



Financial Statements
June 30, 2015 and 2014

Guttenberg Municipal Hospital

Board of Trustees and Hospital Officials.....	1
Independent Auditor’s Report.....	2
Management’s Discussion and Analysis.....	4
Financial Statements	
Statements of Net Position.....	11
Statements of Revenues, Expenses, and Changes in Net Position.....	12
Statements of Cash Flows.....	13
Notes to Financial Statements.....	15
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual (Cash Basis)	39
Notes to Required Supplementary Information – Budgetary Reporting.....	40
Schedule of the Hospital’s Proportionate Share of the Net Pension Liability	41
Schedule of the Hospital’s Contributions – Last 10 Fiscal Years.....	42
Notes to Required Supplementary Information – Pension Liability	43
Independent Auditor’s Report on Supplementary Information	44
Supplementary Information	
Schedules of Net Patient Service Revenue	45
Schedules of Other Operating Revenues	47
Schedules of Operating Expenses.....	48
Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited) ...	52
Schedules of Supplies and Prepaid Expense.....	53
Schedules of Statistical Information (Unaudited).....	54
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 <i>Government Auditing Standards</i>	55
Schedule of Findings and Responses.....	57

Guttenberg Municipal Hospital
Board of Trustees and Hospital Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Doug Reimer	Chairperson	January 2018
Bill Allyn	Vice Chairperson	January 2016
Susan Osterhaus	Secretary/Treasurer	January 2018
Penny Hansel	Member	January 2016
Mary Eulberg	Member	January 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 statements of net position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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

As discussed in Notes 1 and 14 to the financial statements, the Hospital has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. In accordance with GASB Statement No. 68, the 2014 financial statements have not been restated to reflect this change. 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 10 and the Budgetary Comparison Information on pages 39 and 40, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability, and the Schedule of the Hospital Contributions on pages 41 through 42 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 October 21, 2015, 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
October 21, 2015

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, 2015, 2014, and 2013. 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 comprised of the statements of net position; 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 statements of net position include all of the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The statements of net position 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 statement 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 Statements of Net Position 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 deferred outflows of resources and liabilities and deferred inflows of resources - 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 Statement of Net Position at June 30, 2015, indicates total assets of \$29,773,165, total liabilities of \$22,361,375, deferred outflows of resources of \$1,232,062, deferred inflows of resources of \$1,283,916, and net position of \$7,359,936. The Statement of Net Position 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 Statement of Net Position 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 Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2015 indicate total operating revenues of \$13,572,664, a decrease of 11.8% over the previous fiscal year, total operating expenses of \$13,934,782, an increase of 6.6% over the previous fiscal year, which results in an operating loss of \$362,118. Net non-operating revenues of \$61,653 bring revenues less than expenses to \$300,465 for the year ended June 30, 2015. The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2014, indicates total operating revenues of \$15,394,244, 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 \$2,319,937. Net non-operating expenses of \$159,781 bring revenues in excess of expenses to \$2,160,156 for the year ended June 30, 2014. The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013 indicates total operating revenues of \$12,781,132, an increase of 14.6% 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 \$994,157. Net non-operating expenses of \$583,440 bring revenues in excess of expenses to \$410,717 for the year ended June 30, 2013.
- The Hospital's current assets exceeded its current liabilities by \$7,956,102 at June 30, 2015, providing a 3.05 current ratio. 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, 2012, providing a 3.49 current ratio.
- Gross outpatient charges increased 22.9% during fiscal year 2015 to \$18,036,919.
- Total patient days and visits for the year
 - 798 Acute days (2.3% increase)
 - 421 days Skilled Nursing Care (24.0% decrease)
 - 24,708 Outpatient Department Visits (11.7% increase)
- The Hospital's net position decreased approximately \$3.876 million from June 30, 2014 to June 30, 2015, primarily due to the implementation of GASB 68 and the restatement of the beginning balance for net pension liability of \$3.453 million.
- Unrestricted net position decreased \$3.208 million from fiscal year 2014 to fiscal year 2015, primarily due to the pension liability recognized. Unrestricted net position increased \$3.533 million from fiscal year 2013 to fiscal year 2014.
- Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$3,452,550 to retroactively report the net pension liability as of June 30, 2014 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Organization Highlights

The Hospital reports the following 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 2, year 1.
- Achieved NCQA Certification as a Medical Home for our Primary Care Clinics
- Awarded Press Ganey national award for patient satisfaction for the second consecutive year; 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 readmission rate, and patient falls
- Continued our journey with "Studer" service initiatives and leadership development
- Discontinued alignment discussions with UnityPoint Health in order to have wider discussion about the future of healthcare in our community as there was a clear lack of consensus between City Leaders, Physicians and the Hospital Board.
- Complied with a request from Wisconsin Physician Services (WPS), Medicare fiscal intermediary, to reopen fiscal year 2013 cost report. Result: All home office cost allocations for claiming "related party" to UnityPoint Health/Dubuque denied. Plan to appeal with the CMS Public Professional Review Board. In recognition of the potential negative financial impact for the "go forward" years, a Sustainability Study has been commissioned by an Independent Consultant.

