



Financial Statements
June 30, 2014 and 2013

Guttenberg Municipal Hospital

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Guttenberg Municipal Hospital
Board of Trustees and Hospital Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Penny Hansel	Chairperson	Janaury 2016
Bill Allyn	Vice Chairperson	Janaury 2016
Susan Osterhaus	Secretary/Treasurer	Janaury 2018
Doug Reimer	Member	Janaury 2018
Mary Eulberg	Member	Janaury 2016
	<u>Hospital Officials</u>	
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, 2014 and 2013, 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.

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 Guttenberg Municipal Hospital as of June 30, 2014 and 2013, 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

Change in Accounting Principle

As discussed in Note 14 to the financial statements, the Hospital adopted GASB issued Statement No. 65: *Items Previously Reported as Assets and Liabilities*. Accordingly, the 2013 financial statements have been restated to decrease deferred financing costs and decrease previously reported net position. Our opinion is not modified with respect to this matter.

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 18, 2014, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



Dubuque, Iowa
September 18, 2014

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, 2014, 2013, and 2012. 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 it. 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, 2014, indicates total assets of \$29,098,679, total liabilities of \$17,862,968, and net position of \$11,235,711. The Balance Sheet at June 30, 2013, indicates total assets of \$27,407,314, total liabilities of \$18,386,987, and net position of \$9,020,327. The Balance Sheet at June 30, 2012, indicates total assets of \$26,197,775, total liabilities of \$17,969,446, and net position of \$8,228,329.

- The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2014, indicates total operating revenues of \$15,412,787, an increase of 20.4% over the previous fiscal year, total operating expenses of \$13,074,307, an increase of 10.9% over the previous fiscal year, which results in operating income of \$2,338,480, a 230.8% increase from the previous year. Net non-operating expenses of \$178,324 bring revenues in excess of expenses to \$2,160,156 for the year ended June 30, 2014. The Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013 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, a 13.3% decrease from the previous year. Net non-operating expenses of \$602,416 bring revenues in excess of expenses to \$410,717 for the year ended June 30, 2013. The Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2012 indicate total operating revenues of \$11,148,866, an increase of 17.0% over the previous fiscal year, total operating expenses of \$9,980,461, an increase of 12.4% over the previous fiscal year, which results in operating income of \$1,168,405, a 78.6% increase from the previous year. Net non-operating expenses of \$656,209 bring revenues in excess of expenses to \$512,196 for the year ended June 30, 2012.
- The Hospital's current assets exceeded its current liabilities by \$8,600,675 at June 30, 2014, providing a 5.00 current ratio. The Hospital's current assets exceeded its current liabilities by \$5,512,150 at June 30, 2013, providing a 3.49 current ratio. The Hospital's current assets exceeded its current liabilities by \$5,465,627 at June 30, 2012, providing a 5.00 current ratio.
- Gross outpatient charges increased 23.6% during fiscal year 2014 to \$14,674,837.
- Net days in accounts receivable continue to be very favorable at 56 on June 30, 2014.
- Total patient days and visits for the year
 - 780 Acute days (25.2% decrease)
 - 554 days Skilled Nursing Care (26.0% decrease)
 - 22,124 Outpatient Department Visits (3.0% decrease)

Organization Highlights

The Hospital continued to achieve positive outcomes this past 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 meeting the requirements for Stage 1, year 2.
- Expanded our provider mix within the ambulatory clinics by adding a new Family Practice Physician, 2 Nurse Practitioners and a Physician Assistant to Cornerstone Family Practice.
- Introduced changes to prepare for Primary Care Medical Home certification for Cornerstone Family Practice
- Implemented the EPIC system; a fully integrated electronic medical record as an affiliate of UnityPoint
- Achieved recognition from iVantage as top 100 Hospital in the nation as measured by the Hospital Strength Index™
- Recognized by National Rural Health Association as a Top 20 Critical Access Hospital in the nation
- Awarded Press Ganey national award for patient satisfaction; The *Guardian of Excellence* Award for maintaining inpatient satisfaction scores at the 95th percentile throughout the year.
- Fully participated in the Iowa "Hospital Engagement Network" to reduce Hospital acquired conditions and reduce readmissions, achieving reduced patient falls, zero healthcare associated infections, and full compliance with appropriate care measures for chest pain, MI, congestive heart failure and pneumonia.
- Continued our journey with "Studer" service initiatives and leadership development
- Continued to develop and implement action plans related to our employee "Great Places to Work" survey and improved our employee satisfaction 2nd year survey results.

- Achieved Joint Commission Accreditation completing our 3 year survey in the Lab, Hospital and Clinics.
- Began due diligence to research a closer alignment with UnityPoint Health system.

