.

Note 14 - 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 15 - 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 16 - Subsequent Events

The Hospital has evaluated subsequent events through September 16, 2013, the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2013

Guttenberg Municipal Hospital

Guttenberg Municipal Hospital

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated Revenues/Receipts	$ 13,372,608	$ (527,035)	$ 12,845,573	$ 13,407,000	$ (561,427)
Expenses/Disbursements	12,602,095	(589,539)	12,012,556	13,056,000	1,043,444
Net	770,513	62,504	833,017	351,000	$ 482,017
Balance Beginning of Year	8,613,361	(1,389,077)	7,224,284	7,224,284	
Balance End of Year	$ 9,383,874	$ (1,326,573)	$ 8,057,301	$ 7,575,284	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences 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, 2013.

For the year ended June 30, 2013, the Hospital's expenditures did not exceed the amount budgeted per the amended budget.

Supplementary Information
June 30, 2013 and 2012

Guttenberg Municipal Hospital

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CPAs & BUSINESS ADVISORS

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, 2013 and 2012, and our report thereon dated September 16, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. Our audits were performed for the purpose of forming an opinion on the financial statements taken 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 schedules of net patient service revenue, other operating revenues, operating expenses, and supplies and prepaid expense are 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.

Eide Bailly LLP

Dubuque, Iowa
September 16, 2013

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	2013	2012
Patient Service Revenue		
Adults and pediatrics	$ 1,537,251	$ 1,701,823
Nursery	48,588	48,848
Swing-bed	391,494	322,682
Operating and recovery rooms	1,120,059	1,192,017
Delivery and labor rooms	67,146	69,456
Central services and supply	548,724	566,638
Emergency services	978,233	840,370
Ambulance services	436,413	355,620
Laboratory	2,914,624	2,443,348
Electrocardiology	386,825	463,047
Radiology	2,295,176	2,349,637
Pharmacy	980,627	1,228,562
Anesthesiology	575,730	626,225
Respiratory therapy	111,077	108,244
Sleep studies	92,084	109,686
Physical therapy	561,611	484,291
Occupational and speech therapy	157,220	125,098
Cardiac rehab	91,779	76,314
Anticoagulation services	131,660	134,232
Surgery clinic	580,204	640,958
Cornerstone Family Practice	1,432,235	-
Nutritional services	1,075	1,476
Diabetes management	10,427	9,709
	15,450,262	13,898,281
Charity care (charges foregone)	(115,672)	(126,598)
Total patient service revenue*	15,334,590	13,771,683
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	3,584,702	3,890,498
Outpatient revenue	11,865,560	10,007,783
Charity care (charges foregone)	(115,672)	(126,598)
Total patient service revenue	15,334,590	13,771,683

	2013	2012
Deductions from Patient Service Revenue		
Contractual adjustments		
Medicare	$ (1,109,434)	$ (1,577,205)
Medicaid	(158,587)	(222,625)
Other	(1,788,303)	(1,220,424)
Administrative adjustments/policy discounts	(95,147)	(115,409)
Total deductions from patient service revenue	(3,151,471)	(3,135,663)
Net Patient Service Revenue	12,183,119	10,636,020
Provision for Bad Debts	(139,951)	(63,002)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 12,043,168	$ 10,573,018

	2013	2012
Other Operating Revenues		
Contracted services	$ 81,509	$ 99,308
Office rent	59,940	107,507
Cafeteria	38,715	38,531
Lab reference services	21,055	40,903
Fitness center memberships	7,417	17,389
Other	85,668	63,255
Total other operating revenues	$ 294,304	$ 366,893

	2013	2012
Routine Nursing Services		
Salaries and wages	$ 989,633	$ 1,000,711
Supplies and other expenses	145,101	131,683
	1,134,734	1,132,394
Nursery		
Salaries and wages	6,215	5,295
Supplies and other expenses	1,706	4,232
	7,921	9,527
Operating and Recovery Rooms		
Salaries and wages	142,376	140,989
Supplies and other expenses	146,932	115,925
	289,308	256,914
Delivery and Labor Rooms		
Salaries and wages	14,216	11,061
Supplies and other expenses	6,625	6,267
	20,841	17,328
Central Services and Supply		
Salaries and wages	37,411	45,851
Supplies and other expenses	90,011	108,059
	127,422	153,910
Emergency Services		
Salaries and wages	357,784	170,022
Supplies and other expenses	202,767	260,721
	560,551	430,743
Ambulance Services		
Salaries and wages	72,947	70,074
Supplies and other expenses	24,922	30,158
	97,869	100,232
Laboratory		
Salaries and wages	317,120	300,651
Supplies and other expenses	413,754	410,140
	730,874	710,791
Electrocardiology		
Salaries and wages	9,204	11,816
Supplies and other expenses	16,072	21,410
	25,276	33,226
Radiology		
Salaries and wages	339,429	316,562
Supplies and other expenses	644,196	514,114
	983,625	830,676