Condensed Financial Statements

The following tables on pages 7 through 9 presented for the years ended June 30, 2014 and 2013 have not been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Condensed Financial Statements

Statements of Net Position

	<u>June 30</u> 2015	<u>June 30</u> 2014	<u>June 30</u> 2013
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 8,832,930	\$ 6,743,158	\$ 4,599,605
Investments	782,719	765,555	629,756
Assets limited as to use or restricted	182,569	186,104	189,456
Receivables			
Patient, net of estimated uncollectibles	1,385,924	2,479,414	1,684,338
Estimated third-party payor settlements	-	-	23,000
Other	36,300	36,433	38,840
Unconditional promises to give	2,500	44,318	53,996
Supplies	242,351	204,916	174,873
Prepaid expense	377,899	289,182	333,154
Total current assets	<u>11,843,192</u>	<u>10,749,080</u>	<u>7,727,018</u>
Assets Limited as to Use or Restricted	<u>1,161,070</u>	<u>1,146,175</u>	<u>1,129,363</u>
Capital Assets, Net	<u>14,108,861</u>	<u>15,201,332</u>	<u>16,944,842</u>
Other Assets			
Gift fund investments	2,514,361	1,948,348	1,509,121
Unconditional promises to give	11,906	13,915	51,087
Note receivable	100,000	-	-
Member share of 28E organization net assets	33,775	39,829	45,883
Total other assets	<u>2,660,042</u>	<u>2,002,092</u>	<u>1,606,091</u>
Total assets	<u>29,773,165</u>	<u>29,098,679</u>	<u>27,407,314</u>
Deferred Outflows of Resources			
Pension related deferred outflows	<u>1,232,062</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 31,005,227</u>	<u>\$ 29,098,679</u>	<u>\$ 27,407,314</u>

Condensed Financial Statements

Statements of Net Position (continued)

	<u>June 30</u> <u>2015</u>	<u>June 30</u> <u>2014</u>	<u>June 30</u> <u>2013</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 448,157	\$ 429,772	\$ 410,639
Accounts payable			
Trade	210,007	251,031	1,094,339
Estimated third-party payor settlements	2,409,000	743,000	-
Accrued expenses	819,926	724,602	709,890
Total current liabilities	<u>3,887,090</u>	<u>2,148,405</u>	<u>2,214,868</u>
Noncurrent Liabilities			
Long-term debt, less current maturities	15,238,712	15,714,563	16,172,119
Net pension liability	3,235,573	-	-
Total noncurrent liabilities	<u>18,474,285</u>	<u>15,714,563</u>	<u>16,172,119</u>
Total liabilities	<u>22,361,375</u>	<u>17,862,968</u>	<u>18,386,987</u>
Deferred Inflows of Resources			
Pension Related Deferred Inflows	<u>1,283,916</u>	<u>-</u>	<u>-</u>
Net Position			
Net investment (deficit) in capital assets	(1,578,008)	(943,003)	362,084
Restricted	1,388,917	1,421,544	1,433,902
Unrestricted	7,549,027	10,757,170	7,224,341
Total net position	<u>7,359,936</u>	<u>11,235,711</u>	<u>9,020,327</u>
Total liabilities and net position	<u>\$ 31,005,227</u>	<u>\$ 29,098,679</u>	<u>\$ 27,407,314</u>

Guttenberg Municipal Hospital
Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2015	2014	2013
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 13,342,890	\$ 13,883,624	\$ 12,043,168
Other operating revenues	229,774	1,510,620	737,964
Total operating revenues	<u>13,572,664</u>	<u>15,394,244</u>	<u>12,781,132</u>
Operating Expenses			
Salaries and wages	6,120,774	5,619,848	4,778,679
Employee benefits	1,501,689	1,525,548	1,288,237
Management fees	274,151	284,968	261,259
Supplies and other expenses	4,157,130	3,791,714	3,813,322
Depreciation and amortization	1,777,688	1,748,503	1,563,930
Insurance	103,350	103,726	81,548
Total operating expenses	<u>13,934,782</u>	<u>13,074,307</u>	<u>11,786,975</u>
Operating Income (Loss)	<u>(362,118)</u>	<u>2,319,937</u>	<u>994,157</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	522,245	361,800	9,411
Investment income	183,201	137,453	73,388
Change in member share of 28E organization net assets	(6,054)	(6,054)	(6,054)
Interest and amortization expense	(749,866)	(768,851)	(788,081)
Build America Bonds Credit	122,259	113,769	127,396
Gain (loss) on disposal of capital assets	(10,132)	2,102	500
Net nonoperating revenues (expenses)	<u>61,653</u>	<u>(159,781)</u>	<u>(583,440)</u>
Revenues in Excess of (Less than) Expenses	(300,465)	2,160,156	410,717
Capital Grants and Contributions	-	21,032	331,343
Change in Unrealized Gains and Losses on Investments	<u>(122,760)</u>	<u>34,196</u>	<u>49,938</u>
Change in Net Position	<u>(423,225)</u>	<u>2,215,384</u>	<u>791,998</u>
Net Position Beginning of Year	11,235,711	9,020,327	8,228,329
Restatement	<u>(3,452,550)</u>	<u>-</u>	<u>-</u>
Net Position Beginning of Year, as Restated	<u>7,783,161</u>	<u>9,020,327</u>	<u>8,228,329</u>
Net Position End of Year	<u>\$ 7,359,936</u>	<u>\$ 11,235,711</u>	<u>\$ 9,020,327</u>

Capital Assets

Current year capital asset additions included digital imaging equipment for \$276,000, a virtual desktop system for \$217,000, and a wireless and network expansion for \$89,000.