Condensed Financial Statements

Balance Sheets

	2014	2013 (Restated)	2012 (Restated)
Assets			
Current Assets			
Cash and cash equivalents	\$ 6,743,158	\$ 4,599,605	\$ 4,340,936
Investments	765,555	629,756	536,039
Assets limited as to use or restricted	186,104	189,456	192,613
Receivables			
Patient, net of estimated uncollectibles	2,479,414	1,684,338	1,236,411
Estimated third-party payor settlements	-	23,000	-
Other	36,433	38,840	44,341
Unconditional promises to give	44,318	53,996	113,440
Supplies	204,916	174,873	130,037
Prepaid expense	289,182	333,154	236,576
Total current assets	10,749,080	7,727,018	6,830,393
Assets Limited as to Use or Restricted	1,146,175	1,129,363	1,102,686
Capital Assets, Net	15,201,332	16,944,842	17,060,215
Other Assets			
Gift fund investments	1,948,348	1,509,121	1,052,010
Unconditional promises to give	13,915	51,087	100,534
Member share of 28E organization net assets	39,829	45,883	51,937
Total other assets	2,002,092	1,606,091	1,204,481
Total assets	\$ 29,098,679	\$ 27,407,314	\$ 26,197,775

Condensed Financial Statements

Balance Sheets (continued)

	2014	2013	2012
		(Restated)	(Restated)
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 429,772	\$ 410,639	\$ 396,607
Accounts payable			
Trade	251,031	1,094,339	167,241
Estimated third-party payor settlements	743,000	-	171,000
Accrued expenses	724,602	709,890	629,918
Total current liabilities	2,148,405	2,214,868	1,364,766
Long-Term Debt, Less Current Maturities	15,714,563	16,172,119	16,604,680
Total liabilities	17,862,968	18,386,987	17,969,446
Net Position			
Net investment (deficit) in capital assets	(943,003)	362,084	127,382
Restricted	1,421,544	1,433,902	1,519,643
Unrestricted	10,757,170	7,224,341	6,581,304
Total net position	11,235,711	9,020,327	8,228,329
Total liabilities and net position	\$ 29,098,679	\$ 27,407,314	\$ 26,197,775

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2014	2013	2012
Operating Revenues		(Restated)	(Restated)
Net patient service revenue (net of provision for bad debts)	\$ 13,883,624	\$ 12,043,168	\$ 10,573,018
Other operating revenues	1,529,163	756,940	575,848
Total Operating Revenues	<u>15,412,787</u>	<u>12,800,108</u>	<u>11,148,866</u>
Operating Expenses			
Salaries and wages	5,619,848	4,778,679	3,767,375
Employee benefits	1,525,548	1,288,237	1,021,210
Management fees	284,968	261,259	258,013
Supplies and other expenses	3,791,714	3,813,322	3,564,352
Depreciation and amortization	1,748,503	1,563,930	1,303,569
Insurance	103,726	81,548	65,942
Total Operating Expenses	<u>13,074,307</u>	<u>11,786,975</u>	<u>9,980,461</u>
Operating Income	<u>2,338,480</u>	<u>1,013,133</u>	<u>1,168,405</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	361,800	9,411	7,337
Investment income	118,910	54,412	52,348
Change in member share of 28E organization net assets	(6,054)	(6,054)	(6,054)
Interest and amortization expense	(768,851)	(788,081)	(1,043,371)
Build America Bonds Credit	113,769	127,396	330,327
Gain on disposal of capital assets	2,102	500	3,204
Net Nonoperating Expenses	<u>(178,324)</u>	<u>(602,416)</u>	<u>(656,209)</u>
Revenues in Excess of Expenses	2,160,156	410,717	512,196
Capital Grants and Contributions	21,032	331,343	38,004
Change in Unrealized Gains and Losses on Investments	<u>34,196</u>	<u>49,938</u>	<u>(37,840)</u>
Change in Net Position	2,215,384	791,998	512,360
Net Position, Beginning of Year	<u>9,020,327</u>	<u>8,228,329</u>	<u>7,715,969</u>
Net Position, End of Year	<u>\$ 11,235,711</u>	<u>\$ 9,020,327</u>	<u>\$ 8,228,329</u>

Capital Assets

Current year capital asset additions included a laparoscopic camera and accessories for \$19,000, a cardiac monitor and defibrillator for \$14,000, and an ophthalmology chair and lamp for \$17,000.

Long-Term Debt

Guttenberg Municipal Hospital has \$16,144,335 in long-term debt for the year ended June 30, 2014, and \$16,582,758 in long-term debt for the year ended June 30, 2013. The existing debt was incurred primarily to build the current Hospital building.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considers many factors when preparing the fiscal year 2015 budget. Of primary consideration in the 2015 budget are the unknowns of health care reform, continued economic conditions in Clayton County and the impact of a closer alignment with UnityPoint Health. Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Insurance Exchange market and emerging insurance products
- Federal budget sequestration mandates related to Meaningful Use Incentive Program, Build America Bonds and Critical Access reimbursement levels
- 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, 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 all of our employees provide 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

Assets	2014	2013 (Restated)
Current Assets		
Cash and cash equivalents- Note 3	\$ 6,743,158	\$ 4,599,605
Investments - Note 3	765,555	629,756
Assets limited as to use or restricted - Note 3	186,104	189,456
Receivables		
Patient, net of estimated uncollectibles of \$425,000 in 2014 and \$305,000 in 2013	2,479,414	1,684,338
Estimated third-party payor settlements	-	23,000
Other	36,433	38,840
Unconditional promises to give - Note 5	44,318	53,996
Supplies	204,916	174,873
Prepaid expense	289,182	333,154
Total current assets	10,749,080	7,727,018
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted under indenture agreement	1,332,279	1,318,819
Less amount required to meet current obligations	(186,104)	(189,456)
Total assets limited as to use or restricted, excluding current portion	1,146,175	1,129,363
Capital Assets - Note 6		
Capital assets not being depreciated	491,377	491,377
Depreciable capital assets, net of accumulated depreciation	14,709,955	16,453,465
Total capital assets, net	15,201,332	16,944,842
Other Assets		
Gift fund investments - Note 3	1,948,348	1,509,121
Unconditional promises to give - Note 5	13,915	51,087
Member share of 28E organization net assets - Note 15	39,829	45,883
Total other assets	2,002,092	1,606,091
Total assets	\$ 29,098,679	\$ 27,407,314