	2013	2012
Pharmacy		
Salaries and wages	$ 31,772	$ 64,792
Supplies and other expenses	305,785	469,910
	337,557	534,702
Anesthesiology		
Salaries and wages	230,243	300,768
Supplies and other expenses	41,455	15,697
	271,698	316,465
Respiratory Therapy		
Salaries and wages	38,193	35,802
Supplies and other expenses	4,246	4,928
	42,439	40,730
Sleep Studies		
Supplies and other expenses	22,110	29,491
Physical Therapy		
Salaries and wages	243,036	200,630
Supplies and other expenses	139,058	110,208
	382,094	310,838
Fitness Center		
Supplies and other expenses	314	709
Business Health		
Salaries and wages	2,081	4,065
Supplies and other expenses	1,642	2,865
	3,723	6,930
Family Resources		
Salaries and wages	22,781	17,986
Supplies and other expenses	11,447	11,636
	34,228	29,622
Cardiac Rehab		
Salaries and wages	9,737	11,975
Supplies and other expenses	1,060	5,563
	10,797	17,538
Surgery Clinic		
Salaries and wages	64,291	63,972
Supplies and other expenses	316,791	335,044
	381,082	399,016

	2013	2012
Cornerstone Family Practice		
Salaries and wages	$ 796,035	$ -
Supplies and other expenses	310,876	-
	1,106,911	-
Medical Records		
Salaries and wages	146,295	138,581
Supplies and other expenses	41,466	48,271
	187,761	186,852
Dietary		
Salaries and wages	86,394	87,377
Supplies and other expenses	73,755	81,909
	160,149	169,286
Plant Operation and Maintenance		
Salaries and wages	75,921	75,810
Supplies and other expenses	341,023	345,186
	416,944	420,996
Housekeeping		
Salaries and wages	52,259	48,851
Supplies and other expenses	14,206	14,988
	66,465	63,839
Laundry and Linen		
Salaries and wages	11,618	15,772
Supplies and other expenses	5,267	4,594
	16,885	20,366
Communications		
Salaries and wages	79,954	74,092
Supplies and other expenses	158,939	85,300
	238,893	159,392
Fiscal Services		
Salaries and wages	264,292	253,837
Supplies and other expenses	118,779	114,395
	383,071	368,232
Administration		
Salaries and wages	308,426	273,750
Management fees	261,259	258,013
Supplies and other expenses	166,556	220,384
	736,241	752,147

	2013	2012
Purchasing		
Salaries and wages	$ 25,086	$ 23,011
Supplies and other expenses	2,640	2,493
	27,726	25,504
Specialty Clinic		
Salaries and wages	3,930	3,272
Supplies and other expenses	2,013	6,467
	5,943	9,739
Medical Office Building		
Supplies and other expenses	31,644	41,260
Diabetes Management		
Supplies and other expenses	10,164	10,345
Unassigned Expenses		
Employee benefits	1,288,237	1,021,210
Depreciation and amortization	1,563,930	1,303,569
Insurance	81,548	65,942
	2,933,715	2,390,721
Total operating expenses	$ 11,786,975	$ 9,980,461

Analysis of Aging

	2013		2012	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 1,419,786	58%	$ 1,087,021	64%
31 to 60 Days	340,396	14%	195,072	12%
61 to 90 Days	208,856	9%	88,095	5%
91 to 180 Days	217,757	9%	100,654	6%
181 Days and Over	251,152	10%	224,789	13%
	2,437,947	100%	1,695,631	100%
Less:				
Allowance for doubtful accounts	(304,909)		(234,684)	
Allowance for contractual adjustments	(448,700)		(224,536)	
Net	$ 1,684,338		$ 1,236,411	

Allowance for Doubtful Accounts

	Years Ended June 30,	
	2013	2012
Balance, Beginning of Year	$ 234,684	$ 261,379
Add:		
Provision for bad debts	139,951	63,002
Recoveries of accounts written off	29,495	19,681
Less:		
Accounts written off	(99,221)	(109,378)
Balance, End of Year	$ 304,909	$ 234,684

Collection Statistics

Net Accounts Receivable - Patients	$ 1,684,338	$ 1,236,411
Number of Days Charges Outstanding (1)	48	40
Uncollectible Accounts (2)	$ 266,615	$ 197,591
Percentage of Uncollectible Accounts to Total Charges	2%	1%

(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
June 30, 2013 and 2012

	2013	2012
Supplies		
Pharmacy	$ 126,374	$ 74,870
Storerooms	42,494	49,765
Dietary	6,005	5,402
	$ 174,873	$ 130,037
Prepaid Expense		
Insurance	$ 115,899	$ 34,106
Other	217,255	202,470
	$ 333,154	$ 236,576