Long-Term Debt

Guttenberg Municipal Hospital has \$15,686,868 in long-term debt at June 30, 2015, and \$16,144,335 in long-term debt at June 30, 2014. 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 2016 budget. Of primary consideration in the 2016 budget are declining reimbursement for services related to WPS new disallowance of related party costs and Iowa Medicaid outsourcing to private managed care organizations; continued deployment of population health management strategies and the economic condition of Clayton County. Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Emerging value based insurance products and quality indicators
- Federal budget sequestration
- Medical Home Certification requirements for ambulatory primary care
- The Joint Commission standards and other Regulatory requirements
- Staffing benchmarks
- Salary and benefit costs
- Energy costs
- Patient safety initiatives
- Technology advances, especially related to the integration of the electronic health record between 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

	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents- Note 3	\$ 8,832,930	\$ 6,743,158
Investments - Note 3	782,719	765,555
Assets limited as to use or restricted - Note 3	182,569	186,104
Receivables		
Patient, net of estimated uncollectibles of \$253,000 in 2015 and \$425,000 in 2014	1,385,924	2,479,414
Other	36,300	36,433
Unconditional promises to give - Note 6	2,500	44,318
Supplies	242,351	204,916
Prepaid expense	377,899	289,182
	<u>11,843,192</u>	<u>10,749,080</u>
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted under indenture agreement	1,343,639	1,332,279
Less amount required to meet current obligations	<u>(182,569)</u>	<u>(186,104)</u>
	<u>1,161,070</u>	<u>1,146,175</u>
Capital Assets - Note 7		
Capital assets not being depreciated	491,377	491,377
Depreciable capital assets, net of accumulated depreciation	<u>13,617,484</u>	<u>14,709,955</u>
	<u>14,108,861</u>	<u>15,201,332</u>
Other Assets		
Gift fund investments - Note 3	2,514,361	1,948,348
Note receivable	100,000	-
Unconditional promises to give - Note 6	11,906	13,915
Member share of 28E organization net assets - Note 13	33,775	39,829
	<u>2,660,042</u>	<u>2,002,092</u>
	<u>29,773,165</u>	<u>29,098,679</u>
Deferred Outflows of Resources		
Pension related deferred outflows - Note 5	<u>1,232,062</u>	-
	<u>\$ 31,005,227</u>	<u>\$ 29,098,679</u>

See Notes to Financial Statements

Guttenberg Municipal Hospital
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 9	\$ 448,157	\$ 429,772
Accounts payable		
Trade	210,007	251,031
Estimated third-party payor settlements	2,409,000	743,000
Accrued expenses		
Salaries and wages	247,684	154,824
Paid time off	355,856	361,744
Interest	182,569	186,104
Payroll taxes and other	33,817	21,930
	3,887,090	2,148,405
Total current liabilities		
Noncurrent Liabilities		
Long-Term Debt, Less Current Maturities - Note 9	15,238,712	15,714,563
Net pension liability - Note 5	3,235,573	-
	18,474,285	15,714,563
Total noncurrent liabilities		
Total liabilities	22,361,375	17,862,968
Deferred Inflows of Resources		
Pension related deferred inflows - Note 5	1,283,916	-
	1,283,916	-
Net Position		
Net investment (deficit) in capital assets	(1,578,008)	(943,003)
Restricted		
Expendable for capital acquisitions	35,278	79,265
Expendable for debt service	1,343,639	1,332,279
Nonexpendable contribution to Community Foundation	10,000	10,000
Unrestricted	7,549,027	10,757,170
	7,549,027	10,757,170
Total net position	7,359,936	11,235,711
Total liabilities, deferred inflows of resources, and net position	\$ 31,005,227	\$ 29,098,679

Guttenberg Municipal Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$67,865 in 2015 and \$116,848 in 2014) - Note 2	\$ 13,342,890	\$ 13,883,624
Other operating revenues	229,774	1,510,620
Total operating revenues	13,572,664	15,394,244
Operating Expenses		
Salaries and wages	6,120,774	5,619,848
Employee benefits	1,501,689	1,525,548
Management fees	274,151	284,968
Supplies and other expenses	4,157,130	3,791,714
Depreciation and amortization	1,777,688	1,748,503
Insurance	103,350	103,726
Total operating expenses	13,934,782	13,074,307
Operating Income (Loss)	(362,118)	2,319,937
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	522,245	361,800
Investment income	183,201	137,453
Change in member share of 28E organization net assets	(6,054)	(6,054)
Interest and amortization expense	(749,866)	(768,851)
Build America Bonds Credit - Note 9	122,259	113,769
Gain (loss) on disposal of capital assets	(10,132)	2,102
Net nonoperating revenues (expenses)	61,653	(159,781)
Revenues in Excess of (Less than) Expenses Before Capital Grants and Contributions	(300,465)	2,160,156
Capital Grants and Contributions	-	21,032
Change in Unrealized Gains and Losses on Investments	(122,760)	34,196
Change in Net Position	(423,225)	2,215,384
Net Position Beginning of Year	11,235,711	9,020,327
Restatement - Note 14	(3,452,550)	-
Net Position Beginning of Year, as Restated	7,783,161	9,020,327
Net Position End of Year	\$ 7,359,936	\$ 11,235,711

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 16,102,380	\$ 13,854,548
Payments to and on behalf of employees	(7,635,491)	(5,573,209)
Payments to suppliers and contractors	(4,866,200)	(6,501,144)
Electronic Health Records incentive payments	-	1,245,926
Other receipts	<u>229,490</u>	<u>267,157</u>
Net Cash from Operating Activities	<u>3,830,179</u>	<u>3,293,278</u>
Noncapital Financing Activities		
Noncapital grants and contributions received	<u>522,245</u>	<u>361,800</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(685,955)	(67,700)
Restricted contributions received	43,827	67,882
Proceeds from sale of capital assets	1,763	2,043
Payment of interest on debt	(753,401)	(772,203)
Build America Bonds Credit	122,676	113,713
Payment of principal on debt	<u>(457,466)</u>	<u>(438,423)</u>
Net Cash used for Capital and Capital Related Financing Activities	<u>(1,728,556)</u>	<u>(1,094,688)</u>
Investing Activities		
Increase in gift fund investments	(566,013)	(439,227)
Sale of assets limited as to use or restricted	726,747	454,519
Purchase of assets limited as to use or restricted	(5,933)	(8,335)
Purchase of other investments	(141,020)	(89,082)
Net investment income received	<u>183,201</u>	<u>137,453</u>
Net Cash from Investing Activities	<u>196,982</u>	<u>55,328</u>
Net Increase in Cash and Cash Equivalents	2,820,850	2,615,718
Cash and Cash Equivalents, Beginning of Year	<u>9,426,624</u>	<u>6,810,906</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 12,247,474</u></u>	<u><u>\$ 9,426,624</u></u>