See Notes to Financial Statements

Guttenberg Municipal Hospital
Balance Sheets
June 30, 2014 and 2013

	2014	2013 (Restated)
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 8	\$ 429,772	\$ 410,639
Accounts payable		
Trade	251,031	1,094,339
Estimated third-party payor settlements	743,000	-
Accrued expenses		
Salaries and wages	154,824	115,608
Paid time off	361,744	354,321
Interest	186,104	189,456
Property taxes	-	34,246
Payroll taxes and other	21,930	16,259
Total current liabilities	2,148,405	2,214,868
Long-Term Debt, Less Current Maturities - Note 8	15,714,563	16,172,119
Total liabilities	17,862,968	18,386,987
Net Position		
Net investment (deficit) in capital assets	(943,003)	362,084
Restricted		
Expendable for capital acquisitions	79,265	105,083
Expendable for debt service	1,332,279	1,318,819
Nonexpendable contribution to Community Foundation	10,000	10,000
Unrestricted	10,757,170	7,224,341
Total net position	11,235,711	9,020,327
Total liabilities and net position	\$ 29,098,679	\$ 27,407,314

Guttenberg Municipal Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$116,848 in 2014 and \$139,951 in 2013) - Note 2	\$ 13,883,624	\$ 12,043,168
Other operating revenues	1,529,163	756,940
Total Operating Revenues	15,412,787	12,800,108
Operating Expenses		
Salaries and wages	5,619,848	4,778,679
Employee benefits	1,525,548	1,288,237
Management fees	284,968	261,259
Supplies and other expenses	3,791,714	3,813,322
Depreciation and amortization	1,748,503	1,563,930
Insurance	103,726	81,548
Total Operating Expenses	13,074,307	11,786,975
Operating Income	2,338,480	1,013,133
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	361,800	9,411
Investment income	118,910	54,412
Change in member share of 28E organization net assets	(6,054)	(6,054)
Interest and amortization expense	(768,851)	(788,081)
Build America Bonds Credit - Note 8	113,769	127,396
Gain on disposal of capital assets	2,102	500
Net Nonoperating Expenses	(178,324)	(602,416)
Revenues in Excess of Expenses	2,160,156	410,717
Capital Grants and Contributions	21,032	331,343
Change in Unrealized Gains and Losses on Investments	34,196	49,938
Change in Net Position	2,215,384	791,998
Net Position Beginning of Year	9,020,327	8,228,329
Net Position End of Year	\$ 11,235,711	\$ 9,020,327

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
Operating Activities		
Receipts of patient service revenue	\$ 13,854,548	\$ 11,401,241
Electronic Health Records incentive payments	1,245,926	462,636
Other receipts	285,700	296,554
Payments of salaries and wages	(5,573,209)	(4,698,971)
Payments of employee benefits	(1,519,877)	(1,283,122)
Payments of supplies and other expenses	(4,981,267)	(4,267,651)
Net Cash provided by Operating Activities	3,311,821	1,910,687
Noncapital Financing Activities		
Noncapital grants and contributions received	361,800	9,411
Capital and Related Financing Activities		
Purchase of capital assets	(67,700)	(553,045)
Restricted contributions received	67,882	440,234
Proceeds from sale of capital assets	2,043	500
Payment of interest on debt	(772,203)	(791,238)
Build America Bonds Credit	113,713	130,647
Payment of principal on debt	(438,423)	(418,529)
Net Cash used for Capital and Related Financing Activities	(1,094,688)	(1,191,431)
Investing Activities		
Increase in gift fund investments	(439,227)	(457,111)
Sale of assets limited as to use or restricted	454,519	523,976
Purchase of assets limited as to use or restricted	(8,335)	(2,133)
Purchase of other investments	(89,082)	(68,480)
Net investment income received	118,910	54,412
Net Cash provided by Investing Activities	36,785	50,664
Net Increase in Cash and Cash Equivalents	2,615,718	779,331
Cash and Cash Equivalents at Beginning of Year	6,810,906	6,031,575
Cash and Cash Equivalents at End of Year	\$ 9,426,624	\$ 6,810,906

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 6,743,158	\$ 4,599,605
Cash and cash equivalents in noncurrent assets	2,683,466	2,211,301
	\$ 9,426,624	\$ 6,810,906
 Reconciliation of Operating Income to Net Cash provided by Operating Activities		
Operating income	\$ 2,338,480	\$ 1,013,133
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,748,503	1,563,930
Provision for bad debts	116,848	139,951
Changes in assets and liabilities		
Receivables	(909,461)	(585,628)
Supplies	(30,043)	(44,836)
Prepaid expense	32,815	(103,086)
Accounts payable - trade	(769,385)	38,094
Estimated third-party payor settlements	766,000	(194,000)
Accrued expenses	18,064	83,129
Net Cash provided by Operating Activities	\$ 3,311,821	\$ 1,910,687
 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 (deficit) 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.

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with 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, 2013 to June 30, 2014. 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 2013 or 2014.

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

Financing Costs

Financing costs are expensed as incurred.

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, 2014 and 2013.