	2013	2012
Patient Days		
Acute		
Adults and pediatrics	1,044	1,378
Newborn	78	81
Swing-bed	749	608
Number of Beds	25	25
Percent of Occupancy (Excluding Newborn)	20%	22%
Discharges		
Acute	300	384
Swing-bed	101	91
Average Length of Stay		
Acute (excluding newborn)	3.48	3.59
Swing-bed	7.42	6.68
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	$ 1,001	$ 962
Semi-private rooms	831	799
Nursery	594	571
Skilled care		
Private rooms	698	671
Semi-private rooms	529	508

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

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited, in accordance with the 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, the financial statements of Guttenberg Municipal Hospital (Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items I-A-13 and I-B-13 to be material weaknesses.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item I-C-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
September 16, 2013

Part I: Findings Related to the Financial Statements:

Material Weaknesses:

I-A-13 Preparation of Financial Statements and Significant Audit Adjustments

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. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements. Also, material adjusting journal entries (related to allowances on patient accounts receivable and estimated third-party payor settlements) were proposed and made to the financial statements during the audit.

Cause – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

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. Interim financial statements may be misstated if material adjusting journal entries are made at year end. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Recommendation – 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. 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 and prevent material adjusting journal entries at year end.

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.

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

I-B-13 Allowance for Contractual Adjustments

Criteria – A detailed calculation should be completed on a monthly basis to estimate allowances on patient accounts receivable. Reviewing allowances for contractual adjustments by payor helps to more accurately estimate necessary allowances and account for changes in payor mix.

Condition – Guttenberg Municipal Hospital completes a monthly calculation of allowances for contractual adjustments for its major payors. However, for the month ended June 30, 2013, allowances were not complete as not all accounts receivable by payor were taken into consideration when computing the necessary allowances.

Cause – Effective June 1, 2013, the Hospital switched its billing software to a new system. All billings after May 31, 2013, are now processed through the new system. As a result, there are currently outstanding accounts receivable in both systems. When calculating allowances as of June 30, 2013, the accounts receivable within the new system was not considered. Allowances on hospital patient accounts receivable were only calculated based on patient accounts receivable remaining in the previous system. Therefore, allowances on patient accounts receivable were understated at June 30, 2013, as determined per our review during the audit.

Effect – A material adjusting journal entry was necessary to properly record allowances for contractual adjustments at June 30, 2013.

Recommendation – We recommend that management not only prepare a monthly calculation that determines necessary allowances for contractual adjustments by payor, but also then reviews allowances at a high level to ensure overall accuracy. Preparing a detailed calculation in conjunction with an overall review of allowances in total will help to more accurately estimate allowances on an interim basis as well as at year end.

Response – Management will complete an overall review of allowances for contractual adjustments in addition to a detailed calculation on a regular basis in order to ensure accuracy in interim and year-end reporting.

Significant Deficiency:

I-C-13 Segregation of Duties

Criteria – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

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.

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

Effect – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. 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. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

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.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 **Certified Budget** – Hospital disbursements during the year ended June 30, 2013, did not exceed the amount budgeted per the amended budget.

II-B-13 **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-13 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

II-D-13 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.

II-E-13 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-13 **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.

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September 16, 2013

The Board of Trustees and Management
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the financial statements of Guttenberg Municipal Hospital (Hospital), for the year ended June 30, 2013, and have issued our report thereon dated September 16, 2013. 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 May 14, 2013. 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. During the year ended June 30, 2013, the Hospital implemented the following new accounting standards:

Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity:* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. The adoption of this Statement did not have a material impact on the financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements:* Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*; however, the adoption of this Statement did not have a material impact on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position:* Statement No. 63 amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of this Statement did not have a material impact on the financial statements.

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 collectability of patient receivables, and the amounts either owed to or receivable from third-party payors.

Collectability of Patient Receivables – Management's estimate of the collectability 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.

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure relates to the recognition of Electronic Health Record revenue as there is limited guidance as to how to account for these incentives. If subsequent guidance is issued, it is possible that the Hospital may have to adjust previously recorded revenue.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following misstatements were detected as a result of our audit procedures and have been corrected by management.

We discussed all adjustments to the financial statements with the Hospital's staff during the audit. The following significant adjustments, including two that are material, were identified during the 2013 audit:

	Increase (Decrease) to Net Position
To adjust estimated third-party payor settlements	$ 504,000
To adjust allowances for doubtful accounts	(49,000)
To adjust contractual allowances on patient accounts receivable	(288,000)

The net effect of these adjustments was to increase net position by $167,000.

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 16, 2013.

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 Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Following are additional comments for informational purposes only:

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The Hospital has elected not to implement this Statement early for the year ended June 30, 2013. Upon adoption of this standard, deferred financing costs will no longer be recorded as an asset on the balance sheet. Deferred financing costs will be required to be expensed as incurred.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

We recommend that the Hospital review these statements and evaluate the impact of these statements on the financial statements when implemented.

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

Eide Bailly LLP

xc: Ms. Kim Gau, CEO