Guttenberg Municipal Hospital
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 8,832,930	\$ 6,743,158
Cash and cash equivalents in noncurrent assets	3,414,544	2,683,466
Total cash and cash equivalents	\$ 12,247,474	\$ 9,426,624
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ (362,118)	\$ 2,319,937
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	1,777,688	1,748,503
Provision for bad debts	67,865	116,848
Changes in assets and liabilities		
Receivables	925,341	(909,461)
Supplies	(37,435)	(30,043)
Prepaid expense	(99,874)	32,815
Accounts payable - trade	(41,024)	(769,385)
Estimated third-party payor settlements	1,666,000	766,000
Accrued expenses	98,859	18,064
Net pension liability	(713,011)	-
Deferred outflows of resources	(736,028)	-
Deferred inflows of resources	1,283,916	-
Net Cash from Operating Activities	\$ 3,830,179	\$ 3,293,278

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Guttenberg Municipal Hospital (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The 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.

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.

The Hospital has no component units which meet the GASB criteria.

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 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.

Basis of Presentation

The statements of net position displays the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 reduced by the outstanding balance of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

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 through 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 an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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

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 Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2014 to June 30, 2015. 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 2014 or 2015.

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.

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.

Investment Income

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

Notes Receivable

The Hospital may issue notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a one-year period to a maximum of a ten-year period and are issued with market interest rates. The notes are issued with forgiveness provisions over the life of the note to encourage retention. It is anticipated that the balance of the notes will be forgiven over time.

At June 30, 2015, a note receivable from a physician totaled \$100,000. There were no notes receivable at June 30, 2014.

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts on long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Hospital's deferred outflows of resources in the Statement of Net Position consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Financing Costs

Financing costs are expensed as incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Hospital's deferred inflows of resources in the Statement of Net Position consist of items not yet charged to pension expense.

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 statements of net position based on pay rates that are in effect at June 30, 2015 and 2014.

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 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 \$163,000 and \$187,000 for the years ended June 30, 2015 and 2014. The estimated costs of the charges foregone, based upon the Hospital's overall cost-to-charge ratio calculation, for the years ended June 30, 2015 and 2014, were \$106,000 and \$125,000.

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.

Electronic Health Record Incentive Payments

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

Medicare

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

The Hospital has recognized as revenue the entire Medicare EHR incentive payment it received during the year ended June 30, 2014. These incentive payments are included in other operating revenue in the accompanying financial statements. There were no EHR incentive payments received during the year ended June 30, 2015.

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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$38,469 and \$43,579 for advertising costs for the years ended June 30, 2015 and 2014.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As of July 1, 2014, the Medical Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires government employers calculate and report the costs and obligations associated with pensions in their financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 14 and the additional disclosures required by these standards are included in Note 5.

Reclassifications

Reclassifications have been made to the June 30, 2014, financial information to make it conform to the current year presentation. The reclassification had no effect on previously reported operating results or change 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 Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2013. Management is currently evaluating certain Medicare audit adjustments related to the 2013 Medicare cost report. The Hospital is in the process of appealing certain adjustments to that cost report. 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, 2012.

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.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended June 30, 2015 and 2014:

	2015	2014
Medicare	51%	50%
Medicaid	11%	8%
Blue Cross	21%	20%
Other Commercial	16%	20%
Self-Pay	1%	2%
	100%	100%

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, 2015, decreased approximately \$570,000 due to prior-year retroactive adjustments in excess of amounts previously estimated and updates to estimates relating to final settlement of prior year cost reports. 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 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.

Note 3 - Deposits and Investments

The Hospital's deposits in banks at June 30, 2015 and 2014, 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, 2015 and 2014, the Hospital's carrying amounts of deposits and investments are as follows:

	2015	2014
Cash and Cash Equivalents	\$ 12,247,474	\$ 9,426,624
Certificates of Deposit	130,935	130,605
U.S. Government Obligations	322,674	478,233
Fixed Income Securities	36,351	50,218
Equity Securities - Common Stock	719,014	686,305
Beneficial Interest in Net Assets of Community Foundation	16,947	16,501
Interest Receivable	254	854
	\$ 13,473,649	\$ 10,789,340

Included in the Following Balance Sheet Captions:

Cash and cash equivalents	\$ 8,832,930	\$ 6,743,158
Investments	782,719	765,555
Assets limited as to use or restricted	1,343,639	1,332,279
Gift fund investments	2,514,361	1,948,348
	\$ 13,473,649	\$ 10,789,340

At June 30, 2015 and 2014, 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, 2015

<u>Investment Type</u>	Carrying Amount	<u>Investment Maturities (in Years)</u>	
		Less Than 1	1-5
U.S. Government Obligations	\$ 322,674	\$ -	\$ 322,674
Bond Funds	36,351	36,351	-
Equity Securities - Common Stock	719,014	719,014	-
Total	<u>\$ 1,078,039</u>	<u>\$ 755,365</u>	<u>\$ 322,674</u>

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>

Net realized gains of \$137,111 and \$98,277 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, 2015 and 2014.

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 \$16,947 and \$16,501 at June 30, 2015 and 2014, and are included as gift fund investments on the statements of net position.

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 the Hospital. These funds that are held by the Community Foundation and are permanently endowed for the support of the Hospital were \$3,290 and \$2,921 at June 30, 2015 and 2014.