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 \$187,000 and \$116,000 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, were \$125,000 and \$88,000, 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 \$43,579 and \$34,060 for advertising costs for the years ended June 30, 2014 and 2013, 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 years ended June 30, 2014 and 2013. These incentive payments are included in other operating revenue in the accompanying financial statements.

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.

Change in Accounting Principle

Beginning in fiscal year 2013, the Hospital implemented GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. As a result of implementing this statement, the Hospital restated beginning net position to write-off deferred financing costs as required by this Statement (see Note 14).

Reclassifications

Reclassifications have been made to the June 30, 2013, 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 1%, less 2% sequestration, 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, 2012. 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, 2011.

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 53%, 18%, and 9%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2014, and 61%, 16%, and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2013. 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, 2014, increased approximately \$315,000 due to prior-year retroactive adjustments in excess of amounts previously estimated. 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 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, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Total Patient Service Revenue	\$ 18,119,683	\$ 15,334,590
Deductions from Patient Service Revenue		
Contractual adjustments	(3,952,937)	(3,056,324)
Administrative adjustments/policy discounts	<u>(166,274)</u>	<u>(95,147)</u>
Total deductions from patient service revenue	<u>(4,119,211)</u>	<u>(3,151,471)</u>
Net Patient Service Revenue	14,000,472	12,183,119
Provision for Bad Debts	<u>(116,848)</u>	<u>(139,951)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u>\$ 13,883,624</u>	<u>\$ 12,043,168</u>

Note 3 - Cash, Cash Equivalents, and Investments

The Hospital's deposits in banks at June 30, 2014 and 2013, 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, 2014 and 2013, the Hospital's carrying amounts of cash, cash equivalents, and investments are as follows:

	2014	2013
Cash and Cash Equivalents	\$ 9,426,624	\$ 6,810,906
Certificates of Deposit	130,605	130,178
U.S. Government Obligations	478,231	488,373
Fixed Income Securities	50,218	40,471
Equity Securities - Common Stock	686,305	572,161
Beneficial Interest in Net Assets of Community Foundation	16,501	13,682
Interest Receivable	854	1,530
	\$ 10,789,338	\$ 8,057,301
 Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	\$ 6,743,158	\$ 4,599,605
Investments	765,555	629,756
Assets limited as to use or restricted	1,332,279	1,318,819
Gift fund investments	1,948,348	1,509,121
	\$ 10,789,340	\$ 8,057,301

At June 30, 2014 and 2013, the Hospital had the following investments in U.S. Government obligations, fixed income securities, and equity securities – common stock. The Hospital’s investments in U.S. Government obligations were rated AA+ by Standard & Poor’s.

June 30, 2014

<u>Investment Type</u>	Carrying Amount	<u>Investment Maturities (in Years)</u>	
		Less Than 1	1-5
U.S. Government Obligations	\$ 478,231	\$ 146,689	\$ 331,542
Bond Funds	50,218	50,218	-
Equity Securities - Common Stock	686,305	686,305	-
Total	<u>\$ 1,214,754</u>	<u>\$ 883,212</u>	<u>\$ 331,542</u>

June 30, 2013

<u>Investment Type</u>	Carrying Amount	<u>Investment Maturities (in Years)</u>	
		Less Than 1	1-5
U.S. Government Obligations	\$ 488,373	\$ -	\$ 488,373
Bond Funds	40,471	40,471	-
Equity Securities - Common Stock	572,161	572,161	-
Total	<u>\$ 1,101,005</u>	<u>\$ 612,632</u>	<u>\$ 488,373</u>

Net realized gains of \$98,277 and \$32,169 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, 2014 and 2013, 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 \$16,501 and \$13,682 at June 30, 2014 and 2013, 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 \$2,921 and \$1,892 at June 30, 2014 and 2013, 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, 2014 and 2013, the amount to be received in future years from these promises to give consists of the following:

	2014	2013
Amounts Due in:		
Less than one year	\$ 47,233	\$ 61,704
One to five years	12,500	53,379
More than five years	2,500	5,000
	62,233	120,083
Less:		
Discount (5%)	(4,000)	(8,300)
Allowance for uncollectible amounts	-	(6,700)
	\$ 58,233	\$ 105,083

Note 6 - Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013, was as follows:

	June 30, 2013 Balance	Additions	Deductions	Transfers	June 30, 2014 Balance
Capital Assets Not Being Depreciated					
Land	\$ 491,377	\$ -	\$ -	\$ -	\$ 491,377
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>491,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>491,377</u>
Capital Assets Being Depreciated					
Land improvements	1,070,932	17,772	-	-	1,088,704
Buildings	16,663,704	-	-	-	16,663,704
Equipment	5,390,774	49,928	181,368	-	5,259,334
Total capital assets being depreciated	<u>23,125,410</u>	<u>67,700</u>	<u>181,368</u>	<u>-</u>	<u>23,011,742</u>
Less Accumulated Depreciation					
For:					
Land improvements	432,000	57,174	-	-	489,174
Buildings	3,518,771	854,541	-	-	4,373,312
Equipment	2,721,174	825,573	107,446	-	3,439,301
Total accumulated depreciation	<u>6,671,945</u>	<u>1,737,288</u>	<u>107,446</u>	<u>-</u>	<u>8,301,787</u>
Total Capital Assets Being Depreciated, Net	<u>16,453,465</u>	<u>(1,669,588)</u>	<u>73,922</u>	<u>-</u>	<u>14,709,955</u>
Total Capital Assets, Net	<u>\$ 16,944,842</u>	<u>\$ (1,669,588)</u>	<u>\$ 73,922</u>	<u>\$ -</u>	<u>\$ 15,201,332</u>