Note 5 - Pension Plan

Plan Description – Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org. IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the Hospital contributed 10.14 percent for a total rate of 16.90 percent.

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$533,617.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Hospital reported a liability of \$3,235,573 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's collective fund proportion was 0.081585 percent, which was an increase of 0.012814 from its proportion measured as of June 30, 2013.

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2015 and 2014

For the year ended June 30, 2015, the Hospital recognized pension expense of \$376,326. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences Between Expected and Actual Experience	\$ 35,537	\$ -
Changes of Assumptions	144,307	74
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,283,842
Changes in Proportion and Differences Between Hospital's Contributions and Proportionate Share of Contributions	518,601	-
Hospital Contributions Subsequent to the Measurement Date	533,617	-
Total	\$ 1,232,062	\$ 1,283,916

The \$533,617 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (157,738)
2017	(157,738)
2018	(157,738)
2019	(157,738)
2020	45,481
	\$ (585,471)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary Increases (effective June 30, 2010)	4.00 to 17.00 percent average, including inflation. Rates vary by membership group.
Investment Rate of Return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan, investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	28%	2.06%
Non US Equity	23%	6.31%
Private Equity	15%	6.76%
Real Estate	13%	11.34%
Core Plus Fixed Income	8%	3.52%
Credit Opportunities	5%	3.67%
TIPS	5%	1.92%
Other Real Assets	2%	6.27%
Cash	1%	-0.69%
	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentagepoint higher (8.5 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Hospital's Proportionate Share of the Net Pension Liability	\$ 6,214,502	\$ 3,235,573	\$ 721,150

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$20,260 for legally required employer contributions.

Note 6 - Unconditional Promises to Give

The Hospital has received unconditional promises to give from numerous donors for the renovation and expansion of the Hospital. As of June 30, 2015 and 2014, the amount to be received in future years from these promises to give consists of the following:

	2015	2014
Amounts Due in:		
Less than one year	\$ 2,500	\$ 47,233
One to five years	14,500	12,500
More than five years	-	2,500
	17,000	62,233
Less:		
Discount (5%)	(2,594)	(4,000)
Allowance for uncollectible amounts	-	-
	\$ 14,406	\$ 58,233

Note 7 - Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014, was as follows:

	June 30, 2014 Balance	Additions	Transfers and Retirements	June 30, 2015 Balance
Capital Assets Not Being Depreciated				
Land	\$ 491,377	\$ -	\$ -	\$ 491,377
Construction in progress	-	-	-	-
Total capital assets not being depreciated	491,377	-	-	491,377
Capital Assets Being Depreciated				
Land improvements	1,088,704	-	-	1,088,704
Buildings	16,663,704	-	-	16,663,704
Equipment	5,259,334	685,955	(98,414)	5,846,875
Total capital assets being depreciated	23,011,742	685,955	(98,414)	23,599,283
Less Accumulated Depreciation For:				
Land improvements	489,174	57,737	-	546,911
Buildings	4,373,312	850,558	-	5,223,870
Equipment	3,439,301	859,558	(87,841)	4,211,018
Total accumulated depreciation	8,301,787	1,767,853	(87,841)	9,981,799
Total Capital Assets Being Depreciated, Net	14,709,955	(1,081,898)	(10,573)	13,617,484
Total Capital Assets, Net	\$ 15,201,332	\$ (1,081,898)	\$ (10,573)	\$ 14,108,861

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	June 30, 2013 Balance	Additions	Transfers and Retirements	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>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>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>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>14,709,955</u>
Total Capital Assets, Net	<u>\$ 16,944,842</u>	<u>\$ (1,669,588)</u>	<u>\$ (73,922)</u>	<u>\$ 15,201,332</u>

Note 8 - Leases

The Hospital leases certain equipment under noncancellable long-term lease agreements. The leases have been recorded as operating leases. Total equipment rental expense for the operating leases for the years ended June 30, 2015 and 2014, was \$267,227 and \$263,621.

Minimum future lease payments for operating leases are as follows:

Years Ending June 30,	Amount
2016	\$ 122,794
2017	6,653
2018	4,327
2019	4,327
2020	721
Total minimum future lease payments	\$ 138,822

Note 9 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2015 and 2014 follows:

	June 30, 2014 Balance	Additions	Payments	June 30, 2015 Balance	Amounts Due Within One Year
Revenue Bonds Payable, Variable Rate Currently 2.23%, Due in Varying Monthly Installments Currently \$9,572, Including Interest to April 2019, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 473,711	\$ -	\$ 118,891	\$ 354,820	\$ 101,601
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	309,034	-	64,195	244,839	57,716

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	June 30, 2014 Balance	Additions	Payments	June 30, 2015 Balance	Amounts Due Within One Year
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 35.)	\$ 6,573,000	\$ -	\$ 149,000	\$ 6,424,000	\$ 158,000
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 35.)	731,000	-	17,000	714,000	18,000
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 35.)	8,057,590	-	108,380	7,949,210	112,840
	<u>\$ 16,144,335</u>	<u>\$ -</u>	<u>\$ 457,466</u>	15,686,869	<u>\$ 448,157</u>
Less current maturities				(448,157)	
Long-term debt, less current maturities				<u>\$ 15,238,712</u>	

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	June 30, 2013 Balance	Additions	Payments	June 30, 2014 Balance	Amounts Due Within One Year
Revenue Bonds Payable, Variable Rate Currently 2.23%, Due in Varying Monthly Installments Currently \$9,572, Including Interest to April 2019, Collateralized by a Pledge of the Hospital's Net Revenues	\$ 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 35.)	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 35.)	747,000	-	16,000	731,000	17,000

Guttenberg Municipal Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	June 30, 2013 Balance	Additions	Payments	June 30, 2014 Balance	Amounts Due Within One Year
USDA Direct Loan Revenue					
Bonds Payable (Series 2010), Rate 3.75% Due April 1 and Amounts Due Annually Beginning April 1, 2011, with Final Maturity April 1, 2050. (See Additional Notes on Page 35.)	\$ 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				(429,772)	
Long-term debt, less current maturities				<u>\$ 15,714,563</u>	

Long-term debt maturities are as follows:

Years Ending June 30,	Principal	Interest	Total
2016	\$ 448,157	\$ 736,348	\$ 1,184,505
2017	467,157	717,361	1,184,518
2018	487,407	697,432	1,184,839
2019	444,609	676,653	1,121,262
2020	300,817	657,325	958,142
2021-2025	2,160,299	2,965,792	5,126,091
2026-2030	2,825,135	2,305,700	5,130,835
2031-2035	3,775,757	1,388,558	5,164,315
2036-2040	1,255,851	770,102	2,025,953
2041-2045	1,512,218	508,928	2,021,146
2046-2050	<u>2,009,462</u>	<u>194,439</u>	<u>2,203,901</u>
	<u>\$ 15,686,869</u>	<u>\$ 11,618,638</u>	<u>\$ 27,305,507</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.

Under the terms of the Hospital's mortgage agreements, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included within assets limited as to use or restricted in the financial statements. The agreement also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

Note 10 - Contingencies

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.

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 - 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, 2015 and 2014, was as follows:

	2015	2014
Medicare	30%	35%
Medicaid	6%	5%
Commercial and Other Insurance	40%	38%
Other Third-Party Payors and Patients	24%	22%
	100%	100%

Note 12 - Electronic Health Record Incentive Payments

The Hospital attested as a meaningful user of Electronic Health Records (EHR). Accordingly, the Hospital received \$1,141,926 in Medicare EHR during the year ended June 30, 2014. The Hospital received no Medicare HER incentive payments during the year ended June 30, 2015. The Hospital recognizes incentive payments as income in the year received.

The Hospital recognized revenue of approximately \$104,000 for the year ended June 30, 2014 related to Medicaid EHR incentive payments received, and has received no Medicaid EHR incentive payments during the year ended June 30, 2015. 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 13 - Member Share of 28E Organization Net Assets

The Hospital has a 28E agreement with the City of Guttenberg (City) forming Kids Kampus Community Childcare (Kids Kampus). Kids Kampus was formed to provide a full service child day care center for the benefit of all of the members of the community served by the Hospital and the City. The effective date of the agreement was June 1, 2006. The agreement called for the transfer of the building used by Kids Kampus from the Hospital at a transfer cost of \$1. The Hospital owns the land on which the building resides. In the event Kids Kampus no longer has need of the building for the purpose of providing childcare services, the Hospital maintains the right of first refusal and will regain the building for the same transfer price of \$1.

Note 14 - Adoption of Accounting Standards

As of July 1, 2014, the Medical Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date as follows:

	<u>Net Position</u>
Net Position June 30, 2014, as Previously Reported	\$ 11,235,711
Net Pension Liability at June 30, 2014	(3,948,584)
Deferred Outflows of Resources Related to Contributions Made During the Year Ended June 30, 2014	496,034
Net Position July 1, 2014, as Restated	<u>\$ 7,783,161</u>



Required Supplementary Information
June 30, 2015

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, 2015

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Revenues/Receipts	\$ 14,277,609	\$ 2,805,213	\$ 17,082,822	\$ 15,053,000	\$ 2,029,822
Expenses/Disbursements	<u>14,700,834</u>	<u>(302,321)</u>	<u>14,398,513</u>	<u>15,053,000</u>	<u>654,487</u>
Net	<u>(423,225)</u>	<u>3,107,534</u>	<u>2,684,309</u>	<u>-</u>	<u>\$ 2,684,309</u>
Balance Beginning of Year	11,235,711	(446,371)	10,789,340	6,949,301	
Restatement	<u>(3,452,550)</u>	<u>3,452,550</u>	<u>-</u>	<u>-</u>	
Net Position Beginning of Year, As Restated	<u>7,783,161</u>	<u>3,006,179</u>	<u>10,789,340</u>	<u>6,949,301</u>	
Balance End of Year	<u>\$ 7,359,936</u>	<u>\$ 6,113,713</u>	<u>\$ 13,473,649</u>	<u>\$ 6,949,301</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, 2015.

Guttenberg Municipal Hospital
 Schedule of the Hospital's Proportionate Share of the Net Pension Liability
 Required Supplementary Information
 Year Ended June 30, 2015

	2015
Hospital's Proportion of the Net Pension Liability	0.081585%
Hospital's Proportionate Share of the Net Pension Liability	\$ 3,235,573
Hospital's Covered-Employee Payroll	\$ 5,975,554
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	54.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%

The amounts reported are measured as of June 30, 2014 (measurement date).

GASB Statement No. 68 requires ten years of information to be presented in this schedule. However, until a full 10-year trend is compiled, the Hospital will present information for only those years for which information is available.