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2014 and 2013

	June 30, 2012				June 30, 2013
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
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	<u>408,277</u>	<u>1,133,207</u>	<u>-</u>	<u>(1,050,107)</u>	<u>491,377</u>
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	<u>21,810,095</u>	<u>308,842</u>	<u>43,634</u>	<u>1,050,107</u>	<u>23,125,410</u>
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	<u>5,158,157</u>	<u>1,557,422</u>	<u>43,634</u>	<u>-</u>	<u>6,671,945</u>
Total Capital Assets Being Depreciated, Net	<u>16,651,938</u>	<u>(1,248,580)</u>	<u>-</u>	<u>1,050,107</u>	<u>16,453,465</u>
Total Capital Assets, Net	<u>\$ 17,060,215</u>	<u>\$ (115,373)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,944,842</u>

Note 7 - Leases

The Hospital leases certain equipment under noncancellable long-term lease agreements. The leases have been recorded as operating leases. Total equipment rental expense for the operating leases for the years ended June 30, 2014 and 2013, was \$263,621 and \$251,818, respectively.

Minimum future lease payments for operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 264,784
2016	118,468
2017	<u>2,326</u>
Total minimum future lease payments	<u>\$ 385,578</u>

Note 8 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2014 and 2013 follows:

	June 30, 2013 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2014 <u>Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds Payable, Variable Rate Currently 2.23%, Due in Varying Monthly Installments Currently \$9,572, Including Interest to April 2019, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 589,643	\$ -	\$ 115,932	\$ 473,711	\$ 99,153
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	370,071	-	61,037	309,034	55,895
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 29.)	6,713,000	-	140,000	6,573,000	149,000
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 29.)	747,000	-	16,000	731,000	17,000

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2014 and 2013

	June 30, 2013 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2014 <u>Balance</u>	Amounts Due Within One Year
USDA Direct Loan Revenue					
Bonds Payable (Series 2010), Rate 3.75% Due April 1 and October 1, Varying Principal Amounts Due Annually Beginning April 1, 2011, with Final Maturity April 1, 2050. (See Additional Notes on Page 29.)	\$ 8,163,044	\$ -	\$ 105,454	\$ 8,057,590	\$ 108,724
	<u>\$ 16,582,758</u>	<u>\$ -</u>	<u>\$ 438,423</u>	16,144,335	<u>\$ 429,772</u>
Less current maturities				<u>(429,772)</u>	
Long-term debt, less current maturities				<u>\$ 15,714,563</u>	
	June 30, 2012 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2013 <u>Balance</u>	Amounts Due Within One Year
Revenue Bonds Payable, Variable Rate Currently 2.23%, Due in Varying Monthly Installments Currently \$9,572, Including Interest to April 2019, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 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

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2014 and 2013

	<u>June 30, 2012 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2013 Balance</u>	<u>Amounts Due Within One Year</u>
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 29.)	\$ 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 29.)	761,000	-	14,000	747,000	16,000
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 29.)	<u>8,263,982</u>	<u>-</u>	<u>100,938</u>	<u>8,163,044</u>	<u>104,759</u>
	<u>\$ 17,001,287</u>	<u>\$ -</u>	<u>\$ 418,529</u>	16,582,758	<u>\$ 410,639</u>
Less current maturities				<u>(410,639)</u>	
Long-term debt, less current maturities				<u>\$ 16,172,119</u>	

Long-term debt maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	429,772	755,099	1,184,871
2016	447,514	736,989	1,184,503
2017	466,500	718,018	1,184,518
2018	486,735	698,105	1,184,840
2019	465,336	677,267	1,142,603
2020-2024	2,067,311	3,077,018	5,144,329
2025-2029	2,692,194	2,452,844	5,145,038
2030-2034	4,198,561	1,606,230	5,804,791
2035-2039	1,232,737	816,763	2,049,500
2040-2044	1,484,386	565,114	2,049,500
2045-2049	1,787,405	262,095	2,049,500
2050	385,884	10,820	396,704
	<u>\$ 16,144,335</u>	<u>\$ 12,376,362</u>	<u>\$ 28,520,697</u>

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 7.2% 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 5.95% of their annual covered salary, and the Hospital is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. For the year ended June 30, 2013, plan members were required to contribute 5.78% of their annual covered salary, and the Hospital was required to contribute 8.67% of annual covered payroll. 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. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$498,259, \$406,637, and \$298,090, respectively, equal to the required contributions for each year.

Note 10 - Contingencies

Malpractice Insurance

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

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 11 - 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 12 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2014 and 2013, was as follows:

	2014	2013
Medicare	35%	45%
Medicaid	5%	5%
Commercial and Other Insurance	38%	32%
Other Third-Party Payors and Patients	22%	18%
	100%	100%

Note 13 - Electronic Health Record Incentive Payments

The Hospital attested as a meaningful user of Electronic Health Records (EHR). Accordingly, the Hospital received \$1,141,926 and \$254,636 in Medicare EHR for the years ended June 30, 2014 and 2013. The Hospital recognizes incentive payments as income in the year received.

The Hospital recognized revenue of approximately \$104,000, and \$208,000 for the years ended June 30, 2014 and 2013, related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. The Hospital has received a total of \$520,000 of Medicaid EHR incentive to date. This represents 100% of the potential benefit to be received from the State of Iowa Medicaid program.