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily Required Contribution	\$ 533,617	\$ 498,259	\$ 406,637	\$ 298,090
Contributions in Relation to the Statutorily Required Contribution	<u>(533,617)</u>	<u>(498,259)</u>	<u>(406,637)</u>	<u>(298,090)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Medical Center's Covered-Employee Payroll	\$ 5,975,554	\$ 5,579,608	\$ 4,690,161	\$ 3,693,804
Contributions as a Percentage of Covered Employee Payroll	8.93%	8.93%	8.67%	8.07%

Guttenberg Municipal Hospital
 Schedule of the Hospital's Contributions – Last 10 Fiscal Years
 Required Supplementary Information
 June 30, 2015

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 235,956	\$ 213,685	\$ 205,178	\$ 182,664	\$ 142,250	\$ 148,741
<u>(235,956)</u>	<u>(213,685)</u>	<u>(205,178)</u>	<u>(182,664)</u>	<u>(142,250)</u>	<u>(148,741)</u>
<u>\$ -</u>					
\$ 3,395,050	\$ 3,213,308	\$ 3,231,150	\$ 3,019,240	\$ 2,473,913	\$ 2,586,800
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

Changes of Benefit Terms: Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions: The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the Unfunded Actuarial Liability (UAL) from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



Supplementary Information
June 30, 2015 and 2014

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, 2015 and 2014, and our report thereon dated October 21, 2015, 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
October 21, 2015

Guttenberg Municipal Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2015 and 2014

	2015	2014
Patient Service Revenue		
Adults and pediatrics	\$ 2,223,677	\$ 1,705,332
Nursery	56,536	45,517
Swing-bed	313,028	415,386
Operating and recovery rooms	1,644,044	1,061,336
Delivery and labor rooms	64,858	63,794
Central services and supply	417,454	364,479
Emergency services	1,913,415	1,456,672
Ambulance services	471,274	418,102
Laboratory	3,187,327	3,046,581
Electrocardiology	243,280	195,707
Radiology	4,204,812	3,188,967
Pharmacy	1,614,428	1,382,433
Anesthesiology	758,924	518,221
Respiratory therapy	104,982	90,102
Sleep studies	113,879	78,514
Physical therapy	681,336	713,624
Occupational and speech therapy	126,751	158,584
Cardiac rehab	132,392	101,937
Anticoagulation services	165,300	155,940
Surgery clinic	700,888	490,277
Cornerstone Family Practice	2,825,432	2,644,348
Nutritional services	447	582
Diabetes management	22,565	10,319
	21,987,029	18,306,754
Charity care (charges foregone)	(162,789)	(187,071)
Total patient service revenue*	21,824,240	18,119,683
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	3,950,110	3,631,917
Outpatient revenue	18,036,919	14,674,837
Charity care (charges foregone)	(162,789)	(187,071)
Total patient service revenue	21,824,240	18,119,683

Guttenberg Municipal Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Deductions from Patient Service Revenue		
Contractual adjustments	\$ (8,224,564)	\$ (3,952,937)
Administrative adjustments/policy discounts	<u>(188,921)</u>	<u>(166,274)</u>
Total deductions from patient service revenue	<u>(8,413,485)</u>	<u>(4,119,211)</u>
Net Patient Service Revenue	13,410,755	14,000,472
Provision for Bad Debts	<u>(67,865)</u>	<u>(116,848)</u>
Net Patient Service Revenue (Net of Provision for Bad Debts)	<u><u>\$ 13,342,890</u></u>	<u><u>\$ 13,883,624</u></u>

Guttenberg Municipal Hospital
Schedules of Other Operating Revenues
Years Ended June 30, 2015 and 2014

	2015	2014
Other Operating Revenues		
Electronic health records	\$ -	\$ 1,245,926
Contracted services	47,796	83,484
Cafeteria	35,524	38,495
Cornerstone grants and other income	29,718	13,048
Lab reference services	25,506	15,906
Office rent	19,532	20,129
Fitness center memberships	-	1,611
Other	71,698	92,021
Total other operating revenues	\$ 229,774	\$ 1,510,620

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Routine Nursing Services		
Salaries and wages	\$ 1,002,992	\$ 933,139
Supplies and other expenses	102,411	103,179
	<u>1,105,403</u>	<u>1,036,318</u>
Nursery		
Salaries and wages	6,419	2,803
Supplies and other expenses	4,639	2,641
	<u>11,058</u>	<u>5,444</u>
Operating and Recovery Rooms		
Salaries and wages	152,526	142,010
Supplies and other expenses	197,539	108,026
	<u>350,065</u>	<u>250,036</u>
Delivery and Labor Rooms		
Salaries and wages	9,730	6,748
Supplies and other expenses	5,474	4,602
	<u>15,204</u>	<u>11,350</u>
Central Services and Supply / Purchasing		
Salaries and wages	83,713	56,999
Supplies and other expenses	122,989	73,007
	<u>206,702</u>	<u>130,006</u>
Emergency Services		
Salaries and wages	649,228	542,884
Supplies and other expenses	35,997	41,459
	<u>685,225</u>	<u>584,343</u>
Ambulance Services		
Salaries and wages	75,031	77,452
Supplies and other expenses	37,825	28,270
	<u>112,856</u>	<u>105,722</u>
Laboratory		
Salaries and wages	327,921	324,742
Supplies and other expenses	433,904	447,729
	<u>761,825</u>	<u>772,471</u>
Electrocardiology		
Salaries and wages	3,478	5,243
Supplies and other expenses	1,390	1,497
	<u>4,868</u>	<u>6,740</u>
Radiology		
Salaries and wages	377,676	346,110
Supplies and other expenses	665,175	660,818
	<u>1,042,851</u>	<u>1,006,928</u>

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

	2015	2014
Pharmacy		
Salaries and wages	\$ 29,726	\$ 28,463
Supplies and other expenses	410,436	323,886
	<u>440,162</u>	<u>352,349</u>
Anesthesiology		
Salaries and wages	330,504	241,958
Supplies and other expenses	14,110	53,341
	<u>344,614</u>	<u>295,299</u>
Respiratory Therapy		
Salaries and wages	35,317	36,847
Supplies and other expenses	1,147	2,486
	<u>36,464</u>	<u>39,333</u>
Sleep Studies		
Supplies and other expenses	30,226	21,313
Physical Therapy		
Salaries and wages	274,233	283,231
Supplies and other expenses	95,879	119,492
	<u>370,112</u>	<u>402,723</u>
Business Health		
Salaries and wages	2,285	1,961
Supplies and other expenses	2,508	1,471
	<u>4,793</u>	<u>3,432</u>
Family Resources		
Salaries and wages	25,739	21,098
Supplies and other expenses	17,316	17,913
	<u>43,055</u>	<u>39,011</u>
Cardiac Rehab		
Salaries and wages	16,276	14,596
Supplies and other expenses	3,964	2,664
	<u>20,240</u>	<u>17,260</u>
Surgery Clinic		
Salaries and wages	76,030	68,900
Supplies and other expenses	318,291	313,694
	<u>394,321</u>	<u>382,594</u>

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cornerstone Family Practice		
Salaries and wages	\$ 1,714,482	\$ 1,462,525
Supplies and other expenses	418,356	315,956
	<u>2,132,838</u>	<u>1,778,481</u>
Medical Records		
Salaries and wages	125,924	131,602
Supplies and other expenses	39,462	50,174
	<u>165,386</u>	<u>181,776</u>
Dietary		
Salaries and wages	88,988	83,335
Supplies and other expenses	70,640	70,625
	<u>159,628</u>	<u>153,960</u>
Plant Operation and Maintenance		
Salaries and wages	75,881	77,243
Supplies and other expenses	352,904	347,648
	<u>428,785</u>	<u>424,891</u>
Housekeeping		
Salaries and wages	48,924	54,257
Supplies and other expenses	14,050	13,758
	<u>62,974</u>	<u>68,015</u>
Laundry and Linen		
Salaries and wages	12,530	9,617
Supplies and other expenses	6,220	4,824
	<u>18,750</u>	<u>14,441</u>
Communications		
Salaries and wages	97,143	105,733
Supplies and other expenses	372,693	318,597
	<u>469,836</u>	<u>424,330</u>
Fiscal Services		
Salaries and wages	269,971	267,151
Supplies and other expenses	111,883	116,005
	<u>381,854</u>	<u>383,156</u>
Administration		
Salaries and wages	204,818	289,146
Management fees	274,151	284,968
Supplies and other expenses	255,162	216,992
	<u>734,131</u>	<u>791,106</u>

Guttenberg Municipal Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Specialty Clinic		
Salaries and wages	\$ 3,289	\$ 4,055
Supplies and other expenses	1,523	581
	<u>4,812</u>	<u>4,636</u>
Diabetes Management		
Supplies and other expenses	<u>13,017</u>	<u>9,066</u>
Unassigned Expenses		
Employee benefits	1,501,689	1,525,548
Depreciation and amortization	1,777,688	1,748,503
Insurance	103,350	103,726
	<u>3,382,727</u>	<u>3,377,777</u>
Total operating expenses	<u>\$ 13,934,782</u>	<u>\$ 13,074,307</u>

Guttenberg Municipal Hospital

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)
June 30, 2015 and 2014

Analysis of Aging

Days Since Discharge	2015		2014	
	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	\$ 1,308,884	62%	\$ 1,950,695	61%
31 to 60 Days	239,877	12%	393,697	12%
61 to 90 Days	132,658	6%	231,435	7%
91 to 180 Days	138,457	7%	271,660	8%
181 Days and Over	261,841	13%	396,819	12%
	2,081,717	100%	3,244,306	100%
Less:				
Allowance for doubtful accounts	(252,793)		(425,210)	
Allowance for contractual adjustments	(443,000)		(339,682)	
Net	\$ 1,385,924		\$ 2,479,414	

Allowance for Doubtful Accounts

	Years Ended June 30,	
	2015	2014
Balance, Beginning of Year	\$ 425,210	\$ 304,909
Add:		
Provision for bad debts	67,865	116,848
Recoveries of accounts written off	14,083	19,079
Less:		
Accounts written off	(254,365)	(15,626)
Balance, End of Year	\$ 252,793	\$ 425,210

Collection Statistics

Net Accounts Receivable - Patients	\$ 1,385,924	\$ 2,479,414
Number of Days Charges Outstanding (1)	61	56
Uncollectible Accounts (2)	\$ 210,228	\$ 306,359
Percentage of Uncollectible Accounts to Total Charges	1%	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, 2015 and 2014

	2015	2014
Supplies		
Pharmacy	\$ 195,125	156,077
Storerooms	39,968	40,999
Dietary	7,258	7,840
	\$ 242,351	\$ 204,916
Prepaid Expense		
Insurance	\$ 119,300	\$ 110,598
Other	258,599	178,584
	\$ 377,899	\$ 289,182

Guttenberg Municipal Hospital
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2015 and 2014

	2015	2014
Patient Days		
Acute		
Adults and pediatrics	798	780
Newborn	63	60
Swing-bed	421	554
Number of Beds	25	25
Percent of Occupancy (Excluding Newborn)	13%	15%
Discharges		
Acute	245	239
Swing-bed	74	69
Average Length of Stay		
Acute (excluding newborn)	3.26	3.26
Swing-bed	5.69	8.03
Most Recent Year End Routine Service Rates		
Acute		
Private rooms	\$ 1,169	\$ 1,169
Semi-private rooms	1,010	1,010
Nursery	876	876
Skilled care		
Private rooms	726	726
Semi-private rooms	550	550



**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, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2015.

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 2015-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 2015-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, 2015, 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
October 21, 2015

Part I: Findings Related to the Financial Statements:

Material Weakness:

2015-A Preparation of Financial Statements and Material Audit Adjustments

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Guttenberg Municipal Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements. Also, material adjusting journal entries 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:

2015-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:

- 2015-IA-A** **Certified Budget** – Hospital disbursements during the year ended June 30, 2015, did not exceed the amount budgeted per the budget.
- 2015-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.
- 2015-IA-C** **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 2015-IA-D** **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- 2015-IA-E** **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2015-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.