Note 14 - New Accounting Pronouncements

Change in Accounting Principle

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65: *Items Previously Reported as Assets and Liabilities*. This standard 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. This standard was implemented by the Hospital during the year ended June 30, 2014. GASB 65 requires retroactive application by restating financial statements for all periods presented.

The provisions of GASB 65 require that debt issuance costs (deferred financing costs) be recognized as an outflow of resources (expense) in the period incurred. The implementation resulted in the removal of previously recognized deferred financing costs of \$385,032. The total amount of these costs written off resulted in a decrease of \$385,032 to beginning net position as of July 1, 2012. Interest and amortization expense in the year ended June 30, 2013 decreased by \$21,485.

The following shows the effect of the change on beginning net position for the year ended June 30, 2013:

Beginning Net Position	\$ 8,613,361
Deferred Financing Costs	(385,032)
Restated Beginning Net Position	\$ 8,228,329

The following shows the restated net position as of June 30, 2013:

Net Position, End of Year, as Previously Reported	\$ 9,383,874
Impact of Accounting Change	<u>(363,547)</u>
Restated Beginning Net Position	<u>\$ 9,020,327</u>

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 18, 2014, the date which the financial statements were available to be issued.



Required Supplementary Information
June 30, 2014

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, 2014

	<u>Actual Accrual Basis</u>	<u>Accrual Adjustments</u>	<u>Actual Cash Basis</u>	<u>Adopted Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Estimated Revenues/Receipts	\$ 16,062,494	\$ 22,224	\$ 16,084,718	\$ 16,361,000	\$ (276,282)
Expenses/Disbursements	<u>13,847,110</u>	<u>(494,431)</u>	<u>13,352,679</u>	<u>16,361,000</u>	<u>3,008,321</u>
Net	2,215,384	516,655	2,732,039	-	<u>\$ 2,732,039</u>
Balance Beginning of Year	<u>9,020,327</u>	<u>(963,026)</u>	<u>8,057,301</u>	<u>7,575,284</u>	
Balance End of Year	<u>\$ 11,235,711</u>	<u>\$ (446,371)</u>	<u>\$ 10,789,340</u>	<u>\$ 7,575,284</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary 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 not amended during the year ended June 30, 2014.



Supplementary Information
June 30, 2014 and 2013

Guttenberg Municipal Hospital



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Guttenberg Municipal Hospital
Guttenberg, Iowa

We have audited the financial statements of Guttenberg Municipal Hospital (Hospital) as of and for the years ended June 30, 2014 and 2013, and our report thereon dated September 18, 2014, 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.

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

Dubuque, Iowa
September 18, 2014

Guttenberg Municipal Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	2014	2013
Patient Service Revenue		
Adults and pediatrics	\$ 1,705,332	\$ 1,512,388
Nursery	45,517	48,588
Swing-bed	415,386	416,357
Operating and recovery rooms	1,061,336	1,120,059
Delivery and labor rooms	63,794	67,146
Central services and supply	364,479	548,724
Emergency services	1,456,672	978,233
Ambulance services	418,102	436,413
Laboratory	3,046,581	2,914,624
Electrocardiology	195,707	386,825
Radiology	3,188,967	2,295,176
Pharmacy	1,382,433	980,627
Anesthesiology	518,221	575,730
Respiratory therapy	90,102	111,077
Sleep studies	78,514	92,084
Physical therapy	713,624	561,611
Occupational and speech therapy	158,584	157,220
Cardiac rehab	101,937	91,779
Anticoagulation services	155,940	131,660
Surgery clinic	490,277	580,204
Cornerstone Family Practice	2,644,348	1,432,235
Nutritional services	582	1,075
Diabetes management	10,319	10,427
	18,306,754	15,450,262
Charity care (charges foregone)	(187,071)	(115,672)
	18,119,683	15,334,590
Total patient service revenue*		
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	3,631,917	3,584,702
Outpatient revenue	14,674,837	11,865,560
Charity care (charges foregone)	(187,071)	(115,672)
	18,119,683	15,334,590
Total patient service revenue		

Guttenberg Municipal Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Deductions from Patient Service Revenue		
Contractual adjustments	\$ (3,952,937)	\$ (3,056,324)
Administrative adjustments/policy discounts	<u>(166,274)</u>	<u>(95,147)</u>
Total deductions from patient service revenue	<u>(4,119,211)</u>	<u>(3,151,471)</u>
Net Patient Service Revenue	14,000,472	12,183,119
Provision for Bad Debts	<u>(116,848)</u>	<u>(139,951)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u><u>\$ 13,883,624</u></u>	<u><u>\$ 12,043,168</u></u>

Guttenberg Municipal Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2014 and 2013

	2014	2013
Other Operating Revenues		
Electronic health records	\$ 1,245,926	\$ 462,636
Contracted services	83,484	81,509
Cafeteria	38,495	38,715
Office rent	20,129	59,940
Lab reference services	15,906	21,055
Fitness center memberships	1,611	7,417
Other	123,612	85,668
Total other operating revenues	\$ 1,529,163	\$ 756,940

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Routine Nursing Services		
Salaries and wages	\$ 933,139	\$ 989,633
Supplies and other expenses	103,179	145,101
	<u>1,036,318</u>	<u>1,134,734</u>
Nursery		
Salaries and wages	2,803	6,215
Supplies and other expenses	2,641	1,706
	<u>5,444</u>	<u>7,921</u>
Operating and Recovery Rooms		
Salaries and wages	142,010	142,376
Supplies and other expenses	108,026	146,932
	<u>250,036</u>	<u>289,308</u>
Delivery and Labor Rooms		
Salaries and wages	6,748	14,216
Supplies and other expenses	4,602	6,625
	<u>11,350</u>	<u>20,841</u>
Central Services and Supply		
Salaries and wages	33,470	37,411
Supplies and other expenses	69,388	90,011
	<u>102,858</u>	<u>127,422</u>
Emergency Services		
Salaries and wages	542,884	357,784
Supplies and other expenses	41,459	202,767
	<u>584,343</u>	<u>560,551</u>
Ambulance Services		
Salaries and wages	77,452	72,947
Supplies and other expenses	28,270	24,922
	<u>105,722</u>	<u>97,869</u>
Laboratory		
Salaries and wages	324,742	317,120
Supplies and other expenses	447,729	413,754
	<u>772,471</u>	<u>730,874</u>
Electrocardiology		
Salaries and wages	5,243	9,204
Supplies and other expenses	1,497	16,072
	<u>6,740</u>	<u>25,276</u>
Radiology		
Salaries and wages	346,110	339,429
Supplies and other expenses	660,818	644,196
	<u>1,006,928</u>	<u>983,625</u>

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Pharmacy		
Salaries and wages	\$ 28,463	\$ 31,772
Supplies and other expenses	323,886	305,785
	<u>352,349</u>	<u>337,557</u>
Anesthesiology		
Salaries and wages	241,958	230,243
Supplies and other expenses	53,341	41,455
	<u>295,299</u>	<u>271,698</u>
Respiratory Therapy		
Salaries and wages	36,847	38,193
Supplies and other expenses	2,486	4,246
	<u>39,333</u>	<u>42,439</u>
Sleep Studies		
Supplies and other expenses	21,313	22,110
	<u>21,313</u>	<u>22,110</u>
Physical Therapy		
Salaries and wages	283,231	243,036
Supplies and other expenses	119,492	139,058
	<u>402,723</u>	<u>382,094</u>
Fitness Center		
Supplies and other expenses	-	314
	<u>-</u>	<u>314</u>
Business Health		
Salaries and wages	1,961	2,081
Supplies and other expenses	1,471	1,642
	<u>3,432</u>	<u>3,723</u>
Family Resources		
Salaries and wages	21,098	22,781
Supplies and other expenses	17,913	11,447
	<u>39,011</u>	<u>34,228</u>
Cardiac Rehab		
Salaries and wages	14,596	9,737
Supplies and other expenses	2,664	1,060
	<u>17,260</u>	<u>10,797</u>
Surgery Clinic		
Salaries and wages	68,900	64,291
Supplies and other expenses	313,694	316,791
	<u>382,594</u>	<u>381,082</u>

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Cornerstone Family Practice		
Salaries and wages	\$ 1,462,525	\$ 796,035
Supplies and other expenses	315,956	310,876
	<u>1,778,481</u>	<u>1,106,911</u>
Medical Records		
Salaries and wages	131,602	146,295
Supplies and other expenses	50,174	41,466
	<u>181,776</u>	<u>187,761</u>
Dietary		
Salaries and wages	83,335	86,394
Supplies and other expenses	70,625	73,755
	<u>153,960</u>	<u>160,149</u>
Plant Operation and Maintenance		
Salaries and wages	77,243	75,921
Supplies and other expenses	347,648	341,023
	<u>424,891</u>	<u>416,944</u>
Housekeeping		
Salaries and wages	54,257	52,259
Supplies and other expenses	13,758	14,206
	<u>68,015</u>	<u>66,465</u>
Laundry and Linen		
Salaries and wages	9,617	11,618
Supplies and other expenses	4,824	5,267
	<u>14,441</u>	<u>16,885</u>
Communications		
Salaries and wages	105,733	79,954
Supplies and other expenses	318,597	158,939
	<u>424,330</u>	<u>238,893</u>
Fiscal Services		
Salaries and wages	267,151	264,292
Supplies and other expenses	116,005	118,779
	<u>383,156</u>	<u>383,071</u>
Administration		
Salaries and wages	289,146	308,426
Management fees	284,968	261,259
Supplies and other expenses	216,992	166,556
	<u>791,106</u>	<u>736,241</u>

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Purchasing		
Salaries and wages	\$ 23,529	\$ 25,086
Supplies and other expenses	3,619	2,640
	27,148	27,726
Specialty Clinic		
Salaries and wages	4,055	3,930
Supplies and other expenses	581	2,013
	4,636	5,943
Medical Office Building		
Supplies and other expenses	-	31,644
Diabetes Management		
Supplies and other expenses	9,066	10,164
Unassigned Expenses		
Employee benefits	1,525,548	1,288,237
Depreciation and amortization	1,748,503	1,563,930
Insurance	103,726	81,548
	3,377,777	2,933,715
Total operating expenses	\$ 13,074,307	\$ 11,786,975

Guttenberg Municipal Hospital

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)
June 30, 2014 and 2013

Analysis of Aging

Days Since Discharge	2014		2013	
	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	\$ 1,950,695	61%	\$ 1,419,786	58%
31 to 60 Days	393,697	12%	340,396	14%
61 to 90 Days	231,435	7%	208,856	9%
91 to 180 Days	271,660	8%	217,757	9%
181 Days and Over	396,819	12%	251,152	10%
	<u>3,244,306</u>	<u>100%</u>	<u>2,437,947</u>	<u>100%</u>
Less:				
Allowance for doubtful accounts	(425,210)		(304,909)	
Allowance for contractual adjustments	(339,682)		(448,700)	
Net	<u>\$ 2,479,414</u>		<u>\$ 1,684,338</u>	

Allowance for Doubtful Accounts

	Years Ended June 30,	
	2014	2013
Balance, Beginning of Year	\$ 304,909	\$ 234,684
Add:		
Provision for bad debts	116,848	139,951
Recoveries of accounts written off	19,079	29,495
Less:		
Accounts written off	(15,626)	(99,221)
Balance, End of Year	<u>\$ 425,210</u>	<u>\$ 304,909</u>

Collection Statistics

Net Accounts Receivable - Patients	\$ 2,479,414	\$ 1,684,338
Number of Days Charges Outstanding (1)	56	48
Uncollectible Accounts (2)	\$ 306,359	\$ 266,615
Percentage of Uncollectible Accounts to Total Charges	2%	2%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

Guttenberg Municipal Hospital
Schedules of Supplies and Prepaid Expense
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Supplies		
Pharmacy	\$ 156,077	\$ 126,374
Storerooms	40,999	42,494
Dietary	<u>7,840</u>	<u>6,005</u>
	<u>\$ 204,916</u>	<u>\$ 174,873</u>
 Prepaid Expense		
Insurance	\$ 110,598	\$ 115,899
Other	<u>178,584</u>	<u>217,255</u>
	<u>\$ 289,182</u>	<u>\$ 333,154</u>

Guttenberg Municipal Hospital
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2014 and 2013

	2014	2013
Patient Days		
Acute		
Adults and pediatrics	780	1,044
Newborn	60	78
Swing-bed	554	749
Number of Beds	25	25
Percent of Occupancy (Excluding Newborn)	15%	20%
Discharges		
Acute	239	300
Swing-bed	69	101
Average Length of Stay		
Acute (excluding newborn)	3.26	3.48
Swing-bed	8.03	7.42
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 1,169	\$ 1,001
Semi-private rooms	1,010	831
Nursery	876	594
Skilled care		
Private rooms	726	698
Semi-private rooms	550	529



**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 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2014.

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 first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a material weakness 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 deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2014-A to be a material weakness.

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 in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2014-B 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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.



Dubuque, Iowa
September 18, 2014

Part I: Findings Related to the Financial Statements:

Material Weakness:

2014-A 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 and significant adjusting journal entries 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)

Significant Deficiency:

2014-B 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 – The limited number of office personnel prevents a proper segregation of accounting functions necessary to ensure optimal effective internal control. This is not an unusual condition in organizations of your size.

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:

- 2014-IA-A** **Certified Budget** – Hospital disbursements during the year ended June 30, 2014, did not exceed the amount budgeted per the budget.
- 2014-IA-B** **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.
- 2014-IA-C** **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 2014-IA-D** **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- 2014-IA-E** **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2014-IA-F** **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital’s investment policy were noted.



September 18, 2014

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, 2014, and have issued our report thereon dated September 18, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2014. 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 the Hospital are described in Note 1 to the financial statements. As described in Note 14 to the financial statements, the Hospital changed accounting policies related to deferred financing costs by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014.

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 collectibility of patient receivables and estimated third-party payor settlements.

Collectibility of Patient Receivables – Management's estimate of the allowance for contractual adjustments and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the estimated collections of individual accounts.

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 in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following misstatements, including two which are material and which are material in the aggregate, were detected as a result of our audit procedures.

	<u>Increase (Decrease)</u> <u>to Net Position</u>
To adjust accrued property taxes	\$ 34,000
To adjust accumulated depreciation and depreciation expense	24,000
To reverse current year amortization of deferred financing costs	21,000
To adjust unconditional promises to give	(47,000)
To adjust contractual allowances on patient accounts receivable	(150,000)
To adjust estimated third-party payor settlements	(232,000)
To remove deferred financing costs upon adoption of GASB No. 65	(364,000)
Other adjustments	(5,000)

The net effect of these adjustments was to decrease net position by \$719,000.

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 18, 2014.

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

Supplementary Information

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.

Upcoming Accounting Pronouncements

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

In 2012, the Governmental Accounting Standards Board (GASB) released accounting standards *Financial Reporting for Pension Plans*, Statement No. 67 and Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statements No. 67 and 68) for public pension plans and participating employers.

GASB Statement No. 67 revised existing guidance for the financial reports of most public pension plans. The provisions in Statement No. 67 were effective for financial statements for periods beginning after June 15, 2013.

Statement No. 68 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. 68 are effective for fiscal years beginning after June 15, 2014.

In general, GASB Statement No. 68 will require a net pension liability to be recognized on the balance sheet of government employers, such as the Hospital, whom are participating in a public pension plan to account for the employer's share of any pension liability that exceeds the pension plan's net assets available for paying benefits. An employer's pension liability, along with other information required for footnote disclosure and supplemental information accompanying the basic financial statements, will be calculated at the public pension plan level and forwarded to the individual employers. However, it is still the employer's responsibility to ensure that all necessary information is timely obtained and included in the employer's financial statements.

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.

Very truly yours,

EIDE BAILLY LLP

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

Dubuque, Iowa

xc: Ms. Kim Gau, CEO